

Legend Power Systems Inc.
(formerly Texas Gas & Oil Inc.)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to Legend Power Systems Inc. ("Legend"). This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion also includes various forward-looking statements regarding Legend and its future activities and financial results. These statements are based on certain assumptions that are considered reasonable by management. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties and actual results could differ materially from those indicated by such forward-looking statements. This discussion and analysis of the financial condition and results of operations for the year ended September 30, 2009 should be read in conjunction with the unaudited financial statements and related notes of Legend Power Systems Inc. as at September 30, 2009. Management's discussion and analysis is presented as of January 13, 2010.

All dollar amounts contained within the management's discussion and analysis refer to Canadian dollars unless otherwise noted.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

The MD&A contains certain forward looking statements that involve risks and uncertainties such as statements of Legend's plans, objectives, strategies, expectations, and intentions. The words "may", "would", "could", "will", "intend", "plan", "believe", "estimate", "expect" and similar expressions, as they relate to Legend, or its management, are intended to identify such forward looking statements. Many factors could cause Legend's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements, including those factors discussed below and in filings made with the Canadian securities regulatory authorities. Should one or more of these risk factors 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. Legend does not intend, and does not assume any obligation to update these forward looking statements.

OVERALL PERFORMANCE

Legend Power Systems Inc. and its wholly owned subsidiaries, 0809882 B.C. Ltd., Legend Power Systems Corp. and LPSI (Barbados) Limited (collectively, the "Company" or "Legend Power") is an electrical energy conservation company that manufactures and markets a patented device designed to provide energy savings through voltage optimization to commercial and industrial customers. Many customers receive higher voltage levels than required at certain points of the grid from electrical utilities due to line loss across the feeder length. Higher than nominal voltage can affect the lifespan of electrical equipment and result in higher monthly utility bills. The Company's Electrical Harmonizer and Automatic Voltage Regulator (collectively "Electrical Harmonizer-AVR") eliminates inefficiencies by delivering the optimal level of voltage a user needs. By delivering the optimal voltage to the user, Legend Power's Electrical Harmonizer-AVR helps customers reduce their electricity bills and maintenance costs while increasing the life of electrical equipment.

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On July 2, 2008, the TSX Venture Exchange accepted for filing the Company's Reverse Takeover ("RTO") and changed its name from Texas Gas & Oil Inc. to Legend Power Systems Inc.

Effective at the opening July 3, 2008, the common shares of Legend Power Systems Inc. commenced trading on the TSX Venture Exchange (with the trading symbol LPS) and the common shares of Texas Gas & Oil Inc. were delisted.

SELECTED ANNUAL INFORMATION

The Company's consolidated financial statements for the year ended September 30, 2009 have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") using the same basis of presentation and accounting policies as used on Legend Power's annual financial statements for the year ended September 30, 2008. The reporting currency for the Company is Canadian dollars.

The following table has been prepared in accordance with the Reverse Takeover accounting provisions within CICA Handbook section 1581, whereby the acquirer has been identified as 0809882 B.C. Ltd. (formerly Legend Power Systems Inc.). The consolidated financial statements are essentially a continuation of the financial statements of 0809882 B.C. Ltd. whereby the comparative figures presented are for 0809882 B.C. Ltd. The weighted number of shares used for the calculation of earnings per share are also determined under these principles and are not the same as the number of shares of the legal parent as at September 30, 2009.

	<u>Years ended September 30</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Revenue	472,750	690,212	24,079
Income (loss) before other items	(1,901,745)	(2,382,795)	(2,371,259)
Net loss and comprehensive loss	(1,594,608)	(2,294,753)	(2,298,150)
Per share basic and diluted	(0.13)	(0.15)	(0.09)
Total assets	3,412,724	2,941,479	5,022,321
Long term liabilities	-	694,875	845,766
Cash dividend paid	-	-	-

RESULTS OF OPERATIONS

The unaudited consolidated financial statements for the year ended September 30, 2009 and 2008 (the "Financial Statements") are incorporated by reference herein and form an integral part of this Management's Discussion and Analysis. The Financial Statements can be found at www.sedar.com.

