

# Legend Power Systems Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS Three and nine months ended June 30, 2023 and 2022

(Expressed in Canadian Dollars)

August 25, 2023



**Management's Discussion and Analysis**  
**For the three and nine months ended June 30, 2023 and 2022**  
**Dated August 25, 2023**



## ABOUT THIS MD&A

This discussion and analysis of financial position and results of operation of Legend Power Systems Inc. ("Legend" or the "Company"), is prepared as at August 25, 2023, and should be read in conjunction with the Company's condensed interim consolidated financial statements for the three and nine months ended June 30, 2023 and 2022 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 August 25, 2023.

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

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

## CAUTION REGARDING FORWARD LOOKING STATEMENTS

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

## 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. This less-than-optimal power wastes energy and decreases the reliability and lifetime of critical building systems resulting in

higher expenses and greenhouse gas (“GHG”) emissions for building owners and operators. 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 countermeasure to mitigate the challenges of line-loss across a feeder length and the variable nature of power supply and demand. That variability is further exacerbated by the inconsistent production and availability of renewable energy sources added to the electric 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 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 power quality issues today, while being flexible to address growing issues projected for the future. 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 Active Power Management is a grid interactive technology platform that 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 captures constant, real-time data flow on up to 200 parameters aggregated every minute and made available 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 scorecard of relative building health and impact of adverse power conditions, 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 recently announced version of SmartGATE Platform has 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 issues more effectively than anything management has seen in the marketplace to date. Its modular design enables it to address issues today, while being scalable to address energy management issues of tomorrow.

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. 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. The 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 in 2021 and is actively working with a number of ESCOs on bids for multiple customers every quarter.

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

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 have developed relationships that actively endorse the product's performance, 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 value 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.

#### **U.S. Agencies' SmartGATE Validation Strategy**

The United States General Services Administration ("GSA") Green Proving Ground program selected eight product technologies out of over 500 applicants to evaluate as part of the 2022 program, including the SmartGATE Systems technology offered by Legend Power Systems. Under the program, GSA will work with the U.S. Department of Energy's Oak Ridge National Laboratory to validate the technology and conduct measurement and verification to form broad deployment strategies. Oak Ridge Labs is widely recognized for its technical leadership and expertise in building level energy efficiency.

The program aims to drive down GHG emissions, operational costs, stabilize the incoming power in federal buildings and help lead market transformation through the deployment of new technologies. GSA operates approximately 1,800 federally owned buildings. Two initial sites have been selected and installations are expected in late 2023.

Legend Power Systems' SmartGATE technology was also selected for the City of New York's Department of Citywide Administrative Service's IDEA program, which is similar to the GSA Green Proving Ground program. The City of New York recently announced a [\\$4 billion plan to convert New York City Schools to all electric power](#). The City of New York Public Schools operates over 1,700 schools, as well as all public buildings in the city, and completion of the IDEA SmartGATE evaluation comes just in time to enable Legend Power Systems SmartGATE Active Power Management to play a significant role in this massive effort. The City of New York is working to develop a standard Active Power Management Specification for inclusion in building electrification efforts. Additionally, Legend Power Systems is meeting with the City of New York Electrical Design firms to ensure best practices for Active Power Management are properly incorporated into the City New Build and Renovation projects.

#### **North American Commercial Real Estate Progress**

Legend Power Systems SmartGATE is deployed in several key Commercial Real Estate verticals such as Multi-family Residential, Hospitality, Big Box Retail and Commercial Office, accounting for roughly 50% of installed SmartGATE's.

Additionally, Legend Power Systems is engaged in active sales processes with several of the top firms in the Commercial Real Estate space, with over 110 buildings in active sales cycles for 300 plus potential SmartGATE's.

### **Operational Strategies**

The Company continues to evaluate recurring revenue opportunities and has implemented maintenance programs, feature enhancements and project management offerings, from which the Company is now seeing revenues.

Legend has initiated a transformation of its business management systems with the objective of streamlining Company processes to improve efficiency and effectiveness. Coupled with long-term planning and growth strategies, Legend will scale to meet increasing demand knowing it's replicating best practices. This Continuous Improvement initiative involves all functions within the company, and addresses business, customer, partner and employee needs now and in the future.

