



# Legend Power Systems Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS Six months ended March 31, 2020

(Expressed in Canadian Dollars)

Dated May 27, 2020



## ABOUT THIS MD&A

This discussion and analysis of financial position and results of operation of Legend Power Systems Inc. ("Legend" or the "Company"), is prepared as at May 27, 2020, and should be read in conjunction with the Company's condensed interim consolidated financial statements for the six months ended March 31, 2020 and 2019 and accompanying notes. The following disclosure and associated financial statements are presented in accordance with IFRS. Except as otherwise disclosed, all dollar figures included therein and in the following Management's Discussion and Analysis ("MD&A") are quoted in Canadian Dollars. Unless indicated otherwise, information in this MD&A is current as of May 27, 2020.

The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by these filings, and these financial statements together with the other financial information included in these filings. The Board of Directors approve the financial statements and MD&A and ensures that management has discharged its financial responsibilities. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing.

Additional information relevant to the Company can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.legendpower.com](http://www.legendpower.com).

## CAUTION REGARDING FORWARD LOOKING STATEMENTS

This MD&A may contain statements which constitute "forward-looking information", including statements regarding the plans, intentions, beliefs and current expectations of the Company, its directors, or its officers with respect to the future business activities and operating performance of the Company. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company, or its management, are intended to identify such forward-looking statements. Investors are cautioned that any such forward-looking statements are not guarantees of future business activities or performance and involve risks and uncertainties, and that the Company's future business activities may differ materially from those in the forward-looking statements as a result of various factors. Such risks, uncertainties and factors are described in the periodic filings with the Canadian securities regulatory authorities, including the Company's quarterly and annual Management's Discussion & Analysis, which may be viewed on SEDAR at [www.sedar.com](http://www.sedar.com). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated, or expected. Although the Company has attempted to identify important risks, uncertainties and factors which could cause actual results to differ materially, there may be others that cause results not be as anticipated, estimated or intended. The Company does not intend, and does not assume any obligation, to update these forward-looking statements other than as may be required by applicable law.

## COVID-19

In response to COVID-19's impact on economic activity and its potential to slow the Company's growth prospects, in March 2020 management implemented a pro-active cost reduction and continuity plan. It is anticipated that the cost cutting measures will reduce overall expenditures by approximately \$1 million during the period April 1, 2020 to September 30, 2020. These cost-containment efforts can be extended, if required, and pared back or removed as the economy gets back on track.

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A review of expenditures resulted in cost reductions to conserve cash and reduce operating costs without impairing the Company's ability to quickly grow as the economy improves. The Company has maintained communication with its customers and prospects to work together in setting expectations for alignment during and after the current pandemic period being experienced. For potential customers choosing to continue active sales cycles, the Company is working with them to meet their objectives. This includes continuing to complete most scheduled SmartGATE Insights™ and SmartGATE™ platform installations. Any customers who have deferred installations will be brought back into the process when the timing is right for their companies.

On April 28, 2020, the Government of Canada offered the Canada Emergency Wage Subsidy (CEWS) to businesses to encourage employers to retain and rehire workers for which the Company qualified. The first CEWS totaling \$64,637 was received by the Company on May 11, 2020.

The Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was enacted in the United States and with it is the Paycheck Protection Program (PPP) Loans to support small businesses impacted by COVID-19 by providing incentive to keep their employees on the payroll. On May 1, 2020, the company was granted a loan from BMO Harris Bank in the amount of US\$144,865. The loan matures on May 1, 2022 and bears interest at a rate of 1%. The loan is forgivable after eight weeks if the funds are used for payroll costs, interest on mortgages, rent and utilities and that at least 75% of the forgiven amount should be used for payroll.

The company continues to monitor and assess the impact of COVID-19 to its operations. The safety and well-being of employees is the company's priority; hence a work-from-home policy took effect in the latter part of March 2020. With production, product development and installation activities on-going, precautions were implemented to ensure the safety and health of staff. On May 19, 2020, the company re-opened its Vancouver location with procedures and guidelines in compliance with the published 'COVID-19 Go-Forward Strategy' that was published by the government of British Columbia on May 6, 2020.

Despite management's efforts, the Company's business could be adversely impacted by the effects of COVID-19. Since early March 2020, several significant measures have been implemented in Canada, the United States, and the rest of the world by authorities in response to the increased impact from COVID-19. The Company cannot accurately predict the impact COVID-19 will have on the ability of third parties to meet their obligations with the Company, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In particular, the continued spread of COVID-19 globally could materially and adversely impact the Company's business. In addition, the significant outbreak of a contagious disease has resulted in a widespread health crisis that has adversely affected the economies and financial markets of many countries (including Canada and the United States), resulting in a potential economic downturn that may negatively impact the Company's financial position, financial performance, cash flows, and its ability to further raise capital. The Company continues to operate its business and complete installations of SmartGATE and SmartGATE Insights; however, a number of our customer's commercial buildings have been inaccessible due to COVID-19 protocols. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impact of COVID-19 on the Company's operations cannot be reasonably estimated at this time. For greater detail see "Public Health Crises" below in the Risks and Uncertainties section of this MD&A.