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Revenues

Revenues for the year ended September 30, 2009 (the "Year") were \$24,079 compared to \$690,212 during the same year in 2008 (the "Prior Year"). The revenues in this year were primarily revenue sharing charges.

Cost of Sales

Cost of sales for the Year was \$2,124 compared to \$358,797 during the Prior Year. Cost of sales this year consists primarily of costs for monitoring and testing existing installations.

Expenses

Expenses for the Year decreased by 11.82% to \$2,393,214 compared to \$2,714,210 during the Prior Year. Expenses include the cost of research and development of Legend Power technology and related products, identifying and developing potential markets for the Company's products and other related activities. Major expenditure categories include:

- Product development - consists primarily of costs relating to the design of Legend Power's products and to the development and testing of prototypes, not including salaries. These costs for the Year amounted to \$169,596 compared to \$55,726 during the Prior Year. These related mainly to the ongoing development and testing of the AVR500 and the AVR1000.
- Advertising and promotion - represents the marketing and direct sales expenses associated with Legend Power's products. Costs for the Year amounted to \$24,647 compared to \$90,627 during the Prior Year.
- Consulting services - consist of costs related to external consultants for accountants (not including audit fees), information technology providers, technical consultants and financial consultants. Consulting expense for the Year amounted to \$103,889 compared to \$282,183 for the Prior Year.
- Legal and professional fees - amounted during the Year to \$241,208 compared to \$339,062 for the Prior Year, resulting from expenditure on preparation of the Short Form Offering Document, audit fees and Patent maintenance legal fees.
- Salaries - decreased by 21.7% for the Year to \$768,197 compared to \$981,700 for the Prior Year. The decrease resulted from staff attrition and a temporary reduction of salaries by 40% during twelve weeks within this fiscal year.
- Investor relations – consists of costs related to engagement of external investor relations firms of Pro-edge Consultants Inc. and Living Communications Inc. subsequent to the RTO, for a total cost during the Year of \$57,073 compared to \$15,677 for the Prior Year. These two firms' contracts were terminated during the year. A new contract was signed with Contact Financial during the year.
- Warranty provision – this is based on management's best estimate of the Company's products returnable and/or replaceable based on non-performance in accordance with customer quotes or sales agreements and to provide for any liability for damages resulting from malfunctions of the Company's products or other costs incurred to remedy the problem. The estimate as at September 30, 2009 is \$150,000 (2008 - \$ Nil).

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- Stock based compensation - is attributable to grants of stock options to employees and directors that are being expensed over the vesting period of the option. Section 3870 of the CICA Handbook "*Stock-based Compensation and Other Stock-based Payments*" requires the fair-value based method be applied to stock options issued to employees and directors and applies to awards granted on or after January 1, 2002. Stock based compensation for the Year was \$158,905 compared to \$97,938 during the Prior Year. The expense relates to the vesting of 356,900 stock options during the Year.

Summarized Quarterly Results

The following quarterly results are for Legend Power Systems Inc. for the quarters ended December 31, 2008, March 31, 2009, June 30, 2009 and September 30, 2009 and for 0809882 B.C. Ltd. (formerly Legend Power Systems Inc.) for all the preceding quarters.

	Dec 31 <u>2007</u>	Mar 31 <u>2008</u>	Jun 30 <u>2008</u>	Sep 30 <u>2008</u>	Dec 31 <u>2008</u>	Mar 31 <u>2009</u>	Jun 30 <u>2009</u>	Sep 30 <u>2009</u>
Revenue	49,200	6,020	9,520	625,472	6,020	6,019	6,020	6,021
Income (loss) before other items	(499,732)	(580,829)	(454,234)	(811,929)	(563,829)	(655,606)	(512,064)	(1,391,316)
Net income (loss)	(559,900)	(570,992)	(455,719)	(753,821)	(559,775)	(590,994)	(507,038)	(1,391,349)
Per share basic and diluted	(0.03)	(0.05)	(0.04)	(0.05)	(0.02)	(0.02)	(0.02)	(0.05)

There are no seasonal effects or other trends in the Company's business over the quarters presented. The changes are a function of the Company's current stage of development and transition to sales.

