

# **Legend Power Systems Inc.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended September 30, 2017 and 2016**

(Unaudited - Expressed in Canadian Dollars)

Dated January 23, 2018

### ABOUT THIS MD&A

This discussion and analysis of financial position and results of operation is prepared as at January 23, 2018, and should be read in conjunction with the consolidated financial statements and the accompanying notes for the years ended September 30, 2017 and 2016 of Legend Power Systems Inc. ("Legend" or the "Company"). 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 23, 2018.

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 approves the Financial Statements and MD&A and ensures that management has discharged its financial responsibilities. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing.

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

### CAUTION REGARDING FORWARD LOOKING STATEMENTS

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

### OUR BUSINESS

---

Legend Power Systems Inc. and its wholly owned subsidiaries, 0809882 B.C. Ltd. - (Canada), Legend Power Systems Corp. - (USA) and LPSI (Barbados) Limited - (Barbados), (collectively, the "Company" or "Legend") is an electrical energy conservation company that markets a patented device designed to provide energy savings through Conservation Voltage Reduction (CVR) to owners of commercial and industrial buildings. Most buildings on a power grid receive a higher electrical voltage than required 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. Voltage higher than a building's equipment specifications negatively impacts the lifespan of electrical equipment and unnecessarily increases power consumption. This results in higher monthly utility bills, premature equipment failure, and a larger than necessary environmental footprint for the affected building. Legend utilizes a proprietary and patented technology to apply the principles of CVR to a building in order to regulate its voltage and lower its total power consumption. By ensuring a consistent and optimized voltage level across

## Management's Discussion and Analysis

---

all loads, the Electrical Harmonizer helps its customers reduce their electricity bills and maintenance costs while increasing the life of their electrical equipment.

### Vision and Strategy

The Company's vision statement is - "To be recognized as a leading global supplier of innovative electrical energy conservation solutions". The Company's product, the Harmonizer, delivers 4% to 8% energy savings for buildings in North America, which is a proportionately significant reduction for companies with large format real estate such as property management companies, big box retail, office buildings, schools, hospitals, multi-unit residential, hotels, etc. The typical payback period on an average system 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 business plan is to leverage both direct and distribution sales channels to aggressively expand key recommender product adoption and market share in multiple geographic locations. Direct sales in the Province of Ontario is a notable revenue stream that additionally serves as a test bed for sales best practices and intelligence gathering. Expansion into the north eastern United States has begun with the establishment of a presence in New York City, which includes 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) local government incentives for customers to purchase Legend's technology; 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 current research and development program, now in prototype testing phase, is focused on the creation of a new architectural platform that will offer greater energy savings in all geographic territories and market verticals along with improved margins for the Company. Additionally, the next generation architecture will visually display energy usage data both in the electrical room environment and the decision maker's office to enable improved energy efficiency decisions.

## OVERALL PERFORMANCE

---

### For the fiscal year ended September 30, 2017

#### Summary

- 103% year over year revenue growth
- A record, 67 units sold during year
- Blended gross profit margin of 39%
- \$4.1 million proceeds received from warrant exercises
- Committed Orders<sup>1</sup> for 10 units as at September 30, 2017

<sup>1</sup> The Company is reporting Committed Orders, a non-IFRS measure, which is a supplementary indicator of sales activity. Committed Orders herein are tabulated as of the last day of the prior fiscal quarter. This measure is being presented based on the belief that it provides the reader a more complete and current understanding of the Company's sales activity.

## Management's Discussion and Analysis

---

During fiscal 2017 the Company's sales doubled to \$4.22 million, continuing the growth trend established over recent years. The Company has taken many positive steps forward over the last year, which have transitioned the Company from early stage into a full operating entity. We continue to be focused on and have made significant progress in several key areas of our future growth strategy, including (up to the date of this MD&A):

### USA Expansion

- Hired and trained three proven industry, business development professionals, including a senior sales executive previously with New York's biggest utility, ConEdison Power.
- Focused on contacting owner and key recommender markets and creating awareness and education of the Company's technology.
- Signed first distribution partner, to promote and sell Legend's proprietary Harmonizer voltage management technology, with the objective of building a network of knowledgeable, influential, and well-connected partners which is key to Legend's success in the US.

