“Notice to the Reader”

The accompanying unaudited interim condensed consolidated financial statements of LeoNovus Inc. for the three months ended March 31, 2016, 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.

The accompanying 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 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 consolidated financial statements and (ii) the 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 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 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 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 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.

Date: August 4, 2016

“Daniel Willis”	*“Daniel Hilton”*
Daniel Willis	Daniel Hilton
CEO	CFO

LeoNovus Inc.,
(the “Company” or “LeoNovus”)
Management’s Discussion and Analysis (MD&A)
For the period Jan 1, 2016 to March 31, 2016

The following MD&A was prepared by management and should be read in conjunction with the Company’s Consolidated Financial Statements for the quarter ended March 31, 2016, 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.

The consolidated financial statements have been prepared in US dollars and International and in accordance with Financial Reporting Standards (IFRS) using the accounting policies described in Note 2 to the Company’s Consolidated Financial Statements.

Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the financial 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 consolidated financial statements.

Date

This MD&A is dated August 4, 2016, and is in respect of the quarter ended March 31, 2016.

History, Nature of Business and Overall Performance

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. 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 six members of the Board of Directors are former board members of PWS.

In March 2011, Work Horse's name was changed to LeoNovus Inc. (using a new stock symbol "LTV").

Since January 2013, the Company has completed the following equity transactions:

In January and March 2013, the Company completed a non-brokered private placement offering of 12,735,666 Units at CDN $0.15 for gross proceeds of CDN $1,910,000 (US $1,872,000). Each Unit consisted of one share of stock and a two-year warrant for one common share exercisable at CDN $0.24. In the first close in January, 2,866,000 Units were purchased at a price of CDN $0.15 per Unit for gross proceeds of CDN $430,000 (US $431,000). In the second close, 9,869,666 Units were purchased at a price of CDN $0.15 per Unit for gross proceeds of CDN $1,480,000 (US $1,440,000).

In August 2013, the Company completed a concurrent brokered and non-brokered private placement offering of an aggregate amount of 14,134,116 units at CDN $0.17 per unit for gross proceeds of CDN $2,403,000 (US $2,323,000). Each Unit consisted of one common share of stock and a two-year warrant for one common share exercisable at CDN $0.30.

In October 2013, holders of 2,602,690 purchase price warrants (Note 3 of the consolidated financial statements) exercised their warrants at CDN $0.20 per warrant for a total of CDN $521,000 (US $536,000). The remaining 979,521 purchase price warrants were not exercised and have expired.

In December 2013, holders of 7,375,000 exchangeable warrants exercised their warrants into common shares in accordance with the warrant agreements dated October 2010.

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.

In 2014, 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 storage and Intelligent Network that enables efficient, secure, and high-speed on-premise, hybrid or public cloud computing by leveraging advanced storage mediums to bare metal while identifying and leveraging idle 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 our customers the ability to offer cloud services by utilizing existing computing resources that have excess capacity.

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.

LeoNovus is able to offer geo-distributed cloud services as well as enabling a secure app platform that adds new and recurring revenue streams for data centers and colocation providers while avoiding substantial operating costs that single-site data centers incur.

This geo-distributed data centre and network operates securely through LeoNovus' focus on protecting the data and services - 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. While an enterprise may back up its data in multiple data centers, this 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 in a single location. In addition, LeoNovus sets a high fault tolerance, which means that the company can lose up to 70% of its endpoints and not lose its client's data.

With the new Vault Cube product Management believes that the Company is positioned extremely well in high growth markets to offer a petabyte class, low cost software designed storage product for data to meet the high growth needs coming from the massive growth in data storage driven primarily by the growth in video and analytics.

Industry Outlook

Analysts agree that interest in cloud computing over the last several years has been phenomenal. The cloud offers a flexible and secure storage environment, and includes public, hybrid and private clouds. It has the ability to transform business and operational processes; it streamlines customer on-ramping and reduces time to market; it facilitates corporate innovation; it provides cost efficiencies, and enables the scaling of resources on demand.

