

**Unaudited interim condensed consolidated financial statements of**

# Leonovus

June 30, 2018 and 2017

### **Notice To Reader**

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the unaudited interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

These unaudited interim condensed consolidated financial statements were approved by the Board of Directors. They have not been reviewed by the Company's auditors. The accompanying unaudited interim condensed consolidated financial statements have been prepared by and are the responsibility of management. These interim condensed consolidated financial statements are presented on the accrual basis of accounting and accordingly, a precise determination of many assets and liabilities is dependent upon future events. Where necessary, management has made informed judgements and estimates in accounting for these assets and liabilities and for transactions which are not complete at the end of the reporting period. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these unaudited interim condensed consolidated financial statements have been fairly presented.

# **Leonovus Inc.**

June 30, 2018 and 2017

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# Leonovus Inc.

Unaudited interim condensed consolidated statements of net loss and comprehensive loss for the three and six-month periods ended June 30, 2018 and 2017

(in thousands of U.S. dollars)

		Three months ended		Six months ended	
	Note	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017 (Restated – Note 13)
<b>Revenue</b>		-	-	-	-
<b>Expenses</b>					
General and administrative	14	571	154	996	292
Research and development	14	286	158	551	342
Sales and marketing	14	379	14	711	83
		<b>1,236</b>	<b>326</b>	<b>2,258</b>	<b>717</b>
<b>Loss from operations</b>		<b>(1,236)</b>	<b>(326)</b>	<b>(2,258)</b>	<b>(717)</b>
Loss on extinguishment of contractual obligation	5,13	-	-	-	(121)
Change in fair value of outstanding warrants	6	53	52	354	(48)
Foreign exchange loss		(46)	(27)	(63)	(38)
Interest Expense		(1)	(7)	(3)	(26)
<b>Net loss</b>		<b>(1,230)</b>	<b>(308)</b>	<b>(1,970)</b>	<b>(950)</b>
<b>Other comprehensive income:</b>					
Foreign Currency translation difference		29	4	(206)	12
<b>Total Comprehensive loss</b>		<b>(1,201)</b>	<b>(304)</b>	<b>(2,176)</b>	<b>(938)</b>
Loss per share - basic and diluted	6	<b>\$0.00</b>	\$0.00	<b>\$0.00</b>	\$0.00
Weighted average number of outstanding shares	6	<b>248,736,911</b>	159,440,770	<b>246,629,850</b>	148,664,814

The accompanying notes are an integral part of these interim condensed consolidated financial statements

# Leonovus Inc.

## Unaudited interim condensed consolidated statements of financial position

(in thousands of U.S. dollars)

	Note	June 30, 2018	December 31, 2017
<b>Assets</b>			
Current assets			
Cash		8,019	10,613
Prepaid assets and inventories		100	42
Other receivables		160	233
<b>Total current assets</b>		<b>8,279</b>	<b>10,888</b>
Property and equipment		-	18
<b>Total assets</b>		<b>8,279</b>	<b>10,906</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	3	1,646	2,140
Current portion of notes and debentures payable	4	-	50
Liability for outstanding warrants	4	206	577
Deferred compensation	3	392	478
<b>Total liabilities</b>		<b>2,244</b>	<b>3,245</b>
<b>Shareholders' equity</b>			
Share capital and loans to shareholders	5	27,831	26,834
Contributed surplus	5	2,545	2,457
Warrants	5	3,483	3,856
Accumulated other Comprehensive Income		(206)	162
Deficit		(27,618)	(25,648)
<b>Total shareholders' equity</b>		<b>6,035</b>	<b>7,661</b>
<b>Total liabilities and shareholder's equity</b>		<b>8,279</b>	<b>10,906</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements

Approved by the Board

\_\_\_\_\_(s) Michael Gaffney CEO and Chairman

\_\_\_\_\_(s) Denis Archambault Director

# Leonovus Inc.

## Unaudited interim condensed consolidated Consolidated statements of shareholders' equity (deficiency) for the six month period ended June 30, 2018 and 2017

