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# Legend Power Systems Inc.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**Years ended September 30, 2019 and 2018**

(Expressed in Canadian Dollars)

Dated January 28, 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 January 28, 2020, and should be read in conjunction with the Company's consolidated financial statements for the years ended September 30, 2019 and 2018 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 January 28, 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 and the Company's website at 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. 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.

## 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 to enable owners/operators of and light-industrial and commercial buildings to overcome grid volatility challenges common to utilities around the world. Its modular 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. Most buildings on a power grid receive inconsistent electrical voltage from their power utilities as a counteracting 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 regulate a building's voltage and manage its total power consumption. 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.

**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™, is 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 use detailed power quality data to assess the state of multiple buildings in a portfolio, and prioritize. 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 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 waste 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 will 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 waste from 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 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 38 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 are being produced and will alert them to any power quality issues impacting the building. 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 stand lone device or if they understand their issues can move immediately to deploying the SmartGATE™. The SmartGATE™ has the smallest footprint in the industry and addresses many more issues 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

**Building Energy Efficiency for Decarbonization**
Buildings are responsible for 36% of all carbon dioxide emissions in the United States.

According the U.S. Energy Information Administration ("EIA"), America's commercial sector consumed about 18%[1] of the nation's energy during the first 9 months of 2019. About 96%[2] (3.179 quadrillian Btus) of this energy was generated from fossil fuels. Total fossil fuel consumption in the U.S. was 59.814 quadrillion Btus[3] during the same period, meaning that the commercial sector accounted for about 5% 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 CleanEnergy DC Omnibus

[1] December 2019 Monthly Energy Review, EIA, page 35
[2] Commercial Energy Sector Consumption, EIA
[3] December 2019 Monthly Energy Review, EIA, page 3

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 and to businesses. 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. With fossil fuels anticipated to provide the majority of U.S. electricity generation through 2050[4], 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 and systems. If you can't measure a problem, you can't fix it, and SmartGATE Insights has 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 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.

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 ESCO's 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 SmartGATE Insights data collection and analytics tool in fiscal Q1 2020 (period ending December 31, 2019).

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.

[4] Annual Energy Outlook 2019, EIA, page 21

FINANCIAL RESULTS

**Financial summary for the three and twelve months ended September 30, 2019 and 2018.**

| | Three months ended September 30, | | | Twelve months ended September 30, | | |
|---|---|---|---|---|---|---|
| (Cdn$, unless noted otherwise) | 2019 | 2018 (reclassified)[1] | Change | 2019 | 2018 (reclassified)[1] | Change |
| Revenue | 485,543 | 1,283,433 | (62)% | 2,334,525 | 6,595,063 | (65)% |
| Cost of sales[2] | 582,537 | 1,078,252 | (46)% | 1,363,977 | 3,604,254 | (62)% |
| Gross margin[3] | (96,994) | 205,181 | (147)% | 970,548 | 2,990,809 | (68)% |
| Gross margin %[3] | (20)% | 16% | (36)% | 42% | 45% | (3)% |
| Operating expenses | (1,476,683) | (1,441,263) | 3% | (6,351,413) | (5,618,313) | 13% |
| Adjusted EBITDA[4] | (1,798,936) | (1,050,094) | (71)% | (5,265,924) | (1,981,639) | (166)% |
| Net loss | (2,243,219) | (1,181,896) | 105% | (6,093,156) | (2,559,385) | 138% |

[1] Certain components of previous year columns have been reclassified to conform with the presentation of fiscal 2019 periods.

[2] Cost of Sales has been adjusted to better conform with current accounting practice; namely, sales commissions and selling fees are now accounted for separately under "Selling Costs".

[3] Gross margin is based on a blend of both equipment and installation revenue.

[4] Adjusted EBITDA is a non-IFRS financial measure. See EBDITA Reconciliation for details.

Revenue for the fourth quarter of 2019 was $485,543, a 62% decrease from $1,283,433 in the fourth quarter of fiscal 2018. Revenue for fiscal 2019 was $2,334,525 down 65% from $6,595,063 in 2018.

