

Acceleware Ltd.

**Condensed Interim Financial Statements (Unaudited)
For the Three Months Ended March 31, 2016 and 2015**

(in Canadian dollars)

Acceleware Ltd.

Condensed Interim Financial Statements For the Three Months Ended March 31, 2016 and 2015 (in Canadian dollars)

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Acceleware Ltd.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Acceleware Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Acceleware Ltd.

Condensed Statements of Financial Position (Unaudited) (in Canadian dollars)

As at:

	March 31, 2016	December 31, 2015
Assets		
Current		
Cash and cash equivalents	\$ 237,858	\$ 361,957
Trade and other receivables	119,997	381,299
Work in process (note 7)	507,865	604,678
Alberta SR&ED tax credits receivable	145,724	120,618
Deposits and prepaid expenses	66,380	54,085
	<u>1,077,824</u>	<u>1,522,637</u>
Non-current		
Property and equipment	84,603	96,304
Total assets	\$ 1,162,427	\$ 1,618,941
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 675,006	\$ 756,272
Deferred revenue	149,702	162,170
Finance lease (note 5)	18,542	19,078
	<u>843,250</u>	<u>937,520</u>
Non-current		
Finance lease (note 5)	13,358	18,082
	<u>856,608</u>	<u>955,602</u>
Going concern (note 3)		
Commitments (note 8)		
Shareholders' Equity		
Share capital (note 6a)	17,056,812	17,056,812
Contributed surplus (note 6c)	6,188,032	6,180,534
Deficit	(22,939,025)	(22,574,007)
	<u>305,819</u>	<u>663,339</u>
Total liabilities and shareholders' equity	\$ 1,162,427	\$ 1,618,941

Approved on behalf of the Board:

(signed) "Bohdan Romaniuk"

Director

(signed) "Dennis Nerland"

Director

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

Acceleware Ltd.

Condensed Statements of Comprehensive Loss (Unaudited)

(in Canadian dollars)

For the:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenue (note 7)	\$ 442,537	\$ 328,774
Expenses		
Cost of revenue	177,373	104,455
General and administrative	369,784	214,914
Research and development	260,722	367,679
	807,879	687,048
Loss from operations	(365,342)	(358,274)
Other income	324	440
Total comprehensive loss for the period attributable to shareholders	\$ (365,018)	\$ (357,834)
Loss per share		
Basic and diluted	\$ (0.006)	\$ (0.005)
Weighted average shares outstanding – basic and diluted	66,190,266	66,190,266

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

Acceleware Ltd.

Condensed Statements of Changes in Shareholders' Equity (Unaudited) (in Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at December 31, 2014	\$ 17,056,812	\$ 6,124,204	\$ (22,354,734)	\$ 826,282
Net comprehensive loss	—	—	(357,834)	(357,834)
Share-based payments	—	12,360	—	12,360
Balance at March 31, 2015	\$ 17,056,812	\$ 6,136,564	\$ (22,712,568)	\$ 480,808
Balance at December 31, 2015	\$ 17,056,812	\$ 6,180,534	\$ (22,574,007)	\$ 663,339
Net comprehensive loss	—	—	(365,018)	(365,018)
Share-based payments	—	7,498	—	7,498
Balance at March 31, 2016	\$ 17,056,812	\$ 6,188,032	\$ (22,939,025)	\$ 305,819

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

Acceleware Ltd.

Condensed Statements of Cash Flows (Unaudited) (in Canadian dollars)

For the:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Cash flows from (used for) operating activities		
Comprehensive loss before tax	\$ (365,018)	\$ (357,834)
Items not involving cash:		
Amortization	15,604	24,004
Share-based payments (note 6c)	7,498	12,360
Rent inducement	5,014	5,014
Changes in non-cash working capital items		
Trade and other receivables	261,302	284,219
Work in progress	96,813	—
Alberta SR&ED tax credit receivable	(25,106)	(35,337)
Deposits and prepaid expenses	(12,295)	13,185
Inventory	—	29,624
Accounts payable and accrued liabilities	(85,840)	(70,390)
Deferred revenue	(12,468)	(16,557)
	(114,496)	(111,712)
Cash flows used for financing activities		
Repayment of finance lease (note 5)	(5,260)	(12,673)
Cash flows used for investing activities		
Purchase of property and equipment	(3,904)	—
Increase (decrease) in cash and cash equivalents	(124,099)	(124,385)
Cash and cash equivalents, beginning of period	361,957	630,322
Cash and cash equivalents, end of period	\$ 237,858	\$ 505,937
Consisting of:		
Cash on deposit	\$ 197,379	\$ 465,458
Cash equivalents	40,479	40,479
	\$ 237,858	\$ 505,937
Interest received	\$ 324	\$ 440
Interest paid	\$ 439	\$ 918
Income taxes paid	\$ —	\$ —

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

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2016 and 2015

(in Canadian dollars)

1. General information

Acceleware Ltd. (the “Company” or “Acceleware”) is a technology company based in Calgary, Alberta, that specializes in the development and marketing of special purpose software accelerators used to reduce engineering design simulation and data processing run times. The Company also provides specialized software development consulting services and training programs in the field of high performance computing. The Company is incorporated under the Alberta Business Corporations Act, has its registered offices at 2800 715 fifth avenue SW, Calgary, Alberta, Canada, and trades on the TSX Venture Exchange under the symbol AXE.