Cleversafe, a software defined storage company recently purchased by IBM forecasts that the 100 petabyte customer market has a compounded growth rate of 60% and estimate that there are over 300 of these customers globally in 2016. Potential revenues from each of these customers are in the seven-figure range.

Growth in stored data, however, has presented opportunities for specific cloud offerings based on the continuing high growth of connected devices. In terms of deployment architectures, cloud services are currently undergoing a major paradigm shift including such things as the Internet of Everything (IoE) 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 will announce a product later in the year to address this market.

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 lower latency over a multiplicity of connected devices.

Current Market Opportunities

First Vault Cube Installation

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. Frontline intends to extend this relationship to cover residential networks for condominiums. On April 6, 2016 Frontline became the first company to install the new Vault Cube product.

Enabling Products to Broaden Appeal

Enterprise On-Premise Private Clouds + Hybrid + Public

Despite a significant shift to cloud applications, most companies (especially in Europe) remain conservative about which applications they put in public clouds. According to a Tata Consultancy Services Survey, less than 20% of U.S. and European companies would consider or seriously consider putting their most critical applications in public clouds. But 66% of U.S. and 48% of European companies would consider putting core applications in private clouds. Typically, these companies have large amounts of unused, and underutilized storage and computing resources within their own firewalls. To illustrate this point, an example might be

defined as follows: Using a 100,000 employee enterprise, assume 25% of them have a PC at work, and that the average PC has between 1-2 TB of storage on board and at least 4 CPU processor cores. Most employees don't end up using anywhere near that amount of storage nor does any one application typically use more than one CPU core when running. LeoNovus' technology can effectively use the "idle" resources in these computers to store encrypted data and run compute-intensive jobs, while remaining behind the company firewall including using the intelligent network to set policies which give the employee priority in usage. This drives extremely efficient use of internal resources while lowering the carbon footprint.

With the new Vault Cube software defined storage product, a Company can create and access an internal private cloud, which uses under-utilized on-premise hardware, which can be transparently connected to an external cloud for data back up. Vault Cube enables a seamless integration to the public cloud its private / public cloud solution while using the same single interface and consistent security model for both cloud services.

Strategy and Outlook

The Company is focused on a four key strategies in calendar 2016 to address the short-term and long-term growth plans of the Company including:

1. Develop a revenue base with a clear product offering with compelling features and pricing for the market. The Vault Cube product concept was created in February 2016.

2. Use the past network of LeoNovus customer contacts to install early versions of the Vault Cube product. The first installation was completed in April 2016 and LeoNovus expects to complete up to three installations by the end of May 2016.

3. Develop a channel partner strategy to expand sales presence.

4. Develop 'compute' as the second major leg of the product offering in 2016.

Selected Financial Information

The Company was incorporated on December 30, 2008 and has a December 31st year end. The following selected financial data is derived from the consolidated financial statements of the Company prepared in accordance with IFRS. To December 31, 2015, the functional currency of the Company is the US dollar.

	Three Month Period Ended March 31, 2016	Three Month Period Ended March 31, 2015	Three Month Period Ended March 31, 2016	Three Month Period Ended March 31, 2015
Total Revenue	$ -	$ 50,000	$ -	$ 50,000
General & Administrative Expense	$ 278,000	$ 306,000	$ 278,000	$ 307,000
Research & Development Expense	$ 173,000	$ 387,000	$ 173,000	$ 386,000
Sales & Marketing Expense	$ 3,000	$ 139,000	$ 3,000	$ 139,000
Total Operating Expenses	$ 454,000	$ 832,000	$ 454,000	$ 832,000
Loss from Operations	$ (454,000)	$ (782,000)	$ (454,000)	$ (782,000)
Foreign Exchange Gain (Loss)	$ (53,000)	$ 71,000	$ (53,000)	$ 71,000
Finance and Interest Income (Expense)	$ (12,000)	$ 16,000	$ (12,000)	$ 16,000
Change in fair value of outstanding warrants	$ -	$ 748,000	$ -	$ 748,000
Net Income (Loss)	$ (519,000)	$ 53,000	$ (519,000)	$ 53,000
Income (loss) per common share	$ (0.00)	$ 0.00	$ (0.00)	$ 0.00
Weighted average number of outstanding shares	130,061,914	121,554,914	130,061,914	121,554,914