LIQUIDITY

The Company was able to raise \$4,534,000 (gross before financing and legal costs) in September 2009 by way of a brokered private placement. Together with the proceeds from the April 27, 2009 Short Form Offering of \$458,810 (gross before financing and legal costs) funds have been used during the year to fund operational costs and to pay past amounts due. As at September 30, 2009, the Company had cash and cash equivalents of \$3,177,060 (September 30, 2008: \$690,455), total assets of \$5,022,321 (September 30, 2008: \$2,941,479) and current liabilities of \$301,714 (September 30, 2008: 454,056). As at September 30, 2009, the Company had working capital of \$3,334,592 (September 30, 2008: \$875,290).

On August 7, 2008, the Company finalized a \$2.0 million conditional operating line of credit as well as a \$300,000 revolving lease line of credit that allowed the Company to lease capital assets. In addition, the Company finalized a financing agreement for the bank to provide lease financing to qualified customers purchasing the Electrical Harmonizer-AVR. Under the terms of the lease agreement, the bank's leasing department agreed to provide qualified customers with capital leases for up to 100 percent of the cost of Electrical Harmonizer-AVRs net of rebates and grants for lease terms ranging from 24 to 60 months.

The lines of credit and the financing agreement expired on January 31, 2009 and, as of their expiration, the lines of credit had not been utilized. After reviewing the Company's financial statements and conducting standard due diligence, the bank has offered to renew the lines of credit

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for \$1.0 million and the \$300,000 revolving lease line of credit. As of September 30, 2009, the Company has not yet executed the acceptance thereof.

CONTRACTUAL OBLIGATIONS

The Company leases office premises and is obligated to make the following minimum lease payments under its operating lease:

September 30, 2010	195,994
September 30, 2011	195,994
September 30, 2012	198,323
September 30, 2013	198,323
September 30, 2014	200,652
September 30, 2015	200,652
	<u>\$ 1,189,938</u>

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

SHARE CAPITAL

Authorized

100,000,000 common shares without par value.

Issued and outstanding

	<u># shares</u>	<u>Amount \$</u>
Balances at September 30, 2007	3,611,478	5,321,104
Purchase cost of TGO shares	16,498,442	8,125,828
Special warrants converted	6,005,086	8,365,387
Private placement	<u>225,449</u>	<u>338,174</u>
	26,340,455	22,150,493
Stock options exercised during the year	34,800	52,200
Balances at September 30, 2008	<u>26,375,255</u>	<u>\$ 22,202,693</u>
Returned to treasury	(15)	-
Short Form Offering issue, June 2009 (a)(i)	770,291	423,661
Non-brokered Private Placement, June 2009 (a)(ii)	63,907	35,149
Non-brokered Private Placement of shares, September 2009 (a)(iii)	100,000	45,000
Non-brokered Private Placement of units, September 2009 (a)(iii)	200,000	100,000
Brokered Private Placement of units, September 2009 (a)(iii)	8,778,000	4,389,000
Broker shares issued, September 2009 (a)(iv)	438,400	219,200
Less: Share issue costs for private placement	-	(771,271)
Less: Share issue costs for broker shares issued (a)(v)	-	(219,200)
Less: Fair value of warrants issued for private placement (a)(vi)	-	(687,132)
Less: Fair value of broker warrants issued (a)(vii)	-	(183,910)
Balances at September 30, 2009	<u>36,725,838</u>	<u>\$25,553,190</u>

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- a) During the year ended September 31, 2009, the following share transactions occurred:
- (i) In June 2009, the Company completed financing by way of short form offering document in which it issued a total of 770,291 common shares at \$0.55 per common share for aggregate gross proceeds of \$423,661.

Total share issue costs on the short form offering were \$66,588.
 - (ii) In June 2009, the Company completed a non-brokered private placement in which it issued a total of 63,907 common shares at \$0.55 per common share for aggregate gross proceeds of \$35,149.

Total share issue costs on the non-brokered private placement were \$799.
 - (iii) In September 2009, the Company completed a non-brokered private placement in which it issued a total of 100,000 common shares at \$0.45 per common share for aggregate gross proceeds of \$45,000.

