

Acceleware Ltd.

**Condensed Interim Financial Statements (Unaudited)
For the Three Months Ended March 31, 2018 and 2017**

(in Canadian dollars)

Acceleware Ltd.

Condensed Interim Financial Statements For the Three Months Ended March 31, 2018 and 2017 (in Canadian dollars)

Contents

Condensed Statements of Financial Position	3
Condensed Statements of Comprehensive Income (Loss)	4
Condensed Statements of Changes in Shareholders' Equity	5
Condensed Statements of Cash Flows	6
Notes to Condensed Interim Financial Statements	7

Acceleware Ltd.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Acceleware Ltd.

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

As at:

	March 31, 2018	December 31, 2017*
Assets		
Current		
Cash and cash equivalents	\$ 250,138	\$ 781,315
Trade and other receivables	120,806	203,621
Alberta SR&ED tax credits receivable	286,208	224,771
Deposits and prepaid expenses	33,642	38,153
	690,794	1,247,860
Non-current		
Property and equipment	232,794	207,589
Total assets	\$ 923,588	\$ 1,455,449
Liabilities and Equity		
Current		
Accounts payable and accrued liabilities	\$ 697,405	\$ 627,753
Deferred revenue	119,200	150,085
Finance lease (note 5)	80,170	66,521
	896,775	844,359
Non-current		
Finance lease (note 5)	128,126	116,852
Total liabilities	1,024,901	961,211
Going concern (note 3)		
Commitments (note 8)		
Shareholders' Equity		
Share capital (note 6a)	20,534,070	20,477,965
Reserves (note 6b,d)	7,525,821	7,350,020
Deficit	(28,161,204)	(27,333,747)
Total shareholders' equity	(101,313)	494,238
Total liabilities and shareholders' equity	\$ 923,588	\$ 1,455,449

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.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated (note 11)

Acceleware Ltd.

Condensed Statements of Comprehensive Loss (Unaudited)

(in Canadian dollars)

For the:

	Three months ended March 31, 2018	Three months ended March 31, 2017*
Revenue (note 7)	\$ 170,259	\$ 498,189
Expenses		
Cost of revenue	12,420	44,404
General and administrative	547,890	410,307
Research and development	443,828	445,307
	1,004,138	900,175
Loss from operations	(833,879)	(401,986)
Finance income	175	119
Finance expense	(2,473)	(44,357)
Loss on derivative instruments	—	(17,783)
Foreign exchange gain (loss)	(3,200)	15,148
	(5,498)	(46,873)
Total comprehensive loss for the period attributable to shareholders	\$ (839,377)	\$ (448,859)
Loss per share		
Basic and diluted	\$ (0.009)	\$ (0.005)
Weighted average shares outstanding – basic and diluted	97,669,926	85,415,201

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

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated (note 11)

Acceleware Ltd.

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

	Share capital			Reserves			Total	Deficit	Total shareholders' equity
	Common shares	Amount		Warrants	Contributed surplus				
Balance at January 1, 2017	#	84,857,911	\$ 18,478,200	\$ 625,582	\$ 6,242,787	\$ 6,868,369	\$ (24,584,016)	\$ 762,553	
Total comprehensive loss		—	—	—	—	—	(448,859)	(448,859)	
Exercise of warrants (note 6b)		22,000	3,411	(1,211)	—	(1,211)	—	2,200	
Exercise of stock options for cash (note 6a)		703,335	68,667	—	—	—	—	68,667	
Share-based payments									
Current period expense (note 6d)		—	—	—	87,505	87,505	—	87,505	
Stock options exercised (note 6d)		—	57,100	—	(57,100)	(57,100)	—	—	
Balance at March 31, 2017	#	85,571,246	\$ 18,607,378	\$ 624,371	\$ 6,273,192	\$ 6,897,563	\$ (25,032,875)	\$ 472,066	
Balance at January 1, 2018*	#	97,391,991	\$ 20,477,965	\$ 653,581	\$ 6,696,439	\$ 7,350,020	\$ (27,321,827)	\$ 506,158	
Total comprehensive loss		—	—	—	—	—	(839,377)	(839,377)	
Exercise of warrants (note 6b)		50,000	17,055	(6,055)	—	(6,055)	—	11,000	
Exercise of stock options for cash (note 6a)		356,128	22,040	—	—	—	—	22,040	
Share-based payments									
Current period expense (note 6d)		—	—	—	198,866	198,866	—	198,866	
Stock options exercised (note 6d)		—	17,010	—	(17,010)	(17,010)	—	—	
Balance at March 31, 2018	#	97,798,119	\$ 20,534,070	\$ 647,526	\$ 6,878,295	\$ 7,525,821	\$ (28,161,204)	\$ (101,313)	

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

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated (note 11)

Acceleware Ltd.

