

Acceleware Ltd.

Financial Statements
For the years ended December 31, 2017 and 2016

(in Canadian dollars)

Acceleware Ltd.

Financial Statements For the Years Ended December 31, 2017 and 2016 (in Canadian dollars)

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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.

MNP, LLP, an independent firm of Chartered Professional Accountants, was engaged to audit the financial statements 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

(Signed)
Michal Okoniewski
Chief Scientific Officer

April 24, 2018

Acceleware Ltd.

Independent Auditors' Report

To the Shareholders of Acceleware Ltd.:

We have audited the accompanying financial statements of Acceleware Ltd., which comprise the statement of financial position as at December 31, 2017 and December 31, 2016, and the statements of comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 the audit to obtain reasonable assurance about 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that 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, 2017, December 31, 2016 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 a comprehensive loss and an accumulated deficit balance as at December 31, 2016. These conditions indicate the existence of a material uncertainty that may cast significant doubt on Acceleware Ltd.'s ability to continue as a going concern.

Calgary, Alberta
April 24, 2018

MNP LLP

Chartered Professional Accountants

Acceleware Ltd.

Statements of Financial Position (in Canadian dollars)

As at December 31,

	2017	2016
Assets		
Current		
Cash and cash equivalents	\$ 781,315	\$ 1,922,318
Trade and other receivables (note 6)	203,621	196,525
Work in process (note 12)	—	323,438
Alberta SR&ED tax credits receivable (note 7)	224,771	132,237
Deposits and prepaid expenses	38,153	41,184
	1,247,860	2,615,702
Non-current		
Property and equipment (note 8)	207,589	88,575
Total assets	\$ 1,455,449	\$ 2,704,277
Liabilities and Equity		
Current		
Accounts payable and accrued liabilities (note 9)	\$ 627,753	\$ 794,027
Deferred revenue	150,085	174,682
Finance lease (note 10)	66,521	30,578
	844,359	999,287
Non-current		
Convertible debt (note 11c)	—	643,215
Derivative liability (note 11c)	—	271,705
Finance lease (note 10)	116,852	27,517
Total liabilities	961,211	1,941,724
Going concern (note 3)		
Commitments (note 19)		
Shareholders' Equity		
Share capital (note 11a)	20,477,965	18,478,200
Reserves (note 11)	7,350,020	6,868,369
Deficit	(27,333,747)	(24,584,016)
Total shareholders' equity	494,238	762,553
Total liabilities and shareholders' equity	\$ 1,455,449	\$ 2,704,277

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,

	2017	2016
Revenue (note 12)	\$ 1,320,067	\$ 1,395,169
Expenses		
Cost of revenue (note 13)	220,151	624,172
General and administrative (note 14)	1,948,445	1,471,631
Research and development (note 15)	1,775,892	1,247,673
	3,944,488	3,343,476
Loss from operations	(2,624,421)	(1,948,307)
Finance income	584	2,467
Finance expense (note 11c)	(153,075)	(13,256)
Gain on derivative instruments (note 11c)	51,766	—
Gain on disposal of property and equipment	5,489	—
Foreign exchange loss	(30,074)	(50,913)
	(125,310)	(61,702)
Total comprehensive loss for the year attributable to shareholders	\$ (2,749,731)	\$ (2,010,009)
Loss per share		
Basic and diluted	\$ (0.030)	\$ (0.028)
Weighted average shares outstanding – basic and diluted	90,470,135	70,613,098

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

Acceleware Ltd.

