

Acceleware Ltd.

Condensed Interim Financial Statements (Unaudited)
For the Nine Months Ended September 30, 2017 and 2016

(in Canadian dollars)

Acceleware Ltd.

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Acceleware Ltd.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Acceleware Ltd.

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

As at:

	September 30, 2017	December 31, 2016
Assets		
Current		
Cash and cash equivalents	\$ 1,094,132	\$ 1,922,318
Trade and other receivables	271,357	196,525
Work in process (<i>note 7</i>)	95,247	323,438
Alberta SR&ED tax credits receivable	149,522	132,237
Deposits and prepaid expenses	32,274	41,184
	<u>1,642,532</u>	<u>2,615,702</u>
Non-current		
Property and equipment	85,151	88,575
Total assets	\$ 1,727,683	\$ 2,704,277
Liabilities and Equity		
Current		
Accounts payable and accrued liabilities	\$ 406,065	\$ 794,027
Deferred revenue	149,795	174,682
Finance lease (<i>note 5</i>)	28,546	30,578
	<u>584,406</u>	<u>999,287</u>
Non-current		
Convertible debt (<i>note 6c</i>)	768,914	643,215
Derivative liability (<i>note 6c</i>)	301,503	271,705
Finance lease (<i>note 5</i>)	32,500	27,517
Total liabilities	1,687,323	1,941,724
Going concern (<i>note 3</i>)		
Commitments (<i>note 8</i>)		
Subsequent event (<i>note 11</i>)		
Shareholders' Equity		
Share capital (<i>note 6a</i>)	19,423,676	18,478,200
Reserves (<i>note 6b,d</i>)	7,204,494	6,868,369
Deficit	(26,587,810)	(24,584,016)
Total shareholders' equity	40,360	762,553
Total liabilities and shareholders' equity	\$ 1,727,683	\$ 2,704,277

Approved on behalf of the Board:

(signed) "Bohdan Romaniuk"

Director

(signed) "Peter Neweduk"

Director

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

Acceleware Ltd.

Condensed Statements of Comprehensive Loss (Unaudited)

(in Canadian dollars)

For the:

	Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Revenue (note 8)	\$ 237,576	\$ 366,675	\$ 1,048,377	\$ 1,219,530
Expenses				
Cost of revenue	72,571	120,669	160,257	417,103
General and administrative	459,951	305,524	1,414,131	1,006,773
Research and development	379,328	246,850	1,303,935	780,126
	911,850	673,043	2,878,323	2,204,002
Loss from operations	(674,274)	(306,368)	(1,829,946)	(984,472)
Finance income	—	—	119	366
Finance expense	(37,972)	(7,339)	(124,244)	(8,700)
Loss (gain) on derivative instruments	(169,246)	—	(29,798)	—
Foreign exchange (loss) gain	(32,246)	(11,015)	(19,925)	(63,466)
	(239,464)	(18,354)	(173,848)	(71,800)
Total comprehensive loss for the period attributable to shareholders	\$ (913,738)	\$ (324,722)	\$ (2,003,794)	\$ (1,056,272)
Loss per share				
Basic and diluted	\$ (0.011)	\$ (0.005)	\$ (0.023)	\$ (0.016)
Weighted average shares outstanding	85,811,110	66,442,761	85,600,636	66,289,169

