Acceleware Ltd.

Condensed Interim Financial Statements (Unaudited)
For the Three and Nine Months Ended September 30, 2019 and 2018
(in Canadian dollars)

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Contents

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Acceleware Ltd.

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

As at:

		September 30, 2019		December 31, 2018
Assets				
Current				
Cash and cash equivalents	**$**	**4,228,942**	$	3,225,126
Trade and other receivables		**1,212,210**		1,397,786
Contract assets *(note 7)*		**95,039**		1,082,352
Alberta SR&ED tax credits receivable		**135,173**		227,311
Deposits and prepaid expenses		**97,713**		37,184
		5,769,077		5,969,759
Non-current				
Property and equipment		**14,222**		197,931
Right of use assets *(note 5)*		**169,638**		—
Total assets	**$**	**5,952,937**	$	6,167,690
Liabilities and Equity				
Current				
Accounts payable and accrued liabilities	**$**	**3,906,043**	$	3,670,919
Deferred revenue		**185,158**		153,911
Lease obligations *(note 5)*		**151,804**		93,352
		4,243,005		3,918,182
Non-current				
Lease obligations *(note 5)*		**38,599**		95,660
Total liabilities		**4,281,604**		4,013,842
Going concern *(note 3)*				
Shareholders' Equity				
Share capital *(note 6a)*		**22,270,968**		22,134,230
Reserves *(note 6b, 6d)*		**7,757,873**		7,440,067
Deficit		**(28,357,508)**		(27,420,449)
Total shareholders' equity		**1,671,333**		2,153,848
Total liabilities and shareholders' equity	**$**	**5,952,937**	$	6,167,690

Approved on behalf of the Board:

(signed) "Bohdan Romaniuk"

Director

(signed) "Dennis Nerland"

Director

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

Acceleware Ltd.

Condensed Statements of Comprehensive Loss (Unaudited)
(in Canadian dollars)

For the:

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Revenue *(note 7)*	**$ 197,001**	$ 263,978	**$ 1,299,209**	$ 784,335
Expenses				
Cost of revenue	**—**	22,282	**2,853**	52,219
General and administrative	**562,876**	445,965	**1,732,081**	1,512,355
Research and development	**237,225**	838,559	**485,712**	1,742,111
	800,101	1,306,806	**2,220,646**	3,306,685
Loss from operations	**(603,100)**	(1,042,828)	**(921,437)**	(2,522,350)
Finance income	**24,131**	—	**51,571**	711
Finance expense	**(2,692)**	(3,267)	**(9,970)**	(8,127)
Foreign exchange (loss) gain	**30,249**	(5,197)	**(57,223)**	(6,814)
	51,688	(8,464)	**(15,622)**	(14,230)
Total comprehensive loss for the period attributable to shareholders	**$ (551,412)**	$ (1,051,292)	**$ (937,059)**	$ (2,536,580)
Loss per share				
Basic and diluted	**$ (0.005)**	$ (0.010)	**$ (0.009)**	$ (0.025)
Weighted average shares outstanding	**104,604,496**	103,641,499	**104,403,150**	102,950,442

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

Acceleware Ltd.

