The accompanying unaudited interim condensed consolidated financial statements of LeoNovus Inc. were prepared by management in accordance with International Financial Reporting Standards. Management acknowledges responsibility for the preparation and presentation of the financial statements, including the responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim condensed consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim condensed consolidated financial statements and (ii) the unaudited interim condensed consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim condensed consolidated financial statements. Management is not; however, required to certify the design and evaluation of these processes and has not completed such an evaluation. This may result in additional risks to the quality, reliability, transparency and timeliness of the presentation.

The Board of Directors is responsible for reviewing and approving the unaudited interim condensed consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim condensed consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim condensed consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Notice to the Reader"

The accompanying unaudited interim condensed consolidated financial statements of LeoNovus, Inc. for the three and nine months ended September 30, 2015, have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

Date: December 11, 2015

"Daniel Willis"	*"Daniel Hilton"*
Daniel Willis	Daniel Hilton
CEO	Interim CFO

LeoNovus Inc.,
(the “Company” or “LeoNovus”)
Management’s Discussion and Analysis (MD&A)
For the Nine Months Ended September 30, 2015

The following MD&A was prepared by management and should be read in conjunction with the Company’s Unaudited Interim Condensed Consolidated Financial Statements for the three and Nine months ended September 30, 2015, including all notes, risk factors and information contained therein. The following discussion and analysis provides information that management believes is relevant to the assessment and understanding of the Company’s results of operations and financial condition.

We wish to caution readers that this report includes certain forward-looking information and statements. These forward-looking statements contain information that is generally stated to be anticipated, expected or projected by LeoNovus and involve known and unknown risks, uncertainties and other factors which may cause the actual results and performance of Company to be materially different from any future results and performance expressed or implied by such forward-looking information. Potential risks and uncertainties include, without limitation, the uncertainties inherent in the development of LeoNovus’ web based platform, LeoNovus’ need for significant additional funding to continue as a going concern and rapid developments in technology, including developments by competitors. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, and actual results may differ materially from those anticipated in these forward-looking statements. Forward-looking information will be updated as required pursuant to National Instrument 51-102 – *Continuous Disclosure Obligations* (“NI 51-102”) and except as required by applicable laws, the Company assumes no obligation to update forward-looking statements should circumstances or management’s estimates or opinions change. Additional information relating to the Company and its operations is available on SEDAR at www.sedar.com.

This interim MD&A is an update of management’s discussion and analysis provided in its annual filings dated April 22, 2015, and includes a discussion of the results of operations and cash flows for the three and nine months ended September 30, 2015. The unaudited interim condensed consolidated financial statements have been prepared in US dollars and using International Accounting Standard 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”).

Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the interim filings. Management is not; however, required to certify the design and evaluation of these processes and has not completed such an evaluation. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying unaudited interim condensed consolidated financial statements.

Date

This MD&A is dated December 11, 2015, and is in respect of the three and nine months ended September 30, 2015.

History, Nature of Business and Overall Performance

Work Horse Capital & Strategic Acquisitions Ltd., ("Work Horse") incorporated under the Business Corporations Act (Ontario) 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. Although the transaction resulted in PWS becoming a wholly-owned subsidiary of Work Horse, the transaction constituted a reverse take-over of Work Horse inasmuch as the former shareholders of PWS and new shareholders from a simultaneous private placement offering own a majority of the outstanding shares of the Company and three of the four current members of the Board of Directors are former board members of PWS.

In January 2012, Work Horse's name was changed to LeoNovus Inc. (using a new stock symbol "LTV").

Since January 2014, the Company has completed the following equity transactions:

In January 2014, the Company completed a non-brokered private placement offering of an aggregate amount of 9,700,000 units at CDN $0.23 per unit for gross proceeds of CDN $2,231,000 (US $2,031,000). Each Unit consisted of one share of common stock and a two year warrant for one share exercisable at CDN $0.40.

Through December 11, 2015, 8,739,645 warrants from private placements have been exercised for net proceeds of $1,967,000 CDN.

Discussion of Operations and Financial Condition

Understanding our Business

LeoNovus has developed a software-defined Intelligent Network that enables efficient, secure, and high-speed cloud computing by leveraging idle processors and storage in existing hardware systems from PCs, set top boxes (STB), servers and other Internet connected devices. With its innovative and proprietary virtualized network infrastructure, or cloud, the Company has created a geo-distributed data centre capability that scales to a potentially unlimited number of remotely located, physical data sites comprised of compute and storage end-points. This allows LeoNovus the ability to offer cloud services by utilizing existing computing resources that have excess capacity. This ability to drive cloud services from the edges is very well positioned to service both Big Data and Internet-of-Things (IoT) Fog computing.

Additionally, the Company can operate this secure network with its remotely managed intelligent cloud architecture with support for deploying a high performance, SMART PLATFORM providing connected devices with access to features, content, and functionality over the web. This delivers a flexible real-time, value-added service model to multiple markets including residential, hospitality, commercial businesses and health care. It enables ongoing just-in-time services and includes support, updates, metrics and transaction capabilities while providing a secure network.

The end result is that LeoNovus is able to offer geo-distributed cloud services as well as enabling a secure app platform with new and recurring revenue streams while avoiding substantial operating costs that single-site data centers incur. The operating expenditures for data centers are extremely high and can run 3-5 times the capital costs[1]. This is due to the high cost of power, cooling and bandwidth required for a single site location that dedicates its square footage to racks of servers. The LeoNovus approach does not have these power and cooling costs based on leveraging a virtual data centre on existing connected hardware that reside in buildings that have adequate temperature control and power including high speed bandwidth.

