Leonovus

Unaudited interim condensed consolidated financial statements of

Leonovus Inc.

For the three months ended March 31, 2021 and 2020

(Unaudited, expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited interim condensed consolidated financial statements of Leonovus Inc. have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Michael Gaffney
Chairman and Chief Executive Officer

George Pretli
Chief Financial Officer

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Three months ended March 31, 2021 and 2020
(in thousands of Canadian dollars)

	Note	2021	2020 (Note 2)
Revenue	4	$ 78	$ 65
Expenses			
General and administrative	5	395	215
Research and development	6	164	319
Sales and marketing	7	36	148
		595	682
Loss from operating activities		(517)	(617)
Non-operating earnings (expense)			
Finance income		-	3
Finance costs		(43)	(31)
Amortization of borrowing costs	14	(86)	-
Other income	8	31	-
Net loss		(615)	(645)
Other comprehensive income (loss)			
Foreign currency translation gain (loss)		47	50
Total comprehensive loss		$ (568)	$ (595)
Net loss per share	9		
Basic and diluted		$ (0.04)	$ (0.06)
Weighted average number of outstanding shares		14,757,424	9,560,995

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

Leonovus Inc.

Unaudited interim condensed consolidated statements of financial position

As at March 31, 2021 and December 31, 2020

(in thousands of Canadian dollars)

	Note		March 31, 2021		December 31, 2020
Assets					
Current Assets					
Cash		$	51	$	834
Subscription receivable	16		-		501
Trade and other receivables	10		151		182
Prepaid expenses			119		11
			321		1,528
Property and equipment	11		1,558		1,606
Total assets		$	1,879	$	3,134
Liabilities					
Current Liabilities					
Trade and other liabilities	12	$	286	$	548
Contract liabilities	13		-		43
Loan payable	14		67		296
Deferred compensation	15		480		623
			833		1,510
Long term lease liability			817		826
Total liabilities			1,650		2,336
Shareholders' Equity					
Share capital	17	$	36,110	$	36,110
Warrants	17	$	708	$	708
Contributed surplus	17		7,291		7,273
Accumulated other comprehensive income			7,151		7,123
Deficit			(51,031)		(50,416)
Total shareholders' equity			229		798
Total liabilities and shareholders' equity		$	1,879	$	3,134

ON BEHALF OF THE BOARD

Original signed by:

Denis Archambault, Director

Original signed by:

Michael Gaffney, Director

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

Leonovus Inc.

Unaudited interim condensed consolidated statements of changes in equity

Three months ended March 31, 2021 and 2020
(in thousands of Canadian dollars)

Note 2 and note 17	Number of common shares outstanding[1]		Share Capital		Warrants		Contributed Surplus		Accumulated Comprehensive Income		Deficit		Total Equity
Balance as at January 1, 2020	8,583,756	$	35,241	$	-	$	7,277	$	7,096	$	(48,584)	$	1,030
Share-based compensation			-		-		(18)		-		-		(18)
Transactions with owners	8,583,756	$	35,241	$	-	$	7,259	$	7,096	$	(48,584)	$	1,012
Net loss			-		-		-		-		(595)		(595)
Foreign currency transactional gain (loss)			-		-		-		(106)		-		(106)
Balance as at March 31, 2020	8,583,756	$	35,241	$	-	$	7,259	$	6,990	$	(49,179)	$	311
Opening balance January 1, 2021	14,757,424	$	36,110	$	708	$	7,273	$	7,123	$	(50,416)	$	798
Share-based compensation			-		-		18		-		-		18
Transactions with owners	14,757,424		36,110		708		7,291		7,123		(50,416)		816
Net loss			-		-		-		-		(615)		(615)
Foreign currency transactional gain (loss)			-		-		-		28		-		28
Balance as at March 31, 2021	14,757,424	$	36,110	$	708	$	7,291	$	7,151	$	(51,031)	$	229

(1) Amounts reflect retrospective application of the October 26, 2020 share consolidation (see Note 17)

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

Leonovus Inc.