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

		Share capital				Reserves								
		Common shares		Amount		Warrants		Contributed surplus		Total		Deficit		Total shareholders' equity
Balance at January 1, 2018	#	97,391,991	$	20,477,965	$	653,581	$	6,696,439	$	7,350,020	$	(27,321,827)	$	506,158
Total comprehensive loss		—		—		—		—		—		(2,536,580)		(2,536,580)
Exercise of warrants		4,030,896		1,337,548		(411,885)		—		(411,885)		—		925,663
Exercise of stock options for cash *(note 6a)*		677,296		38,098		—		—		—		—		38,098
Share-based payments														
Current period expense *(note 6c)*		—		—		—		483,164		483,164		—		483,164
Stock options exercised *(note 6c)*		—		28,544		—		(28,544)		(28,544)		—		—
Balance at September 30, 2018	**#**	**102,100,183**	**$**	**21,882,155**	**$**	**241,696**	**$**	**7,151,059**	**$**	**7,392,755**	**$**	**(29,858,407)**	**$**	**(583,497)**
Balance at January 1, 2019	#	103,127,670	$	22,134,230	$	10,848	$	7,429,219	$	7,440,067	$	(27,420,449)	$	2,153,848
Total comprehensive loss		—		—		—		—		—		(937,059)		(937,059)
Expiry of warrants *(note 6b)*		—		—		(10,848)		10,848		—		—		—
Exercise of stock options for cash *(note 6a)*		1,484,000		74,200		—		—		—		—		74,200
Share-based payments														
Current period expense *(note 6c)*		—		—		—		380,344		380,344		—		380,344
Stock options exercised *(note 6a)*		—		62,538		—		(62,538)		(62,538)		—		—
Balance at September 30, 2019	**#**	**104,611,670**	**$**	**22,270,968**	**$**	**—**	**$**	**7,757,873**	**$**	**7,757,873**	**$**	**(28,357,508)**	**$**	**1,671,333**

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

Acceleware Ltd.

Condensed Statements of Cash Flows (Unaudited)

(in Canadian dollars)

For the:

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	**Nine months ended September 30, 2019 (unaudited)**	Nine months ended September 30, 2018 (unaudited)
Cash flows from (used for) operating activities				
Comprehensive loss before tax	**$ (551,412)**	$ (1,051,292)	**$ (937,059)**	$ (2,536,580)
Items not involving cash:				
Amortization	**48,492**	25,058	**148,757**	70,872
Share-based payments *(note 6c)*	**109,705**	126,403	**380,344**	483,164
Interest payments on lease obligations *(note 5)*	**2,692**	—	**9,970**	—
Changes in non-cash working capital items				
Trade and other receivables	**58,626**	19,979	**185,576**	(11,009)
Contract Assets	**(23,123)**	—	**987,313**	—
Alberta SR&ED tax credit receivable	**185,041**	(46,341)	**92,138**	65,284
Deposits and prepaid expenses	**44,793**	2,970	**(60,528)**	4,108
Accounts payable and accrued liabilities	**(334,830)**	410,834	**235,125**	495,311
Deferred revenue	**(18,356)**	(39,427)	**31,247**	23,652
	(478,372)	(551,816)	**1,072,883**	(1,405,198)
Cash flows from financing activities				
Issuance of common shares *(note 6a)*	**3,000**	184,863	**74,200**	963,760
Interest payments on lease obligations *(note 5)*	**(2,692)**	—	**(9,970)**	—
Principal payments on lease obligations *(note 5)*	**(44,759)**	(19,901)	**(130,451)**	(60,601)
	(44,451)	164,962	**(66,221)**	903,159
Cash flows from investing activities				
Purchase of property and equipment	**—**	—	**(2,846)**	—
Increase (decrease) in cash and cash equivalents	**(522,823)**	(386,854)	**1,003,816**	(502,039)
Cash and cash equivalents, beginning of period	**4,751,765**	666,130	**3,225,126**	781,315
Cash and cash equivalents, end of period	**$ 4,228,942**	$ 279,276	**$ 4,228,942**	$ 279,276
Comprised of:				
Cash on hand	**$ 175,694**	$ 259,132	**$ 175,694**	$ 259,132
Cash equivalents	**4,053,248**	20,144	**4,053,248**	20,144
	$ 4,228,942	$ 279,276	**$ 4,228,942**	$ 279,276

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

1. General information

Acceleware Ltd. (the "Company" or "Acceleware") is an oil and gas technology company based in Calgary, Alberta, that specializes in the development and marketing of special purpose computational software products for the oil and gas and other markets. The Company also provides specialized software development consulting services and training programs in the field of high performance computing. In addition, the Company is developing an enhanced heavy oil and oil sands production technology based on radio frequency ("RF") heating. The Company is incorporated under the Alberta Business Corporations Act, has its registered offices at 1400, 350 - 7th Avenue SW, Calgary, Alberta, Canada, and trades on the TSX Venture Exchange under the symbol AXE.

