Acceleware Ltd.

Financial Statements
December 31, 2013 and 2012

(in Canadian dollars)

Acceleware Ltd.

Financial Statements
For the Years Ended December 31, 2013 and 2012
(in Canadian dollars)

Contents

Acceleware Ltd.

Management's Report to Shareholders

The accompanying financial statements of Acceleware Ltd. (the "Company" or "Acceleware") have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The financial statements and other financial information have been prepared using the accounting policies described in Note 4 to the financial statements and reflect management's best estimates and judgements based on available information.

The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. Management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this report is consistent with the information presented in the financial statements.

MNP, LLP, an independent firm of Chartered Accountants, was engaged to audit the financial statements in accordance with IFRS and their independent professional opinion is provided herein.

The Audit Committee, consisting of independent members of the Board of Directors, has reviewed these financial statements with management and the auditors and has reported the results of this review to the Board of Directors. The Board of Directors has approved the financial statements.

(Signed)
Geoff Clark
Chief Executive Officer
April 22, 2014

(Signed)
Michal Okoniewski
Chief Scientific Officer

Acceleware Ltd.

Independent Auditors' Report

To the Shareholders of Acceleware Ltd.:

We have audited the accompanying financial statements of Acceleware Ltd., which comprise the statements of financial position as at December 31, 2013 and 2012 and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Acceleware Ltd. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 3 in the financial statements which indicates that Acceleware Ltd. has accumulated losses of $22,195,836 as at December 31, 2013 (2012- $21,764,842). These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty that may cast significant doubt on Acceleware Ltd.'s ability to continue as a going concern.

MNP LLP
Chartered Accountants

Calgary, Alberta
April 22, 2014

Acceleware Ltd.

Statements of Financial Position
(in Canadian dollars)

As at December 31,

		2013		2012
Assets				
Current				
Cash and cash equivalents	$	**400,810**	$	341,897
Trade and other receivables *(note 6)*		**312,357**		697,906
Alberta SR&ED tax credits receivable *(note 7)*		**166,418**		155,580
Deposits and prepaid expenses		**54,424**		113,870
		934,009		1,309,253
Non-current				
Property and equipment *(note 8)*		**190,550**		196,880
Total assets	$	**1,124,559**	$	1,506,133
Liabilities				
Current				
Accounts payable and accrued liabilities *(note 9)*	$	**567,053**	$	604,028
Deferred revenue		**128,255**		79,873
Finance lease *(note 10)*		**25,977**		20,625
		721,285		704,526
Non-current				
Finance lease *(note 10)*		**20,434**		35,533
		741,719		740,059
Going concern *(note 3)*				
Commitments *(note 21)*				
Subsequent event *(note 23)*				
Shareholders' Equity				
Share capital *(note 11a)*		**16,544,812**		16,544,812
Contributed surplus *(note 11c)*		**6,033,864**		5,986,104
Deficit		**(22,195,836)**		(21,764,842)
		382,840		766,074
Total liabilities and shareholders' equity	$	**1,124,559**	$	1,506,133

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.

Statements of Comprehensive Loss
(in Canadian dollars)

For the years ended December 31,

		2013		2012
Revenue *(note 12)*	**$**	**3,066,174**	$	2,910,580
Expenses				
Cost of revenue *(note 13)*		**647,109**		716,606
General and administrative *(note 14)*		**1,502,386**		1,488,497
Research and development *(note 15)*		**1,403,022**		1,230,959
Gain on disposal of property and equipment		**—**		(41,667)
		3,552,517		3,394,395
Loss from operations		**(486,343)**		(483,815)
Other income (*note 16*)		**55,349**		—
Total comprehensive loss for the year attributable to shareholders	**$**	**(430,994)**	$	(483,815)
Loss earnings per share				
Basic and diluted	**$**	**(0.008)**	$	(0.009)
Weighted average shares outstanding – basic and diluted		**55,950,266**		55,950,266

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

Acceleware Ltd.

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

		Share Capital		Contributed Surplus		Deficit		Total Shareholders' Equity
Balance at December 31, 2011	$	16,544,812	$	5,911,452	$	(21,281,027)	$	1,175,237
Net comprehensive loss		—		—		(483,815)		(483,815)
Share-based payments		—		74,652		—		74,652
Balance at December 31, 2012	$	16,544,812	$	5,986,104	$	(21,764,842)	$	766,074
Balance at December 31, 2012	$	16,544,812	$	5,986,104	$	(21,764,842)	$	766,074
Net comprehensive loss		—		—		(430,994)		(430,994)
Share-based payments		—		47,760		—		47,760
Balance at December 31, 2013	**$**	**16,544,812**	**$**	**6,033,864**	**$**	**(22,195,836)**	**$**	**382,840**

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

Acceleware Ltd.

