

Leonovus

Management's Discussion and Analysis

Leonovus Inc.

For the year ended December 31, 2019

Leonovus Inc.

For the year ended December 30, 2019
(in thousands of U.S. dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS & RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Leonovus Inc. ("Leonovus" or the "Company") and the notes to those statements as at and for the year ending December 31, 2019.

The accompanying unaudited consolidated financial statements have been prepared by and are the responsibility of Leonovus's management. The audited consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Dollar amounts are expressed in thousands of U.S. dollars unless otherwise noted.

In this MD&A, "we", "us", "our", "Leonovus", and "the Company" refer to Leonovus Inc. and its consolidated subsidiaries, unless the context requires otherwise.

Additional corporate filings are available under the Leonovus profile on SEDAR at www.sedar.com.

Financial information contained herein is expressed in thousands (ooo's) of United States dollars, except share and per share amounts, or as otherwise stated.

FORWARD-LOOKING STATEMENTS

The following MD&A contains forward-looking information and forward-looking statements within the meaning of applicable Canadian securities legislation. Forward-looking information and statements include, but are not limited to, statements with respect to planned development and requirements for additional capital. Except for statements of historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future, constitutes forward-looking statements. The Company cautions that this MD&A may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. Forward-looking statements include those identified by the expressions "will", "may", "should", "continue", "anticipate", "believe", "plan", "estimate", "project", "expect", "intend" and similar expressions to the extent that they relate to the Company or its management. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the MD&A and as discussed in public disclosure documents filed with Canadian regulatory authorities. Forward-looking statements are provided to assist external stakeholders in understanding management's expectations and plans relating to the future as of the date of this MD&A and may not be appropriate for other purposes. Forward-looking statements are made as of the date of this MD&A and Leonovus disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers should not place undue reliance in the Company's forward-looking statements.

BACKGROUND

History

Work Horse Capital & Strategic Acquisitions Ltd., ("Work Horse") incorporated under the Canada Business Corporations Act on December 30, 2008, as a Capital Pool Company ("CPC"), as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Work Horse became a "reporting issuer" on March 24, 2009 and has been listed on the Exchange since June 10, 2009.

On October 29, 2010, Personal Web Systems Inc. ("PWS") completed a reverse takeover transaction with Work Horse, resulting in Work Horse owning all of the issued and outstanding securities of PWS. The acquisition of PWS by Work Horse constituted Work Horse's Qualifying Transaction as defined by the Exchange.

In March 2011, Work Horse's name was changed to Leonovus Inc. (using a new stock symbol "LTV").

Developments

On April 24, 2019, Leonovus announced the successful conversion of a proof of concept with Sherritt International, a multi-national mining resources sector company, to a full product deployment customer, our quickest conversion to date. Sherritt is also one of the Smart Filer beta customers.

On May 21, 2019, Leonovus announced the appointment of Digimax Global Solutions to assist in preparing to issue a Digital Security Offering ("DSO"), also commonly called a Security Token Offering ("STO") in the United States and in other selected global jurisdictions.

On May 30, 2019, Leonovus announced it had engaged Entoro Securities, LLC of Houston, Texas to act as the lead placement agent for the offer and sale of Galaxa's STO called GAAX.

On June 4, 2019, Leonovus announced the appointment of George Pretli as Chief Financial Officer and Corporate Secretary taking over the duties of VP Finance and Chief Financial Officer from Chris Benk.

Leonovus Inc.

For the year ended December 30, 2019

(in thousands of U.S. dollars)

On August 13, 2019 Leonovus announced and launched the free Data Discovery Tool with 65 downloads as of December 31, 2019.

On November 5, 2019, Leonovus announced and launched Smart Filer along with a special promotion with Wasabi Inc.

The FIPS 140-2 certification process remains ongoing. During the first week of February 2020, the Company was moved further along in the Modules in Process list. The module is now in the Coordination phase. The means the Cryptographic Module Validation Program (CMVP) has begun its detailed review of the tester's report and has begun coordinating their review feedback with our tester. Our status is officially "Coordination". The tester's estimates are in line with Company expectations to receive certification in the first half of 2020 because of the backlog created by the US government shutdown in early 2019. The FIPS 140-2 certification continues unabated from 2018 into 2020 and the Company believes it is close to final certification.

