

Leonovus

REVISED

Management's Discussion and Analysis

Leonovus Inc.

For the year ended December 31, 2020

Dated May 7, 2021

Note to reader:

This Management's Discussion and Analysis has been revised to include the effective date of May 7, 2021. No other revisions were made.

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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, 2020.

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").

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

Dollar amounts are expressed in thousands of Canadian dollars unless otherwise noted.

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

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.

ONGOING COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Company's environment and measures being introduced at various levels of government to curtail the spread of the virus such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing, may have a material impact on the company's operations. Furthermore, our employees and contractors could be affected by COVID-19 that could result in a reduction in our workforce due to illness or quarantine which could result in the disruption of our operations or hinder the Company's ability to secure financing. Revenues in 2020 were affected as certain contracts expected to have been completed by year-end, were extended and completed in the first quarter of 2021. This timing delay also delayed the opportunity to re-sign these clients to on-going agreements until after the first quarter of 2021. Current measures may continue and increase depending on developments in the outbreak making it uncertain for the Company to determine the ultimate severity and the extent of the impact on its operations.

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 February 20, 2020, Leonovus announced it has been awarded a \$435,000 CND contract with the Canadian Federal Government through the Innovation Solutions Canada Program. The Company expects to perform the work and recognize the revenue in the first three quarters of 2020. The contract involves the Department of Justice Canada and the Department of National Defense Canada.

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The completion was later delayed as a result of the effect of COVID-19.

On February 27, 2020, Leonovus announced the signing of a Letter of Intent ("LOI") to purchase Pure, Colo 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 \$5,000,000.

On April 23, 2020, Leonovus announced it had received FIPS 140-2 validation of its cryptographic subsystem from the National Institute for Security Technology and the Communications Security Establishment. The Leonovus Cryptographic Module is an integral component of both the Smart Filer and Vault products. As attested in its validation, the Leonovus Cryptographic Module protects important data on-premises, in transit and in the cloud.

In April 2020, Leonovus developed and submitted two proposals to the Canadian federal government for public health data monitoring using the company's Smart Filer and Vault technology – along with a business intelligence software partner. A known issue with COVID-19 is the lack of pan-Canadian real-time consolidated hospitalization and critical care data for researchers, public health officials and policy makers.

On June 3, 2020, Leonovus proposed a countrywide real-time COVID-19 Data Lake and Analytics Solution called Consolidata, which automatically captures and consolidates COVID-19 data from any data source, collating it into a repository with an analytics engine which public health, researchers, security and defence managers/experts need for a national solution for consolidated and actionable information regarding COVID-19 hospitalizations, hotspots, testing, critical care, contact tracing/containment, research and treatment.

On June 19, 2020, Leonovus announced that given the current economic environment, it was unable to secure financing to purchase the shares of PureColo Inc. and, effective June 18, 2020, has terminated the Letter of Intent announced March 5, 2020.

On September 14, 2020, Leonovus announced that it had entered into a secured loan agreement in the principal amount of \$395,000 CAD with a twelve-month term bearing interest of 8% per annum. Lenders received a bonus of 3,160,000 common shares of the Company at a deemed issue price of \$0.025 CAD per share, representing 20% of the net amount of the total Loan. All bonus shares are subject to a hold period of four months and one day from the date of issuance.

On October 22, 2020, Leonovus announced that it had received TSX Venture Exchange approval for the consolidation of the Company's common shares on the basis of thirty (30) pre-consolidation for one (1) post-consolidation share previously passed by way of resolution at a Special Meeting of Shareholders held October 8, 2020. The effective date of the consolidation was October 26, 2020.

On December 31, 2020, Leonovus announced it had closed a private placement for \$1,580 by way of issuance of 5,133,193 Units at a price of \$0.375 per Unit. Each Unit includes one common share in the capital of the Company and one common share purchase warrant. Each warrant entitles the holder to buy one common share for a period expiring in twelve months after issuance for \$0.60 per common share. If after four months and one day following the closing date the fifteen-day volume weighted average price of the common shares on the TSX Venture Exchange is equal to or exceeds \$1.00, the Company has the right to notify the holders of warrants of its intention to force the exercise of the warrants. Upon such notice, the warrant holders shall have sixty days to exercise their warrants, failing which the warrants will automatically expire.