This geo-distributed data centre and network operates securely through LeoNovus' focus on protecting the data and not the hardware. LeoNovus takes an encrypted data file, segments it, and re-encrypts the pieces and replicates them across multiple endpoints. This approach provides built in redundancy, delivering higher disaster recovery than a conventional data center leading to better business continuity. If there is a loss of a STB, server or PC or if a device is hacked, the exposure is a useless segment of an encrypted data record. The LeoNovus cloud architecture provides redundancy and geo-distribution, which allows for a business 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. An enterprise can back up its data in multiple data centers to overcome this, but it comes with additional cost and does not solve the risk of their data being hacked or corrupted by a computer virus based on the data being entirely in a single location. In addition, LeoNovus' software architecture enables a high fault tolerance, allowing the Company to lose up to 70% of its computing endpoints without the loss of its client's data.

Management believes that the Company is positioned extremely well in high growth markets to offer low cost cloud services for highly secure data storage and computing. It has built an efficient, secure, scalable cloud infrastructure to meet the high growth needs coming from the distribution of services and apps across devices regardless of the hardware and operating system – All while reducing latency by leveraging the edges of the network. These capabilities are fundamental to successful Big Data, IoT/IoE and Fog solutions.

1

[1] IBM Dynamic Infrastructure Conference – Global Site & Facilities Services

The Company is continuing to build out its distributed network with partners in the hospitality, managed IT and residential markets, and is exploring other market verticals whose available connected computing hardware can be leveraged.

Industry Outlook

Analysts agree that interest in cloud computing over the last several years has been phenomenal. The cloud offers a flexible and secure environment, which includes both public and private clouds or a combination thereof. It has the ability to transform business and operational processes, streamlining customer on-ramping and time to market, facilitating innovation, providing cost efficiencies, and enabling the ability to scale resources on demand.

Growth in stored data, however, has presented challenges for specific cloud offerings based on the continuing high growth of connected devices. The specific hardware and operating system requirements of these connected devices are creating challenges around security and communication across cloud systems. In terms of deployment architectures, cloud services are currently undergoing a major paradigm shift including such things as the Internet of Everything (IoE) moving from centralized cloud computing toward distributed edge computing. This shift is opening up edge-based data to meaningful analysis, by distributing the analytic workloads across the network. It is also shoring up the cloud-level capabilities by making the transmitted data more actionable, and by enriching and contextualizing the payloads.

LeoNovus is well positioned with its technology to capitalize on the growth trends in cloud computing by having "best in class" security with its intelligent network including a low cost edge-computing network for high performance and low latency over a multiplicity of connected devices.

Events and Milestones for the Quarter

Corporate

On July 13, 2015, LeoNovus announced that the Company had entered into a strategic relationship with International Capital Management Inc. ("ICM"). ICM is a Toronto-based wealth management business. As part of the strategic relationship, LeoNovus signed two agreements with ICM. In the first agreement, ICM was to act as the Agent for LeoNovus in the proposed issuance of secured debentures (the "Debentures") providing up to an aggregate amount of US$1,500,000.00 to accredited investors in one or more tranches. The second agreement with ICM provided for strategic advisory services relating to growth plans for the United States and other international markets. Costs, fees and details of this relationship are provided in the press release dated July 13, 2015 that is posted on www.sedar.com.

The Company announced in a press release dated Aug. 7, 2015 also posted on www.sedar.com that it would not move forward on the two agreements with ICM and that the agreements were no longer active as of July 21, 2015.

On August 24, 2015, LeoNovus announced that the Company had entered into a strategic relationship with KasTech Inc. The two companies will seek to develop key products and services to appeal to the growing market demands of, secure data cloud data storage, IoT and Big Data based on LeoNovus' unique and innovative dark-core processing and geo-distributed networking technologies. In addition, the two companies will collectively refresh and enhance the sales and marketing activities to drive revenue acceleration and elevate the LeoNovus brand to increase corporate visibility.

Products

LEO$_2$GO is a real-time secure collaboration and storage product that supports multiple clouds across all the major hardware and operating systems including Linux, Microsoft, Mac, iOS, BlackBerry, and Android. It has a file management system that allows for IT customers to manage data across multiple endpoints to include internal systems and BYOD (Bring Your Own Device), securely behind the firewall from a single unified interface. The Company has completed a soft launch of this product. Its introduction has used free 30-60 day trials to drive adoption.

Currently, with a limited marketing budget, adoption is being driven by "word of mouth" through customers. As adoption grows, LeoNovus plans to reinvest dollars in a marketing campaign to create momentum for the product. Using early customer feedback, the Company intends to enhance the product in terms of user interface and feature set. LEO$_2$GO is currently deployed with 14 companies and over 100 individual users. The Company is working on implementing long-term agreements with these companies.

1. LeoNovus has released a beta version of its Enterprise Service Node (ESN) to Frontline, its customer in Toronto, Canada. The ESN is an instrumental component enabling private and public/private hybrid LeoNovus Clouds within an enterprise. It is also a key component in offshore data sovereignty environments and developing countries, enabling the LeoNovus distributed cloud to operate locally with set policies while allowing updates, communication metrics and support management with the LeoNovus Intelligent Cloud Management system to occur based on established policy rather than on a per payload operation basis. This allows the enterprise to operate a private on-premise cloud, and for data center operations, and offshore-based customers to have in-country management of their specific cloud customers and data.

