

Unaudited interim condensed consolidated financial statements of

LeoNovus Inc.

September 30, 2016 and 2015

LeoNovus Inc.

September 30, 2016 and 2015

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LeoNovus Inc.

Unaudited interim condensed consolidated statements of
net income (loss) and comprehensive income (loss)
for the three- and nine-month periods ended September 30, 2016 and 2015
(in thousands of U.S. dollars)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenue				
Related party services (Note 4)	-	6	-	97
Consulting Services	-	-	-	5
Cloud Services	-	-	-	2
	-	6	-	104
Expenses				
General and administrative	120	388	507	1,053
Research and development	(85)	304	236	936
Sales and marketing	3	76	7	359
	38	768	750	2,348
Loss from operations	(38)	(762)	(750)	(2,244)
Foreign exchange gain (loss)	17	31	(43)	97
Finance and interest income (expense)	(3)	7	(31)	33
Change in fair value of outstanding warrants (Note 3)	2	16	7	782
Net income (loss) and comprehensive income (loss)	(22)	(708)	(817)	(1,332)
Loss per share - basic and diluted (Note 10)	\$ -	(0.01)	\$ -	(0.01)
Weighted average number of outstanding shares (Note 10)	130,061,914	121,554,914	130,061,914	121,554,914

The accompanying notes are an integral part of these consolidated financial statements

LeoNovus Inc.

Unaudited interim condensed consolidated statements of financial position
as at September 30, 2016 and December 31, 2015
(in thousands of U.S. dollars)

	September 30, 2016	December 31, 2015
	\$	\$
Assets		
Current assets		
Cash	45	116
Due from related parties (Note 4)	22	22
Current portion of long-term notes receivable with related parties (Note 4)	202	193
Prepaid assets and inventories (Note 5)	95	107
Other receivables	93	63
	457	501
Property and equipment	24	35
Long-term notes receivable with related parties (Note 4)	123	275
Other assets	26	26
	630	837
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	2,743	2,556
Current portion of notes and debentures payable (Note 8)	100	100
Liability for outstanding warrants (Note 3)	190	56
Deferred compensation (Note 8)	478	478
	3,511	3,190
Long term portion of notes and debentures payable (Note 6)	384	242
	3,895	3,432
Shareholders' deficiency		
Share capital and loans to shareholders (Note 3)	17,795	17,672
Contributed surplus (Note 3)	1,444	1,420
Deficit	(22,504)	(21,687)
	(3,265)	(2,595)
	630	837

Approved by the Board

(s) Peter Abramenko Director

(s) Dan Hilton Director

The accompanying notes are an integral part of these consolidated financial statements

LeoNovus Inc.

Unaudited interim condensed consolidated statements of shareholders' deficiency for the three- and nine-month periods ended September 30, 2016 and 2015

(in thousands of U.S. dollars)

	Common shares		Contributed surplus	Shareholders' deficiency	Total
	Number	Amount			
	#	\$	\$	\$	\$
Balance at December 31, 2014	121,554,914	71,672	1,306	(19,809)	(831)
Share-based compensation	-	-	63	-	63
Net loss	-	-	-	53	53
Balance at March 31, 2015	121,554,914	71,672	1,369	(19,756)	(715)
Share-based compensation	-	-	51	-	51
Net loss	-	-	-	(677)	(677)
Balance at June 30, 2015	121,554,914	71,672	1,420	(20,433)	(1,341)
Share-based compensation	-	-	45	-	45
Secured debenture with warrants September 2014	-	43	-	-	43
Net loss	-	-	-	(708)	(708)
Balance at September 30, 2015	121,554,914	71,715	1,465	(21,141)	(1,961)
Balance at December 31, 2015	121,554,914	71,672	1,420	(21,687)	(2,595)
Share-based compensation	-	-	3	-	3
Private placement offering Feb 2016, net of issuance costs (Note 3)	2,852,000	35	-	-	35
Private placement offering Mar 2016, net of issuance costs (Note 3)	5,655,000	88	-	-	88
Net loss	-	-	-	(519)	(519)
Balance at March 31, 2016	130,061,914	71,795	1,423	(22,206)	(2,988)
Share-based compensation	-	-	14	-	14
Net loss	-	-	-	(276)	(276)
Balance at June 30, 2016	130,061,914	71,795	1,437	(22,482)	(3,250)
Share-based compensation	-	-	7	-	7
Net loss	-	-	-	(22)	(22)
Balance at September 30, 2016	130,061,914	71,795	1,444	(22,504)	(3,265)