2. Basis of presentation

(a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of condensed interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and have been prepared following the same accounting policies and method of computation as the annual financial statements for the year ended December 31, 2018. The disclosures provided below are incremental to those included with the annual financial statements. Certain information and disclosures normally included in the notes to the annual financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the board of directors of the Company (the "Board") on November 26, 2019.

(b) Functional and presentation currency

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

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments classified as fair value through profit or loss which are measured at fair value with changes in fair value recorded in earnings, and share-based payment transactions. The method used to measure fair values is discussed in note 4(i) and 4(k) to the annual financial statements for the year ended December 31, 2018.

(d) Significant accounting assumptions, estimates and judgements

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

2. Basis of Presentation (cont'd)

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

The determination of the amount of the Alberta Scientific Research and Experimental Development ("SR&ED") tax credit receivable requires Management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgement and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near term, dependent on the review and audit by the government agency.

The Company makes use of estimates when calculating revenue for fixed fee service engagements included in the financial statements.

Management operates under the assumption that its carefully budgeted expenditures, coupled with expected revenue and cash flow will be sufficient to fund future operations as a going concern (note 3).

The Company must make use of estimates in calculating the fair value of share-based payments. Amounts recorded for share-based payments are subject to the inputs used in the Black-Scholes option pricing model, including assumptions such as volatility, dividend yield, risk-free interest rates, forfeiture rate estimates, and expected option life.

Other estimates employed are related to taxes and related provisions (note 4(f) and note 4(h) to the annual financial statements for the year ended December 31, 2018) and other provisions and contingencies. Actual results could differ from these and other estimates. The recognition of deferred tax assets is based on forecasts of future taxable profit. The measurement of future taxable profit for the purposes of determining whether or not to recognize deferred tax assets depends on many factors, including the Company's ability to generate such profits and the implementation of effective tax planning strategies. The occurrence or non-occurrence of such events in the future may lead to significant changes in the measurement of deferred tax assets.

3. Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has accumulated losses amounting to $28,357,508 (December 31, 2018 - $27,420,449) largely due to investments in new product development and in the penetration of new markets. In particular, the Company invested $485,712, net of government assistance of $945,206 for the nine months ended September 30, 2019 (nine months ended September 30, 2018 - $1,742,111, net of government assistance of $4,500), in research and development, principally for the Company's proprietary RF heating technology.

3. Going concern cont'd

The Company actively manages its cash flow and investment in new products to match its cash requirements to cash generated from operations including government assistance. In order to maximize cash generated from operations, the Company plans to focus on high gross margin revenue streams such as software, and RF heating services; 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 high-performance computing software business, government assistance and external financing. Management believes that successful execution of its business plan will result in sufficient cash flow and new financing to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of the objectives discussed above, or that sufficient financing from outside sources will be available. Further, if the Company's operations are unable to generate cash flow levels at or above current projections, the Company may not have sufficient funds to meet its obligations over the next twelve months.

Should such events occur, Management is committed to implementing all or a portion of its contingency plan. This plan has been developed and designed to provide additional cash flow, and includes, but is not limited to, deferring certain additional product development initiatives, and reducing sales, marketing and general and administrative expenses, while seeking outside financing.

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

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

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

4. Significant accounting policies

Except for the adoption of IFRS 16, significant accounting policies used in the preparation of these condensed interim financial statements are unchanged from those disclosed in the Company's financial statements for the year ended December 31, 2018.

(a) New standards and interpretations adopted

The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments. IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases.

The impact of the transition to IFRS 16 is shown in note 10.

4. Significant accounting policies (cont'd)

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

The Company's accounting policy under IFRS 16 is as follows: At inception of a contract, Acceleware assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts that contain a lease component, Acceleware then recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for:

- Initial direct costs incurred by Acceleware;
- Lease payments made prior to inception;
- Estimated costs to dismantle, remove or restore the asset(s); less
- Any lease incentives received.