## OUR BUSINESS

Legend Power® Systems Inc. ("Legend Canada") and its wholly owned subsidiaries, 0809882 B.C. Ltd. - (Canada), Legend Power Systems Corp. - (USA) ("Legend U.S.") and LPSI (Barbados) Limited - (Barbados), (collectively, the "Company" or "Legend") is a global leader in onsite energy management technology. The Company markets a patented device (the

“SmartGATE™”) which, combined with SmartGATE Insights™ (a metering and analytics package) is a single-solution energy management platform that enables owners/operators of light-industrial and commercial buildings to both diagnose and then overcome the building-level impacts of electric grid volatility which results in a less than optimal power supply. These power quality challenges are common to utilities around the world. Most buildings on a power grid receive inconsistent electrical voltage from their power utilities as a counter-measure to mitigate the challenges of line-loss across a feeder length, and the variable nature of power demand. That variability is further exacerbated by the addition of renewable energy sources into the supply and its inconsistent production and availability. Voltage higher or lower than a building's equipment specifications negatively impacts the lifespan or availability of electrical equipment, creates unnecessary power consumption, and potential for ‘brown-outs’. This results in higher monthly utility bills, premature equipment failure, a larger than necessary environmental footprint for the affected building, unpredictable power availability and potential resulting tenant/occupant issues. Legend utilizes a proprietary and patented technology platform to first assess a building's inbound power, then regulate and optimize its voltage and manage its total power consumption. SmartGATE's modular and extensible design, particularly its software-driven controller, enables it to address issues today, and anticipates addressing many other energy management and power quality issues identified by the marketplace. By ensuring a consistent and optimized voltage level and managing or mitigating poor quality (including over/under voltage, voltage sags and swells, phase unbalance and power factor) across all loads, the SmartGATE™ ensures customers receive consistent power availability, reduce their electricity bills and maintenance costs, while maintaining and enhancing asset values and brand integrity. SmartGATE's intelligent controller also captures constant, real-time data flow on up to 200 parameters aggregated every minute and made available as data analytics insights to building management via wireless online portal. During initial assessments for prospective customers, this same data can be combined into an Energy Impact Report to inform and prioritize implementation decision-making.

#### **Vision and Strategy**

The Company's vision statement is - “To be recognized as a global leader in onsite energy management technology”. The Company's products, the SmartGATE™ and SmartGATE Insights™, form an energy management platform that becomes the hub for managing and accommodating for the variable power levels that come from the grid. As the first point of contact for electricity ‘after the meter’, SmartGATE is the bridge between the incoming electricity, and all the building loads it is distributed to. It not only manages supply to optimal levels, but SmartGATE Insights™ gathers and analyzes power quality data in real-time providing visibility to everything in the process via customer-available analytics. Prospective customers are able to leverage detailed power quality data, distilled into decision-making information from an Energy Impact Report to assess the state of multiple buildings in a portfolio, and prioritize next steps. While early sales were made on the basis of average energy savings of 4% to 8% for buildings in North America, the continued addition to the platform of energy management capabilities requested by customers will potentially add revenue and change the nature of the sale. The typical payback period on an average system currently is between 3 to 4 years, making it a highly competitive energy-saving option, especially with the cost of energy increasing in most jurisdictions.

A core element of Legend's enhanced business plan is enterprise-level sales of a portfolio solution, led with SmartGATE Insights™ as a means to analyze, and assess buildings to quantify financial risk and loss due to poor power quality, enabling a fact-based decision to prioritize SmartGATE deployment to fix or mitigate identified issues. This approach lowers price points for initial engagement, shortens time to SmartGATE purchase, increases likelihood of multi-unit SmartGATE purchases and compresses the sales cycle timeframe. Legend intends to leverage both direct and distribution sales channels to aggressively expand key recommender product adoption and market share in multiple geographic locations. Direct sales in the Province of Ontario is a notable revenue stream that additionally serves as a test bed for sales best practices and intelligence gathering. Expansion into the United States is underway with a presence in New York City, and Seattle, and the identification of up to three other highly prospective regions across the U.S. Each region will include a team comprised of business development, sales, and marketing professionals. It is management's view that successful expansion into the United States (or any other new market) is dependent on three primary criteria: 1) a high cost of electrical energy in the region; 2) a combination of local government incentives for customers to purchase Legend's technology, and presence of

governmental compliance regulations vis a vis reduction of GHG emissions (carbon); and 3) technology endorsement by “Key Influencers”, such as local utilities and electrical contractors. Key Influencers are defined as individuals or organizations in a target market with whom Legend has proven its solution to be effective, and has developed a relationship that supplies active endorsement of the product’s performances, value, and applicability to other potential customers within their sphere of influence.

Legend’s research and development programs are focused on the creation, rapid development, and delivery of unique feature sets driven by customer feedback. This focus has resulted in enhanced product solutions that are being readied and sold now. It is anticipated that these feature sets will, in addition to current energy savings benefits, eliminate organizational risk and loss caused by a range of power quality issues with cost-effective solutions not currently available to light-industrial/commercial markets. Given that key benefits are software-based, current benefits, and any future enhancements are easily delivered across all current or future geographic territories and market verticals, along with potential for improved margins for the Company.

As of Q1, 2020 the Company is now marketing two products. The first, called SmartGATE Insights™, provides metering and analytics that analyzes up to 200 power quality parameters, so the system knows exactly what to correct. SmartGATE Insights easily connects to a building’s power source and captures hundreds of data points, minute-by-minute, necessary to visualize major areas of power quality such as voltage sags/swells, phase unbalance and over/under voltage (to name a few) that can negatively impact a building and its tenants. This data is aggregated into a dashboard that can be accessed over the cloud providing the building operator complete visibility into how the building is operating, including the amount of greenhouse gas emissions that are being produced, and will alert them to any power quality issues impacting the building. SmartGATE Insights is a stand-alone device and helps building managers and C-level real estate executives see in real-time what is happening across their portfolio of buildings.