(in thousands of U.S. dollars)

	Note	Common shares		Warrants	Contributed surplus	Accumulated Comprehensive Income	Deficit	Total
		Number	Amount					
		#	\$	\$	\$		\$	\$
Balance at December 31, 2016		130,440,770	17,983		1,552	-	(22,923)	(3,388)
Repayment of debenture February 2017	5, 13	3,000,000	159	73	-	-	-	232
Share issuance costs			(7)	(3)	-	-	-	(10)
Private placement offering March 2017	5, 13	26,000,000	250	733	-	-	-	983
Share issuance costs			(32)	(94)	-	-	-	(126)
Broker warrants issued				44	-	-	-	44
Share-based compensation		-	-	-	61	-	-	61
Net loss		-	-	-	-	-	(950)	(950)
Foreign currency translational (loss)/gain		-	-	-	-	12	-	12
<b>Balance at June 30, 2017</b>		<b>159,440,770</b>	<b>18,353</b>	<b>753</b>	<b>1,613</b>	<b>12</b>	<b>(23,873)</b>	<b>(3,142)</b>
<b>Balance at December 31, 2017</b>		<b>240,207,270</b>	<b>26,834</b>	<b>3,856</b>	<b>2,457</b>	<b>162</b>	<b>(25,648)</b>	<b>7,661</b>
Warrants exercised	5	6,200,000	603	(225)	-	-	-	378
Options exercised	5	60,410	7	-	(3)	-	-	4
Share-based compensation		-	-	-	39	-	-	39
Net loss		-	-	-	-	-	(740)	(740)
Foreign currency translational (loss)/gain		-	-	-	-	(235)	-	(235)
<b>Balance at March 31, 2018</b>		<b>246,467,680</b>	<b>27,444</b>	<b>3,631</b>	<b>2,493</b>	<b>(73)</b>	<b>(26,388)</b>	<b>7,107</b>
Warrants exercised	5	4,100,000	387	(148)	-	-	-	239
Share-based compensation		-	-	-	52	-	-	52
Net loss		-	-	-	-	-	(1,230)	(1,230)
Foreign currency translational gain		-	-	-	-	(133)	-	(133)
<b>Balance at June 30, 2018</b>		<b>250,567,680</b>	<b>27,831</b>	<b>3,483</b>	<b>2,545</b>	<b>(206)</b>	<b>(27,618)</b>	<b>6,035</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

# Leonovus Inc.

## Unaudited interim condensed consolidated statements of cash flows

(in thousands of U.S. dollars)

		Six months ended <b>June 30, 2018</b>	June 30, 2017
	<b>Note</b>		(Restated – Note 13)
Cash provided by (Used in) the following activities:			
<b>Operating Activities:</b>			
Net loss:		<b>(1,970)</b>	(950)
Non-cash items:			
Depreciation		<b>9</b>	3
Share base compensation	5	<b>91</b>	69
Warrant valuation impact	5	<b>(354)</b>	48
Foreign exchange loss		-	38
Loss on extinguishment of contractual obligation	13	-	121
Change in non-cash working capital items	11	<b>(557)</b>	(31)
<b>Cash flows (used in) operating activities</b>		<b>(2,781)</b>	(702)
<b>Financing Activities:</b>			
Issuance of share capital, net of issuance cost	5, 13	<b>621</b>	857
Issuance (repayment) of promissory notes	4	<b>(50)</b>	
<b>Cash flow provided by financing activities</b>		<b>571</b>	857
Net Cash Inflow/(Outflow)		<b>(2,210)</b>	<b>77</b>
Effects of currency translation on cash		<b>(384)</b>	(56)
Cash, beginning of the year		<b>10,613</b>	88
<b>Cash, end of period</b>		<b>8,019</b>	187

Supplementary information:

Non-cash change in working capital (debt settled with shares)	-	111
Interest paid – included in operating activities	-	18

The accompanying notes are an integral part of these interim condensed consolidated financial statements

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements

June 30, 2018 and 2017

(In thousands of U.S. dollars)

### 1. Nature of operations

Leonovus Inc. ("Leonovus" or the "Company") is a publicly listed company and is incorporated under the Canada Business Corporations Act. The Company's shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol LTV. The address of the Company's registered office is 1400-340 Albert Street, Ottawa, Ontario Canada K1R 0A5 and its principal place of business is 1309 Carling Avenue, Ottawa, Ontario Canada K1Z 7L3.

