Leonovus

MANAGEMENT'S DISCUSSION AND ANALYSIS

Leonovus Inc.

For the Quarter Ended September 30, 2018

Dated November 27, 2018

Leonovus Inc.

For the three and nine months ended September 30, 2018

Management's Statement of Responsibility for Financial Reporting

Management in accordance with International Financial Reporting Standards prepared the accompanying unaudited interim condensed consolidated financial statements of Leonovus Inc. 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.

Date: November 27, 2018

"Michael Gaffney"	*"Christopher Benk"*
Michael Gaffney	Christopher Benk
Chairman and Chief Executive Officer	Vice-President and Chief Financial Officer

Leonovus Inc.

For the three and nine months ended September 30, 2018

GENERAL

In this Management's Discussion and Analysis ("MD&A"), "we", "us", "our", "Leonovus" and "the Company" refer to Leonovus Inc. and its consolidated subsidiaries, unless the context requires otherwise. In this MD&A we explain Leonovus' results from operations and cash flows for the quarter ended September 30, 2018 and 2017, our financial position as at September 30, 2018 and includes events up to the date of this MD&A. One should read this MD&A together with our financial statements and the accompanying notes for the quarter ended September 30, 2018 and 2017. Additional corporate filings, including our 2018 annual information form, is available under Leonovus' profile on SEDAR at www.sedar.com. This MD&A contains forward-looking information. Please see the section, "Note Regarding Forward-Looking Information" for a discussion of the risks, uncertainties and assumptions used to develop the Company's forward-looking information.

This MD&A includes a discussion of the results of operations and cash flows for the period ended September 30, 2018 and 2017. The unaudited interim condensed consolidated financial statements have been prepared in U.S. dollars and in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"), using the accounting policies described in Note 2 to the Company's unaudited interim condensed consolidated financial statements.

The Company's unaudited interim condensed financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to realize and discharge its liabilities in the normal course of business for the foreseeable future. The ability of the Company to continue as a going concern is dependent on its ability to achieve future profitable operations and obtain financing if needed.

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 unaudited interim condensed consolidated financial statements.

Financial information contained herein is expressed in thousands of United States dollars, except share and per share amounts, or as otherwise stated.

BACKGROUND

History

Work Horse Capital & Strategic Acquisitions Ltd., ("Work Horse") incorporated under the Canada Business Corporations Act on December 30, 2008, as a Capital Pool Company ("CPC"), as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Work Horse became a "reporting issuer" on March 24, 2009 and has been listed on the Exchange since June 10, 2009.

On October 29, 2010, Personal Web Systems Inc. ("PWS") completed a reverse takeover transaction with Work Horse, resulting in Work Horse owning all of the issued and outstanding securities of PWS. The acquisition of PWS by Work Horse constituted Work Horse's Qualifying Transaction as defined by the Exchange.

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

OVERALL PERFORMANCE

General

In the quarter ended September 30, 2018, the Company continued the development of its unique software-defined object storage hardened with blockchain security to provide enterprise data compliance, security and protection in customers' choice of on-site, cloud or multi-cloud storage which boost our clients' ROI.

As at September 30, 2018, the Company had cash and cash equivalents of $6,284 (December 31, 2017 - $10,613), working capital less the liability for outstanding warrants of $5,253 (December 31, 2017 – $8,220), and shareholders' equity of $5,253 (December 31, 2017 – $7,661).

Recent Capital Raises

During first nine months of fiscal year 2018, 15,250,000 warrants were converted in to shares for gross proceeds of $1,101 and 435,410 options were exercised and converted into shares for gross proceeds of $23.

In February 2017, the Company issued 3,000,000 common shares and 3,000,000 warrants (each warrant is exercisable for one common share for $0.05 for twelve (12) months from the date of issuance, and at CAD $0.10 for the thirteenth (13th) month to the twenty-fourth (24th) month from the date of issuance) in repayment of this secured promissory note and realized a loss on extinguishment of debt of $121. These warrants were exercised during the year ended December 31, 2017.