Gross margin in the fourth quarter of fiscal 2019 was negative 20% down from 16% in the fourth quarter of fiscal 2018. Gross margin for fiscal 2019 and 2018 were similar at 42% and 45% respecitvely. The significantly lower gross margins experienced in the fourth quarter of both 2019 was due primarily to a disproportionate amount of production overhead costs realized in the quarter on lower than forecasted throughput during the year and in 2018 were primarily the result of year-end adjustments to cost of goods sold relating to inventory valuation amounts and a proportionately higher amount of low margin installation revenue recorded during those quarters.

Adjusted EBITDA for the fourth quarter of fiscal 2019 decreased by 71% to negative $1,798,936 from negative $1,050,094 in the fourth quarter of fiscal 2018. For the year ended September 30, 2019 adjusted EBITDA was negative $5,265,924, compared to negative $1,981,639 in the year ended September 30, 2018.

Net loss for the fourth quarter of fiscal 2019 was $2,243,219, an increase of 105% from $1,181,896 in the fourth quarter of 2018. Net loss for the year ended September 30, 2019 was $6,093,156, an increase of 138% from $2,559,385 in the year ended September 30, 2018. The net loss in both Q4 2019 and fiscal 2019 were impacted by an impairment of intangible assets totaling $772,818. During the fourth quarter of Fiscal 2019, the Company tested its product development costs for impairment. The tests were performed using pro-forma cash flow projections and certain other assumptions. Based on this analysis development costs associated with internally generated technologies was impaired.

The Company's operating expenses for the quarter ended September 30, 2019 were $1,476,683, up from $1,154,348 in the same period of 2018. Fiscal year 2019 operating expenses were $6,351,413 up from $3,758,599 in fiscal 2018. The trend of higher operating expenses is expected to continue during this phase of the Company's U.S. expansion and then level off when the optimum number of U.S. regions has been established (currently projected at a total of 6 including NY).

**Significant Operating Expenses**

| | Three-months ended September 30, | | | Twelve-months ended September 30, | | |
|---|---|---|---|---|---|---|
| (Cdn$, unless noted otherwise) | 2019 | 2018 (reclassified)[1] | Change | 2019 | 2018 (reclassified)[1] | Change |
| Salaries and consulting fees | 1,000,555 | 753,612 | 33% | 4,168,347 | 2,957,528 | 41% |
| General and overhead | 296,477 | 179,413 | 65% | 1,077,478 | 819,724 | 31% |
| Selling costs[2] | 111,858 | 95,954 | 24% | 385,690 | 650,239 | (41)% |
| Professional fees | 68,817 | 22,275 | 209% | 222,381 | 163,977 | 36% |
| Share-based compensation | 35,510 | 77,768 | (54)% | 286,043 | 427,533 | (33)% |
| Warranty provision | 96,226 | 134,977 | (29)% | 222,750 | 221,806 | (.5)% |

[1] Certain components of previous year columns have been reclassified to conform with the presentation of fiscal 2019 periods.
[2] Cost of Sales has been adjusted to better conform with current accounting practice; namely, sales commissions and selling fees are now accounted for separately under "Selling Costs".

- Salaries and consulting fees for the fourth quarter of 2019 were $1,000,555, up from $753,612 in the same period of 2018, and fiscal year 2019 costs were $4,168,347 up from $2,957,528 in 2018. The increase in salaries and consulting fees are a result of the Company's focus on sales growth and to a lesser extent, additions to the engineering team.

- General and overhead costs for the fourth quarter of 2019 were $296,477, up from $179,413 in the same quarter of 2018. General and overhead costs for fiscal 2019 was $1,077,478 up from $819,724 in the same period of 2018. The increase in general and overhead costs in the during fiscal 2019 was due primarily to increased sales and business development focused travel, higher office related costs, as well as marketing expenditures.

