LEGEND POWER® SYSTEMS

www.legendpower.com

# Legend Power Systems Inc.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**Years ended September 30, 2021 and 2020**

(Expressed in Canadian Dollars)

December 21, 2021

This discussion and analysis of financial position and results of operation of Legend Power Systems Inc. ("Legend" or the "Company"), is prepared as at December 21, 2021, and should be read in conjunction with the Company's consolidated financial statements for the years ended September 30, 2021 and 2020 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 December 21, 2021.

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.

## COVID-19

In response to COVID-19's impact on economic activity and its potential to slow the Company's growth prospects, between Q2 of fiscal 2020 through to Q1 of fiscal 2021, management pro-actively implemented a cost reduction and continuity plan. The cost cutting measures reduced overall expenditures during the 9-month period by approximately $1 million. The majority of these cost-containment efforts have ended, and are not currently anticipated to be re-introduced.

Despite management's efforts, the Company's business was and could continue to 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. 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, and are getting worse with increased renewable energy sources like wind and solar. Most buildings (80-90%) 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 inconsistent production and availability of renewable energy sources added to the supply. Voltage higher or lower than a building's equipment specifications negatively impacts the lifespan or availability of electrical equipment, creates unnecessary power consumption, increases the potential for 'brown-outs', and can cause full or partial equipment failures. 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 tenant/occupant issues. All of these issues represent increased expenses, lower profits, and lower valuations. Legend utilizes a proprietary and patented technology platform to first assess a building's inbound power, then regulate and optimize the building's 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 on each individual phase of service and managing or mitigating poor quality (including over/under voltage, voltage sags and swells, phase unbalance and power factor) across all loads, SmartGATE™ ensures customers receive consistent power availability, reduce their electrical 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 the cloud. 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, Offerings and Strategy**

The Company's vision statement is - "To be recognized as a global leader in intelligent active power management technology".

The Company currently markets two complementary offerings:

- SmartGATE Insights™ Service - measures the high impact attributes of electricity and then applies an array of industry-standard calculations to determine what effects they are having on a building. Findings are summarized and communicated to building owners via a Power Impact Report, with an easy-to-understand score-card of relative building health, an assessment of the hidden financial and human costs, and finally a custom solution based on Legend's turnkey technologies.

- SmartGATE™ Platform - uses patented technology to correct the power issues uncovered by SmartGATE Insights. The most recent version of SmartGATE™ Platform, (released in early 2021) has the smallest footprint in the industry, a more affordable price point, and better energy efficiency. It is uniquely suitable for a large array of commercial as well as light-industrial applications, addressing many power quality 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.

A key aspect of the Company's growth strategy is partnering with resellers, particularly Energy Service Companies ("**ESCO**") in the U.S. as it establishes significant new sales channels and revenue streams for the Company. These partnerships provide Legend with instant access to decades-long, trusted relationships in an expanded set of market verticals with little or no marketing, sales or infrastructure costs. Legend completed its first project with a U.S. ESCO during Q1 of fiscal 2021 and is in discussions with several other leading U.S. ESCOs. The ESCO market in the U.S. is a US$15 billion a year business that bundles energy conservation measures for large public entities such as government organizations and others.

Another core element of Legend's business strategy (whether through direct or channel partner sales) is to focus on enterprise-level sales of a portfolio solution. Leading customer engagements with SmartGATE Insights Service as a means to analyze and assess buildings to quantify financial risks and losses due to poor power quality, enables a fact-based decision to prioritize SmartGATE Platform deployment to fix or mitigate identified issues. This approach lowers customer cost and risk for initial engagement, shortens time to SmartGATE Platform purchase, increases likelihood of multi-unit SmartGATE purchases, and compresses the sales cycle timeframe.

Legend intends to continue to leverage both direct and distribution sales channels to aggressively expand key influencer product adoption and market share in the U.S. and Canada. Key Influencers such as ESCOs are defined as individuals or organizations in a target market with whom Legend has proven its solution to be effective and who have developed relationships that actively endorse the product's performances, value, and applicability to other potential customers within their sphere of influence.

Legend's U.S. expansion is ongoing with a primary presence in New York City and indirect presence in a growing number of other major U.S. metropolitan areas by virtue of customer engagement driven by our channel partner networks.

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 in the Company's target markets.

INDUSTRY AND CORPORATE UPDATE

**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"), in 2020 about 93%[1] (4.027 quadrillion Btus) of the energy consumed by America's commercial buildings was generated from fossil fuels. Total fossil fuel consumption in the U.S. was 72.944 quadrillion Btus[2] during the same period, meaning that the commercial sector accounted for about 5.5% of America's total fossil fuel consumption.