Leonovus is a cloud solutions software provider that offers the leading blockchain enabled software-defined object storage solution (SDOSS) and governance, risk management and compliance (GRC) solution for the modern enterprise. Designed with the IT manager in mind, Leonovus' patented algorithms virtualize, transform, slice and disperse data across a network of on-premises, hybrid or multi-cloud storage nodes – allowing for the most secure yet internally accessible form of object-based data storage that provides GRC across the entire solution. The advanced geo-distributed architecture minimizes latency, optimizes geo-availability, reduces remote backup costs and meets data sovereignty requirements. With its software and hardware agnostic design, Leonovus provides Petabyte scalability and allows the enterprise to utilize its existing idle storage resources, extend the useable lifespan of depreciated resources and improve the enterprise's overall ROI.

### 2. Significant accounting policies

#### *i. Statement of compliance*

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. In the opinion of management, they include all adjustments necessary for fair presentation. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated annual financial statements as at and for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These unaudited interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on August 29, 2018.

#### *ii. Basis of presentation*

These interim condensed consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair value, as explained in the significant accounting policies note to the audited annual consolidated financial statement.

These interim condensed consolidated financial statements have been prepared on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The ability of the

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements

June 30, 2018 and 2017

(In thousands of U.S. dollars)

Company to continue as a going concern is dependant on its ability to generate sufficient revenues and limit expenses.

In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. If the going concern assumption was not appropriate for these financial statements, then adjustments would likely be necessary in the carrying amount of assets and liabilities, expenses, the accumulated deficit and the classification used in the interim condensed consolidated statement of financial position. These adjustments could be material.

### *iii. Basis of consolidation*

The unaudited interim condensed consolidated financial statements include the accounts of Leonovus Inc. and its wholly-owned subsidiary, Leonovus USA Inc., (a company incorporated in the United States of America). All intercompany transactions and balances have been eliminated.

### *iv. Significant accounting policies*

The significant accounting policies applied by the Company are described in Note 2 of the consolidated annual financial statements for the year ended December 31, 2017. These condensed interim consolidated financial statements at June 30, 2018 have been prepared in accordance with the same accounting policies as the most recent annual consolidated statements as at and for the year ended December 31, 2017 except as described below. Though there are two new standards adopted by the company effective January 1, 2018;

#### *a. Financial Instruments*

Effective January 1, 2018, the Company has adopted IFRS 9 Financial Instruments ("IFRS 9") which replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement ("IFRS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assts and hedge accounting. IFRS 9 contains three principle classification categories for financial instruments: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial instruments on the contractual cash flow characteristics and the company's business model for managing the financial asset. The adoption of IFRS 9 on January 1, 2018 resulted in changes to accounting policies which have been applied retrospectively, however this did not result in any financial statement adjustments.

#### *b. Revenue Recognition*

Effective January 1, 2018, the Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). This new standard was applied using a retrospective approach. The adoption of IFRS 15 has had no impact on the timing and measurement

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements June 30, 2018 and 2017

(In thousands of U.S. dollars)

of the Company's revenue and no adjustment to the opening deficit balance as at January 1, 2018

### v. *Critical accounting estimates and judgments*

The preparation of these interim condensed consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets, and liabilities at the date of the interim condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the interim condensed consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

The critical judgements and significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are outlined in Note 2 of the December 31, 2017 consolidated annual financial statements. There have been no significant changes in the Company's judgments and estimates applied during the interim period ended June 30, 2018 relative to those described in the most recent consolidated annual financial statements as at and for the year ended December 31, 2017.