### Growing New Verticals in Ontario

- Expanded sales team to seven individuals and three outside active lead generation partners;
- Rebranded sales material, implemented CRM solution and generally instituted a more systematic approach to managing and cultivating our sales funnel;
- Received follow on orders in four different verticals during fiscal 2017.

### New Product Development

- Completed design and fabrication of key components for new generation of product which provides expanded capabilities for energy savings in voltage management;
- New product will move the value offering outside of the electrical room dramatically improving the ability to make data driven decisions around energy efficiency and power quality.

### Field Operations

- Further to the Company's strategy of seeking a more cost competitive solution for our installation services, we deployed an in-house installation team during Q1 2018 which we anticipate will result in improved margins on our installation revenue and is a solution scalable for continued growth and margin improvements.

### Working Capital

- As at September 30, 2017 the Company had working capital totaling \$4.1 million due in large part to warrant exercise proceeds received from our strong shareholder base. 100% of all warrants expiring in calendar 2017 were exercised for total proceeds of \$5.9 million.

### New Branding

- Designed and launched a new corporate brand to further build credibility in the marketplace;
- Refined and launched the Legend Story: who we are, what we do, and why people should care;
- Produced new brand sales literature and website to increase brand awareness and educate prospective customers on the value of Legend's unique product offering.

## Management's Discussion and Analysis

### RESULTS OF OPERATIONS

The Company both reports its financial results in and has determined its functional currency to be, the Canadian Dollar (Cdn\$).

#### Financial summary for the years ended September 30, 2017 and 2016

|                                 | Years ended September 30, |             |         |
|---------------------------------|---------------------------|-------------|---------|
| (Cdn\$, unless noted otherwise) | 2017                      | 2016        | Change  |
| Revenue                         | 4,228,756                 | 2,079,126   | 103.4%  |
| Cost of sales                   | 2,573,418                 | 1,448,896   | 77.6%   |
| Gross margin <sup>1</sup>       | 1,655,338                 | 630,230     | 162.7%  |
| Gross margin % <sup>1</sup>     | 39.1%                     | 30.3%       | 8.8%    |
| Operating expenses              | (3,522,947)               | (3,068,399) | 14.8%   |
| Adjusted EBITDA <sup>2</sup>    | (1,340,327)               | (1,835,420) | 27.0%   |
| Net (loss)                      | (1,846,687)               | (2,437,363) | (24.2)% |

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

<sup>2</sup> Adjusted EBITDA; for the years ended September 30, 2017 and 2016, we are disclosing Adjusted EBITDA, which is a non-IFRS financial measure, 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, as well as unusual non-operating items such as insurance settlement. Warranty expense is no longer included in the Adjusted EBITDA calculation, as such historical amounts have been updated.

#### Financial Summary for the three-month periods ended September 30, 2017 and 2016

|                                 | Three-months ended September 30, |           |         |
|---------------------------------|----------------------------------|-----------|---------|
| (Cdn\$, unless noted otherwise) | 2017                             | 2016      | Change  |
| Revenue                         | 1,065,714                        | 42,344    | 2,417%  |
| Cost of sales                   | 915,053                          | 214,787   | 326.0%  |
| Gross margin <sup>1</sup>       | 150,661                          | (172,443) | 187.4%  |
| Gross margin % <sup>1</sup>     | 14.1%                            | (407.2)%  | 421.4%  |
| Operating expenses              | (1,127,367)                      | (801,538) | 40.7%   |
| Adjusted EBITDA <sup>2</sup>    | (809,354)                        | (707,324) | (14.4)% |
| Net (loss)                      | (965,443)                        | (860,925) | 12.1%   |

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

<sup>2</sup> Adjusted EBITDA; for the three-month periods ended September 30, 2017 and 2016, we are disclosing Adjusted EBITDA, which is a non-IFRS financial measure, 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, as well as unusual non-operating items such as insurance settlement. Warranty expense is no longer included in the Adjusted EBITDA calculation, as such historical amounts have been updated.