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

	Share capital			Reserves			Total	Deficit	Total shareholders' equity					
	Common shares	Amount		Warrants	Contributed surplus									
Balance at December 31, 2015	#	66,190,266	\$	17,056,812	\$	—	\$	6,180,534	\$	6,180,534	\$	(22,574,007)	\$	663,339
Total comprehensive loss		—		—		—		—		—		(2,010,009)		(2,010,009)
Common share units issued for cash, net of issue costs														
Common share component (note 11a)		18,181,818		1,343,220		—		—		—		—		1,343,220
Warrants component (note 11b)		—		—		625,582		625,582		—		—		625,582
Exercise of stock options for cash (note 11a)		485,827		43,666		—		—		—		—		43,666
Share-based payments														
Current period expense (note 11d)		—		—		—		96,755		96,755		—		96,755
Stock options exercised (note 11d)		—		34,502		—		(34,502)		(34,502)		—		—
Balance at December 31, 2016	#	84,857,911	\$	18,478,200	\$	625,582	\$	6,242,787	\$	6,868,369	\$	(24,584,016)	\$	762,553
Total comprehensive loss		—		—		—		—		—		(2,749,731)		(2,747,032)
Conversion of convertible debenture (note 11a)		6,762,014		982,148		32,154		—		32,154		—		1,014,302
Common share units issued for cash, net of issue costs														
Common share component (note 11a)		4,651,066		812,101		—		—		—		—		812,101
Warrants component (note 11b)		—		—		13,706		—		13,706		—		13,706
Exercise of warrants (note 11a)		147,500		50,311		(17,861)		—		(17,861)		—		32,450
Exercise of stock options for cash (note 11a)		973,500		86,134		—		—		—		—		86,134
Share-based payments														
Current period expense (note 11d)		—		—		—		522,723		522,723		—		522,723
Stock options exercised (note 11d)		—		69,071		—		(69,071)		(69,071)		—		—
Balance at December 31, 2017	#	97,391,991	\$	20,477,965	\$	653,581	\$	6,696,439	\$	7,350,020	\$	(27,333,747)	\$	496,937

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,

	2017	2016
Cash flows (used for) from operating activities		
Total comprehensive loss	\$ (2,749,731)	\$ (2,010,009)
Adjustments for:		
Depreciation (note 8)	76,031	62,572
Gain on disposal of property and equipment	(5,489)	—
Share-based payments (note 11d)	522,723	96,755
Accrued interest on convertible debentures (note 11c)	85,502	3,801
Accretion on convertible debentures (note 11c)	65,645	—
Gain on derivative instruments (note 11c)	(51,766)	—
Rent inducement (note 19)	11,700	20,056
Changes in non-cash working capital items		
Trade and other receivables	(7,096)	184,774
Work in process	323,438	281,240
Alberta SR&ED tax credit receivable	(92,534)	(11,619)
Deposits and prepaid expenses	3,031	12,901
Accounts payable and accrued liabilities	(177,973)	17,698
Deferred revenue	(24,597)	12,512
	(2,021,117)	(1,329,319)
Cash flows from (used for) financing activities		
Issuance of common shares, net of issue costs (note 11a)	944,392	2,012,468
Issuance of convertible debentures, net of issue costs (note 11c)	—	911,120
Repayment of finance lease	(50,879)	(25,218)
	893,513	2,898,370
Cash flows used for investing activities		
Proceeds from sale of property and equipment	5,489	—
Purchase of property and equipment (note 8)	(18,888)	(8,690)
	(13,399)	(8,690)
Increase (decrease) in cash and cash equivalents	(1,141,003)	1,560,361
Cash and cash equivalents, beginning of year	1,922,318	361,957
Cash and cash equivalents, end of year	\$ 781,315	\$ 1,922,318
Comprised of:		
Cash on deposit	\$ 559,637	\$ 1,301,306
Cash equivalents	221,678	621,012
	\$ 781,315	\$ 1,922,318

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

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(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 financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and in effect as of January 1, 2017.

These financial statements were approved by the Board of Directors on April 24, 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.

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.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

2. Basis of Presentation (cont'd)

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

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. Management estimates the fair values of the derivative liability related to the convertible debenture at initial recognition and at the end of each reporting period using both the Black-Scholes option pricing model and binomial option pricing model which requires Management estimates.

Other estimates employed are related to taxes and related provisions (note 4 (e) and note 4 (g)) 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 Financial Statements

December 31, 2017 and 2016

(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 \$27,333,747 (December 31, 2016 - \$24,584,016) largely due to investments in new product development and in the penetration of new markets. In particular, the loss of \$2,749,731 for the year ended December 31, 2017, 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 Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

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. Monetary assets and liabilities are retranslated at the exchange rates at the reporting date.

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.

Exchange gains or losses on translation or settlement are recognized in the statement of comprehensive loss for the current year.

(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 work is recognized when services have been completed.

Software leases and software maintenance revenue is deferred and recognized on a pro-rata basis over the term of the lease or 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 for 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.

The Company occasionally provides goods and service to its customers under long-term contracts. The Company recognizes revenue on long-term contracts on 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.

(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.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

4. Significant Accounting Policies (cont'd)

(d) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation 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. Depreciation 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 useful lives of property and equipment are reviewed at the end of each reporting period and adjusted if required.