Lease assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if Acceleware is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, Acceleware uses its incremental borrowing rate as the discount rate for leases for the right to use office space and uses the interest rate implicit in the lease for leases of the right to use computer equipment.

The lease liability is measured at amortized cost using the effective interest method. Acceleware will remeasure the lease liability when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Acceleware's estimate of the amount expected to be payable under a residual value guarantee, or if Acceleware changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. Acceleware has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term (12 months or less) leases of all asset classes. Acceleware will elect to apply the practical expedient not to recognize right-of-use assets and lease liabilities for leases of low value (less than $5,000) assets on a case-by-case basis. The lease payments associated with either short-term leases or leases of low-value underlying assets are recognized as an expense on a straight-line basis over the lease term.

(in Canadian dollars)

5. Leases

On February 29, 2012, Acceleware entered into a premise lease agreement to lease 5,244 square feet of office space commencing August 1, 2012 and ending July 31, 2017, a period of five years. Effective August 1, 2015, 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:

Office lease obligations		**September 30, 2019**		January 1, 2019
2019	**$**	**22,943**	$	91,770
2020		**45,885**		45,885
Minimum lease payments		**68,828**		137,655
Less: interest portion at a rate of 5.5%		**1,552**		5,815
Net minimum lease payments		**67,276**		131,840
Less: current portion		**67,276**		87,080
	$	**—**	$	44,760

The office space has been recognized in right of use assets at the present value of minimum lease payments, less accumulated depreciation. Interest charges on office space lease obligations during the three and nine months ended September 30, 2019 were approximately $1,125 and $4,267, respectively (three and nine months ended September 30, 2018 – $nil). Depreciation expense for office space right of use assets is allocated 50% to research and development expense and 50% to general and administrative expense. For the three and nine months ended September 30, 2019, $10,987 and $32,960, respectively, (three and nine months ended September 30, 2018 – $nil) is included in each of general and administrative and research and development expense on the statement of comprehensive loss. At September 30, 2019 the net book value of office space right-of-use assets was $65,920.

The Company has certain computer equipment under various leases expiring 2019 through 2021. The leases carry a weighted average annual interest rate of 4.92%. Estimated lease payments are as follows:

		September 30, 2019		December 31, 2018
2019	**$**	**30,556**	$	99,834
2020		**72,133**		72,133
2021		**26,730**		26,730
Minimum lease payments		**129,419**		198,697
Less: interest portion at a rate of 4.92% (2018 – 5.51%)		**6,292**		9,685
Net minimum lease payments		**123,127**		189,012
Less: current portion		**84,528**		93,352
	$	**38,599**	**$**	95,660

(in Canadian dollars)

5. Leases (cont'd)

The computer equipment under lease has been recognized in right-of-use assets at the present value of minimum lease payments, less accumulated depreciation. Interest charges on leased computer equipment during the three and nine months ended September 30, 2019 were approximately $1,567 and $5,703, respectively (three and nine months ended September 30, 2018 – $2,391 and $7,240, respectively). Depreciation expense for right-of-use computer equipment assets is allocated 50% to research and development expense and 50% to general and administrative expense. For the three and nine months ended September 30, 2019, $11,266 and $36,830, respectively, (three and nine months ended September 30, 2018 – $11,117 and $30,830, respectively) of depreciation expense for computer equipment right-of-use assets is included in each of general and administrative and research and development expense on the statement of comprehensive loss. At September 30, 2019, the net book value of computer equipment right-of-use assets is $103,718 (December 31, 2018 - $183,810).

6. Share capital and other components of shareholders' equity

(a) Share capital

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

Common shares issued	Number		Amount
Balance, December 31, 2018	**103,127,670**	$	**22,134,230**
Issued on exercise of stock options (i)	1,484,000		136,738
Balance, September 30, 2019	**104,611,670**	**$**	**22,270,968**

i. During the nine months ended September 30, 2019, 1,484,000 stock options (nine months ended September 30, 2018 – 468,128) were exercised for cash proceeds of $74,200 (nine months ended September 30, 2018 - $68,667). Non-cash compensation charges of $62,538 (nine months ended September 30, 2018 - $21,087) were reclassified from contributed surplus to share capital on the exercise of these options.