Statements of Cash Flows
(in Canadian dollars)

For the years ended December 31,

		2013		2012
Cash flows from (used for) operating activities				
Comprehensive loss	**$**	**(430,994)**	$	(483,815)
Items not involving cash:				
Amortization *(note 8)*		**72,876**		106,180
Gain on disposal of property and equipment *(note 8)*		**—**		(41,667)
Share-based payments *(note 11c)*		**47,760**		74,652
Bad debt expense *(note 14)*		**16,634**		—
Non-monetary transaction *(notes 8, 12)*		**(12,869)**		(47,141)
		(306,593)		(391,791)
Changes in non-cash working capital items				
Trade and other receivables		**368,915**		(200,980)
Alberta SR&ED tax credit receivable		**(10,838)**		4,885
Deposits and prepaid expenses *(note 12)*		**59,446**		(31,076)
Accounts payable and accrued liabilities		**(36,975)**		217,746
Deferred revenue		**48,382**		(27,872)
		122,337		(429,088)
Cash flows from financing activities				
Repayment of finance lease *(note 10)*		**(22,361)**		(6,726)
		(22,361)		(6,726)
Cash flows from investing activities				
Proceeds from sale of property and equipment		**—**		48,876
Purchase of property and equipment *(note 8)*		**(41,063)**		(147,551)
		(41,063)		(98,675)
Increase (decrease) in cash and cash equivalents		**58,913**		(534,489)
Cash and cash equivalents, beginning of year		**341,897**		876,386
Cash and cash equivalents, end of year	**$**	**400,810**	$	341,897
Comprised of:				
Cash on deposit	**$**	**360,372**	$	301,796
Cash equivalents		**40,438**		40,101
	$	**400,810**	$	341,897
Interest received	**$**	**869**	$	—
Interest paid	**$**	**1,485**	$	1,159

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

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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors on April 22, 2014.

(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. The method used to measure fair values is discussed in note 4(k).

2. Basis of Presentation (cont'd)

(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.

The determination of the amount of the Scientific Research and Development claim, and hence the relevant receivable amount, 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.

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 estimates in regards to the useful life of assets which must be estimated when calculating amortization. Where possible, the Company uses its own history with assets of similar classes to determine useful lives. The Company must make use of estimates when determining if an asset is impaired (see note 4 (e)).

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 related provisions (note 4 (f) and note 4 (h)) 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.

2. Basis of Presentation (cont'd)

(d) Significant accounting assumptions, estimates and judgements

In recognizing provisions, the Company evaluates the extent to which it is probable that it has incurred a legal or constructive obligation in respect of past events and the probability that there will be an outflow of benefits as a result. The estimates used to recognize provisions are based on currently known factors which may vary over time, resulting in changes in the measurement of recorded amounts.

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 $22,195,836 (December 31, 2012 - $21,764,842), including the loss of $430,994 in the year ended December 31, 2013, 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.

4. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

(a) Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Company at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the reporting date. Exchange gains and losses on translation or settlement are recognized in the statement of comprehensive loss for the current year.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items' fair value was determined.

(b) Revenue recognition

Revenue from product sales is recognized when persuasive evidence of an arrangement exists, the product has been shipped, the price is fixed and determinable, and collection is reasonably assured.

Revenue from consulting revenue is recognized when services have been completed.

Maintenance revenue is deferred and recognized on a pro-rata basis over the term of the maintenance contract, typically 12 months.

Revenues from interest are recognized when earned and recorded in other income.

Contracts with multiple-element arrangements, such as those including both product sales and maintenance contracts, are accounted as separate units of accounting and are recognized as each element is earned based on the relative fair value of each element and only when there are no undelivered elements that are essential to the functionality of the delivered elements.

Work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses, if any. Work in progress is presented in the statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then this excess is presented as deferred revenue in the statement of financial position. As of December 31, 2013 and December 31, 2012 there was no work in progress.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and guaranteed investment certificates which are subject to insignificant risk of changes in value and that have an original maturity at date of purchase of three months or less.

4. Significant Accounting Policies (cont'd)

(d) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment or write-down, if applicable. Cost is determined as the expenditure directly attributable to the asset at acquisition, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. All repairs and maintenance costs are charged to the statement of comprehensive loss during the financial period in which they are incurred. Amortization over the estimated useful life of assets is provided on the following bases and annual rates:

Furniture and fixtures	20% declining balance
Computer software	100% declining balance
Leasehold improvements	five years straight-line
Computer hardware	three years straight-line

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component, where applicable. The estimated residual value and useful lives of property and equipment are reviewed at the end of each reporting period and adjusted if required.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the statement of comprehensive loss.

(e) Impairment of assets

i. Financial assets

Financial assets carried at amortized cost are assessed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset. For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. If impairment has occurred, the carrying amount of the asset is reduced, with the amount of the loss recognized in the statement of comprehensive loss. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

4. Significant Accounting Policies (cont'd)

(e) Impairment of assets (cont'd)

ii. Non-financial assets

The carrying amounts of the Company's property and equipment are assessed for impairment indicators on at least an annual basis to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's or group of assets' estimated fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable independent cash inflows (a cash generating unit or "CGU").

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss. The Company has one CGU and has determined that no impairment is required.