The accompanying notes are an integral part of these consolidated financial statements

LeoNovus Inc.

Unaudited interim condensed consolidated statements of cash flows for the three- and nine-month periods ended September 30, 2016 and 2015

(in thousands of U.S. dollars)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
	\$	\$	\$	\$
Net inflow (outflow) of cash related to the following activities:				
Operating				
Net income (loss)	(22)	(708)	(817)	(1,332)
Non-cash items:				
Depreciation	5	6	11	20
Loss on sale of property, plant and equip.	-	1	-	1
Share-based compensation	7	45	22	158
Warrant valuation impact (Note 3)	2	(16)	7	(782)
Write off impaired assets	-	-	-	40
Changes in non-cash working capital items (Note 10)	2	442	468	1,254
Cash flows from (used in) operating activities	(6)	(230)	(309)	(641)
Financing				
Issuance of share capital, net of issuance costs (Note 3)	-	-	122	-
Advances from short-term loans (Note 6)	-	-	116	100
Advances from long-term loans (Note 6)	-	227	-	227
Cash flows from financing activities	-	-	238	100
Net cash inflow (outflow)	(6)	(3)	(71)	(314)
Cash, beginning of period	51	11	116	322
Cash, end of period	45	8	45	8

(Additional information is presented in Note 10).

The accompanying notes are an integral part of these consolidated financial statements

LeoNovus Inc.

Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

1. Description of business

Company and nature of business

LeoNovus Inc. (the "Company") is a technology company that has launched a browser-based SMART MEDIA™ platform with a remotely-managed cloud system that provides HDTVs and other connected digital devices with access to features, content and functionality over the web. Applications have been developed for delivering value-added services in the hospitality market.

The Company is incorporated in Canada. The Company's address is 1400-340 Albert Street, Ottawa, Ontario Canada K1R 0A5. The Company's wholly-owned subsidiary is LeoNovus USA Inc., and its principal place of business is 1309 Carling Avenue, Ottawa, Ontario Canada K1Z 7L3.

Going concern

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) contemplates the continuation of the Company as a going concern. During the period ended September 30, 2016, the Company had not yet achieved commercial operations, had a net loss of \$817 and as of September 30, 2016 had a deficit of \$22,504 and a negative working capital of \$3,054.

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.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015.

2. Significant accounting policies

Statement of compliance

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

These unaudited interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on November 28, 2016.

Basis of presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and do not include all of the information and disclosures required for full annual financial statements.

LeoNovus Inc.

Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

2. Significant accounting policies (continued)

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 functional currency of the company is 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 judgements

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 revenue 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.

New IFRS Standards issued but not yet effective

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

LeoNovus Inc.

Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

2. Significant accounting policies (continued)

IFRS 9 Financial Instruments ("IFRS 9") (continued)

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 recognize 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.

IFRS 16 Leases

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.

3. Share capital

The Company has an unlimited number of no-par common shares authorized for issuance with shares 130,061,914 outstanding (excluding 1,696,600 shares issued under the loan arrangement described in Note 5 that are not considered outstanding) as at September 30, 2016 (December 31, 2015 - 121,554,914).

