



Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended December 31, 2015

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended December 31, 2015

(Unaudited - Prepared by Management)

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Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended December 31, 2015

(Unaudited - Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements for Legend Power Systems Inc. for the three month period ended December 31, 2015 have been prepared by and are the responsibility of the Company's management.

The auditor of Legend Power Systems Inc. has not performed a review of the unaudited condensed interim consolidated financial statements for the three month period ended December 31, 2015

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

	December 31 2015	September 30 2015
ASSETS		
Current assets		
Cash	\$ 1,630,127	\$ 536,116
Accounts receivable (Note 5)	1,390,676	646,800
Inventory (Note 6)	473,299	572,912
Prepaid expenses and deposits (Note 8)	70,189	82,589
Total current assets	3,564,291	1,838,417
Non-current assets		
Property and equipment (Note 9)	19,550	22,953
Patents (Note 10)	245,789	286,739
Total non-current assets	265,339	309,692
TOTAL ASSETS	\$ 3,829,630	\$ 2,148,109
LIABILITIES		
Current liabilities		
Trade payables	\$ 259,735	\$ 189,060
Accrued liabilities	318,497	209,843
Total current liabilities	578,232	398,903
Non-current liabilities		
Warranty provision (Note 11)	180,000	142,000
TOTAL LIABILITIES	758,232	540,903
SHAREHOLDERS' EQUITY		
Common shares (Note 12)	32,711,020	32,008,782
Share-based payment reserve (Note 13)	8,650,390	7,640,496
Deficit	(38,290,012)	(38,042,072)
TOTAL SHAREHOLDERS' EQUITY	3,071,398	1,607,206
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,829,630	\$ 2,148,109
Commitments (Note 14)		
Contingent Liability (Note 15)		
Events after the reporting period (Note 17)		

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON FEBRUARY 29, 2016

"Michael Atkinson", Director

"Randy Buchamer", Director

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

	For the three month period ended	
	December 31	
	2015	2014
Revenue	\$ 778,352	\$ 152,665
Cost of sales	350,936	87,422
Margin	427,416	65,243
Expenses		
Advertising and promotion	7,490	27,160
Amortization of patents (Note 10)	40,950	40,950
Consulting services	1,700	82,145
Corporate	3,524	4,755
Depreciation of property and equipment	3,953	3,733
Insurance	9,618	8,941
Interest and bank charges	706	1,055
Legal and professional fees	23,447	21,000
Office and general	15,532	16,342
Product development	6,854	13,272
Rent	30,362	29,301
Salaries	371,414	249,264
Share-based compensation (Note 13)	77,787	128,252
Travel and entertainment	44,260	12,705
Warranty expense (Note 11)	38,000	18,000
	675,597	656,875
Loss before other items	(248,181)	(591,632)
Other items		
Loss on product installations (Note 7)	-	(98,177)
Other income	241	583
	241	(97,594)
Net loss and comprehensive loss for the period	\$ (247,940)	\$ (689,226)
Loss per common share - basic and diluted	\$ (0.004)	\$ (0.012)
Weighted average number of common shares outstanding	59,493,028	56,811,421

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

	Three month period ended December 31, 2015				
	Common shares		Share-based payment reserve	Deficit	Total equity
	Number of shares	Amount			
Balance on September 30, 2015	59,397,389	\$ 32,008,782	\$ 7,640,496	\$ (38,042,072)	\$ 1,607,206
Common shares issued for:					
Cash	8,300,000	1,660,000			1,660,000
Finder's fees	498,750	99,750			99,750
Share issue costs		(125,405)			(125,405)
Fair value of warrants issued		(879,272)	879,272		-
Fair value of warrants for finder's fees		(52,835)	52,835		-
Share-based compensation			77,787		77,787
Net loss for the period				(247,940)	(247,940)
Balance on December 31, 2015	68,196,139	\$ 32,711,020	\$ 8,650,390	\$ (38,290,012)	\$ 3,071,398