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. Use the tool to inventory your 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 2019, 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 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 and to manage highly active ("hot") data by transitioning it into a data pipeline for real time analytics.

Leonovus 'Smart Filer' was launched on November 5, 2019 as 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. Smart filer's policy-driven automation engine provides for cost management through data tiering and near real time data driven analytics and insights.

In the data tiering role, 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

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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 you 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.

With its data driven analytics role, added in 2020, Smart Filer enables the automated, policy-based, continuous selection of data to be migrated to a targeted destination. This selection of data in real time can be used to securely feed a data analytics pipeline, extracting the data directly from its source and loading it into, a data pipeline, data lake, or data warehouse to source for analytics. With real time data feeding the pipeline, the company gains insights and more responsive outcomes based on its live data, while maintaining control and governance over the data in the process.

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) certified encryption and contributes to improved regulatory compliance and enhanced business continuity while minimizing cloud vendor lock-in and increasing data mobility and storage flexibility. For more information on our FIPS140-2 certification see below.

Leonovus' technology focuses on applying data-centric, rather than infrastructure-centric, security and compliance controls. The solution encrypts data with customer-controlled keys, shreds it and spreads it across multiple endpoints. This approach provides ultra-secure data, built-in redundancy and delivers more efficient data resiliency than is provided by traditional 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.

On February 23, 2021, the Company announced the beta launch of its new XVault product. our market research identified an enterprise need for more secure and real-time ways to transfer and share data in both the public and private sectors. International trade negotiations, public safety, military communication, mergers and acquisitions, legal communications are only a few markets requiring a secure data sharing solution. Several organizations indicated they continue to put sensitive data on USB sticks, and trusted staff fly, drive or walk the data to its destination. The obvious risk of these delivery methods combined with the non-real-time access to the data is a significant problem. XVault is a key new innovation and feature integrated with our overall smart and secure data management solution.

XVault is a highly Secure Remote File Sharing (SRFS) solution for real-time remote sensitive information sharing or transfer. The SRFS is multi-point with a powerful unique, protocol-independent data protection innovation. The system protects data by destroying it. At no time in transit, in-flight or at-rest, is the data in a readable format, regardless of the transport protocol. The UI is seamless and straightforward for users with a verifiable data flow and avoids any data exposure.

XVault has four key features;

- Real-time, hyper-secure remote data sharing for classified and sensitive data; protocol-independent, not relying on SSL or TLS for security.
- A data-centric security solution that reduces cyber threat surfaces.
- Platform agnostic, point to point, point to multi-point and multi-point to multi-point secure data sharing.
- Simple configuration and operations that require minimal administrative and no user training.

Competing in an increasingly AI insight-driven world, enterprises are becoming more aware of the importance of real-time data sharing with remote locations and with third-party sources. In a recent Accenture survey, thirty-six percent of executives indicated that the number of organizations they partnered with had doubled or more in the last two years and that 71 percent of executives anticipate the volume of data shared within these ecosystems to increase. The Harvard Business Review Analytics Services Survey found that 78 percent of companies highlighted the ability to easily access and combine data from various external sources as very

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important for a data-driven enterprise. However, only 23 percent said they were currently very effective in this area, and only 15 percent shared data with critical vendors and suppliers.

Early in Q2, 2021 the Company finished product development to deploy Vault as its first SaaS offering and expects to continue SaaS deployments with future products.

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.

According to Gartner, the storage and data protection market is evolving to address new challenges in enterprise IT like exponential data growth, changing demands for skills, rapid digitalization and globalization of business, requirements to connect and collect everything, and expansion of data privacy and sovereignty laws. Requirements for robust, scalable, simple and performant storage are on the rise. IT leaders are also expecting storage to evolve from being delivered by rigid appliances in core data centers to flexible storage platforms capable of enabling hybrid cloud data flow at the edge and in the public cloud IaaS.