## Management's Discussion and Analysis

---

Revenue for the fourth quarter of 2017 was \$1,065,714, up significantly from \$42,344 in the same period of fiscal 2016. Fiscal year 2017 revenue was \$4,228,756, up from \$2,079,126 in the same period of 2016. The significant increase in revenue in both comparative periods is attributable to increasing demand for the Company's product.

Gross blended margin in the fourth quarter 2017 was 14.1%, up from negative 407.2% in the same period of 2016. Fiscal year 2017 gross blended margin was 39.1%, up from 30.3% in 2016. The increase in blended gross margin for the three-month comparative periods is due primarily to a significant inventory adjustment recognized in Q4 2016, which negatively impacted cost of goods sold. The increase in gross blended margin for fiscal year 2017 over 2016 is due primarily to economies of scale achieved through higher volume of units sold and a comparatively stronger profit margin contribution from installation services. Management expects gross blended margin to continue to improve with volume, cost optimization, and a strengthened field operations team focused on profitability in our installation services business.

Operating expense in the fourth quarter 2017 was \$1,127,367 compared with \$801,538 in the same quarter of 2016. Fiscal year 2017 operating expense was \$3,522,947, up slightly from \$3,068,399 in 2016. The increases in both comparative periods is due primarily to increases in salaries and consulting fees and general and overhead costs associated with the Company's growth in the current year. Fifteen new individuals have been added to the Legend team since the beginning of our fiscal year.

Fourth quarter 2017 Adjusted EBITDA was negative \$809,354, a decline from negative \$707,324 in 2016. Fiscal year 2017 Adjusted EBITDA was negative \$1,340,327, an improvement over negative \$1,835,420 in 2016. The decline in quarter over quarter comparative periods is primarily attributable to higher operating costs experienced in Q4 2017. The Company was able to realize improved year over year results by achieving stronger sales and gross margins, which was offset slightly by higher operating expenses.

Net loss for the fourth quarter 2017 was \$965,443, up from \$860,925 in 2016 and fiscal year 2017 was \$1,846,687 down from \$2,437,363 in 2016.

### Operating Expenses and Other Items

|                                 | Three-months ended September 30, |                |              | Years ended September 30, |                  |              |
|---------------------------------|----------------------------------|----------------|--------------|---------------------------|------------------|--------------|
| (Cdn\$, unless noted otherwise) | 2017                             | 2016           | Change       | 2017                      | 2016             | Change       |
| Amortization and depreciation   | 11,227                           | 46,455         | (75.8)%      | 160,977                   | 187,622          | (14.2)%      |
| General and overhead            | 362,237                          | 135,933        | 166.5%       | 841,689                   | 576,523          | 46.0%        |
| Professional fees               | 25,362                           | 34,338         | (26.1)%      | 124,627                   | 99,610           | 25.1%        |
| Salaries and consulting fees    | 608,395                          | 469,238        | 29.7%        | 1,968,328                 | 1,698,547        | 15.9%        |
| Share-based compensation        | 156,125                          | 107,146        | 45.7%        | 366,305                   | 415,127          | (11.8)%      |
| Warranty expense                | (35,979)                         | (3,030)        | (1,087.4)%   | 61,021                    | 90,970           | (32.9)%      |
| <b>Total operating expenses</b> | <b>1,127,367</b>                 | <b>790,080</b> | <b>42.7%</b> | <b>3,522,947</b>          | <b>3,068,399</b> | <b>14.8%</b> |

Total operating expenses for the fourth quarter 2017 increased to \$1,127,367 up from \$790,080 in same period of 2016 and year to date was \$3,522,947 up from \$3,068,399 in 2016.

