



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS For the nine months ended June 30, 2023 and 2022

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended June 30, 2023 and 2022

(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 nine months ended June 30, 2023, 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 nine-month period ended June 30, 2023.

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - Expressed in Canadian Dollars)

		June 30, 2023	September 30, 2022 (Audited)
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		522,049	3,085,986
Trade and other receivables	5(i)	597,702	716,146
Due from customers on contract	5(ii)	61,084	206,311
Prepaid expenses and deposits		139,639	329,050
Inventory	6	1,822,495	1,589,593
Total current assets		3,142,969	5,927,086
Non-current assets			
Property and equipment	7	128,843	119,976
Right of use assets	8	132,204	207,049
Intangible assets	9	11,485	50,018
Total non-current assets		272,532	377,043
Total assets		3,415,501	6,304,129
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Account payable		210,270	212,928
Accrued liabilities		315,310	345,041
Deferred revenue		210,827	30,699
Lease liability	8	118,349	125,620
Warranty provision	11	60,067	69,313
Total current liabilities		914,823	783,601
Non-current liabilities			
Warranty provision	11	90,056	106,015
Lease liability	8	-	63,542
Total liabilities		1,004,879	953,158
Shareholders' equity			
Share capital	12(i)	59,637,688	59,635,094
Contributed surplus		11,264,222	10,994,841
Accumulated other comprehensive income		3,349	3,500
Deficit		(68,494,637)	(65,282,464)
Total shareholders' equity		2,410,622	5,350,971
Total liabilities and shareholders' equity		3,415,501	6,304,129

Going concern (Note 1)

Segments (Note 4)

Commitments and contingencies (Note 13)

Subsequent Event (Note 18)

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON AUGUST 25, 2023

“Cos LaPorta”, Director

“Randy Buchamer”, Director

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited - Expressed in Canadian Dollars)

	Notes	For the three months ended		For the nine months ended	
		June 30,		June 30,	
		2023	2022	2023	2022
		\$	\$	\$	\$
Revenue		470,310	1,026,412	946,979	1,539,205
Cost of sales	6	366,307	977,765	747,124	1,395,749
Gross margin		104,003	48,647	199,855	143,456
Expenses					
Salaries and consulting		679,225	837,189	2,052,642	2,637,651
General and administrative		136,372	142,170	427,510	445,250
Selling costs		11,448	124,489	61,357	312,148
Share-based compensation	12(ii)	78,742	154,398	270,433	412,427
Professional fees		46,631	34,637	141,645	118,555
Warranty (recovery) expense	11	7,339	10,121	2,209	(115,883)
Product development		103,916	136,154	273,323	347,747
Foreign exchange loss		407	54,403	1,887	108,701
Amortization and depreciation	7,8,9	63,935	49,014	198,414	131,932
Total expenses		1,128,015	1,542,575	3,429,420	4,398,528
Operating loss		(1,024,012)	(1,493,928)	(3,229,565)	(4,255,072)
Interest expense on leases	8	(2,893)	(3,995)	(10,510)	(13,394)
Other income		8,337	5,742	27,902	66,535
Net loss for the period		(1,018,568)	(1,492,181)	(3,212,173)	(4,201,931)
Other comprehensive loss:					
Exchange difference arising on translation of foreign operations		(668)	46,683	(151)	88,242
Comprehensive loss for the period		(1,019,236)	(1,445,498)	(3,212,324)	(4,113,689)
Basic and diluted loss per share		(.009)	(.013)	(.027)	(.036)
Weighted average number of common shares outstanding, basic and diluted		117,577,304	117,568,971	117,574,404	117,547,578

