



Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS For the years ended September 30, 2023 and 2022

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

(Expressed in Canadian Dollars)

| | Page |
|--|-------------|
| Independent Auditor's Report | 3 |
| Consolidated Statements of Financial Position | 6 |
| Consolidated Statements of Loss and Comprehensive Loss | 7 |
| Consolidated Statements of Changes in Equity | 8 |
| Consolidated Statements of Cash Flows | 9 |
| Notes to the Consolidated Financial Statements | 10 - 30 |

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, 2023 and September 30, 2022, 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, 2023 and September 30, 2022, 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 the Company has incurred a net loss and had cash outflow from operations during the year ended September 30, 2023 and, as of that date, the Company 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.

Key Audit Matters

Key audit matters are those matters that in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit and of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

Other Information

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

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Brent Wolfe.

Vancouver, British Columbia

December 21, 2023

MNP LLP

Chartered Professional Accountants

Legend Power Systems Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

| | | September 30, 2023 | September 30, 2022 |
|---|-------|-----------------------|-----------------------|
| | Notes | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 2,506,336 | 3,085,986 |
| Trade receivables | 5(i) | 214,103 | 716,146 |
| Due from customers on contract | 5(ii) | 10,211 | 206,311 |
| Prepaid expenses and deposits | | 74,729 | 329,050 |
| Inventory | 6 | 1,862,904 | 1,589,593 |
| Total current assets | | 4,668,283 | 5,927,086 |
| Non-current assets | | | |
| Property and equipment | 7 | 111,986 | 119,976 |
| Right of use assets | 8 | 438,342 | 207,049 |
| Intangible assets | 9 | 10,604 | 50,018 |
| Total non-current assets | | 560,932 | 377,043 |
| Total assets | | 5,229,215 | 6,304,129 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Account payable | | 105,044 | 212,928 |
| Accrued liabilities | | 396,354 | 345,041 |
| Deferred revenue | | 210,827 | 30,699 |
| Lease liability | 8 | 114,415 | 125,620 |
| Warranty provision | 11 | 51,381 | 69,313 |
| Total current liabilities | | 878,021 | 783,601 |
| Non-current liabilities | | | |
| Warranty provision | 11 | 45,048 | 106,015 |
| Lease liability | 8 | 311,575 | 63,542 |
| Total liabilities | | 1,234,644 | 953,158 |
| Shareholders' equity | | | |
| Share capital | 12(i) | 61,993,475 | 59,635,094 |
| Contributed surplus | | 11,472,126 | 10,994,841 |
| Accumulated other comprehensive income (loss) | | (6,664) | 3,500 |
| Deficit | | (69,464,366) | (65,282,464) |
| Total shareholders' equity | | 3,994,571 | 5,350,971 |
| Total liabilities and shareholders' equity | | 5,229,215 | 6,304,129 |
| Nature of Business and Going Concern (Note 1) | | | |
| Segments (Note 4) | | | |
| Commitments and Contingencies (Note 13) | | | |
| Subsequent Event (Note 19) | | | |

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON DECEMBER 21, 2023

"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, | |
|--|--------|-----------------------------------|-------------|
| | | 2023 | 2022 |
| | | \$ | \$ |
| | Notes | | |
| Revenue | | 1,106,093 | 2,118,033 |
| Cost of sales | 6 | 911,912 | 1,913,680 |
| Gross margin | | 194,181 | 204,353 |
| Expenses | | | |
| Salaries and consulting | | 2,752,577 | 3,362,230 |
| General and administrative | | 548,089 | 585,254 |
| Selling costs | | 72,122 | 322,062 |
| Share-based compensation | 12(ii) | 337,166 | 513,422 |
| Professional fees | | 210,028 | 202,146 |
| Warranty recovery | 11 | (42,584) | (208,451) |
| Product development | | 329,651 | 486,045 |
| Foreign exchange loss | | (4,284) | 119,774 |
| Amortization and depreciation | 7,8,9 | 217,414 | 188,376 |
| Bad debt | 5(i) | 10,314 | - |
| Total expenses | | 4,430,493 | 5,570,858 |
| Operating loss | | (4,236,312) | (5,366,505) |
| Interest expense on leases | 8 | (9,355) | (16,773) |
| Other income | 10 | 63,765 | 37,107 |
| Net loss for the year | | (4,181,902) | (5,346,171) |
| Other comprehensive loss: | | | |
| Exchange difference arising on translation of foreign operations | | (10,164) | 93,948 |
| Comprehensive loss for the year | | (4,192,066) | (5,252,223) |
| Basic and diluted loss per share | | (.03) | (.04) |
| Weighted average number of common shares outstanding, basic and diluted | | 119,837,454 | 117,558,304 |