Unaudited interim condensed consolidated statements of cash flows

Three months ended March 31, 2021 and 2020
(in thousands of Canadian dollars)

	Note		2021		2020
					(Note 2)
Cash provided by (used in) the following activities:					
Operating activities					
Net loss		$	(615)	$	(645)
Adjustments to net loss:					
Amortization of property and equipment	11		48		46
Share-based compensation	17		18		(18)
Accretion of lease liability			9		42
Amortization of borrowing costs	14		86		-
Net change in non-cash operating working capital	16		25		228
Net cash flows from (used in) operating activities			(429)		(347)
Financing activities					
Repayment of loan payable	14	$	(316)	$	-
Repayment of lease liability			(39)		-
Cash flows from (used in) financing activities			(355)		-
Investing activities					
Purchase of property and equipment	11		-		-
Cash flows used in investing activities			-		-
Net decrease in cash			(784)		(347)
Effects of currency translation on cash			1		88
Cash, beginning of the year			834		755
Cash, end of the period		$	51	$	496
Additional Information					
Interest received included in operating activities		$	-	$	-
Income tax paid included in operating activities		$	-	$	-

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

1. a. Corporate information

Leonovus Inc. (“Leonovus” or the "Company”) is a publicly listed Company and is incorporated under the Province of Ontario Business Corporations Act. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol LTV. The address of the Company’s registered office and its principal place of business is 2611 Queensview Drive, Suite 125, Ottawa, ON K2B 8K2.

Leonovus is a secure data management software company. The Leonovus suite of data management tools offers customers a complete end-to-end data-centric solution. This solution can stand on its own, or it can be integrated with the organization's zero-trust strategy and architecture. It takes seamless advantage of the organization's existing storage infrastructure and network architecture, working on-premises, in the cloud, or both and extends the data-centric controls across the entire architecture, including cloud resources.

b. 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.

2. Changes in accounting policy

Effective December 31, 2020, the Company changed its presentation currency from U.S. dollars to Canadian dollars to better reflect the Company’s business activities, given the significance of our increased revenues in 2020 denominated in Canadian dollars.

The Company followed the guidance of IAS 21 Effects of Changes in Foreign Exchange Rates (“IAS 21) and applied the change retrospectively. As a result, the Company has restated the prior year comparatives for the three-month period ended March 31, 2020. The change in presentation currency had the following effect:

- Equity transactions have been translated at the historical exchange rate on the respective reporting date;
- The results of the wholly owned subsidiary, Leonovus USA Inc., which has a functional currency of United States dollars reported on the statement of loss and comprehensive loss have been translated at the average exchange rate on the respective reporting dates;
- The results of Leonovus Inc., which has a functional currency of Canadian dollars, did not require translation; and
- Exchange differences arising on translation are presented in the accumulated other comprehensive loss line in shareholders’ equity on the statement of financial position.

The average exchange rate used for three month period ended March 31, 2020 was 1.2666.

3. Summary of significant accounting policies

The following accounting policies have been used throughout all periods presented in the consolidated financial statements.

i. Basis of presentation and statement of compliance with IFRS

The unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all of the information required in annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2020.

The preparation of the unaudited interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires Management to exercise judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim condensed consolidated financial statements, are the same as those applied in the Company’s most recent annual audited consolidated financial statements.

ii. Significant accounting policies

The significant accounting policies applied by the Company are described in Note 2 of the consolidated annual financial statements for the year ended December 31, 2020. These unaudited condensed interim consolidated financial statements as at and for the period ending March 31, 2021 have been prepared in accordance with the same accounting policies as the most recent annual consolidated statements as at and for the year ended December 31, 2020.

iii. Critical accounting estimates and judgments

The Company's unaudited interim 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 measurement of assets, liabilities, income and expenses. 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.