	March 31, 2016	March 31, 2015
Cash	$ 38,000	$ 103,000
Total Current Assets	$ 456,000	$ 1,043,000
Total Assets	$ 741,000	$ 1,493,000
Total Current Liabilities	$ 3,466,000	$ 1,730,000
Total All Liabilities	$ 3,729,000	$ 2,208,000
Total Shareholders' Deficiency	$ (2,988,000)	$ (715,000)
Total Liabilities and Shareholders' Deficiency	$ 741,000	$ 1,493,000
Total Working Capital	$ (3,010,000)	$ (687,000)
Warrant Liability *	$ 199,000	$ 52,000
Working Capital Adjusted for Warrant Liability	$ (2,811,000)	$ (635,000)

* 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: interest/finance income and expense, research and development (“SRED”) tax credit recovery, depreciation, amortization, foreign exchange gains and losses in earnings, stock-based compensation expense, change in fair value of outstanding warrants. Therefore, it may not be comparable to similar measurements presented by other companies. The reconciliation of Adjusted EBITDA with the IFRS measure of net loss for three month periods is as follows:

Dollars stated in 000's	Jun 30 2014	Sep 30 2014	Dec 31 2014	Mar 31 2015	Jun 30 2015	30-Sep 2015	31-Dec 2015	**31-Mar 2016**
Net Income (loss) for the period	(299)	2,707	1,375	53	(677)	(708)	(546)	(519)
Add (deduct):								
Interest expense (income)	79	57	45	(17)	(9)	(7)	12	12
SRED tax recovery	(79)	-	-	-	(90)	-	(90)	-
Depreciation and amortization	6	6	7	7	6	6	6	5
Foreign exchange (gain) loss	110	(266)	(127)	(70)	4	(31)	(37)	53
Stock-based compensation expense (recovery)	66	95	97	63	51	45	(45)	1
Expense (recovery) on valuation of stock warrants	(827)	(3,335)	(2,285)	(748)	(18)	(16)	(13)	-
Adjusted EBITDA	(944)	(736)	(888)	(712)	(733)	(711)	(623)	(448)

Results of Operations

The Company incurred a net loss of $519,000 for the three month period ended March 31, 2016 compared to a net income of $53,000 for the three months ended March 31, 2015. Revenue declined from $50,000 in 2015 to $NIL in 2016 because of the discontinuance of Administrative and Consulting services to Related Parties. Expenses declined from $832,000 in the first quarter of 2015 to $454,000 in 2016, due to a reduction of research and development and sales and marketing expenses.

Revenue
($NIL for the three months ended March 31, 2016)
($50,000 for the three months ended March 31, 2015)

General and Administrative Expenses
($278,000 for the three months ended March 31, 2016)
($306,000 for the three months ended March 31, 2015)

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 items include legal and accounting professional fees, rent, travel and insurance. General and administrative expenses decreased by $28,000 for the three months ended March 31, 2016. This reduction is primarily a result reduced salary and stock compensation expense in 2016 due to personnel reductions.

Research and Development Expenses
($173,000 for the three months ended March 31, 2016)
($387,000 for the three months ended March 31, 2015)

Research and development expenses consist primarily of remuneration paid to engineering personnel both in the U.S. and Canada and independent contractors. Other significant items include license fee expenses, travel, rent and other occupancy costs for our Canadian engineering personnel. For the three months ended March 31, 2016, research and development expense decreased by $214,000, as a result of a reduction in personnel, resources and contractors and stock compensation expense.

