

LEATT CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITIONS AND RESULTS OF OPERATIONS

Overview

Leatt Corporation (the "Company") was incorporated in the State of Nevada on March 11, 2005, under the name Treadzone, Inc. On June 17, 2005, the Company changed its name to Leatt Corporation in connection with the Company's acquisition of rights to use the Leatt Neck Brace patents and trademarks. The Company designs, distributes and markets personal protective equipment for all forms of motor sports, based on the Leatt-Brace[®] system, a patented neck protection system for all helmeted sports. The Company's products are manufactured in China and sold to customers worldwide through a global network of distributors and retailers. The Company's revenues are generated solely from the sale of Leatt-Brace[®] products.

The Company conducts business in South Africa as a foreign registered branch, and in the United States through the Company's wholly-owned subsidiary, Two Eleven Distribution, LLC ("Two Eleven") a California limited liability company. Two Eleven acts as a distributor of the Leatt-Brace[®] in the United States. Research and development efforts, global sales and marketing are managed out of the Company's foreign registered branch located in Cape Town, South Africa. United States sales are managed by Two Eleven located in Valencia, California. The Company also has a wholly-owned subsidiary, Three Eleven Distribution ("Three Eleven") which was an inactive South African incorporated company until December 2008, when it acquired South African registered patents relating to products unrelated to the Leatt-Brace[®] from Xceed Holdings (Pty) Ltd. ("Holdings"), a South African incorporated company controlled by the Company's founder. The Company established a new wholly-owned subsidiary, Leatt New Zealand Limited during the first quarter of 2009. This company acts as the distributor of the Leatt-Brace[®] in New Zealand.

The Company has the exclusive global manufacturing and distribution rights to the Leatt-Brace[®] which is an injection molded neck protection system designed to prevent potentially devastating motor sport injuries to the cervical spine and neck. The patents and all rights for the Leatt-Brace[®] are held by Holdings, except for those patents recently acquired by Three Eleven. There is a license agreement between Holdings and the Company which gives the Company the exclusive worldwide right and license to manufacture, sell and use apparatus embodying, employing and containing the Leatt-Brace[®] technology.

Basis of presentation

The consolidated balance sheet as of December 31, 2009 was audited. The consolidated balance sheet as of March 31, 2010 and the consolidated statements of

operations for the three months ended March 31, 2010 and 2009, the consolidated statement of changes in stockholders' equity for the three months ended March 31, 2010 and the related information contained in these notes have been prepared by management without audit. In the opinion of management, all adjustments (which include only normal recurring items) necessary to present fairly the financial position, results of operations and changes in stockholders' equity in conformity with generally accepted accounting principles as of March 31, 2010 and for all periods presented have been made. Interim operating results are not necessarily indicative of operating results for a full year.

Certain information and note disclosures normally included in the company's annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements for the year ended December 31, 2009.

Market for Common Stock - In order to enhance the ability of the Company's shareholders to trade their Company common stock, the Company has proceeded with efforts to quote its common stock on The Pink Sheet OTC Market ("Pink Sheets") and, effective August 12, 2009, the Company's common stock commenced quotation on the Pink Sheets (Symbol: Leat.pk) with Ladenburg Thalman & Co. acting as the Company's primary market maker.

Critical Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Leatt Corporation and its wholly-owned subsidiaries: Two Eleven Distribution, LLC, Three Eleven Distribution and Leatt New Zealand Limited. All significant intercompany transactions have been eliminated.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas involving our judgments and estimates are described below.

Revenue and Cost Recognition - All manufacturing of the Leatt-Brace[®] is performed by third party subcontractors in China.

The Company records its revenue and related cost of revenue for its product sales in the United States upon shipment of the merchandise to the customer.

International sales are generally drop-shipped directly from the third party manufacturer to the Company's customers. Revenue and related cost of revenue is recognized at the time of shipment from the manufacturer's port when shipping terms are Free On Board ("FOB") shipping point as legal title and risk of loss to the product pass to the customer. For FOB destination point arrangements, revenue is recorded upon receipt at the customer's location.

Short-term investments - The Company's short-term investments consists of certificates of deposit with a maturity of greater than three months but less than twelve months.

Accounts Receivable - Accounts receivable consist of amounts due to the Company from normal business activities. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables as well as historical collection information. Credit is granted to substantially all customers on an unsecured basis. In determining the amount of the allowance, management is required to make certain estimates and assumptions.