2. Basis of presentation

(a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of condensed interim financial statements, including International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”) and have been prepared following the same accounting policies and method of computation as the annual financial statements for the year ended December 31, 2015. The disclosures provided below are incremental to those included with the annual financial statements. Certain information and disclosures normally included in the notes to the annual financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on May 26, 2016.

(b) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments classified as fair value through profit or loss which are measured at fair value with changes in fair value recorded in earnings, and share based payment transactions.

(d) Significant accounting assumptions, estimates and judgements

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements. Judgement is used in situations where there is a choice or assessment required by management. Estimates and underlying assumptions are required on an ongoing basis and revisions are recognized in the year in which such estimates are revised.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2016 and 2015

(in Canadian dollars)

2. Basis of Presentation (cont'd)

(d) Significant accounting assumptions, estimates and judgements (cont'd)

The determination of the amount of the Alberta Scientific Research and Experimental Development tax credit receivable requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near term dependent on the review and audit by the government agency.

Estimates are used when accounting for revenue recognition both in terms of contracts with multiple deliverables, and in consulting contracts recognized using percentage of completion. The Company evaluates each element of a contract with multiple elements in order to estimate the fair value of each separable component of the transaction. The Company's Management ("Management") applies judgement when assessing whether certain deliverables in a customer arrangement should be included or excluded from a unit of account to which contract accounting is applied. The judgement is typically related to the sale and inclusion of software, maintenance, and consulting services in a customer arrangement and involves an assessment that principally addresses whether the deliverable has stand-alone value to the customer that is not dependent upon other components of the arrangement.

Management operates under the assumption that its carefully budgeted expenditures, coupled with expected revenue and cash flow will be sufficient to fund future operations as a going concern.

The Company makes use of estimates when making allowances for uncollectible trade and other receivables. The Company evaluates each receivable at year end using factors such as age of receivable, payment history, and credit risk to estimate when determining if an allowance is required, and the amount of the allowance.

The Company must make use of estimates in calculating the fair value of share-based payments. Amounts recorded for share-based payments are subject to the inputs used in the Black-Scholes option pricing model, including assumptions such as volatility, dividend yield, risk-free interest rates, forfeiture rate estimates, and expected option life.

Other estimates employed are related to taxes and tax-related provisions and other provisions and contingencies. Actual results could differ from these and other estimates. The recognition of deferred tax assets is based on forecasts of future taxable profit. The measurement of future taxable profit for the purposes of determining whether or not to recognize deferred tax assets depends on many factors, including the Company's ability to generate such profits and the implementation of effective tax planning strategies. The occurrence or non-occurrence of such events in the future may lead to significant changes in the measurement of deferred tax assets.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2016 and 2015

(in Canadian dollars)

3. Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has accumulated losses amounting to \$22,939,025 (December 31, 2015 - \$22,574,007), including the loss of \$365,018 in the period ended March 31, 2016, largely due to investments in new product development and in the penetration of new markets.

The Company actively manages its cash flow and investment in new products to match its cash requirements to cash generated from operations. In order to maximize cash generated from operations, the Company plans to continue to focus on high gross margin revenue streams such as a software products, consulting services and training; focus on selected core vertical markets; minimize operating expenses where possible; and limit capital expenditure. Management believes that successful execution of its business plan will result in sufficient cash flow to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of the objectives discussed above, or that sufficient financing from outside sources will be available. Further, if the Company's operations are unable to generate cash flow levels at or above current projections, the Company may not have sufficient funds to meet its obligations over the next twelve months.

Should such events occur, Management is committed to implementing all or a portion of its contingency plan. This plan has been developed and designed to provide additional cash flow, and includes, but is not limited to, deferring certain additional product development initiatives, and further reducing sales, marketing and general and administrative expenses, and seeking outside financing.

The failure of the Company to achieve one or all of the above items may have a material adverse impact on the Company's financial position, results of financial performance and cash flows.