On March 10, 2017 the Company completed a non-brokered private placement offering of 26,000,000 units at $CAD 0.10 (each unit comprising one common and one warrant) for gross proceeds of $983. Each warrant is exercisable for one common share at $CAD 0.10 per share for a period of twenty-four (24) months from the date of issuance. The common shares and warrants were subject to a four (4) month and (1) day hold period from the date of issuance.

In conjunction with the March 2017 private placement, 1,560,000 broker warrants were issued. Each warrant is exercisable for one common share at CAD $0.10 per share for a period of twenty-four (24) months from the date of issuance. The warrants were subject to a four (4) month and (1) day hold period from the date of issuance.

On September 21, 2017, the Company completed a non-brokered private placement offering of 30,000,000 units (each unit comprising one common share and one eighteen (18) month warrant exercisable at CAD $0.075) for gross proceeds of $1,119.

In conjunction with the September 2017 private placement, 2,100,000 broker warrants were issued. Each warrant is exercisable for one common share at CAD $0.075 per share for a period of eighteen (18) months from the date of issuance.

On December 8, 2017, the Company completed a bought deal of 27,500,000 units (each unit comprising one common share and a one-half of one common share purchase warrant) for gross proceeds of $10,817. Each whole warrant will entitle the holder to purchase one common share of the Company at a price of CAD $0.65 for a period of 24 months following the closing date.

Understanding our Business

Leonovus has developed a software-defined storage solution that enables flexible, cost-effective, efficient and secure data backup and archival. The solution is uniquely able to broker access to idle storage assets and storage in multiple public clouds while allowing data to be migrated easily from customer data centres to and between public cloud storage and ensuring that data is protected from storage end-point compromise or failure. Leonovus SDS therefore enables enterprises to pursue hybrid and multi-cloud strategies. Blockchain technology is also being added to the product portfolio to address enhanced compliance requirements by establishing an auditable, cryptographically-verifiable ‘chain of custody’ for all digital assets stored by the solution.

Leonovus SDS technology gives the customer flexibility with uncompromising security by establishing a secure plane that decouples a customer’s data from the underlying infrastructure. This approach focuses on protecting data rather than hardware. The Leonovus solution encrypts the data using a Federal Information Processing Standard level encryption (“FIPS 140-2”) compliant cryptographic module and shreds the data into digital fragments. These fragments are then distributed to customer-defined end-points that can be any combination of on-premises assets and storage nodes in multiple public clouds. If there is a loss of one or multiple storage nodes, the data remains available. If a storage node is hacked, the exposure is limited to an undecipherable fragment of an encrypted digital asset. This approach provides hyper-secure data, built-in redundancy and delivers better data durability than conventional data centres, leading to better business continuity. The Leonovus cloud architecture provides redundancy and geo-distribution, which allows for a business to continue operating without loss or exposure of their data. While an enterprise may back its data up to multiple data centres, this comes with additional costs associated with storing multiple copies of the data. Leonovus achieves very high levels of data durability while inflating the data stored by a factor of only 1.5.

Management believes that the Company is positioned exceptionally well in high-growth enterprise markets to offer a petabyte-scale software defined storage solution that addresses the exponential annual growth in video, analytics, back-up and other archival data.

Industry Outlook

The growth in object-based storage and software designed storage systems over the last several years has been phenomenal. Unstructured data represents most of stored data in the enterprise market, 85% and up. Analyst firm Statista estimates that in 2018, data center storage capacity stands at 1,450 exabytes this is expected to spiral upward to 2,300 exabytes by 2021 a growth of 58%.

Growth in stored data presents opportunities for specific cloud offerings based on the continuing high growth of connected devices – IOT. Regarding deployment architectures, cloud services are currently undergoing a significant paradigm shift including such things as the Internet of Everything (IoE) from centralized cloud computing toward distributed edge computing. This shift is opening edge-based data to meaningful analysis, by spreading the analytic workloads across the network. Leonovus is well positioned with its technology to capitalize on the data storage growth trends in cloud computing.