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. The City of Seattle claims that building energy is responsible for over a third of the city's climate emissions, and Senate Bill 5293 (now in Senate committee) 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 and Decarbonization 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 is shifting to investing in companies that require less fossil fuels.
- Morgan Stanley building 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.
- Apple announced goals to reduce and offset emissions along its entire supply chain and in the production of its iPhones and other devices, in under ten years.
- Amazon announced its US$2 billion Climate Pledge Fund to support the development of sustainable and decarbonizing technologies and services.

Decarbonization of the commercial building sector will require three macro changes:

- An increase in renewal power generation, which includes distributed energy resources (wind, solar, storage etc.) deployed throughout the grid in a decentralized manner.
- Electrification of equipment traditionally reliant on fossil fuels (Electric Vehicles, Electric Heat Pumps).
- Continued effort to increase the energy efficiency of commercial buildings. Smarter and more efficient technologies will continue to replace existing equipment within facilities to reduce a buildings energy use intensity and reduce demand for electricity.

[1] Commercial Energy Sector Consumption, EIA
[2] July 2021 Monthly Energy Review, EIA, page 3

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 financial losses from a 3-year-old electrical elevator motor that ran hot and was undetected until it burnt out years before anticipated end of life? 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.

**How Legend Power's SmartGATE Can Help**

A grid more reliant on renewables is inherently less stable than a centralized grid reliant on large fossil fuel generation. The reliability and quality of power is expected to decline as renewable generation proliferates. The US$73 billion in proposed U.S. grid upgrades in the U.S. Infrastructure Bill will likely compound these issues as more utility-scale renewable energy sources are connected. Additionally, equipment which drives efficiency for the electrification movement is less tolerant of power challenges and is prone to fail or malfunction when sub-standard power is supplied. As the global economy moves towards decarbonization and electrification, grid instability is expected to be pervasive, which should drive strong demand for Legend Power's solutions.

Declining power quality and the requirement for reliable high-quality power as an enabler for efficiency and electrification will continue to limit decarbonization efforts in the building sector. Legend's SmartGATE platform is the only proven solution that addresses this large-scale challenge.

SmartGATE enables a lower carbon building strategy by correcting common power challenges associated with renewable power sources while increasing a buildings overall efficiency and resiliency for decades to come.

**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 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), prove out the technology and then expand the model to other geographies, specifically the U.S., a market several times the magnitude of Ontario.

In 2017, the Company doubled revenue in the Ontario market and then raised $10 million in a bought deal financing at $0.80 to expand the product portfolio and expand into the New York and Pacific Northwest markets in the U.S.

Legend spent 2020 continuing to expand the New York market and building relationships with the key market participants, including the building owners, utilities and ESCOs in the regions. After analyzing feedback from customers and key 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).

Prior to the introduction of SmartGATE Insights, commercial building owners could neither effectively identify nor measure power issues caused by the electrical grid. 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.

**Corporate Update**

The trend of growing sales opportunities building over most of fiscal 2021 carried into Q4 providing the Company with a strong basis for near-term increases in bookings and revenue. A driver of new opportunities has been unsolicited engagement with prospective customers driven by strong referrals and testimonials from existing customers. The Company's newly built channel sales team's early ability to drive new business through existing relationships including with representatives of governmental agencies has significantly added to the Company's sales funnel. Additionally, the application for a major listing as an approved seller with the U.S. federal government, could if received, result in material growth of the Company's addressable market size.

A backlog of booked orders has grown as SmartGATE Gen3 product delivery delays due to inventory procurement challenges in Q3 and Q4 has deferred recognition of a material amount of revenue.

Supply chain disruption and component price increases adversely impacted margins, but the Company is focused on working with existing and possible alternative suppliers of components to address both cost and timeliness in the Company's supply chain.

The pace at which sales opportunities are crystallizing into bookings has not kept up with management expectations, but prospective sales are not being lost, simply delayed. The central reasons for delayed bookings are:

- Channel partners are invested in the process of understanding and assimilating Legend's offering to their value proposition however the time to secure channel partner product approval (including pilots etc) takes time, but interest and commitment to work with Legend continues to grow;
- Channel deals are typically larger opportunities with lengthier timelines, but are of significant enough size to put the Company back on track to meet it's 2022 bookings goals;
- Supply chain delays have caused some already approved deals to be pushed to subsequent budgeting cycles for certain customers;
- Increases in the Company's pricing in some cases have resulted in customers returning to their internal procurement phase for re-approval of the increase over previously committed funding;
- In spite of the acknowledged value of SmartGATE Insights and the resulting Power Impact Report, building owners and executives, after having been presented a personalized analysis for the first time need help understanding the impacts of poor power quality and how to solve these problems in a timely manner. This involves additional educational support after the report is delivered.

