

# **Acceleware Ltd.**

**Condensed Interim Financial Statements (Unaudited)  
For the Nine Months Ended September 30, 2016 and 2015**

**(in Canadian dollars)**

# Acceleware Ltd.

## Condensed Interim Financial Statements For the Nine Months Ended September 30, 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:

	September 30, 2016	December 31, 2015
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 962,560	\$ 361,957
Trade and other receivables	255,687	381,299
Work in process (note 8)	364,237	604,678
Alberta SR&ED tax credits receivable	75,460	120,618
Deposits and prepaid expenses	43,100	54,085
	<b>1,701,044</b>	<b>1,522,637</b>
Non-current		
Property and equipment	75,865	96,304
<b>Total assets</b>	<b>\$ 1,776,909</b>	<b>\$ 1,618,941</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 860,031	\$ 756,272
Loans and borrowings (note 5)	207,204	—
Deferred revenue	106,172	162,170
Finance lease (note 6)	24,242	19,078
	<b>1,197,649</b>	<b>937,520</b>
Non-current		
Finance lease (note 6)	13,783	18,082
	<b>1,211,432</b>	<b>955,602</b>
Going concern (note 3)		
Commitments (note 9)		
Subsequent events (note 10)		
<b>Shareholders' Equity</b>		
Share capital (note 7a)	17,116,350	17,056,812
Shares to be issued (note 10)	884,510	—
Contributed surplus (note 7c)	6,194,896	6,180,534
Deficit	(23,630,279)	(22,574,007)
	<b>565,477</b>	<b>663,339</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,776,909</b>	<b>\$ 1,618,941</b>

Approved on behalf of the Board:

(signed) "Bohdan Romaniuk"

Director

(signed) "Dennis Nerland"

Director

# Acceleware Ltd.

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

## Condensed Statements of Comprehensive Loss (Unaudited)

(in Canadian dollars)

For the:

	Three months ended September 30, 2016 (unaudited)	Three months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Revenue (note 8)	\$ 366,675	\$ 832,511	\$ 1,219,530	\$ 1,800,262
<b>Expenses</b>				
Cost of revenue	120,669	169,583	417,103	335,679
General and administrative	323,878	265,309	1,078,939	804,682
Research and development	246,850	311,717	780,126	1,038,360
	691,397	746,609	2,276,168	2,178,721
<b>(Loss) income from operations</b>	<b>(324,722)</b>	85,902	<b>(1,056,638)</b>	(378,459)
Other income	—	—	366	440
<b>Total comprehensive loss for the period attributable to shareholders</b>	<b>\$ (324,722)</b>	<b>\$ (85,902)</b>	<b>\$ (1,056,272)</b>	<b>\$ (378,019)</b>
<b>Loss per share</b>				
Basic and diluted	\$ (0.005)	\$ 0.001	\$ (0.016)	\$ (0.006)
Weighted average shares outstanding	66,442,761	66,190,266	66,289,169	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	Shares to be issued	Contributed Surplus	Deficit	Total Equity
<b>Balance at December 31, 2014</b>	\$ 17,056,812	\$ —	\$ 6,124,204	\$ (22,354,734)	\$ 826,282
Net comprehensive loss	—	—	—	(378,019)	(378,019)
Shares to be issued ( <i>note 10</i> )	—	—	—	—	—
Shares issued for cash on exercise of stock options ( <i>note 7b</i> )	—	—	—	—	—
Share-based payments:					
Current period expense	—	—	42,386	—	42,386
Stock options exercised ( <i>note 7b</i> )	—	—	—	—	—
<b>Balance at September 30, 2015</b>	\$ 17,056,812	\$ —	\$ 6,166,590	\$ (22,732,753)	\$ 490,649
<b>Balance at December 31, 2015</b>	\$ 17,056,812	\$ —	\$ 6,180,534	\$ (22,574,007)	\$ 663,339
Net comprehensive loss	—	—	—	(1,056,272)	(1,056,272)
Shares to be issued ( <i>note 10</i> )	—	884,510	—	—	884,510
Shares issued for cash on exercise of stock options ( <i>note 7b</i> )	33,666	—	—	—	33,666
Share-based payments:					
Current period expense	—	—	40,234	—	40,234
Stock options exercised ( <i>note 7b</i> )	25,872	—	(25,872)	—	—
<b>Balance at September 30, 2016</b>	\$ 17,116,350	\$ 884,510	\$ 6,194,896	\$ (23,630,279)	\$ 565,477