Enterprise On-Premise Private Clouds + Hybrid + Public

The cloud is high growth and high opportunity for data storage, but enterprises choose different models, on-prem, hybrid, multi-cloud to serve their different storage needs. Leonovus' - hardware, software and cloud - agnostic solution is well positioned to be the flexible solution enterprise architects need to satisfy competing business requirements.

Despite a significant shift to cloud applications, most companies (especially in Europe) remain conservative about which apps 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. 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 efficient use of internal resources while lowering their carbon footprint.

Strategy and Outlook

In 2016 the Company refined its approach and focused on implementing a software-defined object-based storage solution. Leonovus is a software company that offers a patented software-defined object storage solution (SDOSS) and governance, risk management and compliance (GRC) solution for the modern enterprise. Designed with the IT manager in mind, Leonovus' patented algorithms virtualize, transform, slice and disperse data across a network of on-premises, hybrid or multi-cloud storage nodes – allowing for the most secure yet internally accessible form of object-based data storage that provides GRC across the entire solution. The advanced geo-distributed architecture minimizes latency, optimizes geo-availability, reduces remote backup costs and meets data sovereignty requirements. With its software and hardware agnostic design, Leonovus provides petabyte storage scalability and allows the enterprise to utilize its existing idle storage resources, extend the useable lifespan of depreciated resources and improve the enterprise's overall ROI.

In May 2018 the General Data Protection Regulation ('GDPR') came into force in the European Union. Significant financial penalties await companies that lose or mismanage customer data, which means that the Leonovus data storage solution could be of considerable benefit in that market.

Leonovus engineers and configures a secure Software Defined Object-based Storage Solution, (Leonovus 3.4), which aggregates storage resources from on-premises, private cloud and multiple public cloud environments into a single secure private cloud instance. Our unique patented solution aggregates, integrates and manages storage resources from across the enterprise, and in the cloud, as a single unit. This architecture also provides data security, and increased flexibility, while reducing storage costs and eliminating vendor lock-in.

Security Token Offering

The Company previously announced that it planned to launch and complete an Initial Coin Offering (ICO). On November 12, 2018 the company published its whitepaper on the Galaxa Marketplace. The proposed financing is now described as a Security Token Offering (STO) as the token will generate distributions/dividends for its owners. Leonovus believes that much of the initial financing will come from Asia as the appetite for investment into blockchain and digital currency projects is much higher than in the rest of the world. Current plans include several private placements to accredited investors followed by a prospectus document that would allow the public to invest and clear the security for trading on the TSXV. While the Company believes that this offering is onside with regulators and the TSXV there can be no guarantee of final approvals from the regulator or acceptance from the exchange for trading.

The Galaxa blockchain platform incorporates the patented distributed storage and compute technology developed by Leonovus Inc. Galaxa is the first blockchain-enabled, enterprise-class, Anything-as-a-Service (XaaS) distributed storage and compute marketplace. The Galaxa blockchain protocol is powered by a native cryptocurrency named GAAX.

Galaxa is a Security Token Offering (STO) because the owners of GAAX will receive regular distributions/dividends from the marketplace user fees. 100% of the user fees will be distributed to GAAX owners, moderators, developers and the foundation board.

Customers of the marketplace (private-sector organizations, institutions and governments) will buy services like those currently available from large cloud services providers. Decentralized applications, such as Galaxa, can potentially attract a pool of developers far larger and faster, with more creative developers, than any corporation's Research and Development department. Galaxa is a decentralized semi-autonomous organization (DSAO) because an access control layer is built into the blockchain, which is an important requirement for the enterprise-class marketplace.

The Galaxa whitepaper can be downloaded at galaxa.com.

Revenue Outlook

For fiscal 2019, the revenue potential of qualified customers over FY 2019 & 2020 has increased to over $25M CAD, an approximate 31% increase compared to Q2. Qualified customer count increased to 62 a 22% increase over the last quarter.