### vi. *New IFRS Standards issued but not yet effective*

#### a. IFRS 16 Leases

In January 2016, the IASB issued a new standard, IFRS 16 Leases which introduces a major revision of the way in which companies account for leases. This becomes effective for reporting periods beginning on or after January 1, 2019. The Company has assessed that the introduction of IFRS 16 will not have any material effect on financial reporting.

### 3. **Accrued and deferred compensation**

Total accrued compensation at June 30, 2018 was \$1,750 (December 31, 2017 - \$2,089) of which \$1,358 (December 31, 2017 - \$1,611) is included in accounts payable and accrued liabilities, \$392 (December 31, 2017 - \$478) in deferred compensation. The deferred compensation of \$392 (December 31, 2017 - \$478) is a liability for four employees who were not paid during 2009 for services rendered. Each of these employees signed an agreement with the Company agreeing that this 2009 compensation will not become payable until, at a minimum, January 1, 2016, based on the current plans of the Company. Please refer to Subsequent events Note 15 for partial settlement of outstanding accrued and deferred compensation subsequent to June 30, 2018.

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements June 30, 2018 and 2017

(In thousands of U.S. dollars)

### 4. Notes and debentures payable

	Current Portion	Long term Portion	Total Balance
	\$	\$	\$
Balance at December 31, 2016	100	380	480
Interest accretion	-	50	50
Redeemed (Non-cash)	-	(111)	(111)
Redeemed (Cash)	(50)	(319)	(369)
Balance at December 31, 2017	50	-	50
Interest accretion	-	-	-
Redeemed (Non-cash)	-	-	-
Redeemed (Cash)	(50)	-	(50)
<b>Balance at June 30, 2018</b>	-	-	-

In February 2015, the Company entered into two promissory notes in the amount of \$50 each for a total of \$100. The notes bear interest at a rate of 18% per annum and mature in May 2015 and are secured by specific assets of the Company. In May and June 2015, the Company amended the notes by extending the due date until July 25, 2015. In August 2015, the Company amended the notes by extending the due date until November 30, 2015. In October 2016, the Company amended the notes by extending the due date to September 30, 2017. These amendments have been accounted for as debt modifications. During the year ending December 31, 2017, the Company repaid one of the promissory notes and the other has been paid in the quarter ended June 30, 2018. The balance as at June 30, 2018 is \$Nil (December 31, 2017 - \$50).

In September 2015, the Company entered into a secured debenture with a principal amount of CAD \$300. The debenture bears interest at a rate of 9% per annum and has a maturity date in September 2018. Attached to the debenture is 3,000,000 warrants which have a 3-year life and an exercise price of CAD \$0.10 per common share. The debenture and warrants were valued under IAS 39 using the residual method resulting in a fair value of \$182 for the debenture and \$43 for the warrants. During the year ended December 31, 2017, the Company paid CAD \$300 in satisfaction of the principal of the debenture. The value of these warrants ~~remain~~remains under warrant liability. The fair value of these warrants as at June 30, 2018 amount was \$206 (December 31, 2017 - \$577), using Black-Scholes option pricing model with following assumptions:

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## Notes to the unaudited interim condensed consolidated financial statements June 30, 2018 and 2017

(In thousands of U.S. dollars)

	2018	2017
Risk-free interest rate	1.15%	1.05%
Expected life of Warrants (years)	0.20	0.70
Expected annualized volatility	45%	155%
Expected dividend yield	n/a	n/a
Weighted average fair value of each Warrant (CAD \$)	0.09	0.24

In February 2017, the Company issued 3,000,000 common shares and 3,000,000 warrants (each warrant is exercisable for one common share for \$0.05 for twelve (12) months from the date of issuance, and at CAD \$0.10 for the thirteenth (13th) month to the twenty-fourth (24th) month from the date of issuance) in repayment of this secured promissory note and realized a loss on extinguishment of debt of \$121. These warrants were exercised during the year ended December 31, 2017.

### 5. Share capital

The Company has an unlimited number of no-par common shares authorized for issuance with 250,567,680 (December 31, 2017 - 240,207,270) shares outstanding (excluding 1,317,744 (2017 - 1,317,744) shares issued under the loan arrangement described in Note 7 that are not considered outstanding) as at June 30, 2018.