(b) Warrants

There were 1,840,644 share purchase warrants outstanding and exercisable as at December 31, 2018 at an exercise price of $0.27. These warrants were not exercised prior to expiry on September 26, 2019 and $10,848 was reclassified from warrants to contributed surplus on the statement of changes in shareholders' equity.

(c) Share-based payments

At September 30, 2019, the Company had one equity-settled share-based compensation plan. The Company accounts for options granted under this plan in accordance with the fair value method of accounting for share-based compensation. The estimated fair value of the options that are ultimately expected to vest is recorded over the option's vesting period and charged to share-based compensation expenses.

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

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

During the nine months ended September 30, 2019, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 3,506,066 common shares. There were 2,956,066 options granted with an exercise price of $0.13 per share and 550,000 options granted with an exercise price of $0.12 per share. Of the total options granted, 500,000 options vest one year from the date of grant and 2,525,000 options vest over two years, such that 1,262,500 of the options will vest one year from the date of grant, and 1,262,500 will vest two years from the date of grant. The remaining options vest based on the market price of the Company's common shares, such that 240,533 options will vest when the closing market price of the Company's common shares exceeds $0.16 for ten consecutive trading days, and 240,533 options will vest when the closing market price of the Company's common shares exceeds $0.195 for ten consecutive trading days. All options granted expire 5 years from the date of grant.

The weighted average grant date fair value of the stock options granted during 2019 was estimated to be $0.128 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 171%, a risk-free interest rate of 1.81%, expected dividend yield of nil%, expected forfeiture rate of 1.8% and expected life of five years. The expected volatility was determined by calculating the historical volatility of the Company's common share price from the date of grant back to the date five years prior to the date of grant. The estimated fair value of each tranche of options not immediately vesting is amortized to share-based payments over the option vesting period on a straight-line basis. For options that had vesting conditions based on the closing price of the Company's common shares, the vesting period was estimated using a binomial option pricing simulation based on the following weighted average assumptions: expected volatility of 177%, a risk-free interest rate of 1.78%, expected dividend yield of nil%, expected forfeiture rate of 1.0% and expected life of five years

Total share-based payment expenses for the three months ended September 30, 2019 were $70,289 relating to general and administrative (three months ended September 30, 2018 - $86,644) and $39,416 relating to research and development (three months ended September 30, 2018 - $39,759) for a total of $109,705 (three months ended September 30, 2018 - $126,403). Total share-based payment expenses for the nine months ended September 30, 2019 were $257,017 relating to general and administrative (nine months ended September 30, 2018 - $345,157) and $123,327 relating to research and development (nine months ended September 30, 2018 - $138,007) for a total of $380,344 (nine months ended September 30, 2018 - $483,164).

During 2018, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 2,141,534 common shares at an exercise price of $0.29 per share. Of the total, 940,000 options vest one year from the date of grant, and 765,000 will vest two years from the date of grant. The remaining options vest based on the market price of the Company's common shares, such that 218,267 options will vest when the closing market price of the Company's common shares exceeds $0.37 for ten consecutive trading days, and 218,267 options will vest when the closing market price of the Company's common shares exceeds $0.445 for ten consecutive trading days. All options granted expire 5 years from the date of grant. The weighted average grant date fair value of the stock options granted during 2018 was estimated to be $0.269 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 175%, a risk-free interest rate of 2.09%, expected dividend yield of nil%, expected forfeiture rate of 1.3% and expected life of 5 years. The expected volatility was determined by calculating the historical volatility of the Company's common share price from the date of grant back to the date five years prior to the date of grant. The estimated fair value of

(in Canadian dollars)

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

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

each tranche of options not immediately vesting is amortized to share-based payments over the option vesting period on a straight-line basis. For options that had vesting conditions based on the closing price of the Company's common shares, the vesting period was estimated using a binomial option pricing simulation based on the following weighted average assumptions: expected volatility of 175%, a risk-free interest rate of 2.09%, expected dividend yield of nil%, expected forfeiture rate of 1.3% and expected life of 5 years.