### INDUSTRY AND CORPORATE UPDATE

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

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

According to the U.S. Energy Information Administration ("EIA"), in 2022 about 93%<sup>1</sup> (4,562 trillion Btus) of the primary energy consumed by America's commercial buildings was generated from fossil fuels. Total fossil fuel consumption in the U.S. was 79.046 quadrillion Btus<sup>2</sup> during the same period, meaning that the commercial sector accounted for about 5.8% 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. 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. Furthermore, New York State in 2019 enacted the [Climate Leadership and Community Protection Act](#) which requires 70% of the state's electricity will be generated by renewable energy by 2030. As a major strategy to this end, the state is doubling wind and solar generation every year and is expected to be over 25% wind and solar by 2025. This proliferation of low inertia energy will further increase the need for solutions like the industry leading SmartGATE.

Energy efficiency and decarbonization action extends beyond governments. We've seen continued 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.

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<sup>1</sup> [Commercial Energy Sector Consumption](#), EIA

<sup>2</sup> [April 2023 Monthly Energy Review](#), EIA

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- [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.
- [The Inflation Reduction Act](#) allocated US\$369 billion towards energy security and climate change initiatives as well as generous tax credits for renewable energy generation.

Decarbonization of the commercial building sector and power grid infrastructure investments to connect to renewable projects will require three macro changes:

- An increase in renewable 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.

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 its 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 due to lower grid inertia created by low inertia sources like wind and solar. The reliability and quality of power is expected to decline as renewable generation proliferates. 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. The US\$65 billion allocated by the [Bipartisan Infrastructure Law](#) towards clean energy transmission infrastructure will likely compound these issues as more utility-scale renewable energy sources are connected. 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 building's 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

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across 38 power quality parameters, and SmartGATE platform, 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 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 continues to expand the New York market and building relationships with the key market participants, including the building owners, utilities, and ESCOs in the regions. During Q2 of fiscal 2022, the Company commenced a pilot program with a municipality that has an annual US\$750 million budget dedicated towards energy saving solutions.

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

### **Quarterly Update**

During Q3 of fiscal 2023, the Company continued working with the U.S. General Services Administration ("GSA") Regional Green Proving Ground program, where SmartGATE systems will be evaluated. The Company's SmartGATE systems will aid in the development of specifications and standards for GSA's 1,800 federally owned buildings. The deployment and evaluation schedule is well under way, with plans to build and ship the first system in September of 2023, followed by a second system shortly after.

Previously the Company published performance results of the first round of Gen3 SmartGATE platforms. These results included a 20% increase in energy savings performance over prior generations as well as elimination of over 99% of incoming grid fluctuations. Several customers have reported that the maintenance and repair savings are outpacing energy savings, in many cases resulting in \$2 of maintenance savings for every \$1 of energy savings. These performance results continue along with recent deployments to drive meaningful conversations with partners and customers and have been helpful in influencing decision makers toward adopting Legend's products. This is true for both late stage deals as well as new opportunities.

Sales activity is continuing at a strong pace, and customers are engaging with deep and wide interest. We currently have new late-stage large deals with very strong financial viability. The new late-stage deals are in commercial office, multifamily residential and ESCOs. The strength in viability is driven mainly by customers articulating power quality concerns and higher visible costs. The handful of late stage deals could bring over \$10 million in new potential bookings near term with long term total pipeline north of \$100 million. Partner sales efforts also continue to grow in volume, dollars and strength.

The Company's channel sales team has grown reseller and ESCO relationships, furthering adoption of both Insights, Power Impact Reports and SmartGATE solutions. Target markets and reseller channels continue to respond positively to Legend's

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solutions and combined opportunities. As of the date of this MD&A, the Company is engaged with more than 50 organizations interested in becoming Legend selling partners in the U.S. and Canada. The channel sales team continued development of partner support tools for the partner portal including marketing support, sales support, technical support, and deal registration.