Current Market Opportunities

Ionics – Philippine Market

LeoNovus announced a letter of intent (LOI) with Ionics, a Philippine-based company in July 2015 and is working with them to deploy an ESN in the operation of a virtual geo-distributed data center. Ionics has a successful forty-year track record in providing OEM and ODM services that includes product design and support, new product introduction, industrial engineering, manufacturing systems, and integrated supply chain management. The two companies are developing a detailed plan to launch the LeoNovus cloud services in the markets it serves, and intend to sign a definitive agreement in early 2016. Ionics has telecommunications partners in place and has identified customers that are in need of cloud storage and computing. Management believes that Ionics is fully equipped to support rolling out end points in the form of set top boxes with their telecommunications partners as they are in the manufacturing business.

Hospitality Market

LeoNovus has an agreement with 360Dundee Hospitality Services Inc., a global real estate development and management company, to drive expansion of hotels that use LeoNovus' hospitality product and provide LeoNovus access to computing resources housed in these hotels. This agreement was signed in February 2015.

The LeoNovus hospitality product delivers a full suite of in-room services from personal WiFi connectivity to infotainment on the TV providing just-in-time interactive services such as in-room dining, promotional advertising and real-time guest services information, and on-screen check out. This eliminates the need for the costly printing or updating of large binders and reduces staffing costs by automating guest services. An easy-to-use graphical user interface (GUI), with a full browser, also allows for access to email and social media, or sourcing local hometown news and entertainment in the language of choice for hotel guests. The LeoNovus hospitality cloud product is certified onto the hotel's property management system, which allows for payment authentication enabling an easy way to add ongoing new revenue streams from services, apps including support for connected devices. LeoNovus' proprietary distributed processing technologies optimizes an internal network for the purposes of adding new revenue streams from cloud services based on utilizing idle resources from the in-room set top box as well as other connected devices. A hotel is usually located in densely populated areas, which delivers unique low latency capabilities for data customers that are currently relying on services over a WAN. This is far more efficient than communicating with a server that is typically located in a sparsely populated remote area to reduce costs.

LeoNovus has identified several candidates for the next hotel in order to expand its geo-distributed data centre. Since the company has been working to restructure our cloud services sales strategy, deployments of additional hotels are on hold. This hold will remain in effect until the new strategy has been deployed, driving up demand. It is our expectation that the additional demand will support the deployment of an additional hotel property in the first half of 2016.

Managed IT Business Services

LeoNovus has a signed Agreement with Frontline (formerly ITCI) to support its managed IT business utilizing idle resources from computing end-points in 320 businesses located across Canada. This network authenticates idle resources from a number of connected computing devices onto the LeoNovus geo-dispersed data centre, which lowers cost and increases efficiency while adding a channel for new revenue sources. The LeoNovus product can be integrated into existing hardware and also offer internal cloud capabilities.

The ESN product, as described above, has been delivered to Frontline. This allows them to engage with their current customer base to offer geo-distributed back up for disaster recovery and business continuity. They have deployed the ESN beta within their data center and are uploading data onto their private geo-distributed network. Since the original beta, LeoNovus has delivered several product updates and enhancements to the ESN, leading to performance improvements of 10x and beyond. The company is working with Frontline in planning resources to put this enhanced product into service. In the mean time, Frontline has begun engaging new and existing customers with LeoNovus Cloud Services.

The Frontline private geo-distributed network will be further augmented with access to the public hotel end-points as discussed in the Hospitality Market section.

Residential Market

The Company intends to work with Frontline in providing geo-distributed data centers housed in residential condominiums; however, the timing of this unknown due to a number of decision variables which have not yet been defined. These data centers will use an approach that is similar to the approach used in the hospitality market.

Strategy and Outlook

Historically, the Company has focused on small to medium businesses that are moving to the cloud for the first time. This has taken more time and effort than anticipated with a tremendous amount of evangelism and support for near term revenues. Accordingly, LeoNovus is focused on larger partners who have existing customers including off shore companies that need creative ways to meet cloud demand without reliable power grids and infrastructure, and managed IT companies.

The preceding approach, in addition to requiring more time and effort than originally anticipated, also did not scale in a manner conducive to corporate growth targets. Therefore the Company set about re-evaluating its business, product, sales and marketing strategies. KasTech was engaged to help transform and correct these strategies as necessary. The KasTech focus has been on:

1. Communications
2. Product strategy
3. Target markets and go-to-market strategy
4. Re-evaluation of business plan

The Company began this corporate transformation in the third quarter, 2015. By the end of the quarter, Kastech had performed its evaluations and reported on its findings to the Company. The primary sales conclusions were:

1. The intellectual property, base products and product strategy were sound. The products themselves are clearly world class and leading edge with no equivalent match in the marketplace
2. There was room to adjust the target markets for the products and the positioning of the products in those markets for a much greater impact.
3. The go-to-market and sales strategies for the products needed to be adjusted to reflect the changes in the target markets and product positioning.

The business conclusions were:

- The cost of California operations are prohibitive, particularly in light of the growing disparity between the Canadian and US dollars.
- Continuing to carry the past liabilities on the balance sheet has had a negative impact on the Company's ability to raise any significant financing to fund the Company.
- A strong and sound business plan is achievable based on the existing product set and the transformations as outlined by the KasTech analysis.

Management began executing on the KasTech recommendations in third quarter 2015, but the majority of the transformation has continued into fourth quarter operations. Year-end will see the Company beginning to benefit from the recommendations and the changes they outlined.