(f) SR&ED Investment tax credits

The Company claims federal investment tax credits as a result of incurring scientific research and experimental development ("SR&ED") expenditures. Federal investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Federal investment tax credits are accounted for as a reduction of research and development expense for items of a period expense nature or as a reduction of property and equipment for items of a capital nature. Management has made a number of estimates and assumptions in determining the expenditures eligible for the federal investment tax credit claim. It is possible that the allowed amount of the federal investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency.

The Company claims provincial (Alberta) investment tax credits as a result of incurring SR&ED expenditures. Provincial investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the provincial investment tax credit claim. The provincial investment tax credits are refundable and have been recorded as Alberta SR&ED tax credit receivable, and as a reduction in research and development expenses on the statement of comprehensive loss. It is possible that the allowed amount of the provincial investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency and the Alberta Tax and Revenue Administration.

4. Significant Accounting Policies (cont'd)

(g) Research and development costs and government assistance

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. Research and development costs comprise salaries, share-based payments, lab supplies, and an allocation of office costs and amortization. No development costs have been deferred as at December 31, 2013 (December 31, 2012 - $nil).

Reimbursements of eligible costs pursuant to government assistance programs are recorded as a reduction of research and development costs when the related costs are incurred. Claims not settled by the reporting date are recorded as trade and other receivables on the statement of financial position when there is reasonable assurance of recovery. As at December 31, 2013, there was $11,583 (December 31, 2012 - $nil) included in trade and other receivables pursuant to government assistance programs.

(h) Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of comprehensive loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

i. Current Income tax

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting year. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii. Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable income nor the accounting income.

(i) Share-based payments

The Company uses the fair value method to account for options to be granted to employees, directors and officers. All options and similar instruments that are granted to non-employees are also accounted at the fair value of the goods or services received unless the fair value of the goods or services cannot be estimated reliably. The fair value method consists of recording share-based payments to the statement of comprehensive loss over the vesting period of each tranche of options granted. At the time of exercise, the consideration and the related contributed surplus recognized to the exercise date are credited to share capital.

4. Significant accounting policies (cont'd)

(j) Earnings (loss) per share

Basic (loss) earnings per share is computed by dividing the total comprehensive (loss) income attributable to shareholders by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effect of stock options and warrants. The treasury stock method assumes the notional exercise of all in-the-money stock options and warrants and that all notional proceeds to the Company are used to repurchase the Company's stock at the average market price during the year. No adjustment to diluted earnings (loss) per share is made if the result of this calculation is anti-dilutive or if the Company is in a loss position.

(k) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the Company's obligations are discharged, cancelled or expire. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss ("FVTPL"): A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of comprehensive loss. Gains and losses arising from changes in fair value are presented in the statement of comprehensive loss within other gains and losses in the year in which they arise. Financial assets and liabilities that are FVTPL are classified as current except for the portion expected to be realized or paid beyond twelve months of the reporting date, which is classified as non-current. The Company's financial assets that are classified as FVTPL are its cash and cash equivalents.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's trade and other receivables are classified as loans and receivables and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities. Financial liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

4. Significant accounting policies (cont'd)

(k) Financial instruments (cont'd)

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up adjusted by the fair value of any monetary consideration received or given. When the asset received or the consideration given up is shares in an actively traded market, the value of those shares will be considered fair value.

(l) Leases

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease. At inception or on re-assessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impractical to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Company's incremental borrowing rate.

Assets held by the Company under leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease inducements received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(m) New Accounting Policies

As of January 1, 2013, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new standard and its impact on the Company's financial statements follows:

IFRS 10, "Consolidated Financial Statements" supersedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The retrospective adoption of this standard does not have any impact on the Company's financial statements.

4. Significant accounting policies (cont'd)

(m) New Accounting Policies (cont'd)

IFRS 11, "Joint Arrangements" divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The retrospective adoption of this standard does not have any impact on the Company's financial statements.

IFRS 12, "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities. The retrospective adoption of this standard does not have any impact on the Company's financial statements.

IFRS 13, "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard does not have an impact on the Company's financial statements.

5. 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, 2014 or later periods. The standards affected are as follows:

(a) IFRS 2 Share-based payment
The amendments to IFRS 2, issued in December 2013 clarify the definition of "vesting conditions", and separately define a "performance condition" and a "service condition". A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service. The amendments are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

(b) IFRS 7 Financial instruments: disclosures and IAS 32 Financial instruments: presentation
Financial assets and financial liabilities may be offset, with the net amount presented in the statement of financial position, only when there is a legally enforceable right to set off and when there is either an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. The amendments to IAS 32, issued in December 2011, clarify the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. The amendments will only affect disclosure and are effective for annual periods beginning on or after January 1, 2014.