In September 2009, the Company completed a non-brokered private placement in which it issued a total of 200,000 units at \$0.50 per unit for aggregate gross proceeds of \$100,000. Each whole unit entitles the holder thereof to purchase one Share at a price of \$0.60 per share until March 10, 2011.

In September 2009, Company completed a brokered private-placement in which it issued a total of 8,778,000 units at \$.50 per unit for aggregate gross proceeds of \$4,389,000. Each whole unit entitles the holder thereof to purchase one Share at a price of \$0.60 per share until March 10, 2011.

In connection with the September 2009, non-brokered and brokered private placements, D&D Securities Company (the "Agent") acted as the lead agent, with Phoenix Alliance Corporation participating in the selling group. The Agents cash commissions of \$256,350 were deducted from the fees paid to Phoenix Alliance. In connection with the above non-brokered private placements and brokered private placement Phoenix Alliance received a management finder's fee of \$219,450 and a consulting fee of \$365,874. Total other share issue costs on the brokered private placement were \$118,560.
 - (iv) In connection with the non-brokered and brokered private placements in September 2009, Phoenix Consulting Corporation was issued 438,400 broker shares.
 - (v) The fair value assigned to the 438,400 shares was \$219,200 or \$0.50 per share.
 - (vi) 4,489,000 warrants were attached to units sold in September 2009. The fair value of the warrants using pro-rata allocation between share and warrant was \$687,132.

The warrants were valued based on the following assumptions: dividend yield 0%, risk-free rate 1.24%, expected volatility 90% and expected life of 1.5 years.
 - (vii) In connection with the non-brokered and brokered private placements in September 2009, D&D Securities Company (the "Agent") was issued broker warrants to acquire 867,800 shares. The fair value assigned to the 867,800 warrants was \$183,910.

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The warrants were valued based on the following assumptions: dividend yield 0%, risk-free rate 1.24%, expected volatility 90% and expected life of 1.5 years.

- b) During the year ended September 31, 2008, the following share transactions occurred:
- (i). The Company completed a reverse takeover with Texas Gas & Oil Inc. as explained in note 3, as a result of which 16,498,442 common shares worth \$8,125,828 were issued.
 - (ii). 6,005,085 special warrants were converted to common shares worth \$8,365,387.
 - (iii). The Company completed a private placement of 225,449 common shares at \$1.50 per share for total proceeds of \$338,174.
- c) On each of January 2, 2009 and July 2, 2009, 397,930 common shares were released from escrow, totaling 795,860 common shares released. As at September 30, 2009, 11,827,781 common shares are still held in escrow, of which 4,665,040 common shares will be released based on performance and the remaining 7,162,741 will be released in stages before September 30, 2014.

WARRANTS

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at September 30, 2009 is as follows:

	<u>September 30, 2009</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of period	-	\$ -
Issued	5,356,800	\$0.58
Expired	-	\$ -
Balance, end of period	<u>5,356,800</u>	<u>\$0.58</u>

The following table summarizes information of the number of common shares reserved pursuant to the warrants outstanding and exercisable at September 30, 2009:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
4,489,000	\$0.60	March 10, 2011
<u>867,800</u>	\$0.50	March 10, 2011
<u>5,356,800</u>		

STOCK OPTIONS

The Company has adopted a stock option plan (the "Plan") in accordance with the policies of the TSX Venture Exchange for the benefit of directors, officers, employees and consultants of the Company whereby the maximum of 10% of the issued and outstanding common shares of the Company are reserved for issuance pursuant to the exercise of stock options to be granted under the Plan. Options

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granted under the Plan vest over various time periods from the grant date to five years at the discretion of the Board of Directors. Exercise prices on options granted under the Plan are determined by reference to the market value on the date of grant.

During the year, the Company cancelled 450,000 stock options on the expiration of unexercised options or on termination of employees or consultants.