## FINANCIAL RESULTS

**Financial summary for the three and twelve months ended September 30, 2021 and 2020**

| | Three months ended September 30, 2021 | | | Years ended September 30, | | |
|---|---|---|---|---|---|---|
| (Cdn$, unless noted otherwise) | 2021 | 2020 | Change | 2021 | 2020 | Change |
| Revenue | 193,254 | 346,697 | (44)% | 2,713,816 | 2,027,933 | 34% |
| Cost of sales | 258,152 | 280,941 | (8)% | 2,142,565 | 1,529,964 | 40% |
| Gross margin[1] | (64,898) | 65,756 | (199)% | 571,251 | 497,969 | 15% |
| Gross margin %[1] | (34)% | 19% | (277)% | 21% | 25% | (14)% |
| Operating expenses | (1,181,493) | (951,264) | 24% | (4,612,800) | (5,291,444) | (13)% |
| Adjusted EBITDA[2] | (1,024,218) | (569,493) | 80% | (3,115,861) | (4,228,194) | (26)% |
| Net loss | (1,034,529) | (769,444) | 34% | (3,837,766) | (4,783,511) | (20)% |

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

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

Revenue for the fourth quarter of 2021 was $193,254 down from 346,697 in the same quarter of fiscal 2020. Revenue for the year ended September 30, 2021 was $2,713,816 up 34% from $2,027,933 in fiscal 2020. Lower revenue for the three months ended September 30, 2021 was primarily impacted by delayed deliveries to customers as a result of inventory shortages caused by supply chain challenges and to a lesser extent, the production ramp up required for the Gen3 version of SmartGATE. Revenue for the year ended September 30, 2021 was up over fiscal 2020 due to a greater negative impact on sales from COVID-19 in fiscal 2020. Inventory supply chain delays continue to be a timing constraint on revenue recognition, but is expected to improve in fiscal 2022.

Gross margin in the fourth quarter of fiscal 2021 was negative 34%, compared with 19% in same quarter of fiscal 2020. Gross margin for the year ended September 30, 2021 was 21% compared with 25% in the same period of fiscal 2020. The negative margin realized during Q4 of fiscal 2021 was due in most part to a charge of $117,134 taken for obsolete and slow morning inventory attributable to components used to assemble earlier versions of SmartGATE. The lower margin realized in fiscal 2021 was due primarily to pricing associated with a 20-unit order from one of the Company's largest customers. Management believes that in the short-term, margins may continue to be impacted by widespread supply chain challenges, COVID-19 supplier surcharges, and component raw material (metal) costs, but as the Company scales through fiscal 2022 and supply chains return to normal, and sales bookings convert to revenue, margins should improve and be closer to long-term average results.

The Company's operating expenses for the fourth quarter of fiscal 2021 were $1,181,493, up 24% from $951,264 in the same quarter of fiscal 2020. Operating expenses for the year ended September 30, 2021 were $4,612,800 down from $5,291,444 fiscal 2020. The primary cause for the increase in total operating costs during Q4 2021 was due to the fact that during Q4 of 2020 the Company was still operating under COVID-19 cost cutting measures and receiving government subsidies offset somewhat by a warranty expense recovery realized in the current quarter. The decrease in the year over year fiscal periods is the result of COVID-19 cost cutting measures still in effect during Q1 and Q2 of fiscal 2021 offset slightly by higher product development and share based compensation expense.

Adjusted EBITDA for the fourth quarter of fiscal 2021 was negative $1,024,218, compared with negative $569,493 in the same period of fiscal 2020. Adjusted EBITDA for the year ended September 30, 2021 was negative $3,115,861 compared with negative $4,228,194 in fiscal 2020.

Net loss for the fourth quarter of fiscal 2021 was $1,034,529, compared with a net loss of $769,444 in the same quarter of fiscal 2020. Net loss for the year ended September 30, 2021 was $3,837,766 compared with $4,783,511 in fiscal 2020. The increase in net loss in the fourth quarter comparative periods was due to a negative gross margin of $64,898 and higher operating costs in the current quarter as compared with Q4 of 2020. A higher gross margin and lower operating costs were the largest contributing factors to the significantly lower net loss in in the year over full fiscal year periods.