(c) IFRS 8 Operating segments
The amendments to IFRS 8, issued in December 2013, require an entity to disclose the judgments made by management in applying the aggregation criteria for reportable segments. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

5. Recent Accounting Pronouncements Issued and not yet Effective (cont'd)

(d) IFRS 9 Financial instruments

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 *Financial instruments: Recognition and measurement.* The standard requires the classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The two categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39. However, for financial liabilities measured at fair value, changes in the fair value attributable to changes in an entity's "own credit risk" are now recognized in other comprehensive income instead of in profit or loss. This new standard will also affect disclosures provided under *IFRS 7 Financial instruments: disclosures.*

In November 2013, the IASB amended IFRS 9 for the significant changes to hedge accounting. In addition, an entity can now apply the "own credit requirement" in isolation without the need to change any other accounting for financial instruments. The mandatory effective date of January 1, 2015 has been removed to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

(e) IFRS 10 Consolidated financial statements and IFRS 12 Disclosure of interests in other entities and IAS 27 Separate financial statements

The amendments to IFRS 10, issued in October 2012, introduce a consolidation exception for investment entities. They do this by defining an investment entity and requiring an investment entity to measure subsidiaries at fair value through profit or loss in accordance with *IFRS 9 Financial instruments* or *IAS 39 Financial Instruments: Recognition and measurement*. The related amendments to IFRS 12, issued at the same time, require additional disclosure for investment entities. The amendments are effective for annual periods beginning on or after January 1, 2014.

(f) IFRS 13 Fair value measurement

The Company applies the "portfolio exception". Accordingly, it measures the fair value of financial assets and liabilities, with offsetting positions in market or counterparty credit risk, consistently with how market participants would price the net risk exposure. The amendments to IFRS 13, issued in December 2013, clarify that the portfolio exception applies to all contracts within the scope of *IFRS 9 Financial instruments* or *IAS 39 Financial instruments: Recognition and measurement*, regardless of whether they meet the definitions of financial assets or financial liabilities in *IAS 32 Financial instruments: Presentation*. The amendments are effective for annual periods beginning on or after July 1, 2014.

(g) IAS 16 Property, plant and equipment and IAS 38 Intangible assets

The amendments to IAS 16 and IAS 38, issued in December 2013, clarify how an entity calculates the gross carrying amount and accumulated depreciation when a revaluation is performed. The amendments are effective for annual periods beginning on or after July 1, 2014.

(h) IAS 24 Related party disclosures

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

(in Canadian dollars)

5. Recent Accounting Pronouncements Issued and not yet Effective (cont'd)

(i) IAS 36 Impairment of assets

The amendments to IAS 36, issued in May 2013, require:

- Disclosure of the recoverable amount of impaired assets; and
- Additional disclosures about the measurement of the recoverable amount when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

The amendments will only affect disclosure and are effective for annual periods beginning on or after January 1, 2014.

The Company is currently assessing the impact of these standards on its reporting and disclosures. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

6. Trade and other receivables

		December 31, 2013		December 31, 2012
Trade receivables	**$**	**316,952**	$	695,446
Goods and services tax and other receivables		**12,039**		2,460
Allowance for doubtful accounts		**(16,634)**		–
	$	**312,357**	$	697,906

7. Alberta SR&ED tax credit receivables

Reimbursement of eligible research and development project costs related to government assistance programs are recorded as a reduction of research and development costs when incurred. The benefit of investment tax credits for scientific research and experimental development expenses are recognized in the year the qualifying expenditure is made provided there is reasonable assurance of recovery. This benefit is presented as a reduction of the related research and development costs.

(in Canadian dollars)

8. Property and equipment

Cost:		Furniture and fixtures		Computer hardware		Computer software		Leasehold improvements		Total
Opening balance at January 1, 2013	$	89,320	$	821,584	$	77,659	$	107,661	$	1,096,224
Additions		2,079		55,529		8,938		—		66,546
Closing balance at December 31, 2013	$	91,398	$	877,113	$	86,598	$	107,661	$	1,162,770

Accumulated amortization and impairment:		Furniture and fixtures		Computer hardware		Computer software		Leasehold improvements		Total
Opening balance at January 1, 2013	$	59,562	$	751,154	$	77,659	$	10,969	$	899,344
Amortization		5,952		39,868		5,524		21,532		72,876
Closing balance at December 31, 2013	$	65,514	$	791,022	$	83,183	$	32,501	$	972,220
Net book value at December 31, 2013	**$**	**25,884**	**$**	**86,091**	**$**	**3,415**	**$**	**75,160**	**$**	**190,550**

Cost:		Furniture and fixtures		Computer hardware		Computer software		Leasehold improvements		Total
Opening balance at January 1, 2012	$	230,602	$	720,299	$	77,659	$	647,126	$	1,675,686
Additions		2,844		106,891		—		107,661		217,396
Disposals		(144,126)		(5,606)		—		(647,126)		(796,858)
Closing balance at December 31, 2012	$	89,320	$	821,584	$	77,659	$	107,661	$	1,096,224

Accumulated amortization and impairment:		Furniture and fixtures		Computer hardware		Computer software		Leasehold improvements		Total
Opening balance at January 1, 2012	$	196,442	$	681,864	$	77,659	$	626,848	$	1,582,813
Amortization		4,900		70,033		—		31,247		106,180
Disposals		(141,780)		(743)		—		(647,126)		(789,649)
Closing balance at December 31, 2012	$	59,562	$	751,154	$	77,659	$	10,969	$	899,344
Net book value at December 31, 2012	**$**	**29,758**	**$**	**70,430**	**$**	**—**	**$**	**96,692**	**$**	**196,880**

50% of amortization expense is allocated to research and development expense and 50% is allocated to general and administrative expense. For the year ended December 31, 2013, $36,438 (2012 – $53,090) in amortization is included in each of general and administrative and research and development expense on the statement of comprehensive loss. Property and equipment under finance lease as at December 31, 2013 had a cost of $75,497 (December 31, 2012 - $62,884), and a carrying amount of $42,513 (December 31, 2012 - $53,758) net of amortization.