During this transformation, LeoNovus has continued operations and existing customer engagements, including the ongoing strategic relationships with Ionics, Frontline, and 360Dundee H.S.I. LeoNovus also continued its engagements in various stages of the sales cycle with large companies and several small to medium size companies in North America.

Through the remainder of 2015, LeoNovus will devote its resources completing the corporate transformation while maintaining their existing customer base.

Selected Financial Information

The Company was incorporated on December 30, 2008 and has a December 31 year-end. The following selected financial data is derived from the consolidated financial statements of the Company prepared in accordance with IFRS. The functional currency of the Company is the US dollar.

	Three Month Period Ended				Nine Month Period Ended			
	September 30, 2015		September 30, 2014		September 30, 2015		September 30, 2014	
Total Revenue	$	6,000	$	60,000	$	104,000	$	189,000
General & Administrative Expense	$	388,000	$	284,000	$	1,053,000	$	865,000
Research & Development Expense	$	304,000	$	505,000	$	936,000	$	1,580,000
Sales & Marketing Expense	$	76,000	$	108,000	$	359,000	$	364,000
Total Operating Expenses	$	768,000	$	897,000	$	2,348,000	$	2,809,000
Loss from Operations	$	(762,000)	$	(837,000)	$	(2,244,000)	$	(2,620,000)
Foreign Exchange Gain (Loss)	$	31,000	$	266,000	$	97,000	$	333,000
Finance and Interest Income (Expense)	$	7,000	$	(57,000)	$	33,000	$	(205,000)
Change in fair value of outstanding warrants	$	16,000	$	3,335,000	$	782,000	$	428,000
Net Income (Loss)	$	(708,000)	$	2,707,000	$	(1,332,000)	$	(2,064,000)
Income (loss) per common share	$	(0.01)	$	0.02	$	(0.01)	$	(0.02)
Weighted average number of outstanding shares		121,554,914		118,177,969		121,554,914		116,065,187

	September 30, 2015		December 31, 2014	
Cash	$	8,000	$	322,000
Total Current Assets	$	683,000	$	1,234,000
Total Assets	$	1,073,000	$	1,881,000
Total Current Liabilities	$	2,374,000	$	2,234,000
Total All Liabilities	$	3,034,000	$	2,712,000
Total Shareholders' Deficiency	$	(1,961,000)	$	(831,000)
Total Liabilities and Shareholders' Deficiency	$	1,073,000	$	1,881,000
Total Working Capital	$	(1,691,000)	$	(1,000,000)
Warrant Liability *	$	17,000	$	857,000
Working Capital Adjusted for Warrant Liability	$	(1,674,000)	$	(143,000)

* Note that warrant liability does not use cash to extinguish the liability.

NON-GAAP FINANCIAL MEASURES

Management reports and analyzes its financial results and performance using a range of financial measures. Some of these measures, such as revenues, net income and cash flow from operating activities are defined by IFRS. Other measures are not defined by IFRS.

One key non-IFRS measure used by management is “Adjusted EBITDA”. The Company discloses Adjusted EBITDA as a supplemental non-GAAP (Generally Accepted Accounting Principles) financial performance measure because the Company believes it is a useful metric by which to compare the performance of our business from period to period. The Company understands that measures similar to Adjusted EBITDA are broadly used by analysts, rating agencies and investors in assessing our performance. Accordingly, we believe that the presentation of Adjusted EBITDA provides useful information to investors.

Adjusted EBITDA comprises net income (loss) excluding the following: income (loss) from discontinued operations, finance income and expense, income tax recovery and expense, depreciation, amortization, asset impairment charges, foreign exchange gains and losses in earnings, stock-based compensation expense, change in fair value of outstanding warrants and restructuring charges. Therefore, it may not be comparable to similar measurements presented by other companies. The reconciliation of Adjusted EBITDA with the IFRS measure of net income (loss) for three month periods is as follows:

Dollars stated in 000's	Dec 31 2013	Mar 31 2014	Jun 30 2014	Sep 30 2014	Dec 31 2014	Mar 31 2015	Jun 30 2015	**30-Sep 2015**
Net Income (loss) for the period	(3,656)	(4,472)	(299)	2,707	1,375	53	(677)	(708)
Add (deduct):								
Interest expense	23	69	79	57	45	(17)	(9)	(7)
Income tax recovery and expense	-	-	(79)	-	-	-	(90)	0
Depreciation and amortization	7	7	6	6	7	7	6	6
Foreign exchange (gain) loss	(125)	(177)	110	(266)	(127)	(70)	4	(31)
Stock-based compensation expense	261	58	66	95	97	63	51	45
Expense from valuation of stock warrants	2,589	3,729	(827)	(3,335)	(2,285)	(748)	(18)	(16)
Adjusted EBITDA	(901)	(786)	(944)	(736)	(888)	(712)	(733)	(711)

Results of Operations

The Company had a net loss of $708,000 and $1,332,000 for three and nine months ended September 30, 2015 compared to a net profit of $2,707,000 and net loss of $2,064,000 for the three and nine months ended September 30, 2014. The nine-month net loss in 2015 compared to the same period in 2014 relates primarily to a $354,000 favorable change in the value of outstanding warrants between the two reporting periods. The favorable adjustment is primarily driven by a decline in the number of warrants outstanding at September 30, 2015 when compared to the same time in 2014 combined with the shorter remaining life of the warrants at September 30, 2015. Another significant contributor to the smaller net loss in 2015 was $280,000 reduced spending on consultants working on R&D projects.

