ACCLEWARE LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

This management’s discussion and analysis of financial condition and results of operations (“MD&A”) should be read together with Acceleware Ltd.’s (“Acceleware” or the “Company”) audited annual financial statements and the accompanying notes for the year ended December 31, 2016 (the “Financial Statements”) which were prepared in accordance with International Financial Reporting Standards (“IFRS”). Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com under Acceleware Ltd.

This MD&A is presented as of April 25, 2017. All financial information contained herein is expressed in Canadian dollars unless otherwise indicated.

Forward Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A may contain forward-looking statements, pertaining to the following:

- the expectation of Acceleware’s ability to continue operating as a going concern, fund its operations through the sale of its products and services, and access external financing if required;
- projections of sales increases through focus on the oil and gas exploration and development market, increasing the number of independent software vendor (“ISV”) partners, and continuous performance improvements;
- the expectation of software and services revenue growth in the oil and gas sector;
- potential benefits to Acceleware’s customers, including cost savings and increases to cash flow and productivity;
- the future growth prospects for radio frequency heating (“RF”) technology for heavy oil and oil sands based on technical and economic feasibility analyses and testing performed to date;
- the patentability of concepts developed through RF heating research and development efforts;
- advantages to using Acceleware’s products and services;
- the demand for new products currently under development at the Company;
- ease and efficiency of implementing Acceleware’s products and services; and
- supply and demand for Acceleware’s primary products and services.

With respect to forward-looking statements contained in this MD&A, the Company has assumed, among other things:

- that the cost savings initiatives taken to date, coupled with the future revenue and cash flow expected by the Company’s management (“Management”) and ability to attract new financing, will be sufficient to fund future operations - this assumption being subject to the risk and uncertainty that the Company may not generate enough cash flow from operating activities to meet its capital requirements and that the Company may not be able to secure additional capital resources from external sources to fund any shortfall. Operating cash flow may be negatively
affected by general economic conditions, increased competition, increased equipment or labour
costs, and adverse movements in foreign currencies. Should the Company experience a cash flow
shortfall from operating activities, Management’s contingency plan may not be sufficient to
reverse the shortfall;
• that the world price of oil will rebound within the next 12 to 24 months;
• that the preliminary analyses, lab testing and field testing the Company has performed to date
regarding the technical and economic feasibility of RF technology for heating of heavy oil and oil
sands will be confirmed in practise;
• that the RF heating concepts developed by the Company are unique, novel and non-infringing of
intellectual property owned by others;
• that it will be able to increase sales of its products and services by focusing on key vertical
markets, increasing the number of ISV partners, and continuously improving its products – which
is subject to the risks that sales in core vertical markets may be negatively affected by general
economic conditions, that the Company may not be able to successfully attract and integrate its
offerings into ISVs’ products and that its research and development efforts may be unable to
develop continuous improvements; and
• that it will be able to withstand the impact of increasing competition – which is subject to the risk
that the adoption of graphics processing unit (“GPU”) computing (and any future hardware
platform utilized by the Company) may be negatively affected by future advances in competing
technology.

The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a
result of the risk factors set forth below and elsewhere in this MD&A.

Investors should not place undue reliance on forward-looking statements as the plans, intentions or
expectations upon which they are based might not occur. Forward-looking statements include statements
with respect to the timing and amount of estimated future revenue and sales and the Company’s ability
to protect and commercially exploit its intellectual property. Readers are cautioned that the foregoing lists of
factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified
by this cautionary statement. The Company does not undertake any obligation to update or revise any
forward-looking statements, whether as a result of new information, future events or otherwise, unless
required by law.
Company Overview

Acceleware is an oil and gas technology development company, with activities in two segments. Acceleware’s primary revenue source involves High Performance Computing (“HPC”) software and services primarily for the oil and gas industry. Acceleware provides seismic imaging software that enables oil and gas companies to find hydrocarbons in the most complex geological formations. In addition to off-the-shelf software, Acceleware offers customized scientific software and custom HPC software development services for oil and gas customers. Acceleware also sells solutions selectively outside of the oil and gas sector. In addition to software and services, Acceleware’s primary research and development initiative involves developing and commercializing technology to utilize radio frequency electro-magnetic (“EM”) energy to heat heavy oil and oil sands deposits to facilitate extraction.

Acceleware was founded in 2004 to build software solutions that targeted the graphics processing unit as a compute platform. The first product was an accelerated finite difference time domain (“FDTD”) solution for the EM simulation industry. AxFDTD™ continues to be sold to many Fortune 500 companies such as Samsung, LG, Blackberry, Foxconn, Nikon, Renault, Mitsubishi, Merck, Boeing and Lockheed Martin. With AxFDTD, Acceleware was a pioneer in the GPU computing revolution.

Recognizing an opportunity in the similarity between electromagnetic FDTD and certain seismic imaging algorithms, Acceleware entered the seismic imaging market in 2008. The Company’s first product was a GPU accelerated Kirchhoff Time Migration solution, followed closely by CPU and GPU enabled Reverse Time Migration (“RTM”) library, AxRTM™ in 2009. In 2013, Acceleware introduced AxWave™, a forward modelling variant of AxRTM which allows customers to accurately model seismic acquisition and perform data characterization. In late 2014, Acceleware added AxFWI™ a revolutionary modular full waveform inversion (“FWI”) application to its seismic imaging suite. AxFWI allows geophysicists to create high quality subsurface velocity models in dramatically less time than before. Acceleware accesses the oil and gas geoscience software market through a combination of channel and direct sales. The Company provides channel partners with software solutions as an add-on or replacement to an existing seismic data processing platform to increase the functionality of and/or the speed of partners’ software. The Company’s current seismic ISV partners include Tsunami Development, Paradigm Geophysical, Shearwater GeoServices and GeoTomo LLC.

Acceleware provides custom HPC software development, consulting services and training to oil and gas companies such as ExxonMobil, GeoTomo, Saudi Aramco, Rock Solid Imaging, EMGS, Repsol, and Woodside. These companies utilize Acceleware’s expertise to improve the performance of their scientific computing software, and increase their in-house development capability. Acceleware’s HPC training business has objectives beyond revenue and income growth. The Company uses HPC training services as a marketing tool to promote its software and HPC development services.

In 2010, Acceleware began investigating the technology to use RF energy for in-situ heating of heavy oil and bitumen. In the ensuing seven years Acceleware has filed four patent applications for RF heating technology, and has developed leading edge simulation software. Additional patent applications for RF heating are currently underway as the Company expands the portfolio of intellectual property in line with product development. RF heating for oil production is not a new concept, however trials to date have shown limited success. Acceleware believes that the limitations experienced to date can be overcome with new technology. Acceleware’s RF heating
research and development effort has focused on reducing the capital cost of the technology, making the technology more flexible for use in a variety of wells, and improving the scalability of the technology to very long horizontal wells commonly used in Alberta’s oil sands and elsewhere. The Company believes that RF heating has the potential to reduce capital and operating cost for heavy oil and oil sands extraction, as well as reduce the environmental footprint by dramatically reducing the use of water and limiting the greenhouse gas emissions associated with current extraction techniques. RF heating also has the potential to significantly reduce land use in the oil sands, and does not involve the injection of chemicals into the reservoir. Acceleware’s unique expertise with RF heating technology has also resulted in service revenue both locally and abroad. The Company has applied for a total of four patents relating to RF heating. Acceleware’s RF heating technology broadly falls into two versions. Modular RF is a technology mainly aimed at deeper, vertical wells where efficiencies are gained through the innovative approach to downhole RF power generation. The second version, RF XL targets long horizontal wells common to in-situ oil sands production. In the course of the Company’s RF heating development and services business, the Company developed sophisticated simulation software tools based on AxFDTD coupled to third party reservoir simulation software. In late 2013, Acceleware commercialized and introduced these simulation tools as AxHEAT™, a product aimed at oil and gas companies investigating the effectiveness of RF heating in increasing the efficiency of heavy oil and oil sands production.

RF heating can be used in a variety of vertical and horizontal well arrangements.

Beyond oil and gas, Acceleware’s traditional market has been electromagnetic simulation, and the Company continues to provide software and services to this industry. With AxFDTD, most of the major mobile telephone manufacturers in the world are using Acceleware’s electromagnetic design solutions to design their products more rapidly. Acceleware’s fourth-generation software acceleration solutions that support multi-board GPU solutions can accelerate entire industrial simulation and processing applications by over 35 times. The EM solutions developed by Acceleware can be easily integrated by software developers, saving them the expense and time of migrating their applications to high performance multi-core platforms. Acceleware improves the overall experience for end users of these applications by providing greater computing speed without end users having to learn new skills or change their work processes.
In the EM market, software developers partner with Acceleware to increase the speed of their software. Some of the Company’s current software partners include SPEAG, Synopsys, ZMT Zurich MedTech and Agilent Technologies. Acceleware reaches the EM market through a combination of partner channels and direct sales.

