Leonovus

Management's Discussion and Analysis

Leonovus Inc.

For the three and six months ended June 30, 2022

Dated: August 29, 2022

(in thousands of Canadian dollars)

Leonovus Inc.

For the three and six months ended June 30, 2022 and 2021

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, 2021.

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of Leonovus's management. The unaudited interim 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. 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 June 8, 2022, the Company announced it had received approval from the TSX Venture Exchange on the extension of 5,137,203 common share purchase warrants originally set to expire on June 15, 2022, now expiring June 15, 2024. Holders of warrants will not receive an amended Warrant certificate.

On May 2, 2022, the Company announced the launch of Torozo, a software as a service that is simple to use, low cost and allows for hyper-secure file sharing, file transfer and cloud storage, meeting the needs for data protection and the security of private personal information.

FIPS 140-2

The FIPS 140-2 certification was finalized in 2020.

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 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 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.

On April 28, 2022, the Company launched Torozo www.torozo.com to the private sector. Torozo is the new name for XVault. Torozo is a hyper-secure, SaaS solution for the sharing, transfer, and storage of valuable data. Critical data is ultra-protected with Torozo's FIPS 140-2 compliant cryptography and our patented encrypt, shred, and spread technology that encrypts and shreds your files and distributes them across a range of cloud storage providers with a dirt-simple user interface. Torozo is a technical evolution and renaming of the XVault product. XVault will be eliminated as a public product name after the launch of Torozo as a SaaS to the private sector.

Based on current revenues, the Company does not have the resources to sustain itself beyond the end of September 2022. Over the past several months, Leonovus has engaged with investment bankers, potential strategic partners, and acquirers. While we continue to engage, there is no definitive agreement with these business-supporting solutions to date. We believe Leonovus has a basket of software assets and government contracts/relationships that could be of great value to the right acquirer or partner.

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

Leonovus launched its Torozo product in May 2022. While the Company is excited about its long-run value, Torozo will not generate enough revenues soon to sustain the Company. Four years of work with the Canadian Federal Government has resulted in several valuable assets – such as our standing offer for secure file sharing/transfer, our Software License Supply Arrangements for both Smart Filer and Vault, and helpful sales connections and proof of concept completions. However, while Leonovus continues to develop sales inside the federal government, there is no clear path to revenue in the short run. The Company needs an immediate funding solution other than revenues to sustain itself.

SELECTED FINANCIAL INFORMATION

Results of Operations

The following selected financial data is derived from the June 30, 2022, unaudited consolidated financial statements of the Company prepared in accordance with IFRS. The Company's presentation currency is in 000's of Canadian dollars.

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Revenue	$ 5	$ -	$ 5	$ 78
Expenses				
General and administrative	318	530	660	925
Research and development	207	218	454	382
Sales and marketing	49	29	100	65
	574	777	1,214	1,372
Loss from operating activities	(569)	(777)	(1,209)	(1,294)
Non-operating earnings (expense)				
Finance income	-	1	-	1
Finance costs	(27)	(30)	(57)	(73)
Amortization of borrowing costs	-	(13)	-	(99)
Other income	21	35	48	66
Net loss	(575)	(784)	(1,218)	(1,399)
Other comprehensive income (loss)				
Foreign currency translation difference	(5)	(47)	(5)	-
Net loss and comprehensive loss	$ (580)	$ (831)	$ (1,223)	$ (1,399)
Net loss per share				
Basic and diluted	$ (0.03)	$ (0.05)	$ (0.06)	$ (0.08)

The Company incurred a net loss of $575 for the three months ended June 30, 2022 (YTD 2022 - $1,218) compared to a net loss of $784 in the same period last year (YTD 2021 - $1,399). The Company continues to monitor expenses carefully. The Company expects to decrease expenses slightly during the remainder of 2022.

Revenue

The Company had revenues of $5 in Q2 2022 (YTD 2022 - $5) compared to revenues of $Nil in Q2 2021 (YTD 2021 - $78).

