Acceleware Ltd.

Financial Statements
For the years ended December 31, 2022 and 2021

(in Canadian dollars)

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Contents

Independent Auditor's Report

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, 2022 and December 31, 2021, 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, 2022 and December 31, 2021, 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, 2022 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue recognition

Key Audit Matter Description

Revenue is recognized when the outcome of performance obligations are achieved and the assessment of achieving the required performance obligations in relation to the Company's Project Funding Agreements (Note 11) requires significant judgement and estimates. As a result of management's assessment, all amounts related to the Project Funding Agreements have been recorded as Deferred Revenue. Due to the level of judgements and estimates involved in determing achievement of performance obligations and assessment of the contracts in relation to IFRS 15 - Revenue from Contracts with Customers, we have determined that revenue recognition is a key audit matter.

Audit Response

We responded to this matter by performing procedures in relation to Project Funding Agreement revenue recognition. Our audit work in relation to this included, but was not restricted to, the following:

- Assessed the terms and conditions of the Project Funding Agreements in relation to IFRS 15 - Revenue from Contracts with Customers
- Assessed the achievement of final performance obligation to permit recognition of related revenue through derecognition of deferred revenue

Convertible debenture

Key Audit Matter Description

As outlined in Note 8, the Company issued Convertible Debentures during the year. The Convertible Debentures are compound financial instruments which contains both a liability for the host debt and a derivative liability for the conversion option. The Company estimated the fair value of the derivative liability utilizing market available information and valuation techniques. Due to the level of estimates and assumptions required in the valuation of the derivative liability, we have determined this to be a key audit matter.

Audit Response

We responded to this matter by performing procedures in relation to the valuation of the derivative liability. Our audit work in relation to this included, but was not restricted to, the following:

- Obtained the convertible debenture agreements and assessed whether the terms and conditions are appropriately considered in the calculation of value
- Assessed the Company's valuation methodology including the reasonableness of significant inputs and assumptions though the assistance of a valuation specialist
- Performed a recalculation of the allocation of the fair values between the host debt and derivative liability components

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 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Calgary, Alberta

MNP LLP

March 23, 2023

Chartered Professional Accountants

Acceleware Ltd.

Statements of Financial Position
(in Canadian dollars)

As at December 31,

		2022		2021
Assets				
Current				
Cash and cash equivalents	**$**	**1,146,468**	$	1,947,512
Trade and other receivables *(note 5)*		**1,034,940**		2,960,602
Contract asset and prepaid expenses *(note 11(b))*		**263,325**		289,176
Totals current assets		**2,444,733**		5,197,290
Non-current				
Property and equipment		**3,731**		43,868
Right of use assets *(note 7)*		**80,368**		111,030
Total assets	**$**	**2,528,832**	$	5,352,188
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities *(note 6)*	**$**	**2,308,103**	$	5,251,469
Deferred government assistance for R&D *(note 14)*		**—**		725,231
Other current liabilities *(notes 6, 7,11(b))*		**772,272**		131,925
Total current liabilities		**3,080,375**		6,108,625
Deferred revenue *(note 11(a))*		**4,350,000**		3,050,000
Convertible debenture *(note 8)*		**1,257,041**		—
Derivative liabilities *(note 8)*		**647,300**		—
Other non-current liabilities *(notes 7 and 9)*		**353,130**		316,552
Total liabilities		**9,687,846**		9,475,177
Shareholders' Equity				
Share capital *(note 10)*		**24,521,588**		23,178,884
Reserves		**8,620,071**		7,856,632
Deficit		**(40,300,673)**		(35,158,505)
Total shareholders' equity		**(7,159,014)**		(4,122,989)
Total liabilities and shareholders' equity	**$**	**2,528,832**	$	5,352,188