Inventory – Inventory is stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method. Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, the Company must make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, the Company utilizes historical experience as well as current market information.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is provided using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes over the estimated useful lives of the respective assets.

The estimated useful lives of assets for financial reporting purposes are as follows: moulds and tools, 2 to 5 years; computer equipment and software, 2 to 5 years; office and other equipment, 3 to 6 years; vehicles, 3 to 5 years; leasehold improvements, 3 years. The costs of improvements that extend the lives of the assets are capitalized. Repairs and maintenance are expensed as incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Impairment of Long-Lived Assets – The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows to be generated by the assets. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Based on these reviews, no asset impairment charges were made to the carrying value of long-lived assets during the quarter ended March 31, 2010.

Intangible Assets – The Company's intangible assets consist of acquired patents with an indefinite useful life and are thus not amortized. Intangible assets are carried at cost less impairment. Amortization expense for the quarter ended March 31, 2010 was zero. There was no impairment of intangible assets at March 31, 2010.

Patent Costs - Legal costs in connection with approved patents (including those owned by Holdings) and patent applications are expensed as incurred and classified as professional fees in the consolidated statements of operations.

Research and Development – Research and development costs are expensed as incurred.

Foreign Currency Translation and Foreign Currency Transactions - The U.S. dollar is the Company's reporting currency. Assets and liabilities of the Company's foreign operations, consisting of its South African Branch and Leatt New Zealand Limited, denominated in its local currency, SA RAND and NEW ZEALAND DOLLAR respectively, are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the rate of exchange at the date of the transaction in the applicable period. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive income (loss) in stockholders' equity. Gains and losses generated by transactions denominated in foreign currencies are recorded in the accompanying statement of operations in the period in which they occur.

Stock Based Compensation - The Company accounts for stock based compensation in accordance with the fair-value-base method set forth in FASB ASC Topic 718-10, Stock-based Compensation, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors, including employee stock options, based on the estimated fair values on the date of grant or the fair value of the services performed.

The Company recognizes these compensation costs, net of an estimated forfeiture rate, on a pro rata basis over the requisite service period of each vesting tranche of each award. The Company considers voluntary termination behavior as well as trends of actual option forfeitures when estimating the forfeiture rate.

Income Taxes - The Company uses the asset and liability approach to account for income taxes. Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the income tax basis of assets and liabilities. A valuation allowance is applied against any net deferred tax asset if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The provision for income taxes included taxes currently payable, if any, plus the net change during the year in deferred tax assets and liabilities recorded by the Company.

The Company applies the provisions of FASB ASC Topic 740-10, Accounting for Uncertainty in Income Taxes (“Standard”), which provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if the position is more likely than not of being sustained upon examination by tax authorities. An uncertain income tax position will not be recognized if it has less than 50% likelihood of being sustained. Additionally, the Standard provides guidance on derecognition, classification, interest and penalties; accounting for interim periods, disclosure and transition, and any amounts when incurred would be recorded under these provisions.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of March 31, 2010, the Company has no unrecognized tax benefits and the Company currently has no federal or state tax examinations in progress.

Fair Value of Financial Instruments - The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, short-term investments, accounts receivable, inventory, payments in advance, customer deposits, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments.

Concentration of Credit Risk - The Company maintains cash and cash equivalent balances at several financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). At March 31, 2010, the Company's bank balances totaled \$2,138,121. The Company has not experienced any significant losses on its cash and cash equivalents.

The Company's trade receivables are derived from sales to distributors and dealers. The Company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of the Company's end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. The Company maintains allowances for potential credit losses as needed and has not experienced any significant losses related to the collection of its accounts receivable.

Commitments and Contingencies - The Company is named as a defendant in a Kentucky state court lawsuit. The claim is for alleged product defects and breach of product warranties. The Company believes the claims are without merit and will vigorously defend against this action. The Company has filed a complaint in California against two California entities claiming trade secret misappropriations, unfair competition and tortious interference. The Company has also been named as a defendant in a California Superior Court Lawsuit. The claim is based on product liability. The Company does not believe the claims in this case have merit. The Company cannot predict at this time the outcome of any current litigation.

Subsequent Events - The Company has evaluated all subsequent events through May 14, 2010, the date the financial statements were released.

Results of Operations

For the three months ended March 31, 2010 and 2009.