Sales and Marketing Expenses
($3,000 for the three months ended March 31, 2016)
($139,000 for the three months ended March 31, 2015)

Sales and marketing expenses consist primarily of compensation, travel costs, public relations and trade show costs. For the three months ended March 31, 2016, sales and marketing expenses decreased by $136,000 as a result of a reduction in personnel and marketing efforts.

Liquidity and Capital Resources

As at March 31, 2016, the Company had $38,000 of cash and a working capital deficiency of $3,010,000. Cash has decreased by $65,000 compared to the March 31, 2015 balance of $103,000 and the working capital deficiency increased by $2,323,000 compared to the March 31, 2015 balance of $687,000. The increased working capital deficiency at March 31, 2016 is due in part to a compensation accrual for terminated employees of $348, in part to accrued lease payments to May 2016 arising from our United States lease termination and $24, in part to a revaluation of inventory at December 31 2015 of $310, and to normal business activities. At March 31, 2016, the Company had $443,000 of receivables due from related parties, a decrease of $224,000 compared to the March 31, 2015 balance of $667,000. See Transactions with Related Parties section for further information. 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 three months ended March 31, 2016 of $313,000 compared to $306,000 for the same period in 2015. The reduction in the use of cash in operations is due to reduced expenses in the year.

Financing Activities

Cash flow from financing activities for twelve months ended March 31, 2016, $122,000 compared to $100,000 for the same period in 2015. The 2016 cash flows arose from the Company raising equity capital through 2 private placements.

Investing Activities

Purchases of property and equipment for the three months ended December 31, 2016, totaled $NIL compared to $NIL for the same periods in 2015.

Significant Accounting Polices

Statement of compliance

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

The consolidated financial statements were approved and authorized for issue by the Board of Directors on July 28, 2016.

Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except those accounts as disclosed in the note related to financial instruments and share capital. The consolidated financial statements have been prepared using the accrual basis of accounting.

Basis of consolidation

The 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, the related party services revenue of the Company is in U.S. dollars and the Company has begun to earn cloud services revenue which is U.S. dollars, therefore, the primary indicator of functional currency indicates the U.S. dollar.

Foreign currency translation

All figures presented in the 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 sheets 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 consolidated statement of loss and comprehensive loss.

Cash

Cash includes demand deposits and other highly liquid, low risk financial instruments which have terms of three months or less at the time of acquisition or maturity greater than three months but cashable within 90 days with no penalty.

Income taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for account purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change of statutory tax rates is recognized in net earnings in the year of the change. Deferred income tax assets are recorded when their recoverability is considered probable and is reviewed at the end of each reporting period.

Share-based payments

The Company measures equity settled stock options granted based on their fair value at the grant date and recognizes compensation expense over the vesting period. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net earnings. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based payments are transferred from contributed surplus to share capital.

Financial instruments

All financial instruments are initially recognized at fair value including transaction costs, except those at fair value through profit or loss ("FVTPL") for which transaction costs are expensed when incurred.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Cash is designated as loans and receivables which are measured at amortized cost.

Due from related parties, long-term notes receivable with related parties, and other receivables have been classified as loans and receivables and are measured at amortized cost.

Accounts payable and accrued liabilities, and deferred compensation have been classified as other financial liabilities, which are measured at amortized cost. Due to the short-term nature of these assets and liabilities, the fair values approximate amortized cost.

The liability for outstanding warrants is FVTPL as the underlying warrants are denominated in Canadian dollars which differs from the Company's functional currency of U.S. dollars. As a result, the Company is required to re-measure the instruments at fair value at each reporting period with changes in fair value recorded in net earnings.

The Company classifies its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value:

Level 1 - Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly

such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 - Applies to assets or liabilities for which there is no observable market data.