### Select expenses include:

- Amortization and depreciation costs for the fourth quarter of 2017 were \$11,227, down from \$46,455 in the same period of 2016 and fiscal year 2017 costs were \$160,977 down from \$187,622 in the same period of 2016. The slight decreases in both comparative periods are due to the fact that patent costs became fully amortized in Q4 of 2017 which was offset slightly by additional depreciation on recent equipment purchases.
- General and overhead costs for the fourth quarter 2017 were \$362,237, up from \$135,933 in the same period of 2016 and fiscal year 2017 costs were \$841,689 up from \$576,523 in the same period of 2016. The increase in costs for both comparative periods was due primarily to higher office related costs and growth in costs associated with sales and business development focused travel.
- Professional fees for the fourth quarter 2017 were \$25,362 down slightly from \$34,338 in the same period of 2016 and fiscal year 2017 costs were \$124,627 up from \$99,610 in the same period of 2016. The lower costs experienced in the quarter over quarter periods is due to lower legal fees in Q4. The increase in professional fees in fiscal year 2017 compared with the same period in 2016 are due to an increase in audit costs and legal fees for regulatory related filings.
- Salaries and consulting fees for the fourth quarter 2017 were \$608,395, up from \$469,238 in the same period of 2016 and fiscal year 2017 costs were \$1,968,328 up from \$1,698,547 in 2016. The increases are due to the addition of personnel in sales, marketing, field operations, production and engineering.
- Share-based compensation expense for the fourth quarter 2017 was \$156,125, up from \$107,146 in the same period of 2016 and fiscal year 2017 costs were \$366,305, down from \$415,127 in 2016. Share-based compensation expense is attributable to grants of incentive stock options to employees, officers, directors and consultants. Share based compensation is recognized and expensed in relation to the Fair Market Value and vesting periods associated with the options. Variation in both year over year periods is due to the timing of option grants and the number of vesting periods realized in each period.
- Warranty expense for the fourth quarter 2017 was negative \$35,979, compared with negative \$3,030 in the same period of 2016 and fiscal year 2017 was \$61,021, down from \$90,970 in 2016. The significant differences in both comparative periods is due to an adjustment in the estimates used by the Company to forecast warranty expense costs which is based on recent historical experience and expectations of future warranty claim activity.

## Quarterly Trends

(Cdn\$, unless noted otherwise)

|                                    | 2016      |           |           |           | 2017      |           |           |           |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                    | Q1        | Q2        | Q3        | Q4        | Q1        | Q2        | Q3        | Q4        |
| Revenue                            | 533,387   | 914,413   | 588,982   | 42,344    | 644,847   | 1,001,382 | 1,516,813 | 1,065,714 |
| Gross margin <sup>1</sup>          | 141,226   | 356,727   | 304,720   | (172,443) | 275,159   | 511,924   | 717,594   | 150,661   |
| Operating expenses                 | 671,597   | 716,024   | 879,240   | 790,080   | 748,947   | 760,122   | 886,511   | 1,127,367 |
| Loss before other items            | (530,371) | (359,297) | (574,520) | (668,784) | (473,788) | (248,198) | (168,917) | (976,706) |
| Net loss                           | (530,130) | (357,280) | (574,370) | (860,925) | (477,755) | (241,979) | (161,510) | (965,443) |
| Loss per common share <sup>2</sup> | (0.01)    | (0.006)   | (0.009)   | (0.015)   | (0.006)   | (0.003)   | (0.002)   | (0.012)   |

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

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

Our quarterly revenue, gross margin, loss before other items and net loss results, reflect significant variability, which management deems consistent with a technology company perfecting the execution of its business model. One source of variability has been a seasonal affect which in recent history has had a downward impact on revenue in fiscal Q4. We anticipate future quarterly fiscal results to demonstrate a more consistent trend for revenue, gross margin and eventually overall profitability.

Q4 2017 revenue was lower than Q3 due in most part to the seasonality effects associated with our top vertical. Gross margin was also generally lower during Q4 2017 due to adjustments applied to inventory which negatively impacted cost of goods sold; and a proportionately larger amount of lower margin install revenue recognized during the period.

Q3 2017 results showed solid improvement over Q2 2017 and were far superior in all respects to those of the six fiscal quarters up to Q1 2017, which was due to strong revenue growth combined with the Company's success in controlling operating expenses.

Q4 2016 revenue was significantly lower than the trend that had been established in prior quarters of 2016 which was due in part to sales traditionally being slower in Q4 and the fact that orders were received later during the quarter such that installations could not be completed and revenue recognized in the period.

