Leonovus

Management's Discussion and Analysis

Leonovus Inc.

For the three and six months ended June 30, 2024

Dated August 22, 2024

(in thousands of Canadian dollars)

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 unaudited consolidated financial statements of Leonovus Inc. (“Leonovus” or the “Company”) and the notes to those statements as at and for the three and six months ended June 30, 2024.

The accompanying audited consolidated financial statements have been prepared by and are the responsibility of Leonovus’s management. The audited consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

In this MD&A, “we”, “us”, “our”, “Leonovus”, and “the Company” refer to Leonovus Inc. and its consolidated subsidiary, 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.sedarplus.ca.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements as defined by canadian securities laws. These include expectations regarding future developments, capital needs, and the company's outlook. Except for historical facts, all statements about potential activities, events, or outcomes are forward-looking. Words like "will," "may," "anticipate," and similar terms identify such statements. These statements involve risks and uncertainties that could cause actual results to differ significantly. Factors influencing these outcomes are detailed in this MD&A and in other public filings. These statements are provided as of the date of this MD&A and may not reflect future developments. Leonovus disclaims any obligation to update them.

BACKGROUND AND DEVELOPMENTS

Leonovus is currently exploring all strategic options, including selling its software and patents or pursuing mergers and reverse takeovers. On January 31, 2024, Leonovus signed a non-binding letter of intent to sell its software and patent assets to Cylentium Research ltd. For $2,500,000 in cash and this transaction is still pending, contingent on Cylentium securing financing.

UNDERSTANDING OUR BUSINESS AND OUTLOOK

Leonovus has developed several data management products, including the ‘vault’ multi-cloud data controller, the ‘data discovery tool,’ and ‘smart filer,’ designed to help businesses manage and secure their data across various storage environments. Despite these innovations, the company is now focused on divesting these assets and exploring potential merger or acquisition opportunities to maximize shareholder value.

INDUSTRY OUTLOOK

The demand for scalable, secure data storage solutions continues to grow as enterprises face exponential data growth and increasing regulatory requirements. Leonovus, with its data-centric security technologies, is well-positioned to capitalize on these trends, though the company is currently seeking to divest its assets and pivot towards new opportunities in the evolving it landscape.

SELECTED FINANCIAL INFORMATION

Results of Operations – six months ended June 30, 2024

The following selected financial data is derived from the June 30, 2024, unaudited interim condensed consolidated financial statements of the Company prepared in accordance with IFRS. The Company’s presentation currency is in 000’s of Canadian dollars.

The Company incurred a net less and comprehensive loss of $347 for the six months ended June 30, 2024 (six months ended June 30, 2023 – income of $374).

General and administrative expenses

General and administrative expenses incurred by the Company for the six months ended June 30, are broken down as follows

		2024		2023	% change
Corporate administration	$	79	$	157	-50%
Consultant fees	$	195	$	163	20%
Professional fees	$	62	$	25	148%
Total general and administrative	$	336	$	345	-3%

General and administrative ("G&A") expenses consist primarily of administrative salaries and independent contractors renumeration. The Company incurred G&A expenses of $336 for the six months ended June 30, 2024 (June 30, 2023 - $345). Significant items included in corporate administration include stock exchange compliance fees, insurance, rent, other operating expenses and amortization of fixed assets including the leased space, or right-of-use asset. Profession fees include legal fees and audit fees. The Company expects similar G&A expenses throughout 2024.

Research and development

Research and development expenses incurred by the Company for the six months ended June 30, are broken down as follows:

		2024		2023	% change
Consultancy expenses	$	-	$	53	-100%
Total research and development	$	-	$	53	-100%

Research and development ("R&D") expenses consist primarily of engineering personnel and independent contractors renumeration. R&D expenses for six months ended June 30, 2024 were $Nil (June 30, 2023 - $53). The Company expects similar R&D expenses throughout 2024.

Cash flows

The Company's cash and short-term investment position was $25 as at June 30, 2024 (December 31, 2023 - $1).

Cash outflows from operating activities for the six months ended June 30, 2024, were $36 (June 30, 2023 - ($77)). The Company expects further outflows from operating activities and expects fluctuations in working capital for the remainder of the 2024 year.