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

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 December 31, 2015	#	66,109,266	\$	17,056,812	\$	—	\$	6,180,534	\$	6,180,534	\$	(22,574,007)	\$	663,339
Total comprehensive loss		—		—		—		—		(1,056,272)				(1,056,272)
Shares to be issued (note 6a)		—		884,510		—		—		—		—		884,510
Exercise of stock options for cash (note 6a)		133,332		33,666		—		—		—		—		33,666
Share-based payments														
Current period expense (note 6d)		—		—		—		40,234		40,234		—		14,654
Stock options exercised (note 6d)		—		25,872		—		(25,872)		(25,872)		—		—
Balance at September 30, 2016	#	66,242,598	\$	18,000,600	\$	—	\$	6,194,896	\$	6,194,896	\$	(23,630,279)	\$	565,477
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		—		—		—		—		—		(2,003,794)		(2,003,794)
Common share units issued for cash, net of issue costs														
Common share component (note 6a)		4,651,066		812,101		—		—		—		—		812,101
Warrants component (note 6b)		—		—		13,706		—		13,706		—		13,706
Exercise of warrants (note 6b)		10,000		3,411		(1,211)		—		(1,211)		—		2,200
Exercise of stock options for cash (note 6a)		750,667		71,034		—		—		—		—		71,034
Share-based payments														
Current period expense (note 6d)		—		—		—		382,560		382,560		—		382,560
Stock options exercised (note 6d)		—		58,930		—		(58,930)		(58,930)		—		—
Balance at September 30, 2017	#	90,269,644	\$	19,423,676	\$	638,077	\$	6,566,417	\$	7,204,494	\$	(26,587,810)	\$	40,360

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

Acceleware Ltd.

Condensed Statements of Cash Flows (Unaudited)

(in Canadian dollars)

For the:

	Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Cash flows from (used for) operating activities				
Comprehensive loss before tax	\$ (913,738)	\$ (324,722)	\$ (2,003,794)	\$ (1,056,272)
Items not involving cash:				
Amortization	14,702	16,318	49,296	47,051
Share-based payments (note 6d)	136,699	25,580	382,560	40,234
Rent inducement	1,671	5,014	11,699	15,042
Loss (gain) on derivative instruments (note 6c)	169,246	—	29,798	—
Accretion on convertible debt (note 6c)	17,849	—	56,324	—
Accrued interest on convertible debt (note 6c)	23,125	—	69,375	—
Accrued interest on loans and borrowings	—	6,191	—	7,204
Changes in non-cash working capital items				
Trade and other receivables	(101,237)	(9,411)	(74,832)	125,612
Work in process	81,147	34,293	228,191	240,441
Alberta SR&ED tax credit receivable	(48,342)	(28,490)	(17,285)	45,158
Prepaid expenses	14,542	(2,622)	8,910	10,985
Accounts payable and accrued liabilities	(68,982)	75,325	(399,661)	88,718
Deferred revenue	(48,225)	(54,447)	(24,887)	(55,998)
	(721,543)	(256,971)	(1,684,306)	(491,825)
Cash flows from financing activities				
Shares issued for cash (note 6a)	828,174	12,666	899,041	33,666
Shares to be issued	—	884,510	—	884,510
Repayment of finance lease (note 5)	(10,844)	(9,016)	(32,023)	(18,824)
Increase in loans and borrowings	—	—	—	200,000
	(817,330)	888,160	867,018	1,099,352
Cash flows from investing activities				
Proceeds from the sale of property and equipment	5,489	—	5,489	—
Purchase of property and equipment	(717)	—	(16,387)	(6,924)
	4,772	—	(10,898)	(6,924)
Increase (decrease) in cash and cash equivalents	100,559	631,189	(828,186)	600,603
Cash and cash equivalents, beginning of period	993,573	331,371	1,922,318	361,957
Cash and cash equivalents, end of period	\$ 1,094,132	\$ 962,560	\$ 1,094,132	\$ 962,560
Comprised of:				
Cash on hand	\$ 872,454	\$ 942,081	\$ 872,454	\$ 942,081
Cash equivalents	221,678	20,479	221,678	20,479
	\$ 1,094,132	\$ 962,560	\$ 1,094,132	\$ 962,560

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

Acceleware Ltd.

Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 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 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, 2016. 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, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on November 22, 2017.

(b) Functional and presentation currency

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

(c) Basis of measurement

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

(d) Significant accounting assumptions, estimates and judgements

The preparation of financial statements requires 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 Nine Months Ended September 30, 2017 and 2016 (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.

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 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 Nine Months Ended September 30, 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 \$26,587,810 (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 \$2,003,794 for the nine months ended September 30, 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.