(In thousands of Canadian dollars)

The estimates, judgments and assumptions applied in the unaudited interim consolidated financial statements, including the key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2020.

4. Revenue

The Company receives revenue from software license fees and related services to its customers in a market referred to as data management with enhanced security, integrity, and durability.

The following chart shows the breakdown of recurring software license fees and services revenue for the quarters ended March 31, 2021, and March 31, 2020:

	2021	2020
Recurring software license fees	$ 35	$ 33
Services revenue	$ 43	$ 32
Total revenue	$ 78	$ 65

5. General and administrative expenses

General and administrative expenses incurred by the Company are broken down as follows:

	Three months ended March 31		
	2021	2020	% change
Corporate administration	$ 162	$ 90	80%
Consultant fees	$ 68	$ 70	-3%
Professional fees	$ 117	$ 21	457%
Amortization expense	$ 48	$ 34	41%
Loss on foreign exchange	$ 75	$ 4	1775%
Total general and administrative	$ 395	$ 215	84%

General and administrative ("G&A") expenses consist primarily of administrative independent contractors renumeration. The Company incurred G&A expenses of $395 for the quarter ended March 31, 2021 compared to $215 for the quarter ended March 31, 2020. Share-based compensation (a non-cash item) of $18 (Q1 2020 - $-18) has been included in corporate administration. Other significant items included in G&A are legal, audit and professional fees, stock exchange compliance fees, insurance, foreign exchange, and other operating expenses.

6. Research and development

Research and development (R&D) expenses incurred by the Company are broken down as follows:

	Three months ended March 31		
	2021	2020	% change
Salaries and benefits	$ 117	$ 286	-59%
Consultant fees	$ 47	$ 33	42%
Total research and development	$ 164	$ 319	-49%

Research and development ("R&D") expenses consist primarily of engineering personnel and independent contractors renumeration.

7. Sales and marketing expenses

Sales and marketing expenses incurred by the Company are broken down as follows:

(In thousands of Canadian dollars)

	Three months ended March 31		
	2021	2020	% change
Salaries and benefits	$ -	$ 110	-100%
Marketing	$ 36	$ 32	13%
Travel	$ -	$ 6	-100%
Total sales and marketing	$ 36	$ 148	-76%

8. Other income

The Company has leased a portion of its unused office space to a sub tenant beginning in March 2020. The sub tenant holds a sub lease with the Company until February 2022. During the quarter ended March 31, 2021, the sub tenant had made payments of $31 to the Company (Q1 2020 - $Nil). Either party may terminate the sub lease with 180 days of notice.

9. Loss per share

The calculation of basic and diluted loss per share for the relevant periods is based on the following information:

	Three months ended March 31	
	2021	2020
Weighted average number of common shares - basic	14,757,424	9,514,888
Additions to reflect the dilutive effect	-	-
Weighted average number of common shares - diluted	14,757,424	9,514,888

Options and warrants that are anti-dilutive were not included in the compilation of diluted common shares for the three-month period ended March 31, 2021, therefore 961,817 agent options and stock options were excluded from the calculations (March 31, 2020 – 620,366 agent options, stock options and warrants were excluded).

10. Trade and other receivables

Trade and other receivables consist primarily of trade receivable from billings of software applications and services, as well as taxes recoverable. There are no expected credit losses associated with these receivables (December 31, 2020 - $Nil).

	As at March 31, 2021	As at December 31, 2020
Trade receivables	$ 40	$ 31
Scientific research and experimental development recoverable	$ 75	$ 151
HST receivable	$ 36	$ -
	$ 151	$ 182

There were no impairment indicators as at the end of March 2021. Amortization is included in general and administrative expenses.