The Company’s second product, called the SmartGATE™, uses patented technology to correct the power issues uncovered by Insights. The most recently announced new version of SmartGATE™, set to be available in the summer of 2020, will come bundled with Insights so customers will be able to either use Insights to capture data first in a standalone device or if they understand their issues, can move immediately to deploying the SmartGATE™. The SmartGATE™ has the smallest footprint in the industry, a more affordable price point and better energy efficiency making it uniquely suitable for commercial/light-industrial applications addressing many more issues more effectively than anything management has seen in the marketplace to date. Its modular design enables it to address issues today, and future upgrades will address other energy management issues identified by the marketplace.

## INDUSTRY AND CORPORATE UPDATE

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### **Building Energy Efficiency for Decarbonization**

Buildings are responsible for [36%](#) of all carbon dioxide emissions in the United States.

According to the U.S. Energy Information Administration (“EIA”), America’s commercial sector consumed about 19%<sup>1</sup> of the nation’s energy during January 2020 (the most recent month published). About 97%<sup>2</sup> (597 trillion Btus) of this energy was

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<sup>1</sup> [April 2020 Monthly Energy Review](#), EIA, page 37

<sup>2</sup> [Commercial Energy Sector Consumption](#), EIA

generated from fossil fuels. Total fossil fuel consumption in the U.S. was 7.204 quadrillion Btus<sup>3</sup> during the same period, meaning that the commercial sector accounted for about 8% of America's carbon footprint.

State and municipal governments have added energy efficiency to building codes, and SmartGATE Insights helps keep building owners in compliance, especially in municipal jurisdictions where energy audits are mandated. New York City is particularly stringent about greenhouse gas emissions, having enacted its [Climate Mobilization Act](#). New York City claims that 71% of greenhouse gas emissions are due to commercial buildings and has established emissions caps for buildings over 25,000 square feet. Seattle claims that building energy is responsible for [35%](#) of the city's climate emissions, and [Senate Bill 5293](#) proposes maximizing energy efficiency standards for buildings. In Washington, D.C., the [Clean Energy DC Omnibus Amendment Act of 2018](#) has also set emissions standards for 50,000 square foot buildings in 2021, scaling down to 10,000 square foot buildings by 2026.

Energy efficiency action extends beyond governments. Since January 2020, we've seen several announcements from major businesses about energy efficiency actions and carbon footprints, including:

- [Microsoft](#) seeks to be carbon negative by 2030 and plans a shift to rely 100% on renewable energy by 2025.
- [Blackrock's CEO announced](#) a shift to investing in companies that require less fossil fuels.
- [Morgan Stanley](#) build upon its \$800 million impact investing platform by closing a \$110 million fund focused on climate solutions.
- [S&P Global](#) launched its S&P Global ESG Scores on over 7,300 companies, representing 95% of global market capitalization.

With fossil fuels anticipated to provide the majority of U.S. electricity generation through 2050<sup>4</sup>, building energy efficiency is key to for most businesses to reduce their carbon footprints.

This applies to new green construction as well as retrofitting existing buildings with equipment that optimizes power systems such as HVAC, lighting, controllers and office equipment. In the past, quantifying energy efficiency in commercial buildings has been difficult. For example, how do you measure the energy losses from a 3-year old electrical elevator motor that ran hot and was undetected until it burnt out? Legend Power's SmartGATE Insights™ can detect building power issues so that owners can repair problems early, optimizing the efficiency of electrical equipment, systems and manpower. If you can't measure a problem, you can't fix it, and SmartGATE Insights provides the data to make informed decisions about commercial building energy efficiency.

### **History of the Company**

Founded in 1987, Legend Power® Systems is an electrical energy conservation company that markets an energy management system called SmartGATE™. SmartGATE consists of SmartGATE Insights™, a diagnostic tool that provides metering and analytics across 38 power quality parameters, and the SmartGATE, patented technology that corrects the power issues uncovered by Insights.

The vision behind the current SmartGATE platform was driven by CEO Randy Buchamer, who joined as CEO in March 2012 to refocus the organization. Mr. Buchamer was Managing Director, Operations for The Jim Pattison Group and held executive roles with Mohawk Oil Company, where he restructured the firm and completed a successful turnaround. Part of Mr. Buchamer's focus for Legend was to concentrate on a single market (Ontario) and expand the model to other geographies, specifically the U.S., a market several times the magnitude of Ontario.

<sup>3</sup> [April 2020 Monthly Energy Review](#), EIA, page 3

<sup>4</sup> [Annual Energy Outlook 2019](#), EIA, page 21

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In 2017, the Company seemed to have broken the code with revenue more than doubling in that year. The Company raised \$10 million in a bought deal financing at \$0.80 with the plan to use that capital to expand the product portfolio and expand into New York and the Pacific Northwest.

Legend has spent the past year building out New York and building relationships with the key market participants including the utilities and Energy Service Companies (ESCO) in the regions. After analyzing feedback from customers and the key market participants across all markets, the Company announced a new and improved SmartGATE platform and introduced SmartGATE Insights™ data collection and analytics tool in fiscal Q1 2020 (period ending December 31, 2019).