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, 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
Net loss and comprehensive loss for the period		-	-	-	(4,201,931)	88,242	(4,113,689)
Balance at June 30, 2022		117,568,971	59,638,644	10,893,848	(64,138,224)	(2,206)	6,392,062
Balance at September 30, 2022		117,568,971	59,635,094	10,994,841	(65,282,464)	3,500	5,350,971
Common shares issued for options exercised	12(ii)	8,333	2,594	(1,052)			1,542
Share-based compensation	12(ii)	-	-	270,433	-	-	270,433
Net loss and comprehensive loss for the period		-	-	-	(3,212,173)	(151)	(3,212,324)
Balance at June 30, 2023		117,577,304	59,637,688	11,264,222	(68,494,637)	3,349	2,410,622

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,	
		2023	2022
		\$	\$
Cash flows used in operating activities			
Net loss for the period		(3,212,173)	(4,201,931)
Items not affecting cash:			
Share-based payment	12(ii)	270,433	412,427
Amortization and depreciation	7,8,9	198,414	133,111
Interest on lease liability	8	10,510	13,394
Warranty expense (recovery)	11	2,209	(115,883)
Disposal of fixed asset	7	1,326	-
Lease termination	8	-	(409)
Provision (recovery) for slow moving inventory	6	(18,340)	49,223
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		306,054	(154,930)
Due from customers on contract		145,227	(316,502)
Inventory		(288,527)	(86,904)
Accounts payable and accrued liabilities		(29,614)	(243,673)
Deferred revenue		180,128	189
		(2,434,353)	(4,511,888)
Cash flows provided by (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 options exercised		1,542	5,736
Repayment of lease obligation	8	(130,000)	(123,999)
		(128,458)	(118,263)
Effects of foreign exchange translation in cash		(1,126)	88,992
Net change in cash and cash equivalents for the period		(2,562,811)	(4,692,959)
Cash and cash equivalents, beginning of the period		3,085,986	9,287,141
Cash and cash equivalents, end of the period		522,049	4,683,174

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, 2023 and 2022

(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.

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 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 condensed interim consolidated financial statements in future periods.

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.

Going concern uncertainty

These condensed interim consolidated financial statements of the Company for the nine months ended June 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.

As at June 30, 2023, the Company has an accumulated deficit of \$68,494,637 (September 30, 2022 - \$65,282,464), and for the nine months ended June 30, 2023, recorded a net loss of \$3,212,173 (2022 - \$4,201,931) and negative cash flows from operations of \$2,434,353 (2022 - \$4,511,888). Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. The application of the going concern assumption is dependent upon the Company’s ability to generate future profitable operations and obtain necessary financing to do so. The Company will need to raise additional capital in order to fund its planned operations and meet its obligations. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so on terms favorable for the Company. The above events and conditions indicate there is a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2023 and 2022

(Unaudited - Expressed in Canadian Dollars)

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, 2022 ("last annual financial statements"). The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the last annual financial statements. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Company's financial position and performance since the last annual financial statements.

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

Critical judgments and sources of estimation uncertainty

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

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 condensed interim consolidated financial statements:

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2023 and 2022

(Unaudited - Expressed in Canadian Dollars)

- 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 3-year pro-forma cash flow model and in addition to various assumptions, the model includes a sensitivity analysis for future revenue scenarios according to three outcomes and net after-tax cash flows based on current operating costs.
- ii) Management estimates average useful life of property plant and equipment based on historical experience and observations as well as the pattern in which an asset's economic benefits are consumed by the Company
- iii) The interest rate chosen for the purpose of calculating the present value of leases reflects an estimation of the lessee's incremental borrowing rate to finance the purchase of similar property.
- 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 June 30, 2023.
- 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.

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Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2023 and 2022

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- viii) The fair value of share-based compensation and warrants are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected term, expected dividend yield, the volatility of the underlying share price, the risk-free rate of return, and the estimated rate of forfeiture. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based compensation and warrants.
- ix) In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2022.