11. Property and equipment

The following table summarizes the changes in the carrying amount of property and equipment:

(In thousands of Canadian dollars)

	Furniture and Equipment	Real Estate	Leasehold Improvements	Total
Cost:				
At December 31, 2019	$ 470	$ 676	$ 888	$ 2,034
Additions	$ -	$ -	$ -	$ -
Disposals	$ -	$ -	$ -	$ -
At December 31, 2020	$ 470	$ 676	$ 888	$ 2,034
Additions	$ -	$ -	$ -	$ -
Disposals	$ -	$ -	$ -	$ -
At March 31, 2021	$ 470	$ 676	$ 888	$ 2,034
Accumulated Amortization:				
At December 31, 2019	$ 50	$ 83	$ 113	$ 246
Amortization	$ 47	$ 58	$ 77	$ 182
Disposals	$ -	$ -	$ -	$ -
At December 31, 2020	$ 97	$ 141	$ 190	$ 428
Amortization	$ 12	$ 15	$ 21	$ 48
Disposals				$ -
At March 31, 2021	$ 109	$ 156	$ 211	$ 476
Carrying amounts:				
At December 31, 2020	$ 373	$ 535	$ 698	$ 1,606
At March 31, 2021	$ 361	$ 520	$ 677	$ 1,558

12. Trade and other liabilities

Trade payables and other liabilities for the Company are broken down as follows:

	As at March 31, 2021	As at December 31, 2020
Trade payables	$ 29	$ 290
Accrued liabilities	$ 257	$ 258
	$ 286	$ 548

13. Contract liabilities

The Company invoices its customers the full amount of software license fees for the contracted period or one year in advance on multiple year contracts. Customers generally pay for software license fees in advance of implementation and the prepayment is recorded by the Company as a contract liability. At the end of March 31, 2021, the amount remaining in contract liability, $Nil (at the end of December 31, 2020 - $43) represents the balance remaining on the two government contracts.

14. Loan payable

On August 30, 2020, the Company entered into a loan agreement in the amount of $395 with various borrowers. Terms of the loan included simple interest to be paid at a rate of 8% per annum as well as bonus shares to be issued at 20% of the total dollar amount of the loan divided by the market price using the closing trading price of the common shares of Leonovus on the TSXV on the day immediately prior to the date on which Leonovus announces the terms of the agreement. The Company incurred legal fees in the amount of $64 which were capitalized and amortized over the life of the loan. On September 11, 2020, 3,160,000 common shares were issued at a price of $0.025 per common share amounting to $79 attributed to share capital. The present value of the loan on September 11, 2020 was $252. On January 7, 2021, 80% or $316 was paid down on the loan as well as $10 representing all interest accrued from September 11, 2020, to January 7, 2021. The balance of the loan on March 31, 2021 was $67 (December 31, 2020 - $296) using an effective interest rate of 42%. Accrued interest on the loan as at March 31, 2021, was $1 (December 31, 2020 - $29). Amortization of borrowing costs related to the loan payable for Q1 2021 was $86 (Q1 2020 - $Nil).

15. Deferred compensation

Total deferred compensation at March 31, 2021, is $480 (December 31, 2020 - $623). Of the balance, $415, is payable to one former employee with whom a settlement and payment plan has been reached.

16. Cash flow information

Changes in non-cash working capital items consist of the following:

(In thousands of Canadian dollars)

		As at March 31 2021		As at December 31 2020
Subscription receivable	$	(501)	$	-
Trade and other receivables	$	(31)	$	29
Prepaid expenses	$	109	$	22
Trade and other liabilities	$	262	$	155
Contract liabilities	$	43	$	43
Deferred compensation	$	143	$	43
	$	25	$	292

Subscription receivable are proceeds related to unit issuances of $501 which had not been receipted by the Company as at December 31, 2020, and were received by the Company on January 8, 2021 (March 31, 2020 - $Nil).

17. Share capital

The Company has an unlimited number of no-par common shares authorized for issuance with 14,757,424 (December 31, 2020 – 14,757,424) shares outstanding. There were no issuances during the first quarter of 2021.

2020 Issuances

On September 11, 2020, the Company issued 105,333[(1)] common shares resulting from a bridge loan in which investors also received bonus shares (see Note 14).