Activity in trial and proof of concepts increased. Leonovus is in or contracting to enter into 9+ trials over the next 2-4 months. These customers include government departments, F1000, Law Enforcement agencies, health care and NGOs. These trials include four Canadian Federal Departments that are in or entering into statement of work and trial agreements under the BCIP program and schedule to begin validation in Q2-Q3 FY2019 that will represent a potential of up to $2M CAD in recognizable revenue.

Received interest from European Distributor, National Telecommunication companies in North and South Americas to represent the Leonovus platform and/or to enable secure object storage services utilizing the Leonovus platform.

Sales probability, sales stages and movement through sales cycle improved. Enterprise and government sales cycle remain lengthy as Leonovus is an enabler of secure data archiving and migration which entail numerous variables to be in place including customer enabling cloud services, compliance management, data sovereignty, data management, project planning and implementation.

SELECTED FINANCIAL INFORMATION

Results of Operations

The Company was incorporated on December 30, 2008 and has a December 31st year-end. The following selected financial data is derived from the unaudited interim condensed consolidated financial statements of the Company prepared in accordance with IFRS. The Company presentation currency is in 000's of U.S. dollars. And up until January 1, 2017, the functional currency of the parent Company and the subsidiary was the U.S. dollar. The Company changed its functional currency to CAD as per IFRS and prospective from January 1, 2017 the Company's functional currency of the parent Company is CAD.

Leonovus Inc.
For the three and nine months ended September 30, 2018

	Three Months Ended		Nine Months Ended	
	30 September '2018	30 September '2017	**30 September '2018**	30 September '2017
	$	**$**	**$**	**$**
Total Revenue	**11**	9	**11**	9
General and administrative	**711**	130	**1,707**	422
Research and development	**388**	110	**939**	452
Sales and marketing	**458**	30	**1,169**	113
Total Operational Expenses	**1,557**	270	**3,815**	987
Loss from operations	**(1,546)**	(261)	**(3,804)**	(978)
Loss on extinguishment of contractual obligation	**-**	-	**-**	(121)
Foreign exchange loss	**(155)**	(14)	**(218)**	(52)
Interest Expense	**-**	(20)	**(3)**	(46)
Change in fair value of outstanding warrants	**68**	(360)	**422**	(408)
Net loss	**(1,633)**	(655)	**(3,603)**	(1,605)

Results of Operations

Comparison of nine months ended September 30, 2018 and 2017

The Company incurred a net loss of $3,603 for the nine months ended September 30, 2018 compared to a net loss of $1,605 for the nine-month ended September 30, 2017. The nine months ended September 30, 2018 included a $422 favorable adjustment to the fair value of outstanding warrants compared to $408 unfavorable amount for the nine months ended September 30, 2017. The favorable movement of $422 for the nine months ended September 30, 2018 is mainly due to decrease in the stock price of the Company's common shares resulting in the material decrease in fair value of warrants carried as liabilities. In the nine months ended September 30, 2017, a loss on extinguishment of contractual obligations was realized resulting in a favorable variance of $121 as compared to the nine months ended September 30, 2018.

The loss from operations increased to $3,804 for the nine months ended September 30, 2018 as compared to $978, for the nine months ended September 30, 2017 as detailed below.

	Nine Months Ending	
	September 30, 2018	September 30, 2017
Operating expenses	**$**	$
Salaries expenses	**1507**	344
Share based compensation	**170**	88
Consultancy expenses	**810**	220
Selling and marketing	**211**	39
Legal and professional	**515**	125
Travelling	**179**	31
Depreciation & amortisation	**9**	5
Rent & other facilities expenses	**221**	49
Other operating expenses	**189**	82
Other administrative cost	**4**	4
	3,815	**987**

The total operating expenses increased to $3,815 for the nine months ended September 30, 2018 as compared to $987 for the nine months ended September 30, 2017 mainly due to significantly increased overall headcount to approximately 37 employees and full-time consultants from 9 for the nine months ended September 30, 2017. The headcount increase was in terms of all functional areas, namely research and development, sales and marketing and general and administration. The Company settled with four legacy employees resulting in a net gain on settlement of $362 which offset salaries expenses for the quarter.