Services Revenue
($6,000 and $97,000 for the three and nine months ended September 30, 2015)
($60,000 and $189,000 for the three and nine months ended September 30, 2014)

The Company recognizes professional services revenue based on hours incurred at established hourly rates which approximates the cost of salary and related benefits. For the three and nine months ended September 30, 2015, some of its staff rendered services valued at $6,000 and $97,000, respectively, to related party entities who are potential licensees of the Company's technology. The services rendered included technology consulting and administrative support to assist the entity in its product development and fund raising efforts. The related party services revenue decreased by $54,000 and $92,000 for the three and nine months ended September 30, 2015. This type of support and its associated revenue will not be continued for these entities in the future. The Company also recognized $2,000 in cloud storage services for the nine months ended September 30, 2015 compared to $nil for the same period in 2014.

General and Administrative Expenses
($388,000 and $1,053,000 for the three and nine months ended September 30, 2015)
($284,000 and $865,000 for the three and nine months ended September 30, 2014)

General and Administrative Expenses consist primarily of remuneration paid to the Chief Executive Officer, the Chief Financial Officer and our finance and corporate administrative staff. Other significant General and Administrative Expenses include legal and accounting professional fees, rent, travel and insurance. The General and Administrative Expenses increased by $104,000 and $188,000 for the three and nine months ended September 30, 2015, primarily due to a significant increase in rent for the Sunnyvale California office and the loss on sale of inventory.

Research and Development Expenses
($304,000 and $936,000 for the three and nine months ended September 30, 2015)
($505,000 and $1,580,000 for the three and nine months ended September 30, 2014)

Research and Development Expenses consist primarily of remuneration paid to engineering personnel both in the U.S. and Canada and independent contractors. Other Research and Development Expenses include license fee expenses, travel, rent and other occupancy costs for our Canadian engineering personnel. For the three and nine months ended September 30, 2015, Research and Development Expense decreased by $201,000 and $644,000, respectively as a result of Engineering personnel being lower by two people in 2015 compared to the same period in 2014, fewer consulting project hours in 2015 compared to the same period in 2014 and a larger SR&ED tax credit in 2015.

Sales and Marketing Expenses
($76,000 and $359,000 for the three and nine months ended September 30, 2015)
($108,000 and $364,000 for the three and nine months ended September 30, 2014)

Sales and Marketing Expenses consist primarily of compensation, travel costs, public relations and trade show costs. For the three and nine months ended September 30, 2015, Sales and Marketing expenses decreased by $32,000 and $5,000, respectively.

Liquidity and Capital Resources

As at September 30, 2015, the Company had $8,000 of cash and a negative working capital of $1,691,000. The Company had $573,000 in receivables due from related parties. See Transactions with Related Parties section for further information. The Company has agreed that it will receive $250,000 in settlement of a claim related to a technology license. Because there are certain contingencies that must be met prior to being paid the $250,000, it is not known at this time when the settlement will be paid. The Company previously forecasted that it would sell approximately $500,000 in inventory by the end of 2015. Due to slower than anticipated sales of cloud services, sale of inventory is being delayed since the driver for this is the need for additional cloud storage and computing capacity. The Company will need to continue to rely on fundraising activities until it can generate a positive cash flow from operations.

Operations

Cash used in operating activities for the three and nine months ended September 30, 2015, totaled $230,000 and $641,000, respectively, compared to $977,000 and $2,342,000 for the same period in 2014. The decrease in the use of cash in operations in 2015 is primarily due to the need to conserve cash as a result of fundraising activities that were delayed.

Financing Activities

Cash flow from financing activities for the three and nine months ended September 30, 2015, was $227,000 and $327,000, respectively, compared to $630,000 and $2,823,000 for the same period in 2014. The decline in the current quarter was due to the Company not raising equity capital through a private placement and also a lack of warrant exercises in 2015 resulting the Company's stock trading below the warrant exercise price.

Investing Activities

Purchases of property and equipment for the three and nine months ended September 30, 2015, totaled $nil and $nil, respectively, compared to $4,000 and $53,000 for the same period in 2014. The Company purchases in the first quarter 2014 were used primarily for increasing the capacity of data centre operations.

Significant Accounting Polices

Statement of compliance

The unaudited interim condensed consolidated financial statements have been prepared in accordance IFRS using the accounting policies disclosed below.

The unaudited interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on December 11, 2015.

Basis of presentation

The unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis except those accounts as disclosed in the note related to financial instruments (Note 9) and share capital (Note 3). In addition, the unaudited interim condensed consolidated financial statements have been prepared using the accrual basis of accounting.

Basis of consolidation

The unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, LeoNovus USA Inc., (a U.S. company). All intercompany balances and revenue and expense transactions have been eliminated.

Functional currency

The cost structure of the Company is primarily in United States (U.S.) dollars and the service revenue of the Company is in U.S. dollars. Therefore, the primary indicator of functional currency indicates the U.S. dollar.

Foreign currency translation

All figures presented in the unaudited interim condensed consolidated financial statements are reflected in U.S. dollars, which is the functional currency of the Company and its subsidiary.

Expenses in foreign currencies are translated at the average rate for the period. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to U.S. dollars at the foreign exchange rate applicable at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognized in the unaudited interim condensed consolidated statement of net income (loss) and comprehensive income (loss).