#### **2018 Issuances**

During first six months of fiscal year 2018, 10,300,000 warrants were converted in to shares for gross proceeds of \$617 and 60,410 options were exercised and converted into shares for gross proceeds of \$4. The fair value of the warrants and options exercised and converted into share capital was \$373 and \$3 respectively.

#### **2017 Issuances**

During February 2017, the Company settled a secured promissory note valued at \$111 through issuance of 3,000,000 common shares and 3,000,000 warrants. Each warrant is exercisable for one common share at CAD \$0.05 for twelve (12) months from the date of issuance, and at CAD \$0.10 for the thirteenth (13<sup>th</sup>) month to the twenty-fourth (24<sup>th</sup>) month from the date of issuance. The fair value of these warrants was calculated at \$73 using a Black-Scholes computation. The 3,000,000 common shares issued were valued at \$159. As a result of the fair value of consideration provided exceeding the carrying value of the promissory note, the Company realized a loss on debt extinguishment of \$121. The 3,000,000 warrants were exercised and converted into common shares during the period ending March 31, 2018.

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements June 30, 2018 and 2017

(In thousands of U.S. dollars)

During March 2017, the Company completed a private placement offering of 26,000,000 units (each unit comprising one common and one warrant) for gross proceeds of \$983. Each warrant is exercisable for one common share at CAD \$0.10 per share for a period of twenty-four (24) months from the date of issuance. The common shares and warrants are subject to a four (4) month and (1) day hold period from the date of issuance. The fair value of these warrants was calculated at \$733 using a Black-Scholes computation. Of these 26,000,000 warrants, 18,076,500 warrants with a fair value of \$509 were exercised and converted into common shares during the twelve months period ended December 31, 2017 and additional 500,000 warrants with fair value of \$15 were exercised during the three months period ended March 31, 2018. The 26,000,000 common shares issued were valued at \$250.

In conjunction with the March 2017 private placement, 1,560,000 broker warrants were issued. Each warrant is exercisable for one common share at CAD \$0.10 per share for a period of twenty-four (24) months from the date of issuance. The warrants are subject to a four (4) month and (1) day hold period from the date of issuance. The fair value of these warrants was calculated at \$44 using a Black-Scholes computation.

The fair value of warrants granted is determined using the Black-Scholes option pricing model. The underlying expected volatility was determined by reference to historical data of the Company's shares over the expected life of the warrants. The following weighted average assumptions were used for warrants granted in the period:

	2018	2017
Risk-free interest rate	n/a	0.87%
Expected life of warrants (years)	n/a	1.91
Expected annualized volatility	n/a	100%
Expected dividend yield	n/a	n/a
Weighted average fair value of each warrant (CAD \$)	n/a	0.04

As at June 30, 2018 and 2017, the Company has the following warrants with average exercise prices and expiry dates outstanding:

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements

June 30, 2018 and 2017

(In thousands of U.S. dollars)

	Notes	Number of whole share warrants	Average exercise in CAD	Average Expiry Date
<b>Balance, December 31, 2016</b>		<b>9,806,455</b>	<b>0.09</b>	
Issued pursuant to payment of Promissory Note		3,000,000	0.05	9-Feb-19
Issued pursuant to private placement		27,560,000	0.10	10-Mar-19
Exercised		-	-	
Expired		-	-	
<b>Balance, June 30, 2017</b>		<b>40,366,455</b>	<b>0.09</b>	
<b>Balance, December 31, 2017</b>		<b>58,233,500</b>	<b>0.22</b>	
Issued		-	-	
Exercised		(6,200,000)	0.08	
Expired		-	-	
<b>Balance, March 31, 2018</b>		<b>52,033,500</b>	<b>0.23</b>	
Issued		-	-	
Exercised		(4,100,000)	0.08	
Expired		-	-	
<b>Balance, June 30, 2018</b>		<b>47,933,500</b>	<b>0.25</b>	