Sales and marketing expenses increased with additional staff, partnership development, conferences and events, improvements of Our website, etc. Additionally, due to increased headcount and general increased operational and corporate activity the Company has incurred additional consultancy expenses, legal fees, travelling costs, rent and facilities expenses, and other expenses.

Comparison of three months ended September 30, 2018 and 2017

The Company incurred a net loss of $1,633 for the three months ended September 30, 2018 compared to a net loss of $655 for the three months ended September 30, 2017 mainly due to operating expenses increasing to $1,557 for the three months ended September 30, 2018 as compared to $270 for the three months ended September 30, 2017 as detailed below.

	Three months to	
	September 30, 2018	September 30, 2017
Operating expenses	**$**	$
Salaries expenses	**583**	104
Share based compensation	**79**	18
Consultancy expenses	**337**	59
Selling and marketing	**122**	19
Legal and professional	**221**	37
Travelling	**50**	9
Depreciation & amortisation	**0**	2
Rent & other facilities expenses	**75**	16
Other operating expenses	**90**	4
Other administrative cost	**0**	2
	1,557	**270**

The total operating expenses increased to $1,557 for the three months ended September 30, 2018 as compared to $270 for the three months ended September 30, 2017 due mainly to significantly increased overall headcount to approximately 37 employees and full-time consultants from 9 for the three months ended September 30, 2017 in terms of all functional areas, namely research and development, sales and marketing and general and administration. The Company settled with three legacy employees resulting in a net gain on settlement of $171 which offset salaries expenses for the quarter.

Sales and marketing expenses increased with additional staff, partnership development, events, improvements of Our website, etc. Additionally, due to increased headcount and general increased operational and corporate activity the Company has incurred additional legal fees, travelling costs, rent and facilities expenses, and other expenses.

Revenue

$11 for the three and nine months ended September 30, 2018 ($9 for the three and nine months ended September 30, 2017). The Company signed its first contract at the end of Q1 2018 however the Company is renegotiating the contract for additional capacity and term required by the client, which the Company expects to deploy Q1 2019. Additionally, the Company should begin recognizing revenue from a Canadian bank in Q4 2018 which began u Our solution with production data. The comparable revenue from 2017 was related to POCs.

General and Administrative Expenses
$711 for the three months ended September 30, 2018 ($130 for the three months ended September 30, 2017)
$1,707 for the nine months ended September 30, 2018 ($422 for the nine months ended June 30, 2017)

General and administrative expenses increased by $581 for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 and by $1,285 for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. General and administrative expenses increased due to additional headcount in finance and administration. Other significant items include legal, audit and accounting professional fees, rent, travel and insurance. Legal fees have increased due to negotiations with former management regarding salaries owed and due to our ICO. Audit and accounting fees have increased due to higher balances and increased activity.

Research and Development Expenses
$88 for the three months ended September 30, 2018 ($110 for the three months ended September 30, 2017)
$939 for the nine months ended September 30, 2018 ($452 for the nine months ended September 30, 2017)

Research and development expenses consist primarily of engineering personnel and independent contractors renumeration. Other significant items include license fee expenses, rent and other occupancy costs for our engineering personnel. Research and development expenses increased by $278 for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 and by $487 for the nine months period ended September 30, 2018 compared to the nine months ended September 30, 2017 due primarily to additional research and development staffing as the Company continues to grow its research and development team to continually improved our technology and develop additional functionality and features.

Sales and Marketing Expenses
$458 for the three months ended September 30, 2018 ($30 for the three months ended September 30, 2017)
$1,169 for the nine months ended September 30, 2018 ($113 for the three months ended September 30, 2017)

Sales and marketing expenses consist primarily of compensation, travel costs, public relations and trade show costs. Sales and marketing expenses increased by $428 for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 and by $1,056 for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 as are a result of increased sales and marketing staff, partnerships development, tradeshow participation, promotional materials and source improvements, etc.