- Selling costs in the fourth quarter of 2019 were $111,858, up from $95,954 in the same quarter of 2018. Fiscal year 2019 selling costs were $385,690, down from $650,239 in 2018. Selling costs is comprised primarily of sales commissions and fees paid to the Ontario Education Collaborative Marketplace ("OECM"). In spite of lower sales, selling costs were higher in Q4 of 2019 compared with the same period in 2018 due to commission paid on a relatively high number of sales recognized in earlier periods.

- Professional fees for the fourth quarter of 2019 were $68,817, up from $22,275 in the same period of 2018. Professional fees in fiscal 2019 were $222,381, up from $163,977 in the same period of 2018. The increase in professional fees in both comparative periods is due primarily to higher audit, tax preparation and accounting consulting fees in both comparative periods.

- Share-based compensation expense (all attributable to Legend Canada) is due to 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 years grants. This expense for the fourth quarter of 2019 was $35,510, down from $77,768 in the same period of 2018. For fiscal 2019 share-based compensation expense was $286,043 down from $427,533 in fiscal 2018. The number of options vesting during the three and twelve months ended September 30, 2019 were 174,169 and 1,339,870 respectively, compared to 155,000 and 1,822,642 vesting in the same periods of 2018.

- Warranty provision for the fourth quarter of 2019 was $96,226, compared with $134,977 in the same period of 2018. Warranty provision for fiscal 2019 was $222,750, up slightly from $221,806 in fiscal year 2018. 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.

**Select Annual Information**

| | | Reclassified | |
|---|---|---|---|
| (Cdn$, unless noted otherwise) | 2019 | 2018 | 2017 |
| Revenue | 2,334,525 | 6,595,063 | 4,228,756 |
| Gross margin[1] | 970,548 | 2,990,809 | 1,895,988 |
| Operating loss | (5,380,865) | (2,627,504) | (1,862,611) |
| Net loss | (6,093,156) | (2,559,385) | (1,846,687) |
| Loss per share (basic and diluted) | (0.06) | (0.03) | (0.02) |
| Total assets | 8,725,135 | 14,513,886 | 5,083,653 |
| Total long-term financial liabilities | - | - | - |
| Cash dividend | - | - | - |

[1] Gross margin is based on a blend of both equipment and installation revenue

**Quarterly Trends**

Certain amount for fiscal 2018 have been reclassified to conform with the presentation adopted in the fourth quarter of 2018 and fiscal 2019.

(Cdn$, unless noted otherwise)

| | Fiscal 2018 | | | | Fiscal 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | Reclassified | | | | | | | |
| Revenue | 1,282,707 | 1,916,582 | 2,112,341 | 1,283,433 | 403,400 | 769,443 | 676,139 | 485,543 |
| Gross margin[1] | 478,784 | 996,585 | 1,310,259 | 205,181 | 326,568 | 414,114 | 326,860 | (96,994) |
| Operating expenses | 1,229,868 | 1,443,702 | 1,489,196 | 1,465,944 | 1,484,843 | 1,845,557 | 1,544,329 | 1,476,684 |
| Operating loss | (751,084) | (447,117) | (178,937) | (1,260,763) | (1,158,275) | (1,431,443) | (1,217,469) | (1,573,678) |
| Net loss | (747,328) | (442,314) | (187,847) | (1,181,896) | (1,091,332) | (1,402,451) | (1,176,154) | (2,423,219) |
| Loss per common share[2] | (0.009) | (0.005) | (0.002) | (0.011) | (0.011) | (0.014) | (0.012) | (0.023) |

[1] Gross margin is based on a blend of both equipment and installation revenue.
[2] 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 Q4.

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 Q4 2019 the significantly lower gross margins experienced were primarily the result of production overhead allocations and during Q4 2018 were primarily due to inventory valuation procedures which impacted cost of goods sold and a proportionately higher amount of low margin installation revenue.