These factors indicate the existence of material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent upon successful execution of its plans noted above. The outcome of these initiatives cannot be predicted at this time. These financial statements do not include any adjustments relating 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 as a going concern for a reasonable period of time.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2016 and 2015

(in Canadian dollars)

4. Recent Accounting Pronouncements Issued and not yet Effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2016 or later periods. The standards affected are as follows:

(a) IFRS 9 Financial instruments

The Company will be required to adopt IFRS 9, Financial Instruments (“IFRS 9”) effective for fiscal years ending on or after January 1, 2018 with earlier application permitted. This is a result of the first phase of the IASB’s project to replace IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 has also been amended not to require the restatement of comparative period financial statements for the initial application of the classification and measuring requirements of IFRS 9, but instead requires modified disclosures on transition to IFRS 9. The Company is analyzing the new standard to determine its impact on the Company’s financial statements.

(b) IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15 Revenue from Contracts with Customers, which will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue - Barter Transactions Involving Advertising Services. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted. The Company is analyzing the new standard to determine its impact on the Company’s financial statements.

(c) IFRS 16 Leases

On January 13 2016, the IASB has developed a new Leases Standard, IFRS 16, which supersedes IAS 17 Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. A company assesses whether to apply the requirements in IFRS 16 by identifying whether a contract is (or contains) a lease. IFRS 16 defines a lease and includes application guidance to help companies make this assessment. The definition applies to both parties to a contract, ie the customer (‘lessee’) and the supplier (‘lessor’). Most significantly, IFRS 16 changes significantly how a company accounts for leases that were off balance sheet applying IAS 17, other than short-term leases (leases of 12 months or less) and leases of low-value assets (such as personal computers and office furniture). Applying IFRS 16, in essence for all leases, a company is required to:

- (i) recognize lease assets and lease liabilities in the balance sheet, initially measured at the present value of unavoidable future lease payments;
- (ii) recognize depreciation of lease assets and interest on lease liabilities in the income statement over the lease term; and
- (iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the cash flow statement.

The Company is analyzing the new standard to determine its impact on the Company’s financial statements.

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Notes to Condensed Interim Financial Statements

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(in Canadian dollars)

5. Finance Lease

The Company has certain computer equipment under financial lease expiring 2016 through 2018. The leases carry a weighted average annual interest rate of 6.12%. Estimated lease payments are as follows:

	March 31, 2016	December 31, 2015
2016	\$ 14,770	\$ 20,469
2017	17,029	17,029
2018	1,506	1,506
Minimum lease payments	33,305	39,004
Less: interest portion (at a rate of 5.02%)	1,405	1,844
Net minimum lease payments	31,900	37,160
Less: current portion	18,542	19,078
	\$ 13,358	\$ 18,082

The equipment under finance lease has been recognized in property and equipment at the present value of minimum lease payments. Interest charges on leased equipment during the three months ended March 31, 2016 were approximately \$439 (March 31, 2015 – \$918). Other than interest, no costs were incurred relating to this lease. The lease is secured by the assets under lease. At March 31, 2016, the net book value of equipment pledged as security for finance leases is \$29,479 (December 31, 2015 - \$34,038).

6. Share capital and other components of shareholders' equity

(a) Share capital

The authorized share capital of the Company consists of an unlimited number of common shares, and unlimited number of first preferred shares, of which conditions are to be determined; and an unlimited number of second preferred shares, of which conditions are to be determined.

Common shares issued	Number	Amount
Balance, March 31, 2016 and December 31, 2015	66,190,266	\$ 17,056,812

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2016 and 2015

(in Canadian dollars)

6. Share capital and other components of shareholders' equity (cont'd)

(b) Share-based payments (cont'd)

At March 31, 2016 the Company had one equity-settled share-based compensation plan. The Company accounts for options granted under this plan in accordance with the fair value method of accounting for share-based compensation. The estimated fair value of the options that are ultimately expected to vest is recorded over the options' vesting period and charged to share-based compensation expenses.

During the three months ended March 31, 2016, no options were granted. Total share-based payment expenses for the three months ended March 31, 2016 were \$4,592 relating to general and administrative and \$2,906 relating to research and development for a total of \$7,498. Total share-based payment expenses for the three months ended March 31, 2015 were \$6,166 relating to general and administrative and \$6,194 relating to research and development for a total of \$12,360.

During 2015, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 1,668,422 Common Shares at an exercise price of \$0.05 per share. Of the total, 1,360,000 options vest over three years, such that 453,322 of the options will vest one year from the date of grant, 453,322 will vest two years from the date of grant and 453,356 will vest three years from the date of grant. A further 100,000 options vested six months after the grant date. The remaining options vest based on the market price of the Company's common shares. 104,211 options will vest when the closing market price of the Company's common shares exceeds \$0.0625 for ten consecutive trading days. 104,211 options will vest when the closing market price of the Company's common shares exceeds \$0.075 for ten consecutive trading days. All options granted expire 5 years from the date of grant. The weighted average grant date fair value of the stock options granted during 2015 was estimated to be \$0.026 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 153%, a risk-free interest rate of 0.85%, expected dividend yield of nil%, expected forfeiture rate of 3.0% and expected life of 5 years. The expected volatility was determined by calculating the historical volatility of the Company's common share price from the date of grant back to the date one year prior to the date of grant. The estimated fair value of each tranche of options not immediately vesting is amortized to share-based payments over the option vesting period on a straight line basis.