Revenues - Revenues for the period ended March 31, 2010 were \$2,953,380, a decrease of 32% compared to revenues of \$4,345,323 for the period ended March 31, 2009. This decrease is primarily the effect of the worldwide economic slowdown. The Company has responded to this situation by building a team of international sales professionals in Europe and the USA to expand distribution geographically as well as

offering revised terms to distributors. The Company continues to develop new products to reach wider markets.

For the three months ended March 31, 2010 and 2009, international sales approximated 51% and 59% respectively of total sales.

Cost of revenues and gross profit - Cost of revenues and gross profit for the period ended March 31, 2010 were \$1,151,463 and \$1,801,917, or 61% of sales respectively. For the same period in 2009, cost of revenues and gross profit were \$1,376,758 and \$2,968,565, or 68% of sales respectively. This marginal decrease in gross profit percentage is due to changes in the Company's pricing model as well as the timing of royalty payments on prior year sales.

Salaries and wages - Salaries and wages for the period ended March 31, 2010 and 2009 were \$895,642 and \$902,338 respectively. This decrease in salaries and wages is the result of performance bonuses that were accrued in the first quarter of 2009 for fiscal year 2008. No bonuses were accrued for fiscal year 2009 due to company performance.

Salaries and wages for the period ending March 31, 2010 also includes \$50,000 relating to the Company's stock-based compensation plan.

Commissions and consulting expense – Commissions and consulting expense for the periods ended March 31, 2010 and 2009 were \$130,487 and \$114,581 respectively. This increase in commissions and consulting expenses is a result of increased selling incentives as well as system implementation and market research consulting fees incurred.

Professional fees – Professional fees for the periods ended March 31, 2010 and 2009 were \$229,312 and \$406,327, respectively. These are costs incurred for audit, tax and quarterly reporting requirements, patent protection and litigation expense, regulatory filings, product testing and certification outsourcing and other costs incurred as the Company continues to expand. This decrease in professional fees is primarily the effect of a decreased level of spending on current patent litigation for the period ended March 31, 2010.

Advertising and marketing – Advertising and marketing expenses for the periods ended March 31, 2010 and 2009 were \$261,730 and \$284,485 respectively. Initially the Company relied on "word of mouth", but in early 2008, the Company made the decision to place paid advertising in various motorsport magazines and to sponsor a number of events and teams to increase exposure. Analysis of the results of this advertising campaign has enabled the Company to refine the campaign and strategically continue to invest in those results that yielded the most benefit. The decrease in advertising costs is the result of this improved advertising efficiency.

Office rent and expenses – Office rent and expenses for the periods ended March 31, 2010 and 2009 were \$60,212 and \$54,791 respectively. An increase in staff resulted in additional space requirements and Leatt New Zealand Limited rented premises during the second quarter of 2009.

Research and development costs – Research and development costs for the periods ended March 31, 2010 and 2009 were \$33,660 and \$18,322 respectively. Costs were incurred to review competitor products and continue to develop new products.

General and administrative expenses – General and administrative expenses for the periods ended March 31, 2010 and 2009 were \$290,166 and \$283,556, respectively. These costs consist of insurance, travel, merchant fees, telephone, office and computer supplies and other sundry expenses; with insurance and travel comprising the bulk of these expenses. The marginal increase in general and administrative expenses is due to increased travel required as the company expands worldwide.

Depreciation – Depreciation for the periods ended March 31, 2010 and 2009 was \$86,298 and \$112,592, respectively. This decrease in depreciation is due to assets that were fully written off in fiscal year 2009.

Net Income – The net loss for the period ended March 31, 2010 was \$186,332, down from net income of \$502,862 earned during the period ended March 31, 2009. Net income was impacted primarily by the decreased revenue discussed above as a result of the worldwide economic slowdown. Management is confident that the intensified global sales and marketing efforts, new products and the establishment of an international sales team will have a positive effect on net income going forward.

Liquidity and Capital Resources - At March 31, 2010, the Company had cash, cash equivalents and short-term investments of \$2.5 million. We are currently meeting our working capital needs through cash on hand as well as internally generated cash from operations.

The Company believes that cash flow from operations, along with our cash on hand, should be sufficient to meet the operating cash requirements over the next twelve month period as currently contemplated. Our long-term financing requirements depend on our growth strategy, which relates primarily to our desire to increase revenue both domestically as well as internationally.