Gross margin recorded in Q4 2016 was negatively impacted by an inventory write-down totaling \$179,081 and an accumulation of installation costs associated with several projects.

Operating expenses have been relatively stable between Q1 2016 and Q3 2017, which is due to management's careful allocation of working capital.



Select Annual Information

| (Cdn\$, unless noted otherwise)       | 2015        | 2016        | 2017        |
|---------------------------------------|-------------|-------------|-------------|
| Revenue                               | 202,944     | 2,079,126   | 4,228,756   |
| Gross margin <sup>1</sup>             | 50,738      | 630,230     | 1,655,338   |
| Loss before other items               | (2,874,456) | (2,438,169) | (1,867,609) |
| Net loss and comprehensive loss       | (2,876,517) | (2,437,363) | (1,846,687) |
| Loss per share (basic and diluted)    | (0.05)      | (0.04)      | (0.02)      |
| Total assets                          | 1,735,996   | 2,319,254   | 5,083,653   |
| Total long-term financial liabilities | -           | -           | -           |
| Cash dividend                         | -           | -           | -           |

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

FINANCIAL CONDITION, CAPITAL RESOURCES AND OTHER DISCLOSURES

Summary of Consolidated Statement of Cash Flows

|                                       | Years ended September 30 |                |                |
|---------------------------------------|--------------------------|----------------|----------------|
| (Cdn\$, unless noted otherwise)       | 2017                     | 2016           | Change         |
| Cash used in operating activities     | (3,850,276)              | (1,617,826)    | 138.0%         |
| Cash used in investing activities     | (189,441)                | (40,931)       | 362.8%         |
| Cash provided by financing activities | 4,067,297                | 2,255,188      | 80.4%          |
| <b>Total change in cash</b>           | <b>27,580</b>            | <b>596,431</b> | <b>(95.4)%</b> |

**Cash used in operating activities**

During the year ended September 30, 2017, cash used in operating activities was \$3,850,276, up significantly from \$1,617,826 from the same period in 2016. The increase is due primarily to a significant investment in inventory in 2017 which contributed \$549,164 of the year over year increase in cash used as well as net change in accounts receivable of \$1,859,254 which increases were offset slightly by a smaller net loss for the year, which was \$590,676 lower than in 2016.

**Cash used in investing activities**

During the year ended September 30, 2017, cash used for investing activities was \$189,441, up significantly from \$40,931 in the same period of 2016. The increase is due to product development costs for the Company's next generation Harmonizer and furniture and electronic equipment purchases.

### Cash provided by financing activities

During the year ended September 30, 2017, cash provided from financing activities at \$4.07 million, entirely the result of warrant exercise proceeds, was up from \$2.26 million in 2016. The increase of \$1.8 million relates to significant proceeds from the exercise warrants in 2017, compared with a lower dollar amount of warrant exercises in 2016 and an equity private placement for net proceeds of \$1.63 million.

### Working Capital Items

| (Cdn\$, unless noted otherwise)  | at September 30,<br>2017 | at September 30,<br>2016 | Change  |
|----------------------------------|--------------------------|--------------------------|---------|
| Cash                             | 1,160,127                | 1,132,547                | 2.4%    |
| Accounts receivable              | 2,637,092                | 504,624                  | 422.6%  |
| Inventory                        | 1,010,276                | 469,666                  | 115.1%  |
| Prepays                          | 84,693                   | 49,416                   | 71.4%   |
| <b>Total current assets</b>      | <b>4,892,188</b>         | <b>2,156,253</b>         | 126.9%  |
| Trade payables                   | 592,760                  | 401,670                  | 47.6%   |
| Accrued Liabilities              | 184,942                  | 221,779                  | (16.6)% |
| <b>Total current liabilities</b> | <b>777,702</b>           | <b>623,449</b>           | 24.7%   |
| <b>Working capital</b>           | <b>4,114,486</b>         | <b>1,532,804</b>         | 168.4%  |

### Liquidity and capital resources measures

As at September 30, 2017, the Company had cash of \$1,160,127 (September 30, 2016 - \$1,132,547), total current assets of \$4,892,188 (September 30, 2016 - \$2,156,253) and current liabilities of \$777,702 (September 30, 2016 - \$623,449). As at September 30, 2017, the Company had working capital of \$4,114,486 (September 30, 2016 - \$1,532,804) an increase of 2,581,682. The increase in working capital is due to proceeds received by the Company from warrant exercises, offset primarily by cash used in operating activities.