2015

On February 19, 2016, the Company completed a non-brokered private placement offering of 2,852,000 common shares at \$0.05 for gross proceeds of \$104 (\$CAD 143). 1,426,000 warrants were issued with the units and each warrant is exercisable for one common share at \$CAD 0.10 per share for a period of eighteen months from the date of

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Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

3. Share capital (continued)

issuance. The Common Shares and Warrants are subject to a four (4) month and one (1) day hold period from the date of issuance.

On March 18, 2016 the Company completed a non-brokered private placement offering of 5,655,000 common shares at \$0.05 for Gross proceeds of \$217 (\$CAD 283). 2,827,500 warrants were issued with the unit and each warrant is exercisable for one common share at \$CAD 0.10 per share for a period of eighteen months from the date of issuance. The Common Shares and Warrants are subject to a four (4) month and (1) day hold period from the date of issuance.

2014

In January 2014, the Company completed a non-brokered private placement offering of 9,700,000 common shares at \$0.23 for gross proceeds of \$CAD 2,231. Each Unit consisted of one share of stock and a two-year warrant exercisable for one common share at CDN \$0.40.

Stock options - Plan

The Board of Directors of the Company has approved and implemented a stock option plan (the "Plan"). Pursuant to the Plan, the board may from time to time at its discretion, and in accordance with regulatory requirements, grant non-transferable options to purchase shares to directors, officers, employees and consultants of the Company, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares at the time of the grant. Pursuant to the Plan, the maximum number of common shares reserved for issuance in any twelve-month period to any one employee other than a consultant may not exceed 5% of the issued and outstanding common shares at the date of the grant.

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Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

3. Share capital (continued)

Stock options - Plan (continued)

	Stock options	Weighted average exercise price in \$CAD
		\$
Outstanding, at December 31, 2013	8,843,507	0.28
Granted	2,495,000	0.35
Forfeited	(1,184,589)	0.31
Exercised	(456,750)	0.15
Outstanding, at December 31, 2014	9,697,168	0.30
Granted	1,240,000	0.10
Forfeited	(2,832,925)	0.29
Exercised	-	0.00
Outstanding, at December 31, 2015	8,104,243	0.28
Granted		0.10
Forfeited	(1,728,106)	0.31
Exercised	-	0.00
Outstanding, at March 31, 2016	6,376,137	0.28
Granted		0.10
Forfeited	(517,285)	0.28
Exercised	-	0.00
Outstanding, at June 30, 2016	5,858,852	0.29
Granted		0.10
Forfeited	(369,997)	0.29
Exercised	-	0.00
Outstanding, at September 30, 2016	5,488,855	0.20

2015

The Board of Directors approved grants of 1,240,000 options to employees and consultants in June 2015 at an exercise price of CDN \$0.10. The five-year options were valued at \$14 using the Black-Scholes option pricing model with the following assumptions: three-year life; interest rate of 0.45%; average volatility of 95% and no dividends.

2014

The Board of Directors approved grants of 315,000 options to employees and consultants in December 2014 at an exercise price of CDN \$0.23. The five-year options were valued at \$47 using the Black-Scholes option pricing model with the following assumptions: three-and-a-half-year life; interest rate of 0.75%; average volatility of 101% and no dividends.

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Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

3. Share capital (continued)

Stock options - Plan (continued)

The Board of Directors approved grants of 1,080,000 options to directors and employees in September 2014 at an exercise price of CDN \$0.35. The five-year options were valued at \$248 using the Black-Scholes option pricing model with the following assumptions: three-and-a-half-year life; interest rate of 0.73%; average volatility of 103% and no dividends.

The Board of Directors approved grants of 1,100,000 options to employees and consultants in June 2014 at an exercise price of CDN \$0.39. The five-year options were valued at \$290 using the Black-Scholes option pricing model with the following assumptions: three-and-a-half-year life; interest rate of 0.65%; average volatility of 105%; and no dividends.

