

Acceleware Ltd.

**Financial Statements
For the years ended December 31, 2021 and 2020**

(in Canadian dollars)

Acceleware Ltd.

Financial Statements

For the Years Ended December 31, 2021 and 2020

(in Canadian dollars)

Contents

Independent Auditor's Report	
Statements of Financial Position	1
Statements of Comprehensive Loss	2
Statements of Changes in Shareholders' Equity	3
Statements of Cash Flows	4
Notes to Financial Statements	5

To the Shareholders of Acceleware Ltd.:

Opinion

We have audited the financial statements of Acceleware Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2021 and December 31, 2020, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 in the financial statements, which indicates that the Company had negative cash flows from operating activities and a net loss during the year ended December 31, 2021 and, as of that date, the Company had a deficit balance. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

The engagement partner on the audit resulting in this independent auditor's report is Brad Frampton.

Calgary, Alberta

March 22, 2022

MNP LLP

Chartered Professional Accountants

Acceleware Ltd.

Statements of Financial Position (in Canadian dollars)

As at December 31,

	2021	2020
Assets		
Current		
Cash and cash equivalents	\$ 1,947,512	\$ 1,942,014
Trade and other receivables (note 5)	2,960,602	1,206,962
Deposits and prepaid expenses (note 11(b))	289,176	532,428
Totals current assets	5,197,290	3,681,404
Non-current		
Property and equipment (note 6)	43,868	17,672
Right of use assets (note 8)	111,030	155,974
Total assets	\$ 5,352,188	\$ 3,855,050
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities (note 7)	\$ 5,251,469	\$ 1,006,093
Deferred government assistance for R&D (note 14)	725,231	2,428,199
Contract liabilities (note 11(b))	104,056	164,178
Lease obligations (note 8)	27,869	54,004
Total current liabilities	6,108,625	3,652,474
Deferred revenue (note 11(a))	3,050,000	750,000
Other non-current liabilities (notes 8 and 9)	316,552	119,928
Total liabilities	9,475,177	4,522,402
Shareholders' Equity		
Share capital (note 10)	23,178,884	22,380,890
Reserves	7,856,632	8,030,670
Deficit (note 11(a))	(35,158,505)	(31,078,912)
Total shareholders' equity	(4,122,989)	(667,352)
Total liabilities and shareholders' equity	\$ 5,352,188	\$ 3,855,050

Going concern (note 3)

Approved on behalf of the Board of Directors:

"signed"

Bohdan Romaniuk, Director

"signed"

Geoff Clark, Director

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

Acceleware Ltd.

Statements of Comprehensive Loss

(in Canadian dollars)

For the years ended December 31,

	2021	2020
Revenue (note 11)	\$ 752,770	\$ 899,281
Expenses		
Cost of revenue	41,532	—
General and administrative (note 12)	1,774,921	2,059,303
Research and development (note 13)	2,982,295	958,867
Total expenses	4,798,748	3,018,170
Loss from operations	(4,045,978)	(2,118,889)
Other income (expense)		
Finance income	332	15,950
Finance expense (note 8)	(9,485)	(6,919)
Foreign exchange (loss) gain	(24,462)	10,205
Total other income (expense)	(33,615)	19,236
Total comprehensive loss for the year attributable to shareholders	\$ (4,079,593)	\$ (2,099,653)
Loss per share		
Basic and diluted	\$ (0.04)	\$ (0.02)
Weighted average shares outstanding – basic and diluted (note 10(c))	106,632,852	105,494,286

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

Acceleware Ltd.

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

	Share capital		Reserves		Total shareholders' equity	
	Common shares	Amount	Contributed surplus	Deficit		
Balance at December 31, 2019	#	104,611,670	\$ 22,270,968	\$ 7,855,034	\$ (28,979,259)	\$ 1,146,743
Total comprehensive loss		—	—	—	(2,099,653)	(2,099,653)
Exercise of stock options for cash (note 10(a))		1,057,500	65,875	—	—	65,875
Share-based payments						
Current period expense (note 10(b))		—	—	219,683	—	219,683
Stock options exercised (note 10(a))		—	44,047	(44,047)	—	—
Balance at December 31, 2020	#	105,669,170	\$ 22,380,890	\$ 8,030,670	\$ (31,078,912)	\$ (667,352)
Total comprehensive loss		—	—	—	(4,079,593)	(4,079,593)
Exercise of stock options for cash (note 10(a))		2,426,170	405,125	—	—	405,125
Share-based payments						
Current period expense (note 10(b))		—	—	218,831	—	218,831
Stock options exercised (note 10(a))		—	392,869	(392,869)	—	—
Balance at December 31, 2021	#	108,095,340	\$ 23,178,884	\$ 7,856,632	\$ (35,158,505)	\$ (4,122,989)

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

Acceleware Ltd.