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

	Number	Weighted Average Exercise Price
Balance, December 31, 2018	9,128,092	$ 0.173
Granted	3,506,066	0.128
Forfeited	(100,000)	0.13
Expired	(1,183,334)	0.215
Exercised	(1,484,000)	0.050
Balance, September 30, 2019	9,866,824	$ 0.171

Summary of options outstanding and exercisable as at September 30, 2019 is as follows:

Exercise price outstanding	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
$0.05	1,103,422	0.31	$0.050	1,103,422
$0.12	550,000	4.95	0.120	—
$0.13	2,856,066	4.34	0.130	—
$0.15	1,006,170	1.92	0.150	1,006,170
$0.20	320,000	4.07	0.200	—
$0.21	2,569,632	2.40	0.210	2,270,000
$0.30	1,461,534	3.32	0.300	512,500
	9,866,824	3.01	$0.171	4,892,092

(in Canadian dollars)

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

(d) Contributed surplus

Balance, December 31, 2018	$	7,429,219
Warrants expired		10,848
Share-based payments		380,344
Options exercised		(62,538)
Balance, September 30, 2019	**$**	**7,757,873**

7. Revenue

The Company sub-classifies revenue within the following components: software revenue, maintenance revenue, and services revenue. Software revenue comprises license fees charged for the use of software products licensed under fixed term or perpetual arrangements in which the fair values of PCS and/or services fees are determinable. Software revenue also includes the resale of third-party hardware as part of customized solutions, as well as sales of hardware assembled internally. Maintenance revenue primarily consists of fees charged for PCS on software products post-delivery. Services revenue consists of fees charged for technology feasibility, engineering design, training, process simulation consulting, testing, and custom software development.

		Three months ended September 30, 2019		Three months ended September 30, 2018		**Nine months ended September 30, 2019**		Nine months ended September 30, 2018
Software	**$**	**18,799**	$	5,496	**$**	**770,284**	$	17,517
Maintenance		**175,966**		145,203		**492,133**		456,239
Services		**2,236**		113,279		**36,792**		310,579
	$	**197,001**	$	263,978	**$**	**1,299,209**	$	,784,335

AMD Contract

During the year ended December 31, 2018, the Company entered into a consulting services agreement with an affiliate of Advanced Micro Devices, Inc. ("AMD"). Under the terms of the agreement, Acceleware received US$2.51 million in exchange for custom software development human resources and consulting services. The contract contained three performance obligations consisting of software development human resources and two types of consulting services obligations. Revenue is recognized at a point in time for each performance obligation when the human resources and consulting services are transferred and provided to the customer. For the year ended December 31, 2018, the Company recognized $3,276,848 of revenue, of which $1,061,910 represented unbilled revenue (contract assets); this unbilled revenue was invoiced and collected during the three months ended March 31, 2019. At the year ended December 31, 2018, $1,111 was recorded for work in process (contract assets), and $13,105 of revenue was deferred related to the contract. Of the deferred revenue, $13,105 was recognized in the nine months ended September 30, 2019, along with $1,111 of work in process expensed, such that at September 30, 2019, $nil remained in work in process, and $nil remained in deferred revenue.

(in Canadian dollars)

7. Revenue (cont'd)

Pilot test data contract

During the year ended December 31, 2018, the Company entered into a contract with a major oil sands producer to provide data from a commercial-scale pilot project of the Company's RF XL technology. Under the terms of the agreement, Acceleware will receive funding of up to $2,000,000 upon the achievement of certain milestones. The contract contained three performance obligations, consisting of a software license, PCS and the data. For the nine months ended September 30, 2019 the Company recorded $250,000 in accounts payable for amounts received in advance of providing the data. Costs of $95,039 incurred to date associated with providing the data are included in work in process (contract assets).