In Q3, strategic direct sales efforts continue to grow with system bookings and new sales opportunities pipeline. The current sales booking pipeline is healthy and in-line to support booking target expectations. Continued progress on installation of Gen3 SmartGATE and positive Measurement and Verification Reports is expected to enable booking growth to expand in fiscal 2023.

The Company continues to focus on closing large deals in the pipeline, and in support of both future and current partners, the Company continues to invest in additional Gen3 SmartGATE software features. All materials have been secured for the current backlog and the production schedule reflects delivery of most systems in 2023. This production will consume inventories of more than \$500k CAD. Overall, the Company has realized a product COGS reduction of 5% since the peak in June, 2023.

Preparation efforts continue for scaling production to handle increasing demand. Both local and international contractors have provided sub-assembly outsourcing proposals, and internally, plans have been established for increased product assembly and test capacity. Manufacturing Engineering and Production staff are undergoing reviews of existing procedures, documentation, and data collection requirements to further streamline production and error-proof the process. Significant improvements have been realized in material requirements planning, inventory management and production planning tools and processes. The Company continues to evaluate an application to improve business intelligence and procurement decision-making, including supplier managed inventories and safety stock requirements. This tool has already helped to reduce workload dramatically as we are no longer generating reports manually. Safety stocks have been sized and plans to implement are being reviewed. Progress continues toward meeting all our operational goals by way of a suite of Company KPI's. Our third quarterly Operation Review Meeting has held in June resulting in a 52% improvement on our overall Company dashboard. As well, On-time delivery improved to 100% over 4 systems shipped due to improved controls, planning and process management.

The Engineering team continues to work on the system's commands and operating functionality in support of existing customers and for system evaluations to be conducted by GSA. Features currently in development will be released to production over the coming months. In addition, the engineering department continues work on cost reduction strategies including identifying alternative suppliers and design optimization. We are taking advantage of the recently installed in-house Gen3 test platform to ensure a 100% quality of all code produced.

Legend's business objective is to support growing customer demand for grid volatility management and their electrification, decarbonization, ESG and associated financial objectives. Legend intends to use funds made available from a recent financial offering for on-going operational, material, capacity and resource expense associated with our growth trajectory. The funds required are based on our current budget and 3-year forecast.

In response to the increase in costs and on-going logistic disruptions, the Company increased selling prices last year, which are being realized in new sales. Management continues to monitor cash and cost-cutting opportunities closely to reduce overall expenditures.

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**FINANCIAL RESULTS**

**Financial summary for the three and nine months ended June 30, 2023 and 2022**

(Cdn\$, unless noted otherwise)	Three months ended June 30			Nine months ended June 30		
	2023	2022	Change	2023	2022	Change
Revenue	470,310	1,026,412	(54)%	946,979	1,539,205	(38)%
Cost of sales	366,307	977,765	(63)%	747,124	1,395,749	(46)%
Gross margin <sup>1</sup>	104,003	48,647	114%	199,855	143,456	39%
Gross margin % <sup>1</sup>	22%	5%	367%	21%	9%	126%
Operating expenses	1,128,015	1,542,575	(27)%	3,429,420	4,398,528	(22)%
Adjusted EBITDA <sup>2</sup>	(883,821)	(1,237,352)	(33)%	(2,769,341)	(3,560,766)	(22)%
Net loss	(1,018,568)	(1,492,181)	(32)%	(3,212,173)	(4,201,931)	(24)%

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

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

Revenue for the three months ended June 30, 2023, was \$470,310, compared with \$1,026,412 in the same quarter of fiscal 2022. The lower revenue during Q3 of fiscal 2023 was primarily due to a timing issue. Supply chain challenges, resulted in delayed product deliveries to customers, which has pushed the deliveries.

Gross margin in the third quarter of fiscal 2023 was 22%, compared with 5% in same quarter of fiscal 2022. The increase in gross margin experienced during Q3 of fiscal 2023 was due to an increase in average selling price of SmartGATE units as well as an inventory provision that was recognized in Q3 of fiscal 2022.