Statements of Cash Flows

(in Canadian dollars)

For the years ended December 31,

	2021	2020
Cash flows from operating activities		
Total comprehensive loss	\$ (4,079,593)	\$ (2,099,653)
Adjustments for:		
Amortization expense (notes 6 and 8)	51,586	133,492
Asset retirement obligation	222,767	—
Share-based payments expense (note 10(b))	218,831	219,683
Interest expense on lease obligations (note 8)	9,485	6,919
Changes in non-cash working capital items		
Trade and other receivables	(1,753,640)	405,930
Contract assets	(41,995)	(40,555)
Alberta SR&ED tax credits receivable	—	173,097
Deposits and prepaid expenses	285,247	(308,257)
Accounts payable and accrued liabilities	4,245,375	24,831
Deferred government assistance for R&D	(1,702,968)	(1,250,274)
Contract liabilities	(60,121)	61,077
Deferred revenue (note 11(a))	2,300,000	300,000
Net cash flows (used in) from operating activities	(305,026)	(2,373,710)
Cash flows (used for) from financing activities		
Issuance of common shares (note 10(a))	405,125	65,875
Payments on lease obligations (note 8)	(61,763)	(131,345)
Net cash flows used for financing activities	343,362	(65,470)
Cash flows used for investing activities		
Purchase of property and equipment (note 6)	(32,838)	—
Net cash flows used for investing financing activities	(32,838)	—
Increase (decrease) in cash and cash equivalents	5,498	(2,439,180)
Cash and cash equivalents, beginning of year	1,942,014	4,381,194
Cash and cash equivalents, end of year	\$ 1,947,512	\$ 1,942,014
Comprised of:		
Cash on deposit	\$ 1,927,720	\$ 296,439
Cash equivalents	19,792	1,645,575
	\$ 1,947,512	\$ 1,942,014

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

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

1. General information

Acceleware Ltd. (the “Company” or “Acceleware”) is a clean-tech oil and gas technology company based in Calgary, Alberta. The Company is developing an enhanced heavy oil and oil sands production technology based on radio frequency (“RF”) heating that is designed to reduce the environmental impact of oil production while also reducing cost. Acceleware also specializes in the development and marketing of special purpose computational software products for the oil and gas and other markets. The Company is incorporated under the Alberta Business Corporations Act, has its registered offices at 1400, 350 - 7th Avenue SW, Calgary, Alberta, Canada, and trades on the TSX Venture Exchange under the symbol AXE.

2. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and in effect as of January 1, 2021.

These financial statements were approved by the Board of Directors on March 22, 2022.

(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 notes 4(i) and 4(k).

(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.

COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020 which coincided with significant commercial and geopolitical conflict among major oil producers. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. These events have caused significant financial market turmoil and the situation is dynamic with all countries around the world responding in different ways. The potential direct and indirect impacts of the economic volatility have been considered in management’s estimates and have been reflected in our results with any significant changes described in the relevant financial statement note.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

2. Basis of presentation (cont'd)

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

The COVID-19 pandemic is an evolving situation that is expected to continue to have widespread implications for our business environment, operations, and financial condition. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact our statements of comprehensive loss, statements of financial position and statements of cash flows.

Where the outcome of performance obligations for contracts can be estimated reliably, revenue is recognized. The Company makes use of estimates when calculating revenue for fixed fee service engagements included in the financial statements. Where the outcome of performance obligations cannot be reliably measured, contract revenue is recognized in the current year to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured.

Identification of whether a contract contains a lease and determination of extension or termination of an option within a lease contract is also subject to judgement. The Company makes estimates relating to the selection of the appropriate incremental borrowing rate to be applied to lease payments if the rate implicit in the lease is not readily available.

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 for stock options vesting based on time and the binomial model for stock options vesting based on the Company's share price, including assumptions such as volatility, dividend yield, risk-free interest rates, forfeiture rate estimates, and expected option life.

The Company measures decommissioning liabilities at each financial statement date. The estimate is based on the Company's share of costs to reclaim the assets and certain facilities. To determine the future value of the liability, estimates of the amount, timing and inflation of the associated abandonment costs are made. The present value of the cost is recorded as the decommissioning liability using a risk-free discount rate. Due to the long-term nature of current and future project developments, abandonment costs will be incurred many years in the future. Because of these factors, different estimates could be used for such abandonment costs and the associated timing. Assumptions of higher future abandonment costs, regulatory changes, higher inflation, lower risk-free rates or an assumption of earlier or specified timing of abandonment would cause the decommissioning liability of the corresponding asset to increase. These changes would also cause future accretion expenses to increase.

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

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

3. Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has a deficit balance of \$35,158,505 (December 31, 2020 - \$31,078,912), net loss of \$4,079,593 (December 31, 2020 - \$2,099,653) and negative cash flows from operating activities of \$305,026 (December 31, 2020 - \$2,373,710) largely due to investments in new product development and in the penetration of new markets. In particular, the Company invested \$2,982,295 in research and development (net of government assistance of \$9,632,259) for the year ended December 31, 2021 (December 31, 2020 - \$958,867 net of government assistance of \$1,500,274), principally for the Company's proprietary RF heating technology ("RF XL" or "RF heating").

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 Company actively manages its cash flow and investment in new products to match its 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, industry partners 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.

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

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

(a) Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Company at exchange rates prevailing at the transaction dates. Monetary assets and liabilities are retranslated at the exchange rates at the reporting date.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items' fair value was determined.

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

(b) Revenue recognition

Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To recognize revenue from a contract, the Company applies the following five steps:

1. identify the contract(s) with the customer;
2. identify the performance obligations in the contract(s);
3. determine the transaction price;
4. allocate the transaction price; and
5. recognize revenue when a performance obligation is satisfied.

Data

The Company enters into contracts to provide data related to technology feasibility, engineering design, simulation and testing. The Company evaluates these arrangements to determine the appropriate unit of account (performance obligation) for revenue recognition purposes. Revenue is recognized when the performance obligation has been satisfied at a point in time. The transaction price is documented on the contract. Payment is receivable and non-refundable at the time each milestone is completed during the life of the contract. Deferred revenue is recognized for milestone payments received but not yet recognized as revenue.