Gains or 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) 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 on the statement of comprehensive loss. 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.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

4. Significant Accounting Policies (cont'd)

(f) 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 in terms of IAS 38 "Intangible Assets". Research and development ("R&D") costs comprise salaries, share-based payments, lab supplies, and an allocation of office costs and depreciation. No development costs have been deferred as at December 31, 2017 (December 31, 2016 - \$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, 2017, there was \$nil (December 31, 2016 - \$24,045) included in trade and other receivables pursuant to government assistance programs.

(g) 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 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 period. 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 based on the laws that have been enacted or substantively enacted by the end of the reporting period. 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.

(h) 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 for 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.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

4. Significant accounting policies (cont'd)

(i) Loss per share

Basic loss per share is computed by dividing the total comprehensive loss 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 loss per share is made if the result of this calculation is anti-dilutive or if the Company is in a loss position.

(j) 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 or losses arising from changes in fair value are presented in the statement of comprehensive loss within other gains or 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 and liabilities that are classified as FVTPL are its cash and cash equivalents and derivative liabilities.

(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 and convertible debt. 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.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

4. Significant accounting policies (cont'd)

(j) 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.

(k) 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.

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 of disposal 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 the increase is 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 indicators of impairment exist at December 31, 2017.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

4. Significant accounting policies (cont'd)

(l) Leases

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 future 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.

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.

(m) Segment reporting

Management, including the Chief Operating Decision Maker, who is the Company's Chief Executive Officer, reviews and assesses operating performance using segment net revenues and operating income (loss) before other income (expense), foreign exchange gain (loss) and income taxes. These performance measures include the allocation of expenses to the operating segments based on Management's judgement. The Company has two operating segments, RF Heating and Software and Services.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

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 the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2017 or later periods. The standards affected are as follows:

(a) IFRS 9 Financial Instruments

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

(b) IFRS 15 Revenue from Contracts with Customers

On May 28, 2016, 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 will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted. The Company is analyzing the new standard to determine its impact on the Company’s financial statements.

(c) IFRS 16 Leases

On January 13, 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, ie the customer (‘lessee’) and the supplier (‘lessor’). Most significantly, IFRS 16 changes significantly how a company accounts for leases that were off balance sheet 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). 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 Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

6. Trade and other receivables

	December 31, 2017		December 31, 2016
Trade receivables	\$ 192,545	\$	96,625
Goods and services tax and other receivables	13,775		99,900
	\$ 206,320	\$	196,525

At December 31, 2017 and at December 31, 2016 there was no allowance made for doubtful accounts. Trade receivables are unsecured and non-interest bearing and are generally collected on 30-day terms.

7. Alberta SR&ED tax credit receivables

The benefit of investment tax credits for SR&ED expenses is 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 recorded in the statement of comprehensive loss. The Company recorded \$224,771 in refundable Alberta SR&ED tax credits for the year ended December 31, 2017 (2016 - \$132,237).

Acceleware Ltd.

Notes to Financial Statements December 31, 2017 and 2016 (in Canadian dollars)

8. Property and equipment

Cost:	Furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Opening balance at January 1, 2017	\$ 94,418	\$ 993,256	\$ 99,210	\$ 107,661	\$ 1,294,545
Additions	—	195,045	—	—	195,045
Disposals	—	(12,869)	—	—	(12,869)
Closing balance at December 31, 2017	\$ 94,418	\$ 1,175,432	\$ 99,210	\$ 107,661	\$ 1,476,721

Accumulated depreciation and impairment:	Furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Opening balance at January 1, 2017	\$ 78,382	\$ 931,284	\$ 99,210	\$ 97,094	\$ 1,205,970
Depreciation	3,208	62,256	—	10,567	76,031
Disposals	—	(12,869)	—	—	(12,869)
Closing balance at December 31, 2017	\$ 81,590	\$ 980,671	\$ 99,210	\$ 107,661	\$ 1,269,132

Net book value at December 31, 2017	\$ 12,828	\$ 194,761	\$ —	\$ —	\$ 207,589
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Cost:	Furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Opening balance at January 1, 2016	\$ 91,398	\$ 945,337	\$ 95,306	\$ 107,661	\$ 1,239,702
Additions	3,020	47,919	3,904	—	54,843
Closing balance at December 31, 2016	\$ 94,418	\$ 993,256	\$ 99,210	\$ 107,661	\$ 1,294,545

Accumulated depreciation and impairment:	Furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Opening balance at January 1, 2016	\$ 74,498	\$ 904,562	\$ 88,775	\$ 75,563	\$ 1,143,398
Depreciation	3,884	26,722	10,435	21,531	62,572
Closing balance at December 31, 2016	\$ 78,382	\$ 931,284	\$ 99,210	\$ 97,094	\$ 1,205,970

Net book value at December 31, 2016	\$ 16,036	\$ 61,972	\$ —	\$ 10,567	\$ 88,575
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50% of depreciation expense is allocated to research and development expense and 50% is allocated to general and administrative expense. For the year ended December 31, 2017, \$38,016 (2016 – \$31,286) in depreciation 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, 2017 had a cost of \$244,824 (December 31, 2016 - \$100,859), and a carrying amount of \$182,691 (December 31, 2016 - \$54,780) net of depreciation (see note 10).