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 income (loss) \$ | Total shareholders' equity \$ |
|--------------------------------------|--------|---------------------------------|---------------------|------------------------------|---------------------|--|--|
| 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 |
| Private placement, net | 12(i) | 14,117,113 | 2,355,787 | 141,171 | - | - | 2,496,958 |
| Options exercised | 12(ii) | 8,333 | 2,594 | (1,052) | - | - | 1,542 |
| Share-based compensation | 12(ii) | - | - | 337,166 | - | - | 337,166 |
| Net loss and comprehensive loss | | - | - | - | (4,181,902) | (10,164) | (4,192,066) |
| Balance at September 30, 2023 | | 131,694,417 | 61,993,475 | 11,472,126 | (69,464,366) | (6,664) | 3,994,571 |

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, | |
|--|--------|-----------------------------------|-------------|
| | | 2023 | 2022 |
| | | \$ | \$ |
| Cash flows used in operating activities | | | |
| Loss for the year | | (4,181,902) | (5,346,171) |
| Items not affecting cash: | | | |
| Share-based payment | 12(ii) | 337,166 | 513,422 |
| Amortization and depreciation | 7,8,9 | 257,635 | 189,554 |
| Interest on lease liability | 8 | 12,656 | 16,773 |
| Bad debt expense | 5(i) | 10,314 | - |
| Loss on disposal of fixed asset | | 1,327 | - |
| Loss (gain) on termination of lease | 8 | - | (409) |
| Recovery (provision) for slow moving inventory | 6 | (20,429) | 57,044 |
| Warranty recovery | 11 | (42,584) | (208,451) |
| Changes in non-cash working capital items: | | | |
| Receivables, prepaids and deposits | | 745,221 | (343,587) |
| Due from customers on contract | | 196,100 | (143,854) |
| Inventory | | (333,171) | (383,964) |
| Accounts payable and accrued liabilities | | (55,720) | (441,248) |
| Deferred revenue | | 180,128 | 18,110 |
| | | (2,893,259) | (6,072,781) |
| Cash flows used in investing activities | | | |
| Purchase of property and equipment | 7 | - | (11,412) |
| Purchase of intangible assets | 9 | - | (51,396) |
| | | - | (62,808) |
| Cash flows provided by (used in) financing activities | | | |
| Proceeds from private placement, net | 12(i) | 2,496,958 | - |
| Option exercise proceeds | 12(ii) | 1,542 | 5,734 |
| Repayment of lease obligation | 8 | (174,703) | (166,263) |
| | | 2,323,797 | (160,529) |
| Effects of foreign exchange translation in cash | | (10,188) | 94,963 |
| Net change in cash and cash equivalents for the year | | (569,462) | (6,296,118) |
| Cash and cash equivalents, beginning of the year | | 3,085,986 | 9,287,141 |
| Cash and cash equivalents, end of the year | | 2,506,336 | 3,085,986 |

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, 2023 and 2022
(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.

The Company has seen an increased rate of inflation globally, which has created challenges for the Company in securing certain inventory components at reasonable prices and in a timely manner. The Company also continues to experience supply chain constraints, which to date, have not resulted in any lost business.

As described in Note 2 of these consolidated financial statements, management makes estimates and assumptions in preparing the consolidated financial statements. Actual results could differ materially from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

Going concern uncertainty

These consolidated financial statements of the Company for the years ended September 30, 2023, and 2022 (“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, 2023, the Company has an accumulated deficit of \$69,464,366 (2022 – \$65,282,464), net loss of \$4,181,902 (2022 – \$5,346,171) and negative cash flows from operations of \$2,893,259 (2022 – \$6,072,781). 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 may 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% |
| LPSI (Barbados) Limited – (Barbados) inactive | 100% |

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

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, 2023 and 2022
(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, 2023 or September 30, 2022 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.
- 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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

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 2023 and 2022 |
|--------------------------------|----------------------------|
| Cash and cash equivalents | Amortized cost |
| Trade 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, 2023 and 2022
(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, 2023.