Operating costs have been relatively stable with a slight upward trend other than the anomalous increase seen in Q2 of fiscal 2019. 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**

| | Years ended September 30, | | |
|---|---|---|---|
| (Cdn$, unless noted otherwise) | 2019 | 2018 | Change |
| Cash used in operating activities | (3,869,823) | (2,640,070) | 47% |
| Cash used in investing activities | (602,082) | (141,200) | 326% |
| Cash provided by financing activities | 75,460 | 11,664,218 | (99)% |
| **Total change in cash** | **(4,396,445)** | **8,882,948** | (149)% |

**Cash used in operating activities**
During the fiscal year-ended September 30, 2019, cash used in operating activities was $3,869,823, up from $2,640,070 in the same period of 2018. The increase in cash used in operating activities is due in most part to an increase in loss of approximately $3.5 million, offset by an increase in cash received from receivables and amounts due from customers totaling $1.8 million.

**Cash used in investing activities**
During the fiscal year-ended September 30, 2019, cash used for investing activities was $602,082, an increase from $141,200 in the same period of 2018. The increase is primarily due to a year-over-year increase in investments in product development of approximately $640,000, offset by higher interest income received and a decrease in property and equipment investments.

**Cash provided by financing activities**
During the fiscal year-ended September 30, 2019, cash flows from financing activities was $75,460, a significant decrease from $11,664,218 in the same period of 2018. In the 2018 comparative period the Company closed a public offering for gross proceeds of approximately $10.5 million and also received $1.8 million in proceeds from warrant exercises.

## Working Capital Items

| (Cdn$, unless noted otherwise) | at September 30, 2019 | at September 30, 2018 | Change |
|---|---|---|---|
| Cash | 5,677,537 | 10,046,366 | (43)% |
| Trade receivables | 655,320 | 1,573,298 | (58)% |
| Due from customers on contract | 891,288 | 1,361,126 | (35)% |
| Inventory | 1,255,737 | 1,066,592 | 28% |
| Prepaids and deposits | 130,118 | 192,603 | (32)% |
| **Total current assets** | **8,610,000** | **14,239,985** | (39)% |
| Trade payables | 343,258 | 501,138 | (32)% |
| Accrued Liabilities | 249,906 | 79,665 | 214% |
| Warranty provision | 99,122 | 40,863 | 143% |
| **Total current liabilities** | **692,286** | **621,666** | 11% |
| **Working capital** | **7,917,714** | **13,618,319** | (41)% |

### Liquidity and capital resources measures

As at September 30, 2019, the Company had cash and cash equivalents of $5,677,537 (September 30, 2018 - $10,046,366), total current assets of $8,610,000 (September 30, 2018 - $14,239,985) and current liabilities of $692,286 (September 30, 2018 - $621,666). As at September 30, 2019, the Company had working capital of $7,917,714 (September 30, 2018 - $13,618,319).

Based on working capital as at September 30, 2019, estimated cash inflows and requirements for the next twelve months and the Company's ability to timely collect accounts receivable, management believes the Company has sufficient working capital to continue business operations over the ensuing 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 September 30, 2019 was $655,320 down from $1,573,298 at September 30, 2018. The decrease in accounts receivable is due primarily to a slowing in sales during fiscal 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 $891,288 at September 30, 2019 and $1,361,126 at September 30, 2018, relates to systems delivered and/or installation services provided for sales transactions where revenue has been recognized, but customers have not yet been invoiced. The decrease in amounts due from customers on contract is due primarily to a slowing in sales volume during the year.

**Inventory**

Inventory at September 30, 2019 was $1,255,737, a 18% increase from $1,066,592 at September 30, 2018. The increase in inventory is primarily attributable to the slow-down in sales experienced during the year which was offset by an inventory write-down of $102,410, to adjust for component valuations. 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 September 30, 2019 were $343,258 and $249,906 respectively, compared with $501,138 and $79,665 at September 30, 2018. Trade payables and accrued liabilities tend to fluctuate with no particular pattern. Accrued liabilities did comparatively increase during the fiscal year ended September 30, 2019 primarily due to accruals for installation costs. At September 30, 2019 the current portion of warranty provision was $99,122 compared with $40,863 at September 30, 2018.

**Contractual Obligations and Commitments**

On December 4, 2017 the Company entered into an agreement to lease premises in Toronto, Ontario and on March 22, 2018 the Company entered into an agreement to lease premises in Vancouver, B.C. When taken together the lease agreements require the following minimum lease payments in each of the below fiscal years:

| | |
|---|---|
| 2020 | $150,845 |
| 2021 | $70,841 |

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.