Software and maintenance

The Company currently sells software licenses on a perpetual basis as well as on fixed-term contracts. Both arrangements include post-contract support ("PCS"). The Company's multiple-element sales arrangements include arrangements where software licenses and the associated PCS are sold together. The total transaction price is allocated to each performance obligation on the basis of the relative stand-alone selling price of each distinct good or service with revenue being recognized based on the type of revenue (software license or PCS maintenance).

The Company currently recognizes revenue from the sale of software licenses at the time the control of the software has been transferred to the customer. This usually occurs when the software licenses have been delivered to the customer. The transaction price is documented in the contract or purchase order and agreed to by the customer.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

4. Significant accounting policies (cont'd)

(b) Revenue recognition (cont'd)

Payment is generally due at the time of shipment. As such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due (payment terms are generally net 30 days). Standalone selling price for software is observable in PCS transactions without multiple performance obligations.

PCS revenue associated with software licenses is recognized rateably over the term of the PCS period, which typically is one year. Any unrecognized revenue is recorded as a contract liability. PCS revenue includes customer support, minor software updates, maintenance releases and bug fixes during the term of the PCS period. Payment is generally due at the beginning of the contract period. As such, the advance payment is recognized as a contract liability with revenue recognized over the PCS term. Standalone selling price is observable in PCS renewal transactions and in current standalone pricing for initial PCS contracts.

Contracts with multiple products or services

The Company's contracts with customers may include multiple products and services, such as the bundling of software, PCS and data. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the software, PCS or data is distinct from some or all of the other software, PCS or data in the arrangement and, therefore, can be accounted for as a separate performance obligation. Software, PCS arrangement or data performance obligation is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Where a contract consists of more than one performance obligation, revenue is allocated to each based on their relative estimated stand-alone selling price.

(c) Contract assets

Contract assets represent the work expended to date on contracts with performance obligations that are measured at a point in time. Work expended to date is measured at cost and includes all expenditures related directly to the specific performance obligations. Cost includes all expenditures related directly to the specific project.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and guaranteed investment certificates which are subject to insignificant risk of changes in value and that have an original maturity at date of purchase of three months or less.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

4. Significant accounting policies (cont'd)

(e) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairment or write-down, if applicable. Cost is determined as the expenditure directly attributable to the asset at acquisition, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. All repairs and maintenance costs are charged to the statements of comprehensive loss during the financial period in which they are incurred. Depreciation over the estimated useful life of assets is provided on the following bases and annual rates:

Furniture and fixtures	20% declining balance
Computer hardware	three years straight-line
Computer software	100% declining balance
Leasehold improvements	over the term of the lease

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component, where applicable. The estimated useful lives of property and equipment are reviewed at the end of each reporting period and adjusted if required.

Gains or losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the statements of comprehensive loss.

(f) Research and development costs and government assistance

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization in terms of International Accounting Standard (“IAS”) 38 “Intangible Assets”. Research and development (“R&D”) costs comprise salaries, consultant fees, share-based payments, lab supplies, and an allocation of office costs and depreciation. No development costs have been deferred as at December 31, 2021 (December 31, 2020 - \$nil).

Reimbursements of eligible costs pursuant to government assistance programs are recorded as a reduction of research and development costs when the related costs are incurred. Claims not settled by the reporting date are recorded as trade and other receivables on the statements of financial position when there is reasonable assurance of recovery. Funding amounts received in advance of expenses incurred are deferred and are recorded as accounts payable and accrued liabilities on the statements of financial position.

(g) Decommissioning liability

The Company recognizes a decommissioning liability in the period it arose with a corresponding increase to the related asset or expense. Measurement occurs when a legal or constructive obligation arises. Provisions are measured at the present value of management’s best estimate of the expenditures expected to be required to settle the obligation discounted using the risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time (accretion) is recognized as a finance expense whereas increases or decreases due to changes in the estimated cost to decommission the asset are recorded with the associated asset or expense. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established and differences between actual costs incurred and estimated costs will be recorded as a gain or loss.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

4. Significant accounting policies (cont'd)

(h) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statements of comprehensive loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statements of financial position and their corresponding tax bases used in the computation of taxable profit and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases based on the laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable income nor the accounting income.

(i) Share-based payments

The Company uses the fair value method to account for options to be granted to employees, directors and officers. All options and similar instruments that are granted to non-employees are also accounted for at the fair value of the goods or services received unless the fair value of the goods or services cannot be estimated reliably. The fair value method consists of recording share-based payments to the statements of comprehensive loss over the vesting period of each tranche of options granted. Where the vesting period is based on the market price of the Company's common shares, the vesting period is estimated using a binomial option pricing model. At the time of exercise, the consideration and the related contributed surplus recognized to the exercise date are credited to share capital.

(j) Loss per share

Basic loss per share is computed by dividing the total comprehensive loss for the year attributable to shareholders by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effect of stock options. The treasury stock method assumes the notional exercise of all in-the-money stock options and that all notional proceeds to the Company are used to repurchase the Company's stock at the average market price during the year. No adjustment to diluted loss per share is made if the result of this calculation is anti-dilutive or if the Company is in a loss position.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

4. Significant accounting policies (cont'd)

(k) Financial instruments

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

Subsequent to initial recognition, all financial assets are classified into one of three subsequent measurement categories: amortized cost, fair value through other comprehensive income, or fair value through profit or loss. Classification is based on the business model under which a financial asset is managed and the nature of its contractual cash flows. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost comprise cash and cash equivalents and trade and other receivables.