Inventory

Inventory consists of components, work in progress & finished sub-components and finished goods. Components are valued at the lower of cost and net realizable value, with cost determined using the average cost basis. Work in progress consists of components which have been assembled to completed sub-assemblies and includes direct and indirect production labour as well as production facility overhead costs. Finished goods consist of various sub-assemblies which to complete require additional production labour as well as production facility overhead costs.

The carrying value of inventory is analyzed by management for possible impairment at each reporting period and is carried at the lesser of cost or net realizable value. Inventory is subsequently recorded within cost of sales on the consolidated statements of loss and comprehensive loss at the time that the related sale of the finished good is realized in revenue.

Right-of-use assets

A contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. For leases entered into subsequent to the adoption of IFRS 16 on October 1, 2019 the Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over its lease term. Right-of-use assets are subject to evaluation of potential impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments). The lease payments also include the exercise price of purchase options, if any, reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

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 or 10-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.

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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

Current and deferred income taxes

Tax expense is comprised of current and deferred income taxes. Tax is recognized separately in the statement of loss and comprehensive loss, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case, income tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

Current tax

Current income tax charge is calculated based on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates [and laws] that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current 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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a fixed price prior to expiry as stipulated by the terms of the transaction.

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

Revenue recognition

The Company generates revenue through a) product sales and b) product sales with installation services.

The total transaction price of a customer arrangement is expected to vary depending on type of equipment and whether or not installation service is included.

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

- i) Revenue from product sales contracts is recognized when the following conditions are met:
 - Persuasive evidence the contract exists, which occurs when the contract is signed by both the Company and the customer.
 - The performance obligation is met, which occurs on delivery to and receipt of the equipment by the customer with the exception of bill-and-hold agreements, where the customer has agreed that upon completion of the equipment and its preparation for shipping (the "Hold Date"), title to the equipment shall have passed to customer.
 - The transaction price is clearly specified in the contract. The transaction price is recognized in revenue and allocated to product revenue when the performance obligation described above has been completed.
- 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.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

- 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.

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, 2023, 99% of the Company’s revenues were attributable to Legend Canada (2022 - 99%) and 1% of revenues were attributable to Legend U.S. (2022 – 1%). 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, 2023 | | | | As at September 30, 2022 | | | |
|-------------|---------------------------------|----------------|---------------|-----------|---------------------------------|----------------|---------------|-----------|
| | Legend Canada | Legend U.S. | Other Subs | Total | Legend Canada | Legend U.S. | Other Subs | Total |
| Assets | 5,209,055 | 17,456 | 2,704 | 5,229,215 | 6,244,273 | 59,856 | - | 6,304,129 |
| Liabilities | 1,146,539 | 88,105 | - | 1,234,644 | 877,099 | 66,559 | 9,500 | 953,158 |

| | Year ended September 30, 2023 | | | | Year ended September 30, 2022 | | | |
|------------------------------|--------------------------------------|----------------|---------------|-------------|--------------------------------------|----------------|---------------|-------------|
| | Legend Canada | Legend U.S. | Other Subs | Total | Legend Canada | Legend U.S. | Other Subs | Total |
| Revenue | 1,099,486 | 6,607 | - | 1,106,093 | 2,102,068 | 15,965 | - | 2,118,033 |
| Cost of sales | (910,294) | (1,618) | - | (911,912) | (1,913,680) | - | - | (1,913,680) |
| Op costs | (3,169,556) | (1,250,564) | (10,373) | (4,430,493) | (3,816,173) | (1,745,415) | (9,270) | (5,570,858) |
| Other income (expense) | 32,707 | 21,703 | - | 54,410 | 22,774 | (2,440) | - | 20,334 |
| Net loss | (2,947,657) | (1,223,872) | (10,373) | (4,181,902) | (3,605,011) | (1,731,890) | (9,270) | (5,346,171) |

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(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, 2023 | 214,103 | 73,535 | - | 140,568 |
| September 30, 2022 | 716,146 | 682,648 | - | 37,314 |

During the year ended September 30, 2023, the Company wrote off trade receivables in the amount of \$10,314 (2022 - \$nil) to bad debt and the expected credit loss was nominal (2022 – nominal).