Before SmartGATE Insights, commercial building owners could neither effectively identify nor measure power issues from the power grid. Without knowing what was happening to their building's power supply (and all the equipment and infrastructure it fed), the magnitude of the problems, and how electrical equipment could be at risk, some SmartGATE platform sales cycles could be lengthy. SmartGATE Insights changed that, providing real-time analytics across entire property portfolios, clearly identifying electrical waste and the potential for premature wear or damage to electrical equipment. This visibility has helped to accelerate the sales cycles for several SmartGATE™ platforms and increased the likelihood of multi-unit orders.

Management is now in discussions with a number of potential customers for SmartGATE Insights™ and is making progress introducing both Insights and the SmartGATE platform to customers, utilities and ESCOs. So far, management is receiving positive feedback and anticipates that sales of Insights could be a leading indicator for SmartGate sales, although timing on Insights' impact and whether or not this will be the case will still take a few quarters to validate and measure.

## FINANCIAL RESULTS

### Financial summary for the three and six months ended March 31, 2020 and 2019

(Cdn\$, unless noted otherwise)	Three months ended March 31,			Six months ended March 31,		
	2020	2019	Change	2020	2019	Change
Revenue	676,359	769,443	(12)%	1,679,688	1,172,843	43%
Cost of sales	459,794	355,329	29%	1,249,023	432,161	189%
Gross margin <sup>1</sup>	216,565	414,114	(48)%	430,665	740,682	(42)%
Gross margin % <sup>1</sup>	32%	54%	(22)%	26%	63%	(37)%
Operating expenses	(1,736,091)	(1,845,557)	(6)%	(3,356,522)	(3,330,400)	1%
Adjusted EBITDA <sup>2</sup>	(1,467,805)	(1,285,984)	(14)%	(2,792,966)	(2,334,336)	(20)%
Net loss	(1,516,627)	(1,402,451)	8%	(2,998,825)	(2,493,783)	20%

<sup>1</sup> Gross margin is based on a blend of both equipment and installation revenue.

<sup>2</sup> Adjusted EBITDA is a non-IFRS financial measure. See EBDITA Reconciliation for details.

Revenue for the second quarter of 2020 was \$676,359, a 12% decrease from \$769,443 in the same quarter of 2019. Revenue for the six months ended March 31, 2020 was \$1,679,688 a 43% increase from \$1,172,843 in the same period 2019.

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Gross margin in the second quarter of fiscal 2020 was 32%, a decrease from 54% in second quarter of 2019. Gross margin in the first half of fiscal 2020 was 26%, a decrease from 63% over the first half of 2019. The lower gross margins experienced in the first half of 2020 was due primarily to: i) two projects completed for an early adopter, marquee, New York City customer during Q1 of 2020. Early projects in new regions typically involve higher overall install costs, in particular electrical contractor costs due to a significant learning curve in understanding the nuances of installing a new and unfamiliar technology; and ii) a disproportionate amount of total revenue derived from installation services during the six-month period, which has historically yielded lower gross margins. The fiscal 2020 Q1 negative effect on gross margin was offset by stronger margins in fiscal Q2 of 2020 which were the result of a larger relative amount of high margin equipment sales.

Adjusted EBITDA for the second quarter of fiscal 2020 was negative \$1,467,805, compared with negative \$1,285,984 in the second quarter of 2019. Adjusted EBITDA for the first half of fiscal 2020 decreased to negative \$2,792,966, from negative \$2,334,336 in the first half of fiscal 2019.

Net loss for the second quarter of fiscal 2020 was \$1,516,627, compared with a net loss of \$1,402,451 in the second quarter of 2019. Net loss for the first six months of 2020 was \$2,998,825, an increase of 20% from a loss of \$2,493,783 in the same period of 2019. Lower gross margins were the prime contributor to the increase in net loss compared with the same six-month period in fiscal 2019.

The Company's operating expenses for the second quarter of 2020 were \$1,736,091, down from \$1,845,557 in the same quarter of 2019 and for the first six months of fiscal 2020 were \$3,356,522 compared with \$3,330,400 in the same six months of 2019.

**Significant Operating Expenses**

(Cdn\$, unless noted otherwise)	Three-months ended March 31,			Six months ended March 31,		
	2020	2019	Change	2020	2019	Change
Salaries and consulting fees	1,032,935	1,238,925	(17)%	2,042,687	2,131,884	(4)%
General and overhead	283,870	225,888	26%	521,899	525,996	(1)%
Selling costs	90,959	96,394	(6)%	170,533	197,015	(13)%
Product development	95,571	8,210	n/a	128,306	19,521	n/a
Professional fees	103,117	74,072	39%	176,476	108,679	62%
Share-based compensation	28,072	69,294	(59)%	146,932	164,383	(11)%
Amortization and depreciation	30,744	62,863	(51)%	88,057	99,404	(11)%
Warranty provision (adjustment)	70,738	56,609	25%	82,332	91,923	(10)%

- Salaries and consulting fees, general and overhead costs and selling costs for the three and six months ended March 31, 2020 were relatively unchanged from the comparative amounts incurred during the same periods of fiscal 2019.
- Product development costs for the three and six months ended March 31, 2020 were \$95,571 and 128,306 respectively, up from \$8,210 and \$19,521 during the same periods of fiscal 2019. The primary reason for the



increase in fiscal 2020 development costs was the impairment of product development related costs to the income statements of loss and comprehensive loss. The Company tested its product development costs for impairment using pro-forma cash flow projections and certain other assumptions. Based on this analysis development costs associated with internally generated technologies was impaired.