The Company operates in an international market. Geographic revenue segmentation is as follows:

		Canada	USA		Total
Three months ended September 30, 2019	**$**	**18,200**	**178,801**	**$**	**197,001**
Three months ended September 30, 2018	$	12,974	251,004	$	263,978
Nine months ended September 30, 2019	**$**	**22,675**	**1,276,534**	**$**	**1,299,209**
Nine months ended September 30, 2018	$	12,974	771,361	$	784,335

The Company derives significant revenues from major customers each of whom exceeds 10% of total revenues for the three and nine months ended September 30, 2019.

		Three months ended September 30, 2019		Three months ended September 30, 2018		**Nine months ended September 30, 2019**		Nine months ended September 30, 2018
Customer A	**$**	**86,210**	$	94,024	**$**	**660,317**	$	1,008,133
Customer B		**35,392**		11,997		**174,998**		320,046
Customer C		**31,832**		—		**55,455**		98,051
Customer D		**—**		—		**379,370**		424,822
	$	**153,434**	$	106,021	**$**	**1,270,140**	$	1,851,052

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

(in Canadian dollars)

8. Operating segments

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

The Company does not discretely allocate assets to its operating segments, nor does Management evaluate operating segments using discrete asset information.

Expenses associated with corporate support functions are allocated to the Company's segments based on the segment's percentage of total labour expenses for the allocation period. All intersegment transactions between the HPC and RF Heating segments have been eliminated.

For the three months ended September 30, 2019

	RF Heating	HPC	Total
Revenue	$ 15,925	$ 181,076	$ **197,001**
Expenses			
Cost of revenue	—	—	**—**
General and administrative	353,640	209,236	**562,876**
Research and development	212,796	24,429	**237,225**
	566,436	233,665	**800,101**
Loss (income) from operations	(550,511)	(52,589)	**(603,100)**

For the three months ended September 30, 2018

	RF Heating	HPC	Total
Revenue	$ —	$ 263,978	$ 263,978
Expenses			
Cost of revenue	—	22,282	22,282
General and administrative	298,704	147,261	445,965
Research and development	714,626	123,933	838,559
	1,013,330	293,476	1,306,806
Loss from operations	(1,013,330)	(29,498)	(1,042,828)

(in Canadian dollars)

8. Operating segments (cont'd)

For the nine months ended September 30, 2019

	RF Heating	HPC	Total
Revenue	$ 20,400	$ 1,278,809	$ **1,299,209**
Expenses			
Cost of revenue	—	2,853	**2,853**
General and administrative	1,222,281	509,800	**1,732,081**
Research and development	397,171	88,541	**485,712**
	1,619,452	601,194	**2,220,646**
(Loss) income from operations	(1,599,052)	677,615	**(921,437)**

For the nine months ended September 30, 2018

	RF Heating	HPC	Total
Revenue	$ —	$ 784,335	$ 784,335
Expenses			
Cost of revenue	—	52,219	52,219
General and administrative	980,356	531,999	1,512,355
Research and development	1,256,398	485,713	1,742,111
	2,236,754	1,069,931	3,306,685
(Loss) income from operations	(2,236,754)	(285,596)	(2,522,350)

9. Related party transactions

(a) For the three months ended September 30, 2019, the Company incurred expenses in the amount of $43,750 (three months ended September 30, 2018 - $41,250) and $130,667 for the nine months ended September 30, 2019 (nine months ended September 30, 2018 - $123,750) with a company controlled by an officer of the Company as fees for duties performed in managing operations, and this amount is included in research and development expense. As at September 30, 2019, $15,082 was included in accounts payable and accrued liabilities (December 31, 2018 - $172,719). These fees were incurred in the normal course of operations and in the opinion of Management represent fair value for services rendered.

(b) For the three months ended September 30, 2019, the Company incurred expenses in the amount of $2,253 (three months ended September 30, 2018 - $599) and $23,151 for the nine months ended September 30, 2019 (nine months ended September 30, 2018- $15,454) with a company controlled by a director of the Company for legal fees, and this amount is included in general and administrative expense. As at September 30, 2019, $98 was included in accounts payable and accrued liabilities (December 31, 2018 - $2,179). These fees were incurred in the normal course of operations and in the opinion of Management represent fair value for services rendered.