Financial Position

	September 30, 2018	December 31, 2017
Cash	$6,284	$10,613
Total Current Assets	$6,756	$10,888
Total Assets	$6,756	$10,906
Total Current Liabilities	$1,503	$3,245
Total All Liabilities	$1,503	$3,245
Total Shareholders' Deficiency	$5,253	$7,661
Total Liabilities and Shareholders' Deficiency	$6,756	$10,906
Total Working Capital	$5,253	$7,643
Warrant Liability *	$0	$577
Working Capital Adjusted for Warrant Liability	$5,253	$8,220

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

Liquidity and Capital Resources

As at September 30, 2018, the Company had $6,284 of cash and a working capital (excluding warrant liability) of $5,253. Cash decreased by $4,329 as at September 30, 2018 compared to the December 31, 2017 balance of $10,613 and the working capital (excluding warrant liability) decreased from $8,220 to $5,253. The decrease in the working capital balance at September 30, 2018 is mainly due to general business activity in terms of continued research and development and sales and marketing and administrative costs of the Company's solution.

Cash used in Operations

Cash used in operating activities for nine-month period ended September 30, 2018 was $5,290 compared to $1,016 for the nine months ended September 30, 2017. The increase in the use of cash in operations is mainly due to increased general business activity in research and development, sales and marketing and administrative costs. The more significant cause of operating cash flow for the nine months ended September 30, 2018 being significantly higher than the net loss was due to the non-cash adjustment for warrant values being adjusted downward and due to a $1,115 reduction in accounts payable and accrued liabilities and deferred compensation since December 31, 2017.

Cash from Financing Activities

Cash flow from financing activities for nine months ended September 30, 2018 of $1,074 compared to $2,111 for the same period in 2017, was lower due to three financings in in nine months to September 30, 2017 with no comparable financings during nine months to September 30, 2018 offset by warrants exercised in nine months to September 30, 2018.

Subsequent Event:

Subsequent to September 30, 2018, 1,620,000 warrants have been exercised out of the outstanding warrants of 42,983,500 for gross proceeds of $111.

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 analysts, rating agencies and investors in assessing our performance, broadly use measures similar to Adjusted EBITDA. 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	**31-Dec 2016**	**31-Mar 2017**	**30-Jun 2017**	**30-Sep 2017**	**31-Dec 2017**	**31-Mar 2018**	**30-Jun 2018**	**30-Sep 2018**
Net Income (loss) for the period	(419)	(638)	(307)	(655)	(1,124)	(740)	(1,230)	(1,633)
Add (deduct):								
Interest expense (income)	17	19	5	20	25	2	1	-
Depreciation and amortization	1	1	2	2	1	1	9	-
Foreign exchange (gain) loss	(16)	11	26	14	80	17	46	155
Stock-based compensation expense (recovery)	110	61	8	20	85	39	52	79
Expense (recovery) on valuation of stock warrants	(61)	100	(54)	360	155	(301)	(53)	(68)
Adjusted EBITDA	(368)	(446)	(320)	(239)	(778)	(982)	(1,175)	(1,467)

ACCOUNTING POLICIES

Statement of compliance

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. In the opinion of management, they include all adjustments necessary for fair presentation. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated annual financial statements as at and for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These unaudited interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on November 27, 2018.

Critical accounting estimates and judgments

The Company's unaudited interim condensed consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported 2018 amounts presented and disclosed in the unaudited interim condensed consolidated financial statements. Management reviews these estimates and assumptions on an ongoing basis based on historical experience, changes in business conditions and other relevant factors as it believes to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant management judgment

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

The critical judgements and significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are outlined in Note 2 of the December 31, 2017 consolidated annual financial statements. There have been no significant changes in the Company's judgments and estimates applied during the interim period ended June 30, 2018 relative to those described in the most recent consolidated annual financial statements as at and for the year ended December 31, 2017.