**Significant Operating Expenses**

| | Three months ended September 30, | | | Years ended September 30, | | |
|---|---|---|---|---|---|---|
| **(Cdn$, unless noted otherwise)** | **2021** | **2020** | **Change** | **2021** | **2020** | **Change** |
| Salaries and consulting | 704,563 | 562,700 | 25% | 2,194,955 | 3,137,696 | (30)% |
| General and overhead | 120,038 | 90,446 | 33% | 485,878 | 684,739 | (29)% |
| Selling costs | 74,505 | 36,580 | 104% | 227,947 | 242,184 | (6)% |
| Product development | 116,768 | 32,518 | 259% | 534,862 | 236,181 | 126% |
| Professional fees | 64,277 | 505 | 12628% | 261,132 | 293,009 | (11)% |
| Share-based compensation | 189,970 | 116,133 | 64% | 754,827 | 383,310 | 97% |
| Amortization and depreciation | 44,079 | 10,172 | 333% | 165,929 | 142,672 | 16% |
| Warranty expense | (126,435) | 125,060 | (201)% | (45,778) | 193,451 | (124)% |

- Salaries and consulting fees for the fourth quarter of fiscal 2021 of $704,563, up from $562,700 during the same quarter of fiscal 2020 and for the year ended September 30, 2021 were $2,194,955 down from $3,137,696 in fiscal 2020. The year over year increase in the comparative fourth quarters was due to the hiring of staff, a reduction in government COVID-19 subsidies and that temporary salary reductions in 2020 were no longer in effect. The lower costs incurred during fiscal 2021 was due primarily to events experienced during the first 9-months of the year, including; staffing cost reductions, the receipt of Canadian government subsidies offsetting payroll costs and having a significantly smaller staff relative to most of fiscal 2020.

- General and overhead costs for the fourth quarter of fiscal 2021 were $120,038, up from $90,446 during the same quarter of fiscal 2020 and for the year ended September 30, 2021 were $485,878 down from $684,739 in fiscal 2020. The increase in Q4 2021 over Q4 2020 is due to higher transfer agent and filing fees incurred for the listing of the Company's warrants and higher office rent costs. The decreases in the annual comparative periods is due to expenditure curtailments implemented by the Company in response to the economic slowdown caused by COVID-19 and the impact of having a reduced number of staff members and lower marketing, travel costs relative to fiscal 2020.

- Selling costs for the fourth quarter of fiscal 2021 were $74,505, up from $36,580 during the same quarter of fiscal 2020 and for the year ended September 30, 2021 were $227,947 little changed from $242,184 in fiscal 2020. Selling costs consist primarily of sales commissions of which a material lump sum amount pertaining to sales in a prior quarter was paid during Q4 of 2021.

- Product development costs for the fourth quarter of fiscal 2021 were $116,768 from $32,518 during the same quarter of fiscal 2020 and for the year ended September 30, 2021 were $534,862 up from $236,181 in fiscal 2020. The primary reason for the increase in development costs for the comparative periods was the accelerated development of the next generation of the SmartGATE Platform and additional feature sets.

- Professional fees for the fourth quarter of fiscal 2021 were $64,277 up from $505 in the same quarter of fiscal 2020 and for the year ended September 30, 2021 were $261,132 compared with $293,009 in fiscal 2020. Professional fees consist of legal fees, audit fees and tax preparation costs.

- 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 fourth quarter of fiscal 2021 was $189,970 up significantly from $116,133 in the same quarter of fiscal of 2020 and for the year ended September 30, 2021 were $754,827 up from $383,310 in fiscal 2020. The increase in both periods of fiscal 2021 was due to a larger number of options vesting compared to the comparative periods of fiscal 2020.

- Warranty provision for the fourth quarter of fiscal 2021 was a recovery of $126,435 compared with a charge of $125,060 in the same quarter of fiscal 2020 and for the year ended September 30, 2021 was a recovery of $45,778 compared a charge of $193,451 in fiscal 2020. 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. The estimates used by the Company to project the rate of future warranty occurrences was altered during Q4 of fiscal 2021 resulting in a lower projection of future warranty occurrences and a material recovery to warranty provision.

