Unaudited interim condensed consolidated financial statements of

Leonovus Inc.

For the three months ended March 31, 2022 and 2021

(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.

(signed) *"Michael Gaffney"*

Michael Gaffney
Chairman and Chief Executive Officer

(signed) *"George Pretli"*

George Pretli
Chief Financial Officer

Leonovus Inc.
Unaudited interim condensed consolidated financial statements
March 31, 2022 and 2021

TABLE OF CONTENTS

Leonovus Inc.
Unaudited interim condensed consolidated statements of net loss and comprehensive loss
Three months ended March 31, 2022 and 2021
(in thousands of Canadian dollars)

	Note	2022	2021
Revenue	3	$ -	$ 78
Expenses			
General and administrative	4	342	395
Research and development	5	247	164
Sales and marketing	6	51	36
		640	595
Loss from operating activities		(640)	(517)
Non-operating earnings (expense)			
Finance costs		(30)	(43)
Amortization of borrowing costs	14	-	(86)
Other income	7	27	31
Net loss		(643)	(615)
Other comprehensive income (loss)			
Foreign currency translation gain (loss)		(5)	47
Total comprehensive loss		$ (648)	$ (568)
Net loss per share	8		
Basic and diluted		$ (0.03)	$ (0.04)
Weighted average number of outstanding shares		20,900,996	14,757,424

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, 2022 and December 31, 2021

(in thousands of Canadian dollars)

	Note	March 31, 2022	December 31, 2021
Assets			
Current Assets			
Cash		$ 625	$ 1,247
Trade and other receivables	9	95	86
Prepaid expenses		11	16
		731	1,349
Property and equipment	10	1,374	1,419
Total assets		$ 2,105	$ 2,768
Liabilities			
Current Liabilities			
Trade and other liabilities	11	$ 367	$ 404
Deferred compensation	12	155	157
		522	561
Long term lease liability		776	786
Total liabilities		1,298	1,347
Shareholders' Equity			
Share capital	15	$ 36,675	$ 36,675
Warrants	15	$ 2,959	$ 2,959
Contributed surplus	15	7,627	7,603
Accumulated other comprehensive income		7,186	7,181
Deficit		(53,640)	(52,997)
Total shareholders' equity		807	1,421
Total liabilities and shareholders' equity		$ 2,105	$ 2,768

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, 2022 and 2021
(in thousands of Canadian dollars)

Note 15	Number of common shares outstanding	Share Capital	Warrants	Contributed Surplus	Accumulated Comprehensive Income	Deficit	Total Equity
Balance as at January 1, 2021	14,757,424	$ 36,110	$ 708	$ 7,273	$ 7,123	$ (50,416)	$ 798
Share-based compensation		-	-		-	-	-
Transactions with owners	14,757,424	$ 36,110	$ 708	$ 7,273	$ 7,123	$ (50,416)	$ 798
Net loss		-	-	-	-		-
Foreign currency transactional gain (loss)		-	-	-		-	-
Balance as at March 31, 2021	14,757,424	$ 36,110	$ 708	$ 7,273	$ 7,123	$ (50,416)	$ 798
Opening balance January 1, 2022	20,900,996	$ 36,675	$ 2,959	$ 7,603	$ 7,181	$ (52,997)	$ 1,421
Share-based compensation		-	-	24	-	-	24
Transactions with owners	20,900,996	36,675	2,959	7,627	7,181	(52,997)	1,445
Net loss		-	-	-	-	(643)	(643)
Foreign currency transactional gain (loss)		-	-	-	5	-	5
Balance as at March 31, 2022	20,900,996	$ 36,675	$ 2,959	$ 7,627	$ 7,186	$ (53,640)	$ 807

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, 2022 and 2021
(in thousands of Canadian dollars)

	Note		2022		2021
Cash provided by (used in) the following activities:					
Operating activities					
Net loss		$	(643)	$	(615)
Adjustments to net loss:					
Amortization of property and equipment	10		46		48
Share-based compensation	15		24		18
Accretion of lease liability			28		9
Amortization of borrowing costs	14		-		86
Net change in non-cash operating working capital	13		(43)		25
Net cash flows from (used in) operating activities			(588)		(429)
Financing activities					
Repayment of loan payable	14			$	(316)
Repayment of lease liability			(39)		(39)
Cash flows from (used in) financing activities			(39)		(355)
Net decrease in cash			(627)		(784)
Effects of currency translation on cash			5		1
Cash, beginning of the year			1,247		834
Cash, end of the period		$	625	$	51

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.