On February 27, 2020, Leonovus announced the signing of a Letter of Intent ("LOI") to purchase PureColo Inc ("PureColo"). PureColo is a Canadian colocation (or "colo") company with headquarters at 390 March Road, Ottawa, Ontario. Closing of the Proposed Transaction is conditional upon Leonovus completing a concurrent private placement to raise a minimum of \$5,000 Canadian dollars.

A colocation data centre, like the one operated by PureColo, permits customers to co-locate their IT infrastructure alongside those of other customers. It is considered a step between customers managing their own servers on-premises and moving their apps and data to the cloud. Adding Leonovus Vault and Smart Filer technology further differentiates the services of the colo by allowing customers to analyze their data and optimize where it is stored while ensuring it remains both available and secure.

Understanding our Business and Outlook

Leonovus 'Vault' is a software-based multi-cloud data controller solution that enables efficient, secure and cost-effective use of on-premises, private and public cloud storage. Leonovus abstracts the mix of storage infrastructure used by providing a single set of storage targets and ensures that a consistent set of security and compliance policies are applied to all data stored.

Leonovus 'Data Discovery Tool' is a software-based solution that characterizes the data stored on it. Data Discovery Tool is storage vendor agnostic and can work in a variety of environments. Our customers can use the tool to inventory their file servers by visualizing the types of files and the mix of active versus infrequently accessed data that they contain. Midway through the third quarter this year, Leonovus launched the free tool which allows customers to visualize their file storage profile and create reports that include the number of files and the amount of storage they consume according to file type and the date they were last accessed. The Data Discovery Tool generates concurrent reports for multiple file servers including time series data and reporting downloads. The application safely scans services and indexes data without modifying the source information. Leonovus's new tool provides the insight that customers need to develop a file storage strategy that addresses exponential data growth by tiering out infrequently accessed ("cold") data.

Leonovus 'Smart Filer' was launched on November 5, 2019 and is the next evolution of the product strategy. Smart Filer allows customers, who have developed a file storage strategy (using the Data Discovery Tool), to extend their file server infrastructure with unlimited, inexpensive cold storage. Infrequently accessed files are off-loaded automatically and transparently to secondary or cloud storage according to policies they configure. Users and their applications continue to access these files as they did before. The Smart Filer solution is designed to solve the problem where companies have an immediate storage growth problem and need a simple and transparent way to manage data storage.

Leonovus Smart Filer migrates data from file servers to secondary or cloud storage, freeing capacity while ensuring that data remains accessible throughout the migration process. Data migration is performed seamlessly and automatically based on policy defined by the company. Smart Filer first scans file shares and generates reports on the data. Last-access reports present a view of the number of files and total storage dedicated to them, according to how frequently they are accessed. File type reports indicate the number of files and total storage dedicated to each type of file (for example, documents, media, and so on). Using report information, users configure policy to off-load files matching the criteria they define to designated targets, including on-premises secondary storage and cloud storage services. Smart Filer makes at-capacity file servers "bottomless" by leveraging much cheaper secondary and cloud storage without affecting user experience. Smart Filer and Vault are directly plug compatible, deploying separately and integrating with each other in minutes.

Leonovus Smart Filer bundled with cloud storage Wasabi Inc. ("LeoCloud"), was also launched on November 5, 2019. LeoCloud is the internal name used by Leonovus to aggregate a number of cloud data storage providers under one brand. LeoCloud is a precursor or very basic facsimile of the Galaxa project. LeoCloud has the potential to evolve and expand into our vision of the Galaxa project however, our primary focus is on Smart Filer. Our primary focus is the launch of Smart Filer, LeoCloud and leveraging our historical investment in the Vault technology.

Our first LeoCloud offering is via a partnership with Wasabi Inc. Wasabi is the Hot Cloud Storage company delivering disruptive storage technology that is 1/5th the price of Amazon S3, faster than the competition with no fees for egress or API requests. Unlike first-generation cloud vendors, Wasabi is solely focused on providing the world's best cloud object storage service.

Leonovus Vault technology gives the customer flexibility with uncompromising security. It decouples a firm's data from the underlying infrastructure by encrypting it, shredding it into digital fragments, then distributing these fragments to customer defined endpoints that can be any combination of on-premises storage servers and storage services from one or more public cloud vendors. This secure data plane uses Federal Information Processing Standard (FIPS 140-2) compliant encryption and contributes to improved regulatory compliance and enhanced business continuity while minimizing cloud vendor lock-in and increasing data

Leonovus Inc.