Financing activities including the Company receiving $Nil (June 30, 2023 - $100) through a loan from its CEO and a Director.

Results of Operations – three months ended June 30, 2024

The following selected financial data is derived from the June 30, 2024, unaudited interim condensed consolidated financial statements of the Company prepared in accordance with IFRS. The Company's presentation currency is in 000's of Canadian dollars.

The Company incurred a net less and comprehensive loss of $200 for the three months ended June 30, 2024 (three months ended June 30, 2023 – income of $214).

General and administrative expenses

General and administrative expenses incurred by the Company for the three months ended June 30, are broken down as follows

		2024		2023	% change
Corporate administration	$	37	$	76	-51%
Consultant fees	$	98	$	74	32%
Professional fees	$	55	$	18	206%
Total general and administrative	$	189	$	168	13%

General and administrative ("G&A") expenses consist primarily of administrative salaries and independent contractors renumeration. The Company incurred G&A expenses of $189 for the three months ended June 30, 2024 (June 30, 2023 - $168). Significant items included in corporate administration include stock exchange compliance fees, insurance, rent, other operating expenses and amortization of fixed assets including the leased space, or right-of-use asset. Profession fees include legal fees and audit fees. The Company expects similar G&A expenses throughout 2024.

Research and development

Research and development expenses incurred by the Company for the three months ended June 30, are broken down as follows:

	2024	2023	% change
Consultancy expenses	$ -	$ 34	-100%
Total research and development	$ -	$ 34	-100%

Research and development ("R&D") expenses consist primarily of engineering personnel and independent contractors renumeration. R&D expenses for three months ended June 30, 2024 were $Nil (June 30, 2023 - $34). The Company expects similar R&D expenses throughout 2024.

Liquidity and Capital Resources

Working capital at June 30, 2024 was ($1,913) (December 31, 2023 - ($1,553)). The decrease in working capital as at June 30, 2024 is mainly due to the lack of financing. The Company expects to lower its cash consumption in general business activities including lower research and development, administrative costs and sales and marketing costs. The Company expects working capital to fluctuate throughout 2024.

Key management personnel and related party transactions

The key management personnel have been identified as the directors and officers of the Company based on their authority and responsibility for planning and directing the activities of the Company. By title, these are the independent directors, Chief Executive Officer, Chief Technology Officer, Chief Financial Officer, VP Product Management, VP Engineering, and Senior VP Sales. The remuneration of key management personnel who held these positions during the six months ended June 30, 2024 and 2023 was as follows:

	2024	2023
Salaries and fees	$ 216	$ 233
Share-based compensation	6	15
	$ 222	$ 248

Salaries include cash payments for base salaries. Director's fees include meeting fees and any Leonovus specific travel expenses incurred. Share-based compensation includes the compensation expense recognized during the year for key management personnel. There were no stock options and no warrants exercised by key management personnel in 2024 (2023 – Nil).

During the six months ended June 30, 2024, the Company incurred $120 (six months ended June 30, 2023 - $120) of consultant expenses to a Company controlled by the Chief Executive Officer.

During the six months ended June 30, 2024, the Company incurred $38 (six months ended June 30, 2023 - $31) of consultant expenses by the Chief Financial Officer.

During the six months ended June 30, 2024, the Company incurred $Nil (six months ended June 30, 2023 - $32) of consultant expenses by the Chief Technology Officer.

Included in trade and other liabilities are amounts owed to directors of $113 (December 31, 2023 - $56) and key management of $784 (December 31, 2023 - $604).

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.

As at December 31, 2023, June 30, 2024 and August 22, 2024 the Company had 20,900,996 common shares outstanding.

Outstanding warrant data

As at December 31, 2023, June 30, 2024 and August 22, 2024, the Company has the following warrants with average exercise prices and expiry dates outstanding:

	Number of whole share warrants	Average exercise price	Expiry date
Extended in 2021	5,137,203	$ 0.60	June 15, 2024
Extended in 2022	6,143,572	0.70	May 5, 2024
Issued in 2023	2,000,000	0.05	Aug 9, 2024
Balance, Dec 31, 2023	13,280,775	0.56	
Expired during in 2024	(11,280,775)	0.65	
Balance, June 30, 2024 and Aug 22, 2024	2,000,000	0.05	

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 "2020 Warrants") which were issued as part of the private placement of the Company on December 31, 2020. The 2020 Warrants, previously set to expire on June 15, 2022, will now expire on June 15, 2024. Holders of 2020 Warrants will not receive an amended Warrant certificate.