**Select Annual Information**

| (Cdn$, unless noted otherwise) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Revenue | 2,713,816 | 2,027,933 | 2,334,525 |
| Gross margin[1] | 571,251 | 497,969 | 970,548 |
| Operating loss | (4,041,549) | (4,793,475) | (5,380,865) |
| Net loss | (3,837,766) | (4,783,511) | (6,093,156) |
| Loss per share (basic and diluted) | (.04) | (.05) | (.06) |
| Total assets | 11,797,138 | 4,824,282 | 8,725,135 |
| Total long-term financial liabilities | 191,927 | 170,044 | - |
| Cash dividend | - | - | - |

### Quarterly Trends

(Cdn$, unless noted otherwise)

| | Fiscal 2020 | | | | Fiscal 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Revenue | 1,003,329 | 676,359 | 1,548 | 346,697 | 766,226 | 482,144 | 1,272,192 | 193,254 |
| Gross margin[1] | 214,100 | 216,565 | 1,548 | 65,756 | 202,046 | 88,520 | 345,583 | (64,898) |
| Operating expenses | 1,620,431 | 1,736,091 | 983,658 | 951,264 | 1,077,392 | 1,068,146 | 1,285,769 | 1,181,493 |
| Operating loss | (1,406,331) | (1,519,526) | (982,110) | (885,508) | (875,346) | (979,626) | (940,186) | (1,246,391) |
| Net loss | (1,482,198) | (1,516,627) | (1,015,242) | (769,444) | (873,792) | (982,829) | (946,616) | (1,034,529) |
| Loss per common share[2] | (.015) | (.015) | (.010) | (.010) | (.008) | (.010) | (.009) | (.010) |

[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 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 that are tied to changes in component pricing, technology, and product offering/design or write-downs. The negative margin realized during Q4 of fiscal 2021 was due in most part to a charge of $117,134 taken for obsolete and slow morning inventory attributable to components used to assemble earlier versions of SmartGATE. The decrease in gross margin experienced during Q2 of fiscal 2021 was due primarily to preferential pricing on sales of previous generation SmartGATE inventory and follow-on install costs related to installations realized in prior quarters. During Q1 and to a lesser extent Q2 of 2020, lower gross margins were the result of absorbing relatively higher 3rd party installation pricing.

Operating costs in Q1 and Q2 of 2020 were pre COVID-19. During Q3 and Q4 of 2020 and all of fiscal 2021 operating costs dropped significantly due to the Company's expense curtailment program in response to COVID-19.

## FINANCIAL CONDITION, CAPITAL RESOURCES AND OTHER DISCLOSURES

### Summary of Consolidated Statement of Cash Flows

| | Years ended September 30, | | |
|---|---|---|---|
| (Cdn$, unless noted otherwise) | 2021 | 2020 | Change |
| Cash used in operating activities | (2,565,457) | (3,353,876) | (24)% |
| Cash used in investing activities | (28,343) | (112,413) | (75)% |
| Cash provided by financing activities | 9,562,274 | 53,732 | 17696% |
| Net change in cash and cash equivalents | 6,968,474 | (3,412,557) | (304)% |

### Cash used in operating activities

During the year ended September 30, 2021, cash used in operating activities was $2,565,457 down significantly from $3,353,876 in fiscal 2020. The much lower use of cash in operations during fiscal 2021 was due primarily to a decrease in loss of approximately $950k.

### Cash used in investing activities

During the year ended September 30, 2021, cash used in investing activities was $28,343, compared with $112,413 in fiscal 2020. Cash used in fiscal 2021 was primarily for purchase of property, plant and equipment as well as costs associated applying for patents and trademarks. The decreased use of cash in investments during fiscal 2021 was due to higher capital expenditures in fiscal 2020 comprised of test equipment and new patents and trademarks.

### Cash provided by financing activities

During the year ended September 30, 2021, cash provided by financing activities was $9,562,274 compared with $53,732 during fiscal 2020. The increase was due primarily to proceeds received from the Company's bought deal public offering, and stock option exercises.