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,		2022		2021
Revenue *(note 11)*	**$**	**328,293**	$	752,770
Expenses				
Cost of revenue		**18,748**		41,532
General and administrative *(note 12)*		**2,078,196**		1,774,921
Research and development *(note 13)*		**3,445,155**		2,982,295
Total expenses		**5,542,099**		4,798,748
Loss from operations		**(5,213,806)**		(4,045,978)
Other income (expense)				
Finance expense *(notes 7, 8 and 9)*		**(341,664)**		(9,153)
Change in fair value of derivative financial instruments *(note 8)*		**414,800**		—
Foreign exchange loss		**(1,498)**		(24,462)
Total other income (expense)		**71,638**		(33,615)
Total comprehensive loss for the year attributable to shareholders	**$**	**(5,142,168)**	$	(4,079,593)
Loss per share				
Basic and diluted	**$**	**(0.05)**	$	(0.04)
Weighted average shares outstanding – basic and diluted *(note 10(d))*		**109,281,222**		106,632,852

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				
		Common shares	Amount	Warrants	Contributed surplus	Total Reserves	Deficit	Total shareholders' equity
Balance at December 31, 2020	#	105,669,170	$ 22,380,890	$ —	$ 8,030,670	$ 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(c))*		—	—	—	218,831	218,831	—	218,831
Stock options exercised *(note 10(a))*		—	392,869	—	(392,869)	(392,869)	—	—
Balance at December 31, 2021	**#**	**108,095,340**	**$ 23,178,884**	**$ —**	**$ 7,856,632**	**$ 7,856,632**	**$ (35,158,505)**	**$ (4,122,989)**
Total comprehensive loss		—	—	—	—	—	(5,142,168)	(5,142,168)
Exercise of stock options for cash *(note 10(a))*		310,000	48,600	—	—	—	—	48,600
Issuance of shares and warrants *(note 10(a) and 10(b))*		6,666,667	1,248,257	532,600	—	532,600	—	1,780,857
Share-based payments								
Current period expense *(note 10(c))*		—	—	—	276,686	276,686	—	276,686
Stock options exercised *(note 10(a))*		—	45,847	—	(45,847)	(45,847)	—	—
Balance at December 31, 2022	**#**	**115,072,007**	**$ 24,521,588**	**$ 532,600**	**$ 8,087,471**	**$ 8,620,071**	**$ (40,300,673)**	**$ (7,159,014)**

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,

		2022		2021
Cash flows from operating activities				
Total comprehensive loss	$	**(5,142,168)**	$	(4,079,593)
Adjustments for:				
Depreciation expense		**70,799**		51,586
Decommissioning expense *(note 9)*		**69,189**		222,767
Share-based payments expense *(note 10(c))*		**276,686**		218,831
Change in fair value of derivative financial instruments		**(414,800)**		—
Interest expense *(notes 7 and 8)*		**332,647**		9,485
Changes in non-cash working capital items				
Trade and other receivables		**1,925,662**		(1,753,640)
Contract assets		**—**		(41,995)
Prepaid expenses		**25,851**		285,247
Accounts payable and accrued liabilities		**(2,260,155)**		4,245,375
Deferred government assistance for R&D		**(725,231)**		(1,702,968)
Contract liabilities		**(40,739)**		(60,121)
Deferred revenue *(note 11(a))*		**1,300,000**		2,300,000
Net cash flows used in operating activities		**(4,582,259)**		(305,026)
Cash flows (used for) from financing activities				
Net proceeds on issuance of common shares *(note 10(a))*		**1,829,457**		405,125
Net proceeds on issuance of convertible debenture *(note 8)*		**2,161,657**		—
Interest payments on convertible debenture *(note 8)*		**(171,132)**		—
Payments on lease obligations *(note 7)*		**(38,767)**		(61,763)
Net cash flows provided by financing activities		**3,781,215**		343,362
Cash flows used for investing activities				
Purchase of property and equipment		**—**		(32,838)
Net cash flows used for investing financing activities				(32,838)
Increase (decrease) in cash and cash equivalents		**(801,044)**		5,498
Cash and cash equivalents, beginning of year		**1,947,512**		1,942,014
Cash and cash equivalents, end of year	$	**1,146,468**	$	1,947,512
Comprised of:				
Cash on deposit	$	**1,126,676**	$	1,927,720
Cash equivalents		**19,792**		19,792
	$	**1,146,468**	$	1,947,512