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 September 30, 2016 (unaudited)	Three months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
<b>Cash flows from (used for) operating activities</b>				
Comprehensive loss before tax	\$ (324,722)	\$ 85,902	\$ (1,056,272)	\$ (378,019)
Items not involving cash:				
Amortization	16,318	18,232	47,051	63,452
Share-based payments (note 7c)	25,580	13,133	40,234	42,386
Rent inducement	5,014	5,014	15,042	15,042
Accrued interest on loans and borrowings	6,191	—	7,204	—
Changes in non-cash working capital items				
Trade and other receivables	(9,411)	33,751	125,612	403,824
Work in process	34,293	(283,538)	240,441	(454,495)
Alberta SR&ED tax credit receivable	(28,490)	(28,388)	45,158	37,331
Prepaid expenses	(2,622)	(14,533)	10,985	5,938
Inventory	—	—	—	29,624
Accounts payable and accrued liabilities	75,325	3,305	88,718	(38,730)
Deferred revenue	(54,447)	(18,765)	(55,998)	(44,317)
	(256,971)	(185,887)	(491,825)	(317,964)
<b>Cash flows from financing activities</b>				
Shares issued for cash	12,666	—	33,666	—
Shares to be issued (note 6)	884,510	—	884,510	—
Repayment of finance lease (note 6)	(9,016)	(8,886)	(18,824)	(30,715)
Increase in loans and borrowings (note 5)	—	—	200,000	—
	888,160	(8,886)	1,099,352	(30,715)
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	—	—	(6,924)	(6,757)
	—	—	(6,924)	(6,757)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>631,189</b>	<b>(194,773)</b>	<b>600,603</b>	<b>(355,436)</b>
Cash and cash equivalents, beginning of period	331,371	469,659	361,957	630,322
<b>Cash and cash equivalents, end of period</b>	<b>\$ 962,560</b>	<b>\$ 274,886</b>	<b>\$ 962,560</b>	<b>\$ 274,886</b>
<b>Comprised of:</b>				
Cash on hand	\$ 942,081	\$ 234,407	\$ 942,081	\$ 234,407
Cash equivalents	20,479	40,479	20,479	40,479
	\$ 962,560	\$ 274,886	\$ 962,560	\$ 274,886
Interest received	\$ —	\$ —	\$ 366	\$ 440
Interest paid	\$ 7,339	\$ 614	\$ 8,700	\$ 2,239
Income taxes paid	\$ —	\$ —	\$ —	\$ —

# Acceleware Ltd.

## Notes to Condensed Interim Financial Statements

September 30, 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 November 23, 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

September 30, 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 The Company's management ("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 September 30, 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 \$23,630,279 (December 31, 2015 - \$22,574,007), including the loss of \$1,056,272 in the nine-month period ended September 30, 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 software products, consulting services and training; focus on selected core vertical markets; minimize operating expenses where possible; and limit capital expenditure. Additional financing in the form of loans or equity will be pursued in the case of any shortfall. 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

September 30, 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, i.e., 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.

# Acceleware Ltd.

## Notes to Condensed Interim Financial Statements

September 30, 2016 and 2015

(in Canadian dollars)

### 5. Loans and borrowing

The Company has borrowed \$200,000 with a maturity date of November 10, 2016. The loan accrues interest at a rate of 10.87% per annum until October 11, 2016, and at a rate of 14.87% per annum thereafter. The loan is secured by substantially all of the assets of the Company.