### Working Capital Items

| (Cdn$, unless noted otherwise) | As at September 30, 2021 | As at September 30, 2020 | Change |
|---|---:|---:|---:|
| Cash and cash equivalents | 9,287,141 | 2,286,005 | 306% |
| Trade and other receivables | 562,290 | 973,446 | (42)% |
| Due from customers on contract | 62,457 | 99,293 | (37)% |
| Prepaid expenses and deposits | 135,101 | 64,971 | 108% |
| Inventory | 1,274,263 | 1,198,284 | 6% |
| **Total current assets** | **11,321,252** | **4,621,999** | **145%** |
| Account payable | 634,655 | 365,800 | 73% |
| Accrued liabilities | 355,780 | 302,158 | 18% |
| Deferred revenue | 12,589 | - | - |
| Lease liability | 112,176 | 71,776 | 56% |
| Warranty provision | 58,563 | 117,892 | (50)% |
| **Total current liabilities** | **1,173,763** | **857,626** | **37%** |
| **Working capital** | **10,147,489** | **3,764,373** | **170%** |

### Liquidity and capital resources measures

As at September 30, 2021, the Company had cash and cash equivalents of $9,287,141 (September 30, 2020 - $2,286,005), total current assets of $11,321,252 (September 30, 2020 - $4,621,999) and current liabilities of $1,173,763 (September 30, 2020 - $857,626). As at September 30, 2021, the Company had working capital of $10,147,489 (September 30, 2020 - $3,764,373).

Based on working capital as at September 30, 2021 management believes the Company has sufficient working capital to continue business operations for a period in excess of 12 months. In the event that revenues increase or additional funding is realized, 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, 2021 was $562,290 down from $973,446 at September 30, 2020. 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 $62,457 at September 30, 2021 and $99,293 at September 30, 2020, 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 September 30, 2021 was $1,274,263, a slight increase from $1,198,284 at September 30, 2020. 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, 2021 were $634,655 and $355,780 respectively, compared with $365,800 and $302,158 at September 30, 2020. Trade payables and accrued liabilities tend to fluctuate with no particular pattern.

Current lease liability at September 30, 2021 was $112,176, compared with $71,776 at September 30, 2020. The increase is due to extension of the lease covering the Company's Vancouver office and a new car lease.

At September 30, 2021 the current portion of warranty provision was $58,563 compared with $117,892 at September 30, 2020.

**Contractual Obligations and Contingencies**

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, 2020 | Net issued (equity offering, grants, cancellation, exercises or forfeitures) | Number outstanding at September 30, 2021 | Net issued (grants, cancellations, exercises) | Number outstanding at December 21, 2021 |
|---|---|---|---|---|---|
| Shares[1] | 102,020,303 | 15,522,000 | 117,542,303 | - | 117,542,303 |
| Options | 7,361,668 | 836,478 | 8,198,146 | 360,000 | 8,558,146 |
| Warrants | - | 7,716,800 | 7,716,800 | - | 7,716,800 |

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

**Common shares**
During the year ended September 30, 2021, 13,800,000 shares were issued in connection with the Company's bough deal public offering and 1,722,000 shares were issued for stock options exercised.

**Incentive stock options**
During the year ended September 30, 2021, 3,257,544 stock options were granted, 1,722,000 were exercised, 141,666 expired, and 557,400 stock options were forfeited. Subsequent to September 30, 2021 and to the date of this report a total of 360,000 stock options were granted.

**Share purchase warrants**
During the year ended September 30, 2021, a total of 7,716,800 warrants were granted in connection with a bought deal public offering. 6,900,000 of the warrants were issued to subscribers of the offering and 816,800 were issued as brokers warrants for partial payment of underwriting fees associated with the offering.

**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 below are not the only ones related to the Company. There are additional risks and uncertainties that the Company does not presently know of or that the Company currently considers immaterial which may also impair the Company's business operations. If any of the following risks occur, the Company's business may be harmed, and its financial condition and results of operations may suffer significantly. An investment in the Company's shares is speculative and will be subject to certain material risks. Investors should not invest in securities of the Company unless they can afford to lose their entire investment.

***General Risks***

An investment in the shares is speculative and involves a high degree of risk due to the nature of the Company's business and the present stage of the Company's operations. The following risk factors, as well as risks not currently known to the Company, could materially adversely affect the Company's future business, operations and financial condition and could cause them to differ materially from the estimates described in forward-looking statements contained herein. Prospective investors should carefully consider the following risk factors along with the other matters set out herein.

An investment in the Company will be subject to certain material risks and investors should not invest in securities of the Company unless they can afford to lose their entire investment. A purchase of any of the securities of the Company involves a high degree of risk and should be undertaken only by purchasers whose financial resources are enough to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the securities of the Company should not constitute a major portion of an individual's investment portfolio and should only be made by persons who can afford a total loss of their investment. Prospective purchasers should evaluate carefully the following risk factors associated with an investment in the Company's securities prior to purchasing any of the securities.

***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 Annual Information Form, 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.