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

For the:

	Three months ended March 31, 2018	Three months ended March 31, 2017*
Cash flows from (used for) operating activities		
Comprehensive loss before tax	\$ (839,377)	\$ (448,859)
Items not involving cash:		
Amortization	20,756	18,330
Share-based payments (note 6d)	198,866	87,505
Rent inducement	—	5,014
Loss on derivative instruments	—	17,783
Accretion on convertible debt	—	20,626
Accrued interest on convertible debt	—	23,125
Changes in non-cash working capital items		
Trade and other receivables	82,815	(469,243)
Work in process	—	137,279
Alberta SR&ED tax credit receivable	(61,437)	(44,550)
Deposits and prepaid expenses	4,511	(5,173)
Accounts payable and accrued liabilities	69,652	(271,278)
Deferred revenue	(18,965)	66,447
	(543,179)	(862,994)
Cash flows used for financing activities		
Issuance of common shares (note 6a)	33,040	70,867
Repayment of finance lease (note 5)	(21,038)	(8,167)
	12,002	62,700
Cash flows used for investing activities		
Purchase of property and equipment	—	(7,180)
Increase (decrease) in cash and cash equivalents	(531,177)	(807,474)
Cash and cash equivalents, beginning of period	781,315	1,922,318
Cash and cash equivalents, end of period	\$ 250,138	\$ 1,114,844
Consisting of:		
Cash on deposit	\$ 229,994	\$ 493,832
Cash equivalents	20,144	621,012
	\$ 250,138	\$ 1,114,844

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

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated (note 11)

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

1. General information

Acceleware Ltd. (the “Company” or “Acceleware”) is an oil and gas technology company based in Calgary, Alberta, that specializes in the development and marketing of special purpose computational software products for the oil and gas and other markets. The Company also provides specialized software development consulting services and training programs in the field of high performance computing. In addition, the Company is developing an enhanced heavy oil and oil sands production technology based on radio frequency (“RF”) heating. The Company is incorporated under the Alberta Business Corporations Act, has its registered offices at 1400, 350 - 7th 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, 2017. 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, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on May 29, 2018.

(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(h) and 4(j).

(d) Significant accounting assumptions, estimates and judgements

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

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(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 ("SR&ED") tax credit receivable requires Management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgement 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. 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 percentage of completion is calculated based on the labour hours incurred to date on each contract at the end of the respective accounting period divided by the total estimated hours for the contract and then multiplied by the estimated contracted revenue expected to be earned. Judgement and estimates are required to evaluate the estimated hours to complete. Due to the nature of the contracts, estimates may change significantly from one accounting period to the next.

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 (note 3).

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

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(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 \$28,161,204 (December 31, 2017 - \$27,333,747) largely due to investments in new product development and in the penetration of new markets. In particular, the loss of \$839,377 for the three months ended March 31, 2018, resulted from a significant research and development investment in the Company's proprietary RF heating technology.

Within its software and services business, 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. As the Company continues to develop its RF heating technology, new research and development investments will be financed through a combination of internal cash flow from the software and services business, and external financing. Management believes that successful execution of its business plan will result in sufficient cash flow and new financing 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, while seeking outside financing.

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

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

The ability of the Company to continue as a going concern is dependent upon successful execution of its plans noted above. The outcome of these initiatives cannot be predicted at this time. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern for a reasonable period of time.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

4. Significant accounting policies

Except for the adoption of IFRS 15 and IFRS 9, the significant accounting policies used in the preparation of these condensed interim financial statements are unchanged from those disclosed in the Company's financial statements for the year ended December 31, 2017.

(a) Revenue recognition

Revenue is the amount the Company expects to receive in exchange for the products and services delivered under contracts with customers, net of discounts and sales taxes. The company reports revenue in three categories: product, consulting services, and maintenance.

The Company often enters into contracts with multiple products and services, such as those including both product sales and maintenance contracts. The Company evaluates each contract to determine the appropriate unit of accounting based on whether each service or product has stand-alone value to the customer. Each stand-alone product or service is accounted for as a separate unit of accounting and is 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.

Product revenue includes hardware and software license revenue. Software is licensed to customers either on a perpetual or fixed-term lease basis. Revenue from software licenses is recognised at the later of when the software is made available to the customer and when the customer has the contractual right to use the software. Licenses of software that include customization that is not distinct from the underlying software are recognized as a combined performance obligation using the percentage of completion method based on the labour hours.