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(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, 2017	December 31, 2016
Trade accounts payable	\$ 132,251	\$ 167,632
Deferred employee salaries (<i>note 21(d)</i>)	—	300,634
Other payroll liabilities	436,278	265,905
Customer deposits	—	8,734
Accrued liabilities and other payables	59,224	51,122
	\$ 627,753	\$ 794,027

10. Finance Leases

The Company has certain computer equipment under financial lease expiring in 2018 through 2021. The leases carry a weighted average annual interest rate of 5.5%. Estimated lease payments are as follows:

	December 31, 2017	December 31, 2016
2017	\$ —	\$ 32,426
2018	74,316	16,902
2019	69,496	11,555
2020	41,074	—
2021	12,786	—
Minimum lease payments	197,672	60,883
Less: interest portion at a rate of 5.50% (2016 – 6.11%)	14,299	2,788
Net minimum lease payments	183,373	58,095
Less: current portion	66,521	30,578
	\$ 116,852	\$ 27,517

The equipment under finance lease has been recognized in property and equipment at the present value of minimum future lease payments. Interest charges on leased equipment during the year were approximately \$5,169 (2016 – \$2,088). 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 \$182,691 (2016 – \$54,780) which is included in computer hardware.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(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, 2015	66,190,266	\$	17,056,812
Issued on exercise of stock options (i)	485,827		78,168
Issued on private placement of units, net of issue costs (ii)	18,181,818		1,343,220
Balance, December 31, 2016	84,857,911	\$	18,478,200
Issued on exercise of stock options (i)	973,500		155,205
Issued on exercise of warrants (iii)	147,500		50,311
Issued on private placement of units, net of issue costs (iv)	4,651,066		812,101
Issued on conversion of debenture (v)	6,762,014		982,148
Balance, December 31, 2017	97,391,991	\$	20,477,965

- i. During the year ended December 31, 2017, 973,500 stock options (2016 - 485,827) were exercised for cash proceeds of \$86,134 (2016 - \$43,666). Non-cash compensation charges of \$69,071 (2016 - \$34,502) were reclassified from contributed surplus to share capital on the exercise of these options.
- ii. On October 7, 2016, the Company closed a non-brokered private placement consisting of 18,181,818 units at a price of \$0.11 per unit for gross proceeds of \$2,000,000, and proceeds net of issue costs of \$1,968,802. Each unit consisted of one common share and one-half common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the company at a price of \$0.22 per common share for a period of two years. The gross proceeds from the private placement were allocated to share capital and warrants based on each component's pro-rata fair value of \$1,363,220 and \$625,582 respectively. The fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: expected volatility of 273%, a risk-free interest rate of 0.59%, expected dividend yield of nil%, and expected life of two years
- iii. During the year ended December 31, 2017, 147,500 common share purchase warrants (2016 - nil) were exercised for cash proceeds of \$32,450 (2016 - \$nil). The fair value of the warrants at time of issue of \$17,861 (2016 - \$nil) was reclassified from reserves (warrants) to share capital.
- iv. On September 26, 2017, the Company closed a non-brokered private placement consisting of 4,651,066 units at a price of \$0.18 per unit for gross proceeds of \$837,192, and proceeds net of issue costs of \$823,486. Each unit consisted of one common share and one-half common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.27 per common share for a period of two years. The net proceeds from the private placement were allocated to share capital and warrants based on each component's pro-rata fair value of \$812,101 and \$13,706 respectively. The fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: expected volatility of 30%, a risk-free interest rate of 1.6%, expected dividend yield of nil%, and expected life of two years.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

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

(a) Share capital (cont'd)

- v. On November 17, 2017 the Company exercised its Forced Conversion Option (see note 11 (c)) on all outstanding convertible debentures and related accrued interest. The Company converted \$925,000 in principal and \$89,302 in accrued interest and issued 6,762,014 units at a price of \$0.15 per unit for a total value of \$1,014,302. Each unit consisted of one common share and one-half common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.30 per common share until December 16, 2018. The conversion amount was allocated to share capital and warrants based on each component's pro-rata fair value. The fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: expected volatility of 32%, a risk-free interest rate of 1.3%, expected dividend yield of nil%, and expected life of one year.