Included in property and equipment additions is $12,869 (December 31, 2012 - $6,961) worth of computer hardware which was exchanged for consulting services.

(in Canadian dollars)

9. Accounts payable and accrued liabilities

The Company's accounts payable and accrued liabilities are non-interest bearing and detailed below:

		December 31, 2013		December 31, 2012
Trade accounts payable	**$**	**179,687**	$	153,869
Deferred employee salaries (*note 22(c)*)		**221,281**		163,797
Other payroll liabilities		**35,439**		103,770
Customer deposits		**—**		795
Accrued liabilities and other payables		**130,646**		181,797
	$	**567,053**	$	604,028

10. Finance Lease

The Company has certain computer equipment under financial lease expiring in 2015 and 2016. The leases carry an annual interest rate of 2.25%. Estimated lease payments are as follows:

		December 31, 2013		December 31, 2012
2013	**$**	**—**	$	21,696
2014		**26,747**		21,696
2015		**19,840**		14,542
2016		**816**		—
Minimum lease payments		**47,403**		57,934
Less: interest portion (at a rate of 2.25%)		**992**		1,776
Net minimum lease payments		**46,411**		56,158
Less: current portion		**25,977**		20,625
	$	**20,434**	$	35,533

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 year were approximately $1,299 (2012 – $428). Other than interest, no costs were incurred relating to this lease. The lease is secured by the assets under lease. At year end, the net book value of equipment pledged as security for finance leases is $42,513 (2012 - $53,758) which is included in computer hardware.

(in Canadian dollars)

11. 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, December 31, 2012 and December 31, 2013	**55,950,266**	**$ 16,544,812**

(b) Share-based payments

At December 31, 2013, 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 option's vesting period and charged to share-based compensation expenses.

During 2013, the Company granted to certain employees, officers, and directors options to purchase a total of 1,075,464 Common Shares at an exercise price of $0.10 per share. Of the total, 944,000 options vest over three years, such that 314,667 of the options will vest one year from the date of grant, 314,667 will vest two years from the date of grant and 314,666 will vest three years from the date of grant. The remaining options vest based on the market price of the Company's common shares. 65,732 options will vest when the closing market price of the Company's common shares exceeds $0.0625 for ten consecutive trading days. The remaining 65,732 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 2013 was estimated to be $0.031 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 168%, a risk-free interest rate of 1.40%, expected dividend yield of nil%, expected forfeiture rate of 7% 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 year ended December 31, 2013 were $25,266 relating to general and administrative and $22,494 relating to research and development for a total of $47,760. On August 28, 2013, 847,964 of these options, all of which were held by officers and employees, were amended by reducing the exercise price to $0.05, with no material impact on compensation expense.

During 2012, the Company granted to certain employees, officers, and directors options to purchase a total of 1,460,000 Common Shares at an exercise price of $0.10 per share. 486,666 of the options will vest one year from the date of grant, 486,667 will vest two years from the date of grant and 486,667 will vest three years from the date of grant. The options expire 5 years from the date of grant. The weighted average grant date fair value of the stock options granted during 2012 was estimated to be $0.068 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 183%, a risk-free interest rate of 1.32%, expected dividend yield of nil%, expected forfeiture rate of 10% 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 year ended December 31, 2012 were $40,377 relating to general and administrative and $34,275 relating to research and development for a total of $74,652.

(in Canadian dollars)

11. 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, 2011	3,580,000	0.206
Granted	1,460,000	0.100
Forfeited	(250,000)	0.136
Expired	(362,500)	1.055
Balance, December 31, 2012	4,427,500	0.105
Granted	1,075,464	0.061
Forfeited	(40,000)	0.100
Expired	(37,500)	0.740
Balance, December 31, 2013	5,425,464	0.092

Summary of options outstanding and exercisable as at December 31, 2013 are as follows:

Exercise price outstanding	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
$0.05	874,964	4.66	$0.050	—
$0.10	4,577,500	2.11	0.100	3,124,892
	5,425,464	2.51	$0.092	3,124,892

(c) Contributed surplus

Balance, December 31, 2011	$	5,911,452
Share-based payments		74,652
Balance, December 31, 2012	$	5,986,104
Share-based payments		47,760
Balance, December 31, 2013	**$**	**6,033,864**

(in Canadian dollars)

12. Segmented information

The Company operates in an international market within one reportable industry segment.