Critical accounting estimates and judgments

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Estimation uncertainty

Critical accounting policies and estimates utilized in the normal course of preparing the Company's unaudited interim condensed consolidated financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values; useful lives of property, equipment and intangible assets; assumptions used to determine the fair value of warrants and stock options; the valuation of related party receivables; ability to utilize tax losses and estimated realizable investment tax credits; and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

These estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in these unaudited interim condensed consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents the Company from quantifying the overall impact of these movements on the Company's unaudited interim condensed consolidated financial statements in a meaningful way. These sources of uncertainty in estimation apply in varying degrees to virtually all asset and liability account balances.

New IFRS Standards issued and effective

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amendments to IAS 32 *Financial Instruments: Presentation* clarify certain aspects because of diversity in application of the requirements on offsetting, focus on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The IAS 32 amendments were applied retrospectively on January 1, 2014 with no impact.

IFRIC 21 Levies (“IFRIC 21”)

Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognised progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

IFRIC 21 was applied beginning January 1, 2014 with no impact.

Amendments to IFRS 2 - Share-based Payments (“IFRS 2”)

In the second quarter of 2014, the International Accounting Standards Board ("IASB") issued Amendments to IFRS 2. The amendments change the definitions of “vesting condition” and “market condition” in the standard, and add definitions for “performance condition” and “service condition”. They also clarify that any failure to complete a specified service period would result in a failure to satisfy a service condition. This would result in the reversal, in the current period, of compensation expense previously recorded reflecting the fact that the employee failed to complete a specified service condition. These amendments were effective for transactions with a grant date on or after July 1, 2014. There was no impact to the Company in implementing this amendment.

IAS 36 Impairment of Assets (“IAS 36”)

In May 2013, the IASB amended IAS 36 to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments were applied retrospectively on January 1, 2014 with no impact.

New IFRS Standards issued but not yet effective

Standards issued but not yet effective up to the date of the issuance of the Company’s unaudited interim condensed consolidated financial statements are listed below. The Company is still evaluating the impact of these pronouncements.

IFRS 9 Financial Instruments (“IFRS 9”)

IFRS 9 was issued by the IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, FVTPL and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of this standard on the unaudited interim condensed consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 was issued by the IASB on May 28, 2014, and will replace IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognized revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual period beginning on or after January 1, 2017. The Company is currently evaluating the impact of IFRS 15 on its unaudited interim condensed consolidated financial statements.

Contractual Obligations and Off-Balance Sheet Arrangements

The Company is not yet party to any industry contracts or arrangements. There are no off balance sheet arrangements.

Transactions with Related Parties

Gordon A. Campbell (GAC) is the CEO and Chairman of the Board of Directors of the Company. He is also a director of private companies, Soft Machines, Inc. (SMI), QST Holdings, LLC (QST) and Sviral Inc. (Sviral). Additionally, he is the Trustee of TFVLP Liquidating Trust (TFVLPLT) and owns jointly with his spouse, Techfarm Management, LLC (TFMLLC).

The Company has provided services to QST under agreements where reimbursement was made for management and administration services rendered in 2013. At September 30, 2015, $14,000 remains unpaid in Due from related parties (2014 - $14,000).

The Company provided administrative services to QST of $Nil, recognized as related party service revenue for the three-and nine-month period ended September 30, 2015 (2014 - $Nil and $5). As at September 30, 2015, $8,000 remains unpaid in Due from related parties (2014 - $8,000).

The Company provided office space to Sviral and FST for the three-and nine-month period ended September 30, 2015, for $Nil and $78,000, respectively (2014 - $26,000 and $84,000). As at September 30, 2015, $Nil remains in Due from related parties (2014 - $2,000).

The Company utilizes some of its staff to render service to Sviral and FST, who are potential licensees of the Company's technology. Services rendered of $Nil and $133,000 included technology and marketing consulting and administrative services to support their fundraising efforts and was recognized as related party service revenue for the three-and-nine-month period ended September 30, 2015 (2014 - $60,000 and $186,000). This type of support has been discontinued for potential licensees and partners As at September 30, 2015, $Nil remains in Due from related parties (2014 - $Nil).

In 2014, the Company converted the total balance due from Sviral of $766,000 into a promissory note. The note bears interest at a rate of 6% per annum with principal and interest payable monthly commencing on January 1, 2015 and ending December 1, 2018. The note is secured by publicly listed securities that are owned by Sviral. The terms of the promissory note were approved by the boards of directors of LeoNovus and Sviral.

In 2014, the Company converted the total balance due of $199,000 from FST into a promissory note. The note bears interest at a rate of 6% per annum with principal and interest payable monthly commencing on January 1, 2015 and ending December 1, 2018. The note is secured by the proceeds from an agreement with a large financial services company. The terms of the promissory note were approved by the boards of directors of LeoNovus and FST. As at September 30, 2015, events resulted in reduced probability of FST obtaining sufficient proceeds from an agreement with a large financial services company to be able to pay off the outstanding balance. As a result, and in addition to the overall financial condition of FST, the Company has recognized $199,000 as an allowance for doubtful debts related to this balance.

	September 30, 2015
	$
Sviral promissory note receivable	**514,000**
FST promissory note receivable	**199,000**
Allowance for doubtful debts	**(199,000)**
Less: Current portion	**(190,000)**
	324,000

In 2013, two Directors and a shareholder of the Company were provided loans totaling $349,000 to finance the exercise of 1,696,600 warrants to purchase common shares of the Company ("Share Purchase Loans"). The Share Purchase Loans mature in three years and bear an interest rate of 5% per annum. The 1,696,600 common shares acquired under the loans are pledged as security against the Share Purchase Loans and are held as security by the Company until such time as the individual loans are repaid.