The Company's operating expenses for the third quarter of fiscal 2023 were \$1,128,015, down from \$1,542,575 in the same quarter of fiscal 2022. The primary cause for the decrease was lower salaries and consulting costs as a result of internal cost-cutting measures.

Adjusted EBITDA for the third quarter of fiscal 2023 was negative \$883,821, compared with negative \$1,237,352 in same quarter of fiscal 2022.

Net loss for the third quarter of fiscal 2023 was \$1,018,568, compared with a net loss of \$1,492,181 in the same quarter of fiscal 2022. A decreased operating expense in Q3 of fiscal 2023 compared with the same quarter of fiscal 2022 resulted in a lower net loss.

**Significant Operating Expenses**

(Cdn\$, unless noted otherwise)	Three months ended June 30			Nine months ended June 30		
	2023	2022	Change	2023	2022	Change
Salaries and consulting	679,225	837,189	(19)%	2,052,642	2,637,651	(22)%
General and administrative	136,372	142,170	(4)%	427,510	445,250	(4)%
Selling costs	11,448	124,489	(91)%	61,357	312,148	(80)%

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Product development	103,916	136,154	(24)%	273,323	347,747	(21)%
Professional fees	46,631	34,637	35%	141,645	118,555	19%
Share-based compensation	78,742	154,398	(49)%	270,433	412,427	(34)%
Amortization and depreciation	63,935	49,014	30%	198,414	131,932	50%
Warranty (recovery) expense	7,339	10,121	(27)%	2,209	(115,883)	(102)%

- Salaries and consulting fees for the third quarter of fiscal 2023 of \$679,225, down significantly from \$837,189 during the same quarter of fiscal 2022. The decrease in Q3 of fiscal 2023 was due to internal cost cutting measures.
- General and administrative costs for the third quarter of fiscal 2023 were \$136,372, a nominal decrease from \$142,170 during the same quarter of fiscal 2022. The Company continues to monitor all costs closely.
- Selling costs for the third quarter of fiscal 2023 were \$11,448, down from \$124,489 during the same quarter of fiscal 2022. In the second quarter of fiscal 2022, the Company invested in a New York city based proof of concept opportunity.
- Product development costs for the third quarter of fiscal 2023 were \$103,916, down from \$136,154 during the same quarter of fiscal 2022. The engineering team continues to work on systems' remote commands functionality which allows the Company to communicate remotely with the Gen3 SmartGATE units in the field.
- Professional fees for the third quarter of fiscal 2023 were \$46,631, up from \$34,637 in the same quarter of fiscal 2022. The increase in Q3 of fiscal 2023 was due to increase in expected audit and tax preparation fees.
- 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 years' grants. This expense for the third quarter of fiscal 2023 was \$78,742, compared to \$154,398 in the same quarter of fiscal 2022. The decrease in Q3 of fiscal 2023 was due to a lower number of options vesting during the period compared to the same quarter of fiscal 2022.
- Amortization and depreciation costs for the third quarter of fiscal 2023 were \$63,935, up from \$49,014 in the same quarter of fiscal 2022. The increase in Q3 of fiscal 2023 was due to additional SmartGATE Insights manufactured and deployed in the field.
- Warranty expense for the third quarter of fiscal 2023 was \$7,339, compared to \$10,121 in the same quarter of fiscal 2022. The Company currently provides a 3-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 components 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.

**Quarterly Trends**

(Cdn\$, unless noted otherwise)

	Fiscal 2021	Fiscal 2022				Fiscal 2023		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	193,254	169,220	343,573	1,026,412	578,828	402,663	74,006	470,310
Gross margin <sup>1</sup>	(64,898)	37,248	57,561	48,647	60,897	100,711	(4,859)	104,003

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Operating expenses	1,181,493	1,319,476	1,536,477	1,542,575	1,172,330	1,112,996	1,188,409	1,128,015
Operating loss	(1,246,391)	(1,282,228)	(1,478,916)	(1,493,928)	(1,111,433)	(1,012,285)	(1,193,268)	(1,024,012)
Net loss	(1,034,529)	(1,229,961)	(1,479,789)	(1,492,181)	(1,144,240)	(1,005,514)	(1,188,091)	(1,018,568)
Loss per common share <sup>2</sup>	(.010)	(.011)	(.012)	(.013)	(.010)	(.009)	(.010)	(.009)

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

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

Our quarterly revenues do 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. Historically, this unevenness in revenue has been seasonal and most pronounced during the Company's third quarter.