For the year ended December 30, 2019

(in thousands of U.S. dollars)

mobility and storage flexibility. Leonovus introduced blockchain software to its overall software platform to provide an immutable, cryptographically verifiable 'chain of custody' for all data stored.

Leonovus' technology focuses on applying data-centric, rather than infrastructure-centric, security and compliance controls. The ultra-secure data, built-in redundancy and delivers more efficient data resiliency than is provided by traditional solution encrypts data with customer-controlled keys, shreds it and spreads it across multiple endpoints. This approach provides data replication techniques. If there is a loss of a storage node or if a device is hacked, the exposure is an indecipherable fragment of an encrypted data object. The Leonovus architecture enables both geo-fencing of data to address data residency and geo-diversity through the storage of redundant data fragments across several regions to allow businesses to continue operating without loss or exposure of their data. If a conventional data center is hit by a hurricane or other catastrophe, the data may be lost. While an enterprise may back up its data in multiple data centers, this comes with an additional cost and does not solve the risk of their data being hacked or corrupted by a computer virus based on the data being in a single location.

Why acquire a colocation data centre? A colocation data centre, like the one operated by PureColo, permits customers to co-locate their IT infrastructure alongside those of other customers. It is considered a step between customers managing their own servers on-premises and moving their apps and data to the cloud. Adding Leonovus Vault and Smart Filer technology further differentiates the services of the colo by allowing customers to analyze their data and optimize where it is stored while ensuring it remains both available and secure. This acquisition provides an additional revenue stream for the Company along with a complimentary product offering to our Vault and Smart Filer technologies.

Industry Outlook

The compounded annual growth rate for unstructured data is between 30% and 40% according to Gartner. This exponential growth in the amount of data created each year, coupled with the mandate to preserve data for years, often decades, presents opportunities for specific cloud offerings based on the continuing high growth of connected devices. Regarding deployment architectures, cloud services are currently undergoing a significant paradigm shift involving the Internet of Things (IoT) and the emergence of distributed edge computing. This shift is opening edge-based data to meaningful analysis, by spreading the analytic workloads across the network. Leonovus is well positioned with its technology to capitalize on the data storage growth trends in cloud computing.

REVENUE OUTLOOK

Leonovus launched the Data Discovery Tool ("DDT") application on August 13, 2019. The DDT is a subset of Smart Filer. Beta trials of Smart Filer were started in September and launched on November 5.

While demonstrating our technology to over sixty Managed Service Providers ("MSPs") at conferences in Las Vegas and Anaheim in October 2019, their feedback indicated a robust immediate need for our technology. Further, Smart Filer was nominated for 'Xcellence Technology Solution' award at the NexGen 2019 conference. The Company is now actively recruiting channel partners to market and sell Smart Filer and Vault.

The Business in Canada Innovation Program ('BCIP') with the Government of Canada ("GoC") has awarded Leonovus a contract in February 2020. The total estimated contract price is \$436 CND. Work has already begun on the project and as of the date of this document Leonovus has successfully delivered its software and has received an instalment payment of \$326 CND. Revenues from this project will begin in Q1 and run through Q1 2021. These revenues will be based on installation of our Vault technology, testing and support. The Government of Canada is also at this time in the early stage of investigating the use of Smart Filer.

Assuming the closing of the financing to acquire PureColo the combined annual revenues of Leonovus and Purecolo in 2020 would be expected to be in the range of \$1-1.3M.

Galaxa Digital Security Offering

The Company faced marketplace challenges regarding the funding of the Galaxa project, and as previously announced, has decided not to pursue this method of financing.

SELECTED FINANCIAL INFORMATION

Results of Operations

The following selected financial data is derived from the December 31, 2019, audited consolidated financial statements of the Company prepared in accordance with IFRS. The Company's presentation currency is in 000's of U.S. dollars.

Leonovus Inc.

For the year ended December 30, 2019
(in thousands of U.S. dollars)

	Years ended	
	2019	2018
Revenue	\$ 24	\$ 14
Expenses		
General and administrative	1,466	2,352
Research and development	1,962	1,155
Sales and marketing	1,104	1,570
	<u>4,532</u>	<u>5,077</u>
Loss from operating activities	(4,508)	(5,063)
Non-operating earnings (expense)		
Change in fair value of outstanding warrants	-	419
Foreign exchange loss	(38)	(277)
Finance costs	(83)	(3)
Loss due to fraud	(564)	-
Net loss	<u>(5,193)</u>	<u>(4,924)</u>
Net loss per share		
Basic and diluted	\$ (0.02)	\$ (0.02)

The Company incurred a net loss of \$5,193 for the year ended December 31, 2019 compared to a net loss of \$4,924 for the previous year. The Company had ramped up expenses in the mid to latter part of 2018 totaling \$5,077 for the year, and since Q2 2019 was able to reduce expenses to a total of \$4,532 for 2019. The Company expects expenses to be significantly lower in 2020.