During the fiscal year ended September 30, 2020 and particularly during Q2 and Q3 the Company's sales were impacted by COVID-19 as existing sales cycles with and capital purchase commitments from our customers were often postponed. The ability to recognize revenue on previously booked sales was also delayed as in some instances, access to customer buildings became more challenging. Starting in fiscal Q4 and to the date of this Annual Information Form, sales have improved materially driven both by strong customer acceptance of the Company's newly introduced SmartGATE Insights Service, ESG trends, the beginning of the Biden Administration's term and its stance on the environment as well as public perception concerning the near-term end to the COVID-19 Pandemic.

***Uncertainty of Revenues***

Since the date of incorporation, the Company has had a history of losses, and while the Company does not expect such losses to continue, there can be no assurance that such losses will not continue.

***Negative Cash Flow from Operations***

The Company has negative operating cash flow. The Company cannot guarantee if it will have positive cash flow from operating activities in future periods. The Company cannot provide any assurance that it will achieve sufficient revenues to achieve or maintain profitability or positive cash flow from operating activities. If the Company does not achieve or maintain profitability or positive cash flow from operating activities, then there could be a material adverse effect on the Company's business, financial condition and results of operation and the Company may need to deploy a portion of its working capital to fund such negative operating cash flows or seek additional sources of funding, of which there is no assurance that any required funding will be obtained.

In the event that cash flow from operations do not adequately support the fixed costs of the Company, the Company will then be required to re-evaluate its planned expenditures, reallocate its total resources and may require future financings in such a manner as the Board of Directors and management deem to be in the Company's best interest. This may result in a substantial reduction of the scope of the Company's existing and planned operations. The presence of these conditions may indicate the existence of a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

***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***

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 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 success with commitments for SmartGATE Insights Service engagements and then ultimately with the ratio of the number of its SmartGATE Platforms that are sold for every SmartGATE Insights engagement completed. There is no guarantee that the market for the Company's products will develop, or that the Company will be successful in deploying its SmartGATE Platforms.

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

The market acceptance of SmartGATE Solutions in North America, outside of Ontario, remains to be proven and the Company's future growth will depend upon successful marketing of SmartGATE Insights and Platform. If the market targeted by the Company fails to develop, develops slower than expected, is successfully and significantly penetrated by competitors or if SmartGATE does not achieve broader 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***

At present, 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 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***

We are dependent on our suppliers, some of which are limited or single-source suppliers, and the inability of these suppliers to deliver necessary components of our products according to our schedule and at prices, quality levels and volumes acceptable to us, or our inability to efficiently manage these components, could have a material adverse effect on our financial condition and operating results

Our products contain numerous purchased parts which we source globally directly from suppliers, some of which are single-source suppliers, although we attempt to qualify and obtain components from multiple sources whenever feasible. Any significant increases in our production may require us to procure additional components in a short amount of time, and in the past we have also replaced certain suppliers because of their failure to provide components that met our quality control standards or our timing requirements. COVID-19 has had and in some cases is still having an impact on many of our suppliers. At this point the ultimate timing, and whether our suppliers' business and output will return to normal levels is unknown and uncertain. There is no assurance that we will be able to secure additional or alternate sources of supply for our components or develop our own replacements in a timely manner, if at all. If we encounter unexpected difficulties with key suppliers, and if we are unable to fill these needs from other suppliers, we could experience production delays and potential loss of access to important technology and parts for producing, servicing and supporting our products.

This limited, and in many cases single source, supply chain exposes us to multiple potential sources of delivery failure or component shortages for production of our products. Furthermore, unexpected changes in business conditions, materials pricing, labor issues, wars, governmental changes, and natural disasters could also affect our suppliers' ability to deliver components to us on a timely basis. The loss of any single or limited source supplier or the disruption in the supply of components from these suppliers could lead to product design changes and delays in product deliveries to our customers, which could hurt our relationships with our customers and result in negative publicity, damage to our brand and a material and adverse effect on our business, prospects, financial condition and operating results.

Changes in our supply chain may lead to an increased cost for our products. We have also experienced cost increases from certain suppliers in order to meet our quality targets and timelines as well as due to our design changes, and we may experience similar cost increases in the future. Certain suppliers have sought to renegotiate the terms of supply arrangements. Additionally, we are negotiating with existing suppliers for cost reductions and are seeking new and less expensive suppliers for certain parts. If we are unsuccessful in our efforts to control and reduce supplier costs, our operating results will suffer. In particular there is currently a shortage of semiconductor chip products and capacitors. Many suppliers are not able to fulfill orders on short notice resulting in long lead times for ordering these components, and often at higher price points.