As at September 30, 2023, trade receivables from four customers accounted for 10%, 18%, 19% and 40%, respectively of the Company's trade receivables balance for a total 87% in aggregate. 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.

ii) Due from customers on contract

At September 30, 2023, due from customers on contract amounted to \$10,211 and at September 30, 2022, was \$206,311. 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 September 30, 2023 and September 30, 2022:

| | September 30, 2023 | September 30, 2022 |
|---------------------------------|-----------------------|-----------------------|
| | \$ | \$ |
| Finished products ("SmartGATE") | 112,087 | 124,867 |
| Finished sub-components | 196,556 | 302,568 |
| Transformers and components | 1,554,261 | 1,162,158 |
| | 1,862,904 | 1,589,593 |

During the year ended September 30, 2023, inventories were recognized as cost of sales in the amount of \$406,658 (2022 – \$1,209,031) and unallocated overhead of \$58,322. During the year ended September 30, 2023, the Company recorded an inventory impairment of \$nil (2022-\$ nil). Further, the Company recorded a recovery on slow-moving inventory of \$20,429 (2022 – provision of \$57,044). Total provision recognized against inventory as at September 30, 2023 was \$153,749 (2022 - \$174,178).

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

| | Computer equipment | Equipment and furniture | Leasehold improvements | Total |
|---------------------------------|-----------------------|----------------------------|---------------------------|----------------|
| | \$ | \$ | \$ | \$ |
| Cost | | | | |
| 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 |
| Additions | - | 59,303 | - | 59,303 |
| Disposal | (6,290) | (7,307) | - | (13,597) |
| Adjustment | (86) | - | - | (86) |
| Balance, September 30, 2023 | 139,884 | 747,702 | 44,245 | 931,831 |
| Accumulated depreciation | | | | |
| 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 |
| Additions | 2,373 | 59,629 | 3,964 | 65,966 |
| Disposal | (6,290) | (5,980) | - | (12,270) |
| Adjustment | (86) | - | - | (86) |
| Balance, September 30, 2023 | 137,495 | 642,639 | 39,711 | 819,845 |
| Net book value | | | | |
| At September 30, 2022 | 4,762 | 106,716 | 8,498 | 119,976 |
| At September 30, 2023 | 2,389 | 105,063 | 4,534 | 111,986 |

During the year ended September 30, 2023, additions to equipment and furniture includes \$59,303 relating to SmartGATE (2022 - \$53,090 SmartGATE Insights) transferred from Inventory. Further, the Company disposed of fixed asset with a net book value of \$1,327 (2022 - \$nil) against other income.

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Office lease

On January 1, 2023, certain costs related to property tax and insurance premiums associated to the leased asset became known and unavoidable for the upcoming year. As a result, those payments become fixed in-substance at that time giving rise to a lease modification. An adjustment was made in the amount of \$47,565 (2022 - \$44,628) to the right-of-use asset and lease liability. Further, in September 2023, the Company extended its Vancouver head office lease for an additional 3 years. The Company's estimated incremental borrowing rate at the extension date of the lease was 8.29%, which has been used to determine the present value of the minimum lease payments. Extension of lease term resulted in an adjustment in the amount of \$350,112 to the right-of-use asset and lease liability.

During the year ended September 30, 2023, the Company made lease obligation payments of \$172,578 (2022 - \$162,524), recorded \$164,703 (2022 - \$131,207) in depreciation (\$54,530 of which was allocated to inventory and cost of sales), and \$13,630 (2022 - \$23,828) in interest expense related to this lease liability (\$4,499 of which was allocated to inventory and cost of sales).

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

Car leases

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 year ended September 30, 2022, the Company made lease obligation payments of \$1,614, recorded depreciation of \$1,178 in cost of goods sold, and \$403 in interest expense 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.

During the year ended September 30, 2023, the Company made lease obligation payments of \$2,125 (2022 - \$2,125), recorded \$1,681 (2022 - \$1,680) in depreciation and \$224 (2022 - \$405) in interest expense related to this lease liability. Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities.