Our gross margin on a quarterly basis is variable and reflects the mix of product versus installation revenue and any inventory adjustments that are tied to changes in component pricing, technology, and product offering/design or write-downs. The negative margins in Q4 of fiscal 2021 were due in most part to a charge of \$117,134 taken for obsolete and slow moving inventory attributable to components used to assemble earlier versions of SmartGATE. During Q2 of fiscal 2023, the negative gross margins were the result of additional costs incurred to replace and repair a unit damaged in-transit. The Company expects to recover the majority of these costs incurred in the following months. The Company continues to work diligently in sourcing lower cost alternatives to components and improving the efficiency in producing the new Gen3 units.

From Q4 of fiscal 2021 through to Q3 of fiscal 2022, operating expenses increased due to the fact that internal cost cutting measures and COVID-19 government subsidies had ended. A decrease in operating costs in Q4 of fiscal 2022 through to Q3 of fiscal 2023 were due to managements' efforts, and these savings have been recognized into fiscal 2023.

**FINANCIAL CONDITION, CAPITAL RESOURCES AND OTHER DISCLOSURES**

**Summary of Consolidated Statement of Cash Flows**

(Cdn\$, unless noted otherwise)	Nine months ended June 30		
	2023	2022	Change
Cash used in operating activities	(2,434,353)	(4,511,888)	(46)%
Cash used in investing activities	-	(62,808)	(100)%
Cash used in financing activities	(128,458)	(118,263)	9%
Net change in cash and cash equivalents	(2,562,811)	(4,692,959)	(45)%

**Cash used in operating activities**

During fiscal 2023, cash used in operating activities was \$2,434,343, down significantly from \$4,511,888 in the same period of fiscal 2022. The decreased use of cash in operations was due primarily to a decrease in net loss of approximately \$1,000,000 combined with an inflow of cash from receivables, prepaids and deposits, due from customers on contract and deferred revenue and a decrease in cash used to settle accounts payable and accrued liabilities.

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**Cash used in investing activities**

During fiscal 2023, cash used in investing activities was \$nil, compared with cash used for investing activities of \$62,808 in the same period of fiscal 2022.

**Cash provided by financing activities**

During fiscal 2023, cash used in financing activities was \$128,458 compared with \$118,263 during the same period of fiscal 2022. Total repayment of lease obligations during the comparative periods was similar.

**Working Capital Items**

(Cdn\$, unless noted otherwise)	As at June 30, 2023	As at September 30, 2022	Change
Cash and cash equivalents	522,049	3,085,986	(83)%
Trade receivables	597,702	716,146	(17)%
Due from customers on contract	61,084	206,311	(70)%
Prepaid expenses and deposits	139,639	329,050	(58)%
Inventory	1,822,495	1,589,593	15%
<b>Total current assets</b>	<b>3,142,969</b>	<b>5,927,086</b>	<b>(47)%</b>
Account payable	210,270	212,928	(1)%
Accrued liabilities	315,310	345,041	(9)%
Deferred revenue	210,827	30,699	587%
Lease liability	118,349	125,620	(6)%
Warranty provision	60,067	69,313	(13)%
<b>Total current liabilities</b>	<b>914,823</b>	<b>783,601</b>	<b>17%</b>
<b>Working capital</b>	<b>2,228,146</b>	<b>5,143,485</b>	<b>(57)%</b>

**Liquidity and capital resources measures**

As at June 30, 2023, the Company had cash and cash equivalents of \$522,049 (September 30, 2022 - \$3,085,986), total current assets of \$3,142,969 (September 30, 2022 - \$5,927,086) and current liabilities of \$914,823 (September 30, 2022 - \$783,601). As at June 30, 2023, the Company had working capital of \$2,228,146 (September 30, 2022 - \$5,143,485).