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

1. General information

Acceleware Ltd. (the “Company” or “Acceleware”) is a clean-tech 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. That same RF heating technology is also being applied to the decarbonization of certain other industrial heating applications currently in development. 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 and interpretations issued by the International Financial Reporting Interpretations Committee and in effect as of January 1, 2022.

These financial statements were approved and authorized for issuance by the Board of Directors on March 23, 2023.

(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

These financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts may differ from these estimates.

Estimates, judgements and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized in the period in which such estimates are revised if the revision affects only that period or in the period of the revision and future periods if the review affects both the current and future periods.

2. Basis of presentation (cont'd)

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

The accounting policies subject to such judgements and the key sources of estimate uncertainty that the Company believes could have the most significant impact on the reported results and financial position are as follows:

Critical accounting judgements

Going Concern: 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.

Revenue: 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.

Leases: 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.

Current and deferred taxes: Other estimates employed are related to taxes and related provisions. 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.

Key accounting estimates

Decommissioning liability: 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 or the corresponding expense to increase. These changes would also cause future accretion expenses to increase.

Convertible financial instruments: The Company makes estimates relating to the selection of appropriate market rates of interest to discount contractual interest and principal payments of compound financial instruments. There are also estimates related to the fair value of the embedded features which requires determining the most appropriate valuation model and the most appropriate inputs to the valuation model.

Leases: 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.

2. Basis of presentation (cont'd)

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

Stock options and warrants: The Company must make use of estimates in calculating the fair value of share-based payments and warrants. Amounts recorded for share-based payments and warrants are subject to the inputs used in the Black-Scholes option pricing model for warrants and 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.

3. Going concern

These financial statements have been prepared on a going concern basis, which implies 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 $40,300,673 (December 31, 2021 - $35,158,505), net loss of $5,142,168 (December 31, 2021 – $4,079,593) and negative cash flows from operating activities of $4,582,259 (December 31, 2021 – $305,026) largely due to investments in new product development and in the commercialization of those new products. In particular, the Company invested $3,445,155 in research and development (net of government assistance of $2,229,025) for the year ended December 31, 2022 (December 31, 2021 - $2,982,295 net of government assistance of $9,632,259), 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. To maximize cash generated from operations, the Company plans to focus on high gross margin revenue streams such as software, and RF heating services; 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 substantially all 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, the Company 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 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.

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) 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.

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.

4. Significant accounting policies (cont'd)

(a) Revenue recognition (cont'd)

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.

(b) 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.

(c) Cash and cash equivalents

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

(d) Property and equipment

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed using a straight-line method. The useful lives of property and equipment for purposes of computing depreciation is three to five years.

(e) 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 criteria for deferral and amortization in accordance with International Accounting Standard ("IAS") 38 "Intangible Assets". Research and development ("R&D") costs comprise salaries, consultant fees, share-based payments, services and components related to prototypes, lab supplies, and an allocation of office costs and depreciation. No development costs have been deferred as at December 31, 2022 (December 31, 2021 - $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.

4. Significant accounting policies (cont'd)

(f) Decommissioning liability

The Company recognizes a decommissioning liability in the period it arose with a corresponding increase to the related 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 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.

(g) 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 expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

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.

(h) Share-based payments

The Company uses the fair value method to account for options to be granted to employees, directors and officers. All options and similar instruments that are granted to non-employees are also accounted for at the fair value of the goods or services received unless the fair value of the goods or services cannot be estimated reliably. The fair value method consists of recording share-based payments to the 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.