(b) Warrants

A summary of share purchase warrants outstanding and exercisable as at December 31, 2017 are as follows:

Exercise price	Number outstanding	Expiry Date
\$0.22	8,943,409	October 7, 2018
\$0.27	2,325,533	September 26, 2019
\$0.30	3,381,007	November 17, 2018
	14,649,949	

(c) Convertible debentures

On December 16, 2016, the Company completed a non-brokered private placement of unsecured convertible debentures in the principal amount of \$925,000 (the "Debentures"), with proceeds net of issue costs of \$911,120.

The Debentures have a term of four years (the "Term") and bear interest at 10% per annum, payable semi-annually. The Debentures are currently convertible into units ("Units") of the Company at a price of \$0.15 per Unit (the "Conversion Price"), at any time during the term, at the holders' option (the "Conversion Privilege"). The Units consist of one common share and one-half common share purchase warrant. Each warrant entitles the holder to acquire one common share, at an exercise price equal to two times the Conversion Price of the units. The warrants expire on December 16, 2018.

The Company has the option to force conversion (the "Forced Conversion Option") of the Debentures into Units until the maturity date provided that on the day of conversion, the 30-day volume weighted average price of the Company's common shares is equal to or above 150% of the Conversion Price. On November 17, 2017 the Company exercised the Forced Conversion Option and converted all outstanding principal and accrued interest in the Debentures into Units.

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

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

(c) Convertible debentures (cont'd)

If at any time during the Term, the Company announces an offering of common shares below the Conversion Price, the Debenture holders have the option (the "Anti-Dilution Option") to convert at the offering price or \$0.12, whichever is higher, provided the Debentures are converted within 15 days of the announcement. At any time during the Term, the Company has the option to pre-pay all or a portion of the Debentures provided the Company pays all interest that would have accrued on the redeemed Debentures up to maturity ("the Pre-payment Option").

In accordance with IAS 39, the Debentures are considered to be comprised of a debt host with multiple embedded derivatives relating to the Conversion Privilege, the Forced Conversion Option the Pre-payment Option and the Anti-Dilution Option. The embedded derivatives do not meet the definition of equity and are required to be recognized separately.

At initial recognition, the embedded derivatives were measured at fair value. Subsequent to initial recognition, the embedded derivatives are marked to market at each financial reporting date and any change in fair value is recognized in profit or loss.

The initial carrying amount of the debt host is the residual amount after separating the embedded derivatives net of associated transaction costs. Subsequently, this debt host is measured at amortized cost with interest recognized using the effective interest rate method which will accrete the debt host to the face value of the debentures over the Term.

The Conversion Privilege and Anti-Dilution Option were measured at fair value upon initial recognition using a Black-Scholes option pricing model. The issue date fair value of the Conversion Privilege and the Anti-Dilution Option were estimated to be approximately \$0.038 per Unit (\$319,169) using the Black-Scholes option pricing model based on the following assumptions: expected volatility of 57%, a risk-free interest rate of 1.07%, expected dividend yield of nil%, expected forfeiture rate of nil% and expected life of 4 years for the common share component of the Unit and 2 years for the common share purchase warrant component.

The Forced Conversion Option was measured at fair value upon initial recognition using a binomial option pricing model and considering the financing cost saved if the Company exercises its option. The weighted average issue date fair value of the Forced Conversion Option was estimated to be approximately \$0.006 per unit (\$47,464) using the Binomial option pricing model based on the following weighted average assumptions: expected volatility of 57%, a risk-free interest rate of 1.07% and expected life of 4 years.

The total value of the Debentures at the conversion date was \$1,014,302 (\$925,000 in principal and \$89,302 in accrued interest) was allocated as follows. The value of the host debt instrument at the conversion date was as follows:

Fair value of host debt instrument, December 31, 2016	\$	643,215
Accretion		65,645
Accrued interest		85,502
Fair value of host debt instrument, November 17, 2017	\$	794,362

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

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

(c) Convertible debentures (cont'd)

The balance of the conversion date value of the Debentures was attributed to derivative liabilities:

Derivative liabilities		219,940
Host debt instrument		794,362
Fair value of Debentures on conversion date	\$	1,014,302

Upon conversion of the Debentures, the Company issued 6,762,014 units at a price of \$0.15 per unit. Each unit consisted of one common share and one-half common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.30 per common share for a period ending on December 16, 2018. The value of the Debentures (principal and accrued interest) was allocated to share capital and warrants based on each component's pro-rata fair value. The fair value of the warrants of \$32,154 was estimated using the Black-Scholes option pricing model based on the following assumptions: expected volatility of 32%, a risk-free interest rate of 1.3%, expected dividend yield of nil%, and expected life of one year.