Reclassifications

The Company reclassifies financial assets only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions. Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Refer to note 16 for additional information about the Company's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

4. Significant accounting policies (cont'd)

(k) Financial instruments (cont'd)

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, except for financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of the proceeds.

Classification and subsequent measurement

Subsequent to initial recognition, all the Company's financial liabilities, which comprise accounts payable and accrued liabilities and lease obligations, are measured at amortized cost using the effective interest rate method. Interest, gains or losses relating to a financial liability or a component classified as a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Equity instruments

Equity instruments are contracts that evidence a residual interest in the asset of the Company after deducting all of its liabilities. Transaction costs of equity transactions are treated as a deduction from equity.

(l) Impairment of non-financial assets

The carrying amounts of the Company's property and equipment are assessed for impairment indicators on at least an annual basis to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's or group of assets' (1) estimated fair value less costs of disposal and (2) value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable independent cash inflows (a cash generating unit or "CGU"). Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but the increase is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the statements of comprehensive loss. The Company has one CGU and has determined that no indicators of impairment exist at December 31, 2021 or December 31, 2020.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

4. Significant accounting policies (cont'd)

(m) Leases

Acceleware assesses at the inception of a contract whether that 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 obligation at the lease commencement date.

The lease obligation 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 hardware. Lease payments included in the measurement of the lease obligations comprise fixed (and in-substance fixed) lease payments, less:

- Lease incentives;
- Variable lease payments that depend on an index or rate;
- Payments expected under residual value guarantees;
- Payments relating to purchase options and renewal option periods that are reasonably certain to be exercised; and
- Periods subject to termination options that are not reasonably certain to be exercised.

The right of use asset is initially measured based on the initial amount of the lease obligation 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.

The lease obligation is subsequently measured at amortized cost using the effective interest method. Acceleware will remeasure the lease obligation 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 obligation 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 elects to apply the practical expedient not to recognize right of use assets and lease obligations for short-term (12 months or less) leases of all asset classes. Acceleware elects to apply the practical expedient not to recognize right of use assets and lease obligations 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.

Right of use assets are subsequently measured at cost and 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 obligation.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

4. Significant accounting policies (cont'd)

(n) Contract liabilities

Contract liabilities are recognized for payments relating to maintenance services received at the time of the initial sales transaction and are released over the service period.

(o) Segment reporting

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

5. Trade and other receivables

	December 31, 2021	December 31, 2020
Trade receivables	\$ 469,660	\$ 237,243
Government assistance receivable for R&D (note 14)	2,291,220	967,244
Goods and services tax and other receivables	199,722	2,475
Allowance for doubtful accounts	—	—
	\$ 2,960,602	\$ 1,206,962

Trade receivables are unsecured and non-interest bearing and are generally collected on 30-day terms.

6. Property and equipment

Property and equipment is comprised of computer equipment and office furniture and fixtures. There were additions of \$32,838 in the year (December 31, 2020 - \$nil).

Depreciation expense is allocated 50% to research and development expense and 50% to general and administrative expense. For the year ended December 31, 2021, \$3,321 (December 31, 2020 - \$6,136) of depreciation is included in each of general and administrative and research and development expense on the statements of comprehensive loss.

7. Accounts payable and accrued liabilities

The Company's accounts payable and accrued liabilities are non-interest bearing and detailed below:

	December 31, 2021	December 31, 2020
Trade accounts payable	\$ 3,715,927	295,729
Accrued liabilities and other payables	1,535,542	710,364
	\$ 5,251,469	\$ 1,006,093

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

8. Right of use assets and lease obligations

Right of use assets is comprised of office space and computer hardware. There were no additions in the year (December 31, 2020 - \$143,023 to office space) and there were no disposals in the year (December 31, 2020 - \$131,840 to office space).

On October 1, 2020, Acceleware entered into a new lease agreement to lease 5,244 square feet of office space for a period of five years, ending on September 30, 2025. The previous lease had expired July 31, 2020 and was leased on a month-to-month basis until September 30, 2020 on the same terms. In addition to the basic monthly rents, the Company must pay a proportionate share of property taxes, operating costs, utilities and additional services. These payments are fixed throughout the year with an annual true up and are excluded from lease payments below. The Company has certain computer equipment under various leases expiring 2022 through 2023. The lease obligations carry a weighted average annual interest rate of 7.9%.

Depreciation expense for right of use computer hardware and office space assets is allocated 50% to research and development expense and 50% to general and administrative expense. For the year ended December 31, 2021, \$22,472 (December 31, 2020 – \$60,610) of depreciation expense for computer hardware and office space right of use assets is included in each of general and administrative and research and development expense on the statements of comprehensive loss. At year end, the net book value of computer hardware pledged as security for lease obligations is \$4,519 (December 31, 2020 - \$20,102).