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

Right-of-use Assets

| | Office lease | Car lease | Equipment lease | Total |
|---------------------------------|----------------|-----------|-----------------|----------------|
| | \$ | \$ | \$ | \$ |
| Cost | | | | |
| Balance, 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 |
| Effect of lease modification | 397,677 | - | - | 397,677 |
| Balance, September 30, 2023 | 982,196 | - | 7,844 | 990,040 |
| Accumulated depreciation | | | | |
| 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 |
| Additions | 164,703 | - | 1,681 | 166,384 |
| Balance, September 30, 2023 | 544,975 | - | 6,723 | 551,698 |
| Net book value | | | | |
| At September 30, 2022 | 204,247 | - | 2,802 | 207,049 |
| At September 30, 2023 | 437,221 | - | 1,121 | 438,342 |

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

Lease Obligations

| | Office lease | Car lease | Equipment lease | Total |
|------------------------------|--------------|-----------|-----------------|-----------|
| | \$ | \$ | \$ | \$ |
| 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 |
| Effect of lease modification | 397,677 | - | - | 397,677 |
| Lease payments | (172,578) | - | (2,125) | (174,703) |
| Interest portion of payments | 13,630 | - | 224 | 13,854 |
| Balance, September 30, 2023 | 424,613 | - | 1,377 | 425,990 |
| Lease payable, current | 113,038 | - | 1,377 | 114,415 |
| Lease payable, non-current | 311,575 | - | - | 311,575 |
| Total lease payable | 424,613 | - | 1,377 | 425,990 |

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 | 142,701 | - | 1,948 | 144,649 |
| Between 2 and 3 years | 273,880 | - | - | 273,880 |
| Between 4 and 5 years | 70,140 | - | - | 70,140 |
| Total | 486,721 | - | 1,948 | 488,669 |

9. INTANGIBLE ASSETS

| | Patents | Computer software | Total |
|---------------------------------|---------------|-------------------|---------------|
| | \$ | \$ | \$ |
| Cost | | | |
| 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 |
| Balance, September 30, 2023 | 1,655,750 | 184,084 | 1,839,834 |
| Accumulated depreciation | | | |
| 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 |
| Amortization | 7,047 | 32,367 | 39,414 |
| Balance, September 30, 2023 | 1,645,146 | 184,084 | 1,829,230 |
| Carrying amount | | | |
| At September 30, 2022 | 17,651 | 32,367 | 50,018 |
| At September 30, 2023 | 10,604 | - | 10,604 |

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

10. PAYROLL PROTECTION PROGRAM LOAN and COVID SUBSIDIES

During the year ended September 30, 2023, the Company received a total of USD\$16,093 in COVID related subsidies from the IRS. During the year ended September 30, 2022, the Company received a total of \$14,721 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.

11. WARRANTY PROVISION

| | Total |
|---------------------------------|---------------|
| | \$ |
| Balance, September 30, 2021 | 402,423 |
| Warranty fulfillment | (18,644) |
| Decrease in provision | (208,451) |
| Balance, September 30, 2022 | 175,328 |
| Warranty fulfillment | (36,315) |
| Decrease in provision | (42,584) |
| Balance, September 30, 2023 | 96,429 |
| Warranty provision, current | 51,381 |
| Warranty provision, non-current | 45,048 |
| Total | 96,429 |

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, 2023, the average remaining years of equipment under warranty was 4.04 years (September 30, 2022 – 4.89 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, 2023, the Company had 131,694,417 (2022 – 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.

During the year ended September 30, 2023, the Company completed a non-brokered private placement by issuing a total of 14,117,113 units, for gross proceeds of \$2,541,080. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$0.25 at anytime up to 24 months following the closing date of the offering. The Company incurred a total of \$44,122 share issuance costs. The warrant is subject to an accelerated expiry provision, whereby in the event the daily volume weighted average trading price of the Company's Shares on the TSX Venture Exchange, or such other stock exchange where the majority of the trading volume occurs, exceeds \$0.40 for a period of 10 consecutive trading days, at the Company's election, the period within which the Warrants are exercisable, will be reduced and the holders of the Warrants will be entitled to exercise their Warrants for a period of 30 days commencing on the day the Company provides notice, any outstanding Warrants not exercised during the 30 day period will expire.