4. Significant accounting policies (cont'd)

(i) 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. Diluted loss per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. The weighted average number of common shares outstanding is increased by the total number of additional common shares that would have been issued by the Company assuming the notional exercise of all in-the-money stock options and warrants. No adjustment to diluted loss per share is made if the result of this calculation is anti-dilutive or if the Company is in a loss position.

(j) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade accounts receivable, accounts payable and accrued liabilities, convertible debt, and lease liability. Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are classified based on the business model in which they are held and the characteristics of their contractual cash flows.

Financial assets are measured at amortized cost. Financial assets measured at amortized cost are measured using the effective interest method. Cash and trade accounts receivable are classified as financial assets measured at amortized cost.

Financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statement of loss and comprehensive loss. Accounts payable and accrued liabilities, convertible debt, and lease liability are classified as financial liabilities measured at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in the consolidated statement of loss and comprehensive loss.

Derivative financial instruments

Convertible debt that may be settled with cash or another financial asset or is convertible into a variable number of common shares is bifurcated into a debt portion and a derivative liability portion. The derivative liability is measured at fair value on the date of issuance. The Company subsequently classifies derivative liabilities at fair value through profit and loss. Upon the exercise or conversion of convertible debt to common shares, the related fair value of the derivative liability is transferred to share capital as consideration for the common shares issued, along with cash consideration, if any.

4. Significant accounting policies (cont'd)

(j) Financial instruments (cont'd)

The Company recognizes and presents separately derivative financial instruments that grant an option to the holder of the instrument to convert it into a fixed number of common shares of the Company (an equity instrument). On initial recognition, the equity instrument is measured based on its proportional fair value using applicable valuation models and assumptions. Any directly attributable transaction costs are allocated in proportion to the initial carrying amount. Subsequent to initial recognition, the equity instrument is not re-measured.

Impairment of financial assets

Impairment of financial assets is based on an expected credit loss ("ECL") model. ECLs are a probability weighted estimate of credit losses. The Company calculates lifetime ECLs based on consideration of customer-specific factors, actual credit loss experience and forecasted economic conditions. Management considers historical default rates generally represent a reasonable approximation of future expected defaults and as a percentage of revenue, the Company's actual credit loss experience has been minor.

(k) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability.

(l) 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.

(m) Segment reporting

Management, including the Chief Operating Decision Maker, who is the Company's Chief Executive Officer, reviews and assesses operating performance using segment net revenues and 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.

(n) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

(in Canadian dollars)

5. Trade and other receivables

		December 31, 2022		December 31, 2021
Trade receivables	**$**	**888**	$	469,660
Government assistance receivable for R&D *(note 14)*		**1,000,000**		2,291,220
Goods and services tax and other receivables		**34,052**		199,722
Allowance for doubtful accounts		—		—
	$	**1,034,940**	$	2,960,602

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

6. Accounts payable and accrued liabilities

The Company's accounts payable and accrued liabilities are detailed below:

		December 31, 2022		December 31, 2021
Trade accounts payable	**$**	**1,340,583**	$	3,715,927
Accrued liabilities and other payables(a), (b)		**967,520**		1,535,542
	$	**2,308,103**	$	5,251,469

(a) On December 3, 2022, the Company signed a promissory note payable for $678,774, bearing interest at 9.45% per annum and secured with a general security agreement over the Company's assets. Payments, including interest, are due as follows: $274,000 due June 30, 2023, $237,000 due September 30, 2023, and $232,000 due December 31, 2023. The principal amount of the promissory noted is included in Other current liabilities on the statement of financial position. Accrued interest is recorded in Accrued liabilities and other payables.

(b) Accrued liabilities include deferred compensation amounts owing to management of $779,665 (December 31, 2021 - $306,697)

7. 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, 2021 - $nil) and there were no disposals in the year (December 31, 2021 - $nil).

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. 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 in 2023.

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, 2022, $15,331 (December 31, 2021 – $22,472) 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.