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

8. Right of use assets and lease obligations (cont'd)

The following table summarizes the changes in the Company's lease obligations:

	December 31, 2021	December 31, 2020
Opening balance	\$ 173,932	\$ 155,335
Additions	—	143,023
Interest expense	9,485	6,919
Repayment of lease obligations	(61,763)	(131,345)
Closing balance	121,654	173,932
Less: current portion	(27,869)	(54,004)
Non-current portion	\$ 93,785	\$ 119,928

The following table summarizes the undiscounted contractual cash flows to their present value for lease obligations:

	December 31, 2021	December 31, 2020
2021	—	66,332
2022	38,686	38,686
2023	38,686	38,686
2024	36,000	36,000
2025	27,000	27,000
Minimum lease payments	140,372	206,704
Less: interest portion at a rate of 7.9% (2020 – 7.8%)	28,330	28,155
Net minimum lease payments	\$ 112,042	\$ 178,549

Variable lease payments for operating costs not included in the above table are approximately \$60,000 per year (December 31, 2020 - \$60,000).

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

9. Decommissioning liability

The carrying amount of the liability associated with the decommissioning of the Company's R&D activities related the commercial-scale pilot test of the RF XL technology is \$222,767 (December 31, 2020 - \$nil) and is all recorded as a long-term liability as no abandonment activities are expected for the next twelve months.

The following significant assumptions were used to estimate the decommissioning liability:

	December 31, 2021	
Undiscounted cash flows	\$	220,900
Discount rate		1.4%
Inflation rate		2.1%
Weighted average expected timing of cash flows		8.8 years

10. 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 and second preferred shares, of which none have been issued.

During the year ended December 31, 2021, 2,426,170 stock options (December 31, 2020 - 1,057,500) were exercised for cash proceeds of \$405,125 (December 31, 2020 - \$65,875). Non-cash compensation charges of \$392,869 (December 31, 2020 - \$44,047) were reclassified from contributed surplus reserves to share capital on the exercise of these stock options. The average share price on the dates that options were exercised was approximately \$0.16 (December 31, 2020 - \$0.06).

(b) Share-based payments

At December 31, 2021, 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 payments expense.

The Company granted to certain employees, contractors, officers, and directors options to purchase common shares with the following terms:

	December 31, 2021	December 31, 2020
Standard options granted	1,882,000	1,365,000
Performance options granted	497,466	297,466
Term to expiry	5 years	5 years

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

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

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

All options granted, excluding the performance options, shall vest 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date. Half of the performance options shall vest when the share price exceeds 125% of the exercise price for ten consecutive days and the second half shall vest when the share price exceeds 150% of the exercise price for ten consecutive days.

The weighted average grant date fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2021	December 31, 2020
Grant date fair value	\$0.23	\$0.10
Expected volatility	115%	170%
Risk-free interest rate	0.71%	1.28%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	1.72%	1.48%

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. The exercise price on the date of grant is equal to the share price on the date the options are granted.

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

	Number	Weighted Average Exercise Price
Balance, December 31, 2019	9,866,824	0.17
Granted	1,662,466	0.10
Forfeited	(122,500)	0.12
Expired	(338,422)	0.11
Exercised	(1,057,500)	0.06
Balance, December 31, 2020	10,010,868	0.17
Granted	2,379,466	0.29
Forfeited	(215,000)	0.26
Exercised	(2,426,170)	0.17
Balance, December 31, 2021	9,749,164	\$ 0.21

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

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

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

Summary of options outstanding and exercisable as at December 31, 2021 are as follows:

Exercise price outstanding	Grant Date	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.10	January 23, 2020	1,257,466	3.07	0.10	636,233
\$0.12	September 11, 2019	425,000	2.70	0.12	425,000
\$0.13	January 31, 2019	2,331,066	2.08	0.13	2,331,066
\$0.135	June 22, 2020	150,000	3.48	0.135	50,000
\$0.20	October 25, 2018	295,000	1.82	0.20	295,000
\$0.21	February 22, 2017	1,684,632	0.15	0.21	1,684,632
\$0.29	August 31, 2021	2,104,466	4.67	0.29	497,466
\$0.29	September 20, 2021	60,000	4.72	0.29	—
\$0.30	May 31, 2021	140,000	4.42	0.30	—
\$0.30	January 24, 2018	1,301,534	1.07	0.30	1,301,534
		9,749,164	2.50	\$0.21	7,220,931

Summary of options outstanding and exercisable as at December 31, 2020 are as follows:

Exercise price outstanding	Grant Date	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.10	January 23, 2020	1,402,466	4.31	0.10	297,466
\$0.12	September 11, 2019	550,000	3.95	0.12	500,000
\$0.13	January 31, 2019	2,606,066	3.33	0.13	1,240,533
\$0.135	June 22, 2020	200,000	4.73	0.135	—
\$0.15	August 30, 2016	971,170	0.92	0.15	971,170
\$0.20	October 25, 2018	320,000	3.07	0.20	247,500
\$0.21	February 22, 2017	2,529,632	1.40	0.21	2,529,632
\$0.30	January 24, 2018	1,431,534	2.32	0.30	995,000
		10,010,868	2.56	\$0.17	6,781,301

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

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

(c) Earnings per share

The calculation of weighted average shares outstanding for the diluted loss per share calculation excludes the impact of the options outstanding as at December 31, 2021 and 2020 as the effect is anti-dilutive.

11. Revenue

The Company sub-classifies revenue within the following components: software revenue, maintenance revenue, data 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. Maintenance revenue primarily consists of fees charged for PCS on software products post-delivery. Data revenue is received in exchange for provision of technology feasibility, engineering design, process simulation, and testing under exclusive contracts in which milestones are defined and payments are non-refundable. Services revenue consists of fees charged for training and custom software development.