The following table summarizes the options outstanding and exercisable as at September 30, 2016:

Exercise price in \$CAD	Options outstanding		Options exercisable	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
0.00 - 0.10	1,216,041	3.72	171,353	3.72
0.11 - 0.20	1,144,172	1.56	1,045,724	1.55
0.21 - 0.30	948,354	2.44	593,002	2.37
0.31 - 0.40	601,288	2.83	333,684	2.82
	3,909,855	2.27	2,143,763	0.22

The weighted average stock option life is 2.27 years. The vested stock options at September 30, 2016 were 1,677,974 (December 31, 2015 – 5,169,497).

Common stock warrants - Acquisition

In October 2013, holders of 2,602,690 acquisition warrants exercised their warrants. Of the warrants exercised, 906,090 were exercised for cash and 1,696,600 were exercised with proceeds from loans to shareholders (see Note 5). The remaining 979,521 acquisition warrants were not exercised and have expired.

Common stock warrants - Private placement

In conjunction with the January 2014 non-brokered private placement, 9,700,000 warrants were issued and classified as liabilities under IAS 32. Due to a four-month trading restriction on these warrants at the time of issuance, the fair value of these warrants was initially calculated at \$860 using a modified Monte Carlo computation. These non-brokered warrants were not exercised and have expired \$NIL (2015 - \$4).

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Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

3. Share capital (continued)

Stock options - Plan (continued)

Common stock warrants - Broker finder fee

In conjunction with the February 2016 non-brokered private placement, 185,380 Broker's Warrants were issued and classified as liabilities under IAS 32. Due to a four-month trading restriction on these warrants at the time of issuance, the fair value of these warrants was calculated at \$5 using a modified Black-Scholes computation with the following assumptions: one-and-a-half-year life; \$0.10 stock price, 80% volatility; 0.94% risk free rate, and no dividend yield.

In connection with the March 2016 non-brokered private placement, 367,575 Broker's Warrants were issued and classified as liabilities under IAS 32. Due to a four-month trading restriction on these warrants at the time of issuance, the fair value of these warrants was calculated at \$10 using a modified Black-Scholes computation with the following assumptions: one-and-a-half-year life; \$0.10 stock price, 80% volatility; 0.94% risk free rate, and no dividend yield.

Warrant continuity schedule

As at June 30, 2016 and December 31, 2015, the Company has the following warrants with average exercise prices and expiry dates outstanding:

	Number of whole share warrants	Average exercise in \$CAD	Expiry date
Balance, at December 31, 2013	41,941,212	0.26	-
Issued pursuant to private placement	9,700,000	0.40	21-Jan-16
Expired	(6,628,027)	0.24	-
Exercised	(8,739,645)	0.23	-
Balance, December 31, 2014	36,273,540	0.26	-
Issued pursuant to debenture (Note 8)	3,000,000	0.10	15-Sep-18
Issued pursuant to debenture (Note 8)	2,000,000	0.05	31-Dec-17
Expired	(26,573,540)	0.27	-
Balance, December 31, 2015	14,700,000	0.40	-
Issued pursuant to private placement	1,611,380	0.10	19-Aug-17
Issued pursuant to private placement	3,195,075	0.10	21-Sep-17
Expired	(9,700,000)	0.23	-
Balance, September 30, 2016	9,806,455	0.32	-

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Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

4. Related party transactions

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 (TFM LLC).

The Company provided services to QST under agreements where reimbursement was made for management and administration services rendered in 2013 and 2014. As at June 30, 2016, \$22 remains unpaid in Due from related parties (December 31, 2015 - \$22).

In 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, Sviral sold those securities and the proceeds of the sale of those securities were paid to the Company as a loan payment. The boards of directors of LeoNovus and Sviral approved the terms of the promissory note.

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 boards of directors of LeoNovus and FST approved the terms of the promissory note. 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 \$199 as an allowance for doubtful debts related to this balance in 2015.