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Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

4. Recent Accounting Pronouncements Issued and not yet Effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or 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:

(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, 2015, 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, 2016, 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). 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 Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

5. Finance Lease

The Company has certain computer equipment under financial lease expiring 2017 through 2020. The leases carry a weighted average annual interest rate of 6.76%. Estimated lease payments are as follows:

	September 30, 2017	December 31, 2016
2017	\$ 9,094	\$ 32,426
2018	28,846	16,902
2019	23,803	11,555
2019	3,460	—
Minimum lease payments	65,203	60,883
Less: interest portion (at a rate of 6.76%)	4,157	2,788
Net minimum lease payments	61,046	58,095
Less: current portion	28,546	30,578
	\$ 32,500	\$ 27,517

The equipment under finance lease has been recognized in property and equipment at the present value of minimum lease payments. Interest charges on leased equipment during the nine months ended September 30, 2017 were approximately \$2,461 (nine months ended September 30, 2016 – \$1,515). Other than interest, no costs were incurred relating to these leases. These leases are secured by the assets under lease. At September 30, 2017, the net book value of equipment pledged as security for finance leases is \$62,664 (December 31, 2016 - \$54,780).

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, 2016	84,857,911	\$ 18,478,200
Issued on exercise of stock options (i)	750,667	129,964
Issued on exercise of warrants (ii)	10,000	3,411
Issued on private placement of units, net of issue costs (iii)	4,651,066	812,101
Balance, September 30, 2017	90,269,644	\$ 19,423,676

- i. During the nine months ended September 30, 2017, 750,667 stock options (nine months ended September 30, 2016 – 133,322) were exercised for cash proceeds of \$71,034 (nine months ended September 30, 2016 - \$33,666). Non-cash compensation charges of \$58,930 (nine months ended September 30, 2016 - \$25,872) were reclassified from contributed surplus to share capital on the exercise of these options.

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Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

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

(a) Share capital (cont'd)

- ii. During the nine months ended September 30, 2017, 10,000 warrants (nine months ended September 30, 2016 - nil) were exercised for cash proceeds of \$2,200 (nine months ended September 30, 2016 - \$nil). A non-cash amount of \$1,211 (nine months ended September 30, 2016 - \$nil) was reclassified from warrants to share capital on the exercise of these warrants.
- iii. 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 gross proceeds from the private placement were 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 30%, a risk-free interest rate of 1.6%, expected dividend yield of nil%, and expected life of two years.

(b) Warrants

As a result of the September 26, 2016 private placement of units, the Company issued 2,325,533 share purchase warrants. The warrants have an exercise price of \$0.27 and expire on September 26, 2019. During the nine months ended September 30, 2017, 10,000 warrants were exercised (see note 6(a)). Each whole warrant entitles the holder to purchase one common share of the Corporation. A summary of the status of the warrants outstanding follows:

	Number	Weighted Average Exercise Price
Balance, December 31, 2016	9,090,909	\$ 0.22
Issued	2,325,533	0.27
Exercised	(10,000)	0.22
Balance, September 30, 2017	11,406,442	\$ 0.23

The following table summarizes the warrants that remain outstanding as at September 30, 2017:

Exercise price	Number outstanding	Expiry date
\$0.22	9,080,909	October 6, 2018
\$0.27	2,325,533	September 26, 2019
	11,406,442	

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Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

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

(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.

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 comprise 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.

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Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

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

(c) Convertible debentures (cont'd)

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. At September 30, 2017, the fair value of the Conversion Privilege and Anti-Dilution Option were estimated to be \$0.049 per Unit (\$301,503 in aggregate) 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%, expected forfeiture rate of nil% and expected life of 3.21 years for the common share component of the Unit and 1.21 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. On September 30, 2017, the weighted average fair value of the Forced Conversion Option was estimated to be \$nil per unit using the Binomial option pricing model based on the following weighted average assumptions: expected volatility of 30%, a risk-free interest rate of 1.6% and expected life of 3.21 years. Using a flat interest rate curve assumption, the Pre-payment Option was determined to have little material value. The net derivative liability as at September 30, 2017 increased to \$301,503 (December 31, 2016 - \$271,705).