	December 31, 2021		December 31, 2020	
Software	\$	336,588	\$	628,833
Maintenance		342,523		270,448
Services		73,659		—
	\$	752,770	\$	899,281

(a) Data revenue

Since 2018, the Company entered into Project Funding Agreements and Test Data Purchase Agreements (the "Agreements") with three major oil-sands producers, the terms of which provide the customer with the right to access and use data obtained from the commercial-scale pilot of RF XL technology Acceleware is conducting at Marwayne, Alberta. Under the terms of the Agreements, Acceleware will receive total funding of up to \$6,000,000, paid in installments upon completion of each milestone. Each milestone payment is non-refundable.

Under *IFRS 15 Revenue from Contracts with Customers*, these contracts did not meet all requirements for revenue recognition over-time, therefore revenue recognition defaults to the end of the contract. For each completed milestone, the Company has no outstanding obligation to deliver goods or services. Revenue of up to \$5,850,000 for this contract will be recognized once heating is complete or the contract is terminated, whichever is earlier. Software and maintenance revenue of \$150,000 was recognized in prior years.

The following is a reconciliation of deferred revenue:

	December 31, 2021		December 31, 2020	
Balance, beginning of year	\$	750,000	\$	450,000
Invoiced		2,400,000		300,000
Recognized as software and maintenance revenue		(100,000)		—
Recognized as data revenue		—		—
	\$	3,050,000	\$	750,000

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

11. Revenue (cont'd)

(b) Contract amounts

Contract assets represent work expended to date on contracts with performance obligations that are measured at a point in time. Contract liabilities relate to the advance payments received from customers. Contract assets and liabilities are accounted for on a contract-by-contract basis, with each contract accordingly presented as either net contract assets or a net contract liability.

Contract assets	December 31, 2021		December 31, 2020	
Balance, beginning of year	\$	160,986	\$	120,431
Additions		41,994		60,921
Invoiced		—		(20,366)
	\$	202,980	\$	160,986

Contract liabilities	December 31, 2021		December 31, 2020	
Balance, beginning of year	\$	164,178	\$	103,101
Additions		107,715		870,349
Recognized as revenue		(167,837)		(809,272)
	\$	104,056	\$	164,178

(c) Geographic revenue segmentation

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

	Canada		USA		Total	
December 31, 2021	\$	151,250	\$	601,520	\$	752,770
December 31, 2020	\$	—	\$	899,281	\$	899,281

The Company derives significant revenues from five major customers each of which exceeded 10% of total revenues for the year ended December 31, 2021. Revenue from these customers was \$626,087 in the year ended December 31, 2021 (December 31, 2020 – three main customers revenue of \$824,934).

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

12. General and administrative

The Company incurs costs related to marketing and selling its products and services as well as costs related to general and administrative activities. These costs incurred during the year, broken down by nature, are as follows:

	December 31, 2021	December 31, 2020
Salaries	\$ 702,038	\$ 1,037,362
Professional fees	301,797	364,078
Share-based payments (<i>note 10(b)</i>)	166,566	170,805
Rent, office and public company fees	335,335	301,571
Marketing	235,749	116,338
Depreciation (<i>notes 6 and 8</i>)	25,793	66,746
Travel	7,643	2,403
	\$ 1,774,921	\$ 2,059,303

13. Research and development

The Company incurs costs related to its R&D activities. To date, all the costs relating to the Company's projects under development have been expensed as incurred. These costs incurred during the year, broken down by nature, are as follows:

	December 31, 2021	December 31, 2020
Consultants	\$ 725,188	\$ 1,041,792
Salaries	811,434	794,654
R&D supplies and materials	10,965,030	465,927
Share-based payments (<i>note 10(b)</i>)	52,265	48,878
Depreciation (<i>notes 6 and 8</i>)	25,793	66,746
Rent and overhead allocation	34,844	41,144
Non-refundable government assistance	(9,632,259)	(1,500,274)
	\$ 2,982,295	\$ 958,867

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

14. Government assistance

In 2018 the Company entered into contribution agreements with Sustainable Development Technology Canada (“SDTC”) and Emissions Reduction Alberta (“ERA”) to provide \$10,000,000 of non-dilutive and non-repayable funding for the commercial-scale pilot test of the RF XL technology. In response to the global pandemic, SDTC contributed an additional \$262,500 in 2021 and an additional \$250,000 in 2020 bringing the total committed contribution to \$10,512,500 as at December 31, 2021. Under the terms of the agreements, SDTC and ERA provide milestone-based funding at the beginning of a milestone. During the year ended December 31, 2021, the Company received \$2,164,847 less a holdback receivable of \$285,352, (December 31, 2020 – \$250,000).

Effective January 1, 2021, Acceleware entered into an investment agreement with Alberta Innovates to provide up to \$5,000,000 of non-dilutive and non-repayable funding for the commercial-scale pilot test of the RF XL technology. The Company received milestone payments of \$4,000,000 during the year with the remainder of the funds to be distributed at designated milestones over the course of the project.

The following table provides a continuity of amounts recorded on the statement of financial position within current liabilities as deferred government assistance for R&D:

	December 31, 2021	December 31, 2020
Balance, beginning of year	\$ 2,428,199	\$ 3,678,473
Milestone payments received	6,605,352	250,000
Milestone payment receivable (<i>note 5</i>)	910,494	—
Holdbacks receivable (<i>note 5</i>)	413,445	—
Recognized as an offset to R&D cost (<i>note 13</i>)	(9,632,259)	(1,500,274)
	\$ 725,231	\$ 2,428,199

The remaining amount committed but not yet received from SDTC, ERA and Alberta Innovates, including holdbacks receivable, is \$2,894,745 (December 31, 2020 - \$4,237,596). Total project costs incurred since inception for the commercial-scale pilot test as at December 31, 2021 are approximately \$20,380,00 (Inception to December 31, 2020 - \$7,640,000).