General and administrative expenses

	Three Months Ended June 30 2022	Three Months Ended June 30 2021	Six Months Ended June 30 2022	Six Months Ended June 30 2021
Corporate administration	$ 151	$ 175	$ 267	$ 262
Consultant fees	$ 61	$ 98	$ 121	$ 166
Professional fees	$ 61	$ 163	$ 181	$ 280
Amortization expense	$ 45	$ 43	$ 91	$ 91
Loss on foreign exchange	$ -	$ 51	$ -	$ 126
Total expenses	$ 318	$ 530	$ 660	$ 925

General and administrative ("G&A") expenses consist primarily of administrative independent contractors renumeration. The Company incurred G&A expenses of $318 for the quarter ended June 30, 2022 (YTD 2022 - $660) compared to $530 for the quarter ended June 30, 2021 (YTD 2021 - $925). Share-based compensation (a non-cash item) of $25 in Q2 2022 (YTD 2022 - $49) compared to $54 in Q2 2021 (YTD 2021 - $72) has been included in corporate administration. Other significant items included in G&A are legal, audit and professional fees, stock exchange compliance fees, insurance, and other operating expenses.

Research and development

	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Salaries and benefits	$ 163	$ 173	$ 323	$ 290
Consultancy expenses	$ 44	$ 45	$ 131	$ 92
Total expenses	$ 207	$ 218	$ 454	$ 382

Research and development ("R&D") expenses decreased 54% during Q2 2022 compared to Q2 2021. Salaries and benefits have decreased by 49%. The Company expects R&D costs to decrease for the remainder of the year compared to 2021.

Sales and marketing expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Consultancy expenses	$ 11	$ 16	$ 32	$ 16
Selling and marketing	$ 34	$ 12	$ 63	$ 48
Travel	$ 4	$ 1	$ 5	$ 1
Total expenses	$ 49	$ 29	$ 100	$ 65

Overall selling expenses are lower by 54% for the six-month period this year compared to last year. The three months ended June 30, 2022, saw an increase of 69% compared to the same period 2021. Selling and marketing expenses have increased both on a year-over-year basis and quarter-over-quarter basis since the launch of Torozo. The Company expects selling and marketing expenses to continue to increase from last years' expense throughout 2022, however, the expense may vary from current levels based on sales opportunities.

Cash flows

The Company's cash position was $181 at June 30, 2022, compared to $1,247 at December 31, 2021.

Cash outflows from operating activities for the quarter ended June 30, 2022, were $554 (YTD 2022 – outflows of $1,074) compared to outflows of $371 in Q2 2021 (YTD 2021 – outflows of $800). The Company expects further outflows from operating activities and expects fluctuations in working capital for the remainder of the year.

Financing activities in Q2 2022, consisted of the repayment of lease liability in the amount of $39 (YTD 2022 - $78). In Q2 2021, the Company also had the repayment of lease liability in the amount of $39 (YTD 2021 - $78) as well as the issuance of units for net proceeds of $2,958 in Q2 and YTD. Also, YTD 2021 the Company had paid off its loan payable.

No expenditures were made for the purchase of property and equipment during the first six months of 2022 or 2021.

Liquidity and Capital Resources

Working capital was negative $295 at June 30, 2022 compared to being a positive $788 at December 31, 2020. The decrease in working capital at the end of June 2022, is due to cash consumed in general business activity in terms of continued research and development and sales and marketing and administrative costs. The Company expects working capital to fluctuate throughout 2022.

Related party transactions

During Q2 2022, the Company incurred $30 (YTD 2022 - $60) compared to $55 in Q2 2021 (YTD 2021 - $85) of consultant expenses to a company controlled by the Chief Executive Officer.

During Q2 2022, the Company incurred $22 (YTD 2022 - $43) compared to $34 in Q2 2021 (YTD 2021 - $63) of consultant expenses to a company controlled by the Chief Financial Officer.

During Q2 2022, the Company incurred $43 (YTD 2022 - $95) compared to $45 in Q2 2021 (YTD 2021 - $92) of consultant expenses to a company controller by the Chief Technology Officer.