Revenue

The Company had revenues of \$24 during the year ended 2019 compared to \$14 for the previous year.

General and administrative expenses

General and administrative ("G&A") expenses consist primarily of administrative salaries and independent contractors remuneration. The Company incurred G&A expenses of \$1,466 for the year ended December 31, 2019 compared to \$2,352 for the year ended December 31, 2018. Other significant items included in G&A are legal, audit and professional fees, stock exchange compliance fees, insurance and other operating expenses. Amortization expense is significantly higher as the Company has adopted the new accounting standard for leases under IFRS 16. The amortization of the leased space, or right-of-use asset, will continue throughout 2020.

Leonovus discovered on February 24, 2019 that it had been the victim of a sophisticated fraud scam, suffering a loss of \$564. The scam was orchestrated by various external parties in Singapore, Zurich, Switzerland and Milan, Italy. The losses suffered as a result of this scam had nothing to do with Leonovus products or its core technology and at the time did not affect the ongoing operations or business of Leonovus.

Research and development

Research and development ("R&D") expenses consist primarily of engineering personnel and independent contractors remuneration. Other significant items include license fee expenses and other occupancy costs for our engineering personnel. R&D expenses for year ending December 31, 2019, were \$1,962 compared to \$1,155 for the previous year. For 2019, the Company recorded a reduction of \$153 (2018 - \$141) in R&D expenses based on the refundable Scientific Research and Experimental Development tax incentive from the Canadian government. The Company expects R&D expenses to be lower in 2020 as cost saving measures are realized.

Sales and marketing expenses

Sales and marketing expenses consist primarily of compensation, travel costs, public relations and tradeshow costs. Sales and marketing expenses for 2019 were \$1,104 compared to \$1,570 for year ended 2018. All areas within sales and marketing expenses have declined in 2019 and are expected to continue to decline in 2020 as the Company has budgeted a lower amount. However, the expense may vary from current levels based on sales opportunities.

Expenses incurred by the Company can be further broken down as follows:

Leonovus Inc.

For the year ended December 30, 2019
(in thousands of U.S. dollars)

	2019	2018
Salaries expense	\$ 2,327	\$ 1,666
Benefits	\$ 246	\$ 393
Stock-based compensation	\$ 114	\$ 183
Consultancy expenses	\$ 389	\$ 714
Selling and marketing	\$ 187	\$ 507
Legal and professional	\$ 615	\$ 692
Travel	\$ 113	\$ 261
Depreciation and amortization	\$ 136	\$ 40
Rent and other facilities expense	\$ 185	\$ 367
Software, subscriptions and license	\$ 126	\$ 159
Other operating expenses	\$ 57	\$ 89
Other administrative costs	\$ 37	\$ 6
	<u>\$ 4,532</u>	<u>\$ 5,077</u>

Cash flows

The Company's cash position was \$545 at December 31, 2019 compared to \$3,609 at December 31, 2018.

Cash outflows from operating activities for the year ended December 31, 2019 were \$4,707 compared to outflows of \$6,887 in 2018. The Company expects further outflows from operating activities and expects fluctuations in working capital for the remainder of the 2020 year.

Financing activities in brought in cash of \$1,566 compared to \$1,180 in 2018. Share capital in the amount of \$1,560 was realized from the exercise of warrants and \$6 was realized from the exercise of stock options. In 2018 \$1,233 was realized by the issuance from the exercise of warrants and stock options. In 2018, the Company repaid a note payable of \$50 in full and no further loans or payments were made.

Investing activities was the result of cash used for leasehold improvements and furniture and fixtures of \$70 in 2019 compared to \$955 in 2018. The amount in 2018 was higher due to investing in the setup of newly leased building and the purchase of new furniture and fittings.