Based on working capital as at September 30, 2017, estimated cash 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.

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.

### Accounts Receivable

Accounts receivable at September 30, 2017 was \$2,637,092 compared with \$504,624 at September 30, 2016, an increase of \$2,132,468. The increase was due primarily to sales volume late in Q4 2017 compared with that in Q4 2016.

### Inventory

At September 30, 2017 inventory was \$1,010,276 compared with \$469,666 at September 30, 2016 an increase of \$540,610. The increase in inventory is partially due to the need to carry sufficient materials to meet significantly higher unit sales in 2017 and the Company strategy to advance purchase sufficient materials to fulfill at least 3-months of growing projected orders, particularly those parts with long lead times for delivery.

## Management's Discussion and Analysis

---

The Company's ability to fulfill customer orders on a timely basis is dependent on carrying an inventory of various components. Management has deemed certain of these components as strategically important and will purchase them in advance of specific customer orders requiring their use to address product lead time building of stock systems for rapid delivery or, either because they require several weeks for delivery to us or a specialty item available only from a limited supplier base.

### Current Liabilities

Trade payables and accrued liabilities at September 30, 2017 were \$592,760 and \$184,942 respectively, compared with \$401,670 and \$221,779 at September 30, 2016.

### Contractual Obligations and Commitments

On February 9, 2016 the Company entered into an agreement to lease premises in Vancouver, B.C. which requires the following payments in each of the below fiscal periods:

|      |           |
|------|-----------|
| 2018 | \$125,240 |
| 2019 | \$128,580 |
| 2020 | \$131,920 |

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

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

### Proposed Transactions

None.

### Outstanding Share Data

| Class of Security   | Number outstanding at September 30, 2016 | Net issued (grants, cancellations, exercises) | Number outstanding at September 30, 2017 | Net issued (grants, cancellations, exercises) | Number outstanding at January 23, 2018 |
|---------------------|------------------------------------------|-----------------------------------------------|------------------------------------------|-----------------------------------------------|----------------------------------------|
| Shares <sup>1</sup> | 70,443,946                               | 12,342,312                                    | 82,786,258                               | 4,512,212                                     | 87,298,470                             |
| Options             | 6,064,496                                | 2,195,000                                     | 8,259,496                                | 152,170                                       | 8,411,666                              |
| Warrants            | 16,806,694                               | (12,342,312)                                  | 4,464,382                                | (4,464,382)                                   | -                                      |

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

### Incentive stock options

During the year ended September 30, 2017, the Company: granted 2,825,000 stock options with a weighted average exercise price of \$0.30 each; 446,667 unvested stock options were forfeited by employees when their employment ended; and 183,333 stock options expired unexercised. Subsequent to September 30, 2017 the Company granted 200,000 stock options with an exercise price of \$0.75.

### Warrant exercises

During the year ended September 30, 2017, 12,342,312 warrants with a weighted average exercise price of \$0.33 each, were exercised for total proceeds of \$4,067,297. Subsequent to September 30, 2017, 4,464,382 warrants with an exercise price of \$0.40 were exercised for total proceeds of \$1,785,753.

### **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***

The Company was founded in 2001 as a research & development company. Until 2011 the Company was in field trials with different products. 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 Electrical Harmonizer 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.