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) program in April 2020, retroactive to March 15, 2020 and the Canada Emergency Rent Subsidy (“CERS”) program in October 2020, retroactive to September 27, 2020. CEWS and CERS provides a subsidy to eligible employers based on certain criteria, including demonstration of revenue declines as a result of COVID-19. For periods the Company has determined that it has qualified for the CEWS and CERS subsidy, the Company has applied for, and for certain periods received, the CEWS and CERS. The Company also intends to apply for the CEWS and CERS in subsequent application periods for which it is available, subject to continuing to meet the applicable qualification criteria.

For the year ended December 31, 2021, the Company has recognized \$158,483 CEWS and \$22,082 CERS (year ended December 31, 2020 - \$302,025 CEWS and \$8,619 CERS) and has recorded CEWS as a reduction to salaries and wages and CERS as a reduction to rent in general and administrative and research and development expenses.

Since inception and as of December 31, 2021, the Company has received \$460,508 from the CEWS program and \$30,701 from the CERS program.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

15. Income taxes

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial statutory tax rate of 23% (December 31, 2020 – 24.0%) to loss before taxes. The statutory tax rate decreased due to a decrease in the provincial tax rate on July 1, 2020.

The difference results from the following:

	December 31, 2021	December 31, 2020
Loss before income tax	\$ (4,079,593)	\$ (2,099,653)
Statutory tax rate	23%	24%
Computed expected income tax (recovery)	(938,306)	(503,917)
Non-deductible expenses	50,994	53,008
SR&ED investment tax credits	(1,482,128)	(260,564)
Increase in deferred tax assets not recognized	2,369,440	692,685
Change in enacted tax rates	—	18,788
Deferred tax recovery	\$ —	\$ —

The components of the deferred tax liability are as follows:

	December 31, 2021	December 31, 2020
Deferred tax assets:		
SR&ED tax pools	\$ 1,013,441	\$ 570,727
Right of use assets	—	37,953
SR&ED investment tax credits	(1,013,441)	(570,727)
Right of use liabilities	—	(37,953)
Net deferred tax liability	\$ —	\$ —

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

	December 31, 2021	December 31, 2020
SR&ED expenditure pool	\$ 7,291,518	\$ 5,354,273
SR&ED investment tax credits	4,406,264	2,481,423
Property and equipment and other	4,885	7,957
	\$ 11,702,667	\$ 7,843,653

The Company has \$11,697,782 (December 31, 2020 - \$7,835,696) in deductible SR&ED expenditures and \$4,406,264 (December 31, 2020 - \$2,481,423) of SR&ED investment tax credits available to claim against future taxable income or income taxes. The investment tax credits begin to expire in 2031.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

16. Financial instruments

(a) Fair value

The carrying value of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities approximates their fair values due to the immediate or short-term maturity of these financial instruments.

(b) Currency risk

A significant portion of the Company's revenue is made from sales denominated in United States dollars ("USD"). Accordingly, the Company is exposed to related foreign currency risk arising from fluctuations in USD exchange rates. The Company does not engage in any foreign currency hedging.

The USD financial instrument exposure as at year end is as follows:

	December 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 337,480	\$ 1,690,992
Trade and other receivables	38,988	144,719
Accounts payable and accrued liabilities	(22,959)	(134,350)
Net exposure	\$ 353,509	\$ 1,701,361

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

	December 31, 2021	December 31, 2020
Revenue	\$ 614,308	\$ 959,348
Expenses	(539,728)	(850,375)
Net exposure	\$ 74,580	\$ 108,973

The table below depicts the average and ending USD to Canadian dollar exchange rates for the year.

	Average exchange rate for the year ended December 31, 2021	Average exchange rate for the year ended December 31, 2020	Exchange rate as at December 31, 2021	Exchange rate as at December 31, 2020
Canadian dollar per one USD	1.2535	1.3415	1.2678	1.2732

The table below depicts the annual impact to total comprehensive loss of varying the above USD to Canadian dollar exchange rate by one cent.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

16. Financial instruments (cont'd)

(b) Currency risk (cont'd)

	Decrease/(increase) in comprehensive loss for the year ended December 31, 2021	Decrease/(increase) in comprehensive loss for the year ended December 31, 2020
1 percent strengthening in the Canadian dollar	\$ (2,193)	\$ (812)
1 percent weakening in the Canadian dollar	\$ 2,193	\$ 812

(c) Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents and trade and other receivables. The Company's cash is held with large established financial institutions. Credit risk on trade and other receivables reflects the risk that the Company may be unable to recover them. The Company's trade and other receivables are typically short-term in nature with a majority of the amounts due from government bodies and a small number of well-established corporations. The Company recognizes an amount equal to the lifetime expected credit losses ("ECL") on receivables for which there has been a significant increase in credit risk since initial recognition. The Company measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions. Based on the status of trade and other receivables, an allowance for doubtful accounts of nil has been recorded as at December 31, 2021 (December 31, 2020 - \$nil).