- Professional fees for the three and six months ended March 31, 2020 were \$103,117 and \$176,476, up from \$74,072 and \$108,679 in the same periods of fiscal 2019. The increase in professional fees is due primarily to higher audit, tax preparation and accounting consulting fees incurred during fiscal 2020.
- Share-based compensation expense arises from grants of incentive stock options to employees, officers, directors and consultants, and is expensed in relation to the fair value and vesting periods associated with the options granted, including past year's grants. This expense for the three and six months ended March 31, 2020 was \$28,072 and \$146,932 respectively, compared to \$69,294 and \$164,383 in the same periods of 2019. During the first six months of fiscal 2020, a total of 765,000 stock options were granted to employees and consultants, compared with 705,000 granted to directors and employees in the same period of 2019.
- Amortization and depreciation costs for the three and six months ended 2020 were \$30,744 and \$88,057 respectively, down from \$62,863 and \$99,404 in the same periods of 2019. The decrease is due primarily to the fact that during fiscal 2019 development projects were classified as assets and being depreciated until the beginning of fiscal 2020 when they were reclassified to expenses. The decrease was offset slightly by higher depreciation costs associated with the Company's adoption, on October 1, 2019, of IFRS 16 Lease Accounting, which results in the amortization of right-of-use assets to the income statement. See Note 3 of the Company's March 31, 2020 condensed interim consolidated financial statements for further details.
- Warranty provision for the three and six months ended March 31, 2020 were \$70,738 and \$82,332 respectively compared with \$56,609 and \$91,923 in the same periods of 2019. The increase in warranty provision during Q2 of 2020 was due to a revision of the projected average cost per warranty occurrence used in calculation of future warranty costs. The Company provides a 10-year warranty with the sale of its SmartGATE™ systems. The Company's calculation of warranty provision is based on estimations and assumptions related to the need for replacement of certain parts of SmartGATE™ in the future. Warranty provision is calculated each reporting period based on actual warranty costs incurred and an updated projection of all future warranty claims.

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**Quarterly Trends**

(Cdn\$, unless noted otherwise)

	Fiscal 2018		Fiscal 2019				Fiscal 2020	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	2,112,341	1,283,433	403,400	769,443	676,139	485,543	1,003,329	676,359
Gross margin <sup>1</sup>	1,310,259	205,181	326,568	414,114	326,860	(96,994)	214,100	216,565
Operating expenses	1,489,196	1,465,944	1,484,843	1,845,557	1,544,329	1,476,684	1,620,431	1,736,091
Operating loss	(178,937)	(1,260,763)	(1,158,275)	(1,431,443)	(1,217,469)	(1,573,678)	(1,406,331)	(1,519,526)
Net loss	(187,847)	(1,181,896)	(1,091,332)	(1,402,451)	(1,176,154)	(2,423,219)	(1,482,198)	(1,516,627)
Loss per common share <sup>2</sup>	(0.002)	(0.011)	(0.011)	(0.014)	(0.012)	(0.023)	(0.015)	(0.015)

<sup>1</sup> Gross margin is based on a blend of both equipment and installation revenue.

<sup>2</sup> Basic and diluted.

Our quarterly revenues do naturally fluctuate, which management deems consistent with a technology company perfecting the execution of its business model while transitioning through a high growth stage. The Company's sales cycle has historically been up to 12 months which exposes reported revenue to unevenness related to customer buying cycles. This unevenness in revenue has historically been seasonal and most pronounced during the Company's fourth quarter.

Our gross margin on a quarterly basis is variable and reflects the mix of product versus install revenue and any inventory adjustments/write-offs that are tied to changes in component pricing, technology, and product offering/design. During Q1 and to a lesser extent Q2 of 2020, lower gross margins were the result of installation pricing (see page 6, Gross Margin). In Q4 2019 the significantly lower gross margins experienced were primarily the result of production overhead allocations to cost of goods sold. In Q4 2018 lower gross margins were primarily due to inventory valuation procedures which impacted cost of goods sold and a proportionately higher amount of low margin installation revenue recognized.

Operating costs have been relatively stable with a slight upward trend, other than the increases seen in Q2 of fiscal 2019 and Q1 and Q2 of fiscal 2020. The upward trend is due to primarily to increased staffing and related travel and administrative support.

FINANCIAL CONDITION, CAPITAL RESOURCES AND OTHER DISCLOSURES

**Summary of Consolidated Statement of Cash Flows**

(Cdn\$, unless noted otherwise)	Six months ended March 31,		Change
	2020	2019	
Cash used in operating activities	(3,090,450)	(1,269,261)	143%
Cash used in investing activities	25,654	(209,578)	(112)%
Cash provided by financing activities	-	76,000	-%
<b>Total change in cash used</b>	<b>(3,064,796)</b>	<b>(1,402,839)</b>	<b>118%</b>

**Cash used in operating activities**

During the six months ended March 31, 2020, cash used in operating activities was \$3,090,450, up from \$1,269,261 in the same six-month period of 2019. The increase in cash used in operating activities is due in most part to (all approximate) an increase in quarterly loss of \$466,000, and non-cash adjustments for the following comparative period differences; increase in foreign exchange loss of \$22,000; increase in inventory valuation adjustment of \$233,000; increase in receivables of \$1,211,000; increase in due from customers of \$694,000; offset by a decrease in inventory of \$458,000 and increase in accounts payable and accrued liabilities of \$211,000.