(d) Share-based payments

At December 31, 2017, 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 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).

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

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

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

During 2016, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 1,464,502 common shares at an exercise price of \$0.15 per share. Of the total, 1,255,000 options vest over three years, such that 426,658 of the options will vest one year from the date of grant, 426,658 will vest two years from the date of grant and 401,684 will vest three years from the date of grant. The remaining options vest based on the market price of the Company's common shares, such that 104,751 options will vest when the closing market price of the Company's common shares exceeds \$0.185 for ten consecutive trading days, and 104,751 options will vest when the closing market price of the Company's common shares exceeds \$0.22 for ten consecutive trading days. All options granted expire 5 years from the date of grant. The weighted average grant date fair value of the stock options granted during 2016 was estimated to be \$0.145 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 284%, a risk-free interest rate of 0.66%, expected dividend yield of nil%, expected forfeiture rate of 2.1% 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, 2016 were \$69,473 relating to general and administrative and \$27,282 relating to research and development for a total of \$96,755.

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

	Number	Weighted Average Exercise Price
Balance, December 31, 2015	5,809,370	0.067
Granted	1,464,502	0.150
Forfeited	(26,668)	0.050
Expired	(705,000)	0.100
Exercised	(485,827)	0.090
Balance, December 31, 2016	6,056,377	0.081
Granted	3,099,632	0.210
Exercised	(973,500)	0.088
Balance, December 31, 2017	8,182,509	0.129

Acceleware Ltd.

Notes to Financial Statements December 31, 2017 and 2016 (in Canadian dollars)

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

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

Summary of options outstanding and exercisable as at December 31, 2017 are as follows:

Exercise price outstanding	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.05	3,509,208	1.46	\$0.050	3,069,186
\$0.10	122,500	0.40	0.100	122,500
\$0.15	1,451,169	3.66	0.150	647,827
\$0.21	3,099,632	4.15	0.210	—
	8,182,509	2.85	\$0.129	3,839,513

(e) Contributed surplus

Balance, December 31, 2015	\$	6,180,534
Share-based payments		96,755
Options exercised		(34,502)
Balance, December 31, 2016	\$	6,242,787
Share-based payments		522,723
Options exercised		(69,071)
Balance, December 31, 2016	\$	6,696,439

Acceleware Ltd.

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(in Canadian dollars)

12. Revenue

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

	December 31, 2017	December 31, 2016
Product sales	\$ 194,598	\$ 644,822
Maintenance	616,869	353,512
Consulting	508,600	396,835
	\$ 1,320,067	\$ 1,395,169

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

	December 31, 2017	December 31, 2016
Contract revenue recognized in year	\$ 70,663	\$ 433,328
Billed in year	394,101	714,568
Change in work in process	\$ (323,438)	\$ (281,240)

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

	Canada	USA	Total
December 31, 2017	\$ 239,825	1,080,241	\$ 1,320,067
December 31, 2016	\$ 4,580	1,390,589	\$ 1,395,169

The Company derives significant revenues from three major customers each of whom exceed 10% of total revenues for either the year ended December 31, 2016 or the year ended December 31, 2017:

	December 31, 2017	December 31, 2016
Customer A	\$ 464,634	\$ 443,964
Customer B	200,000	—
Customer C	69,270	257,893
	\$ 733,904	\$ 701,893

Acceleware Ltd.

Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

13. Cost of revenue

The Company incurs costs directly related to the provision of its products and services. These costs relate to direct salaries, contractors, benefits, hardware and software, travel, freight and other expenses.

	December 31, 2017		December 31, 2016
Salaries and contractors	\$ 193,857	\$	586,648
Cost of hardware and software	9,067		9,402
Travel, freight and other	17,227		28,122
	\$ 220,151	\$	624,172

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, depreciation, professional fees and bad debt expense.