	Three month period ended December 31, 2014				
	Common shares		Share-based payment reserve	Deficit	Total equity
	Number of shares	Amount			
Balance on September 30, 2014	56,801,964	\$ 30,935,539	\$ 7,383,995	\$ (35,501,908)	\$ 2,817,626
Common shares issued for:					
Stock options exercised	10,000	2,000			2,000
Transfer on options exercised		1,571	(1,571)		-
Share-based compensation			128,252		128,252
Net loss for the period				(689,226)	(689,226)
Balance on December 31, 2014	56,811,964	\$ 30,939,110	\$ 7,510,676	\$ (36,191,134)	\$ 2,258,652

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

Legend Power Systems Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

	For the three month period ended	
	December 31	
	2015	2014
Operating		
Net loss for the period	\$ (247,940)	\$ (689,226)
Adjustments for:		
Amortization of patents	40,950	40,950
Depreciation of property and equipment	3,953	3,733
Share-based compensation expense	77,787	128,252
Warranty provision	38,000	18,000
Changes in non-cash working capital accounts:		
(Increase) decrease in inventory	99,613	(166,347)
(Increase) decrease in amounts receivable, prepaid expenses and deposits	(731,477)	(80,783)
(Decrease) increase in trade payables, accrued liabilities	179,329	(47,640)
Total operating	(539,785)	(793,061)
Investing		
Purchase of property and equipment	(550)	(5,047)
Total investing	(550)	(5,047)
Financing		
Issue of common shares	1,660,000	-
Stock options exercised	-	2,000
Share issue costs	(25,654)	-
Total financing	1,634,346	2,000
Net change in cash	\$ 1,094,011	\$ (796,108)
Cash at beginning of year	536,116	2,410,077
Cash at end of year	\$ 1,630,127	\$ 1,613,969

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

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

1. NATURE OF BUSINESS

Legend Power Systems Inc. (hereafter referred to as the "Company") is incorporated under the laws of the Province of British Columbia and was established as a legal entity on May 31, 2001.

The Company's principal business activities are the marketing of a patented device, the Electrical Harmonizer, designed to provide energy savings through voltage optimization to commercial and industrial customers.

The Company's common shares are listed on the TSX Venture Exchange under the trading symbol "LPS.V". The Company's share options and share purchase warrants are not listed.

The Company's principal office is located at:

8561 Commerce Court,
Burnaby, British Columbia,
V5A 4N5,
Canada

As at December 31, 2015, the Company had working capital of \$2,986,059 (September 30, 2015: \$1,439,514) and an accumulated deficit of \$38,290,012 (September 30, 2015: \$38,042,072). During the period ended December 31, 2015 the Company incurred a net loss of \$247,940 (2014: \$689,226). Based on the working capital as at December 31, 2015 and estimated cash requirements and sources in fiscal 2016, management believes the Company has sufficient capital to continue business operations over the next twelve months. In the long term, the continued business operations of the Company are dependent upon economic and market factors which involve uncertainties including profitable commercialization of its products and/or the Company's ability to obtain adequate financing. There can be no assurance that the Company can achieve profitable commercialization of its products and/or obtain additional capital.

These condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or to continue operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of presentation

The Company's consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

Details of the group

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. They are de-consolidated from the date that control by the Company ceases.

The subsidiaries of the Company are as follows:

0809882 B.C. Ltd. – (Canada) - 100%

Legend Power Systems Corp. - (USA) - 100%

LPSI (Barbados) Limited - (Barbados) - 100%

Consolidation principles

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

Comparative figures

Certain comparative figures have been reclassified to conform to current year presentation.

Foreign currency translation

Functional and presentation currency

The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. The subsidiaries' functional currency, being the currency of the primary economic environment in which the subsidiaries operate, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive income or loss.

Foreign currency transactions

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 comprehensive income or loss.

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Equipment

Equipment is stated at historical cost less depreciation and, where necessary, write-downs for impairment. Depreciation is calculated using the declining-balance method at the following annual rates:

Computer Equipment - 33%

Computer software - 100%

Equipment and furniture - 33%

Leasehold improvements - 20%

Patents

Patents are recorded at cost less accumulated amortization and, where necessary, write-downs for impairment. Amortization is calculated using the straight-line method over ten years based on the estimated useful life of the asset at the time of purchase.