AxFDTD will continue for the traditional markets and is an enabling technology for AxHEAT and the controlled source electromagnetic ("CSEM") method in the energy market. Increased sales and marketing efforts for these new and competitive technologies will also be a Company priority.

In the EM market and elsewhere, Acceleware provides HPC consulting services including training to strategic customers, under fixed price or hourly contracts. These services and training are offered when there is a strategic opportunity to develop new software solutions or to engage in significant consulting projects.

Acceleware was founded in February 2004 by a group of graduate students and professors from the University of Calgary’s Electrical Engineering department and became a public company on the TSX Venture Exchange in January 2006 through a reverse takeover of a capital pool company, Poseidon Capital Corp. The Company is headquartered in Calgary, Alberta. As at December 31, 2016, Acceleware had 20 employees including: 2 in administration; 3 in sales, marketing, and product management; and 15 in research and development.

Overall Performance

During the year ended December 31, 2016, Acceleware was successful in its objectives relating to the research, development and commercialization of its RF heating technology. Acceleware succeeded in filing two RF heating patent applications and commencing preparation of two additional applications; initiating a technology partnership with GE; and commencing a field test of critical components of the RF XL technology. The Company raised gross proceeds of $2,925,000 in equity and convertible debentures to finance further development of its RF heating technology. The Company’s software and services business continued to face a challenging oil and gas market, with decreased revenue in all categories compared to the year ended December 31, 2015. The decline in revenue was primarily due to lower seismic imaging software sales, particularly AxRTM, and work related to a major custom RTM solution for Repsol, which was nearing completion at December 31, 2016. Consulting services work involving both HPC and RF heating for various key oil and gas customers also declined in 2016 compared to 2015.

In line with the decrease in total revenue, total comprehensive loss increased in 2016 compared to 2015. Cash flow used in operating activities increased in 2016 compared to 2015 due to increased investment in the RF heating business segment including research and development, and despite a significantly lower investment in working capital.

During the year ended December 31, 2016, Acceleware recognized revenue of $1,395,169 - 50% lower than the $2,816,686 recognized during the year ended December 31, 2015. The decrease is primarily a result of a 62% decline in seismic software product revenue, and a 44% decrease in consulting services revenue. On a segmented basis, the Company’s RF heating segment recorded a 74% reduction in revenue in 2016, falling to $86,648 from $332,881 recorded in 2015. The software and services segment revenue declined 47% in 2016 to $1,308,521 from $2,483,805 recorded in 2015.

The Company had total comprehensive loss for the year ended December 31, 2016 of $2,010,009, an increase of 815% compared to a total comprehensive loss of $219,273 for the year ended December 31, 2015. The higher total comprehensive loss for the year ended December 31, 2016 is due to the above noted decrease in revenue coupled with a 7% increase in expenses, driven by higher cost of revenue and higher general and administrative expenses.

On a segmented basis, loss from operations attributed to the RF heating segment increased 65% to $1,982,266 in 2016 from $1,259,308 in 2015 due to higher research and development and general and administrative expenses. The software and services segment continued to have positive income from operations, falling 98% to $20,703 in 2016 compared to $951,801 in 2015 due to lower revenue.

At December 31, 2016, Acceleware had $1,616,415 (2015 - $585,117) in working capital, including $1,922,318 (2015 - $361,957) in cash and cash equivalents, and $58,095 (2015 - $37,160) in combined short-term and long-term
The Company has $914,920 (2015 - $nil) (principal plus accrued interest) in convertible debentures that accrue interest at 10% per year. The increase in cash (and consequently working capital) is a result of the Company completing an equity financing for gross proceeds of $2 million and the issuance of the convertible debentures in 2016 compared to $nil financing activity in 2015. The decrease in working capital other than cash is a result of a decrease in work in process associated with the Repsol custom software project, which was nearing completion at the end of 2016, and lower trade receivables reflecting lower overall revenue.

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; to focus on selected core vertical markets; to minimize operating expenses where possible; and to 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, reducing sales, marketing and general and administrative expenses, and seeking outside financing. The failure of the Company to achieve one or all of the above items may have a material adverse impact on the Company’s financial position, results of financial performance and cash flows.*

Recent Highlights and Events

January 19, 2016 – Acceleware announced that Thrust Belt Imaging of Calgary has purchased the Company’s AxWAVE seismic forward modelling software.

March 16, 2016 - Acceleware announced that it intends to commercialize its patent-pending thermal enhanced oil recovery technology using RF energy. Today’s low oil price environment requires oil sands and heavy oil producers to dramatically rethink production techniques to profitably develop their assets. At the same time, the industry is well aware of the need to reduce its environmental impact by reducing greenhouse gas (GHG) emissions and eliminating external water use. To meet these challenges, Acceleware has developed a new low-cost, low-carbon RF heating technology that uses no external water or steam. The Company has filed two patent applications related to the technology. Acceleware believes the technology is a compelling alternative to steam-assisted gravity drainage (SAGD) because it has the potential to significantly reduce capital and operating expenditures, make meaningful reductions in GHG emissions, and eliminate external water use when utilized for oil sands production.

June 14, 2016 - Acceleware announced plans to test and commercialize its patent-pending "RF XL" heating technology that has the potential to save billions of dollars in oil sands production costs while significantly reducing greenhouse gas emissions and water use. Acceleware will partner with GE to develop critical power components and complete a pilot test of the disruptive new heavy oil production technology. Acceleware's technology uses radio waves instead of steam, driving down the cost of oil sands production and lowering its environmental impact to a level comparable to that of other global sources of crude oil.

* this paragraph contains forward looking information. Please refer to “Forward Looking Statements” and “Risk Factors and Uncertainties” for a discussion of the risks and uncertainties related to such information
**October 7, 2016** – Acceleware closed a private placement of 18,181,818 units (one common share plus one-half share purchase warrant) at $0.11 per unit for gross proceeds of $2,000,000. Each share purchase warrant is exercisable into one common share at a price of $0.22 per share prior to October 8, 2018.

**October 26, 2016** – Acceleware Ltd. filed a new patent application, which the Company believes will significantly improve its existing RF XL heating technology. In particular, the innovations detailed in the new patent application will provide oil producers with several additional potential benefits: better economics, faster time to first oil production, reduced drilling and completion costs, and greater applicability to more resources.*

**December 19, 2016** - Acceleware closed a non-brokered private placement of 10% unsecured convertible debentures, for gross proceeds of $925,000. Each debenture is convertible into units of Acceleware at a conversion price equal to the lesser of (i) $0.15 per unit, and (ii) if Acceleware, at any time after December 16, 2016, distributes common shares, the price per common share, provided the conversion occurs within 15 days of the announcement of such distribution. Each unit consists of one common share in the capital of Acceleware and one-half of one common share purchase warrant of Acceleware. Each such whole warrant will entitle the holder to acquire one common share in the capital of Acceleware, at an exercise price equal to two times the conversion price of the units, for a 24-month period following the distribution of the debentures. The debentures can be converted at the option of Acceleware provided that on the date of conversion, the 30-day volume weighted average trading price of the common shares of Acceleware on the TSX Venture Exchange is equal to or greater than 150% of the conversion price. Interest on the debentures shall accrue at a rate of 10% per annum. The maturity date of the debentures is December 16, 2020.

**Strategic Update**

**Oil and Gas focus**

Acceleware remains focused on developing and commercializing products for the oil and gas sector. Prior to the dramatic market downturn in 2014, the Company had been experiencing good traction with its geoscience software and services. The proprietary RF heating technology is showing potential as a viable method for heavy oil and oil sands production, coming at a time when the industry is facing significant economic and environmental hurdles. The Company is actively pursuing funding for RF heating development including new equity issuances, applying for various government funding initiatives, and pursuing industry partner funding opportunities.

Given the 50% decrease in revenue in 2016 compared to 2015, the outlook for Acceleware’s oil and gas technology business remains uncertain. As the Company’s customers grapple with the prolonged collapse in the world price of oil, we have seen caution among our customers resulting in delayed and cancelled purchase decisions in 2016. Into 2017, it remains unclear whether the oil and gas market will rebound. However, recent increases in oil prices and drilling activity are welcome news. As a result of the weakness in oil and gas, the Company has taken steps to promote non-oil and gas related products and services. In 2016, non-oil and gas revenue increased 16% compared to 2015. Should the oil and gas market weakness continue, Acceleware will continue to target short-term revenue outside of oil and gas.