As at June 30, 2018 and December 31, 2017, the Company has the following warrant liability outstanding:

	<b>\$</b>
Balance at December 31, 2016	17
Fair value revaluation loss	563
Exercise of warrants	(27)
Foreign exchange translation impact	24
<b>Balance at December 31, 2017</b>	<b>577</b>
Fair value revaluation Gain	(354)
Foreign exchange translation impact	(17)
<b>Balance at June 30, 2018</b>	<b>206</b>

*Stock options - Plan*

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements June 30, 2018 and 2017

(In thousands of U.S. dollars)

The Board of Directors of the Company has approved and implemented a stock option plan (the "Plan"). Pursuant to the Plan, the board may from time to time at its discretion, and in accordance with regulatory requirements, grant non-transferable options to purchase shares to directors, officers, employees and consultants of the Company, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares at the time of the grant. Pursuant to the Plan, the maximum number of common shares reserved for issuance in any twelve-month period to any one employee other than a consultant may not exceed 5% of the issued and outstanding common shares at the date of the grant.

	Stock options	Weighted Average exercise price in CAD
		\$
Outstanding, at December 31, 2016	10,521,000	0.09
Granted	5,100,000	0.05
Forfeited	(685,000)	0.23
Exercised	-	-
Outstanding, at June 30, 2017	14,936,000	0.07
Outstanding, at December 31, 2017	17,516,000	0.12
Granted	2,625,000	0.21
Forfeited	(752,917)	0.23
Exercised	(60,410)	0.06
Outstanding, at June 30, 2018	19,327,673	0.13

The fair value of options granted is determined using the Black-Scholes option pricing model. The underlying expected volatility was determined by reference to historical data of the Company's shares over the expected life of the options. The following weighted average assumptions were used for options granted in the year:

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements June 30, 2018 and 2017

(In thousands of U.S. dollars)

	2018	2017
Risk-free interest rate	1.33%	1.19%
Expected life of options (years)	5.	5
Expected annualized volatility	111%	86%
Expected dividend yield	n/a	n/a
Weighted average fair value of each option	<b>\$0.16</b>	\$0.03

Share-based compensation is recorded as an increase to contributed surplus and is transferred to share capital when the underlying options are exercised. Grant date fair value of options granted during the six months ended June 30, 2018 was \$297 (June 30, 2017 - \$120). Total share-based compensation expense during the six months ended June 30, 2018 was \$91 (2017 - \$70).

The following table summarizes the options outstanding and exercisable as on June 30, 2018:

Exercise Price in \$CAD	Options Outstanding		Options Exercisable	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
<b>0.00 - 0.10</b>	14,195,590	3.23	12,410,460	3.29
<b>0.11 - 0.20</b>	1,387,083	4.87	183,326	4.86
<b>0.21 - 0.30</b>	1,355,000	3.41	605,583	1.99
<b>0.31 - 0.40</b>	740,000	3.09	365,818	1.65
<b>0.41 - 0.50</b>	1,650,000	1.44	1,650,000	1.44
	<b>19,327,673</b>	<b>3.18</b>	<b>15,215,188</b>	<b>3.02</b>

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements

June 30, 2018 and 2017

(In thousands of U.S. dollars)

In comparison following table summarizes the options outstanding and exercisable as on June 30, 2017:

Exercise price in CAD	Options outstanding		Options exercisable	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
<b>0.00 - 0.10</b>	13,831,000	4.69	10,583,038	4.43
<b>0.11 - 0.20</b>	455,000	0.93	463,097	0.93
<b>0.21 - 0.30</b>	340,000	1.73	286,666	1.69
<b>0.31 - 0.40</b>	310,000	2.14	253,845	2.13
	<b>14,936,000</b>	<b>4.45</b>	<b>11,586,646</b>	<b>4.17</b>

### 6. Basic and diluted loss per share

Basic loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period. The determination of the weighted-average number of shares outstanding for the calculation of the diluted loss per share does not include the effect of outstanding agent options, stock options and warrants since they are anti-dilutive; therefore, 67,261,173 (2017 – 55,302,455) potentially dilutive shares have not been included in the calculation of diluted loss per common share for the six months period ended June 30, 2018 and 2017.