Warranty provision

Warranty provisions for the expected cost of warranty obligations are recorded as an expense at the date of the sale of Electrical Harmonizers. The provision is for estimated costs of product replacement and replacement due to product malfunction after installation. The provision is based on management's best estimates incorporating a number of factors including historical warranty claims and cost experience and the type and duration of warranty coverage. The Company reviews its recorded product warranty provisions quarterly and any adjustment is recorded as an expense.

Current and deferred income taxes

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

Current tax

The current income tax charge is calculated 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, the 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.

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 comprehensive profit or 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 the share award reserve. The fair value of awards is calculated using the Black-Scholes option pricing model which considers the following factors:

- Exercise price
- Expected life of the award
- Expected forfeitures
- Expected volatility
- Risk-free interest rate
- Current market price of the underlying shares

Warrants issued in equity financing transactions

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

The Company has adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the share purchase warrants issued in the private placements is determined by the Black-Scholes method on the announcement date. The balance is allocated to the common shares.

Financial instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive profit or loss. Cash is classified as fair value through profit or loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

temporary. At December 31, 2015 the Company has not classified any financial assets as available for sale.

Transaction costs associated with financial assets at fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Trade payables, accrued liabilities and finance fee payable are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive profit or loss. At December 31, 2015 the Company has not classified any financial liabilities as fair value through profit or loss.

Revenue recognition

The Company generates revenue through direct product sales, product sales and installations and in limited circumstances, ongoing energy savings revenue from past product installations.

The Company recognizes revenue on direct product sales when products have been delivered and collection is probable. The Company recognizes revenue on product sales and installations when products have been installed and all terms in the sales contract have been met to transfer risks and rewards of ownership. The terms of each installation contract vary and may include inspection and acceptance of the agreed upon energy savings as a result of the product installation. The Company recognizes ongoing energy savings revenue when collection is probable.

Inventory

Inventory is measured at the lower of cost or net realizable value. Costs are assigned to inventory by using specific identification of individual costs.

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 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 financial statements.

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

- (i) Management is required to assess whether to test its patent and property and equipment 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.

At December 31, 2015 management has determined no impairment indicators were present with respect to the Company's patents.

- (ii) Management is required to evaluate whether there are material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Management has concluded no material uncertainties exist with respect to the Company's ability to continue as a going concern as the Company has sufficient capital to continue business operations over the next twelve months.

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) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- (ii) At December 31, 2015 and 2014, provisions for impairment of inventory, if any, were made using the best estimate of the net realizable value.

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 comprehensive profit or loss so as to reduce the carrying amount of the long-lived asset to its recoverable amount.

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.

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

New standards not yet adopted

The following is an overview of new accounting standards that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its consolidated financial statements.

- (i) IFRS 9 - *Financial Instruments*. This standard partially replaces IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2018. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities.
- (ii) IFRS 15 - *Revenue from contracts with customers*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.

3. CAPITAL RISK MANAGEMENT

The Company manages, as capital, the components of shareholders' equity. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern in order to continue to develop and sell its products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow, acquire or dispose of assets or adjust the amount of cash.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

IFRS 7 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurements as follows:

Level 1 – applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 – applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 – applies to assets or liabilities for which there are unobservable market data.

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

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4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – continued

The Company's fair value of cash under the fair value hierarchy is measured using Level 1 inputs. The recorded amounts for the Company's financial instruments approximate their fair value due to their short-term nature.

The fair values of the Company's financial instruments are summarized in the following table:

	December 31, 2015		September 30, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
<i>Fair value through profit or loss</i>				
Cash	\$ 1,630,127	\$ 1,630,127	\$ 536,116	\$ 536,116
<i>Loans and receivables</i>				
Amounts receivable	1,390,676	1,390,676	646,800	646,800
Financial liabilities				
<i>Other financial liabilities</i>				
Trade payables	\$ 259,735	\$ 259,735	\$ 189,060	\$ 189,060
Accrued liabilities	318,497	318,497	209,843	209,843

Financial risk management objectives and policies

The Company's financial instruments include cash, amounts receivable, trade payables, accrued liabilities, and finance fee payable. 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 has not entered into any derivative instruments to manage foreign exchange fluctuations.