Despite their legal form, the Share Purchase Loans are accounted for similar to the grant of an option under IFRS. In 2013, an additional $215,000 was recorded to share-based compensation expense and contributed surplus relating to the Share Purchase Loans using the Black-Scholes option pricing model with following assumptions: three year life; 78% volatility; 1.22% risk free rate; and no dividend yield.

In 2012, the Company executed a five-year software license and distribution agreement with Sviral. This agreement calls for revenue sharing on certain products beginning in 2013 and defines the revenue sharing for future product development. An agreement with Sviral was entered into in 2014 which replaced the 2012 agreement. Key changes to the agreement are extending the renewal date and narrowing exclusivity

Outstanding Share Data

As at December 11, 2015 (note all dollar amounts in this section are in CDN Dollars):

There were 123,252,000 common shares of the Company outstanding.

There were a total of 9,770,000 options outstanding on the following terms: 3,169,000 at $0.36 per option exercisable through September 2016; 25,000 at $0.16 per option exercisable through April 2017; 100,000 at $0.135 per option exercisable through July 2017; 1,820,000 at $0.19 per option exercisable through June 2018; 1,281,000 at $0.24 per option exercisable through December 2018; 1,100,000 at $0.39 per option exercisable through June 2019, 720,000 at $0.35 per option exercisable through September 2019; 315,000 at $0.23 per option exercisable through December 2019 and 1,240,000 at $.10 per option exercisable through June 2020.

There were 9,700,000 private placement warrants outstanding at $0.40 per warrant through exercisable January 2016.

Assuming all of these options and warrants were exercised, 142,722,000 common shares would be issued and outstanding on a fully diluted basis.

Risks and Uncertainties

Significant Future Capital Requirements; Need for Significant Additional Financing
The Company's future capital requirements will be significant, and there can be no assurances that the Company will be able to raise the additional funds on commercially reasonable terms, or at all. During the nine months ended September 30, 2015, the Company had not yet achieved commercial operations and had a net loss of $1,332,000 and a deficit of $21,141,000 and negative working capital of $1,691,000. In the absence of raising additional debt or equity financing or attaining commercial operations and generating sufficient revenues to achieve and sustain profitability, there is significant doubt regarding the Company's ability to continue as a going concern. The Company believes that its current efforts to correct the excessive liabilities on the balance sheet shall improve their ability to execute financing initiatives that will provide sufficient cash flow for it to continue as a going concern; however, there can be no assurance that the Company will achieve such results. In addition, any additional equity financing or conversion of debt obligations may involve substantial dilution to Company's then existing shareholders. While the Company is taking pro-active steps to clear liabilities, they cannot all be discharged in that manner. The Company's ability to realize its assets and discharge its remaining liabilities is dependent on its ability to obtain additional financing.

Inventory may decline in value or become obsolete
In 2014, the Company purchased $513,000 worth of computing devices which are to be used to expand the Company's capacity of compute and storage end-points in its virtual data centres. In the third quarter, 2015, the Company sold $134,000 worth of the computers and recorded a loss of $108,000. Management intends to place the remaining inventory of computers in a partner's facilities and in strategic customer locations as a part of expanding its distributed data centres early in 2016; however, we cannot guarantee that this will be done within this time-frame, if at all. The computing devices were built according to our unique requirements. As such, their value will not be realized if they are resold or used for an application different than a data center. Because computing device technology is constantly improving, it is possible that the value of the inventory will decline as a result of technological innovations occurring prior to

the computers' sale to a partner. Recent evaluations carried out in September 2015, indicated the devices continue to uphold their value with only a minor depreciation to date.

Collectability of related party notes
Repayment of the related party notes due the Company totaling $514,000 net of reserve is subject to the related parties' ability to raise additional capital and sell certain assets. The note due FST totaling $199,000 has been fully reserved and is not expected to be collected. Payment on the note due from Sviral is current and management believes they will have the ability to pay off this note. There is a risk, however, that Sviral will be unable to raise sufficient capital or sell assets in order to fully repay the note due the Company.

Strategic Relationships
LeoNovus is participating in strategic relationships that are in various stages of formation. The Company's strategic partners may have economic or business interests or goals that are or become inconsistent with the Company's goals, exercise their rights in a way that prohibits the Company from acting in a manner in which the Company would like to or our partners may be unable or unwilling to fulfill their obligations under the agreements or other arrangements. There can be no assurance given that the actions or decisions of the Company's strategic partners will not affect the Company's ventures in a way that hinders the Company's corporate objectives or reduces any anticipated cost savings or revenue enhancement resulting from these partnerships.

The Company's revenue and operating results can be difficult to predict and can fluctuate substantially, which may harm its results of operations and cash flows
The Company's revenue is difficult to forecast. In addition, the Company's operating expenses may not follow any past trends. The Company's quarterly revenue is highly dependent upon conversion of opportunities in the sales pipeline. As a result, revenues and operating results can be difficult to predict and can fluctuate substantially. The factors affecting the Company's revenue and results, many of which are outside of its control, include:

1. lack of long-term history with customers;
2. competitive conditions in the industry, including strategic initiatives by the Company or its competitors, new products, product announcements and changes in pricing policy by the Company or its competitors
3. market acceptance of the Company's products;
4. the Company's ability to maintain existing relationships and to create new relationships with customers;
5. a substitute solution for the Company's products
6. the sales cycles of the Company's customers can be long and unpredictable;
7. the length and variability of the sales cycles for the Company's products;
8. strategic decisions by the Company or its competitors, such as acquisitions, divestitures, spin-offs, strategic investments or changes in business strategy; and
9. timing of product development and new product initiatives.