The fair value of assets and liabilities measured on a recurring basis include the liability for outstanding warrants determined based on Level 2 inputs. The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

Property, equipment and intangible assets

Property and equipment are recorded at cost less residual value and accumulated amortization and impairment losses. Depreciation is calculated using the declining-balance method over the estimated useful lives of the assets as follows:

Office equipment	20%
Computer equipment	33%

An asset's residual value, useful life and amortization method are reviewed, and adjusted prospectively if appropriate, on an annual basis.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a first in, first out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment of assets

At each balance sheet date, the Company assesses whether there is any indication that any long-lived assets or finite life tangible assets are impaired. An impairment is recognized if the recoverable amount, determined as the higher of an asset's fair value less cost to sell and the discounted future cash flows generated from use and eventual disposal of an asset, is less than its carrying value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Operating leases

Management has determined that the benefits and risks incident to ownership have not been transferred relating to its leasing of various property, desktop and server requirements and, therefore, has classified them as operating leases and recognized the monthly lease payments as an expense on a straight-line basis.

Revenue recognition

The Company recognizes cloud services revenue by measuring the fair value of the consideration received or receivable.

The Company recognizes service revenue to related parties based on hours incurred at established hourly rates that approximates salary and related benefits.

Research and development

Research costs are expensed as incurred. Development costs are deferred and amortized when the criteria for intangible asset 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.

Loss per share

Basic net earnings or loss per share is calculated by dividing the net earnings or loss by the weighted average number of shares outstanding for the period. Diluted net earnings or loss per share is calculated using the treasury stock method by dividing net earnings or loss by the diluted weighted average shares outstanding for the period. Options under the share-based payment plan that have a dilutive impact are assumed to have been exercised on the later of the beginning of the period or the date granted and are included in the diluted weighted average shares.

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 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.

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 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 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

changed 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 in July 2015 the IASB confirmed a one year deferral of the effective date to reporting periods beginning on or after January 1 2018. The Company has not evaluated the impact of these changes on its consolidated financial statements.

IFRS 16 *Leases ("IFRS 16")*

In January 2016, the IASB issued a new standard, IFRS 16 *Leases* which introduces a major revision of the way in which companies account for leases. This becomes effective for reporting periods beginning on or after January 1, 2019. The Company has not yet evaluated the impact of these changes on its consolidated financial statements.

IAS 7 *Statement of Cash Flows*

In January 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows* intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017 with earlier application permitted. The Company has not yet evaluated the impact of the changes on its 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 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), Sviral Inc. (Sviral) and, until September 2015, FissionStream Technologies, Inc. (FST). Additionally, he is the Trustee of TFVLP Liquidating Trust (TFVLPLT) and owns jointly with his spouse, Techfarm Management, LLC (TFMLLC).

The Company provided services to QST under agreements where reimbursement was made for management and administration services rendered in 2013 and 2014. As at March 31, 2016, $22 remains unpaid in Due from related parties (December 31, 2015 - $22).

In September 2014, the Company converted the total balance due from Sviral of $766 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. Initially the note was secured by publicly listed securities that were owned by Sviral. During 2015 those securities were sold by Sviral and the proceeds of the sale of those securities was paid to the Company as a loan payment. The terms of the promissory note were approved by the boards of directors of LeoNovus and Sviral.

In September 2014, the Company converted the total balance due of $199 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 December 31, 2014 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

recognized $159 as an allowance for doubtful debts related to this balance. In June, 2015, the Company recognized the balance of $40 of this promissory note from FST as an allowance for doubtful debts.

	$
Sviral promissory note receivable	514
FST promissory note receivable	199
Allouwance for doubtful debts	(199)
Less: Current portion	190
	324

In October 2013, two Directors and a shareholder of the Company were provided loans totaling $349 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 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 August 4, 2016 (note all dollar amounts in this section are in CDN Dollars):

There were 130,061,914 common shares of the Company outstanding, excluding 1,696,600 shares that were issued with Share Purchase Loans in 2013 to 2 Directors and a shareholder of the Company. These warrants are pledged as security against these loans and are not considered outstanding.