Based on working capital as at June 30, 2023, the Company will need to raise additional capital in order to fund its planned operations and meet its obligations. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so on terms favorable for the Company. 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.

Subsequent to June 30, 2023, the Company completed a non-brokered private placement by issuing a total of 14,117,113 units, for gross proceeds of \$2,541,080. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$0.25 at any time up to 24 months following the closing date of the offering. The Company incurred a total of \$27,200 share issuance costs. The warrant is subject to an accelerated expiry provision, whereby in the event the daily volume weighted

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average trading price of the Company's Shares on the TSX Venture Exchange, or such other stock exchange where the majority of the trading volume occurs, exceeds \$0.40 for a period of 10 consecutive trading days, at the Company's election, the period within which the Warrants are exercisable, will be reduced and the holders of the Warrants will be entitled to exercise their Warrants for a period of 30 days commencing on the day the Company provides notice, any outstanding Warrants not exercised during the 30 day period will expire.

**Trade Receivables**

Accounts receivable at June 30, 2023, was \$597,702, down from \$716,146 at September 30, 2022. 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 \$61,084 at June 30, 2023 and \$206,311 at September 30, 2022, 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 June 30, 2023 was \$1,822,495, a 15% increase from \$1,589,593 at September 30, 2022. 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 June 30, 2023, were \$210,270 and \$315,310, respectively, compared with \$212,928 and \$345,041 at September 30, 2022. Trade payables and accrued liabilities tend to fluctuate with no particular pattern.

As of October 1, 2019, the Company adopted IFRS-16 Leases, resulting in the recording of a current lease liability which at June 30, 2023, was \$118,349, compared with \$125,620 at September 30, 2022.

At June 30, 2023, the current portion of warranty provision was \$60,067 compared with \$69,313 at September 30, 2022.

**Contractual Obligations and Contingencies**

The Company has an employment agreement with the President and CEO and COO 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, 2022	Net issued (equity offering, grants, cancellation, exercises or forfeitures)	Number outstanding at June 30, 2023	Net issued (grants, cancellations, exercises)	Number outstanding at August 25, 2023
Shares <sup>1</sup>	117,568,971	8,333	117,577,304	14,117,113	131,694,417
Options	7,979,813	(82,166)	7,897,647	(250,000)	7,647,647
Warrants	7,716,800	(7,716,800)	-	14,117,113	14,117,113

<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.

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**Incentive stock options**

During the nine months ended June 30, 2023, 395,000 stock options were granted, 8,333 stock options were exercised, 35,000 stock options expired and 28,000 stock options were forfeited. Subsequent to June 30, 2023, and to the date of this report, a total of 14,117,113 common shares and warrants were issued, and 250,000 stock options expired.

**Off-Balance Sheet Arrangements**

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

**RISKS AND UNCERTAINTIES**

In the course of our operations, we are exposed to various business risks and uncertainties that can affect our financial condition. While some financial exposures are reduced through insurance, and other risk management measures we have in place, there are certain cases where the market and operating risks are driven by external factors beyond our influence and control. The risks and uncertainties discussed in the Company's MD&A dated December 22, 2022 remain unchanged.

**RELATED PARTY DISCLOSURES**

The Company entered into the following related party transactions during the three and nine months ended June 30, 2023 and 2022. 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 three and nine months ended June 30, 2023 and 2022, the following amounts were incurred with respect to the Company's CEO (Mr. Randy Buchamer), ex-CFO (Mr. Steve Vanry), current CFO (Ms. Florence Tan)<sup>(1)</sup>, and COO (Mr. Paul Moffat).

	<b>Three months ended June 30,</b>		<b>Nine months ended June 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Salaries and consulting fees to key management personnel	138,250	134,565	414,750	352,731
Share-based compensation	26,375	59,803	92,045	131,142
Car allowance	2,400	2,400	7,200	7,200
	<b>167,025</b>	<b>196,768</b>	<b>513,995</b>	<b>491,073</b>

<sup>1</sup> Steve Vanry ceased to be CFO of the Company and Florence Tan was appointed as CFO of the Company on January 11, 2022.