Liquidity and Capital Resources

Working capital at the end of December 2019 was \$39 compared to \$3,024 at the end of 2018. The decrease in working capital at the end of the December 31, 2019, is mainly due to cash consumed in general business activity in terms of continued research and development and sales and marketing and administrative costs. Furthermore, the Company discovered on February 24, 2019 that it had been the victim of a sophisticated fraud suffering a cash loss of \$564. The Company expects working capital to fluctuate throughout 2020.

Related party transactions

During 2019, the Company expensed \$46 as compensation to independent directors within general and administrative expenses in the statement of operations. The expense for 2018 was \$48.

During the year 2019, the Company incurred \$148 of consultancy expenses to a company controlled by the Chief Executive Officer compared to \$158 for year ending 2018. The decrease year-over-year is due to the fluctuation in foreign exchange rates.

During the fiscal year ended December 31, 2019, 1,196,000 warrants were exercised for \$41 with a fair value of \$74 by a company controlled by the Chief Executive Officer.

During the fiscal year ended December 31, 2019, the Company incurred \$34 of consultant expenses by the Chief Financial Officer.

Outstanding share data

The share capital of the Company consists of an unlimited number of common shares, without par value. All shares are equally eligible to receive dividends, the repayment of capital and represent one vote at the shareholders' meetings.

During the year ended December 31, 2019, there were 26,486,000 shares issued resulting from the exercise of warrants and 130,215 issued from the exercise of stock options. During the year 2018, there were 16,870,000 shares issued from the exercise of warrants and 435,410 shares issued from the exercise of stock options. During 2019, gross proceeds of \$1,560 were received from the exercise of warrants with a fair value of \$818 and gross proceeds from the exercise of options was \$6. In 2018, 16,870,000 warrants were exercised for gross proceeds of \$1,211 and 435,410 options were exercised for gross proceeds of \$22. The fair value of the warrants and options exercised and converted into share capital was \$492 and \$12 respectively.

Leonovus Inc.

For the year ended December 30, 2019

(in thousands of U.S. dollars)

At December 31, 2019, and as of the date of this Management Discussion and Analysis, there were 285,446,639 common shares outstanding.

Outstanding warrant data

On December 8, 2019, all outstanding warrants (13,750,000 at \$0.65) expired and therefore as at December 31, 2019, there were no warrants outstanding.

Review of quarterly operating results

(in 000's of U.S. dollars)

	In accordance with IFRS							
	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 5	\$ -	\$ 19	\$ -	\$ 3	\$ 11	\$ -	\$ -
Cost of services	-	-	-	-	-	-	-	-
Gross profit	5	-	19	-	3	11	-	-
Total operating expenses	1,169	1,010	796	1,557	1,262	1,557	1,236	1,022
Loss from operating activities	\$ (1,164)	\$ (1,010)	\$ (777)	\$ (1,557)	\$ (1,259)	\$ (1,546)	\$ (1,236)	\$ (1,022)
Change in fair value of outstanding warrants	-	-	-	-	(3)	68	53	301
Gain (loss) on foreign exchange	3	(20)	(3)	(18)	(59)	(155)	(46)	(17)
Finance costs	9	(17)	(38)	(38)	-	-	(1)	(2)
Loss due to fraud				(564)				
Net loss before income taxes	\$ (1,152)	\$ (1,047)	\$ (818)	\$ (2,177)	\$ (1,321)	\$ (1,633)	\$ (1,230)	\$ (740)

Calculation of adjusted EBITDA earnings from operations

	Non-IFRS financial measurement							
To net loss before taxes add:								
Loss on extinguishment of contractual obligation	-	-	-	-	3	(68)	(53)	(301)
Gain (loss) on foreign exchange	(3)	20	3	18	59	155	46	17
Finance costs	(9)	17	38	38	-	-	1	2
Amortization of property and equipment	31	38	37	30	-	9	1	1
Share-based compensation	43	22	36	13	79	52	39	85
Adjusted EBITDA¹	\$ (1,090)	\$ (950)	\$ (704)	\$ (2,078)	\$ (1,180)	\$ (1,485)	\$ (1,196)	\$ (936)

¹Adjusted EBITDA

Adjusted EBITDA is a non-IFRS financial measure, which is defined as earnings before income tax expense, financing costs, depreciation and amortization, and impairment charges.