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.

(1) Amount reflects retrospective application of the October 26, 2020, share consolidation.

Warrants

As at March 31, 2021 and December 31, 2020, 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, 2020	5,137,203	$	0.60
Issued	-	$	-
Exercised	-	$	-
Expired	-	$	-
Balance, March 31, 2021	5,137,203	$	0.60

Stock options - Plan

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

As at March 31, 2021 and December 31, 2020, the Company has the following options with weighted average exercise prices outstanding:

(In thousands of Canadian dollars)

	Stock options(1)		Weighte average exercise price in CND
Outstanding at December 31, 2019	651,700	$	3.30
Granted	500,000	$	0.48
Forfeited	(70,664)	$	3.08
Expired	(119,219)	$	2.70
Exercised	-	$	-
Outstanding at December 31, 2020	961,817	$	1.91
Granted	-	$	-
Forfeited	-	$	-
Expired	-	$	-
Exercised	-	$	-
Outstanding at March 31, 2021	961,817	$	1.91

The fair value of options granted is determined using the Black-Scholes option pricing model. The underlying expected volatility was determined by reference to historical data of the Company's shares over the expected life of the options. There were no options granted during the quarter ended March 31, 2021 (Q1 2020 – Nil).

Share-based compensation is recorded as an increase to contributed surplus and is transferred to share capital when the underlying options are exercised. Total share-based compensation expense during the quarter ended March 31, 2021 was $18 (March 31, 2020 - $(18)).

The following table summarizes the options outstanding and exercisable as on March 31, 2021:

	Options outstanding		Options exercisable	
Exercise price in $CND	Number outstanding at March 31, 2021	Weighted average remaining life (years)	Number exercisable at March 31, 2021	Weighted average remaining life (years)
0.00 - 0.50	500,000	4.58	38,889	4.58
1.50 - 2.00	378,983	1.12	347,765	0.93
4.00 - 5.00	14,334	2.21	10,104	2.38
9.00 - 12.00	13,500	1.60	11,654	1.60
15.00	55,000	1.67	46,177	1.67
	961,817	2.24	454,589	2.23

In comparison, the following table summarizes the options outstanding and exercisable as on December 31, 2020:

	Options outstanding		Options exercisable	
Exercise price in $CND	Number outstanding at December 31, 2020	Weighted average remaining life (years)	Number exercisable at December 31, 2020	Weighted average remaining life (years)
0.00 - 0.50	500,000	4.92	7,639	4.92
1.50 - 2.00	378,983	1.15	344,180	1.15
4.00 - 5.00	14,334	2.45	9,208	2.45
9.00 - 12.00	13,500	1.85	10,810	1.85
15.00	55,000	1.92	42,740	1.92
	961,817	2.50	414,577	2.46

(1) Amount reflects retrospective application of the October 26, 2020, share consolidation.

18. Related party transactions

During Q1 2021, the Company incurred $30 (Q1 2020 - $22) of consultant expenses to a company controlled by the Chief Executive Officer.

During Q1 2021, the Company incurred $29 (Q1 2020 - $17) of consultant expenses to a company controlled by the Chief Financial Officer.

During Q1 2021, the Company incurred $47 (Q1 2020 - $Nil) of consultant expenses to a company controller by the Chief Technology Officer.

During Q1 2021, the Company expensed $15 (Q1 2020 - $11) as compensation to independent directors within general and administrative expenses in the statement of operations.

Included in trade and other liabilities are amounts owed to directors of $6 (Q1 2020 - $Nil).

19. Subsequent events

On May 6, 2021, the Company closed its marketed short form prospectus offering pursuant to which the Company issued 6,143,572 units of the Company at a price of $0.56 per Unit for gross proceeds of $3,440,400.32. Each Unit is comprised of one common share of the Company and one Common Share purchase warrant of the Company. Each Warrant is exercisable into one Common Share at a price of $0.70 for a period of 36 months following completion of the Offering.