(in Canadian dollars)

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

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

		December 31, 2022		December 31, 2021
Opening balance	$	**121,654**	$	173,932
Additions		**—**		—
Interest expense		**8,387**		9,485
Repayment of lease obligations		**(38,686)**		(61,763)
Closing balance		**91,355**		121,654
Less: current portion		**(30,181)**		(27,869)
Non-current portion	$	**61,174**	$	93,785

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

		December 31, 2022		December 31, 2021
2022		**—**		38,686
2023		**38,686**		38,686
2024		**36,000**		36,000
2025		**27,000**		27,000
Minimum lease payments		**101,686**		140,372
Less: interest portion at a rate of 8.0% (2021 – 7.9%)		**14,444**		28,330
Net minimum lease payments	$	**87,242**	$	112,042

Variable lease payments for operating costs not included in the above table are approximately $60,000 per year (December 31, 2021 - $60,000).

(in Canadian dollars)

8. Convertible debentures

As of April 4, 2022, the Company had closed two non-brokered private placements of 10% unsecured convertible debentures for total gross proceeds of $2,215,000. The first debenture with gross proceeds of $1,500,000 was issued on March 24, 2022 ("First Debenture"), and the second debenture with gross proceeds of $715,000 was issued on April 4, 2022 ("Second Debenture"). Each debenture matures four years after the issue date and is convertible into units of the Company (each a "Unit") at a conversion price of $0.80 (the "Conversion Price"), at the holders' option (the "Conversion Option") beginning four months after the date of issue. 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 for a 24-month period following the issue date of the debentures. If at any time during the Term, the Company announces an offering of common shares below the Conversion Price, the debenture holders have the option (the "Anti-Dilution Option") to convert at the offering price or the contracted floor price, whichever is higher, provided the debentures are converted within 15 days of the announcement. The contracted floor price for the First Debenture is $0.68 and $0.72 for the Second Debenture. At any time during the Term, the Company has the option to pre-pay all or a portion of the debentures provided the Company pays all interest that would have accrued on the redeemed debentures up to maturity ("the Pre-payment Option"). The Company has the option to force conversion (the "Forced Conversion Option") of the debentures until the maturity date into Units provided that on the day of conversion, the 30-day volume weighted average price of the Company's common shares is equal to or above $1.04.

Total net proceeds of $2,161,657 received from the offerings were used to fund the further development and testing of the Company's RF heating technology and for general corporate purposes.

At inception and for subsequent reporting periods, the fair value of the Conversion Option with the Anti-Dilution Option was measured using a Black-Scholes option pricing model. The Forced Conversion Option was measured using a valuation model that incorporated the various scenarios of the financial instrument. The Pre-Payment Option was determined to have no material value.

The following assumptions were used as inputs into the valuation models:

	December 31, 2022	At Inception
Expected volatility	**0.90-1.28**	0.76 - 1.25
Risk-free interest rate	**3.85% –3.86%**	1.49% – 2.41%
Share price on measurement date	**$0.34**	$0.74
Expected dividend yield	**Nil**	Nil
Expected life	**1.25 – 3.25 years**	2 - 4 years

(in Canadian dollars)

8. Convertible debentures (cont'd)

The value of each component, allocated amongst the debt host and embedded derivatives at inception and at December 31, 2022 was as follows:

	Principal	Debt	Derivative Liabilities
Balance, December 31, 2021 and 2020	$ —	$ —	$ —
Issued	2,215,000	1,152,900	1,062,100
Issue costs	(11,208)	(11,208)	—
Fair value adjustment	(414,800)	—	(414,800)
Accretion	115,349	115,349	—
Balance, December 31, 2022	**1,904,341**	**1,257,041**	**647,300**