	December 31, 2017		December 31, 2016
Salaries	\$ 796,469	\$	797,748
Marketing	162,254		134,270
Travel	24,111		36,099
Share-based payments (<i>note 11d</i>)	364,600		69,473
Rent, supplies and public company fees	288,943		249,013
Depreciation (<i>note 8</i>)	38,016		31,286
Professional fees	271,353		153,742
Bad debt expense	2,699		—
	\$ 1,948,445	\$	1,471,631

Acceleware Ltd.

Notes to Financial Statements

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(in Canadian dollars)

15. Research and development

The Company incurs costs related to its R&D 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 overhead, and depreciation and other expenses. R&D costs incurred during the year are as follows:

	December 31, 2017	December 31, 2016
Salaries	\$ 1,473,549	\$ 819,869
Consultants	253,363	259,622
R&D lab supplies and other	145,406	280,054
Share-based payments (<i>note 11d</i>)	158,123	27,282
Rent and overhead allocation	78,146	77,407
Depreciation (<i>note 8</i>)	38,016	31,286
Non-refundable government assistance	(148,390)	(115,610)
Alberta SR&ED tax credits (<i>note 7</i>)	(222,321)	(132,237)
	\$ 1,775,892	\$ 1,247,673

The Company's assistance from government sources, \$148,390 for the year ended December 31, 2017 (\$115,610 – December 31, 2016), is non-refundable.

16. Income taxes

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial statutory tax rate of 27.0% (December 31, 2016 – 27.0%) to loss before taxes. The difference results from the following:

	December 31, 2017	December 31, 2016
Loss before income tax	\$ 2,749,731	\$ 2,010,009
Computed expected recovery	742,427	542,702
Non-deductible expenses	(142,327)	(27,135)
SR&ED investment tax credits	219,097	130,319
Change in deferred tax assets not recognized	(819,197)	(645,886)
Deferred tax recovery	\$ —	\$ —

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(in Canadian dollars)

16. Income taxes (cont'd)

The components of the deferred tax asset are as follows:

	December 31, 2017	December 31, 2016
Deferred tax assets:		
SR&ED tax pools	\$ 430,386	\$ 410,068
Convertible debenture	—	(60,718)
SR&ED investment tax credits	(430,386)	(349,350)
Net deferred tax asset	\$ —	\$ —

The components of the unrecognized deductible temporary differences are as follows:

	December 31, 2017	December 31, 2016
Non-capital loss carried forward	\$ 1,348,126	\$ 1,063,045
SR&ED expenditure pool	2,445,008	575,053
SR&ED investment tax credits	1,594,021	1,293,888
Derivative liability	—	211,000
Property and equipment	45,138	37,045
	\$ 5,432,293	\$ 3,180,031

The company has \$1,348,126 (December 31, 2016 - \$1,063,045) in non-capital losses expiring in 2036 and 2037 available to claim against future income taxes. The Company has \$4,039,029 (December 31, 2016 - \$2,093,821) in deductible SR&ED expenditures and \$1,594,021 (December 31, 2016 - \$1,293,888) 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.

17. 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;

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17. 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. The Company's convertible debt and derivative liabilities are measured based on level 3 (note 11c). 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 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 revenue 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, 2017	December 31, 2016
Cash and cash equivalents	\$ 215,179	\$ 140,432
Trade and other receivables	193,018	129,911
Accounts payable and accrued liabilities	(36,660)	(22,587)
Net exposure	\$ 371,537	\$ 247,756

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

	December 31, 2017	December 31, 2016
Revenue	\$ 1,080,241	\$ 1,390,589
Expenses	(40,189)	(217,880)
Net exposure	\$ 1,040,052	\$ 1,172,709

Acceleware Ltd.

Notes to Financial Statements December 31, 2017 and 2016 (in Canadian dollars)

17. 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, 2017	Average exchange rate for the year ended December 31, 2016	Exchange rate as at December 31, 2017	Exchange rate as at December 31, 2016
Canadian dollar per one USD	1.2986	1.3248	1.2545	1.3427

The table below depicts the annual impact to total 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, 2017	Decrease/(increase) in comprehensive loss for the year ended December 31, 2016
1 cent strengthening in the Canadian dollar	\$ (10,972)	\$ (10,697)
1 cent weakening in the Canadian dollar	\$ 10,972	\$ 10,967

(d) Credit Risk

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents and trade and other receivables. The Company's cash is held with large established financial institutions. Credit risk on trade and other receivables reflects the risk that the Company may be unable to recover them. 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, no allowance for doubtful accounts has been recorded as at December 31, 2017 (December 31, 2016 - \$nil).