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 three months and nine months ended June 30, 2023, 100% of the Company's revenues were attributable to Legend Canada (2022 – 100%) and 0% of revenues were attributable to Legend U.S. (2022 – 0%). 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, 2023				As at September 30, 2022			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Assets	3,347,358	62,765	5,378	3,415,501	6,244,273	59,856	-	6,304,129
Liabilities	915,896	88,983	-	1,004,879	877,099	66,559	9,500	953,158
	Three months ended June 30, 2023				Three months ended June 30, 2022			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	470,310	-	-	470,310	1,026,412	-	-	1,026,412
Cost of sales	(366,307)	-	-	(366,307)	(977,765)	-	-	(977,765)
Op costs	(834,191)	(291,317)	(2,507)	(1,128,015)	(1,033,509)	(509,066)	-	(1,542,575)
Other income (expense)	5,444	-	-	5,444	1,756	(9)	-	1,747
Net loss	(724,744)	(291,317)	(2,507)	(1,018,568)	(983,106)	(509,075)	-	(1,492,181)

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended June 30, 2023 and 2022

(Unaudited - Expressed in Canadian Dollars)

	Nine months ended June 30, 2023				Nine months ended June 30, 2022			
	Legend Canada	Legend U.S.	Other Subs	Total	Legend Canada	Legend U.S.	Other Subs	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	946,979	-	-	946,979	1,539,205	-	-	1,539,205
Cost of sales	(747,124)	-	-	(747,124)	(1,395,749)	-	-	(1,395,749)
Op costs	(2,496,139)	(925,583)	(7,698)	(3,429,420)	(2,950,112)	(1,448,646)	230	(4,398,528)
Other income								
(expense)	17,392	-	-	17,392	55,563	(2,422)	-	53,141
Net loss	(2,278,892)	(925,583)	(7,698)	(3,212,173)	(2,751,093)	(1,451,068)	230	(4,201,931)

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, 2023	597,702	132,476	74,435	390,791
September 30, 2022	716,146	682,648	-	33,498

During the three months and nine months ended June 30, 2023, the Company wrote off trade receivables in the amount of \$nil (2022 - \$nil) to bad debt expense and the expected credit loss was \$nil (September 30, 2022 - \$nil).

At June 30, 2023, trade receivables from two customers accounted for 14% and 59%, respectively, of the Company's trade receivable balance for a total 73% 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 June 30, 2023, due from customers on contract amounted to \$61,084 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 June 30, 2023 and September 30, 2022:

	June 30, 2023	September 30, 2022
	\$	\$
Finished products ("SmartGATE")	58,343	124,867
Work in progress and finished sub-components	211,604	302,568
Transformers and components	1,552,548	1,162,158
	1,822,495	1,589,593

During the three months and nine months ended June 30, 2023, inventories were recognized as cost of sales in the amount of \$129,096 (2022 - \$702,951) and \$360,621 (2022 - \$1,087,890), respectively. Further, the Company recorded a provision for slow-moving and obsolescence of \$78 (2022 - \$49,223),

Legend Power Systems Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited - Expressed in Canadian Dollars)

and recovery of \$18,340 (2022 – provision of \$49,223), respectively. Total provision recognized against inventory as at June 30, 2023 was \$155,838 (September 30, 2022 - \$174,178).

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	(6,159)	(7,307)	-	(13,466)
Adjustment	(217)	-	-	(217)
Balance, June 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	1,780	44,237	3,093	49,110
Disposal	(6,159)	(5,981)	-	(12,140)
Adjustment	(217)	-	-	(217)
Balance, June 30, 2023	136,902	627,246	38,840	802,988
Net book value				
At September 30, 2022	4,762	106,716	8,498	119,976
At June 30, 2023	2,982	120,456	5,405	128,843

During the three months and nine months ended June 30, 2023, the Company disposed of equipment and furniture with a net book value of \$1,326 (2022 - \$nil) and computer equipment with a net book value of \$nil (2022 - \$nil) against other income.

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES

Office lease

In December 2020, the Company extended its Vancouver head office lease for an additional 3 years. 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.