9. Decommissioning liability

The carrying amount of the liability associated with the decommissioning of the Company's R&D activities related to the commercial-scale pilot test of the RF XL technology is all recorded as other non-current 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, 2022	December 31, 2021
Undiscounted cash flows	**$ 295,871**	$ 220,900
Discount rate	**3.3%**	1.4%
Inflation rate	**3%**	2.1%
Weighted average expected timing of cash flows	**8 years**	9 years

The following table presents the reconciliation of the carrying amount of the decommissioning liability:

	December 31, 2022	December 31, 2021
Balance, beginning of year	**$** 222,767	$ -
Liabilities incurred	100,000	220,900
Effect of change in estimate	(39,881)	-
Accretion	9,070	1,867
Balance, end of year	291,956	222,767

(in Canadian dollars)

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, 2022, 310,000 stock options (December 31, 2021 – 2,426,170) were exercised for cash proceeds of $48,600 (December 31, 2021 - $405,125). Non-cash compensation charges of $45,847 (December 31, 2021 - $392,869) were reclassified from contributed surplus reserves to share capital on the exercise of these stock options.

On November 10, 2022, the Company closed a non-brokered private placement consisting of 6,666,667 units at a price of $0.27 per unit for gross proceeds of $1,800,000 and proceeds net of issue costs of $1,780,857. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.36 per unit for a period of two years beginning March 10, 2023. The gross proceeds from the private placement were allocated to share capital and warrants based on each components pro-rata fair value. The fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: expected volatility 0.95, a risk free interest rate of 3.87%, expected dividend yield of nil and expected life of two years.

(b) Warrants

As a result of the November 10, 2022 private placement of units, the Company has 6,666,667 common share purchase warrants outstanding with an aggregate fair value of $532,600.

(c) Share-based payments

At December 31, 2022, 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 did not grant any options during the year. For the year ended December 31, 2021, the Company granted to certain employees, contractors, officers, and directors options to purchase common shares with the following terms:

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

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.

(in Canadian dollars)

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

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

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
Grant date fair value	$0.23
Expected volatility	1.15
Risk-free interest rate	0.71%
Expected dividend yield	Nil
Expected forfeiture rate	1.72%

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, 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	0.20
Forfeited	(108,000)	0.29
Exercised	(310,000)	0.16
Balance, December 31, 2022	**9,331,164**	**0.20**

(in Canadian dollars)

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

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

Summary of options outstanding and exercisable as at December 31, 2022 are as follows:

Exercise price outstanding	Grant Date	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
$0.10 - $0.135	Sept 2019 to Jun 2020	3,963,532	1.46	$0.12	3,963,532
$0.20 - $0.21	Feb 2017 to Oct 2018	1,869,632	0.04	0.21	1,869,632
$0.29 - $0.30	Jan 2018 to Sept 2021	3,498,000	2.32	0.29	2,648,500
		9,331,164	1.50	$0.20	8,481,664

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 - $0.135	Sept 2019 to June 2020	4,163,532	2.49	0.12	3,442,299
$0.20 - $0.21	Feb 2017 to Oct 2018	1,979,632	0.40	0.21	1,979,632
$0.29 - $0.30	Jan 2018 to Sept 2021	3,606,000	3.36	0.29	1,799,000
		9,749,164	2.39	$0.20	7,220,931

(d) 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, 2022 and 2021 as the effect is anti-dilutive.

(in Canadian dollars)

11. Revenue

The components of revenue are as follows:

		December 31, 2022		December 31, 2021
Software	**$**	**118,024**	$	336,588
Maintenance		**187,269**		342,523
Services		**23,000**		73,659
	$	**328,293**	$	752,770

(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 $5,750,000 for this contract will be recognized once heating is complete or the contract is terminated, whichever is earlier. Software and maintenance revenue of $250,000 has already been recognized.