Management believes that Adjusted EBITDA is an important indicator of the Company's ability to generate liquidity through operating cash flow to fund future working capital needs, fund future capital expenditures and uses the metric for this purpose. We calculate Adjusted EBITDA by adding back to net earnings (loss) before taxes the finance costs, amortization expense, change in the fair value of contingent payments and stock-based compensation expenses. Adjusted EBITDA is also used by investors and analysts for the purpose of valuing an issuer. The intent of Adjusted EBITDA is to provide additional useful information to investors and analysts and the measure does not have any standardized meaning under IFRS. Adjusted EBITDA should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate Adjusted EBITDA differently.

Galaxa Expenditures

During the latter half of 2018 Leonovus began incurring expenditures for the Galaxa marketplace totaling \$302. These costs were mainly for legal expenses (\$109) related to understanding how to issue digital securities, marketing costs (\$153) related to consulting, conferences and investor relations, and travel costs (\$40) related to promoting Galaxa. As of this date, the Company has stopped investing into the Galaxa project and \$Nil was incurred in 2019.

ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards. These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 23, 2020.

Leonovus Inc.

For the year ended December 30, 2019

(in thousands of U.S. dollars)

Critical accounting estimates and judgments

The Company's consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts presented and disclosed in the consolidated financial statements. Management reviews these estimates and assumptions on an ongoing basis based on historical experience, changes in business conditions and other relevant factors as it believes to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Estimation uncertainty

Contracts with clients

Contracts with clients often include promises to deliver multiple products and services. Determining whether such bundled products and services are considered, i) distinct performance obligations that should be separately recognized, or ii) non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require significant judgment. In general, the Company's professional services are capable of being distinct as they could be performed by third party service providers and do not involve significant customization of the licensed software.

Useful lives of depreciable assets

The useful lives of depreciable assets have been determined based on management estimated utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

Share-based compensation

The estimation of share-based compensation requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the forfeiture rate of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

Warrants

In calculating the value of the warrants, key estimates such as the value of the common share, the expected life of the warrant, the volatility of the Company's stock price and the risk-free interest rate are used.

Incremental borrowing rate

For property leases, the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Company determines the incremental borrowing rate as the rate of interest that the lessee would pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Significant management judgments

Assessing the stage of completion of revenue

The stage of completion of revenue is assessed by Management by taking into consideration all information available at the reporting date. In this process, management estimates for each project's milestones, actual work performed, the costs to complete the work and the value of the work completed. Further information on the Company's accounting policy for revenue recognition is provided in Note 2(j) to the consolidated financial statements.

Recognition of deferred tax assets

Deferred tax assets are recognized for unused tax losses and credits to the extent that it is probable that taxable income will be available against which the losses can be utilized. These estimates are reviewed at every reporting date. Information about assumptions and estimation based upon the likely timing and the level of the reversal of existing timing differences, future taxable income and future tax planning strategies, is included in Note 15 to the consolidated financial statements. The tax rules in the numerous jurisdictions in which the Company operates are also taken into consideration.

Research and development

Research costs are expensed as incurred. Development costs are deferred and amortized when the criteria for intangible assets are met, or otherwise, are expensed as incurred. To date, no development costs have been deferred.

Investment tax credits

Leonovus Inc.

For the year ended December 30, 2019

(in thousands of U.S. dollars)

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. These credits can be applied against future income taxes payable and are subject to a twenty-year carry forward period. If the Company is not in a taxable position a portion of these credits, are cash refundable.

Investment tax credits are accounted for as a reduction of operating expenses and are accrued as qualifying expenditures are made provided it is probable that the credits will be realized. To date the Company has only accrued the amount of tax credits that are refundable as an offset to research and development expense.

Functional currency

In assessing the functional currency, each entity within the Company determines its own functional currency, and the items included in the financial statements of each entity are measured using that functional currency. The functional currency determination involves certain judgments in evaluating the primary economic environment, and the Company reconsiders the functional currencies of each entity if there is a change in the underlying transactions, events and conditions which determine the primary economic environment.

Going concern risk assessment

The assessment of the Company's ability to continue as a going concern and raising debt or equity financing or attaining commercial operations and generating sufficient revenues to achieve and sustain profitability for the ensuing year, and to fund planned research and development activities, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events. When contingencies exist, Management estimates the related financial impact to the Company based on the possible outcomes of one or more future events.

Management's Conclusion on the design of Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure and internal controls and procedures as at December 31, 2019 and have concluded that the Company's controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, was made known to them and reported as required, particularly during the period in which this report was being prepared.