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

	December 31, 2021	December 31, 2020
1 – 30 days	\$ 18,924	\$ 31,325
31 - 60 days	—	114,704
61 – 90 days	450,737	—
91 – 120 days	—	—
Allowance for doubtful accounts	—	—
	469,661	146,029
Government assistance receivable	2,291,220	967,244
Other receivables	199,721	93,689
	\$ 2,960,602	\$ 1,206,962

There is one customer whose trade and other receivable exceed 15% of the total trade and other receivables at December 31, 2021 (December 31, 2020 - one), except for the government assistance receivable (see note 14).

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

16. Financial instruments (cont'd)

(d) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or that it can only do so at an abnormally high cost.

Within its software and services business, the Company actively manages its cash flow and investment in new products to match its cash requirements to cash generated from operations. In order to maximize cash generated from operations, the Company plans to continue to focus on high gross margin revenue streams such as software products, consulting services and training; focus on selected core vertical markets; minimize operating expenses where possible; and limit capital expenditure. As the Company continues to develop its RF heating technology, new research and development investments will be financed through a combination of internal cash flow from the software and services business, government grants and external financing. Management believes that successful execution of its business plan will result in sufficient cash flow and new financing to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of the objectives discussed above, or that sufficient financing from outside sources will be available.

Management strives to maintain an optimum level of liquidity by actively managing assets, liabilities and cash flows. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity. Comparing the Company's aggregate liquid assets to its liabilities and commitments, Management assesses liquidity risk to be low, subject to the ability to generate positive cash flows from operations.

At December 31, 2021, Acceleware's financial liabilities are all due within one year, with the exception of lease obligations (see note 8) and decommissioning liabilities (see note 9).

17. Capital risk management

Capital disclosures provide information about (i) the Company's objectives, policies, and processes for managing capital, (ii) quantitative data about what the Company regards as capital, (iii) whether the Company has complied with any capital requirements, and (iv) if it has not complied, the consequences of such non-compliance.

The Company's objectives for managing capital are:

- i. To safeguard the Company's ability to continue as a going concern, so that it can provide adequate returns for shareholders and benefits for other stakeholders.
- ii. To ensure sufficient liquidity to enable the internal financing of capital thereby facilitating its ability to continue operations and eventually achieve profitable operations.
- iii. To maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Company considers the items included in capital to include shareholders' equity and non-current liabilities. The Company manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, financing environment and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, new debt or scale back the size and nature of its operations. The Company's manages its capital with a view to cost containment, continued focus on core vertical markets and the objective of achieving profitable operations. The Company is not subject to externally imposed capital requirements.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

18. 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 clean-tech enhanced heavy oil and oil sands production technology.

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 year ended December 31, 2021:

		RF Heating	HPC	Total
Revenue	\$	151,250 \$	601,520 \$	752,770
Expenses				
Cost of Revenue		35,725	5,807	41,532
General and administrative		1,326,848	448,073	1,774,921
Research and development		2,966,316	15,979	2,982,295
		4,328,889	469,859	4,798,748
(Loss) income from operations	\$	(4,177,639) \$	131,673 \$	(4,045,967)

For the year ended December 31, 2020:

		RF Heating	HPC	Total
Revenue	\$	— \$	899,281 \$	899,281
Expenses				
General and administrative		1,473,351	585,952	2,059,303
Research and development		802,348	156,519	958,867
		2,275,699	742,471	3,018,170
(Loss) income from operations	\$	(2,275,699) \$	156,810 \$	(2,118,889)

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2021 and 2020 (in Canadian dollars)

19. Related party transactions

- (a) For the year ended December 31, 2021, the Company incurred expenses in the amount of \$305,893 (December 31, 2020 - \$311,062) with a company controlled by an officer of the Company as fees for duties performed in managing research and development operations and these expenses are included in research and development. Of the total, \$73,325 was included in accounts payable and accrued liabilities as at December 31, 2021 (December 31, 2020 - \$116,375). These fees were incurred in the normal course of operations and initially measured at fair value.
- (b) For the year ended December 31, 2021, the Company incurred expenses in the amount of \$ 24,978 (December 31, 2020 - \$89,169) 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 December 31, 2021, \$411 was included in accounts payable and accrued liabilities (December 31, 2020 - \$17,630) These fees were incurred in the normal course of operations and initially measured at fair value.
- (c) For the year ended December 31, 2021, the Company incurred expenses in the amount of \$150,000 (December 31, 2020 - \$71,050) with a company controlled by the spouse of an officer of the Company for marketing and communication and these expenses are included in general and administrative. Of the total, \$12,804 was included in accounts payable and accrued liabilities as at December 31, 2021 (December 31, 2020 - \$8,400). These fees were incurred in the normal course of operations and initially measured at fair value.
- (d) Key management includes the Company's directors and members of the executive Management team. Compensation awarded to key management included:

	December 31, 2021		December 31, 2020	
Salaries and short-term employee benefits	\$	1,327,777	\$	1,464,280
Share-based payments		160,049		174,892
	\$	1,487,826	\$	1,639,172

20. Subsequent event

On March 1, 2022, the Company launched a non-brokered private placement of 10% unsecured convertible debentures due 2026 for approximate gross proceeds of \$1,500,000. Each debenture matures four years after the issue date and is convertible into units of the Company at a conversion price of \$0.80. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share, at an exercise price equal to 200% of the conversion price of the debentures for a 24-month period following the distribution of the debentures. Net proceeds from the offering shall be used to fund the further development and testing of the Company's RF heating technology and for general corporate purposes. The Company expects to close the private placement no later than April 15, 2022.