During Q2 2022, the Company expensed $5 (YTD 2022 - $21) compared to $21 in Q2 2021 (YTD 2021 - $36) as compensation to independent directors within general and administrative expenses in the statement of operations.

Outstanding share data

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

During the three and six months ended June 30, 2022, there were no shares issued. There were 6,143,572 shares issued during the three and six months ended June 30, 2021.

At June 30, 2022, and as of the date of this Management Discussion and Analysis, there were 20,900,996 common shares issued and outstanding.

Outstanding warrant data

As at June 30, 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
Issued December 31, 2020	5,137,203	$ 0.60	June 15, 2024
Issued May 6, 2021	6,143,572	$ 0.70	May 5, 2024
Balance, December 31, 2021, and June 30, 2022	11,280,775	$ 0.65	

On June 8, 2022, 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 June 15, 2022, will now expire on June 15, 2024. Holders of Warrants will not receive an amended Warrant certificate. The fair value of the Warrants was not affected as a result of the modification. The fair value of the Warrants was measured immediately before and after the modification. The fair value of Warrants after the modification was lower than the previous amount 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. Since the calculated value was lower, no change was recorded

Review of quarterly operating results

(in 000's of Canadian dollars)	In accordance with IFRS							
	2022		2021				2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	**$ 5**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 78**	**$ 69**	**$ 93**
Cost of services	-	-	-	-	-	-	-	-
Gross profit	5	-	-	-	-	78	69	93
Total operating expenses	574	640	560	570	777	595	365	510
Loss from operating activities	**$ (569)**	**$ (640)**	**$ (560)**	**$ (570)**	**$ (777)**	**$ (517)**	**$ (296)**	**$ (417)**
Finance costs	(27)	(30)	(23)	(29)	(29)	(43)	(19)	(145)
Other income	21	27	30	28	35	31	132	-
Amortization of borrowing costs	-	-	42	-	(13)	(86)	(20)	-
Foreign exchange	-	-	(126)				(12)	(8)
Net loss before income taxes	**$ (575)**	**$ (643)**	**$ (637)**	**$ (571)**	**$ (784)**	**$ (615)**	**$ (215)**	**$ (570)**
Calculation of adjusted EBITDA earnings from operations	**Non-IFRS financial measurement**							
To net loss before taxes add:								
Finance costs	27	30	23	39	38	52	19	145
Amortization of property and equipment	45	46	53	43	43	48	45	46
Amortization of borrowing costs	-	-	(42)		13	86	20	-
Share-based compensation	25	24	111	24	36	18	4	(20)
Adjusted EBITDA[1]	**$ (478)**	**$ (543)**	**$ (492)**	**$ (465)**	**$ (654)**	**$ (411)**	**$ (127)**	**$ (399)**

[1]*Adjusted EBITDA*

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

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

ACCOUNTING POLICIES

Statement of compliance

The unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards. These unaudited interim consolidated financial statements were approved and authorized for issue by the Board of Directors on August 29, 2022.

Critical accounting estimates and judgments

The Company's unaudited interim condensed 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 2022 amounts presented and disclosed in the unaudited interim condensed 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.

Significant management judgment

The preparation of these interim condensed consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets, and liabilities at the date of the interim condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the interim condensed consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The critical judgements and significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are outlined in Note 2 of the December 31, 2021, consolidated annual financial statements. There have been no significant changes in the Company's judgments and estimates applied during the period ending June 30, 2022, relative to those described in the consolidated annual financial statements as at and for the year ended December 31, 2021.

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 June 30, 2022 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 June 30, 2022 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 three-person Board of Directors of Leonovus Inc. is composed of one independent director who is 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 independent director fulfils 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

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

Lengthy and Complex Sales Cycle

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

Dependency on Key Personnel

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

Future Capital Needs

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

Foreign Exchange Exposure

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

Cybersecurity

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

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

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

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

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

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

Additional information about the Company such as the 2021 audited consolidated financial statements can be found on SEDAR at www.sedar.com.