**Software for Geoscience**

In 2016, the Company focused on selling seismic imaging software to the oil and gas exploration market, and this will continue into 2017. The Company continues to develop its latest release of AxBTM with TTI, which the Company believes is a state-of-the-art RTM seismic imaging product. Complementing AxBTM is AxxWave, a finite-difference forward modelling package. These GPU accelerated and CPU optimized seismic solutions, with dense packaging and improved economics in power and cooling, provide a multi-fold performance increase that reduces lengthy processing times and enables expedited drilling decisions for the oil and gas industry. During late 2014, the Company derived its first revenue from AxFWI, Acceleware’s new modular full waveform inversion software.

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application. Full waveform inversion allows geophysicists to dramatically improve subsurface models with less manual processing. In 2017, the Company is continuing the development of its suite of seismic products, as well as adding features, functionality and performance to AxRTM, AxWave and AxFWI. A key objective for 2017 is to increase the ease of adoption of the software by utilizing cloud based software as a service model, implementing “quick-start” functionality, and promoting time limited evaluation licenses.

The Company currently sells product and services solutions into the oil and gas market and will continue to develop improvements to its products and intensify its marketing and business development activities in this market. The Company sells its seismic imaging solutions through four resellers, and is actively pursuing other resellers. The Company’s key Seismic ISVs are Paradigm Geophysical, Tsunami Development, Shearwater GeoServices, and GeoTomo LLC. Acceleware has also seen significant opportunities for sales directly to end-users in this market, particularly when customers seek customized solutions. The Company expects to continue to see significant direct sales going forward much like the earlier-noted agreement with Repsol for a customized RTM software solution. * Management believes that adding new resellers and increasing the proportion of the resellers’ end-users that can be addressed by Acceleware’s solutions will drive revenue growth, strengthen Acceleware’s competitive position in the oil and gas market, and help to establish market leadership. Management believes that market leadership in oil and gas will result in higher sales penetration over the long-term, as well as improved profitability. The Company will continue to finance operations and its growth strategy primarily through revenues derived from the sale of the Company’s products and services, existing cash resources and, if necessary and where possible, by way of further equity financing. * 

**RF Heating**

In 2010, Acceleware began investigating the technology to use RF energy for in-situ heating of heavy oil and bitumen. In the ensuing six years, Acceleware has filed four patent applications for RF heating technology, and has developed leading edge simulation software. Additional patent applications for RF heating are currently underway as the Company expands its portfolio of intellectual property in line with product development. RF heating for oil production is not a new concept, however, trials to date have shown limited success. Acceleware believes that the limitations experienced to date can be overcome with its proprietary technology. Acceleware’s RF heating research and development effort has focused on reducing the capital cost of the technology, making the technology more flexible for use in a variety of wells, and improving the scalability of the technology to very long horizontal wells commonly used in Alberta’s oil sands and elsewhere. The Company believes that RF heating has the potential to reduce capital and operating cost for heavy oil and oil sands extraction, as well as reduce the environmental footprint by dramatically reducing the use of water and limiting the greenhouse gas emissions associated with current extraction techniques. Acceleware’s unique expertise with RF heating technology has also resulted in service revenue both locally and abroad. In the course of the Company’s RF heating development and services business, the Company developed sophisticated simulation software tools based on AxFDTD coupled to third party reservoir simulation software. In late 2013, Acceleware commercialized and introduced these simulation tools as AxHEAT™, a product aimed at oil and gas companies investigating the effectiveness of RF heating in increasing the efficiency of heavy oil and oil sands production. *

In each of the last three years including 2016, the Company received funding from NRC-IRAP to partially finance its RF heating technology development. Acceleware’s RF heating R&D program is focused on removing certain known technical limitations preventing the widespread adoption of this technology in enhanced oil recovery. In 2015, the Company conducted successful laboratory testing of critical components of the technology. In 2016, the Company commenced testing in larger scale field experiments, with additional components, to more closely replicate a commercial system. The Company expects to continue field tests in 2017, and begin planning for a commercial scale test. *

**Electromagnetic software products**

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While the Company is focusing on oil and gas, it continues to sell and develop its EM FDTD solution. In the EM market, software is sold to end users primarily through ISVs that have integrated Acceleware’s solution into their software packages. Acceleware currently works with some of the world’s largest companies in the electronics market, which consists of mobile phone manufacturers, industrial electronics firms, and government organizations. ISVs are an important sales channel for Acceleware, and work with the Company’s sales force by selling on Acceleware’s behalf, co-selling with Acceleware’s sales people, or referring potential customers to Acceleware. In 2016, Acceleware’s CAE ISV partners include SPEAG, ZMT Zurich MedTech AG, Agilent Technologies, Synopsis, Inc., and Crosslight Software Inc.

To drive future sales growth, Acceleware will work to add new ISV partnerships. Beyond expanding the Company’s potential customer base, new ISV partnerships also provide Acceleware with additional reselling agents who are strongly incented to cross-sell Acceleware’s products alongside their software solutions.

In addition to adding ISV partners, Acceleware is working to deliver new products and solutions to address the needs of a larger proportion of the installed base of its ISV partners. The Company is continuously improving its software acceleration products and expects to continue to release improved products with significant increases in performance every year.

Consulting services

Acceleware continues to see demand for its specialized expertise primarily within its core oil and gas vertical. The Company provides HPC services such as proof of concept, contract development, software code porting, and training to its consulting clients. Where possible, the Company uses services as leverage to increase adoption of its software products within the oil and gas market.

Consulting services relate to GPU and CPU HPC projects, and electro-magnetic simulation. In some cases, services align well with the Company’s core products. In several cases, the Company is developing long-term recurring business from key customers. In 2017, the Company will look to build a core competence in artificial intelligence and machine learning to further broaden its skillset.

In 2016, Acceleware hosted several HPC training classes in both open enrolment format and custom-designed formats for individual organizations, and will continue to do so in the remainder of 2017.

Going forward, Acceleware will continue to focus on oil and gas, with AxRTM, AxWave, AxFWI, AxHEAT and RF heating as the main strategic revenue and investment technologies. Innovations and improvements to the FDTD solution will continue for the traditional markets and be an enabling technology for AxHEAT and the CSEM method in the energy market. Increased sales and marketing efforts for these new and competitive technologies will also be a Company priority.

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Selected Annual Information

The audited financial statements and the accompanying notes for the year ended December 31, 2016 (the “Financial Statements”) are incorporated by reference herein and form an integral part of this MD&A. The Financial Statements can be found on www.sedar.com. All financial information is reported in Canadian dollars unless otherwise noted.

The following table shows selected financial information from Acceleware’s audited annual financial statements for the years ended December 31, 2016, December 31, 2015, and December 31, 2014.

<table>
<thead>
<tr>
<th>Year Ended Dec 31</th>
<th>Year Ended Dec 31</th>
<th>Year Ended Dec 31</th>
</tr>
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<tbody>
<tr>
<td>(Audited)</td>
<td>(Audited)</td>
<td>(Audited)</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$1,395,169</td>
<td>$2,816,686</td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td>($2,010,009)</td>
<td>($219,273)</td>
</tr>
<tr>
<td>Loss per share (basic and diluted)</td>
<td>($0.028)</td>
<td>($0.003)</td>
</tr>
<tr>
<td>Total assets</td>
<td>$2,704,277</td>
<td>$1,618,941</td>
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<tr>
<td>Long-term debt (in the form of finance leases)</td>
<td>$58,095</td>
<td>$37,160</td>
</tr>
<tr>
<td>Dividends</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

*Includes current portion of finance leases, excludes convertible debentures

Acceleware’s recognized revenues have decreased in 2016, compared to the previous two years, as a result of continued and deepening weakness in oil and gas software and services revenue. Total comprehensive loss increased significantly in 2016 compared to both 2015 and 2014 due to lower revenue and higher expenses such as cost of revenue and general and administrative expenses. The Company is now planning for modest growth in revenue and expects its total comprehensive income to increase in future years, while still continuing to invest in RF heating research and development. Total assets increased from $1,756,819 as at December 31, 2014 to $2,704,277 as at December 31, 2016 due to increased cash and cash equivalents resulting from the closing of a $2 million equity private placement and a $925,000 convertible debenture private placement in 2016.*

Results of Operations

Revenue

During the year ended December 31, 2016, the Company reported total revenues of $1,395,169 a 50% decrease compared to $2,816,686 for the year ended December 31, 2015. The decrease is a result of lower revenue in both the RF heating and software and services segments, principally a result of general weakness in the oil and gas sector of the global economy.