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

In October 2013, a Director and a shareholder of the Company were provided loans totaling $271 to finance the exercise of 1,317,744 warrants to purchase common shares of the Company Share Purchase Loans"). The Share Purchase Loans matured in October 2016. The 1,317,744 common shares acquired under the loans are pledged as security against the Share Purchase Loans and are held as security by the Company. This receivable amount results in a reduction of common shares outstanding.

During the nine months period ended September 30, 2018, the Company incurred $119 (2017 - $69) of consultant expenses to a company controlled by the Chief Executive Officer.

Outstanding Share Data

As at September 30, 2018 (note all dollar amounts in this section are in CDN Dollars):

There were 255,892,680 common shares of the Company outstanding, excluding 1,317,744 shares that were issued with Share Purchase Loans in 2013 to shareholders of the Company. These shares are pledged as security against these loans and are not considered outstanding.

Outstanding options

There was a total of 19,496,632 options outstanding on the following terms:

- 12,016,000 at $0.05 per option exercisable through 2020;
- 543,750 at $0.06 per option exercisable through 2022;
- 195,840 at $0.065 per option exercisable through 2022;
- 1,065,000 at $0.10 per option exercisable through 2020;
- 75,000 at $0.135 per option exercisable through 2023;
- 50,000 at $0.145 per option exercisable through 2023;
- 652,917 at $0.15 per option exercisable through 2023;
- 3,125 at $0.16 per option exercisable through 2023;
- 500,000 at $0.165 per option exercisable through 2023;
- 150,000 at $0.170 per option exercisable through 2023;
- 75,000 at $0.175 per option exercisable through 2023;
- 50,000 at $0.180 per option exercisable through 2023;
- 50,000 at $0.185 per option exercisable through 2023;

- 75,000 at $0.190 per option exercisable through 2023;
- 100,000 at $0.225 per option exercisable through 2023;
- 90,000 at $0.23 per option exercisable through 2019;
- 250,000 at $0.24 per option exercisable through 2018;
- 325,000 at $0.245 per option exercisable through 2023;
- 200,000 at $0.265 per option exercisable through 2023;
- 340,000 at $0.30 per option exercisable through 2022;
- 150,000 at $0.32 per option exercisable through 2021;
- 75,000 at $0.345 per option exercisable through 2023;
- 260,000 at $0.35 per option exercisable through 2019;
- 255,000 at $0.39 per option exercisable through 2019; and
- 1,650,000 at $0.50 per option exercisable through 2019
- 300,000 at $0.52 per option exercisable through 2022

Outstanding warrants

There was a total of 42,983,500 warrants outstanding on the following terms:

- 29,233,500 private placement warrants outstanding on the following terms: 8,633,500 at $0.10 per warrant exercisable through March 2019 and 20,600,000 at $0.075 exercisable through March 2019;
- 13,750,000 bought deal warrants outstanding at $0.50 per warrant exercisable through March 2019

Assuming all these options and warrants were exercised, 318,058,222 common shares would be issued and outstanding on a fully diluted basis.

Risks and Uncertainties

The preparation of financial statements in accordance with IFRS contemplates the continuation of the Company as a going concern. During the period ended September 30, 2018, the Company had not yet achieved commercial operations, had a net loss of $3,603, had a deficit of $29,251 and working capital (excluding Warrant liability) of $5,253. The Company believes that financing obtained in 2017 will provide sufficient cash flow for it to continue as a going concern in its present form for the next 12 months. 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 generate sufficient revenues to achieve and sustain profitability for the ensuing year and/or obtain additional financing.

Leonovus Inc.