Going concern

The preparation of interim consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) contemplates the continuation of the Company as a going concern. During the quarter ended March 31, 2022, the Company has not generated sufficient revenues to achieve and sustain profitability, has a net loss of $643 and as of March 31, 2022, had a deficit of $53,640. In the absence of raising additional debt or equity financing or generating sufficient revenues to achieve and sustain profitability, there is a material uncertainty that may cast significant doubt regarding the Company’s ability to continue as a going concern.

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

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

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. 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. 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, 2021.

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, 2021. These unaudited condensed interim consolidated financial statements as at and for the period ending March 31, 2022 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, 2021.

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, 2021.

3. 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, 2022, and March 31, 2021:

	2022	2021
Recurring software license fees		$ 35
Services revenue		$ 43
Total revenue	$ -	$ 78

4. General and administrative expenses

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

	Three months ended March 31	
	2022	2021
Corporate administration	$ 116	$ 162
Consultant fees	$ 60	$ 68
Professional fees	$ 120	$ 117
Amortization expense	$ 46	$ 48
Loss on foreign exchange	$ -	$ 75
Total general and administrative	$ 342	$ 395

General and administrative ("G&A") expenses consist primarily of administrative independent contractors renumeration. The Company incurred G&A expenses of $342 for the quarter ended March 31, 2022, compared to $395 for the quarter ended March 31, 2021. Share-based compensation (a non-cash item) of $24 (Q1 2021 - $18) has been included in corporate administration.

5. Research and development

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

	Three months ended March 31	
	2022	2021
Salaries and benefits	$ 160	$ 117
Consultant fees	$ 87	$ 47
Total research and development	$ 247	$ 164

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

6. Sales and marketing expenses

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

	Three months ended March 31	
	2022	2021
Consultant fees	$ 21	$ -
Marketing	$ 29	$ 36
Travel	$ 1	$ -
Total sales and marketing	$ 51	$ 36

Sales and marketing expenses consist primarily of sales consultants and marketing expenses.

(In thousands of Canadian dollars)

7. 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 2024. During the quarter ended March 31, 2022, the sub tenant had made payments of $27 to the Company (Q1 2021 - $31). Either party may terminate the sub lease with 180 days of notice.

8. 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	
	2022	2021
Weighted average number of common shares - basic	20,900,996	14,757,424
Additions to reflect the dilutive effect	-	-
Weighted average number of common shares - diluted	20,900,996	14,757,424

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, 2022, therefore 1,616,818 agent options and stock options were excluded from the calculations (March 31, 2021 – 961,817 agent options, stock options and warrants were excluded).

9. 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, 2021 - $Nil).

	As at March 31, 2022	As at December 31, 2021
Trade receivables	$ -	$ -
Scientific research and experimental development recoverable	$ 43	$ 43
HST receivable	$ 52	$ 43
	$ 95	$ 86

10. Property and equipment

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

	Furniture and Equipment	Real Estate	Leasehold Improvements	Total
Cost:				
At December 31, 2020	$ 470	$ 676	$ 888	$ 2,034
Additions	$ -	$ -	$ -	$ -
Disposals	$ -	$ -	$ -	$ -
At December 31, 2021	$ 470	$ 676	$ 888	$ 2,034
Additions	$ -	$ -	$ -	$ -
Disposals	$ -	$ -	$ -	$ -
At March 31, 2022	$ 470	$ 676	$ 888	$ 2,034
Accumulated Amortization:				
At December 31, 2020	$ 97	$ 141	$ 190	$ 428
Amortization	$ 47	$ 62	$ 78	$ 187
Disposals	$ -	$ -	$ -	$ -
At December 31, 2020	$ 144	$ 203	$ 268	$ 615
Amortization	$ 12	$ 14	$ 19	$ 45
Disposals				$ -
At March 31, 2021	$ 156	$ 217	$ 287	$ 660
Carrying amounts:				
At December 31, 2020	$ 326	$ 473	$ 620	$ 1,419
At March 31, 2021	$ 314	$ 459	$ 601	$ 1,374

(In thousands of Canadian dollars)

11. Trade and other liabilities

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

		As at March 31, 2022		As at December 31, 2021
Trade payables	$	16	$	42
Accrued liabilities	$	351	$	362
	$	367	$	404

12. Deferred compensation

Total deferred compensation at March 31, 2022, is $155 (December 31, 2021 - $157). Of the balance, $97, is payable to one former employee with whom a settlement and payment plan has been reached.