REVENUE OUTLOOK

The Business in Canada Innovation Program ('BCIP') with the Government of Canada ("GoC") had awarded Leonovus a contract in February 2020. Revenues from this project amounted to \$315 in 2020, with a remaining estimated \$78 to be recognized in Q1 2021. Leonovus, at the time of this writing, has received final reports from both GoC departments that it successfully delivered on all aspects of the agreement. The Company is currently in discussions with both departments in a multi-year roll out of the program. Conditional upon the closing of our recently announced financing plans, a significant portion of the use of proceeds will be allocated to sales and marketing. Given that the Company's products were successfully tested in three major Canadian federal government departments, we will dedicate some of the resources to focus on this specific market. As of this date the company has identified two Value Added Resellers and one dedicated sale representative for the government sector.

FIPS 140-2

The FIPS 140-2 certification was finalized in 2020.

SELECTED FINANCIAL INFORMATION

Results of Operations

The following selected financial data is derived from the December 31, 2020, audited consolidated financial statements of the Company prepared in accordance with IFRS. The Company's presentation currency is in 000's of Canadian dollars.

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	Years ended	
	2020	2019
Revenue	\$ 327	\$ 32
Expenses		
General and administrative	1,011	1,945
Research and development	748	2,593
Sales and marketing	259	1,466
	<u>2,018</u>	<u>6,004</u>
Loss from operating activities	(1,691)	(5,972)
Non-operating earnings (expense)		
Foreign exchange loss	(24)	(62)
Finance costs	(199)	(99)
Other income	132	-
Amortization of borrowing costs	(20)	-
Loss due to fraud	-	(750)
Net loss	<u>(1,802)</u>	<u>(6,883)</u>
Net loss per share		
Basic and diluted	\$ (0.19)	\$ (0.74)

The Company incurred a net loss of \$1,802 for the year ended December 31, 2020 compared to a net loss of \$6,883 for the previous year. The Company achieved \$327 in revenues for 2020, the highest in its history. Coupled with the significant reduction in expenses, the net loss was \$5,081 lower than the loss in 2019. The Company expects expenses in 2021 to remain constant or increase slightly should revenues increase accordingly.

Revenue

The Company had revenues of \$327 during the year ended 2020 compared to \$32 for the previous year. The Company expects to see year over year growth in revenue.

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 \$1,011 for the year ended December 31, 2020 compared to \$1,945 for the year ended December 31, 2019. Other significant items included in G&A are legal, audit and professional fees, stock exchange compliance fees, insurance, other operating expenses and amortization of fixed assets including the leased space, or right-of-use asset. We expect all items that currently make up G&A expenses to continue into 2021.

Leonovus discovered on February 24, 2019 that it had been the victim of a sophisticated fraud scam, suffering a loss of \$750. 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, 2020, were \$748 compared to \$2,593 for the previous year. For 2020, the Company recorded a reduction of \$123 in R&D expenses based on government grants it had received (2019 - \$Nil). For 2020, the Company recorded a reduction of \$67 (2019 - \$192) in R&D expenses based on the refundable Scientific Research and Experimental Development tax incentive from the Canadian government. The Company expects slightly higher R&D expenses in 2021 as it expects to hire new developers in Q2 2021.

Sales and marketing expenses

Sales and marketing expenses consist primarily of compensation, travel costs, public relations and tradeshow costs. Sales and marketing expenses for 2020 were \$259 compared to \$1,466 for year ended 2019. All areas within sales and marketing expenses have declined significantly in 2020 as was expected. The Company is now in the position where it needs to engage sales and marketing, specifically for the government opportunities and will budget an increased amount for Q2 2021 through to end of year 2021.

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

	2020	2019
Salaries expense	\$ 690	\$ 2,777
Benefits	\$ 30	\$ 324
Stock-based compensation	\$ (34)	\$ 152
Consultancy expenses	\$ 372	\$ 516
Selling and marketing	\$ 138	\$ 248
Legal and professional	\$ 231	\$ 816
Travel	\$ 8	\$ 150
Depreciation and amortization	\$ 182	\$ 180
Rent and other facilities expense	\$ 169	\$ 246
Software, subscriptions and license	\$ 61	\$ 167
Other operating expenses	\$ 171	\$ 378
Other administrative costs	\$ -	\$ 49
	<u>\$ 2,018</u>	<u>\$ 6,004</u>

Cash flows

The Company's cash and short-term investment position was \$834 as at December 31, 2020 compared to \$755 at December 31, 2019.