RF heating revenue decreased 74% in 2016 to $86,648 compared to $332,881 in 2015, as the Company focused on developing its proprietary RF XL and Modular RF technologies at the expense of earning consulting revenue. RF heating consulting revenue was $86,648 in 2016, a 73% decrease compared to $319,965 earned in 2015. The company earned $12,916 in RF product revenue in 2015 constructing an RF heating test rig for a Canadian university. No RF product revenue was earned in 2016.

Software and services segment revenue fell 47% in 2016 to $1,308,521 from $2,483,805 in 2015 due to lower software product revenue. Software product revenue declined 61% to $644,822 in 2016 from $1,668,893 in 2015 as a result of the custom software development contract with Repsol nearing completion in 2016, and overall reduced demand for seismic imaging software, consistent with the general slowdown in the industry. Software maintenance revenue decreased 16% to $353,512 in 2016 from $422,246 in 2015, caused by lower seismic imaging software sales since 2014, which results in lower maintenance revenue in subsequent years. Software consulting revenue fell

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21% to $310,187 in 2016 from $392,666 in 2015, on lower oil and gas HPC consulting revenue. It should be noted that the 4% appreciation of the US dollar relative to the Canadian dollar (average 2016 rate compared to average 2015 rate) had a positive impact on recorded revenue in 2016, as nearly 100% of revenue was invoiced in US dollars.

<table>
<thead>
<tr>
<th>RF heating revenue</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2015</th>
<th>Percentage change 2016/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product sales</td>
<td>$ 86,648</td>
<td>$ 12,916</td>
<td>-100%</td>
</tr>
<tr>
<td>Maintenance</td>
<td>—</td>
<td>—</td>
<td>0%</td>
</tr>
<tr>
<td>Consulting</td>
<td>—</td>
<td>319,965</td>
<td>-73%</td>
</tr>
<tr>
<td>Software and services revenue</td>
<td>$ 86,648</td>
<td>$ 332,881</td>
<td>-74%</td>
</tr>
<tr>
<td>Product sales</td>
<td>$ 644,822</td>
<td>$ 1,668,893</td>
<td>-61%</td>
</tr>
<tr>
<td>Maintenance</td>
<td>353,512</td>
<td>422,246</td>
<td>-16%</td>
</tr>
<tr>
<td>Consulting</td>
<td>310,187</td>
<td>392,666</td>
<td>-21%</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$ 1,308,521</td>
<td>$ 2,483,805</td>
<td>-47%</td>
</tr>
<tr>
<td>Product sales</td>
<td>$ 644,822</td>
<td>$ 1,681,809</td>
<td>-62%</td>
</tr>
<tr>
<td>Maintenance</td>
<td>353,512</td>
<td>422,246</td>
<td>-16%</td>
</tr>
<tr>
<td>Consulting</td>
<td>396,835</td>
<td>712,631</td>
<td>-44%</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$ 1,395,169</td>
<td>$ 2,816,686</td>
<td>-50%</td>
</tr>
</tbody>
</table>

The Company recognizes approximately 82% of software product sales immediately and amortizes the remaining 18% of those sales (deferred revenue) into maintenance revenue over 12 months from the date of the sale. Software leases are amortized (deferred revenue) into maintenance revenue over the lease period. As at December 31, 2016, revenue of $174,682 (December 31, 2015 - $162,170) is deferred, and will be recognized over a period of twelve months or less.

**Expenses**

<table>
<thead>
<tr>
<th>RF heating expenses</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2015</th>
<th>Percentage change 2016/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs of revenue</td>
<td>$ 17,643</td>
<td>$ 144,658</td>
<td>-88%</td>
</tr>
<tr>
<td>General and administrative</td>
<td>892,593</td>
<td>602,057</td>
<td>48%</td>
</tr>
<tr>
<td>Research and development</td>
<td>1,158,678</td>
<td>845,474</td>
<td>37%</td>
</tr>
<tr>
<td>Software and services expenses</td>
<td>$ 2,068,914</td>
<td>$ 1,592,189</td>
<td>30%</td>
</tr>
<tr>
<td>Costs of revenue</td>
<td>$ 606,529</td>
<td>$ 395,085</td>
<td>54%</td>
</tr>
<tr>
<td>General and administrative</td>
<td>592,294</td>
<td>705,913</td>
<td>-16%</td>
</tr>
<tr>
<td>Research and development</td>
<td>88,995</td>
<td>431,006</td>
<td>-79%</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$ 1,287,818</td>
<td>$ 1,532,004</td>
<td>-16%</td>
</tr>
<tr>
<td>Costs of revenue</td>
<td>$ 624,172</td>
<td>$ 539,743</td>
<td>16%</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,484,887</td>
<td>1,307,970</td>
<td>14%</td>
</tr>
<tr>
<td>Research and development</td>
<td>1,247,673</td>
<td>1,276,480</td>
<td>-2%</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$ 3,356,732</td>
<td>$ 3,124,193</td>
<td>7%</td>
</tr>
</tbody>
</table>

Expenses rose 7% during the year ended December 31, 2016 to $3,356,732 from $3,124,193 for the year ended December 31, 2015. The increase is a result of greater investment in the RF heating segment.
Expenses for the RF heating segment increased 30% to $2,068,914 in 2016 from $1,592,189 in 2015 as a result of higher investment in research and development and general and administrative expenses to develop the business.

Cost of revenue for the company rose 16% in 2016 to $624,172 from $539,743 in 2015, due to increased labour in software and services. Cost of revenue for RF heating fell 88% for the year ended December 31, 2016 to $17,643 from $144,658 in the year ended December 31, 2015. The decrease is due reduced focus on providing consulting services to customers, and more focus on developing the Company’s proprietary technology. Cost of revenue for software and services increased 54% in 2016 to $606,529 from $395,085 in 2015 as a result of more staff dedicated to custom software projects, particularly the Repsol custom RTM development project.

General and administrative expenses (“G&A”) include all salaries (excluding salaries for consulting and research and development personnel) and related expenses (including benefits and payroll taxes); sales and marketing activities; facility costs; stock-based compensation; and professional fees. For the Company as a whole, G&A expense increased 14% in 2016 to $1,484,887 from $1,307,970 mainly due to higher G&A in RF heating. For the year ended December 31, 2016, RF heating G&A expenses rose 48% to $892,593 from $602,057 recorded in the year ended December 31, 2015. The increase is primarily a result of higher marketing and sales salaries and expenses, greater investment in strategic business consulting services, higher legal fees associated with patent filings, and a higher allocation of corporate support costs. G&A expenses for software and services fell 16% in 2016 to $592,294 from $705,913 in 2015 due to a reduced allocation of corporate support costs to the segment.

For the year ended December 31, 2016, research and development (“R&D”) expenditures fell 2% to $1,247,673 from $1,276,480 for the year ended December 31, 2015, despite greater investment in RF heating R&D. RF heating R&D increased by 37% in 2016 to $1,158,678 compared to $845,474 in 2015 due to more R&D staff, higher expenditure on materials and services associated with field tests, and additional contractors. R&D expenditure for RF heating yielded two patent applications filed, and a significant field test commenced in 2016. Software and services R&D decreased 79% in 2016 to $88,995 from $431,006 in 2015 due to fewer staff dedicated to R&D. R&D activities in software and services in 2016 yielded a significant new feature for AxFDTD, and other incremental improvements in the seismic imaging suite. The Company recorded $132,237 (2015 - $120,956) in refundable Alberta SR&ED tax credits as a reduction in R&D expense.

Foreign exchange

In 2015, the Company recognized a $87,794 gain on foreign exchange compared to a loss of $50,913 in 2016. Foreign exchange gains or losses typically occur when the exchange rate changes between the time revenue is recognized and when the resulting receivable is collected.

Total comprehensive loss

The Company had a total comprehensive loss of $2,010,009 for the year ended December 31, 2016, an 815% increase compared to a total comprehensive loss of $219,273 for the year ended December 31, 2015. The increase in comprehensive loss can be attributed to greater investment in RF heating, and lower revenue across all segments.
Summary of Quarterly Results

The following table highlights revenue, cash used in operating activities, total comprehensive income (loss) before tax and earnings (loss) per share for the eight most recently completed quarters ended December 31, 2016.