(a) Geographic segmentation is as follows:

Revenue:		Canada	Foreign Countries		Total
December 31, 2012	$	83,954	2,826,626	$	2,910,580
December 31, 2013	**$**	**246,116**	**2,820,058**	**$**	**3,066,174**

(b) Product segmentation of revenue is as follows:

		December 31, 2013		December 31, 2012
Product sales	**$**	**324,398**	$	384,300
Consulting		**2,405,488**		2,208,335
Maintenance		**336,288**		317,945
	$	**3,066,174**	$	2,910,580

During 2012, the Company sponsored a research organization. The fair value of the transaction was $49,000 and the Company exchanged product sales and maintenance revenue for the sponsorship. The sponsorship was recorded in prepaid expense at December 31, 2012 and amortized to research and development expense in 2013.

The Company derives significant revenues from major customers each of whom exceed 10% of total revenues for either the year ended December 31, 2013 or 2012.

		December 31, 2013		December 31, 2012
Customer A	**$**	**1,065,004**	$	1,027,936
Customer B		**353,075**		349,161
Customer C		**395,140**		193,292
	$	**1,813,219**	$	1,570,388

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

(in Canadian dollars)

13. Cost of revenue

The Company incurs costs directly related to the provision of its products and services. These costs include direct salaries, benefits, repayments under an Industrial Research Assistance Program funding agreement with the National Research Council ("NRC") (see note 15), hardware, and travel, freight and other expenses.

		December 31, 2013		December 31, 2012
Salaries and contractors	$	**465,459**	$	489,138
NRC-IRAP repayments (note 15)		**36,181**		58,218
Cost of hardware and software		**62,845**		89,496
Travel, freight and other		**82,624**		79,754
	$	**647,109**	$	716,606

14. General and administrative

The Company incurs costs related to marketing and selling its products and services as well as costs related to general and administrative activities. These costs include salaries, marketing, travel, share-based payments, a proportionate share of rent, supplies, public company fees, amortization, professional fees and bad debt expense.

		December 31, 2013		December 31, 2012
Salaries	$	**892,770**	$	827,499
Marketing		**143,017**		91,171
Travel		**55,344**		63,031
Share-based payments *(note 11b)*		**25,266**		40,377
Rent, supplies and public company fees		**281,556**		341,158
Amortization *(note 8)*		**36,438**		53,090
Professional fees		**51,361**		72,172
Bad debt expense		**16,634**		—
	$	**1,502,386**	$	1,488,497

(in Canadian dollars)

15. Research and development

The Company incurs costs related to its research and development activities. To date, all of the costs relating to the Company's projects under development have been expensed as incurred. These costs include a portion of salaries, share-based payments, R&D lab supplies, a proportionate share of rent and office supplies, and amortization and other expenses. Research and development costs incurred during the year are as follows:

	December 31, 2013	December 31, 2012
Salaries	$ **1,054,099**	$ 891,367
Consultants	**311,783**	269,118
R&D lab supplies and other	**70,273**	64,183
Share-based payments *(note 11b)*	**22,494**	34,275
Rent and overhead allocation	**80,485**	74,506
Amortization *(note 8)*	**36,438**	53,090
Non-refundable government assistance	**(11,583)**	—
Alberta SR&ED tax credits	**(160,967)**	(155,580)
	$ **1,403,022**	$ 1,230,959

During the year ended December 31, 2007, the Company completed its Industrial Research Assistance Program funding agreement with the National Research Council ("NRC") which funded certain research and development costs relating to hardware acceleration products. The Company received a total of $294,375, which was recorded as a reduction against research and development costs of $127,288 for 2007 and $167,087 for 2006. The funding is repayable quarterly, based on 2% of revenues, commencing July 1, 2008 and ending on the earlier of September 30, 2012 and the date total repayments equal 150% ($441,563) of the funding advanced. Since the total payments made by the Company as of September 30, 2012 were less than 100% of the funding advanced, payments continued until the total repayments equaled 100% of the funding advanced, which occurred in 2013, fulfilling the Company's obligations. The Company's assistance from Alberta Innovates Technology Futures, $11,583 for the year ended December 31, 2013 ($nil – December 31, 2012), is non-refundable.

16. Other income

During the year ended December 31, 2013 (December 31, 2012 - $nil), the Company recorded other income of $54,480 relating to third-party Asset-Backed Commercial Paper ("ABCP") settlement funds. This payment is pursuant to the ABCP settlement distribution plan announced by the Ontario Securities Commission and Investment Industry Regulatory Organization of Canada in 2012.

The Company held an investment in third party ABCP with a face amount of approximately $1.4 million, which it acquired in 2007. The investment was made on a short term basis. However, due to the collapse of the Canadian ABCP market in 2007, the Company continued to hold the investment into 2009. Liquidity gradually returned to the ABCP market over the course of 2009, and the Company was able to liquidate the investment for gross proceeds of $752,466 on December 9, 2009. The ABCP settlement funds were collected in enforcement settlements agreed to by certain investment dealers who sold ABCP products prior to the collapse of the market in 2007.

The balance of other income is interest income on cash deposits.