LEATT CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 2010 Unaudited	December 31 2009 Audited
Current Assets		
Cash and cash equivalents	\$ 2,186,804	\$ 2,021,101
Short-term investments	308,371	307,466
Accounts receivable	917,150	1,091,622
Inventory	2,111,820	3,012,961
Payments in advance	178,047	98,177
Income tax refunds receivable	377,443	377,443
Due from related parties	-	7,273
Deferred tax assets	32,700	32,700
Prepaid expenses and other current assets	132,624	212,805
Total current assets	<u>6,244,959</u>	<u>7,161,548</u>
Property and equipment, net	1,383,452	1,294,722
Other Assets		
Deposits	29,658	7,896
Intangible assets, net	128,058	127,456
Total other assets	<u>157,716</u>	<u>135,352</u>
Total Assets	<u>\$ 7,786,127</u>	<u>\$ 8,591,622</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable and accrued expenses	\$ 473,536	\$ 1,020,329
Customer deposits	62,137	124,662
Short term loan, net of finance charges	60,680	121,674
Total current liabilities	<u>596,353</u>	<u>1,266,665</u>
Deferred tax liabilities	14,549	12,800
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$.001 par value, 28,000,000 shares authorized, 3,000,000 issued and outstanding	3,000	3,000
Common stock, \$.001 par value, 700,000,000 shares authorized, 132,255,669 and 132,922,336 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	132,255	131,922
Additional paid - in capital	7,445,610	7,395,943
Accumulated other comprehensive income	350,082	350,682
Accumulated deficit	(755,722)	(569,390)
Total stockholders' equity	<u>7,175,225</u>	<u>7,312,157</u>
Total Liabilities and Stockholders' Equity	<u>\$ 7,786,127</u>	<u>\$ 8,591,622</u>

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	March 31	
	2010	2009
	Unaudited	Unaudited
Revenues	\$ 2,953,380	\$ 4,345,323
Cost of Revenues	<u>1,151,463</u>	<u>1,376,758</u>
Gross Profit	<u>1,801,917</u>	<u>2,968,565</u>
Operating Expenses		
Salaries and wages	895,642	902,338
Commissions and consulting expenses	130,487	114,581
Professional fees	229,312	406,327
Advertising and marketing	261,730	284,485
Office rent and expenses	60,212	54,791
Research and development costs	33,660	18,322
General and administrative expenses	290,166	283,556
Depreciation	86,298	112,592
Total operating expenses	<u>1,987,507</u>	<u>2,176,992</u>
Income / (Loss) from Operations	<u>(185,590)</u>	<u>791,573</u>
Other Income (Expense)		
Interest and other income, net	<u>1,658</u>	<u>15,793</u>
Total other income (expense)	<u>1,658</u>	<u>15,793</u>
Income / (Loss) Before Income Taxes	(183,932)	807,366
Income Taxes	<u>2,400</u>	<u>304,504</u>
Net Income / (Loss) Available to Common Shareholders	<u>\$ (186,332)</u>	<u>\$ 502,862</u>
Net Income (Loss) per Common share		
Basic	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Diluted	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Weighted Average Number of Common Shares Outstanding		
Basic	<u>132,255,669</u>	<u>131,922,336</u>
Diluted	<u>132,255,669</u>	<u>131,922,336</u>
Comprehensive Income (Loss)		
Net Income (Loss)	\$ (186,332)	\$ 502,862
Other comprehensive loss net of \$ 0 income taxes		
Foreign currency translation	<u>(600)</u>	<u>(3,149)</u>
Total Comprehensive Income (Loss)	<u>\$ (186,932)</u>	<u>\$ 499,713</u>

LEATT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AS OF AND FOR THE PERIOD ENDED MARCH 31, 2010

	Preferred Stock A		Common Stock		Additional Paid - In Capital	Accumulated Other Comprehensive Income	(Accumulated Deficit)	Total
	Shares	Amount	Shares	Amount				
Balance, January 1, 2010	3,000,000	\$ 3,000	131,922,336	\$ 131,922	\$ 7,395,943	\$ 350,682	\$ (569,390)	\$ 7,312,157
Shares issued to satisfy obligation			333,333	333	49,667	-	-	50,000
Net income (loss)	-	-	-	-	-	-	(186,332)	(186,332)
Foreign currency translation adjustment	-	-	-	-	-	(600)	-	(600)
Balance, March 31, 2010	3,000,000	\$ 3,000	132,255,669	\$ 132,255	\$ 7,445,610	\$ 350,082	\$ (755,722)	\$ 7,175,225