During the year ended September 30, 2019, an amount of $180,145 (2018 - $153,787) was recorded to rent expense related to the above referenced leases.

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.

**Outstanding Share Data**

| Class of Security | Number outstanding at September 30, 2018 | Net issued (equity offering, grants, cancellations, exercises or forfeitures) | Number outstanding at September 30, 2019 | Net issued (grants, cancellations, exercises) | Number outstanding at January 28, 2020 |
|---|---|---|---|---|---|
| Shares[1] | 101,462,803 | 387,500 | 101,850,303 | - | 101,850,303 |
| Options | 7,113,333 | (120,000) | 6,993,333 | 220,838 | 7,214,171 |
| Broker Warrants | 703,410 | - | 703,410 | - | 703,410 |

[1] *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 fiscal year ended September 30, 2019, 2,450,000 stock options were granted, 387,500 were exercised, 1,865,000 expired and 317,500 stock options were forfeited. Subsequent to September 30, 2019 and to the date of this report a total of 765,000 stock options were granted and 544,162 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.

**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. A discussion of certain risks that may affect the Company, follows.

***Uncertainty of Revenues***
Since the date of incorporation, the Company has accumulated losses, and while the Company does not expect such losses to continue, there can be no assurance that such losses will not continue.

***Financing***
The ability of the Company to arrange any further financing will depend in part on the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing.

The Company may not be successful in generating sufficient cash from operations or in raising capital in sufficient amounts on acceptable terms to implement its entire business plan. The failure to generate sufficient cash flows or to raise sufficient funds may require the Company to delay or abandon some or all of its plans or otherwise forego market opportunities and may make it difficult for the Company to respond to competitive pressures, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

***Limited Operating History***

Legend was incorporated in 1987, in the Province of British Columbia under the name "Davic Enterprises Incorporated". In 1997, Legend changed its name to "RBD Enterprises Inc.", and in 2000, the Company changed its name to "Texas Gas & Oil Inc.". It wasn't until July 2, 2008 when the TSX Venture Exchange approved the Reverse Takeover of Texas Gas & Oil Inc. by Legend Power Systems Inc. when the Company also changed its name to Legend Power Systems Inc. that the Company switched its focus from oil and gas development to voltage optimization.

The Company has recently begun marketing and selling in the North American market. The ability of the Company to sustain revenue and income in this market segment is not fully proven, and the Company's limited operating history makes an evaluation of the Company's performance and its prospects difficult. The Company's performance and its prospects must be considered in light of the risks, expenses and difficulties encountered by companies in the field of energy efficiency. To address these risks, among other things, the Company must sell the SmartGATE™ and build its brand name effectively, continue to grow its infrastructure to accommodate customers, respond to competitive developments and retain and motivate qualified personnel.

***Exchange Rate Fluctuations***

A portion of the Company's business may be done in U.S. dollars. Therefore, changes in the exchange rates between the Canadian dollar and U.S. dollar may have an adverse effect on the Company's business, financial condition, future prospects and results of operations.

***Two Product Company***

The success of the Company will be largely dependent upon sales of its SmartGATE™, but the Company has the ability and is planning to introduce additional products, enhanced offerings and line extension based on its core technology.

***Dependence Upon New Markets; Uncertainty of Acceptance of Product Offerings***

The market acceptance of the SmartGATE™ in North America, outside of Ontario, remains to be proven and the Company's future growth will depend upon successful marketing of the SmartGATE™. If the market targeted by the Company fails to develop, develops slower than expected, is successfully and significantly penetrated by competitors or if the SmartGATE™ does not achieve broad market acceptance, the Company's business, results of operations and financial conditions would be materially and adversely affected.