**Transactions with Other Related Parties**

During the three and nine months ended June 30, 2023 and 2022, the following amounts were incurred with respect to the Company's non-executive directors (Messrs. Michael Atkinson, Dave Guebert, Cosimo La Porta and Jonathan Lansky):

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	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Share-based compensation	27,041	56,360	96,666	128,895
	27,041	56,360	96,666	128,895

At June 30, 2023, a total of \$nil (September 30, 2022 - \$nil) 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 lease liability. The carrying values of these financial instruments are not based on fair value but approximate their fair values because of their short-term nature.

**Risk management**

The risks associated with these financial instruments and the policies regarding their management are discussed below. Management monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

**Foreign currency risk**

The Company is exposed to the U.S. dollar versus Canadian dollar exchange rate fluctuation risks through operations of its U.S. subsidiary and expenses incurred in U.S. dollars. As at June 30, 2023, all of Company's liquid assets and liabilities were held in Canadian dollars and U.S. 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 U.S. dollar by 10% relative to the value of the Canadian dollar would have affected the Company's results of operations for the nine months ended June 30, 2023, by approximately \$93,000 (2022 - \$154,000).

**Interest rate risk**

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk due to its potential impact on cash and cash equivalents. The Company earns interest on deposits based on current market interest rates, which during the nine months ended June 30, 2023, averaged 3.38% (2022 – 0.26%). A 1% nominal change in interest rates would have affected the Company's results of operations for the nine months ended June 30, 2023, by approximately \$8,300 (2022 - \$44,000). The Company does not have any interest-bearing liabilities.

**Credit risk**

Credit risk is the risk of an unexpected loss if the counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is believed to be minimal as cash is on deposit with Canadian and foreign banks that are deemed to be creditworthy. Receivables are comprised primarily of amounts due from various customers. The Company is exposed to credit risk through accounts receivable from customers. At June 30, 2023, trade receivables

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from two customers accounted for 14% and 59%, respectively, of the Company's trade receivable balance for a total 73% in aggregate. At September 30, 2022, trade receivables from five customers accounted for 10%, 11%, 15%, 16% and 34%, respectively, of the Company's trade receivables balance for a total 86% in aggregate. Given the nature, balances and the collection history of the Company's receivables, Management has applied a nominal loss allowance as at June 30, 2023 (September 30, 2022 – nominal).

**Concentration risk**

During the three months and nine months ended June 30, 2023, two customers accounted for 18% and 80% (2022 – two customers accounted for 37% and 63%), and two customers accounted for 23% and 44% (2022 – two customers accounted for 42% and 52%), respectively, of the Company's revenue.

**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 June 30, 2023, the Company had cash and cash equivalents of \$522,049 (September 30, 2022 – \$3,085,986) to settle its current liabilities of \$914,823 (September 30, 2022 – \$783,601).

**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.

(Cdn\$, unless noted otherwise)	Three months ended June 30,			Nine months ended June 30,		
	2023	2022	Change	2023	2022	Change
Net loss	(1,018,568)	(1,492,181)	(32)%	(3,212,173)	(4,201,931)	(24)%
Add/(deduct):						
Foreign exchange gain	407	54,403	(99)%	1,887	108,701	(98)%
Other income	(8,337)	(2,986)	179%	(27,902)	(11,895)	135%
Amortization and depreciation	63,935	49,014	30%	198,414	131,932	50%
Share based compensation	78,742	154,398	(49)%	270,433	412,427	(34)%
<b>Adjusted EBITDA</b>	<b>(883,821)</b>	<b>(1,237,352)</b>	<b>(29)%</b>	<b>(2,769,341)</b>	<b>(3,560,766)</b>	<b>(22)%</b>

**OTHER MD&A REQUIREMENTS**

Additional information relating to the Company may be found at SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.legendpower.com](http://www.legendpower.com), in:

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- the Company's condensed interim consolidated financial statements for the three and nine months ended June 30, 2023 and 2022; and
- the Company's consolidated financial statements for the years ended September 30, 2022 and 2021.

**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, August 25, 2023