<table>
<thead>
<tr>
<th></th>
<th>Year 2016</th>
<th>Year 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>Q4</td>
<td>Q3</td>
</tr>
<tr>
<td>$175,639</td>
<td>$366,675</td>
<td>$410,318</td>
</tr>
<tr>
<td><strong>Cash (used) generated in operating activities</strong></td>
<td>(837,494)</td>
<td>(256,971)</td>
</tr>
<tr>
<td><strong>Total comprehensive income (loss) for the period</strong></td>
<td>(953,737)</td>
<td>(324,722)</td>
</tr>
<tr>
<td><strong>Earnings (loss) per share basic and diluted</strong></td>
<td>($0.011)</td>
<td>($0.005)</td>
</tr>
</tbody>
</table>

Compared to the same quarter a year earlier, Acceleware showed a significant decline in revenue during Q4 2016. Due to the lower revenue, the Company recorded higher total comprehensive loss in Q4 2016 as compared to total comprehensive income in Q4 2015. In addition, cash used in operating activities increased significantly in Q4 2016 compared to cash being generated in Q4 2015.

Results of Operations – Fourth Quarter

**Overall Performance**

During the three months ended December 31, 2016 (“Q4 2016”), Acceleware had a total comprehensive loss of $953,737, compared to a total comprehensive income of $158,746 for the three months ended December 31, 2015 (“Q4 2015”). The difference is a result of an 83% reduction in revenue, combined with a 32% increase in expenses.

Total comprehensive loss of $953,737 in Q4 2016 was also significantly higher than the loss of $324,722 recorded in the three months ended September 30, 2016 (“Q3 2016”) due to lower revenue, and higher expenses, particularly R&D.

**Revenue**

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Three months ended Dec 31, 2016</th>
<th>Three months ended Dec 31, 2015</th>
<th>Three months ended Sept 30, 2016</th>
<th>% change Q4 2016 over Q4 2015</th>
<th>% change Q4 2016 over Q3 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product sales</td>
<td>$ 76,092</td>
<td>$ 801,250</td>
<td>$ 85,886</td>
<td>-91%</td>
<td>-11%</td>
</tr>
<tr>
<td>Maintenance</td>
<td>74,614</td>
<td>100,375</td>
<td>75,994</td>
<td>-26%</td>
<td>-2%</td>
</tr>
<tr>
<td>Consulting</td>
<td>24,933</td>
<td>114,799</td>
<td>204,795</td>
<td>-78%</td>
<td>-88%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 175,639</td>
<td>$ 1,016,424</td>
<td>$ 366,675</td>
<td>-83%</td>
<td>-52%</td>
</tr>
</tbody>
</table>

During Q4 2016, the Company recognized revenue of $175,639 representing an 83% decrease over the $1,016,424 recognized during Q4 2015, due to lower product and consulting revenue. Revenue fell 52% compared to the $366,675 recognized in Q3 2016 primarily on lower consulting revenue.
As the Company focused on the development and testing of its proprietary RF heating technology in Q3 and Q4 2016, no revenue was recorded compared to consulting revenue of $87,379 recorded in Q4 2015.

Software product sales revenue fell 91% to $76,092 for Q4 2016 compared to $801,250 for Q4 2015 due to the Repsol agreement nearing completion and a lack of other seismic imaging software sales. Product sales also decreased 11% to $76,092 for Q4 2016 compared to $85,886 for Q3 2016, due to lower AxFDTD revenue. Software maintenance revenue declined by 26% to $74,614 for Q4 2016 compared to $100,375 for Q4 2015 and was 2% lower than the $75,994 recorded in Q3 2016 due to lower maintenance from AxFDTD software. Software consulting revenue fell 9% to $24,933 in Q4 2016 compared to $27,420 recognized in Q4 2015 due to lower oil and gas HPC consulting including custom software development. Consulting revenue was 88% lower in Q4 2016 compared to $204,795 in Q3 2016, on lower HPC training revenue.

Expenses

Expenses rose 32% during the three months ended December 31, 2016 to $1,144,030 from $867,509 for the three months ended December 31, 2015 primarily due to increased RF heating R&D expenses. Expenses rose 68% from the $680,382 recorded in Q3 2016 also due to increased RF heating R&D, as well as higher software cost of revenue and RF heating G&A.
**Cost of revenue**

<table>
<thead>
<tr>
<th>RF heating expenses</th>
<th>Three months ended Dec 31, 2016</th>
<th>Three months ended Dec 31, 2015</th>
<th>Three months ended Sept 30, 2016</th>
<th>% change Q4 2016 over Q4 2015</th>
<th>% change Q4 2016 over Q3 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of revenue</td>
<td>$344,511</td>
<td>$193,408</td>
<td>$174,511</td>
<td>-100%</td>
<td>N/A</td>
</tr>
<tr>
<td>General &amp; administrative</td>
<td>452,301</td>
<td>188,984</td>
<td>186,557</td>
<td>78%</td>
<td>142%</td>
</tr>
<tr>
<td>Research &amp; development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$796,812</td>
<td>$442,977</td>
<td>$361,068</td>
<td>80%</td>
<td>121%</td>
</tr>
</tbody>
</table>

Cost of revenue for Q4 2016 rose 1% to $207,069 from $204,064 in Q4 2015 and increased 72% from $120,669 in Q3 2016. The increase year over year and compared to the most recent completed quarter is a result of the higher direct costs associated with the Repsol custom software development project (salaries, contractors, and travel) as the team focused on completing several key components of the project. All cost of revenue was attributable to the software segment in Q3 and Q4 2016, and all but $60,585 of cost of revenue in Q4 2015 was for the software segment.

For the three months ended December 31, 2016, G&A expenses rose 10% to $469,414 from $425,325 recorded in Q4 2015. The increase is as a result of higher costs in marketing, sales and business consulting in RF heating. G&A expenses rose 50% in Q4 2016 compared to the $312,863 recorded in Q3 2016, due to increased marketing personnel and travel costs, higher administrative compensation expense, and increased strategic consulting in RF heating.

For the three months ended December 31, 2016, R&D expenditures increased 96% to $467,547 from $238,120 for the three months ended December 31, 2015 due to greater investment in RF heating R&D, particularly the commencement of an RF XL field test. R&D rose 89% in Q4 2016 compared to the $246,850 recorded in Q3 2016 for the same reason.

**Total comprehensive income (loss)**

Total comprehensive loss rose significantly in Q4 2016 to ($953,737) compared to total comprehensive income of $158,746 in Q4 2015 and to total comprehensive loss of ($324,722) in Q3 2016. The increased loss over Q4 2015 is a result of an 83% decline in revenue, particularly software revenue, coupled with a 32% increase in expenses, particularly RF heating R&D. The increase in total comprehensive loss in Q4 2016 compared to Q3 2016 is due to a 68% increase in expenses, predominantly attributable to RF heating R&D, coupled with a 52% decrease in revenue.

**Liquidity and Capital Resources**

At December 31, 2016, Acceleware had $1,616,415 (2015 - $585,117) in working capital, including $1,922,318 (2015 - $361,957) in cash and cash equivalents, and $58,095 (2015 - $37,160) in combined short-term and long-term debt in the form of finance leases. The Company has $914,920 (2015 - $nil) (principal plus accrued interest) in convertible debentures that accrue interest at 10% per year. The increase in cash (and consequently working capital) is a result of the Company completing an equity financing for gross proceeds of $2 million and the issuance of the convertible debentures in 2016 compared to $nil financing activity in 2015. The decline in working capital other
than cash is a result of less work in process associated with the Repsol custom software project, which was nearing completion at the end of 2016, and lower trade receivables reflecting lower overall revenue.

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; to focus on selected core vertical markets; to minimize operating expenses where possible; and to 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, reducing sales, marketing and general and administrative expenses, and seeking outside financing. The failure of the Company to achieve one or all of the above items may have a material adverse impact on the Company’s financial position, results of financial performance and cash flows.*

Cash flows used in operations totaled $1,329,319 for the year ended December 31, 2016, compared to cash used of $210,619 for the year ended December 31, 2015. The change is a result of increased loss before income tax, offset by a decreased investment in non-cash working capital, particularly work in process. Cash used in operations before changes in non-cash working capital increased to $1,826,825 in 2016 from cash used of $58,921 in 2015.

As at December 31, 2016, the Company had current liabilities of $999,287 compared to current liabilities of $937,520 as at December 31, 2015. The increase in current liabilities is due to higher accrued salary expense and other payroll liabilities, higher deferred revenue and a higher current portion of finance leases.