During the year ended September 30, 2023, a total of 8,333 (2022 - 26,668) shares were issued upon the exercise of stock options.

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

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, 2023, the following stock options were granted:

- December 23, 2022 – 170,000 with an exercise price of \$0.33 and a 5-year term¹;
- December 23, 2022 – 125,000 with an exercise price of \$0.33 and a 5-year term²;
- January 10, 2023 – 100,000 with an exercise price of \$0.33 and a 5-year term¹; and
- September 3, 2023 – 1,850,000 with an exercise price of \$0.18 and a 5-year term¹

During the year ended September 30, 2022, the following stock options were granted:

- 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, 2023 and 2022 vest as to:

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

² Vest on performance milestone being met

A summary of the Company’s share options outstanding at September 30, 2023, including the changes during the year, is as follows:

| | Share options | Weighted average exercise price |
|-----------------------------|---------------|---------------------------------|
| | | \$ |
| 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 |
| Granted | 2,245,000 | 0.21 |
| Exercised | (8,333) | 0.19 |
| Expired | (595,000) | 0.63 |
| Forfeited | (277,399) | 0.35 |
| Balance, September 30, 2023 | 9,344,081 | 0.32 |

The weighted average remaining contractual life of stock options outstanding as of September 30, 2023, is 2.79 years (September 30, 2022 – 2.98 years).

During the year ended September 30, 2023, \$337,166 (2022 - \$513,422) was recorded to share-based compensation expense for vesting of incentive stock options.

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, 2023 and 2022:

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

| | September 30, 2023 | September 30, 2022 |
|-----------------------------------|-----------------------|-----------------------|
| Risk-free interest rate (average) | 4.06% | 2.31% |
| Estimated volatility (average) | 95% | 99% |
| Expected life (average) | 3.77 | 3.71 |
| Forfeiture rate (average) | 21.82% | 21.36% |
| 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, 2023:

| Options outstanding | Options exercisable | Exercise price | Year of expiry |
|---------------------|---------------------|----------------|----------------|
| | | \$ | |
| 2,485,000 | 2,485,000 | 0.18 - 0.75 | 2024 |
| 1,875,747 | 1,618,251 | 0.17 - 0.47 | 2025 |
| 546,667 | 356,671 | 0.39 - 0.75 | 2026 |
| 2,486,667 | 970,014 | 0.19 - 0.33 | 2027 |
| 1,950,000 | 16,667 | 0.18 - 0.33 | 2028 |
| 9,344,081 | 5,446,603 | | |

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 |
| Granted | 14,117,113 | 0.25 |
| Expired | (7,716,800) | 0.95 |
| Balance, September 30, 2023 | 14,117,113 | 0.25 |

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

| Warrants outstanding | Warrants exercisable | Exercise price | Year of expiry |
|-----------------------------|-----------------------------|-----------------------|-----------------------|
| | | \$ | |
| 14,117,113 | 14,117,113 | 0.25 | 2025 |
| 14,117,113 | 14,117,113 | | |

The weighted average remaining contractual life of warrants outstanding as of September 30, 2023 is 1.84 years (September 30, 2022 - 0.71 years).

During the year ended September 30, 2023, the Company issued:

- a) 14,117,113 unit warrants in connection with the non-brokered private placement which based on the residual method were fair valued at \$141,171 and recorded in contributed surplus

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, 2023 and 2022:

- (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:

| | 2023 | 2022 |
|--|-------------|-------------|
| | \$ | \$ |
| Salaries and consulting fees to key management personnel | 553,000 | 490,981 |
| Share-based compensation | 112,149 | 172,019 |
| Car allowance | 9,600 | 9,600 |
| | 674,749 | 672,600 |

At September 30, 2023, a total of \$nil (September 30, 2022 - \$nil) was due to related parties for consulting fees and expenses reimbursement.