The value of the host debt instrument at September 30, 2017 was as follows:

Fair value of host debt instrument, December 31, 2016	\$	643,215
Accretion		56,324
Accrued interest		69,375
Fair value of host debt instrument, September 30, 2017	\$	768,914

(d) Share-based payments

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

Acceleware Ltd.

Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

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

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

During the nine months ended September 30, 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 three months ended September 30, 2017 were \$93,819 relating to general and administrative (three months ended September 30, 2016 - \$19,256) and \$42,880 relating to research and development (three months ended September 30, 2016 - \$6,324) for a total of \$136,699 (three months ended September 30, 2016 - \$25,580). Total share-based payment expenses for the nine months ended September 30, 2017 were \$268,449 relating to general and administrative (nine months ended September 30, 2016 - \$28,975) and \$114,111 relating to research and development (nine months ended September 30, 2016 - \$11,259) for a total of \$382,560 (nine months ended September 30, 2016 - \$40,234).

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.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

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

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

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, 2016	6,056,377	\$ 0.081
Granted	3,099,632	0.210
Exercised	(750,667)	0.095
Balance, September 30, 2017	8,405,342	\$ 0.127

Summary of options outstanding and exercisable as at September 30, 2017 are as follows:

Exercise price outstanding	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.05	3,666,208	1.67	\$0.050	3,226,186
\$0.10	175,000	0.65	0.100	175,000
\$0.15	1,464,502	3.92	0.150	661,160
\$0.21	3,099,632	4.40	0.210	—
	8,405,342	3.05	\$0.127	4,062,346

(e) Contributed surplus

Balance, December 31, 2016	\$	6,242,787
Share-based payments		382,560
Options exercised		(58,930)
Balance, September 30, 2017	\$	6,566,417

Acceleware Ltd.

Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

7. Revenue

The Company sub-classifies revenue within the following components: product revenue, maintenance revenue, and consulting revenue. Product revenue comprises license fees charged for the use of software products licensed under multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable. Product revenue also includes the resale of third party hardware as part of customized solutions, as well as sales of hardware assembled internally. 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.

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Product sales	\$ 50,311	\$ 85,886	\$ 116,682	\$ 568,730
Maintenance	165,496	75,994	473,943	278,898
Consulting	21,769	204,795	457,752	371,902
	\$ 237,576	\$ 366,675	\$ 1,048,377	\$ 1,219,530

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Contract revenue recognized in period	\$ 9,198	\$ 64,229	\$ 72,541	\$ 371,988
Billed in period	76,320	98,522	276,286	612,430
Change in work in process	\$ (67,122)	\$ (34,293)	\$ (203,745)	\$ (240,442)

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

	Canada	USA	Total
Three months ended September 30, 2017	\$ 21,535	216,041	\$ 237,576
Three months ended September 30, 2016	\$ 1,166	365,509	\$ 366,675
Nine months ended September 30, 2017	\$ 234,373	814,004	\$ 1,048,377
Nine months ended September 30, 2016	\$ 3,470	1,216,060	\$ 1,219,530

Acceleware Ltd.

Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

7. Revenue (cont'd)

The Company derives significant revenues from major customers each of which exceeds 10% of total revenues for the three and nine months ended September 30, 2017.