### 6. Finance leases

The Company has certain computer equipment under financial lease expiring 2016 through 2019. The leases carry a weighted average annual interest rate of 7.48%. Estimated lease payments are as follows:

	September 30, 2016	December 31, 2015
2016	\$ 6,502	\$ 20,469
2017	23,347	17,029
2018	7,824	1,506
2018	2,941	—
Minimum lease payments	40,614	39,004
Less: interest portion (at a rate of 7.48%)	2,589	1,844
Net minimum lease payments	38,025	37,160
Less: current portion	24,242	19,078
	\$ 13,783	\$ 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 nine months ended September 30, 2016 were approximately \$1,515 (September 30, 2015 – \$1,621). Other than interest, no costs were incurred relating to this lease. The lease is secured by the assets under lease. At September 30, 2016, the net book value of equipment pledged as security for finance leases is \$35,657 (December 31, 2015 - \$34,038).

### 7. 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; an 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, December 31, 2015	66,190,266	\$ 17,056,812
Issued for cash on the exercise of stock options	385,827	\$ 59,538
<b>Balance, September 30, 2016</b>	<b>66,576,093</b>	<b>\$ 17,116,850</b>

# Acceleware Ltd.

## Notes to Condensed Interim Financial Statements

September 30, 2016 and 2015

(in Canadian dollars)

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

#### (b) Share-based payments

At September 30, 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 nine months ended September 30, 2016, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 1,464,502 Common Shares at an exercise price of \$0.15 per share. Of the total, 1,205,000 options vest over three years, such that 401,658 of the options will vest one year from the date of grant, 401,658 will vest two years from the date of grant and 401,684 will vest three years from the date of grant. A further 50,000 options will vest over two years, such that 25,000 of the options will vest one year from the date of grant and 25,000 will vest two years from the date of grant. The remaining options vest based on the market price of the Company's common shares. 104,751 options will vest when the closing market price of the Company's common shares exceeds \$0.185 for ten consecutive trading days. 104,751 options will vest when the closing market price of the Company's common shares equals or exceeds \$0.225 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 2016 was estimated to be \$0.141 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 284%, a risk-free interest rate of 0.66%, expected dividend yield of nil%, expected forfeiture rate of 4.0% 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. Total share-based payment expenses for the nine months ended September 30, 2016 were \$28,975 relating to general and administrative and \$11,259 relating to research and development for a total of \$40,234. Total share-based payment expenses for the nine months ended September 30, 2015 were \$21,576 relating to general and administrative and \$20,810 relating to research and development for a total of \$42,386.

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 nine 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.

# Acceleware Ltd.

## Notes to Condensed Interim Financial Statements

September 30, 2016 and 2015

(in Canadian dollars)

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

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

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	5,809,370	0.067
Granted	1,464,502	0.150
Forfeited	(26,668)	0.050
Expired	(705,000)	0.100
Exercised	(385,827)	0.087
<b>Balance, September 30, 2016</b>	<b>6,156,377</b>	<b>0.081</b>

Summary of options outstanding and exercisable as at September 30, 2016 are as follows:

Exercise price outstanding	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.05	3,746,875	2.67	\$0.050	2,445,080
\$0.10	945,000	0.58	\$0.100	945,000
\$0.15	1,464,502	4.92	\$0.100	—
	<b>6,156,377</b>	<b>2.88</b>	<b>\$0.061</b>	<b>3,390,080</b>

#### (c) Contributed surplus

Balance, December 31, 2015	\$	6,180,534
Share-based payments		40,234
Fair value of stock options exercised		(25,872)
<b>Balance, September 30, 2016</b>	<b>\$</b>	<b>6,194,896</b>

# Acceleware Ltd.

## Notes to Condensed Interim Financial Statements

September 30, 2016 and 2015

(in Canadian dollars)

### 8. 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.

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Product sales	\$ 85,886	\$ 516,570	\$ 568,730	\$ 880,559
Maintenance	75,994	128,272	278,898	321,871
Consulting	204,795	187,669	371,902	597,832
	<b>\$ 366,675</b>	<b>\$ 832,511</b>	<b>\$ 1,219,530</b>	<b>\$ 1,800,262</b>