The fair value of stock options granted to directors, employees and consultants is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions used for the options vested during the Year:

Risk-free interest rate: 1.8% - 4.2%, Estimated volatility: 90%, Expected life: 2 - 5 years, Expected dividend yield: 0%

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

A summary of The Company's stock options at September 30, 2009, and the changes during the year, is as follows:

	Number	Weighted Average Exercise Price
Balance, September 30, 2008	2,275,200	\$1.50
Granted	360,650	\$0.44
Expired	(450,000)	\$1.50
Balance, September 30, 2009	2,185,850	\$1.39

The following table summarizes stock options outstanding and exercisable at September 30, 2009:

Number Outstanding	Number Exercisable	Exercise Price	Expiry date
100,000	100,000	\$1.50	December 24, 2009
1,550,200	1,480,200	\$1.50	October 30, 2012
300,000	125,000	\$1.50	August 10, 2013
235,650	235,650	\$0.44	June 8, 2012
2,185,850	1,940,850		

CORPORATE GOVERNANCE

This management's discussion and analysis in addition to the related interim financial statements have been reviewed and approved by the Company's Audit Committee and Board of Directors.

DISCLOSURE CONTROLS AND PROCEDURES

The Company has established and maintains disclosure controls and procedures ("DCP"). The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's DCP as of September 30, 2009 and have concluded that such procedures result in reasonable assurance that material information is disclosed externally in a reliable and timely manner.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer have designed the ICFR to a standard which provides reasonable assurance of the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. As of the date of this MD&A, the Company has implemented many components of the ICFR design, but due to the relatively small size of the Company there are several deficiencies in the ICFR as a result of a lack of segregation of duties. The only way to resolve a deficiency resulting from a lack of segregation of duties is to hire additional accounting staff, which the Company does not feel is a cost-effective solution at this time. Until the Company grows to a size that warrants additional accounting staff, the Company employs several procedures to mitigate the lack of segregation of duties, including close review of the financial reporting by the Chief Executive Officer and the Audit Committee.

COMMITMENTS

The Company has an employment agreement and a change of control agreement in place with the CEO of the Company that contains severance provisions (further information may be found in the Company's Annual Information Form on SEDAR at www.sedar.com).

RISKS AND UNCERTAINTIES

Lack of Revenues and Dividends

Legend Power anticipates that with growing sales it will meet its operating costs. Since the date of incorporation, Legend Power has accumulated losses, and notwithstanding that Legend Power does not expect such losses to continue, there can be no assurance that such losses will not continue.

Financing

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

Legend Power 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 Legend Power to delay or abandon some or all of its plans or otherwise forego market opportunities and may make it difficult for Legend Power to respond to competitive pressures, any of which could have a material adverse effect on Legend Power's business, results of operations and financial condition.

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Limited Operating History

Legend Power commenced sales operations in October 2008 and, as a result, its business model is still going through changes. The ability of Legend Power to sustain revenue and income in this new market segment is unproven, and Legend Power's limited operating history makes an evaluation of Legend Power and its prospects difficult. Legend Power and its prospects must be considered in light of the risks, expenses and difficulties encountered by companies in the relatively new field of energy efficiency. To address these risks, among other things, Legend Power must install the Electrical Harmonizer-AVR and build its brand name effectively, grow its infrastructure to accommodate customers, respond to competitive developments and retain and motivate qualified personnel.

Exchange Rate Fluctuations

A portion of Legend Power's business may be done in U.S. dollars and Japanese Yen. Therefore, changes in the exchange rate between the Canadian dollar and other currencies may have an adverse effect on Legend Power's business, financial condition, future prospects and results of operations.

One Product Company

The success of Legend Power will be largely dependent upon sales of its Electrical Harmonizer-AVR. However, other avenues of revenue that will continue to be viable, among others, are the sale of its AVR, consulting services on energy audit and power quality improvement, franchising, licensing and development of residential products.

Dependence Upon New Markets; Uncertainty of Acceptance of Product Offerings

The market acceptance of the Electrical Harmonizer-AVR in North America remains to be proven and Legend Power's future growth will depend upon successful marketing of the Electrical Harmonizer-AVR. If the market targeted by Legend Power fails to develop, develops more slowly than expected, is successfully and significantly penetrated by competitors or if the Electrical Harmonizer-AVR does not achieve broad market acceptance, Legend Power's business, results of operations and financial conditions would be materially and adversely affected.