Revenue from consulting work is recognized as the performance obligation is delivered. The Company recognizes revenue on consulting contracts using the percentage of completion basis, based on labour hours incurred relative to the estimated total hours. Work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. Contract billings received in excess of recognized revenue are included in current liabilities as deferred revenue. Losses on such contracts are accrued when the estimate of total costs indicates that a loss will be realized.

Maintenance revenue is deferred and recognized on a pro-rata basis over the term of the lease or maintenance contract, typically 12 - 36 months.

(b) New standards and interpretations adopted

IFRS 9 Financial instruments

IFRS 9, Financial Instruments ("IFRS 9") replaces 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. The classification of financial assets and liabilities is generally based on the business model in which the financial asset or liability is managed and its contractual cash flow characteristics. The Company adopted IFRS 9 effective January 1, 2018. The Company's financial assets of cash, cash equivalents, and trade and other receivables, as well as the Company's financial liabilities of accounts payable and accrued liabilities are all classified and measured as amortized cost. The adoption of the new standard had no effect on the carrying amount recognized in the financial statements for any of these items and had a nominal effect on the Company's disclosure.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

4. Significant accounting policies (cont'd)

(b) New standards and interpretations adopted (cont'd)

IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15 Revenue from Contracts with Customers with an initial adoption date of January 1, 2018. The Company used the cumulative effect method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11 (see note 11 for further details).

(c) Recent Accounting Pronouncements Issued and not yet Effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2018 or later periods. The standards affected are as follows:

IFRS 16 Leases

On January 13, 2017, the IASB issued 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 under IAS 17, other than short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture). When 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

March 31, 2018 and 2017

(in Canadian dollars)

5. Finance leases

The Company has certain computer equipment under financial lease expiring 2018 through 2021. The leases carry a weighted average annual interest rate of 5.51%. Estimated lease payments are as follows:

	March 31, 2018	December 31, 2017
2018	\$ 66,903	\$ 74,316
2019	85,891	69,496
2020	58,386	41,074
2021	12,786	12,786
Minimum lease payments	223,966	197,672
Less: interest portion at a rate of 5.51% (2017 – 5.50%)	15,680	14,299
Net minimum lease payments	208,286	183,373
Less: current portion	80,170	66,521
	\$ 128,116	\$ 116,852

The equipment under finance lease has been recognized in property and equipment at the present value of minimum lease payments. Interest charges on leased equipment during the three months ended March 31, 2018 were approximately \$2,473 (March 31, 2017 – \$727). Other than interest, no costs were incurred relating to these leases. These leases are secured by the assets under lease. At March 31, 2018, the net book value of equipment pledged as security for finance leases is \$210,538 (December 31, 2017 - \$182,691).

6. Share capital and other components of shareholders' equity

(a) Share capital

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

Common shares issued	Number	Amount
Balance, December 31, 2017	97,391,991	\$ 20,477,965
Issued on exercise of stock options (i)	356,128	39,051
Issued on exercise of warrants (ii)	50,000	17,055
Balance, March 31, 2018	97,798,119	\$ 20,534,070

- i. During the three months ended March 31, 2018, 356,128 stock options (three months ended March 31, 2017 - 703,335) were exercised for cash proceeds of \$22,040 (three months ended March 31, 2017 - \$68,667). Non-cash compensation charges of \$17,011 (three months ended March 31, 2017 - \$57,100) were reclassified from contributed surplus to share capital on the exercise of these options.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

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

(a) Share capital (cont'd)

- ii. During the three months ended March 31, 2018, 50,000 warrants (three months ended March 31, 2017 - 10,000) were exercised for cash proceeds of \$11,000 (three months ended March 31, 2017 - \$2,200). Non-cash amount of \$6,055 (three months ended March 31, 2017 - \$1,211) was reclassified from warrants to share capital on the exercise of these warrants.