The Company's gross margin and operating results may be adversely affected by lower pricing required to compete successfully
As a result of the KasTech analysis, the Company is now focusing on a less competitive target market. In this target market, functional effectiveness and technological differentiation are the key drivers of success, reducing but not eliminating price competitive pressures. The less competitive market in which the Company conducts its business may still require the Company to reduce its prices. If the Company's competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other products and services, the

Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes or actions would reduce the Company's margins and could adversely affect the Company's operating results. Many of the Company's competitors have significantly greater financial, technical, marketing or service resources than the Company. Many of these competitors also have a larger installed base of products, have longer operating histories or have greater name recognition that the Company. Customers and prospective customers of the Company are generally concerned that their suppliers will continue to operate and provide product support, maintenance and warranty services.

Development of new products for its intended markets
New products may be slow to be accepted into the market or may not be accepted at all. The Company is constantly exposed to the risk that its competitors may implement new technology before the Company does, or may offer lower prices, additional products or services or other incentives that the Company cannot and will not offer. The Company can give no assurances that it will be able to compete successfully against existing or future competitors.

Earnings History
The Company has incurred significant losses since its inception. The Company may continue to incur losses during the current and future fiscal years. The Company cannot predict with certainty that it will not continue to incur losses or experience negative cash flow in the future. The Company's continued inability to generate positive operating income and cash flow would materially and adversely affect the liquidity, consolidated results of operations and consolidated financial condition of the Company.

A significant portion of the Company's expenses are fixed. While the transitions underway based on the KasTech analysis significantly reduce these fixed costs, they are not eliminated. In addition, the Company expects to continue to incur significant expenses for research and development, sales and marketing, and general and administrative functions. Given the rate of growth in the Company's customer base, its limited operating history and the intense competitive pressures it faces, the Company may be unable to adequately control operating costs. In order to achieve and maintain profitability, the Company must increase sales while maintaining control over expense levels.

Key Personnel
Competition for skilled personnel, particularly those specializing in engineering and sales, is intense. The Company cannot be certain that it will be successful in attracting and retaining qualified personnel, or that newly hired personnel, will function effectively, either individually or as a group. If we fail to hire and retain qualified employees and management personnel, our growth strategy and our operating results could be harmed.

Our network, power supplies and data centers are subject to various points of failure.
Our physical infrastructure is concentrated in a few facilities, and any failure in our physical infrastructure or services could lead to significant costs and disruptions and could reduce our revenue, harm our business reputation and have a material adverse effect on our financial results.

Reliance on third-party software
We rely on software licensed from third parties to offer our services. This software may not continue to be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of this software could result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available, is identified, obtained, and

integrated, which could harm our business. Any errors or defects in third-party software or inadequate or delayed support by the third party could result in errors or a failure of our service, which could harm our operating results by adversely affecting our revenue or operating costs.

Quarterly Information

	Three months ended			
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Service Revenue	$ 6,000	$ 47,000	$ 51,000	$ 64,000
General & Administrative Expense	$ 388,000	$ 358,000	$ 307,000	$ 549,000
Research & Development Expense	$ 304,000	$ 245,000	$ 387,000	$ 341,000
Sales & Marketing Expense	$ 76,000	$ 144,000	$ 139,000	$ 166,000
Total Operating Expenses	$ 768,000	$ 747,000	$ 833,000	$ 1,056,000
Loss from Operations	$ (762,000)	$ (700,000)	$ (782,000)	$ (992,000)
Foreign Exchange Gain (Loss)	$ 31,000	$ (4,000)	$ 70,000	$ 127,000
Finance and Interest Income (Expense)	$ 7,000	$ 9,000	$ 17,000	$ (45,000)
Change in fair value of outstanding warrants	$ 16,000	$ 18,000	$ 748,000	$ 2,285,000
Net Income (Loss)	$ (708,000)	$ (677,000)	$ 53,000	$ 1,375,000
Weighted average outstanding shares	121,554,914	121,554,914	121,554,914	121,390,051
Income (loss) per share	$ (0.01)	$ (0.01)	$ -	$ 0.01

	Three months ended			
	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Service Revenue	$ 60,000	$ 57,000	$ 72,000	$ 41,000
General & Administrative Expense	$ 284,000	$ 300,000	$ 281,000	$ 500,000
Research & Development Expense	$ 505,000	$ 567,000	$ 508,000	$ 596,000
Sales & Marketing Expense	$ 108,000	$ 122,000	$ 134,000	$ 114,000
Total Operating Expenses	$ 897,000	$ 989,000	$ 923,000	$ 1,210,000
Loss from Operations	$ (837,000)	$ (932,000)	$ (851,000)	$ (1,169,000)
Foreign Exchange Gain (Loss)	$ 266,000	$ (110,000)	$ 177,000	$ 125,000
Finance and Interest Expense	$ (57,000)	$ (79,000)	$ (69,000)	$ (23,000)
Change in fair value of outstanding warrants	$ 3,335,000	$ 822,000	$ (3,729,000)	$ (2,589,000)
Net Loss	$ 2,707,000	$ (299,000)	$ (4,472,000)	$ (3,656,000)
Weighted average outstanding shares	118,177,969	117,736,780	112,215,293	98,199,940
Loss per share	$ 0.02	$ -	$ (0.04)	$ (0.04)