**Cash used in investing activities**

During the six months ended March 31, 2020, cash received from investing activities was \$25,654, compared with cash used for investing activities of \$209,578 in the same period of 2019. The change was primarily due to an increase in interest received of \$76,963; the Company expensing development costs in Q1 and Q2 of fiscal 2020 compared with Q1 of fiscal 2019 when they were capitalized, which was offset slightly by an increase in investments in property and equipment.

**Cash provided by financing activities**

During the six months ending March 31, 2020 cash provided by financing activities was \$nil compared with \$76,000 in the same period of 2019. The amount received in 2019 was proceeds from stock options exercised.

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**Working Capital Items**

(Cdn\$, unless noted otherwise)	at March 31, 2020	at September 30, 2019	Change
Cash	2,611,886	5,677,537	(54)%
Trade receivables	1,329,265	655,320	103%
Due from customers on contract	890,656	891,288	-%
Inventory	1,075,597	1,255,737	(14)%
Prepays and deposits	65,219	130,118	(50)%
<b>Total current assets</b>	<b>5,972,623</b>	<b>8,610,000</b>	<b>(31)%</b>
Trade payables	345,473	343,258	1%
Accrued liabilities	423,110	249,906	69%
Lease liabilities	152,644	-	-
Warranty provision	104,524	99,122	5%
<b>Total current liabilities</b>	<b>1,025,751</b>	<b>692,286</b>	<b>48%</b>
<b>Working capital</b>	<b>4,946,872</b>	<b>7,917,714</b>	<b>(38)%</b>

**Liquidity and capital resources measures**

As at March 31, 2020, the Company had cash and cash equivalents of \$2,611,886 (September 30, 2019 - \$5,677,537), total current assets of \$5,972,623 (September 30, 2019 - \$8,610,000) and current liabilities of \$1,025,751 (September 30, 2019 - \$692,286). As at March 31, 2020, the Company had working capital of \$4,946,872 (September 30, 2019 - \$7,917,714). Based on working capital as at March 31, 2020, estimated cash inflows and requirements for fiscal 2020 and the Company's ability to timely collect accounts receivable, management believes the Company has sufficient working capital to continue business operations for the balance of the calendar year. In the event that revenues increase, the Company's ability to operate and grow the business will be extended.

The Company has historically relied on equity financing to raise the requisite financial resources. There is no assurance that profitability will be achieved or that management will be successful in obtaining financing when and if required on terms acceptable to the Company.

**Trade Receivables**

Accounts receivable at March 31, 2020 was \$1,329,265 down from \$655,320 at September 30, 2019. The Company's cash collection cycle is typically longer than most due to the varying nature of customer scheduling constraints, and the multi-step process associated with installation and commissioning of our technology.

#### **Due from Customers on contract**

Due from customers on contract of \$890,656 at March 31, 2020 and \$891,288 at September 30, 2019, relates to systems delivered and/or installation services provided for sales transactions where revenue has been recognized, but customers have not yet been invoiced.

#### **Inventory**

Inventory at March 31, 2020 was \$1,070,597, a 14% decrease from \$1,255,737 at September 30, 2019. The decrease in inventory is primarily attributable to order fulfillment from existing inventory, a valuation adjustment of \$77,008 and a write-off of \$24,390 related to equipment damaged in transit. The Company's strategy is to advance purchase sufficient materials to fulfill at least 3-months of projected orders. The Company's ability to fulfill customer orders on a timely basis is dependent on carrying inventory of various components, in particular those components with lengthy lead times for delivery.

#### **Current Liabilities**

Trade payables and accrued liabilities at March 31, 2020 were \$345,473 and \$423,110 respectively, compared with \$343,258 and \$249,906 at September 30, 2019. Trade payables and accrued liabilities tend to fluctuate with no particular pattern. Accrued liabilities did comparatively increase during the 6 months ended March 31, 2020 primarily due to accruals for contractor installation services.

As of October 1, 2019, the Company adopted IFRS-16 Leases, which resulted in the recording of a current lease liability at March 31, 2020 of \$152,644 (see pages 14-16 for details).

At March 31, 2020 the current portion of warranty provision was \$104,524 compared with \$99,122 at September 30, 2019.

#### **Contractual Obligations and Commitments**

On March 22, 2018 the Company entered into an agreement to lease premises in Vancouver, B.C. which requires the following minimum lease payments in each of the below fiscal years:

2020	\$74,652
2021	\$74,652

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.

The Company has a management services agreement with the CFO 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.

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**Outstanding Share Data**

Class of Security	Number outstanding at September 30, 2019	Net issued (equity offering, grants, cancellations, exercises or forfeitures)	Number outstanding at March 31, 2020	Net issued (grants, cancellations, exercises)	Number outstanding at May 27, 2020
Shares <sup>1</sup>	101,850,303	-	101,850,303	-	101,850,303
Options	6,993,333	159,169	7,152,502	(118,336)	7,034,166
Broker Warrants	703,410	-	703,410	(703,410)	-

<sup>1</sup> The Company's authorized share capital is an unlimited number of common shares without par value. All issued common shares are fully paid.