For the three and nine months ended September 30, 2018

Quarterly Information

	Three months ended				
	Sep 30, 2018	June 30, 2018	Mar 31, 2017	Dec 31, 2017	Sep 30, 2017
Service Revenue	$11	$0	$ -	$ -	$ -
General & Administrative Expense	$711	$571	$425	$691	$130
Research & Development Expense	$388	$286	$265	$43	$110
Sales & Marketing Expense	$458	$379	$332	$123	$30
Extinguishing Contractual Obligation	$0	$0	$0	($204)	$0
Total Operating Expenses	$1,557	$1,236	$1,022	$653	$270
Loss from Operations	($1,546)	($1,236)	($1,022)	($653)	($270)
Loss on extinguishment of contractual obligation	$0	$0	$0	($216)	$0
Foreign Exchange Gain (Loss)	($155)	($46)	($17)	($80)	($14)
Finance and Interest Income (Expense)	$0	($1)	($2)	($25)	($20)
Change in fair value of outstanding warrants	$68	$53	$301	($155)	($360)
Net Income (Loss)	($1,633)	($1,230)	($740)	($1,129)	($664)
Weighted average outstanding shares	252,035,812	248,736,911	244,593,691	211,679,407	162,976,814
Income (loss) per share	$ -	$ -	$ -	$ -	$ -
	June 30, 2017	Mar 31, 2016	Dec 31, 2016	Sep 30, 2016	June 30, 2016
Service Revenue	$ -	$ -	$ -	$ -	
General & Administrative Expense	$153	$138	$233	$120	$109
Research & Development Expense	$159	$184	$156	($85)	$148
Sales & Marketing Expense	$15	$69	$90	$3	$0
Total Operating Expenses	$327	$391	$479	$38	$257
Loss from Operations	($327)	($391)	($479)	($38)	($257)
Loss on extinguishment of contractual obligation					
Foreign Exchange Gain (Loss)	($28)	($11)	$16	$17	($7)
Finance and Interest Expense	($6)	($19)	($17)	($3)	($17)
Change in fair value of outstanding warrants	$54	$61	-	-	$5,000
Net Loss	($307)	($360)	($480)	($24)	$4,719
Weighted average outstanding shares	152,306,740	151,707,437	128,550,576	130,061,914	130,061,914
Loss per share	$ -	$ -	$ -	$ -	$ -

NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking statements and "forward-looking information" within the meaning of applicable Canadian securities legislation. Forward-looking information and statements include, but are not limited to, statements with respect to planned development and requirements for additional capital.

Generally, but not always, forward-looking information and statements can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or the negative connotation thereof or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative connotation thereof.

Forward-looking information and statements are based on the then current expectations, beliefs, assumptions, estimates and forecasts about Leonovus' business and the industry and markets in which it operates. Forward-looking information and statements are made based upon numerous assumptions, including among others, the ability to generate future contractual revenues and that economic conditions will not change in a material adverse manner. Although the assumptions made by the Company in providing forward looking information or making forward looking statements are considered reasonable by management at the time, there can be no assurance that such assumptions will prove to be accurate.

Forward-looking information and statements also involve known and unknown risks and uncertainties and other factors, which may cause actual results, performances and achievements of Leonovus to differ materially from any projections of results, performances and achievements of Leonovus expressed or implied by such forward-looking information or statements, including without limitation, among others, negative operating cash flow and dependence on third party financing, uncertainty of the availability of additional financing, the uncertainties inherent in the development of Leonovus' software defined storage solution, Leonovus' need for significant additional funding to continue as a going concern and rapid developments in technology, including developments by competitors, reliance upon key management and other personnel, deficiencies in the Company's title to its patents, failure to manage conflicts of interest, changes in laws, regulations and policy and financing and other factors discussed or referred to in the Company's current Annual Information Form under "Risk Factors".

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in the forward-looking information or implied by forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended.

There can be no assurance that forward-looking information and statements will prove to be accurate, as actual results and future events could differ materially from those anticipated, *estimated or intended. Accordingly, readers should not place undue reliance on forward-looking statements or information. The forward-looking information and statements contained in this MD&A are made as of the date of this MD&A and, accordingly, are subject to change after such date. The Company undertakes no obligation to update or reissue forward-looking information as a result of new information or events except as required by applicable securities laws. 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*.*

APPROVAL

The Audit Committee and the Board of Leonovus have approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it and can be located, along with additional information, on the Company's profile SEDAR website at www.sedar.com
or by contacting the Chief Financial Officer, located at Suite 125, 2611 Queensview Drive, Ottawa, ON K2B 8K2 or at (450) 712-2452.