Revenues 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:

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Contract revenue recognized in period	\$ 64,229	\$ 484,237	\$ 371,988	\$ 837,488
Billed in period	98,522	200,699	612,430	382,993
Work in process	\$ (34,293)	\$ 283,538	\$ (240,442)	\$ 454,495

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

	<b>Canada</b>	<b>USA</b>	<b>Total</b>
<b>Three months ended September 30, 2016</b>	<b>\$ 1,166</b>	<b>365,509</b>	<b>\$ 366,675</b>
Three months ended September 30, 2015	\$ 44,911	787,600	\$ 832,511
<b>Nine months ended September 30, 2016</b>	<b>\$ 3,470</b>	<b>1,216,060</b>	<b>\$ 1,219,530</b>
Nine months ended September 30, 2015	\$ 183,036	1,617,226	\$ 1,800,262

# Acceleware Ltd.

## Notes to Condensed Interim Financial Statements

September 30, 2016 and 2015

(in Canadian dollars)

### 8. Revenue (cont'd)

The Company derives significant revenues from major customers each of whom exceeds 10% of total revenues. They are as follows:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Customer A	\$ 63,824	\$ 63,285	\$ 63,824	\$ 63,285
Customer B	62,168	484,237	391,235	777,488
Customer C	58,862	—	78,366	21,758
Customer D	25,001	12,863	189,564	26,836
	<b>\$ 209,855</b>	<b>\$ 560,385</b>	<b>\$ 722,989</b>	<b>\$ 889,367</b>

### 9. 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 September 30, 2016, \$16,713 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	\$	22,943
2017		91,770
2018		91,770
2019		91,770
2020		53,533
	<b>\$</b>	<b>351,786</b>



# Acceleware Ltd.

## Notes to Condensed Interim Financial Statements

September 30, 2016 and 2015

(in Canadian dollars)

### 10. Related Party Transactions

- (a) For the three months ended September 30, 2016, the Company incurred expenses in the amount of \$39,000 (three months ended September 30, 2015 - \$39,000) and \$117,000 for the nine months ended September 30, 2016 (nine months ended September 30, 2015 - \$117,000) 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 expense. \$38,850 was included in accounts payable and accrued liabilities as at September 30, 2016 (December 31, 2015 - \$39,161). These fees were charged to the Company in the normal course of operations and in the opinion of Management approximate fair value for services rendered.
- (b) For the three months ended September 30, 2016, the Company incurred expenses for legal fees in the amount of \$10,623 (three months ended September 30, 2015 - \$586) and \$23,590 for the nine months ended September 30, 2016 (nine months ended September 30, 2015 - \$11,407) with a company controlled by a director of the Company, and this amount is included in general and administrative expense. \$11,160 was included in accounts payable and accrued liabilities as at September 30, 2016 (December 31, 2014 - \$4,694). These fees were charged to the Company in the normal course of operations and in the opinion of Management approximate fair value for services rendered.
- (c) Four officers of the Company have advanced \$463,250 (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.
- (d) Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management included:

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Salaries and short-term employee benefits	\$ 169,172	\$ 190,044	\$ 499,377	\$ 525,757
Share-based payments	19,030	6,810	28,919	21,636
	<b>\$ 188,202</b>	<b>\$ 205,854</b>	<b>\$ 528,296</b>	<b>\$ 547,393</b>

### 11. Subsequent events

- (a) On October 7, 2016, the Company closed a private placement for an aggregate of \$2,000,000. Pursuant to the private placement, the Company issued 18,181,818 units at a price of \$0.11 comprising 18,181,818 common shares and 9,090,909 share purchase warrants exercisable into one common share each at a price of \$0.22 per share prior to October 8, 2018. Share purchase warrants issued pursuant to this private placement are not subject to acceleration provisions. As part of the private placement, \$884,510 was collected before period end and has been included in shares to be issued in the consolidated statement of changes in shareholders' equity.
- (b) On October 11, 2016, the Company repaid a \$200,000 loan, plus interest thereon of \$7,945.