At December 31, 2015 the Company has no significant foreign currency denominated financial liabilities, and did not hold any significant foreign currency denominated financial assets.

Interest rate risk

The Company is not exposed to significant interest rate risk.

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 believed to be creditworthy. Amounts receivable is comprised primarily of amounts due from large corporations. The Company does not believe it is exposed to significant credit risk.

Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The table below is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

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4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – continued

Contractual maturity analysis as at December 31, 2015

	Less than 3 months	3 -12 months	1 - 5 years	Longer than 5 years	Total
Cash	\$ 1,630,127	-	-	-	\$ 1,630,127
Accounts receivable	\$ 846,762	543,914	-	-	\$ 1,390,676
Trade payables	\$ 259,735	-	-	-	\$ 259,735
Accrued liabilities	\$ 318,497	-	-	-	\$ 318,497

Contractual maturity analysis as at September 30, 2015

	Less than 3 months	3 -12 months	1 - 5 years	Longer than 5 years	Total
Cash	\$ 536,116	-	-	-	\$ 536,116
Accounts receivable	\$ 19,836	626,964	-	-	\$ 646,800
Trade payables	\$ 189,060	-	-	-	\$ 189,060
Accrued liabilities	\$ 209,843	-	-	-	\$ 209,843

5. ACCOUNTS RECEIVABLE

Trade receivables	\$ 1,390,676	\$ 646,800
	\$ 1,390,676	\$ 646,800

\$543,914 of the trade receivables are on extended credit terms of 90 days or over.

6. INVENTORY

Inventories consist of the following, as at:

	December 31, 2015	September 30, 2015
Transformers and components	\$ 473,299	\$ 572,912

During the period ended December 31, 2015, inventories were recognized as cost of sales in the amount of \$161,763 (2014 - \$79,206).

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

7. LOSS ON PRODUCT INSTALLATIONS

During the 2014 fiscal year, the Company incurred costs associated with failed installations that took place in 2014 and prior years as a result of failures on certain components within the installed Harmonizer systems. No revenue was recognized relating to the failed installations. Failures resulted in the removal of the Harmonizer systems. Loss on product installations includes installation costs, removal costs and damages.

8. PREPAID EXPENSES AND DEPOSITS

	December 31, 2015	September 30, 2015
Rent deposit	\$ 33,415	\$ 33,415
Prepaid insurance	6,522	14,205
Prepaid retainers and deposits	6,631	6,081
Prepaid testing fees	21,007	26,817
Other	2,614	2,071
	\$ 70,189	\$ 82,589

9. PROPERTY AND EQUIPMENT

	Computer equipment	Computer software	Equipment and furniture	Leasehold improvements	Total
Cost					
Balance, October 1, 2015	\$ 72,399	\$ 91,973	\$ 277,967	\$ 12,152	\$ 454,491
Additions	-	550	-	-	550
Balance, December 31, 2015	72,399	92,523	277,967	12,152	455,041
Depreciation					
Balance, October 1, 2015	64,817	85,039	271,793	9,889	\$ 431,538
Depreciation for the period	838	1,581	927	607	3,953
Balance, December 31, 2015	65,655	86,620	272,720	10,496	\$ 435,491
Carrying amount at December 31, 2015	\$ 6,744	\$ 5,903	\$ 5,247	\$ 1,656	\$ 19,550
	Computer equipment	Computer software	Equipment and furniture	Leasehold improvements	Total
Cost					
Balance, October 1, 2014	\$ 63,385	\$ 80,919	\$ 277,967	\$ 12,152	\$ 434,423
Additions	9,014	11,054	-	-	20,068
Balance, September 30, 2015	72,399	91,973	277,967	12,152	454,491
Depreciation					
Balance, October 1, 2014	61,999	77,443	267,876	7,458	\$ 414,776
Depreciation for the year	2,818	7,596	3,917	2,431	16,762
Balance, September 30, 2015	64,817	85,039	271,793	9,889	\$ 431,538
Carrying amount at September 30, 2015	\$ 7,582	\$ 6,934	\$ 6,174	\$ 2,263	\$ 22,953

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(Unaudited - Prepared by Management)

(Expressed in Canadian Dollars)

10. PATENTS

In 2007, the Company purchased the worldwide patents for the Electrical Harmonizer. The patents are amortized over their estimated remaining lives.