The following is a reconciliation of deferred revenue:

		December 31, 2022		December 31, 2021
Balance, beginning of year	**$**	**3,050,000**	$	750,000
Invoiced		**1,400,000**		2,400,000
Recognized as software and maintenance revenue		**(100,000)**		(100,000)
Recognized as data revenue		**—**		—
	$	**4,350,000**	$	3,050,000

(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, 2022**		December 31, 2021
Balance, beginning of year	**$**	**202,980**	$	160,986
Additions		—		41,994
Invoiced		—		—
	$	**202,980**	$	202,980

Contract liabilities		**December 31, 2022**		December 31, 2021
Balance, beginning of year	**$**	**104,056**	$	164,178
Additions		**146,530**		107,715
Recognized as revenue		**(187,269)**		(167,837)
	$	**63,317**	$	104,056

(c) Geographic revenue segmentation

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

		Canada		**USA**		**Total**
December 31, 2022	**$**	**117,000**	**$**	**211,293**	**$**	**328,293**
December 31, 2021	$	151,250	$	601,520	$	752,770

The Company derives significant revenues from two major customers each of which exceeded 10% of total revenues for the year ended December 31, 2022. Revenue from these customers was $271,092 in the year ended December 31, 2022 (December 31, 2021 – five main customers revenue of $626,087).

(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, 2022		December 31, 2021
Salaries	**$**	**915,279**	$	702,038
Professional fees		**367,594**		301,797
Share-based payments *(note 10(c))*		**201,739**		166,566
Rent, office and public company fees		**342,423**		335,335
Marketing		**203,040**		235,749
Depreciation		**35,399**		25,793
Travel		**12,722**		7,643
	$	**2,078,196**	$	1,774,921

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, 2022		December 31, 2021
Salaries	**$**	**1,181,558**	$	811,434
Consultants		**482,484**		725,188
R&D services, supplies and materials		**3,845,852**		10,965,030
Share-based payments *(note 10(c))*		**74,947**		52,265
Depreciation		**35,399**		25,793
Rent and overhead allocation		**53,940**		34,844
Non-refundable government assistance *(note 14)*		**(2,229,025)**		(9,632,259)
	$	**3,445,155**	$	2,982,295

(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 $250,000 in 2020 and an additional $262,500 in 2021 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, 2022, the Company received $1,472,352 less a holdback receivable of $77,143, (December 31, 2021 – $2,756,297 less a holdback receivable of $413,443).

Effective January 1, 2021 and amended November 2022, Acceleware entered into an investment agreement with Alberta Innovates to provide up to $5,900,000 of non-dilutive and non-repayable funding for the commercial-scale pilot test of the RF XL technology. The Company received milestone payments of $1,400,000 during the year with the remainder of the funds to be distributed at designated milestones over the course of the project (December 31, 2021 – $4,000,000).

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, 2022		December 31, 2021
Balance, beginning of year	**$**	**725,231**	$	2,428,199
Milestone payments received		**2,795,209**		6,605,354
Milestone payment receivable *(note 5)*		**(1,368,558)**		910,494
Holdbacks receivable *(note 5)*		**77,143**		413,443
Recognized as an offset to R&D cost *(note 13)*		**(2,229,025)**		(9,632,259)
	$	**—**	$	725,231

The remaining amount committed but not yet received from SDTC, ERA and Alberta Innovates, including holdbacks receivable, is $1,000,000 (December 31, 2021 - $2,894,745). Total project costs incurred since inception for the commercial-scale pilot test as at December 31, 2022 are approximately $25,960,000 (Inception to December 31, 2021 - $20,380,000).

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 provided 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 received the CEWS and CERS.

For the year ended December 31, 2022, the Company recognized $nil CEWS and $nil CERS (December 31, 2021 - $158,483 CEWS and $22,082 CERS) and 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, 2022, the Company received $460,508 from the CEWS program and $30,701 from the CERS program. As of December 31, 2022, this program had ended.

(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, 2021 – 23%) to loss before taxes.