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 "2021 Warrants") which were issued as part of the private placement of the Company on December 31, 2020. The 2021 Warrants, previously set to expire on December 31, 2021, will now expire on June 15, 2022. Holders of 2021 Warrants will not receive an amended 2021 Warrant certificate.

The maturity date for the 2,000,000 common share purchase warrants, exercisable at $0.05, received as a bonus on the loan has been extended to August 2025.

Outstanding Option data

As at December 31, 2023, June 30, 2024, and August 22, 2024, the Company has the following options with weighted average exercise prices outstanding:

	Stock options	Weighted average exercise price
Outstanding as at December 31, 2023	1,371,648	$0.34
Expired	(537,557)	0.36
Outstanding as at June 30, 2024 and August 22, 2024	834,091	0.33

Review of quarterly operating results

(in 000's of Canadian dollars)	In accordance with IFRS							
	Q2-24	Q1-24	Q4-23	Q3-23	Q2-23	Q1-23	Q4-22	Q3-22
Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total operating expenses	188	147	251	152	202	196	249	348
Loss from operating activities	**$ (188)**	**$ (147)**	**$ (251)**	**$ (152)**	**$ (202)**	**$ (196)**	**$ (249)**	**$ (348)**
Finance costs	(12)	(11)	(12)	(12)	(12)	(6)	(30)	(30)
Other income	-	-	-	-	-	-	12	19
Gain on lease modification	-	-	-	-	-	790	-	-
Impairment of capital assets	-	-	-	-	-	-	(1,237)	-
Foreign exchange	-	-	-	-	-	-	(7)	
Net loss before income taxes	**$ (200)**	**$ (158)**	**$ (263)**	**$ (164)**	**$ (214)**	**$ 588**	**$ (1,511)**	**$ (359)**

SUBSEQUENT EVENTS

On January 31, 2024, the Company announced that it has signed a non-binding Letter of Intent to sell substantially all its software and patent assets to Cylentium Research Ltd. for $2,500,000 in an all-cash transaction. The Company and Cylentium expected closing of the transaction to be before the end of June 2024. Because the Company plans to sell substantially all its assets, the transaction will require all necessary approvals including, but not limited to, approval by not less than 66 2/3% of the votes cast by the Company's shareholders. Closing of the transaction will also be subject to customary conditions and third-party consents for the transfer of the assets subject to the Transaction, where applicable.

The maturity date on loan agreement with the Chief Executive Officer and a member of the Board of Directors in the amount of $100 (see Note 9) has been extended to August 3, 2025. The maturity date for the 2,000,000 common share purchase warrants, exercisable at $0.05, received as a bonus on the loan has been extended to August 2025.

ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements were approved and authorized for issue by the Board of Directors on August 22, 2024.

Critical accounting estimates and judgments

The Company's consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts presented and disclosed in the consolidated financial statements. Management reviews these estimates and assumptions on an ongoing basis based on historical experience, changes in business conditions and other relevant factors as it believes to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Estimation uncertainty

Useful lives of depreciable assets

The useful lives of depreciable assets have been determined based on management estimated utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

Share-based compensation

The estimation of share-based compensation requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the forfeiture rate of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

Warrants

In calculating the value of the warrants, key estimates such as the value of the common share, the expected life of the warrant, the volatility of the Company's stock price and the risk-free interest rate are used.

Significant management judgments

Recognition of deferred tax assets

Deferred tax assets are recognized for unused tax losses and credits to the extent that it is probable that taxable income will be available against which the losses can be utilized. These estimates are reviewed at every reporting date. Information about assumptions and estimation based upon the likely timing and the level of the reversal of existing timing differences, future taxable income and future tax planning strategies, is included in Note 14. The tax rules in the numerous jurisdictions in which the Company operates are also taken into consideration.