	Total
Cost	
Balance, October 1, 2015	\$ 1,638,099
Additions, disposals, transfers	-
Balance, December 31, 2015	\$ 1,638,099
Amortization	
Balance, October 1, 2015	\$ 1,351,360
Amortization for the period	40,950
Balance, December 31, 2015	\$ 1,392,310
Carrying amount at December 31, 2015	\$ 245,789

	Total
Cost	
Balance, October 1, 2014	\$ 1,638,099
Additions, disposals, transfers	-
Balance, September 30, 2015	\$ 1,638,099
Amortization	
Balance, October 1, 2014	\$ 1,187,560
Amortization for the year	163,800
Balance, September 30, 2015	\$ 1,351,360
Carrying amount at September 30, 2015	\$ 286,739

11. WARRANTY PROVISION

Warranty provision is based on the Company's policy stated in Note 2. The estimate as at December 31, 2015 is \$180,000 (September 30, 2015 - \$142,000).

Balance, October 1, 2015	\$ 142,000
Additional provision	38,000
Balance, December, 31, 2015	180,000

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12. CAPITAL & RESERVES

The Company's authorized share capital is an unlimited number of common shares without par value. All issued common shares are fully paid.

a) During the period ended December 31, 2015, the following transactions occurred:

- (i) On December 30, 2015, the Company completed a private placement in which it issued a total of 8,300,000 units at \$0.20 per unit for aggregate gross proceeds of \$1,660,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to purchase one share at a price of \$0.40 per share until December 30, 2017. The Company paid finder's fees on the funds raised, satisfied by the issuance of 498,750 units.

The fair value of the warrants, estimated using the Black-Scholes option pricing model, is \$932,107. The assumptions used were: a risk-free interest rate of 0.48%; an estimated volatility of 107.98%; an expected life of two years; an expected dividend yield of 0%; and an estimated forfeiture rate of 0%. The residual value of \$780,728 was attributed to the common shares.

b) During the year ended September 30, 2015, the following transactions occurred:

- (ii) On October 6, 2014 the Company issued 10,000 shares resulting from a stock option exercise at \$0.20 each for proceeds of \$2,000.
- (iii) On February 27, 2015, the Company raised \$721,427 from the exercise of 2,404,758 warrants at \$0.30 each.
- (iv) On April 2, 2015 the Company issued 180,667 shares resulting from a stock option exercise at between \$0.20 and \$0.30 each for proceeds of \$53,200.
- (v) The fair value reversed for all warrants and options exercised up to September 30, 2015 was \$296,616.

Reserves consist of the accumulated fair value of common share options recognized as share-based compensation, fair value of warrants and fair value of broker warrants.

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants is as follows:

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12. CAPITAL & RESERVES - continued

	December 31, 2015	
	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of period	10,510,053	\$0.29
Issued	8,798,750	\$0.40
Balance, end of period	19,308,803	\$0.34

	September 30, 2015	
	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	12,914,811	\$0.29
Exercised	(2,404,758)	\$0.30
Balance, end of year	10,510,053	\$0.29

The following table summarizes information of the number of common shares reserved pursuant to the warrants outstanding and exercisable at December 31, 2015:

Number of Warrants	Exercise Price	Expiry Date
2,034,333	\$0.30	July 31, 2016
815,555	\$0.15	October 18, 2016
7,660,165	\$0.30	October 18, 2016
8,798,750	\$0.40	December 30, 2017
19,308,803		

13. SHARE-BASED COMPENSATION

The Company has an incentive share option plan (the "Plan"). Under the Plan a total of 10% of the Company's outstanding common shares are reserved for the issuance of share options to directors, officers, employees and consultants. The terms of each option award are fixed by the directors at the time of grant. Share options awarded have a maximum term of five years. Share options vest over various time periods from the grant date to five years at the discretion of the board of directors.