	September 30,	December 31,
	2016	2015
	\$	\$
Sviral promissory note receivable	325	468
FST promissory note receivable	199	199
Allowance for doubtful debts	(199)	(199)
Less: Current portion	199	193
	126	275

In 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 similarly to the grant of an option under IFRS. In 2013, an additional \$215 was recorded to share-based

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Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

4. Related party transactions (continued)

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.

Compensation of key management personnel

The key management personnel have been identified as the directors of the Company based on their authority and responsibility for planning and directing the activities of the Company. By title, these are the Chief Executive Officer, the Chief Architect, and the Chief Financial Officer. The remuneration of key management personnel during the three-month and six-month periods was as follows:

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
	\$	\$	\$	\$
Salaries	75	254	225	762
Benefits	7	45	26	143
Other compensation related costs	3	17	13	58
Share-based compensation	7	22	11	88
	92	338	275	1,051

The remuneration of directors and key executives is determined by the compensation committee of the Board of Directors.

5. Prepaid assets and inventories

In August 2014, the Company acquired computer systems costing \$513 to be sold to customers as part of the Company's distributed data center. Inventory totaling \$27 related to computer systems purchased in 2012 was written off in December 2014. In the third quarter of 2015, the Company sold \$134 worth of inventory and recorded a loss on the sale of \$108. In December of 2015 the Company revalued the inventory of computer systems, and \$310 was written off. The net realizable value of this inventory at September 30, 2016 is \$68 (2015 - \$68).

6. Notes and debentures payable

In February 2015, the Company entered into two promissory notes in the amount of \$50 each for a total of \$100. The notes bear interest at a rate of 18% per annum and mature in May 2015 and are secured by specific assets of the Company. In May and June 2015, the Company amended the notes by extending the due date until July 25, 2015. In August 2015, the Company amended the notes by extending the due date until November 30, 2015. In February 2016, the Company amended the notes by extending the due date to December 31, 2016.

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Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

6. Notes and debentures payable (continued)

In September 2015, the Company entered into a secured debenture whose principal amount is CAD\$300. The debenture bears interest at a rate of 9% per annum and has a maturity date in September 2018. Attached to the debenture is 3,000,000 warrants which have a 3-year life and a price of \$0.10 per common share. Because of the warrants, the debenture and warrants were valued under IAS 39 using the residual method resulting in a fair value of \$182 for the debenture and \$43 for the warrants.

In December 2015, the Company entered into a secured debenture whose principal amount is \$CAD 100. The debenture bears interest at a rate of 9% per annum and has a maturity date in December 2017. Attached to the debenture are 2,000,000 warrants, which have a two-year life and an exercise price of \$CAD 0.05 per common share.

On June 7, 2016 the Company completed a Secured Promissory Note for gross proceeds of \$CAD 150 bearing interest at 9% per annum, and maturing on December 7, 2018. The Promissory Note is secured by all of the present and after-acquired property of the Corporation.

Because of the warrants, the debenture and warrants were valued under IAS 39 using the residual method resulting in a fair value of \$60 for the debenture and \$9 for the warrants

The current portion and long term portion of the notes and debentures are as follows:

	September 30,	December 31,
	2016	2015
	\$	\$
Current portion	100	100
Long term portion	384	242
	484	342

7. Commitments and contingencies

A third party management, marketing and business development consulting team was contracted to provide services to LeoNovus in 2015. One of the terms of the agreement between the Company and the third party consulting team grants that team a form of compensation for their contribution to the success of a transaction with the Company. Specifically, the consultant is entitled to receive 15% of the gross proceeds on any disposal event (e.g. acquisition) of the Company to a third party if the event occurs prior to August 2018, and 10% of the gross proceeds if the disposal event occurs between September 2018 and August 2020. Beyond August 2020, the term will have expired and the consultant receives no compensation from the disposal event.