Potential Fluctuations in Results of Operations

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

- demand for, and market acceptance of Legend Power's products;
- introduction of products by competitors;
- reliable continuity of service;
- reliable supply of materials to Legend Power;
- customer retention;
- currency fluctuations;
- changes in the pricing policies of suppliers; and

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- timing and magnitude of expenditures on advertising and promotion.

Competition

There are a number of products currently being marketed which reduce the cost of electricity in one or more of the ways in which the Electrical Harmonizer-AVR reduces such costs. However, Legend Power believes that none of them have all of the capability and features of the Electrical Harmonizer-AVR.

While Legend Power believes that there are few competitors today that are focusing on Legend Power's target market, Legend Power expects that it will face additional competition from existing competitors and new market entrants in the future. Legend Power may not have the resources, expertise or other competitive factors to compete successfully in the future. Many of Legend Power's competitors may have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships in the industry than Legend Power. As a result, certain of these competitors may be able to develop and expand their marketing and installation more rapidly, adapt to new or emerging technologies and changes in customer requirements more quickly, take advantage of acquisition and other opportunities more readily, devote greater resources to the marketing and sale of their products and services and adopt more aggressive pricing policies. Any adverse general economic or business conditions could also impact demand for Legend Power's products and services.

Management of Growth

The Legend Power business plan involves expansion of its customer base and technologies coupled with additional funding resources and a broader range of employees. This growth will place a significant strain on Legend Power's financial, management, operational and other resources. Legend Power's management, personnel, systems, procedures and controls may not be adequate to support Legend Power's existing and future operations. If Legend Power's executives are unable to manage growth effectively, Legend Power's business, results of operations and financial condition could be materially adversely affected.

Dependence on Key Personnel

Legend Power's success depends in significant part upon the continued services of its key technical, sales and senior management personnel. Any officer or employee of Legend Power can terminate his or her relationship with Legend Power at any time. There is no assurance Legend Power 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 affect on Legend Power and its prospects. Legend Power maintains key-man insurance of \$750,000 on its CEO such that proceeds from a life insurance policy payable to the Company would be adequate to cover the costs of recruiting a replacement CEO as well as costs resulting from the disruption to the Company's business.

Legend Power'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 Legend Power may not be able to attract and retain key personnel. The loss of the services of one or more of Legend Power's key employees or Legend Power's failure to attract

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additional qualified personnel could have a material adverse effect on Legend Power'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, labour strife or unrest, inability to obtain transportation for the manufactured units may adversely affect Legend Power's ability to meet its financial objectives. Reliance on suppliers also subjects Legend Power to the risks of shortage of components, the possibility of defective parts produced by others, and increases in component costs, all of which may adversely affect Legend Power's profitability.

If Legend Power commences manufacturing operations, it will require quality components to be supplied by third parties. Failure of such third party suppliers to meet component delivery schedules may disrupt production schedules at Legend Power.

Installation

Legend Power will not be installing the Electrical Harmonizer-AVR with its own employees. Rather, Legend Power will hire local qualified electrical contractors to perform all installation work. The ability to install the Electrical Harmonizer-AVR 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-AVR, there can be variations in the cost of installation. These variations could be the result of local type of and use of buildings and differing wage rates.

Government Regulation

Canadian Provincial and Federal statutes concerning electrical safety require Legend Power's products to be approved listed products. All products manufactured, sold and installed by Legend Power are subject to safety certification procedures by approved safety bodies, and are listed products.

Insurance

A defect in the products manufactured by Legend Power or in the installation process could result in serious personal injury, property damage, and lost hours of operation and revenue. Although Legend Power carries general liability insurance of \$5,000,000, it is not fully insured against all risks, nor are all such risks fully insurable.

Product Liability

A malfunction of Legend Power'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 Legend Power's products or other costs incurred to remedy the problem, such as product recalls, could be substantial and could increase Legend Power's expenses and prevent Legend Power from growing its business. In addition, a well publicized actual or perceived problem could adversely affect market perception of Legend Power's products. This could result in a decline in demand for Legend Power's products, which would reduce its revenue and harm its business.