A summary of the Company's share options at December 31, 2015, including the changes during the period, is as follows:

Legend Power Systems Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited - Prepared by Management)

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13. SHARE BASED COMPENSATION - continued

Balance, October 1, 2014	3,649,325	\$0.35
Granted	1,965,000	\$0.50
Exercised	(190,667)	\$0.29
Forfeited	(542,498)	\$0.27
Expired	(25,000)	\$0.49
Balance, September 30, 2015	4,856,160	\$0.41
Expired	(66,666)	\$0.63
Balance, December 31, 2015	4,789,494	\$0.40

The following table summarizes share options outstanding and exercisable at December 31, 2015:

Share Options Outstanding	Share Options Exercisable	Exercise Price	Expiry Date
499,998	499,998	\$0.63	February 10, 2016
299,999	241,666	\$0.42	April 18, 2017
541,667	459,722	\$0.30	May 21, 2018
557,830	557,830	\$0.30	August 20, 2018
960,000	487,500	\$0.20	February 23, 2019
1,480,000	493,332	\$0.55	September 30, 2019
175,000	-	\$0.35	May 31, 2018
275,000	45,833	\$0.35	May 31, 2020
4,789,494	2,785,881		

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:

	December 31, 2015	September 30, 2015
Risk-free interest rate	1.73%	1.74%
Estimated volatility	107.98%	108.00%
Expected life (years)	3.76	3.76
Estimated forfeiture rate	17.57%	17.57%

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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14. COMMITMENTS

The Company leases office premises in Burnaby, B.C., under an operating lease that expires on July 31, 2016. The Company is obligated to make lease payments under this operating lease of \$65,093.

The lease payments are subject to changes or increases in additional rent, generally described as the Company's portion of the landlord's common area charges and property taxes.

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

15. CONTINGENT LIABILITY

On May 25, 2015 the Company was named as a defendant in an action initiated by a former consultant for unpaid fees together with additional damages in the amount of \$100,000 for breach of contract, \$25,000 for aggravated damages and \$25,000 for punitive damages. The Company has filed a statement of defense denying all claims and no further action has been taken on the claim.

As at December 31, 2015, the likelihood of loss is not determinable and the amount is not reasonably estimable. Management believes the Company has a valid defense to this claim.

16. RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the three-months ended December 31, 2015. The terms and conditions of the transactions with key management personnel and non-executive directors and/or their related parties were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions with non-related entities on an arm's length basis.

(i) Transactions with Key Management Personnel:

During the period ended December 31, 2015, the following amounts were incurred with respect to the Company's CEO and the CFO:

	December 31, 2015	December 31, 2014
Salaries to key management employees	\$ 75,500	\$ 75,500
Share-based compensation	\$ 43,740	\$ 5,268

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

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16. RELATED PARTY DISCLOSURES - continued

(ii) Transactions with Other Related Parties:

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

	December 31, 2015	December 30, 2014
Share-based compensation	\$ 11,684	\$ 11,566

17. EVENTS AFTER THE REPORTING PERIOD

On January 27, 2016 the Company granted incentive stock options to certain employees, directors and consultants to purchase up to an aggregate of 1,766,666 common shares in the capital of the Company. These options are exercisable at a price of \$0.25 per share, vest over a 3-year period, and expire on January 26, 2021.

On February 9, 2016 the Company entered into an agreement to lease office space which requires the following payments in each of the below fiscal periods:

2016	\$65,425
2017	\$115,497
2018	\$118,837
2019	\$122,177
2020	\$125,517

On February 10, 2016 the Company granted incentive stock options to certain employees, directors and consultants to purchase up to an aggregate of 175,000 common shares in the capital of the Company. These options are exercisable at a price of \$0.25 per share, vest over a 3-year period, and expire on February 9, 2021.

On February 10, 2016, 499,998 share options with an exercise price of \$0.63 expired unexercised.