The changes to the number of options granted by Acceleware Ltd. and their weighted average exercise price are as follows:

	Number	Weighted Average Exercise Price
Balance, December 31, 2015 and March 31, 2016	5,809,370	0.067

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2016 and 2015

(in Canadian dollars)

6. Share capital and other components of shareholders' equity (cont'd)

(b) Share-based payments (cont'd)

Summary of options outstanding and exercisable as at March 31, 2016:

Exercise price outstanding	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.05	3,871,870	3.17	\$0.05	2,112,437
\$0.10	1,937,500	0.72	0.10	1,861,549
	5,809,370	2.35	\$0.07	3,973,986

(c) Contributed surplus

Balance, December 31, 2015	\$	6,180,534
Share-based payments		7,498
Balance, March 31, 2016	\$	6,188,032

7. Revenue

The Company sub-classifies revenue within the following components: product revenue, maintenance revenue, and consulting revenue. Product revenue comprises license fees charged for the use of software products licensed under multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable. Product revenue also includes the resale of third party hardware as part of customized solutions, as well as sales of hardware assembled internally. Consulting revenue consists of fees charged for implementation services, custom programming, training and simulation consulting. Maintenance revenue primarily consists of fees charged for customer support on software products post-delivery and also includes recurring fees derived from software leases.

	Three months ended March 31, 2016	Three months ended March 31, 2015
Product sales	\$ 255,935	\$ 33,811
Consulting	108,284	203,580
Maintenance	78,318	91,383
	\$ 442,537	\$ 328,774

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2016 and 2015

(in Canadian dollars)

7. Revenue (cont'd)

Revenue from the application of contract accounting are typically allocated to product revenue and consulting revenue based on their relative fair values when the amount recognized in the period is determined using the percentage of completion method under contract accounting. Contract revenue recognized in the period:

	Three months ended March 31, 2016		Three months ended March 31, 2015
Contract revenue recognized in period	\$ 224,952	\$	—
Billed in period	321,765		—
Work in progress	\$ (96,813)	\$	—

The Company operates in an international market within one reportable industry segment. Geographic revenue segmentation is as follows:

	Canada	USA		Total
Three months ended March 31, 2016	\$ 1,152	441,285	\$	442,537
Three months ended March 31, 2015	\$ 59,875	268,899	\$	328,774

The Company derives significant revenues from major customers each of whom exceed 10% of total revenues for the three months ended March 31, 2016.

	Three months ended March 31, 2016		Three months ended March 31, 2015
Customer A	\$ 224,952	\$	—
Customer B	65,125		—
Customer C	50,492		—
	\$ 340,569	\$	—

All of the Company's assets are located in Canada.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2016 and 2015

(in Canadian dollars)

8. Commitments

On February 29, 2012, Acceleware entered into a premise lease agreement to lease 5,244 square feet of office space commencing August 1, 2012 and ending July 31, 2017, a period of five years. A rent inducement of \$103,420 was received and included in accounts payable and accrued liabilities. It will be amortized over the term of the lease and recorded as a reduction to rent expense. At March 31, 2015, \$26,742 of the rent inducement remains (December 31, 2015 - \$31,756). Effective August 1, 2015 the lease was renegotiated and extended to July 31, 2020.

In addition to the basic monthly rents, the Company must pay a proportionate share of property taxes, operating costs, utilities and additional services.

The minimum annual basic rent commitments are as follows:

2016	\$	61,180
2017		91,770
2018		91,770
2019		91,770
2020		53,533
	\$	390,023

9. Related Party Transactions

- (a) For the three months ended March 31, 2016, the Company incurred expenses in the amount of \$39,000 (three months ended March 31, 2015 - \$39,000) with a company controlled by an officer of the Company as fees for duties performed in managing operations, and this amount is included in research and development. \$38,850 was included in accounts payable and accrued liabilities as at March 31, 2016 (December 31, 2015 \$39,161). These fees occurred in the normal course of operations and in the opinion of management represent fair value for services rendered.
- (b) Four officers of the Company have advanced \$333,653 (December 31, 2015 - \$315,105) to the Company. These amounts are non-interest bearing, unsecured and are to be repaid no later than December 31, 2016. These amounts are recorded in accounts payable.
- (c) Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management included:

	Three months ended		Three months ended	
	March 31, 2016		March 31, 2015	
Salaries and short-term employee benefits	\$	169,136	\$	163,354
Share-based payments		4,649		6,694
	\$	173,785	\$	170,048