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. 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 months ended June 30, 2023, the Company made lease obligation payments of \$44,171 (2022 - \$41,733) and \$128,406 (2022 - \$120,791), respectively. Depreciation

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Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited - Expressed in Canadian Dollars)

expense for the three months and nine months ended June 30, 2023, was \$43,555 (2022 - \$34,041) and \$121,150 (2022 - \$97,165), respectively, of which \$11,639 (2022 - \$32,064) was allocated to inventory and cost of sales. Interest expense for the three months and nine months ended June 30, 2023, was \$3,228 (2022 - \$5,820) and \$11,436 (2022 - \$18,913), respectively, of which \$1,112 (2022 - \$6,241) was allocated to inventory and cost of sales.

Car leases

A 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 received cash of \$3,795 from lessor and recognized a gain on termination of \$4,204 in other income.

During the three months and nine months ended June 30, 2023, the Company made lease obligation payments of \$nil (2022 - \$nil) and \$nil (2022 - \$1,614), respectively. Depreciation expense recorded in cost of sales for the three months and nine months ended June 30, 2023, was \$nil (2022 - \$nil) and \$nil (2022 - \$1,178), respectively. Interest expense in cost of sales for the three months and nine months ended June 30, 2023, was \$nil (2022 - \$nil) and \$nil (2022 - \$403), 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, 2023, the Company made lease obligation payments of \$532 (2022 - \$531) and \$1,594 (2022 - \$1,594). Depreciation expense for the three months and nine months ended June 30, 2023, was \$420 (2022 - \$420) and \$1,260 (2022 - \$1,261), respectively. Interest expense for the three months and nine months ended June 30, 2023, was \$51 (2022 - \$96) and \$186 (2022 - \$320), respectively.

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, 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	47,565	-	-	47,565
Balance, June 30, 2023	632,084	-	7,844	639,928
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	121,150	-	1,260	122,410
Balance, June 30, 2023	501,422	-	6,302	507,724
Net book value				
At September 30, 2022	204,247	-	2,802	207,049
At June 30, 2023	130,662	-	1,542	132,204

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	47,565	-	-	47,565
Lease payments	(128,406)	-	(1,594)	(130,000)
Interest portion of payments	11,436	-	186	11,622
Balance, June 30, 2023	116,479	-	1,870	118,349
Lease payable, current	116,479	-	1,870	118,349
Lease payable, non-current	-	-	-	-
Total lease payable	116,479	-	1,870	118,349

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

	Office lease	Car lease	Equipment lease	Total
	\$	\$	\$	\$
Less than 1 year	120,073	-	1,948	122,021
Total	120,073	-	1,948	122,021

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, June 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	6,166	32,367	38,533
Balance, June 30, 2023	1,644,265	184,084	1,828,349
Carrying amount			
At September 30, 2022	17,651	32,367	50,018
At June 30, 2023	11,485	-	11,485

10. COVID SUBSIDIES

During the three months and nine months ended June 30, 2023, the Company received a total of \$nil (2022 - \$nil) and \$nil (2022 - \$41,158), respectively, COVID related subsidies from the Government of Canada.

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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	(27,414)
Increase in provision	2,209
Balance, June 30, 2023	150,123
Warranty provision, current	60,067
Warranty provision, non-current	90,056
Total	150,123

The Company provides a variable length warranty on its equipment of either 3 or 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, 2023, the average remaining years of equipment under warranty was 4.27 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 June 30, 2023, the Company had 117,577,304 (September 30, 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.

On June 15, 2021, the Company completed a bought deal public offering by issuing a total of 13.8 million units, including the exercise of the underwriters' overallotment option, for gross proceeds of \$10,350,000. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$0.95 at any time up to 24 months following the closing date of the offering. The Company incurred a total \$1,380,090 share issuance costs, of which \$317,816 relates to the issuance of 816,800 finders' warrants (Note 12(iii)). During the year ended September 30, 2022, the Company incurred an additional \$3,550 share issuance costs in relation to the bought deal public offering on June 15, 2021.