Cash outflows from operating activities for the year ended December 31, 2020 were \$1,192 compared to outflows of \$6,192 in 2019. The Company expects further outflows from operating activities and expects fluctuations in working capital for the remainder of the 2021 year.

Financing activities brought in cash of \$1,259 compared to \$2,109 in 2019. Share capital in the amount of \$996 was realized from the issuance of shares and warrants while \$395 was resulting through a loan. Loan issue costs of \$64 were capitalized and amortization of borrowing costs was \$27 for the period ending December 31, 2020. In 2019, there was an exercise of warrants amounting to \$2,101 and \$8 was realized from the exercise of stock options. As of the date of this writing, in Q1 2021, the Company repaid 80% or \$316 of the loan payable.

Investing activities of \$50, was the result of the redemption of a short-term investment. In 2019, cash of \$122 was used for leasehold improvements and furniture and fixtures.

Liquidity and Capital Resources

Working capital at the end of December 2019 was \$18 compared to \$47 at the end of 2019. The decrease in working capital at the end of the December 31, 2020, is mainly due to cash consumed in general business activity in terms of continued research and development, administrative costs and to a lesser extent sales and marketing costs. The Company expects working capital to fluctuate throughout 2021.

Related party transactions

During the fiscal year ended December 31, 2020, the Company incurred \$120 (2019 - \$197) of consultant expenses to a Company controlled by the Chief Executive Officer.

During the fiscal year ended December 31, 2020, no warrants were exercised (2019 - 39,866 warrants were exercised for \$41 with a fair value of \$74) by a Company controlled by the Chief Executive Officer. The 2019 warrant amounts reflect retrospective application of the October 26, 2020 share consolidation (see Note 14).

During the fiscal year ended December 31, 2020, the Company incurred \$85 (2019 - \$45) of consultant expenses by the Chief Financial Officer.

During the fiscal year ended December 31, 2020, the Company incurred \$90 (2019 - \$Nil) of consultant expenses by the Chief Technology Officer.

Included in trade and other liabilities are amounts owed to directors of \$50 and key management of \$29 (2019 - \$Nil).

On September 11, 2020, two of the directors participated in the bridge loan in the amount of \$70. As a result the directors were issued 18,667 bonus shares by the Company.

Outstanding share data⁽¹⁾

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.

On September 11, 2020, the Company issued 105,333 common shares resulting from a bridge loan in which investors also received bonus shares (see Note 11).

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On October 8, 2020, at a Special Meeting of Shareholders, the Shareholders of the Company approved a resolution to consolidate the Company's common shares on the basis of thirty (30) pre-Consolidation common shares for one (1) post-Consolidation common share. The Company received TSXV approval for the share consolidation on October 22, 2020, with the consolidation becoming effective on October 26, 2020. New share certificates were issued under a new CUSIP number, which is 526681309, and continues to trade on the TSXV under its symbol, "LTV". As at October 26, 2020, there were 9,620,221 total common shares issued and outstanding.

On December 31, 2020, the Company completed a private placement offering of 5,137,203 units (each unit comprising one common share and one warrant) for gross proceeds of \$1,580. Each warrant is exercisable for one common share at \$0.60 per share for a period of twelve (12) months from the date of issuance. The fair value of these warrants was calculated at \$708 using a Black-Scholes computation with the assumptions of a volatility of 164%, risk free interest rate of 0.27%, expected life of the warrants of 1 year with no expected dividend yield. The Company has the option to force conversion if at any time after four (4) months and one (1) day following issuance the fifteen (15) day volume weighted average price of the common shares on the TSXV is equal to or exceeds \$1.00. The Company had not received all of the gross proceeds as at December 31, 2020. An amount of \$501, subscription receivable, was held in trust to the Company by their corporate lawyers. All gross proceeds were received by the Company on January 8, 2021.

- (1) Amounts reflect retrospective application of the October 26, 2020 share consolidation (see Note 14 in the audited consolidated financial statements of Leonovus Inc. as at and for the year ending December 31, 2020).