Management's Conclusion on the effectiveness of Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2019 and have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

CORPORATE GOVERNANCE

The four-person Board of Directors of Leonovus Inc. is composed of three independent directors who are not related to the Company. One director has been appointed as the Chairman of the Board of Directors and as Chief Executive Officer of the Company. The three independent directors fulfil the Audit Committee and all directors fulfil the Compensation Committee mandates. The Board and Management will continue to ensure compliance with regulatory requirements.

RISKS AND UNCERTAINTIES

Going concern

The preparation of consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") contemplates the continuation of the Company as a going concern. During the year ended December 31, 2019, the Company has not generated sufficient revenues to achieve and sustain profitability, has a net loss of \$5,193 and as of December 31, 2019 had a deficit of \$35,765. The Company has cash and short-term investments of \$583 and a positive working capital of \$39. In the absence of raising additional debt or equity financing or generating sufficient revenues to achieve and sustain profitability, there is a material uncertainty that casts significant doubt regarding the Company's ability to continue as a going concern.

The Company will require revenue from its products and new financing to continue as a going concern in its present form. However, there can be no assurance that the Company will achieve such results. The consolidated financial statements do not include any adjustments related to recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities that might be necessary should the Company be unable to continue its operations. The Company's ability to realize its assets and discharge its liabilities is dependent on its ability to obtain additional financing.

Leonovus Inc.

For the year ended December 30, 2019

(in thousands of U.S. dollars)

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 the financial statements, then adjustments would likely be necessary in the carrying amounts of assets and liabilities, expenses, the accumulated deficit and the classification used in the consolidated statement of financial position. These adjustments could be material.

Evolving Business Model

The Leonovus Inc. business model continues to evolve. Leonovus seeks to develop and promote new or complementary solutions and products to expand the breadth and depth of its offerings. There can be no assurance that Leonovus Inc. will be able to expand its operations in a cost-effective or timely manner or that any such efforts will create, maintain or increase overall market acceptance.

Lengthy and Complex Sales Cycle

Leonovus sales efforts target large companies requiring Leonovus to expend significant resources educating prospective customers about the uses and benefits of Leonovus products. Because the purchase of Leonovus's solution is a significant decision for these companies, prospective customers generally take a long time to evaluate the product. The sales cycle may range from twelve months to two years for larger accounts, although these cycles can be longer due to significant delays over which Leonovus has little or no control.

Dependency on Key Personnel

Leonovus's success will depend upon the continued service of its senior management team. Leonovus employees may voluntarily terminate their employment with Leonovus at any time. The loss of services of key personnel could have a material adverse effect upon Leonovus's business, financial condition and results of operation.

Future Capital Needs

Leonovus may need to raise funds through public or private financing in the event that Leonovus incurs further operating losses or requires substantial capital investment or in order for Leonovus to respond to unanticipated competitive pressures or to take advantage of unanticipated opportunities. There can be no assurances that additional financing will be available on terms favorable to Leonovus or at all.

Foreign Exchange Exposure

Leonovus continues to seek expanding its operations into the US market. Fluctuations in the currency exchange rate may affect the revenue and operations of the company. The potential effect of the currency exchange rate fluctuations will be magnified as the percentage of sales to the US market grows. Also, Leonovus uses the US dollar as its financial presentation currency.

Cybersecurity

Security breaches and other disruptions to our information technology networks and systems could interfere with our operations and could compromise the confidentiality of private customer data or our proprietary information. While we attempt to mitigate these risks by employing a number of measures, including employee training, monitoring and testing, and maintenance of protective systems and having developed contingency plans, we remain potentially vulnerable to additional known or unknown threats. We collect and store sensitive data including intellectual property, proprietary business information as well as personally identifiable information of our customers and employees in data centers and on information technology networks. The secure operation of these networks and systems is critical to our business operations and strategy. Despite our efforts to protect sensitive, confidential or personal data or information, we may be vulnerable to security breaches, theft, misplaced or lost data, programming errors, employee errors and/or misconduct that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems, unauthorized access, use, disclosure, modification or destruction of information, production downtimes and operational disruptions. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness, remediation or increased protection costs, litigation or regulatory action.

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.

The Company is not subject to any statutory capital requirements and has no commitments, other than its office space lease and options, to sell or otherwise issue common shares.

There were no changes in the Company's approach to capital management during the period.

Leonovus Inc.

For the year ended December 30, 2019

(in thousands of U.S. dollars)

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

FINANCIAL INSTRUMENTS

The Company's financial instruments and the nature of the risks which they may be subject to are set out in the following table.