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Customer A	\$ 101,466	\$ 58,862	\$ 299,472	\$ 391,235
Customer B	—	—	200,000	—
	\$ 101,466	\$ 58,862	\$ 499,472	\$ 391,235

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. A rent inducement of \$103,420 was received and included in accounts payable and accrued liabilities. It was amortized over the term of the lease and recorded as a reduction to rent expense. At September 30, 2017, \$nil of the rent inducement remains (December 31, 2016 - \$11,699). 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:

2017	22,943
2018	91,770
2019	91,770
2020	53,533
	\$ 260,016

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 Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

9. Operating segments (cont'd)

For the three months ended September 30, 2017

		RF Heating		Software & Services		Total
Revenue	\$	20,700	\$	216,876	\$	237,576
Expenses						
Cost of revenue		2,080		70,491		72,571
General and administrative		298,864		161,087		459,951
Research and development		257,594		121,734		379,328
		558,538		353,312		911,850
(Loss) income from operations	\$	(537,838)	\$	(136,436)	\$	(674,274)

For the three months ended September 30, 2016

		RF Heating		Software & Services		Total
Revenue	\$	—	\$	366,675	\$	366,675
Expenses						
Cost of revenue		—		120,669		120,669
General and administrative		162,292		143,232		305,524
Research and development		223,510		23,340		246,850
		385,802		287,241		673,043
(Loss) income from operations		(385,802)		79,434		(306,368)

Acceleware Ltd.

Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

9. Operating segments (cont'd)

For the nine months ended September 30, 2017

		RF Heating		Software & Services		Total
Revenue	\$	220,700	\$	827,677	\$	1,048,377
Expenses						
Cost of revenue		2,080		158,177		160,257
General and administrative		955,383		458,748		1,414,131
Research and development		947,253		356,682		1,303,935
		1,904,716		973,607		2,878,323
(Loss) income from operations		(1,684,016)		(145,930)		(1,829,946)

For the nine months ended September 30, 2016

		RF Heating		Software & Services		Total
Revenue	\$	86,648	\$	1,132,882	\$	1,219,530
Expenses						
Cost of revenue		17,643		399,460		417,103
General and administrative		539,382		467,391		1,006,773
Research and development		706,377		73,749		780,126
		1,263,402		940,600		2,204,002
(Loss) income from operations		(1,176,754)		192,282		(984,472)

Acceleware Ltd.

Notes to Condensed Interim Financial Statements Nine Months Ended September 30, 2017 and 2016 (in Canadian dollars)

10. Related Party Transactions

- (a) For the three months ended September 30, 2017, the Company incurred expenses in the amount of \$42,250 (three months ended September 30, 2016 - \$39,000) and \$123,250 for the nine months ended September 30, 2017 (nine months ended September 30, 2016 - \$117,000) with a company controlled by an officer of the Company as fees for duties performed in managing operations, and this amount is included in research and development expense. As at September 30, 2017, \$65,257 was included in accounts payable and accrued liabilities (December 31, 2016 - \$88,419). 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 September 30, 2017, the Company incurred expenses in the amount of \$4,641 (three months ended September 30, 2016 - \$10,623) and \$26,836 for the nine months ended September 30, 2017 (nine months ended September 30, 2016 - \$23,590) 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 September 30, 2017, \$4,873 was included in accounts payable and accrued liabilities (December 31, 2016 - \$36,207). 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 September 30, 2017, the Company incurred expenses in the amount of \$1,875 (three months ended September 30, 2016 - \$nil) and \$9,525 for the nine months ended September 30, 2017 (nine months ended September 30, 2016 - \$nil) 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 September 30, 2017, \$1,969 was included in accounts payable and accrued liabilities (December 31, 2016 - \$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 September 30, 2017		Three months ended September 30, 2016		Nine months ended September 30, 2017		Nine months ended September 30, 2016
Salaries and short-term employee benefits	\$ 175,904	\$	169,172	\$	540,567	\$	499,377
Share-based payments	101,829		19,030		285,050		28,919
	\$ 277,733	\$	188,202	\$	825,618	\$	528,296

11. Subsequent event

Subsequent to the period end, the Company exercised its Forced Conversion Option on the Debentures (see note 6(c)), converting all outstanding principal and accrued interest related to the Debentures totalling \$1,014,302. As a result, the Company issued 6,762,014 common shares of the Company, and 3,381,007 common share purchase warrants. Each warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.30 per common share. The warrants expire on December 16, 2018.