There were a total of 6,376,137 options outstanding on the following terms: 2,484,775 at $0.36 per option exercisable through 2016; 4,228,492 at $0.29 per option exercisable through 2017; 498,416 at $0.24 per option exercisable through 2019; 1,115,927 at $0.18 per option exercisable through 2018; 1,129,374 at $0.10 per option exercisable through 2020.

There were 185,380 broker warrants outstanding at $0.10 per warrant exercisable through August 2019. There were 367,575 broker unit warrants at $0.10 exercisable through September 2017.

There were 3,000,000 debenture warrants outstanding at $0.10 exercisable through September 2018, and there were $2,000,000 debenture warrants outstanding at $0.05 exercisable through December 2017.

There were 4,253,500 private placement warrants outstanding on the following terms:
1,426,000 at $0.10 per warrant exercisable through August 2016 and 2,827,500 at $0.10 per warrant through exercisable September 2017.

Assuming all of these options and warrants were exercised, 16,182,592 common shares would be issued and outstanding on a fully diluted basis.

Risks and Uncertainties

The preparation of financial statements in accordance with IFRS contemplate the continuation of the Company as a going concern. During the year ended March 31, 2016, the Company had not yet achieved commercial operations and had a net loss of $519 and a deficit of $22,206,000 and negative working capital of $3,010,000. 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 financing initiatives will provide sufficient cash flow for it to continue as a going concern in its present form; however, there can be no assurance that the Company will achieve such results. The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities that might be necessary should the Company be unable to continue its operations. The Company's ability to realize its assets and discharge its liabilities is dependent on its ability to obtain additional financing.

Quarterly Information

	Three months ended			
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Service Revenue	$ -	$ -	$ 6,000	$ 47,000
General & Administrative Expense	$ 278,000	$ 398,000	$ 388,000	$ 358,000
Research & Development Expense	$ 173,000	$ 213,000	$ 304,000	$ 245,000
Sales & Marketing Expense	$ 3,000	$ (27,000)	$ 76,000	$ 144,000
Total Operating Expenses	$ 454,000	$ 584,000	$ 768,000	$ 747,000
Loss from Operations	$ (454,000)	$ (584,000)	$ (762,000)	$ (700,000)
Foreign Exchange Gain (Loss)	$ (53,000)	$ 37,000	$ 31,000	$ (4,000)
Finance and Interest Income (Expense)	$ (12,000)	$ (12,000)	$ 7,000	$ 9,000
Change in fair value of outstanding warrants	$ -	$ 13,000	$ 16,000	$ 18,000
Net Income (Loss)	$ (519,000)	$ (546,000)	$ (708,000)	$ (677,000)
Weighted average outstanding shares	130,061,914	121,554,914 #	121,554,914	121,554,914
Income (loss) per share	$ -	$ -	$ (0.01)	$ (0.01)

	Three months ended			
	March 31, 2014	December 31, 2014	September 30, 2014	June 30, 2014
Service Revenue	$ 72,000	$ 64,000	$ 60,000	$ 57,000
General & Administrative Expense	$ 281,000	$ 549,000	$ 283,000	$ 354,000
Research & Development Expense	$ 508,000	$ 341,000	$ 505,000	$ 487,000
Sales & Marketing Expense	$ 134,000	$ 166,000	$ 108,000	$ 151,000
Total Operating Expenses	$ 923,000	$ 1,056,000	$ 896,000	$ 992,000
Loss from Operations	$ (851,000)	$ (992,000)	$ (836,000)	$ (935,000)
Foreign Exchange Gain (Loss)	$ 177,000	$ 127,000	$ 266,000	$ (111,000)
Finance and Interest Expense	$ (69,000)	$ (45,000)	$ (57,000)	$ (80,000)
Change in fair value of outstanding warrants	$ (3,729,000)	$ 2,285,000	$ 3,335,000	$ 827,000
Net Loss	$ (4,472,000)	$ 1,375,000	$ 2,708,000	$ (299,000)
Weighted average outstanding shares	112,215,293	121,390,051	118,177,969	117,736,780
Loss per share	$ (0.04)	$ 0.01	$ 0.02	$ -