### ***One Product Company***

The success of the Company will be largely dependent upon sales of its Electrical Harmonizer, 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 Electrical Harmonizer in North America, outside of Ontario, remains to be proven and the Company's future growth will depend upon successful marketing of the Electrical Harmonizer. If the market targeted by the Company fails to develop, develops slower than expected, is successfully and significantly penetrated by competitors or if

## Management's Discussion and Analysis

---

the Electrical Harmonizer 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 Electrical Harmonizer is the only technology of its kind in North America and the Company holds patents on the technology in five countries. 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 none of them have all of the capabilities and features of the Electrical Harmonizer. 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***

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 in significant part 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

## Management's Discussion and Analysis

---

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. Electrical Harmonizer installations are done partly by the Company's employees and partly by local qualified electrical contractors. The ability to install the Electrical Harmonizer 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 Electrical Harmonizer, 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.

### ***Rapid 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

## Management's Discussion and Analysis

---

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.

### **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 years ended 2017 and 2016. 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, 2017 and 2016, the following amounts were incurred with respect to the Company's CEO (Mr. Randy Buchamer), the CFO (Mr. Steve Vanry) and ex-CFO (Mr. Shabir Dhanani):

|                                         | Years ended September 30 |                |
|-----------------------------------------|--------------------------|----------------|
| (Cdn\$, unless noted otherwise)         | 2017                     | 2016           |
| Salaries – R. Buchamer                  | 201,042                  | 200,000        |
| Consulting fees – S. Vanry <sup>1</sup> | 138,048                  | 66,035         |
| Salaries – S. Dhanani <sup>2</sup>      | -                        | 25,500         |
| Share based compensation – R. Buchamer  | 136,592                  | 201,234        |
| Share based compensation – S. Vanry     | 25,677                   | 28,356         |
| Share based compensation – S. Dhanani   | -                        | 1,150          |
| <b>Total</b>                            | <b>501,359</b>           | <b>522,275</b> |

<sup>1</sup> S. Vanry began working for the Company as CFO on a part-time basis in January 2016.

<sup>2</sup> S. Dhanani resigned as CFO in February 2016, but remains as full-time Controller.

### Transactions with Other Related Parties

During the years ended September 30, 2017 and 2016, the following amounts were incurred with respect to the Company's non-executive directors (Messrs. Michael Atkinson, Jamie Blundell, Michael Harcourt, Matt Walker and Dave Guebert):

|                                        | Years ended September 30 |               |
|----------------------------------------|--------------------------|---------------|
| (Cdn\$, unless noted otherwise)        | 2017                     | 2016          |
| Share based compensation – M. Atkinson | 29,032                   | 36,401        |
| Share based compensation – J. Blundell | 9,845                    | 9,710         |
| Share based compensation – M. Harcourt | 7,437                    | 8,056         |
| Share based compensation – M. Walker   | 7,773                    | 9,710         |
| Share based compensation – D. Guebert  | 18,482                   | 11,419        |
| <b>Total</b>                           | <b>72,569</b>            | <b>75,296</b> |



### NEW ACCOUNTING STANDARDS NOT YET ADOPTED

---

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

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

### FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

---

#### ***Financial risk management objectives and policies***

The Company's financial instruments include cash, receivables, accounts payables, accrued liabilities, and finance fee payable. The risks associated with these financial instruments and the policies regarding their management are discussed below. Management monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

#### ***Foreign currency risk***

The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

At September 30, 2017 the Company has no significant foreign currency denominated financial liabilities, and did not hold any significant foreign currency denominated financial assets.

#### ***Interest rate risk***

The Company is not exposed to significant interest rate risk.

#### ***Credit risk***

Credit risk is the risk of an unexpected loss if the counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is believed to be minimal as cash is on deposit with Canadian and foreign banks that are believed to be creditworthy. Receivables are comprised primarily of amounts due from various customers. The Company does not believe it is exposed to significant concentration of credit risk. At September 30, 2017 receivables from 3 customers accounted for 10.9%, 13.1%, and 16.4%, respectively of the Company's receivable balance for a total of 40.4% in aggregate.

#### ***Liquidity risk***

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities.

## Management's Discussion and Analysis

---

### OTHER MD&A REQUIREMENTS

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

- SEDAR at [www.sedar.com](http://www.sedar.com);
- the Company's website at [www.legendpower.com](http://www.legendpower.com);
- the Company's financial statements for the years ended September 30, 2017 and 2016.

### 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 23, 2018