Trade and Other Receivables

Trade and other receivables as at December 31, 2016 fell to $196,525, compared to $381,299 as at December 31, 2015. The decrease is a result of lower revenue in Q3 2016 and Q4 2016 compared to the same period a year ago. The Company maintains close contact with its customers to mitigate risk in the collection of receivables.

Work in Process

Work in process represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses, if any. Work in process is presented in the statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. Work in process was $323,438 at December 31, 2016 compared to $604,678 at December 31, 2015. The decrease is a result of the Repsol custom RTM software project nearing completion.

Alberta SR&ED Tax Credits

The Company has recorded $132,237 (December 31, 2015 - $120,618) in receivables as at December 31, 2016. The increase is a result of higher R&D expenditures relating to RF heating.

* This paragraph contains forward looking information. Please refer to “Forward Looking Statements” and “Risk Factors and Uncertainties” for a discussion of the risks and uncertainties related to such information.
**Investing Activities**

For the year ended December 31, 2016, $8,690 was invested in property and equipment compared to $19,536 for the year ended December 31, 2015. The decrease is principally a result of only replacing critical hardware and software and maintaining Management’s objective of limiting capital expenditures. At December 31, 2016, $54,780 (2015 - $34,038) book value of investment in property and equipment relates to equipment under finance lease.

**Financing Activities**

During the year ended December 31, 2016, 485,827 stock options (2015 - $nil) were exercised for net proceeds of $43,666 (2015 - $nil), and 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 (2015 - $nil). During the year ended December 31, 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. No such convertible debentures were issued in the year ended December 31, 2015. Total net proceeds from financing activities in 2016 was $2,898,370 (2015 - $nil).

During the year ended December 31, 2016, $46,153 (2015 - $25,512) was received in the form of computer equipment finance leases.

**Income Tax**

The Company follows the liability method with respect to accounting for income taxes. Deferred tax assets and liabilities are determined based on differences between the carrying amount and the tax basis of assets and liabilities (temporary differences). Deferred tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when these differences are expected to reverse. Deferred tax assets, if any, are recognized only to the extent that, in the opinion of Management, it is probable that the assets will be realized.

With the exception of the refundable Alberta SR&ED tax credits, as at December 31, 2016, the potential tax benefits of Acceleware’s available tax pools have not been recognized in the Company’s account due to uncertainty surrounding the realization of such benefits.

**Risks Factors and Uncertainties**

Management defines risk as the probability of a future event that could negatively affect the financial condition and/or results of operations of the Company. The following section describes specific and general risks that could affect the Company. As it is difficult to predict whether any risk will be realized or its related consequences will occur, the actual effect of any risk on the business could be materially different from that anticipated. The following descriptions of risk do not include all possible risks as there may be other risks of which Management is currently unaware.

**Liquidity Risk**

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, reducing sales, marketing and general and administrative expenses, and seeking outside financing. The failure of the Company to achieve one or all of the above items may have a material adverse impact on the Company’s financial position, results of financial performance and cash flows.*

Dependence on Market Growth
The overall market for oil and gas HPC software and services has experienced two years of stagnant or negative growth, preceded by several years of growth. There can be no assurance that the market for the Company's existing software products and services will resume growth in the near future nor that the Company will be successful in establishing new markets for its software products and services. The Company’s RF heating commercialization strategy is wholly dependent on the ability of the Company to take market share from existing in-situ heavy oil production techniques, or to grow the existing market by increasing the amount of reserves that become economic to produce. If the various markets in which the Company's software products and services compete fail to grow, or grow more slowly than the Company currently anticipates, or if the Company is unable to establish new markets for its products and services or the Company’s products and services do not gain market acceptance, the Company's business, operating results and financial condition could be materially adversely affected.

Requirement for Additional Financing
Management of Acceleware may seek additional funding to support ongoing losses, particularly losses associated with the development and commercialization of its RF heating technology, until Acceleware reaches a level of revenue which will sustain its operations on an internal basis. The rate of growth in the market for Acceleware’s products and services and Acceleware's success in gaining market share, have been less than Acceleware anticipated. Acceleware cannot be assured that additional funding will be available, or if available, that it will be available on acceptable terms. If adequate funds are not available, Acceleware may have to reduce substantially or eliminate expenditures for research and development, testing, production and marketing of its products and services. There can be no assurance that the Company will be able to raise additional capital if its capital resources are exhausted. The ability to arrange additional financing in the future will depend, in part, upon the prevailing capital market conditions as well as the business and performance of Acceleware. There can be no assurance that Acceleware will be successful in arranging additional financing or that such additional financing will be available on satisfactory terms.

Reliance on Limited Number of Customers
The Company derives a significant component of its revenues from three major customers. In aggregate, these three customers generated approximately 60% of total revenues for the year ended December 31, 2016. The Company is actively seeking other customers to mitigate the Company’s revenue reliance on these existing major customers. Should these customers not continue to purchase and resell the Company’s products and the Company is unable to attract new channel partners, revenue and the sustainability of the Company would be materially affected in future periods.

* this paragraph contains forward looking information. Please refer to “Forward Looking Statements” and “Risk Factors and Uncertainties” for a discussion of the risks and uncertainties related to such information
**Competition**  
The market for oil and gas seismic and other HPC software and services is competitive. Acceleware also has competition in the emerging RF heating market. Acceleware has experienced and will continue to experience intense competition from other organizations with more established sales and marketing presence, superior technical support services and greater financial resources. The Company's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. As the market for the Company's products and services continues to develop, additional competitors may enter the market and competition may intensify. Increased competition may cause price reductions, reduced profitability and loss of market share, any of which could have an adverse effect on the Company's business, results of operations and financial condition.

**Failure to Manage Growth Successfully**  
In the event that the Company's business grows rapidly, the growth may place a strain on managerial and financial resources. Such expansion may result in substantial growth in the number of its employees, the scope of its operating and financial systems and the geographic area of its operations, resulting in increased responsibility for both existing and new management personnel. The Company's future growth will depend upon a number of factors, including the ability to:

- Acquire and train sales and marketing staff to expand Acceleware’s presence in the evolving marketplace for the Company's products and services, and keep staff informed regarding the technical features, issues and key selling points of the Company's products and services;
- Attract and retain qualified technical personnel to continue to develop reliable and scalable solutions and services that respond to evolving customer needs and technological developments;
- Maintain high quality customer service and support as sales increase; and
- Expand the Company's internal management while maintaining appropriate financial controls over operations and providing support to other functional areas within the Company.

The Company's inability to achieve any of these objectives could harm the Company's business, financial condition and operating results and prospects.

**Lengthy Sales Cycle – Channel Partner Distributors**  
The Company's channel partner (distributors) integration/sales cycle, beginning with an interested channel partner that technically integrates with the Company and culminating in a commercial agreement with the channel partner, is expected to range from six to twelve months and may be significantly longer. Once the integration period with the channel partner is completed, the actual “sales” cycle to the channel partner's customers is relatively short - a matter of weeks or a few months. The lengthy integration cycle with the channel partner and the limited access to the channel partner's customers (arising from how the channel partner distributes products and services) limits the Company's ability to forecast the timing and amount of specific sales in a particular quarter and will likely continue to cause significant fluctuations in its quarterly operating results. Because of these fluctuations, Management believes that neither the Company’s past performance nor period-to-period comparisons of its operating results are, or may be, a good indication of its future performance. If the Company's operating results for a particular period fail to meet investor expectations that are based on the Company's past performance or on period-to-period comparisons of the Company's operating results, the Company's share price could decline. This cycle is also subject to a number of significant delays over which Company will have little or no control. The Company augments its channel partner strategy with direct sales activities to partially mitigate the channel partner risk.

**Failure to Adapt to Technological Change and New Product Development**  
The hardware development industry is characterized by rapid technological change and the frequent introduction of new products. Accordingly, Management believes that the future success of the Company depends upon its ability to enhance current products and services or develop and introduce new products and services. The Company's inability, for technological or other reasons, to develop and introduce products or services in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the Company's business, results of operations and financial condition. The ability of the Company to compete successfully will depend in large measure on its ability to maintain a technically competent research and development staff and to adapt to technological changes and advances in the industry, including providing for the
continued compatibility of its products and services with evolving computer hardware and software platforms and operating environments. There can be no assurance that the Company will be successful in these efforts.