13. Cash flow information

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

		As at March 31 2022		As at December 31 2021
Trade and other receivables	$	(9)	$	597
Prepaid expenses	$	5	$	(5)
Trade and other liabilities	$	(37)	$	(144)
Contract liabilities	$	-	$	(43)
Deferred compensation	$	(2)	$	(466)
	$	(43)	$	(61)

14. Loan payable

The balance of the loan was paid in full on June 11, 2021, leaving a $Nil balance. 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. Share capital

The Company has an unlimited number of no-par common shares authorized for issuance with 20,900,996 (December 31, 2021 – 20,900,996) shares outstanding. There were no issuances during the first quarter of 2022.

2021 Issuances

On May 6, 2021, the Company completed a public offering of 6,143,572 units (each unit compromising one common share and one warrant) for gross proceeds of $3,440. Unit issuance costs, including cash commissions, agent option units and legal fees, were $702. The unit issuance cost was allocated $145 to common shares and $556 to warrants and -$218 to contributed surplus. Each warrant is exercisable for one common share at $0.70 per share for a period of three (3) years from the date of issuance. The fair value of these warrants was calculated at $2,730 using a Black-Scholes computation with the assumptions of a volatility of 170%, risk free interest rate of 0.5%, expected life of three (3) years with no expected dividend yield. The residual of $710, which was the difference between the proceeds from the public offering and fair value of the warrants was allocated to the common shares.

Warrants

As at March 31, 2022 and December 31, 2021, the Company has the following warrants with average exercise prices and expiry dates outstanding:

	Number of whole share warrants		Average exercise in CND	Expiry date
Balance, December 31, 2020	5,137,203	$	0.60	June 15, 2021
Issued	6,143,572	$	0.70	May 5, 2024
Exercised	-	$	-	
Expired	-	$	-	
Balance, December 31, 2021, and March 31, 2022	11,280,775	$	0.65	

(In thousands of Canadian dollars)

On December 22, 2021, the Company announced it had received approval from the TSX Venture Exchange on the extension of 5,137,203 common share purchase warrants (the "Warrants") which were issued as part of the private placement of the Company on December 31, 2020. The Warrants, previously set to expire on December 31, 2021, will now expire on June 15, 2022. Holders of Warrants will not receive an amended Warrant certificate. The fair value of the Warrants was increased by $77 as a result of the modification. The increase in fair value of the Warrants was a result of the difference between the fair value of the Warrants measured immediately before and after the modification. There were 1,752,000 broker warrants modified which resulted in an expense of $26 and the remaining $51 was an increase to contributed surplus related to remaining Warrants. The fair value of Warrants after the modification was calculated at $334 using a Black-Scholes computation with the assumptions of a volatility of 164%, risk free interest rate of 0.27%, expected life of six-months with no expected dividend yield.

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, 2022 and December 31, 2021, the Company has the following options with weighted average exercise prices outstanding:

	Stock options		Weighte average exercise price in CND
Outstanding at December 31, 2020	961,817	$	1.91
Granted	976,651	$	0.18
Forfeited	-	$	-
Expired	(184,984)	$	1.50
Exercised	-	$	-
Outstanding at December 31, 2021	1,753,484	$	0.99
Granted	-	$	-
Forfeited	-	$	-
Expired	(136,668)	$	1.50
Exercised	-	$	-
Outstanding at March 31, 2022	1,616,816	$	0.95

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, 2022 (Q1 2021 – 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, 2022 was $24 (March 31, 2021 - $18).

The following table summarizes the options outstanding and exercisable as on March 31, 2022:

	Options outstanding		Options exercisable	
Exercise price in $CND	Number outstanding at March 31, 2022	Weighted average remaining life (years)	Number exercisable at March 31, 2022	Weighted average remaining life (years)
0.18	976,651	4.92	377,144	4.92
0.475	500,000	4.25	165,625	4.25
1.50 - 2.00	57,333	2.65	40,126	2.60
4.00 - 5.00	14,334	1.75	13,737	1.70
9.00 - 12.00	13,500	1.13	13,500	1.13
15.00	55,000	1.25	55,000	1.25
	1,616,818	2.65	665,132	2.64

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 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

16. Related party transactions

During Q1 2022, the Company incurred $30 (Q1 2021 - $30) of consultant expenses to a company controlled by the Chief Executive Officer.

During Q1 2022, the Company incurred $21 (Q1 2021 - $29) of consultant expenses to a company controlled by the Chief Financial Officer.

During Q1 2022, the Company incurred $52 (Q1 2021 - $47) of consultant expenses to a company controller by the Chief Technology Officer.

During Q1 2022, the Company expensed $15 (Q1 2021 - $15) 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 $15 (Q1 2021 - $6).