***Potential Fluctuations in Results of Operations***

The Company does not have an operating history sufficient to assess whether significant fluctuations in operations on a quarterly and/or annual basis will occur. Results of operations may vary partly due to factors which are outside of the Company's control. These factors may include:

a) demand for, and market acceptance of the Company's products;
b) introduction of products by competitors;
c) reliable continuity of service;
d) reliable supply of materials to the Company;
e) customer retention;
f) currency fluctuations;
g) changes in the pricing policies of suppliers; and
h) timing and magnitude of expenditures on advertising and promotion.

***Competition***

The SmartGATE™ is the only technology of its kind in North America and the Company holds multiple patents on its technology. Attempts have been made by one other company to achieve voltage regulation electronically, albeit unsuccessfully. There is also a company in the United Kingdom that sells similar equipment but without the critical capability of voltage regulation in the North American market. The Company believes that neither of them have all of the capabilities and features of the SmartGATE™. The Company believes that there are no direct competitors today that are focusing on the same target market due to its patent protections. The Company may, however, face additional competition from new market entrants. If and when that does occur in the future, the Company will respond appropriately.

***Management of Growth***

Internal growth is a principal component of the Company's strategy, and the Company anticipates undergoing a period of expansion in its business. If the Company fails to sustain or effectively manage such growth, its operating results will fluctuate and suffer. The Company's growth depends on its ability to accomplish a number of things, including identifying and developing new geographic markets, developing new products and market acceptance for them, increasing the Company's manufacturing and outsourcing capacity, maintaining current customer and distributor relationships and developing new ones, and successfully managing expansion and arranging the necessary financing.

Any growth the Company achieves will require additional personnel and will increase the scope of both its operating and financial systems and the geographic area of its operations. This will increase its operating complexity and may place significant strain on its management and other resources. The Company may not be able to attract and retain qualified personnel, and its current operating and financial systems and controls may not be adequate to support such growth. The Company's ability to improve its systems and controls may be limited by increased costs, technological challenges or lack of qualified personnel. In addition, the Company's past results may not be indicative of the Company's future prospects or ability to penetrate new markets, which may have different competitive conditions and demographic characteristics than current markets. Failure to effectively manage the budgeting, forecasting and other process control issues arising from growth could materially and adversely affect the Company's business, financial condition and results of operations. In addition, the Company's expense levels are based, in part, on expected future revenues and the Company is limited in its ability to reduce expenses quickly if for any reason its purchase orders do not meet expectations in a particular quarter or year.

The Company may also grow through investment in or acquisition of complementary businesses. In connection with any investment or acquisition the Company makes, however, there may be liabilities that the Company fails to discover or is unable to discover and for which the Company, as successor owner, may be responsible. In addition, acquisitions often result in difficulties in integration, which may place significant strain on management and other resources and disrupt business operations.

The Company's business plan involves expansion of its customer base and technologies resulting in additional funding requirements and hiring of new employees. This growth could potentially place a significant strain on the Company's financial, management and operational resources. The Company's management, personnel, systems, procedures and controls may not adequately support a rapid expansion. If the Company's executives are unable to manage growth effectively, the Company's business, results of operations and financial condition could be materially and adversely affected.

***Dependence on Key Personnel***

The Company's success depends significantly upon the continued services of its key technical, sales and senior management personnel. Any officer or employee of the Company can terminate his or her relationship with the Company at any time. There is no assurance the Company can maintain the services of those individuals or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

The Company's future success will also depend on its ability to attract, train, retain and motivate highly qualified technical, marketing, sales and management personnel. Competition for such personnel is intense, and the Company may not be able to attract and retain key personnel. The loss of the services of one or more of the Company's key employees or the Company's failure to attract additional qualified personnel could have a material adverse effect on the Company's business, results of operations and financial condition.

***Suppliers***
The business failure of suppliers or any adverse impact upon them such as shortages of materials, labor strife or unrest, inability to obtain transportation for the manufactured units may adversely affect the Company's ability to meet its financial objectives. Reliance on suppliers also subjects the Company to the risks of shortage of components, the possibility of defective parts produced by others, and increases in component costs, all of which may adversely affect the Company's profitability.