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, 2023, including the changes during the period, 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	395,000	0.33
Exercised	(8,333)	0.19
Expired	(345,000)	0.81
Forfeited	(123,833)	0.35
Balance, June 30, 2023	7,897,647	0.36

The weighted average remaining contractual life of stock options outstanding as of June 30, 2023, was 2.42 years (September 30, 2022 – 2.98 years).

During the three months and nine months ended June 30, 2023, the Company recorded share-based compensation of \$78,742 (2022 - \$154,398) and \$270,433 (2022 - \$412,427).

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, 2023 and 2022:

	June 30, 2023	June 30, 2022
Risk-free interest rate (average)	3.49%	2.31%
Estimated volatility (average)	98%	99%
Expected life (average)	3.72	3.71
Forfeiture rate (average)	22.19%	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.

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The following table summarizes share options outstanding and exercisable at June 30, 2023:

Options outstanding	Options exercisable	Exercise price	Year of expiry
		\$	
250,000	250,000	0.38 - 0.92	2023
2,550,000	2,550,000	0.18 - 0.75	2024
1,946,812	1,672,652	0.17 - 0.47	2025
560,000	293,337	0.39 - 0.75	2026
2,490,835	782,516	0.19 - 0.33	2027
100,000	-	0.33	2028
7,897,647	5,548,506		

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
Expired	(7,716,800)	0.95
Balance, June 30, 2023	-	-

The weighted average remaining contractual life of warrants outstanding as of September 30, 2022, was 0.71 years.

During June 2021, the Company issued:

- 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
- 816,800 warrants to the underwriters of the offering fair valued at \$0.3891 each for a total of \$317,816 which was recorded in contributed surplus. The warrants were valued on the date of issuance using the Black-Scholes option-pricing model with the following assumptions:

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

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13. COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with each of the 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 three months and nine ended June 30, 2023:

(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,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salaries and consulting fees to key management personnel	138,250	134,565	414,750	352,731
Share-based compensation	26,375	59,803	92,045	131,142
Car allowance	2,400	2,400	7,200	7,200
	167,025	196,768	513,995	491,073

(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,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Share-based compensation	27,041	56,360	96,666	128,895
	27,041	56,360	96,666	128,895

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

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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, 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 June 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 the Company's results of operations for the nine months ended June 30, 2023, by approximately \$93,000 (2022 - \$154,000).

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, 2023, averaged 3.38% (2022 - 0.26%). A 1% nominal change in interest rates would have affected the Company's results of operations for the nine months ended June 30, 2023, by approximately \$8,300 (2022 - \$44,000). The Company does not have any interest-bearing liabilities.

Credit risk

Credit risk is the risk of an unexpected loss if the counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is believed to be minimal as cash is on deposit with Canadian and foreign banks that are deemed to be creditworthy. Receivables are comprised primarily of amounts due from various customers. The Company is exposed to credit risk through accounts receivable from customers. At June 30, 2023, trade receivables from four customers accounted for 14% and 59%, respectively, of the Company's trade receivable balance for a total 73% 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. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at June 30, 2023 (September 30, 2022 - nominal).

Concentration risk

During the three months and nine months ended June 30, 2023, two customers accounted for 18% and 80% (2022 - two customers accounted for 37% and 63%), and two customers accounted for 23% and 44% (2022 - two customers accounted for 42% and 52%), respectively, of the Company's revenue.

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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, 2023, the Company had cash and cash equivalents of \$522,049 (September 30, 2022 – \$3,085,986) to settle its current liabilities of \$914,823 (September 30, 2022 – \$783,601).

16. LOSS PER SHARE

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Basic	(.009)	(.013)	(.027)	(.036)
Diluted	(.009)	(.013)	(.027)	(.036)

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.

18. SUBSEQUENT EVENT

Subsequent to June 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 \$27,200 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.