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Dividends

During the most recently completed financial year, 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 Legend Power's current policy to retain earnings to finance expansion and to otherwise be used for the Legend Power's business, unless profits far exceed such requirements. Future payment of dividends will be dependent upon Legend Power's financial condition, financial requirements to fund future growth, and other factors the Board of Directors may consider appropriate in the circumstances. Until Legend Power 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 Legend Power's strategy, and Legend Power anticipates undergoing a period of expansion in its business. If Legend Power fails to sustain or effectively manage such growth, its operating results will fluctuate and suffer. Legend Power's growth depends on its ability to accomplish a number of things, including successfully introducing new products, identifying and developing new geographic markets, developing new products and market acceptance for them, increasing Legend Power's manufacturing and outsourcing capacity, maintaining current customer and distributor relationships and developing new ones, and successfully managing expansion and arranging for necessary financing.

Any growth Legend Power achieves may require additional personnel and may 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. Legend Power 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, Legend Power's past results may not be indicative of Legend Power'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 Legend Power's business, financial condition and results of operations. In addition, Legend Power's expense levels are based, in part, on expected future revenues and Legend Power 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.

Legend Power may also grow through investment in or acquisition of complementary businesses. In connection with any investment or acquisition Legend Power makes, however, there may be liabilities that Legend Power fails to discover or that it is unable to discover and for which Legend Power, 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.

Adoption of New Accounting Standards:

Effective October 1, 2008 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under Section 3862, *Financial Instruments Disclosures*, Section 3863, *Financial Instrument-Presentation* and Section 3064, *Goodwill and Intangible Assets*.

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Financial Instruments

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, Financial Instruments - Recognition and Measurement, Section 3863 and Section 3865, Hedges.

Section 3863 is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Goodwill and Intangible Assets

Section 3064, Goodwill and Intangible Assets, replaces section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of other intangible assets. The adoption of Section 3064 had no impact on the financial statements for the year ended September 30, 2009.

Future Accounting Policies

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

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International Financial Reporting Standards

In 2006 the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Transactions with Related Parties

Unless otherwise stated, related party transactions are in the normal course of operations and measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

- (i) During the year the Company incurred \$60,000 (2008: \$45,000) in consulting fees and other charges with a shareholder of the Company, of which \$Nil (2008: \$Nil) remains unpaid.
- (ii) During the year the Company paid interest to a shareholder on the convertible debenture amounting to \$24,986 (2008: \$10,078).
- (iii) During the year financing fees in the amount of \$ Nil were paid to a relative of an officer of the Company (2008: \$128,559)

Share Price Volatility

Legend Power'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 Power's share price are: quarterly variations in operating results; news announcements, research reports by analysts and other developments with respect to Legend Power's industry or competitors; changes in general market conditions; lack of liquidity in the marketplace and domestic and international economic factors unrelated to Legend Power's performance.

The markets for equity securities of technology companies have been highly volatile recently and the market price of Legend Power's common shares may be subject to innovations or new products by Legend Power 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 Power's shares. There can be no assurance that the trading price of Legend Power's shares will remain at or near the current trading price.

Subsequent Events

- (i). On October 26, 2009, the Company completed the second (and final) tranche of its previously announced brokered private placement of up to 15,000,000 units at a price of \$0.50 per unit for gross proceeds of up to \$7,500,000. Each unit consists of one common share of the

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Company and one half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one share at a price of \$0.60 per share for a period of 18 months until April 26, 2011. The second tranche resulted in the sale of 1,363,200 units for gross proceeds of \$681,600.

- (ii). On October 26, 2009, the Company granted incentive stock options to certain directors, officers and employees of the Company to purchase up to 1,250,000 common shares in the capital of the Company pursuant to the Company's stock option plan. The stock options are subject to certain vesting provisions and, in particular, 800,000 stock options vest immediately and 450,000 stock options vest over a five-year period. Subject to the vesting provisions and the terms of the plan, the stock options are exercisable on or before October 25, 2014 at an exercise price of \$0.49 per share.
- (iii). On November 12, 2009, the Company repaid in full, without penalty, the Convertible debenture of \$500,000, together with accrued interest of \$1,630.14 as of that date.

Additional Information

Additional information relating to Legend Power may be found on SEDAR at www.sedar.com and on the Company's website at www.legendpower.com.