**Incentive stock options**

During the six-months ended March 31, 2020, 765,000 stock options were granted, nil were exercised, 250,000 expired and 355,831 stock options were forfeited. Subsequent to March 31, 2020 and to the date of this report a total of 40,000 stock options were granted and 158,336 were forfeited.

**Broker warrants**

During April 2018, as part of a public offering, the Company issued 703,410 broker warrants. Each broker warrant entitles the holder to purchase one share at \$0.80 per share until April 2020. Subsequent to March 31, 2020 all of the 703,410 broker warrants expired unexercised.

**Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

**RISKS AND UNCERTAINTIES**

In the course of our operations, we are exposed to various business risks and uncertainties that can affect our financial condition. While some financial exposures are reduced through insurance, and other risk management measures we have in place, there are certain cases where the market and operating risks are driven by external factors beyond our influence and control. The risks and uncertainties discussed in the Company's MD&A dated January 28, 2020, remain unchanged with the exception of the addition of the below:

**Public Health Crises**

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics, pandemics or other health crises, such as the COVID-19 novel coronavirus ("COVID-19"). As at the date of this MD&A, the global reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, quarantines, temporary business closures and a general reduction in consumer activity. Provincial and State governments in the regions where the Company's operates, have passed orders with respect to closure of non-essential business. Each such government, however, has designated electrical contracting as an essential service and, accordingly, the Company's field operations currently remain open and in operation, however there can be no certainty that this will remain the case. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or

temporary suspension of operations in geographic locations impacted by an outbreak. The Company has taken what it believes to be appropriate safety precautions at its workplaces to safeguard the health of its employees including remote work plans and additional protective measures on site, and there have been no outbreaks to date at any of the Company's facilities. However, if an outbreak were to occur, the Company may be required to temporarily close a facility. Any such closure could have a material adverse impact on operations and sales. Widespread uncertainty, government restrictions on personal mobility and the other impacts of the COVID-19 crisis on the Company's employees, together with the potential to contract COVID-19 and/or be subject to quarantine may have an impact on the ability or willingness of the Company's employees to attend their workplace. Although certain administrative, engineering, sales, marketing and business development factors can be conducted remotely, other functions, such as production, repairs and product development cannot be conducted remotely and may be adversely impacted by any resulting decrease in employee availability.

Such public health crises can also result in disruptions and volatility in financial markets and global supply chains as well as declining trade and market sentiment and reduced mobility of people, all of which could delay our customers making capital purchase decisions and impact, interest rates, credit ratings, credit risk and inflation. In addition, the Company's business may be impacted by supply chain disruptions caused by the COVID-19 crisis, including the delivery of specialized electrical components imported for the Company's products or the delivery of the Company's products to markets. The COVID-19 crisis may also have a negative impact on demand for the Company's products and services due to, among other things, economic contraction and the potential temporary closure of commercial buildings, which could result in reduced revenue to the Company.

While these effects are expected to be temporary, the duration of the disruptions to business and the related financial impact cannot be estimated with any degree of certainty at this time. At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 could have a material adverse effect on the Company's business, results of operations and financial condition.

## RELATED PARTY DISCLOSURES

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The Company entered into the following related party transactions during the three and six months ended March 31, 2020 and 2019. 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.

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**Transactions with Key Management Personnel**

During the three and six months ended March 31, 2020 and 2019, the following amounts were incurred with respect to the Company's CEO (Mr. Randy Buchamer), and CFO (Mr. Steve Vanry):

(Cdn\$, unless noted otherwise)	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
Salaries – R. Buchamer	62,500	61,050	125,000	117,300
Consulting fees – S. Vanry	46,250	46,250	92,500	98,437
Share based compensation – R. Buchamer	-	17,200	37,953	33,641
Share based compensation – S. Vanry	-	8,601	16,825	16,821
<b>Total</b>	<b>108,750</b>	<b>133,101</b>	<b>272,278</b>	<b>266,199</b>

**Transactions with Other Related Parties**

During the three and six months ended March 31, 2020 and 2019, the following amounts were incurred with respect to the Company's non-executive directors (Messrs. Michael Atkinson, Jamie Blundell<sup>(2)</sup>, Matt Walker<sup>(2)</sup>, Dave Guebert, Cosimo La Porta<sup>(1)</sup>):

(Cdn\$, unless noted otherwise)	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
Share-based compensation	-	14,562	31,562	51,467
<b>Total</b>	<b>-</b>	<b>14,562</b>	<b>31,562</b>	<b>51,467</b>

<sup>1</sup> Cosimo La Porta was appointed director of the Company on April 12, 2018.

<sup>2</sup> Jamie Blundell and Matt Walker ceased to be directors on June 20, 2019.

At March 31, 2020, a total of \$16,188 (September 30, 2019 - \$Nil) was due to related parties for consulting fees and expenses reimbursement.

**NEW ACCOUNTING STANDARDS ADOPTED**

Commencing October 1, 2019, the Company applied for the first time, IFRS 16, Leases. As required by IAS 34, the nature and effect of these changes are disclosed below.

**IFRS 16, Leases**

IFRS 16 supersedes IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, and other related Standard Interpretations Committee ("SIC") interpretations. The standard sets out the principles for the recognition,



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measurement, presentation and disclosure of leases and require lessees to account for most leases under a single on-balance sheet model.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to property leases, vehicle leases and an equipment leases, all of which had previously been classified as 'operating leases' under the principle of IAS 17. As of October 1, 2019, these liabilities were measured at the present value of the remaining lease payments discounted at 10%, which reflects the lessee's incremental borrowing rate to finance the purchase of similar property. The Company has applied IFRS 16 using the modified retrospective approach, whereby the cumulative effect of adopting IFRS 16, if any, is recognized as an adjustment to opening retained earnings as at October 1, 2019, with no restatement of comparative information. Under this method using the practical expedient available, the Company has recognized the right of use assets equal to the lease liabilities less any lease incentives received.