**Risk Associated with International Operations**

Management of the Company believes that its continued growth and profitability will require additional expansion of its sales in foreign markets. This expansion has required, and will continue to require, significant management attention and financial resources and could adversely affect the Company's operating margins. In order to increase international sales in subsequent periods, the Company may establish additional foreign operations, hire additional personnel and recruit international resellers. To the extent that the Company is unable to expand international sales in a timely and cost-effective manner, the Company's business, results of operations and financial condition could be materially adversely affected. In addition, even with the possible recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products and services.

**Risk Associated with Currency Fluctuations**

Most of the Company's revenue is realized in foreign currencies as a result of international sales. Fluctuations in the exchange rate between the Canadian dollar and other currencies, particularly the U.S. dollar, may have a material adverse effect on the Company's results of operations, financial condition and any business prospects. The Company currently has no hedge in place on its foreign currency exposure.

**Risk Associated with a Change in the Company's Pricing Model**

The competitive market in which the Company conducts business may require the Company to change its pricing model. If the Company's competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other products, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would likely result in a reduction in profitability and could adversely affect the Company's operating results.

**Dependence on Key Personnel**

The success of the Company is largely dependent on the performance of its key employees and directors. Failure to retain key employees and directors and to attract and retain additional key employees with necessary skills could have a material adverse impact upon the Company's growth and profitability. Competition for highly skilled management, technical and other employees is intense. There can be no assurance that the Company will be successful in attracting and retaining such personnel and the departure or death of any of the members of the Company's executive team and key directors could have a material adverse effect on the Company's business, results of operations and financial condition.

**Risks of Acquisitions Negatively Affecting the Company**

In the future, the Company may engage in selective acquisitions of products or businesses that Management of the Company believes would be complementary to its existing products. There is a risk that the Company will not be able to identify suitable acquisition candidates available for sale at reasonable prices, complete any acquisition, or successfully integrate any acquired product or business into the Company's operations. Acquisitions may involve a number of other risks, including: diversion of Management's attention; disruption to the Company's ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development, or the entire acquired business.

If the Company does not successfully address these risks or any other problems encountered in connection with an acquisition, the acquisition could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, if the Company proceeds with an acquisition paid by cash, it may diminish the Company's liquidity and capital resources, or shares may be issued which could cause significant dilution to existing shareholders.
**Intellectual Property Risks**

Because much of the Company's potential success and value lies in its ownership and use of intellectual property, its failure to protect its intellectual property may negatively affect its business and value. The Company's ability to compete effectively is largely dependent upon the maintenance and protection of its intellectual property. The Company relies primarily on trade secret, trademark and copyright law, and when appropriate patent protection, as well as confidentiality procedures and licensing arrangements, to establish and protect its rights to its technology. The Company typically enters into confidentiality or license agreements with its employees, consultants, customers, strategic partners and vendors in an effort to control access to and distribution of its products, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's proprietary technology without authorization.

Policing unauthorized use of the Company's intellectual property is difficult. The steps that the Company takes may not prevent misappropriation of its intellectual property, and the agreements the Company enters into may be difficult to enforce. In addition, effective intellectual property protection may be unavailable or limited in some jurisdictions outside Canada and the United States. Litigation may be necessary in the future in order to enforce or protect the Company's intellectual property rights or to determine the validity and scope of the proprietary rights of others. That litigation could cause the Company to incur substantial costs and divert resources away from the Company's daily business, which in turn could materially hinder its business. The Company may be subject to damaging and disruptive intellectual property litigation.

The Company may be subject to intellectual property litigation that could:

- Be time-consuming and expensive;
- Divert attention and resources away from the Company's daily business;
- Impede or prevent delivery of the Company's products and services; and
- Require the Company to pay significant royalties, licensing fees and damages.

Although the Company is not aware that its products or services infringe or violate the intellectual property rights of third parties and although the Company has not been served notice of any potential infringement or violation, the Company may be subject to infringement claims in the future. Since patent applications are kept confidential for a period of time after filing, applications may have been filed that, if issued as patents, could relate to the Company's products or services.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block the Company's ability to provide its products and services in Canada, the United States and other jurisdictions and could cause the Company to pay substantial damages. In the event of a successful claim of infringement, the Company and its customers may need to obtain one or more licenses from third parties, which may not be available at a reasonable cost, if at all. The defense of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims, as well as resulting damages, license fees, royalty payments and restrictions on the Company's ability to provide its products or services, any of which could harm its business.

The Company is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to the Company. Any of the foregoing could have a materially adverse effect on the Company's business, results of operations and financial condition.
**Risk of Defects in the Company's Products**

Products as complex as those offered by the Company frequently contain errors or defects, especially when first introduced or when new versions or updates are released. Despite product testing, Acceleware has in the past released products with defects, discovered software errors in certain of its new versions after introduction, and experienced delays or lost revenue during the period required to correct these errors. Acceleware regularly introduces new releases and periodically introduces new versions of its software. Known errors which the Company considers minor may be considered serious by its customers. There can be no assurance that, despite testing by the Company and by its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after the commencement of commercial shipments. Undetected errors and performance problems may be discovered in the future. Any such defects and errors could result in litigation, adverse customer reactions, negative publicity regarding the Company and its products, harm to the Company's reputation, loss of or delay in market acceptance or required product changes, any of which could have a material adverse effect upon the Company's business, results of operations and financial condition.

**Risks of Security Breaches to the Company's Network (Cyber Security)**

An experienced programmer may attempt on occasion to penetrate the Company's network security and could misappropriate the Company’s or its customers’ proprietary information or cause interruptions in the Company's operations. Acceleware’s operations as proprietary software developers, and developers of leading edge RF heating technology could increase the risk of a cyber attack from industrial competitors, cyber criminals and government actors. Acceleware has implemented various means to limit such an occurrence but may be required to expend significant capital and resources to protect against or to alleviate problems caused by such hackers in the future. Additionally, the Company may not have a timely remedy for any attack on the Company's network security. Such purposeful security breaches could have a material adverse effect on the Company's business, results of operations and financial condition. Risks include the untimely disclosure of proprietary data prior to its adequate protection through patent, trade secret or copyright. Should the Company’s customer data be compromised, it could expose the Company to a material risk of loss or litigation, reputational damage and possible liability. In addition to deliberate security breaches, the inadvertent transmission of computer viruses could expose the Company to a material risk of loss or litigation, reputational damage and possible liability.

In offering certain payment services for some products and services, the Company could become increasingly reliant on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as customer credit card numbers. Advances in computer capabilities, discoveries in the field of cryptography and other discoveries, events, or developments could lead to a compromise or breach of the algorithms or licensed encryption authentication technology that the Company uses to protect such confidential information. If such a compromise or breach of the Company's licensed encryption authentication technology occurs, it could have a material adverse effect on the Company's business, its reputation, results of operations and financial condition. The Company may be required to expend significant capital and resources to protect against the threat of such security, encryption and authentication technology breaches or to alleviate problems caused by such breaches.

Acceleware’s Management is responsible for assessing and overseeing risks associated with cyber security and determining, with its IT staff, what measures are appropriate to protect against these risks. The Company holds insurance against cyber security incidents, however the coverage may be inadequate to fully cover every cyber security risk.

**Reliance on Third Party Licenses**

The Company anticipates relying on certain software that Acceleware licenses from third parties, including a software program that is integrated with internally developed software and used in Acceleware's products to perform key functions. There can be no assurance that these third-party licenses will continue to be available to the Company on commercially reasonable terms. The loss of, or inability to maintain, any of these licenses, could result in delays or reductions in product and service deployment until equivalent software can be developed, identified, licensed and integrated, which could materially adversely affect the Company's business, results of operations and financial condition.
Technological Change, New Products and Standards
To remain competitive, Acceleware must continue to enhance and improve the current line of products. The technology industry is characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render Acceleware's existing products and systems obsolete. Acceleware's products embody complex technology and may not always be compatible with current and evolving technical standards and products developed by others. Failure or delays by Acceleware to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on Acceleware's business, results of operations and financial condition. Acceleware's ability to anticipate changes in technology, technical standards and products will be a significant factor in its ability to compete. There can be no assurance that Acceleware will be successful in identifying, developing, manufacturing and marketing products that will respond to technological change or evolving standards. Acceleware's business may be adversely affected if it incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render Acceleware's products or technologies non-competitive or obsolete.