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

	December 31, 2017	December 31, 2016
1 – 30 days	\$ 184,542	\$ 114,372
31 - 60 days	4,150	2,771
61 – 90 days	14,930	47,733
91 – 120 days	—	—
Over 120 days	2,698	31,648
Allowance for doubtful accounts	—	—
	\$ 206,320	\$ 196,525

Acceleware Ltd.

Notes to Financial Statements

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(in Canadian dollars)

17. 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 December 31, 2017:

	December 31, 2017	December 31, 2016
Customer Y	\$ 81,543	—
Customer Z	\$ 38,137	—
	\$ 119,680	\$ —

(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.

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.

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.

At December 31, 2017, Acceleware's financial liabilities are all due within one year, with the exception of finance leases (see *note 10*).

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Notes to Financial Statements

December 31, 2017 and 2016

(in Canadian dollars)

18. 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, 2017, shareholders' equity was \$494,238 (December 31, 2016 - \$762,553) and the Company had \$116,852 in non-current debt in the form of finance leases (December 31, 2016 - \$27,517).

19. 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, 2017, \$nil of the rent inducement remains (December 31, 2016 - \$11,700). Effective August 1, 2016 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	91,770
2019	91,770
2020	53,533
	<hr/>
	\$ 237,073

Acceleware Ltd.

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December 31, 2017 and 2016

(in Canadian dollars)

20. 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.

For the year ended December 31, 2017

		RF Heating		Software & Services		Total
Revenue	\$	224,653	\$	1,095,414	\$	1,320,067
Expenses						
Cost of revenue		2,080		218,071		220,151
General and administrative		1,312,824		635,621		1,948,445
Research and development		1,280,142		495,750		1,775,892
		2,595,046		1,349,442		3,944,488
Loss from operations		(2,370,393)		(254,028)		(2,624,421)

For the year ended December 31, 2016

		RF Heating		Software & Services		Total
Revenue	\$	86,648	\$	1,308,521	\$	1,395,169
Expenses						
Cost of revenue		17,643		606,529		624,172
General and administrative		879,337		592,294		1,471,631
Research and development		1,158,678		88,995		1,247,673
		2,055,658		1,287,818		3,343,476
(Loss) income from operations		(1,969,010)		20,703		(1,948,307)

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December 31, 2017 and 2016

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21. Related party transactions

- (a) For the year ended December 31, 2017, the Company incurred expenses in the amount of \$238,750 (2016 - \$206,000) 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, \$162,669 was included in accounts payable and accrued liabilities as at December 31, 2017 (December 31, 2016 - \$88,419). These fees were incurred in the normal course of operations and in the opinion of Management represent fair value for services rendered.
- (b) For the year ended December 31, 2017, the Company incurred expenses in the amount of \$40,714 (2016 - \$66,716) with a company controlled by a director of the Company for legal fees and is included in general and administrative. Of the total, \$14,280 was included in accounts payable and accrued liabilities as at December 31, 2017 (December 31, 2016 - \$36,207). These fees were incurred in the normal course of operations and in the opinion of Management represent fair value for services rendered.
- (c) For the year ended December 31, 2017, the Company incurred expenses in the amount of \$12,975 (2016 - \$3,000) with a company controlled by the spouse of an officer of the Company for writing services and is included in general and administrative. Of the total, \$3,623 was included in accounts payable and accrued liabilities as at December 31, 2017 (December 31, 2016 - \$nil). These fees were incurred 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:

		2017		2016
Salaries and short-term employee benefits	\$	904,197	\$	839,043
Share-based payments		383,683		66,388
	\$	1,287,880	\$	905,431

22. Subsequent event

On January 24, 2018, The Company granted stock options to acquire up to 1,821,534 common shares of the Corporation to certain of its employees, officers and directors. The options have an exercise price of \$0.30 per common share and expire on January 24, 2023. Of the 1,821,534 options granted, 692,500 shall vest on the first anniversary of the grant date, 692,500 shall vest on the second anniversary of the grant date, 218,267 shall vest when the share price of the common shares of the Corporation closes at or above \$0.375 for ten consecutive trading days, and 218,267 shall vest when the share price of the common shares of the Corporation closes at or above \$0.45 for ten consecutive trading days. The Corporation's stock option plan allows for 9,757,532 common shares to be reserved for issuance under the plan. Upon issuance of the options granted, there will be 9,744,247 common shares reserved under options outstanding, leaving 13,285 common shares that may be reserved for issuance under the Corporation's stock option plan. The stock option grant is subject to regulatory approval.