The lease liabilities as at October 1, 2019 can be reconciled to the operating lease commitments as of September 30, 2019 as follows:

	\$
Operating lease commitments as at September 30, 2019	247,913
Incremental borrowing rate as at October 1, 2019	10%
Discounted operating lease commitments at October 1, 2019	229,565
<b>Lease liability recognized as at October 1, 2019</b>	<b>229,565</b>

The right-of-use assets associated with these leases were initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognized in the consolidated statement of financial position as at September 30, 2019.

Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the Standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessments previously made in applying IAS 17 and IFRIC 4.

Based on the foregoing, as at October 1, 2019:

- Right-of-use assets of \$206,800 were recognized and presented separately in the interim condensed consolidated statement of financial position.
- Lease liabilities of \$229,565 were recognized and presented separately in the interim condensed consolidated statement of financial position.

#### Summary of new accounting policies

The Company has adopted the following new accounting policies upon implementation of IFRS 16 on October 1, 2019:

##### *Right-of-use assets*

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 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.

##### *Short-term leases and leases of low-value assets*

The Company applies the short-term lease recognition exemption to its short-term leases of properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

#### Summary of new significant judgements

##### *Determining the lease term of contracts with renewal options*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of one to ten years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew, including the consideration of all relevant factors that create an economic incentive to exercise the renewal option. After the

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commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew.

Amount recognized in the statement of financial position and statements of comprehensive loss

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the six-month period ended March 31, 2020.

	<b>Right-of-use assets</b>	<b>Lease liabilities</b>
	\$	\$
As at October 1, 2019	206,800	229,565
Depreciation expense	(66,317)	-
Interest expense	-	9,439
Payments	-	(77,550)
<b>As at March 31, 2020</b>	<b>140,483</b>	<b>161,454</b>

Depreciation of right-of-use assets is included in general and administration expenses. Interest expense related to lease liabilities is included in debenture and other interest expense.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, accounts payable and amounts due to related parties. The carrying values of these financial instruments 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 U.S. dollar versus Canadian dollar exchange rate fluctuation risk due to operations of its U.S. subsidiary which receives revenues and incurs expenses in U.S. dollars. As at December 31, 2019 all of Company's liquid assets and liabilities were held in Canadian dollars and U.S. dollars. A significant change in the U.S. dollar versus Canadian dollar exchange rate 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 six months ended March 31, 2020 by approximately \$84,000 (2019 - \$90,000).

### 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 six months ended March 31, 2020 averaged 1.25% (2019 – 0.5% to 2.2%). A change of 1% in the interest rate

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yields would have affected the Company's results of operations for the six months ended March 31, 2020 by approximately \$20,000 (2019 - \$47,000). 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 March 31, 2020, trade receivables from three of our customers accounted for 14%, 16%, and 28% respectively of the Company's trade receivables balance for a total 58% in aggregate. At September 30, 2019, trade receivables from five of our customers accounted for 10%, 12%, 15%, 20% and 21% respectively of the Company's trade receivables balance for a total 90% in aggregate. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at March 31, 2020 and September 30, 2019.

**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 March 31, 2020 the Company had cash and cash equivalents of \$2,611,886 to settle its current liabilities of \$1,025,751.

**EBITDA RECONCILIATION**

We are disclosing Adjusted EBITDA as a supplementary indicator of operating performance. We define Adjusted EBITDA as net income or loss before; interest, income taxes, amortization, non-cash stock-based compensation and foreign exchange gains and losses. Warranty expense is no longer included in the Adjusted EBITDA calculation, as such historical amounts have been updated. Management believes that this supplementary financials measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of business trends. We believe the Adjusted EBITDA to be useful in providing an indication of the operational results of our business.

	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
(Cdn\$, unless noted otherwise)				
Net loss	(1,1516,627)	(1,402,451)	(2,998,825)	(2,493,783)
Add / (deduct):				
Foreign exchange	85	13,302	(700)	(8,405)
Interest income	(10,079)	(28,992)	(28,430)	(95,935)
Amortization and depreciation	30,744	62,863	88,057	99,404
Share based compensation	28,072	69,294	146,932	164,383
<b>Adjusted EBITDA</b>	<b>(1,467,805)</b>	<b>(1,285,984)</b>	<b>(2,792,966)</b>	<b>(2,334,336)</b>

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## OTHER MD&A REQUIREMENTS

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Additional information relating to the Company may be found on or in:

- SEDAR at [www.sedar.com](http://www.sedar.com);
- the Company's website at [www.legendpower.com](http://www.legendpower.com);
- the Company's condensed interim consolidated financial statements for the six months ended March 31, 2020 and 2019;
- the Company's consolidated financial statements for the years ended September 30, 2019 and 2018

### **Approval**

The Board of Directors of the Company has approved the disclosure contained in this Management's Discussion and Analysis.

On Behalf of the Board of Directors,  
"Randy Buchamer"  
Randy Buchamer  
President, CEO and Director, May 27, 2020