### 7. Related party transactions

In October 2013, a Director and a shareholder of the Company were provided loans totaling \$271 to finance the exercise of 1,317,744 warrants to purchase common shares of the Company (Share Purchase Loans). The Share Purchase Loans matured in October 2016. The 1,317,744 common shares acquired under the loans are pledged as security against the Share Purchase Loans and are held as security by the Company. This receivable amount results in a reduction of common shares outstanding.

During the six months period ended June 30, 2018, the Company incurred \$80 (2017 - \$45) of consultant expenses to a company controlled by the Chief Executive Officer.

### 8. Commitment and contingencies

On March 20, 2018 Leonovus signed an Offer to Lease office space effective June 1, 2018 through March 31, 2030 with one additional five-year renewal option available thereafter at

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements June 30, 2018 and 2017

(In thousands of U.S. dollars)

the same ending rate. The following table provides the tax included gross lease payments for the five years from June 30, 2018 and beyond related to this lease.

Less than one year	\$40
Between one and five years	1,016
Beyond five years	1,490
Total	\$2,546

### 9. Financial instruments

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate and foreign exchange rate risk). The Company's management team carries out risk management with guidance from the Audit Committee under the direction of the Board of Directors. The Board of Directors also provides regular guidance for overall risk management. Management's assessment of the Company's exposure, objectives and processes for managing financial risks, as noted below, has not changed from the prior year, unless otherwise disclosed.

#### *Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and other receivables. The Company's maximum credit risk at June 30, 2018 is \$ 8,179 (December 31, 2017 - \$10,846). Of that total, \$Nil is aged in excess of 60 days. Management does not believe the Company is exposed to significant credit risk.

#### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2018, the Company had cash of \$8,019 (December 31, 2017 -\$10,613) and accounts payable and accrued liabilities of \$1,646 (December 31, 2017 -\$2,140). Management does not believe the Company is exposed to significant liquidity risk.

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at June 30, 2018.

The amounts presented in the below maturity analysis represent the undiscounted future cash flows and as a result, they may differ from the net book value.

# Leonovus Inc.

Notes to the unaudited interim condensed consolidated financial statements  
June 30, 2018 and 2017  
(In thousands of U.S. dollars)

	Future value	2018	2019	2020 and after
	\$	\$	\$	\$
Account Payable and accrued liabilities	1,646	1,646	-	-
Deferred compensation	392	392	-	-
Debentures and notes payable	-	-	-	-
Total financial liabilities	2,038	2,038	-	-

## 10. Segmented information

The Company operates in one operating segment, developing and deploying a leading software-defined object storage solution with governance, risk management and compliance capabilities for the modern enterprise. The Company has not yet reached commercial operations. The Company's property and equipment are held exclusively in Canada as at June 30, 2018 and December 31, 2017.

## 11. Additional information to the consolidated statement of cash flows

Changes in non-cash working capital items:

	June 30, 2018	June 30, 2017
	\$	\$
Prepaid assets and inventory	(61)	(5)
Other receivables	29	49
Accounts payable and accrued liabilities	(525)	(75)
	(557)	(31)

## 12. Capital management

The Company's objective is to maintain sufficient capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable liquidity. The Company currently has not paid any dividends to its shareholders.

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements June 30, 2018 and 2017

(In thousands of U.S. dollars)

There were no changes in the Company's approach to capital management during the period. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

### 13. Prior year re-statement and re-classifications for the six months ending June 30, 2017

During the fourth quarter of year ended December 31, 2017, management identified transactions that were incorrectly accounted for in the six months ended June 30, 2017. As a result, the interim condensed consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the six-month period ended June 30, 2017 were restated to reflect the impact of these transactions as follows:

- i. On February 09, 2017, the Company repaid a Secured Promissory Note valued at \$114 through issuance of 3,000,000 common shares at \$0.05. 3,000,000 warrants were issued with the units and each warrant is exercisable for one common share at CAD \$0.05. The 3,000,000 common shares issued were wrongly valued at \$45 (net of share issuance costs) which has been corrected to \$159, less share issuance costs of \$7 and the 3,000,000 warrants were wrongly valued at \$58 (net of share issuance costs) which has been corrected to \$73, less share issuance costs of \$3. The impact was an increase in equity value by \$117 resulting in an increase in operating loss because of this loss on extinguishment of debt of \$121. Furthermore, the non-cash payback of loan was shown as outflow of \$70 which is corrected to \$Nil.
- ii. On March 10, 2017, the Company completed a non-brokered private placement offering of 26,000,000 units (each unit comprising one common share at \$0.05 and one 24 month warrant exercisable at \$0.10). The 26,000,000 common shares issued were wrongly valued at \$424 (net of share issuance costs) and corrected to \$250, less share issuance costs of \$32. 26,000,000 warrants were wrongly valued at \$467 (net of share issuance costs) and corrected to \$777 (inclusive of \$44K broker warrants), less share issuance costs of \$94. The difference of \$34 was due to increase in share issue cost.

The above noted errors did not have an effect on the three months ended June 30, 2017.

Restated interim condensed consolidated statement of loss  
For the six months ending June 30, 2017

	As reported	restatement of prior period error	Restated
Loss from operations	(717)	-	(717)

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements

June 30, 2018 and 2017

(In thousands of U.S. dollars)

Loss on extinguishment of contractual obligation	-	(121)	(121)
Net loss	(821)	(121)	(950)

Extract – Restated interim condensed consolidated interim statement of Cash flow  
For the six months ending June 30, 2017

	As reported	restatement of prior period error	Restated
<b>Operating Activities:</b>			
Net loss:	(829)	(121)	(950)
Loss on extinguishment of contractual obligation		121	121
<b>Cash flows (used in) operating activities</b>	<b>(710)</b>	<b>-</b>	<b>(710)</b>
<b>Financing Activities:</b>			
Issuance of share capital, net of issuance cost	891	(34)	857
Issuance (repayment) of promissory notes	(70)	70	-
<b>Cash flow provided by financing activities</b>	<b>821</b>	<b>36</b>	<b>857</b>

# Leonovus Inc.

## Notes to the unaudited interim condensed consolidated financial statements June 30, 2018 and 2017

(In thousands of U.S. dollars)

### 14. Expenses by nature:

The details of operating expenses for six months and three months to June 30, 2018, by nature is as follows:

	Six months to		Three months to	
	June	June	June	June
	30,	30,	30,	30,
	2018	2017	2018	2017
<b>Operating expenses</b>	\$	\$	\$	\$
Salaries expenses	924	240	477	87
Share based compensation	91	70	52	9
Consultancy expenses	473	161	320	90
Selling and marketing	89	20	6	0
Legal and professional	294	88	175	47
Travelling	129	22	86	10
Depreciation & amortisation	9	3	8	2
Rent & other facilities expenses	146	33	84	15
Other operating expenses	99	78	25	66
Other administrative cost	4	2	3	0
	<b>2,258</b>	<b>717</b>	<b>1,236</b>	<b>326</b>

### 15. Subsequent Event:

Subsequent to June 30, 2018, 1,000,000 warrants have been exercised out of the outstanding warrants of 47,933,500 for gross proceeds of \$57.

Additionally, subsequent to June 30, 2018, the Company settled with three of the legacy former management employees who were partially unpaid in the past. The settlement amount was \$401 and \$25 for reimbursement of their legal expenses. The settlement would reduce the total accrued compensation as at June 30, 2018 of \$1,750 by \$736, reduce the \$1,358 included in accounts payable and accrued liabilities (See Note 3) by \$583 and reduce the \$392 in deferred compensation (See Note 3) by \$153, resulting in a net gain on settlement of \$310.

# **Leonovus Inc.**

Notes to the unaudited interim condensed consolidated financial statements

June 30, 2018 and 2017

(In thousands of U.S. dollars)