(in Canadian dollars)

17. Income taxes

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial statutory income tax rate of 25.0% (December 31, 2012 – 25.0%) to loss before income taxes. The difference results from the following:

		December 31, 2013		December 31, 2012
Loss before income tax	**$**	**430,994**	$	483,815
Computed expected recovery		**107,749**		120,954
Other		**2,460**		(85,801)
Non-deductible expenses		**(6,611)**		(20,879)
Change in deferred tax assets not recognized		**(328,610)**		(258,341)
SR&ED investment tax credits		**225,012**		244,067
Deferred income tax recovery	**$**	**—**	$	—

The components of the deferred tax asset are as follows:

		December 31, 2013		December 31, 2012
Deferred tax assets:				
SR&ED tax pools		**259,002**		151,880
SR&ED investment tax credits		**575,531**		350,519
Property and equipment and other		**(3,339)**		185
Deferred tax assets not recognized		**(831,194)**		(502,584)
Net deferred tax asset	**$**	**—**	$	—

The Company has $nil (December 31, 2012 - $nil) in non-capital losses available to claim against future taxable income. The Company has $1,036,008 (December 31, 2012 - $607,521) in deductible SR&ED expenditures and $767,374 (December 31, 2012 - $467,358) of SR&ED investment tax credits available to claim against future taxable income or income taxes. The investment tax credits begin to expire in 2031. The Company recorded $166,418 in refundable Alberta SR&ED tax credits for the year ended December 31, 2013 (2012 - $155,580). The Alberta SR&ED tax credits are recorded as a reduction of research and development expenses.

18. Financial Instruments

(a) Fair Value

The carrying value of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities approximates their fair values due to the immediate or short-term maturity of these financial instruments. The Company uses three input levels to measure fair value:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

18. Financial Instruments (cont'd)

(a) Fair Value (cont'd)

Level 2 - quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's cash and cash equivalent is measured based on Level 1. Trade and other receivables and accounts payable and accrued liabilities are measured based on Level 3. There were no transfers between levels 1, 2 and 3 inputs during the year.

(b) Interest Rate Risk

The Company is exposed to interest rate risk in that changes in market interest rates will cause fluctuations in the fair value of or future cash flows from its cash equivalents. The short term nature of these instruments, a maturity within three months of their purchase date and the highly liquid nature of these investments significantly mitigate the Company's interest rate risk.

(c) Currency Risk

A significant portion of the Company's revenues is made from sales to customers in foreign countries, and is denominated in United States dollars ("USD"). Accordingly, the Company is exposed to related foreign currency risk arising from fluctuations in USD exchange rates. The Company does not engage in any foreign currency hedging at this time.

The USD working capital exposure as at year end is as follows:

		December 31, 2013		December 31, 2012
Cash and cash equivalents	**$**	**232,099**	$	217,085
Trade and other receivables		**285,588**		677,116
Accounts payable and accrued liabilities		**(27,663)**		(36,265)
Net exposure	**$**	**490,024**	$	857,936

The USD denominated revenue and expenses for the year are as follows:

		December 31, 2013		December 31, 2012
Revenue	**$**	**2,820,058**	$	2,826,626
Expenses		**(144,538)**		(227,272)
Net exposure	**$**	**2,675,520**	$	2,599,354

(in Canadian dollars)

18. Financial Instruments (cont'd)

(c) Currency Risk (cont'd)

The table below depicts the average and ending USD to Canadian dollar exchange rates for the year.

	Average exchange rate for the year ended December 31, 2013	Average exchange rate for the year ended December 31, 2012	**Exchange rate as at December 31, 2013**	Exchange rate as at December 31, 2012
USD per one Canadian dollar	**$ 1.0301**	$ 1.0004	**$ 1.0636**	$ 1.0051

The table below depicts the annual impact to net and comprehensive loss of varying the above USD to Canadian dollar exchange rate by one cent.

		decrease/(increase) in comprehensive loss for the year ended December 31, 2013		decrease/(increase) in comprehensive loss for the year ended December 31, 2012
1 cent strengthening in the Canadian dollar	**$**	**(30,582)**	$	(34,519)
1 cent weakening in the Canadian dollar	**$**	**30,582**	$	34,519

(d) Credit Risk

Credit risk reflects the risk that the Company may be unable to recover its trade and other receivables. The Company is exposed to credit risk as a substantial portion of its revenue is predominately generated from a small number of customers. The Company manages its credit risk by closely monitoring the granting of credit. Trade and other receivables that are greater than 30 days are considered past due but not impaired. Based on the status of trade and other receivables, an allowance for doubtful accounts of $16,634 has been recorded as at December 31, 2013 (December 31, 2012 - $nil).

The aging of trade and other receivables as at year end is as follows:

		December 31, 2013		December 31, 2012
1 – 30 days	**$**	**253,968**	$	512,133
31 - 60 days		**24,898**		98,374
61 – 90 days		**11,529**		15,605
91 – 120 days		**1,106**		—
Over 120 days		**37,490**		71,794
Allowance for doubtful accounts		**(16,634)**		—
	$	**312,357**	$	697,906

(in Canadian dollars)

18. Financial Instruments (cont'd)

(d) Credit Risk (cont'd)

The following table shows the customers whose trade receivables exceed 15% of the total trade and other receivables at each year end:

		December 31, 2013		December 31, 2012
Customer W		**79,344**		63,564
Customer X		**47,085**		67,951
Customer Y		**—**		198,914
Customer Z		**12,612**		129,044
	$	**139,041**	$	459,473

(e) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or that it can only do so at an abnormally high cost.