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Notes to the unaudited interim condensed consolidated financial statements September 30, 2016 and 2015

(In thousands of U.S. dollars)

8. Financial instruments

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate and foreign exchange rate risk). The Company's management team carries out risk management with guidance from the Audit Committee under the direction of the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash due from related parties and other receivables. The Company's maximum credit risk as at June 30, 2016 is \$ 440 (December 31, 2015 - \$553), and all of that total is aged in excess of 60 days. Management expects that the receivable due from FST is uncollectible and has therefore recorded an allowance for doubtful debt of \$199 (December 31, 2015 - \$199).

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2016, the Company had cash of \$45 (December 31, 2015 - \$116) and accounts payable and accrued liabilities of \$2,743 (December 31, 2015 - \$2,556). It is expected that the current fundraising efforts of the Company will allow payment of these liabilities provided the Company successfully negotiates a write-down of certain liabilities.

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at September 30, 2016.

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

	Future value	2017	2018	2019 and after
	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,743	2,743	-	-
Deferred compensation	478	478	-	-
Debentures and notes payable	550	100	450	-
Total financial liabilities	3,771	3,321	450	-

LeoNovus Inc.

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(In thousands of U.S. dollars)

9. Basic and diluted loss per share

Basic loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period. The determination of the weighted-average number of shares outstanding for the calculation of the diluted loss per share does not include the effect of outstanding agent options and stock options since they are anti-dilutive.

	September 30, 2016	December 31, 2015
Options (Note 3)	5,488,855	8,104,243
Warrants (Note 3)	9,806,455	14,700,000
	15,295,310	22,804,243

10. Additional information to the unaudited interim condensed consolidated statement of cash flows

Changes in non-cash working capital items:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Due from related parties	-	46	-	294
Collection of notes receivable from related parties	48	-	143	-
Prepaid assets and inventories	8	144	12	154
Other receivables	(16)	77	(30)	11
Other assets	-	-	-	(26)
Accounts payable and accrued liabilities	(31)	178	187	880
Accretion and revaluation of promissory note	(2)	-	22	-
Liability for outstanding warrants	(5)	(2)	134	(58)
	2	443	468	1,255

11. Segmented information

The Company operates in one operating segment being high performance browser-based internet platforms. The Company has not yet reached commercial operations.

The Company relocated all of its property and equipment to Canada in February 2016, and that equipment is held as follows:

	September 30, 2016	December 31, 2015
	\$	\$
U.S.	-	8
Canada	24	27
	24	35

LeoNovus Inc.

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(In thousands of U.S. dollars)

12. Employee benefits expense

The following table presents the employee benefits earned by employees during the periods noted below:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Salaries	117	388	355	1,394
Benefits	20	19	33	117
Other compensation related costs	4	11	20	95
Share-based compensation	7	44	22	158
	148	462	430	1,764

The following table presents the share-based compensation expense by function during the periods noted below:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	\$	\$	\$	\$
Sales and marketing	-	11	-	46
General administration	4	21	6	82
Research and development	3	12	5	30
	7	44	11	158

13. Subsequent events

Subsequent to year end, the Company has negotiated with 5 former US employees who were not paid during 2009 for services rendered and from whom \$478 is included in deferred compensation on the Consolidated statements of financial position. These 5 employees have signed renewed agreements representing an average of 10% of the amounts previously owing. The balance due has been reduced to \$349 and is to be paid in installments by December 31, 2016.

Subsequent to June 30, 2016 the Company has received three cash settlements as follows: during the three-month period ended September 30th, 2016, \$250 was received from a customer for a previously impaired software license fee; on October 25, 2016 \$90 was received from a related party as repayment of a loan; on November 17, 2015 \$308 was received as payment of a related party loan.

Subsequent to September 30, 2016, a Director and a Shareholder, both related parties with Warrant Loans due in October 2016, negotiated an extension on these loans to February 2017. In support of these loan extensions, a smaller monthly fee will be paid from November through February.