At December 31, 2020, and as of the date of this Management Discussion and Analysis, there were 14,757,424 common shares outstanding.

Outstanding warrant data

On December 31, 2020, as part of a private placement, 5,137,203 warrants were issued and outstanding with an exercise price of \$0.60. As at December 31, 2019, there were no warrants outstanding.

Review of quarterly operating results

(in 000's of Canadian dollars)

	In accordance with IFRS							
	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 69	\$ 93	\$ 101	\$ 64	\$ 7	\$ -	\$ 25	\$ -
Cost of services	-	-	-	-	-	-	-	-
Gross profit	69	93	101	64	7	-	25	-
Total operating expenses	365	510	468	675	1,512	1,340	1,056	2,066
Loss from operating activities	\$ (296)	\$ (417)	\$ (367)	\$ (611)	\$ (1,505)	\$ (1,340)	\$ (1,031)	\$ (2,066)
Gain (loss) on foreign exchange	(12)	(8)	2	(6)	(8)	(27)	(4)	(24)
Finance costs	(19)	(145)	(7)	(28)	23	(22)	(50)	(50)
Other income	132	-	-	-	-	-	-	-
Amortization of borrowing costs	(20)	-	-	-	-	-	-	-
Loss due to fraud	-	-	-	-	-	-	-	(750)
Net loss before income taxes	\$ (215)	\$ (570)	\$ (372)	\$ (645)	\$ (1,489)	\$ (1,388)	\$ (1,085)	\$ (2,890)

Calculation of adjusted EBITDA earnings from operations

	Non-IFRS financial measurement							
To net loss before taxes add:								
Gain (loss) on foreign exchange	12	8	(2)	6	8	27	4	24
Finance costs	19	145	7	28	(23)	22	50	50
Amortization of property and equipment	45	46	45	46	19	61	60	40
Amortization of borrowing costs	20	-	-	-	-	-	-	-
Share-based compensation	4	(20)	-	(18)	131	(27)	-	17
Adjusted EBITDA¹	\$ (115)	\$ (391)	\$ (322)	\$ (583)	\$ (1,354)	\$ (1,306)	\$ (971)	\$ (2,759)

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

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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.

ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements were approved and authorized for issue by the Board of Directors on April 30, 2021.

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

In calculating the discounted contractual cash flow on the host debt component of the loan payable, an estimate of the market interest rate of a similar debt instrument with no bonus shares issued.

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

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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 13 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

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

Management considers whether there exists any event(s) or condition(s) that may cast significant doubt on the Company's ability to continue as a going concern. Considerations take into account all available information about the future including the availability of debt and equity financing as well as the Company's working capital balance and future commitments.

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, 2020 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, 2020 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 two 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, while another director has been appointed Chief Technology Officer of the Company. The two 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

Evolving Business Model

Leonovus Inc.

For the year ended December 31, 2020

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.

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.

Impact of the COVID-19 Pandemic

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Company's environment and measures being introduced at various levels of government to curtail the spread of the virus such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing, may have a material impact on the Company's operations. Furthermore, our employees and contractors could be affected by COVID-19 that could result in a reduction in our workforce due to illness or quarantine which could result in the disruption of our operations or hinder the Company's ability to secure financing. Revenues in 2020 were affected as certain contracts expected to have been completed by year-end, were extended and completed in the first quarter of 2021. Current measures may continue and increase depending on developments in the outbreak making it uncertain for the Company to determine the ultimate severity and the extent of the impact on its operations.

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.

Leonovus Inc.

For the year ended December 31, 2020

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

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			Yes
Subscription receivable	Yes			
Trade receivables	Yes			
Trade and other liabilities		Yes	Yes	
Lease liability		Yes		
Loan payable		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, subscription receivable and short-term investment. The Company's maximum credit risk at December 31, 2020 is \$1,361 (December 31, 2019 - \$774). 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.

Subscription receivable

Subscription receivable consists of private placement funds deposited into the trust fund of council to the Company. All subscription receivable amounts were paid to Leonovus Inc. on January 8, 2021.