(b) Warrants

During the three months ended March 31, 2018, 50,000 warrants were exercised at an exercise price of \$0.22 (see note 6(a)). A summary of share purchase warrants outstanding and exercisable as at March 31, 2018 are as follows:

Exercise price	Number outstanding	Expiry Date
\$0.22	8,893,409	October 7, 2018
\$0.27	2,325,533	September 26, 2019
\$0.30	3,381,007	November 17, 2018
	14,599,949	

(c) Share-based payments

At March 31, 2018, 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 the period ended March 31, 2018, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 1,821,534 common shares at an exercise price of \$0.30 per share. Of the total, 1,385,000 options vest over two years, such that 692,500 of the options will vest one year from the date of grant, and 692,500 will vest two years from the date of grant. The remaining options vest based on the market price of the Company's common shares, such that 218,267 options will vest when the closing market price of the Company's common shares exceeds \$0.37 for ten consecutive trading days, and 218,267 options will vest when the closing market price of the Company's common shares exceeds \$0.45 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 2018 was estimated to be \$0.283 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 176%, a risk-free interest rate of 2.03%, expected dividend yield of nil%, expected forfeiture rate of 0.9% 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 five years 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 three months ended March 31, 2017 were \$148,091 relating to general and administrative (three months ended March 31, 2017 - \$61,065) and \$50,775 relating to research and development (three months ended March 31, 2017 - \$26,440) for a total of \$198,866 (three months ended March 31, 2017 - \$87,505).

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

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

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

During 2017, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 3,099,632 common shares at an exercise price of \$0.21 per share. Of the total, 2,800,000 options vest over two years, such that 1,400,000 of the options will vest one year from the date of grant, and 1,400,000 will vest two years from the date of grant. The remaining options vest based on the market price of the Company's common shares, such that 149,816 options will vest when the closing market price of the Company's common shares exceeds \$0.26 for ten consecutive trading days, and 149,816 options will vest when the closing market price of the Company's common shares exceeds \$0.31 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 2017 was estimated to be \$0.202 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 182%, a risk-free interest rate of 1.16%, expected dividend yield of nil%, expected forfeiture rate of 1.7% 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 five years 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, 2017 were \$364,600 relating to general and administrative (year ended December 31, 2016 - \$69,473) and \$158,123 relating to research and development (year ended December 31, 2016 - \$27,282) for a total of \$522,723 (year ended December 31, 2016 - \$96,755).

The changes to the number of options outstanding and their weighted average exercise price are as follows:

	Number	Weighted Average Exercise Price
Balance, December 31, 2017	8,182,509	\$ 0.129
Granted	1,821,534	0.300
Exercised	(356,128)	0.062
Balance, March 31, 2018	9,647,915	\$ 0.164

Summary of options outstanding and exercisable as at March 31, 2018 are as follows:

Exercise price outstanding	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.05	3,186,412	1.28	\$0.050	3,186,412
\$0.10	122,500	0.15	0.100	122,500
\$0.15	1,432,837	3.42	0.150	629,495
\$0.21	3,084,632	3.90	0.210	1,385,000
\$0.30	1,821,534	4.82	0.300	—
	9,647,915	3.09	\$0.164	5,323,407

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

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

(d) Contributed surplus

Balance, December 31, 2017	\$	6,696,439
Share-based payments		198,866
Options exercised		(17,010)
Balance, March 31, 2018	\$	6,878,295

7. Revenue

The Company sub-classifies revenue within the following components: product revenue, maintenance revenue, and consulting revenue. Product revenue comprises license fees charged for the use of software products licensed under fixed term 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. Maintenance revenue primarily consists of fees charged for customer support on software products post-delivery. Consulting revenue consists of fees charged for implementation services, custom programming, training and simulation consulting.

	Three months ended March 31, 2018		Three months ended March 31, 2017*	
Product sales	\$	4,220	\$	62,151
Maintenance		128,477		168,070
Consulting		37,562		267,968
	\$	170,259	\$	498,189

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

	Canada		USA		Total	
Three months ended March 31, 2018	\$	—	170,259	\$	170,259	
Three months ended March 31, 2017*	\$	211,753	286,436	\$	498,189	

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated (note 11)

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

7. Revenue (cont'd)

The Company derives significant revenues from major customers each of whom exceeds 10% of total revenues for the three months ended March 31, 2018.

	Three months ended March 31, 2018		Three months ended March 31, 2017
Customer A	\$ 83,837	\$	127,437
Customer B	34,601		—
	\$ 118,438	\$	127,437

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

8. Commitments

On February 29, 2012, Acceleware entered into a premise lease agreement to lease 5,244 square feet of office space commencing August 1, 2012 and ending July 31, 2017, a period of five years. Effective August 1, 2017 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:

2018	\$	68,828
2019		91,770
2020		53,533
	\$	214,131

9. Operating segments

The Company has two operating segments, referred to as "Software and Services" and "RF Heating". The operating segments are reportable segments in accordance with IFRS 8 Operating Segments. The Company's Software and Services segment sells proprietary high performance computing software and related consulting services and training programs primarily to the oil and gas industry. The RF Heating segment is engaged in research, development, and commercialization activities related to the Company's proprietary enhanced heavy oil and oil sands production technology.