Research and development

Research costs are expensed as incurred. Development costs are deferred and amortized when the criteria for intangible assets are met, or otherwise, are expensed as incurred. To date, no development costs have been deferred.

Investment tax credits

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. These credits can be applied against future income taxes payable and are subject to a twenty-year carry forward period. If the Company is not in a taxable position a portion of these credits, are cash refundable.

Investment tax credits are accounted for as a reduction of operating expenses and are accrued as qualifying expenditures are made provided it is probable that the credits will be realized. To date the Company has only accrued the amount of tax credits that are refundable as an offset to research and development expense.

Functional currency

In assessing the functional currency, each entity within the Company determines its own functional currency, and the items included in the financial statements of each entity are measured using that functional currency. The functional currency determination involves certain judgments in evaluating the primary economic environment, and the Company reconsiders the functional currencies of each entity if there is a change in the underlying transactions, events and conditions which determine the primary economic environment.

Going concern risk assessment

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

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events. When contingencies exist, Management estimates the related financial impact to the Company based on the possible outcomes of one or more future events.

Management's Conclusion on the design of Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure and internal controls and procedures as at June 30, 2024 and have concluded that the Company's controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiary, 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, 2024 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 subsidiary would have been known to them.

CORPORATE GOVERNANCE

The three-person Board of Directors of Leonovus Inc. is composed of two independent directors who are not related to the Company. One director has been appointed as the Chairman of the Board of Directors and as Chief Executive Officer of the Company, while another director has been appointed Chief Technology Officer of the Company. The two independent directors fulfil the Audit Committee and all directors fulfil the Compensation Committee mandates. The Board and Management will continue to ensure compliance with regulatory requirements.

RISKS AND UNCERTAINTIES

Evolving Business Model

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

Lengthy and Complex Sales Cycle

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

Dependency on Key Personnel

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

Future Capital Needs

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

Foreign Exchange Exposure

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

Cybersecurity

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

CAPITAL MANAGEMENT

The Company’s objective is to maintain sufficient capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company’s shareholders’ equity. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable liquidity. The Company currently has not paid any dividends to its shareholders.

The Company is not subject to any statutory capital requirements and has no commitments, other than its office space lease and options, to sell or otherwise issue common shares.

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

FINANCIAL INSTRUMENTS

The Company’s financial instruments and the nature of the risks which they may be subject to are set out in the following table.

	Risks			
			Market	
	Credit	Liquidity	Foreign Exchange	Interest Rate
Cash	Yes		Yes	
Trade receivables	Yes			
Trade and other liabilities		Yes	Yes	
Lease liability		Yes		
Loan payable		Yes		Yes
Deferred compensation		Yes	Yes	

The Company’s activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate and foreign exchange rate risk). The Company’s management team carries out risk management with guidance from the Audit Committee under the direction of the Board of Directors. The Board of Directors also provides regular guidance for overall risk management. Management’s assessment of the Company’s exposure, objectives and processes for managing financial risks, as noted below, has not changed from the prior year, unless otherwise disclosed.

Credit risk

Credit risk is the risk of loss associated with counterparty’s inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, trade and other receivables. The Company's maximum credit risk at June 30, 2024 is $44 (December 31, 2023 - $105). Of that total, $Nil is aged in excess of 60 days. Management does not believe the Company is exposed to significant credit risk.

Cash

Cash consists of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested in Schedule 1 chartered Canadian Banks.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Management has significantly reduced expenses over the last 18 - 30 months and continues to monitor the Company's expenses carefully. As at June 30, 2024, the Company had cash and trade receivables of $44 (December 31, 2023 - $105) and accounts payable, accrued liabilities and loan payable of $1,957 (December 31, 2023 - $1,659).

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at June 30, 2024.

The amounts presented in the below maturity analysis represent the undiscounted future cash flows and as a result, they may differ from the net book value.

	Future value	2024	2025	2026 and after
	$	$	$	$
Trade and other liabilities	1,666	1,666	-	-
Deferred compensation	170	170	-	-
Loan payable	121	121	-	-
Total financial liabilities	1,957	1,957	-	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of a financial instrument or its future cash flows. The Company is currently not subject to market risk.

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 2023 audited consolidated financial statements can be found on SEDAR+ at www.sedarplus.ca.