***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 three and twelve months ended September 30, 2021 and 2020. 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**

The following amounts were incurred with respect to Key Management Personnel; being the Company's CEO and the CFO:

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Salaries and consulting fees to key management personnel | 494,125 | 413,250 |
| Share-based compensation | 215,797 | 98,262 |
| Car allowance | 7,200 | 4,800 |
| | 717,122 | 516,312 |

**Transactions with Other Related Parties**

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

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Share-based compensation | 171,704 | 70,908 |
| | 171,704 | 70,908 |

*[1] Jonathan Lansky was appointed director of the Company on October 8, 2019.*

At September 30, 2021, a total of $NIL (September 30, 2020 - $14,569) was due to related parties for consulting fees and expenses reimbursement.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

**Financial instruments**
The Company's financial instruments consist of cash and cash equivalents, trade receivables, due from customers on contract, accounts payable, accrued liabilities and payroll protection loan program. The carrying values of these financial instruments are not based on fair value but approximate their fair values because of their short-term nature. The PPP loan is classified at amortized cost and accounted for using the effective interest rate method. Its carrying value approximates fair value as the interest rate used to discount the instrument approximates incremental borrowing rates available to the Company.

**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, 2021 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 fiscal year ended September 30, 2021 by approximately $132,390 (year ended September 30, 2020 - $138,205).

**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 short term interest rates, which during the fiscal year ended September 30, 2021 averaged 0.64% (2020 – 1.68%). A 1% nominal change in interest rates would have affected the Company's results of operations for the the year ended September 30, 2021 by approximately $17,300 (2020 - $22,926). 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, 2021, trade receivables from two of our customers accounted for 11% and 79% respectively of the Company's trade receivables balance for a total 90% in aggregate. At September 30, 2020, trade receivables from four of our customers accounted for 11%, 12%, 16% and 33%, respectively of the Company's trade receivables balance for a total 72% in aggregate. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at September 30, 2021 (September 30, 2020 – nominal).

**Concentration risk**
Two customers accounted for 15%, and 57% of the Company's revenues for the year ended September 30, 2021 compared with 11%, 13% and 32% of the Company's revenues for the year ended September 30, 2020.

**Liquidity risk**

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at September 30, 2021 the Company had cash and cash equivalents of $9,287,141 (September 30, 2020 – $2,286,005) to settle its current liabilities of $1,173,763 (September 30, 2020 – $857,626). The following table summarizes the amount of contractual undiscounted future cash flow requirements as at September 30, 2021 and 2020:

| As at September 30, 2021 | Carrying amount | Contractual cash flows | Less than 1 year | 1 to 3 years |
|---|---|---|---|---|
| Account payable | 634,655 | 634,655 | 634,655 | - |
| Accrued liabilities | 355,780 | 355,780 | 355,780 | - |

| As at September 30, 2020 | Carrying amount | Contractual cash flows | Less than 1 year | 1 to 3 years |
|---|---|---|---|---|
| Account payable | 365,800 | 365,800 | 365,800 | - |
| Accrued liabilities | 302,158 | 302,158 | 302,158 | - |
| Payroll protection loan | 165,047 | 194,041 | - | 194,041 |

## 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, depreciation, accretion, non-cash stock-based compensation and foreign exchange gains and losses. 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, | | | Years ended September 30, | | |
|---|---|---|---|---|---|---|
| **(Cdn$, unless noted otherwise)** | **2021** | **2020** | **Change** | **2021** | **2020** | **Change** |
| Net loss | (1,034,529) | (769,444) | 34% | (3,837,766) | (4,783,511) | (20)% |
| Add/(deduct): | | | | | | |
| Intangible impairment | - | 7,934 | - | - | 7,934 | (100)% |
| Foreign exchange | (6,272) | (22,850) | (73)% | 28,048 | (22,071) | (227)% |
| Other income | (217,466) | (7,295) | 2881% | (226,899) | (52,385) | 333% |
| Amortization and depreciation | 44,079 | 106,029 | (58)% | 165,929 | 238,529 | (30)% |
| Share based compensation | 189,970 | 116,133 | 64% | 754,827 | 383,310 | 97% |
| **Adjusted EBITDA** | **(1,024,218)** | **(569,493)** | **80%** | **(3,115,861)** | **(4,228,194)** | **(26)%** |

## 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, 2021 and 2020

**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, December 21, 2021