In its manufacturing and assembly processes, the Company requires quality components to be supplied by third parties. Failure of such third-party suppliers to meet component delivery schedules may disrupt production schedules at the Company.

***Installation***
The Company generates revenue through direct product sales, product sales and installations and in limited circumstances, ongoing energy savings revenue from past product installations. SmartGATE™ installations are done partly by the Company's employees and partly by local qualified electrical contractors. The ability to install the SmartGATE™ in a timely fashion will be dependent on the availability of such contractors. While there is a Canadian Electrical Code that sets minimum standards that apply to the installation of the SmartGATE™, there can be variations in the cost of installation. Going forward, the Company's strategy is to enhance distributorship channel sales, and as such, should have reduced exposure to the installation side of business.

***Government Regulation***
Canadian and American, Provincial/State and Federal statutes concerning electrical safety require the Company's products to be approved listed products. All products manufactured, sold and installed by the Company are subject to safety certification procedures by approved safety bodies, and are listed products.

***Insurance***
A defect in the products manufactured by the Company or in the installation process could result in serious personal injury, property damage, and lost hours of operation and revenue. Although the Company carries general liability insurance of up to $10,000,000, it is not fully insured against all risks, nor are all such risks fully insurable.

***Product Liability***
A malfunction of the Company's products could result in tort or warranty claims. Even where a claim is without merit, the costs of defending could be substantial in terms of actual monetary expense as well as diversion of managerial attention. Any liability for damages resulting from malfunctions of the Company's products or other costs incurred to remedy the problem, such as product recalls, could be substantial and could increase the Company's expenses and prevent the Company from growing its business. In addition, a well-publicized actual or perceived problem could adversely affect market perception of the Company's products. This could result in a decline in demand for the Company's products, which would reduce its revenue and harm its business.

***Dividends***
During the most recently completed financial period, no dividends were paid on the common shares issued and outstanding. It is not expected that dividends will be paid on the common shares in the foreseeable future as it is the Company's current

policy to retain earnings to finance expansion and to otherwise fund operations, unless profits far exceed such requirements. Future payment of dividends will be dependent upon the Company's financial condition, financial requirements to fund future growth, and other factors the Board of Directors may consider appropriate in the circumstances. Until the Company pays dividends, which it may never do, shareholders will not be able to receive a return on their common shares unless they sell them.

***Share Price***

Legend's share price has been highly volatile following its TSX-V listing on July 3, 2008 due to market conditions and may continue to experience significant fluctuation in the future. Among the factors that could affect Legend's share price are: quarterly variations in operating results, news announcements, research reports by analysts and other developments with respect to the Company's industry or competitors, changes in general market conditions, lack of liquidity in the marketplace and domestic and international economic factors unrelated to the Company's performance.

The markets for equity securities of technology companies have been highly volatile recently and the market price of Legend's common shares may be subject to innovations or new products by the Company or its competitors, fluctuations in energy prices, patent or proprietary rights developments and market conditions for high technology stocks in general. In addition, stock markets in recent years have experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These market fluctuations may adversely affect the market price of Legend's shares. There can be no assurance that the trading price of Legend's shares will remain at or near the current trading price.

## RELATED PARTY DISCLOSURES

The Company entered into the following related party transactions during the fiscal years ended September 30, 2019 and 2018. 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.

**Transactions with Key Management Personnel**

During the years ended September 30, 2019 and 2018, the following amounts were incurred with respect to the Company's CEO (Mr. Randy Buchamer), and CFO (Mr. Steve Vanry):

| | Years ended September 30, | |
|---|---|---|
| (Cdn$, unless noted otherwise) | 2019 | 2018 |
| Salary – R. Buchamer | 243,750 | 225,000 |
| Consulting fees – S. Vanry | 191,146 | 149,691 |
| Share based compensation – R. Buchamer | 50,082 | 150,681 |
| Share based compensation – S. Vanry | 25,041 | 33,641 |
| **Total** | **510,269** | **559,013** |