The Company plans to manage its cash flow and investment in new products to match the cash requirements to cash generated from operations. 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.

Management strives to maintain an optimum level of liquidity by actively managing assets, liabilities and cash flows. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity. Based on the Company's aggregate liquid assets as compared to its liabilities and commitments, management assesses liquidity risk to be low, subject to the ability to generate positive cash flows from operations.

Acceleware's financial liabilities are all due within one year, with the exception of finance leases (see *note 10*).

19. Capital Risk Management

Capital disclosures provide information about (i) the Company's objectives, policies, and processes for managing capital, (ii) quantitative data about what the Company regards as capital, (iii) whether the Company has complied with any capital requirements, and (iv) if it has not complied, the consequences of such non-compliance.

The Company's objectives for managing capital are:

i. To safeguard the Company's ability to continue as a going concern, so that it can provide adequate returns for shareholders and benefits for other stakeholders.

ii. To ensure sufficient liquidity to enable the internal financing of capital thereby facilitating its ability to continue operations and eventually achieve profitable operations.

iii. To maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Company considers the items included in capital to include shareholders' equity, and non-current debt. The Company manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, financing environment and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, new debt, draw on lines of credit, or scale back the size and nature of its operations. The Company's management of its capital is dependent upon cost containment and on its ongoing efforts to focus on core vertical markets and achieve profitable operations. The Company is not subject to externally imposed capital requirements. As at December 31, 2013, shareholders' equity was $382,840 (December 31, 2012 - $766,074) and the Company had $20,434 in non-current debt in the form of finance leases (December 31, 2012 - $35,533).

20. Indemnifications

(a) Directors and Officers

Under the terms of certain agreements and Acceleware's by-laws, the individuals who have acted at the Company's request as directors and/or officers are indemnified to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements. The Company has mitigated this risk by obtaining directors' and officers' liability insurance.

(b) Other

In the ordinary course of business, the Company enters contracts which contain indemnification provisions such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements, asset use agreements etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

(in Canadian dollars)

21. 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 December 31, 2013, $71,868 of the rent inducement remains (December 31, 2012 - $91,924).

Acceleware entered into a premise lease on 9,262 square feet of office space commencing June 1, 2007, which ended on May 31, 2012, a period of five years. The Company secured an additional 2,015 square feet of office space commencing January 1, 2008 for the balance of the term, ending May 31, 2012. A rent inducement of $46,310 was received and included in accounts payable and accrued liabilities. It was amortized over the term of the lease and recorded as a reduction to rent expense. At December 31, 2013, $nil of the rent inducement remained.

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:

2014	$	150,748
2015		153,807
2016		155,992
2017		79,525
	$	540,072

22. Related Party Transactions

(a) For the year ended December 31, 2013, the Company incurred expenses in the amount of $162,704 (2012 - $154,114) with a company controlled by an officer of the Company as fees for duties performed in managing operations, and is included in research and development. Of the total, $8,219 was included in accounts payable and accrued liabilities as at December 31, 2013 (December 31, 2012 - $8,219). These fees occurred in the normal course of operations and in the opinion of management represent fair value for services rendered.

(in Canadian dollars)

22. Related Party Transactions (cont'd)

(b) For the year ended December 31, 2013, the Company incurred expenses in the amount of $4,848 (2012 - $7,453) with a company controlled by a director of the Company for legal fees, and is included in general and administrative. Of the total, $4,555 was included in accounts payable and accrued liabilities as at December 31, 2013 (December 31, 2012 - $1,675). These fees occurred in the normal course of operations and in the opinion of management approximates fair value for services rendered.

(c) Four officers of the Company have advanced $221,280 (December 31, 2012 - $163,797) to the Company in the form of deferred salaries and consulting fees. These amounts are non-interest bearing, unsecured and are to be repaid no later than December 31, 2014. These amounts are recorded in accounts payable and accrued liabilities.

(d) Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management included:

		2013		2012
Salaries and short-term employee benefits	**$**	**650,311**	$	742,284
Share-based payments		**21,775**		44,098
	$	**672,086**	$	786,382

23. Subsequent Event

On January 29, 2014 the Company granted to certain employees, officers, and directors options to purchase a total of 1,436,984 Common Shares at an exercise price of $0.05 per share. Of the total, 1,285,000 options vest over three years, such that 428,335 of the options will vest one year from the date of grant, 428,335 will vest two years from the date of grant and 428,330 will vest three years from the date of grant. The remaining options vest based on the market price of the Company's common shares. 75,992 options will vest when the closing market price of the Company's common shares exceeds $0.0625 for ten consecutive trading days. The remaining 75,992 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.