(in Canadian dollars)

9. Related party transactions cont'd

(c) For the three months ended September 30, 2019, the Company incurred expenses in the amount of $23,750 (three months ended September 30, 2018 - $2,900) and $66,300 for the nine months ended September 30, 2019 (nine months ended September 30, 2018 - $11,350) with a company controlled by the spouse of an officer of the Company for communications services, and this amount is included in general and administrative expense. As at September 30, 2019, $6,825 was included in accounts payable and accrued liabilities (December 31, 2018 - $2,415). These fees were incurred in the normal course of operations and in the opinion of Management represent fair value for services rendered.

(d) For the three months ended September 30, 2019, the Company incurred expenses in the amount of $16,958 (three months ended September 30, 2018 - $nil) and $58,553 for the nine months ended September 30, 2019 (nine months ended September 30, 2018 - $nil) with a company controlled by an officer of the Company as fees for duties performed in financial reporting services, and this amount is included in general and administrative expense. As at September 30, 2019, $nil was included in accounts payable and accrued liabilities (December 31, 2018 - $nil). These fees were incurred in the normal course of operations and in the opinion of Management represent fair value for services rendered.

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
Salaries and short-term employee benefits	**$ 208,275**	$ 174,247	**$ 840,819**	$ 522,503
Share-based payments	**76,159**	91,939	**254,371**	309,894
	$ 284,434	$ 266,186	**$ 1,095,190**	$ 832,397

10. Explanation of adoption of IFRS-16 Leases

Acceleware adopted IFRS 16 on January 1, 2019 using the modified retrospective approach and, accordingly, the previous period's information (2018) has not been restated. It remains as previously reported under the interpretations of IAS 17. On initial application, Acceleware has elected to record a right of use asset for its office space based on the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments. Right of use assets and lease obligations of $131,840 were recorded as of January 1, 2019, with no impact on retained earnings. Office space lease minimum payments commitments reported in the December 31, 2018 annual financial statements were $145,303 as at December 31, 2018. The difference is due to the present value adjustment required under IFRS 16. When measuring lease liabilities, Acceleware discounted these payments using the Company's incremental borrowing rate at January 1, 2019 which was estimated to be 5.5%. The Company also recognised existing computer equipment lease assets as right of use assets.

(in Canadian dollars)

10. Explanation of adoption of IFRS-16 Leases con't

The effect of IFRS 16 is as follows:

Balance Sheet as at September 30, 2019		Without IFRS 16		Adjustments		As reported
Assets						
Property and equipment	$	117,940	$	(103,718)	$	14,222
Right of use assets		—		169,638		169,638
Liabilities						
Lease obligations (current)		84,528		67,276		151,804
Lease obligations (long term)	$	38,599	$	—	$	38,599

Statement of operations for the three months ended September 30, 2019		Without IFRS 16		Adjustments		As reported
General and administrative	$	563,361	$	(485)	$	562,876
Research and development		237,710		(485)		237,225
Finance expense		1,567		1,125		2,692
Total comprehensive income	$	(551,256)	$	(156)	$	(551,412)

Statement of cash flow for the three months ended September 30, 2019		Without IFRS 16		Adjustments		As reported
Cash from operating activities	$	(501,315)	$	22,943	$	(478,372)
Cash from financing activities	$	(21,508)	$	(22,943)	$	(44,451)

Statement of operations for the nine months ended September 30, 2019		Without IFRS 16		Adjustments		As reported
General and administrative	$	1,733,535	$	(1,454)	$	1,732,081
Research and development		487,166		(1,454)		485,712
Finance expense		5,706		4,264		9,970
Total comprehensive income	$	(935,703)	$	(1,356)	$	(937,059)

Statement of cash flow for the nine months ended September 30, 2019		Without IFRS 16		Adjustments		As reported
Cash from operating activities	$	1,004,055	$	68,828	$	1,072,833
Cash from financing activities	$	2,607	$	(68,828)	$	(66,221)