The Company does not discretely allocate assets to its operating segments, nor does Management evaluate operating segments using discrete asset information. Expenses associated with corporate support functions are allocated to the Company's segments based on the segment's percentage of total labour expenses for the allocation period. All intersegment transactions between the Software and Services and RF Heating segments have been eliminated.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

9. Operating segments (cont'd)

For the three months ended March 31, 2018

		RF Heating		Software & Services		Total
Revenue	\$	—	\$	170,259	\$	170,259
Expenses						
Cost of revenue		—		12,420		12,420
General and administrative		345,624		202,266		547,890
Research and development		249,380		194,448		443,828
		595,004		409,134		1,004,138
(Loss) income from operations		(595,004)		(238,875)		(833,879)

For the three months ended March 31, 2017*

		RF Heating		Software & Services		Total
Revenue	\$	200,000	\$	298,489	\$	498,189
Expenses						
Cost of revenue		—		44,404		44,404
General and administrative		276,310		133,997		410,307
Research and development		339,288		106,175		445,464
		615,598		284,577		900,175
(Loss) income from operations		(415,598)		13,612		(401,986)

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated (*note 11*)

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

10. Related Party Transactions

- (a) For the three months ended March 31, 2018, the Company incurred expenses in the amount of \$41,250 (three months ended March 31, 2017 - \$39,750) 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. As at March 31, 2018, \$138,457 was included in accounts payable and accrued liabilities (December 31, 2017 - \$162,669). These fees occurred in the normal course of operations and in the opinion of management represent fair value for services rendered.
- (b) For the three months ended March 31, 2018, the Company incurred expenses in the amount of \$3,203 (three months ended March 31, 2017 - \$17,057) with a company controlled by a director of the Company for legal fees, and this amount is included in general and administrative expense. As at March 31, 2018, \$17,643 was included in accounts payable and accrued liabilities (December 31, 2017 - \$14,280). These fees occurred in the normal course of operations and in the opinion of management represent fair value for services rendered.
- (c) For the three months ended March 31, 2018, the Company incurred expenses in the amount of \$3,300 (three months ended March 31, 2017 - \$2,250) with a company controlled by the spouse of an officer of the Company for writing services, and this amount is included in general and administrative expense. As at March 31, 2018, \$nil was included in accounts payable and accrued liabilities (December 31, 2017 - \$nil). These fees occurred in the normal course of operations and in the opinion of management represent fair value for services rendered.
- (d) Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management included:

	Three months ended		Three months ended	
	March 31, 2018		March 31, 2017	
Salaries and short-term employee benefits	\$	174,203	\$	180,066
Share-based payments		155,038		62,484
	\$	329,241	\$	242,550

11. Explanation of adoption of 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 standard provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The new standard was mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Under the cumulative effect method, the Company has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

March 31, 2018 and 2017

(in Canadian dollars)

11. Explanation of adoption of IFRS-15 Revenue from contracts with customers

The effects of the adoption of IFRS 15 are:

(a) Software leases (fixed-term licenses):

Under the Company's previous revenue recognition policies, revenue from software leases (fixed-term licenses) was generally deferred in its entirety and amortized pro-rata over the lease term. Under IFRS 15, the Company has deemed the licenses to be generally distinct from other performance obligations. Revenue allocated to the distinct license is recognized at the time that both the right-to-use the software has commenced for the term and the software has been made available to the customer. Revenue allocated to maintenance and support continues to be recognized pro-rata over the lease term.

(b) Costs to obtain contracts:

Under the Company's previous accounting policies, the Company expensed sales commissions paid to employees or third parties to obtain contracts as incurred. Under IFRS 15, the Company allocates sales commission costs to the various performance obligations using the expected relative margins of each performance obligation. For performance obligations not delivered up front, the allocated commissions are deferred and amortized over the pattern of transfer of the related performance obligation. For commissions allocated to term-based license arrangements and maintenance, the amortization period is the term of the license. Capitalized costs to obtain contracts are included in other non-current assets on the balance sheet.

As a result of adopting IFRS 15, the opening balance sheet as at January 1, 2018 is adjusted to decrease deferred revenue by \$11,920 and increase deficit by a similar amount to account for the change in revenue recognition for term-based licenses. The adjustment required to account for sales commissions that should be capitalized was determined to be immaterial. The impacts of adopting IFRS 15 on the Company's financial statements for the three months ended March 31, 2018 are a decrease in revenue of \$3,697, and a corresponding increase in deferred revenue of \$3,697.