	Risks			
	Market			
	Credit	Liquidity	Foreign Exchange	Interest Rate
Cash	Yes		Yes	
Short term investments	Yes			
Trade receivables	Yes		Yes	
Trade and other liabilities		Yes	Yes	
Deferred compensation		Yes	Yes	

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 short-term investment. The Company's maximum credit risk at December 31, 2019 is \$583 (December 31, 2018 - \$3,665). Of that total, \$Nil is aged in excess of 60 days. Management does not believe the Company is exposed to significant credit risk.

Cash

Cash consists of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested in Schedule 1 chartered Canadian Banks.

Short term investments

Short term investments are comprised of liquid investments with maturities between 3 and 12 months. Credit risk associated with short term investments is minimized substantially by ensuring that these financial assets are invested in Schedule 1 chartered Canadian Banks

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Management has significantly reduced expenses over the last 6 months and continues to monitor the Company's expenses carefully. As at December 31, 2019, the Company had cash and short-term investments of \$583 (December 31, 2018 - \$3,646) and accounts payable and accrued liabilities of \$275 (December 31, 2018 - \$1,045) providing a current ratio of 1.05:1 (December 31, 2018 - 3.54:1). 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 December 31, 2019.

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.

	Future value	2020	2021	2022 and after
	\$	\$	\$	\$
Trade and other liabilities	275	275	-	-
Deferred compensation	458	458	-	-
Long term lease liability	1,256	80	120	1,056

Leonovus Inc.

For the year ended December 30, 2019
(in thousands of U.S. dollars)

Total financial liabilities	1,989	813	120	1,056
-----------------------------	-------	-----	-----	-------

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of a financial instrument or its future cash flows. The Company is not at this time subject to market risk.

SHARES

The Company has an unlimited number of no-par common shares authorized for issuance with 285,446,639 (December 31, 2018 - 257,512,680) shares outstanding

2019 Issuances

During period to March 31, 2019, 24,314,000 warrants and 2,172,000 broker warrants were converted in to shares for gross proceeds of \$1,560. The fair value of the warrants exercised and converted into share capital was \$818.

On January 22, 2019, a settlement was reached with Mr. Gordon Campbell, a former CEO and director of the Company, calling for 1,317,744 shares to be released from escrow. There are currently no shares held in escrow.

On August 8, 2019, options in the amount of 130,215 were exercised and converted into shares for gross proceeds of \$6.

During fiscal year 2019, 16,959,500 warrants expired. The fair value of \$2,546 was offset against contributed surplus.

2018 Issuances

During fiscal year 2018, 16,870,000 warrants were converted in to shares for gross proceeds of \$1,211 and 435,410 options were exercised and converted into shares for gross proceeds of \$22. The fair value of the warrants and options exercised and converted into share capital was \$492 and \$12 respectively.

SUBSEQUENT EVENTS

On February 27, 2020 Leonovus announced the signing of a Letter of Intent ("LOI") to purchase PureColo Inc. PureColo Inc is a Canadian colocation company with headquarters at 390 March Road, Ottawa, Ontario. Closing of the Proposed Transaction is conditional upon Leonovus completing a concurrent private placement to raise a minimum of \$5,000 CND.

The Business in Canada Innovation Program ('BCIP') with the Government of Canada ("GoC") has awarded Leonovus a contract in February 2020. The total estimated contract price is \$436 CND. Work has already begun on the project and as of the date of this document Leonovus has successfully delivered its software and received an instalment payment of \$326 CND. Revenues from this project will begin in Q1 and run through Q1 2021.

Subsequent to December 31, 2019, financial markets have been negatively impacted by the novel Coronavirus or COVID-19, which was declared a pandemic by the World Health Organization on March 12, 2020. This has resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on our future financial results.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The accompanying consolidated financial statements of Leonovus Inc. and all information contained herein are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements include some amounts that are based on management's best estimates that have been made using careful judgment.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Financial and operating data elsewhere in the report are consistent with the information contained in the financial statements.

Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded, and the financial records are reliable for preparing the consolidated financial statements.

The Board of Directors carries out its responsibility for the financial statements. The Board of Directors meets periodically with management and with the external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the consolidated financial statements and financial reporting matters.

Additional information about the Company such as the 2019 audited consolidated financial statements can be found on SEDAR at www.sedar.com.