Reliance on One Primary Hardware Technology
The current collaboration with NVIDIA Corp. ("NVIDIA") is viewed as an important contributor to the timely execution of the current business plan. NVIDIA hardware is the primary platform for the Company’s software solutions. If Management is unable to maintain a positive relationship with NVIDIA, the Company will make appropriate adjustments in the execution of its business plan. The Company continues to evaluate other hardware alternatives. However, should NVIDIA fail to supply these components to the Company’s customers in a manner that meets those customers’ quality, quantity, cost or time requirements, and if the Company were unable to modify its solutions to run on hardware from alternate suppliers of these components in a timely manner or on acceptable terms, this could adversely affect the Company’s ability to sell products.

Conflicts of Interest
Certain of the directors and officers of the Company are or may become directors or officers of, or have significant shareholdings in, other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that any such conflict of interest arises, a director who has such a conflict will disclose the conflict to a meeting of the directors of the Company and will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

Price Volatility of Publicly Traded Securities
In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market price for the Common Shares will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's securities will be affected by such volatility.

Earnings and Dividend Record
The Company has no earnings or dividend record. To date, the Company has paid no dividends on its Common Shares and does not anticipate doing so in the foreseeable future.
Transactions with Related Parties

For the year ended December 31, 2016, the Company incurred expenses in the amount of $206,000 (2015 - $181,431) 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, $88,419 was included in accounts payable and accrued liabilities as at December 31, 2016 (December 31, 2015 $39,161). These fees were incurred in the normal course of operations and in the opinion of Management represent fair value for services rendered.

For the year ended December 31, 2016, the Company incurred expenses in the amount of $21,928 (2015 - $11,407) with a company controlled by a director of the Company for legal fees, and is included in general and administrative. Of the total, $22,327 was included in accounts payable and accrued liabilities as at December 31, 2016 (December 31, 2015 - $4,644). These fees were incurred in the normal course of operations and in the opinion of Management represent fair value for services rendered.

For the year ended December 31, 2016, the Company incurred expenses in the amount of $3,000 (2015 - $nil) 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, $nil was included in accounts payable and accrued liabilities as at December 31, 2016 (December 31, 2015 - $nil). These fees were incurred in the normal course of operations and in the opinion of Management represent fair value for services rendered.

Four officers of the Company have advanced $315,105 (December 31, 2015 - $283,383) to the Company in the form of deferred salaries and consulting fees. These amounts are non-interest bearing, unsecured and are to be repaid no later than December 31, 2017. These amounts are recorded in accounts payable and accrued liabilities.

Key management includes the Company’s directors and members of the executive management team. Compensation awarded to key management included:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and short-term employee benefits</td>
<td>$839,043</td>
<td>$754,077</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>$66,388</td>
<td>$21,636</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$905,431</strong></td>
<td><strong>$775,713</strong></td>
</tr>
</tbody>
</table>

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, 2016, $11,700 of the rent inducement remains (December 31, 2015 - $31,756). 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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$91,770</td>
</tr>
<tr>
<td>2018</td>
<td>91,770</td>
</tr>
<tr>
<td>2019</td>
<td>91,770</td>
</tr>
<tr>
<td>2020</td>
<td>53,533</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$328,843</strong></td>
</tr>
</tbody>
</table>
The Company has certain computer equipment under financial lease expiring in 2017 through 2019. The leases carry a weighted average annual interest rate of 6.11%. Estimated lease payments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$ —</td>
<td>$ 20,469</td>
</tr>
<tr>
<td>2017</td>
<td>32,426</td>
<td>17,029</td>
</tr>
<tr>
<td>2018</td>
<td>16,902</td>
<td>1,506</td>
</tr>
<tr>
<td>2019</td>
<td>11,555</td>
<td>—</td>
</tr>
<tr>
<td>Minimum lease payments</td>
<td>$60,883</td>
<td>$39,004</td>
</tr>
<tr>
<td>Less: interest portion at a rate of 6.11% (2016 – 5.25%)</td>
<td>2,788</td>
<td>1,844</td>
</tr>
<tr>
<td>Net minimum lease payments</td>
<td>$58,095</td>
<td>$37,160</td>
</tr>
<tr>
<td>Less: current portion</td>
<td>$30,578</td>
<td>$19,078</td>
</tr>
<tr>
<td></td>
<td>$ 27,517</td>
<td>$ 18,082</td>
</tr>
</tbody>
</table>

The equipment under finance lease has been recognized in property and equipment at the present value of minimum lease payments. Interest charges on leased equipment during the year were approximately $2,088 (2015 – $2,471). 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 $54,780 (2015 – $34,038) which is included in computer hardware.

**Critical Accounting Estimates**

**General**
The preparation of the Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The ongoing evaluation of these estimates forms the basis for making judgements about the carrying values of assets and liabilities and the reported amount of revenues and expenses in cases where they are not readily ascertainable from other sources. Actual amounts may differ from these estimates under different assumptions or conditions.

The Company’s significant accounting policies are fully described in Note 4 to the Financial Statements. Certain accounting policies are particularly important to the reporting of financial position and results of operations, and require the application of judgement by Management. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made. Different Management estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could have a material impact on the Financial Statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of Financial Statements.

**Going Concern Assumption**
The 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's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations as they come due, to obtain additional financing as may be required, and ultimately to achieve successful operations. However, no assurance can be given at this time as to whether the Company will achieve any of these conditions. If the Company were to change its assumption regarding the ability to continue as a going concern for a reasonable period of time, adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities would likely be necessary and potentially material.
Revenue Recognition
The Company’s revenue recognition requirements pertaining to multiple deliverables, contract accounting, software and maintenance are very complex and are affected by interpretations of the rules and certain judgments. One of the critical judgments made is the assessment of the probability of collecting the related accounts receivable balance on a customer-by-customer basis. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection had been made at the time that the transactions were recorded in revenue.

Allowance for Doubtful Accounts
The Company evaluates the collectability of trade receivables based on a combination of factors. The Company regularly analyzes significant customer accounts. When and if the Company becomes aware of a specific customer’s inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer’s operating results or financial position, a specific bad debt reserve is recorded to reduce the related receivable to the amount that is reasonably believed to be collectible. Reserves for bad debts on all other customer balances are based on a variety of factors, including the length of time that the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. As of December 31, 2016, and December 31, 2015 no allowance has been provided for.

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, 2016 or later periods. The standards affected are as follows:

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.

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.

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 (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.

**Financial Instruments and Other Instruments**

The Company’s only financial instruments are the monetary assets and liabilities appearing on its statement of financial position.

**Disclosure of Outstanding Share Data**

As of the date of this MD&A, Acceleware had the following common shares, options and warrants outstanding:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Shares</td>
<td>85,571,246</td>
</tr>
<tr>
<td>Stock Options</td>
<td>8,492,674</td>
</tr>
</tbody>
</table>

**Additional Disclosure for Venture Issuers Without Significant Revenue**

Additional disclosure concerning the Company’s research and development expenses and general and administrative expenses is provided in the audited financial statements for December 31, 2016 that are available on [www.sedar.com](http://www.sedar.com) and as noted below.

<table>
<thead>
<tr>
<th>Sales, General and Administration</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$ 797,748</td>
<td>$ 740,150</td>
</tr>
<tr>
<td>Marketing</td>
<td>134,270</td>
<td>115,775</td>
</tr>
<tr>
<td>Travel</td>
<td>36,099</td>
<td>50,195</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>69,473</td>
<td>30,443</td>
</tr>
<tr>
<td>Rent, supplies and public company fees</td>
<td>262,269</td>
<td>246,298</td>
</tr>
<tr>
<td>Amortization</td>
<td>31,286</td>
<td>41,483</td>
</tr>
<tr>
<td>Professional fees</td>
<td>153,742</td>
<td>83,626</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,484,887</strong></td>
<td><strong>$ 1,307,970</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Research and Development</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$ 819,869</td>
<td>$ 1,009,506</td>
</tr>
<tr>
<td>Consulting</td>
<td>259,622</td>
<td>233,260</td>
</tr>
<tr>
<td>R&amp;D lab supplies and other</td>
<td>280,054</td>
<td>123,723</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>27,282</td>
<td>25,887</td>
</tr>
<tr>
<td>Rent and overhead allocations</td>
<td>77,407</td>
<td>79,925</td>
</tr>
<tr>
<td>Amortization</td>
<td>31,286</td>
<td>41,483</td>
</tr>
<tr>
<td>Alberta SR&amp;ED tax credits</td>
<td>(115,610)</td>
<td>(120,956)</td>
</tr>
<tr>
<td>IRAP-NRC and Alberta Ingenuity funding</td>
<td>(132,237)</td>
<td>(116,348)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,247,673</strong></td>
<td><strong>$ 1,276,480</strong></td>
</tr>
</tbody>
</table>