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 18 months and continues to monitor the Company's expenses carefully. As at December 31, 2020, the Company had cash, subscription receivable and trade receivables of \$1,341 (December 31, 2019 – cash of \$724 and short-term investments of \$50) and accounts payable, accrued liabilities and loan payable of \$1,555 (December 31, 2019 - \$365) providing a current ratio of just under 1:1. 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, 2020.

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	2021	2022	2023 and after
	\$	\$	\$	\$
Trade and other liabilities	592	592	-	-
Loan payable	395	395	-	-
Deferred compensation	623	623	-	-
Long term lease liability	1,553	157	160	1,236
Total financial liabilities	3,163	1,767	160	1,236

Leonovus Inc.

For the year ended December 31, 2020

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 currently not subject to market risk.

SHARES

2020 Issuances

On September 11, 2020, the Company issued 105,333 common shares resulting from a bridge loan in which investors also received bonus shares (see Note 10).

On October 8, 2020, at a Special Meeting of Shareholders, the Shareholders of the Company approved a resolution to consolidate the Company's common shares on the basis of thirty (30) pre-Consolidation common shares for one (1) post-Consolidation common share. The Company received TSXV approval for the share consolidation on October 22, 2020, with the consolidation becoming effective on October 26, 2020. New share certificates were issued under a new CUSIP number, which is 526681309, and continues to trade on the TSXV under its symbol, "LTV". As at October 26, 2020, there were 9,620,221 total common shares issued and outstanding.

On December 31, 2020, the Company completed a private placement offering of 5,137,203 units (each unit comprising one common share and one warrant) for gross proceeds of \$1,580. Each warrant is exercisable for one common share at \$0.60 per share for a period of twelve (12) months from the date of issuance. The fair value of these warrants was calculated at \$708 using a Black-Scholes computation with the assumptions of a volatility of 164%, risk free interest rate of 0.27%, expected life of the warrants of 1 year with no expected dividend yield. The Company has the option to force conversion if at any time after four (4) months and one (1) day following issuance the fifteen (15) day volume weighted average price of the common shares on the TSXV is equal to or exceeds \$1.00. The Company had not received the full amount of the gross proceeds as at December 31, 2020. An amount of \$501, subscription receivable, was held in trust to the Company by their corporate lawyers. All gross proceeds were received by the Company on January 8, 2021.

2019 Issuances

During period to March 31, 2019, 810,467⁽¹⁾ warrants and 72,400⁽¹⁾ broker warrants were converted in to shares for gross proceeds of \$2,089. The fair value of the warrants exercised and converted into share capital was \$1,088.

On January 22, 2019, a settlement was reached with Mr. Gordon Campbell, a former CEO and director of the Company, calling for 43,925⁽¹⁾ shares to be released from escrow. There are currently no shares held in escrow.

On August 8, 2019, options in the amount of 4,340⁽¹⁾ were exercised and converted into shares for gross proceeds of \$8.

During fiscal year 2019, 495,917⁽¹⁾ warrants expired. The fair value of \$3,279 was offset against contributed surplus.

(1) Amounts reflect retrospective application of the October 26, 2020, share consolidation (Note 14)

Warrants

As at December 31, 2020 and 2019, the Company has the following warrants with average exercise prices and expiry dates outstanding:

	Number of whole share warrants	Average exercise in CND
Balance, December 31, 2019	-	\$ -
Issued	5,137,203	\$ 0.60
Exercised	-	\$ -
Expired	-	\$ -
Balance, December 31, 2020	5,137,203	\$ 0.60

SUBSEQUENT EVENTS

Loan payable

On January 11, 2021, the Company repaid 80%, or \$326 of its gross loan payable amount of \$895,000 plus interest calculated at 8% annually, using funds acquired through its private placement which closed December 31, 2020.

Public offering

On April 29, 2021, the Company announced that it has filed and obtained a receipt for a final short form prospectus in connection with a previously announced public offering for minimum gross proceeds of \$2,500,000 and maximum gross proceeds of \$4,000,000. The Offering is being led by Mackie Research Capital Corporation as lead agent, on behalf of a syndicate of agents, including Canaccord Genuity Corp.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

Leonovus Inc.

For the year ended December 31, 2020

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 2020 audited consolidated financial statements can be found on SEDAR at www.sedar.com.