- (ii) Transactions with Directors:

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

| | 2023 | 2022 |
|--------------------------|-------------|-------------|
| | \$ | \$ |
| Share-based compensation | 126,570 | 176,982 |
| | 126,570 | 176,982 |

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

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, 2023 and September 30, 2022:

| | 2023 | 2022 |
|---|-------------|-------------|
| | \$ | \$ |
| Net loss before tax | (4,181,902) | (5,346,171) |
| Statutory tax rate | 26.7% | 26.7% |
| Expected income tax (recovery) | (1,117,345) | (1,428,021) |
| Non-deductible and other items | 135,612 | 152,416 |
| Change in tax rates | - | - |
| Effect of foreign jurisdiction tax rates | (8,597) | (14,349) |
| Effect of foreign exchange | 36,942 | (194,265) |
| Share issuance costs | (11,789) | (948) |
| Change in estimates | (2,374) | (30,104) |
| Change in deferred tax asset not recognized | 967,552 | 1,515,271 |
| Total income tax expense (recovery) | - | - |

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Details of deferred of assets (liabilities) are as follows:

| | 2023 | 2022 |
|---------------------------------------|-------------|-------------|
| | \$ | \$ |
| Non-capital loss carryforwards | 117,412 | 56,635 |
| Intangible assets | (293) | (1,330) |
| Right to Use Assets | (117,119) | (55,305) |
| Net deferred tax assets (liabilities) | - | - |

The unrecognized deductible temporary differences as at September 30, 2023 and September 30, 2022 is comprised of the following:

| | 2023 | 2022 |
|--|-------------|-------------|
| | \$ | \$ |
| Net operating losses carryforward and non-capital losses carryforwards | 48,576,074 | 45,019,827 |
| Accrued Vacation | 70,608 | - |
| Financing Costs | 589,464 | 830,894 |
| Property and Equipment | 1,346,140 | 1,338,415 |
| Lease liabilities | 425,989 | 189,160 |
| Capital losses | 479,254 | 479,254 |
| Inventory | 138,422 | 123,017 |
| Warranty Provision | 96,429 | 175,328 |
| Total unrecognized deductible temporary differences | 51,722,380 | 48,155,895 |

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

The Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately \$48,576,074 (2022 - \$45,019,826) 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 | - |
| 2023 | 87,562 |
| 2024 | 14,671 |
| 2025 | 41,808 |
| 2026 | 1,392,238 |
| 2027 | 718,365 |
| 2028 | 1,448,557 |
| 2029 | 1,803,151 |
| 2030 | 2,902,799 |
| 2031 | 2,817,341 |
| 2032 | 2,250,841 |
| 2033 | 2,114,621 |
| 2034 | 1,710,262 |
| 2035 | 2,059,293 |
| 2036 | 2,071,039 |
| 2037 | 1,664,113 |
| 2038 | 1,381,356 |
| 2039 | 2,011,450 |
| 2040 | 2,964,327 |
| 2041 | 2,217,845 |
| 2042 | 3,582,826 |
| 2043 | 2,835,074 |
| Indefinite | 10,486,536 |
| Total | 48,576,074 |

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 \$408,575 (2022 - \$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.

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, 2023 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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

the Company's results of operations for the year ended September 30, 2023, by approximately \$131,630 (2022 - \$190,690).

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, 2023, averaged 3.56% (2022 – 0.45%). A 1% nominal change in interest rates would have affected the Company's results of operations for the year ended September 30, 2023 by approximately \$10,600 (2022 - \$55,700). 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, 2023, trade receivables from four customers accounted for 10%, 18%, 19% and 40%, respectively, of the Company's trade receivable balance for a total 87% in aggregate. 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. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at September 30, 2023 (September 30, 2022 – nominal).

Concentration risk

During the year ended September 30, 2023, two customers accounted for 20% and 45% (2022 - two customers accounted for 37% and 48%), 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, 2023, the Company had cash and cash equivalents of \$2,506,336 (September 30, 2022 – \$3,085,986) to settle its current liabilities of \$878,021 (September 30, 2022 – \$783,601).

17. LOSS PER SHARE

| | 2023 | 2022 |
|---------|-------------|-------------|
| | \$ | \$ |
| Basic | (.03) | (.04) |
| Diluted | (.03) | (.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

Legend Power Systems Inc.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)

adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use funds from the future sale of products to fund operations and expansion activities.

19. SUBSEQUENT EVENT

On October 3, 2023, the Company granted 100,000 stock options with an exercise price of \$0.18 and a 5-year term to a consultant.

On November 1, 2023, the Company granted 275,000 stock options with an exercise price of \$0.18 and a 5-year term to employees.

On December 2, 2023, the Company entered into a 5-year photocopier lease.