**Transactions with Other Related Parties**

During the years ended September 30, 2019 and 2018, the following amounts were incurred with respect to the Company's non-executive directors (Messrs. Michael Atkinson, Jamie Blundell(3), Matt Walker(3), Dave Guebert, Cosimo La Porta(1), and Michael Harcourt(2)):

| | Years ended September 30, | |
|---|---|---|
| (Cdn$, unless noted otherwise) | 2019 | 2018 |
| Share-based compensation | 99,059 | 68,089 |
| Director's fees | 77,500 | - |
| **Total** | **176,559** | **68,089** |

*[1] Cosimo La Porta was appointed director of the Company on April 12, 2018.*
*[2] Michael Harcourt ceased to be a director on April 9, 2018.*
*[3] Jamie Blundell and Matt Walker ceased to be directors on June 20, 2019.*

At September 30, 2019, a total of $Nil (2018 - $28,915) was due to related parties for consulting fees and expenses reimbursement.

## NEW ACCOUNTING STANDARDS NOT YET ADOPTED

IFRS 16 – *Leases*. In January 2016, IFRS 16, was issued which requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. IFRS 16 now prescribes the accounting policies and disclosures applicable to leases for both lessees and lessors. The standard replaces IAS 17, *Leases*, and is effective for annual periods beginning of after January 1, 2019 with earlier application permitted. The Company will adopt the standard effective October 1, 2019, and it expects its facility leases to be recorded on the balance sheet as a result of the transition and is in the process of quantifying the impact.

## 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 the US dollar versus Canadian dollar exchange rate fluctuation risks through operations of its US subsidiary and expenses incurred in US dollars. As at September 30, 2019 all of Company's liquid assets and liabilities were held in Canadian dollars and US dollars. A significant change in the USD exchange rate relative to the Canadian dollar could affect the Company's results of operations. A change in the value of US dollar by 10% relative to the value of the Canadian dollar would have affected the Company's results of operations for the year ended September 30, 2019 by approximately $269,865 (2018 - $43,000).

### *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 year ended September 30, 2019 averaged 1.25% (2017 – 0.5% to 1.6%). A 1% change in interest rates would have affected the Company's results of operations for the year ended September 30, 2019 by approximately $73,697 (2017 - $54,700). The Company does not have any interest-bearing liabilities.

### *Credit risk*

Credit risk is the risk of an unexpected loss if the counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is believed to be minimal as cash is on deposit with Canadian and foreign banks that are deemed to be creditworthy. Receivables are comprised primarily of amounts due from various customers. The Company is exposed to credit risk through accounts receivable from customers. At September 30, 2019, trade receivables from five of our customers accounted for 12%, 14, 17%, 23% and 24% respectively of the Company's trade receivables balance for a total 90% in aggregate. At September 30, 2018, receivables from four of our customers accounted for 60%, 14%, and 14%, respectively of the Company's trade receivables balance for a total 88% in aggregate.

### *Liquidity risk*

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. As at September 30, 2019 the Company had cash and cash equivalents of $5,677,537 to settle its current liabilities of $692,286.

## EBITDA RECONCILATION

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 September 30, | | Twelve months ended September 30, | |
|---|---|---|---|---|
| (Cdn$, unless noted otherwise) | 2019 | 2018 | 2019 | 2018 |
| Net loss | (2,423,219) | (1,181,896) | (6,093,156) | (2,559,385) |
| Add / (deduct): | | | | |
| Intangible asset impairment | 772,818 | - | 772,818 | - |
| Foreign exchange | (112,400) | 60,085 | (130,087) | 84,766 |
| Interest income | (25,685) | (47,162) | (162,937) | (68,119) |
| Amortization and depreciation | (45,960) | 41,111 | 61,395 | 84,623 |
| Share based compensation | 35,510 | 77,768 | 286,043 | 427,533 |
| **Adjusted EBITDA** | **(1,798,936)** | **(1,050,094)** | **(5,265,924)** | **(1,981,639)** |

## OTHER MD&A REQUIREMENTS

Additional information relating to the Company may be found on or in:
· SEDAR at www.sedar.com;
· the Company's website at www.legendpower.com;
· 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, January 28, 2020