The difference results from the following:

		December 31, 2022		December 31, 2021
Loss before income tax	$	**5,142,168**	$	(4,079,593)
Statutory tax rate		**23%**		23%
Computed expected income tax (recovery)		**(1,182,699)**		(938,306)
Non-deductible expenses		**(29,651)**		50,994
SR&ED investment tax credits		**(263,397)**		(1,482,128)
Increase in deferred tax assets not recognized		**1,475,747**		2,369,440
Deferred tax recovery	$	**—**	$	—

The components of the deferred tax liability are as follows:

		December 31, 2022		December 31, 2021
Deferred tax assets:				
SR&ED tax pools	$	**630,909**	$	1,013,441
SR&ED investment tax credits		**(630,909)**		(1,013,441)
Net deferred tax liability	$	**—**	$	—

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

		December 31, 2022		December 31, 2021
SR&ED expenditure pool	$	**10,853,180**	$	7,291,518
SR&ED investment tax credits		**4,746,526**		4,406,264
Property and equipment and other		**448,060**		4,885
	$	**16,047,767**	$	11,702,667

The Company has $14,658,364 (December 31, 2021 - $11,697,782) in deductible SR&ED expenditures with no expiry date and $4,746,526 (December 31, 2021 - $4,406,264) 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.

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. The fair values of convertible debt, derivative liabilities, promissory note payable, and government assistance approximate their carrying values as they bear interest at effective rates or fixed rates consistent with market rates for similar debt.

(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, 2022		December 31, 2021
Cash and cash equivalents	**$**	**58,905**	$	337,480
Trade and other receivables		**—**		38,988
Accounts payable and accrued liabilities		**(59,960)**		(22,959)
Net exposure	**$**	**(1,055)**	$	353,509

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

		December 31, 2022		December 31, 2021
Revenue	**$**	**164,555**	$	539,728
Expenses		**(224,923)**		(614,308)
Net exposure	**$**	**(60,368)**	$	(74,580)

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, 2022	Average exchange rate for the year ended December 31, 2021	**Exchange rate as at December 31, 2022**	Exchange rate as at December 31, 2021
Canadian dollar per one USD	**1.3013**	1.2535	**1.3544**	1.2678

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

(in Canadian dollars)

16. Financial instruments (cont'd)

(b) Currency risk (cont'd)

		Decrease/(increase) in comprehensive loss for the year ended December 31, 2022		Decrease/(increase) in comprehensive loss for the year ended December 31, 2021
1 percent strengthening in the Canadian dollar	$	**472**	$	2,193
1 percent weakening in the Canadian dollar	$	**(472)**	$	(2,193)

(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, 2022 (December 31, 2021 - $nil).

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

		December 31, 2022		December 31, 2021
1 – 30 days	$	**888**	$	18,924
31 - 60 days		**—**		—
61 – 90 days		**—**		450,737
91 – 120 days		**—**		—
Allowance for doubtful accounts		**—**		—
		888		469,661
Government assistance receivable		**1,000,000**		2,291,220
Other receivables		**34,052**		199,721
	$	**1,034,940**	$	2,960,602

There is one customer whose trade and other receivable exceed 15% of the total trade and other receivables at December 31, 2022 (December 31, 2021 - one), except for the government assistance receivable (see note 14).

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, 2022, Acceleware's financial liabilities are all due within one year, with the exception of lease obligations, decommissioning liabilities, and convertible debenture.

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.

(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, 2022:

	RF Heating	HPC	Total
Revenue	$ 117,000	$ 211,293	$ 328,293
Expenses			
Cost of Revenue	18,748	—	18,748
General and administrative	1,612,617	465,579	2,078,196
Research and development	3,445,155	—	3,445,155
	5,076,520	465,579	5,542,099
Loss from operations	**$ (4,959,520)**	**$ (254,286)**	**$ (5,213,806)**

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)**	**$ 131,661**	**$ (4,045,978)**

(in Canadian dollars)

19. Related party transactions

(a) For the year ended December 31, 2022, the Company incurred expenses in the amount of $317,327 (December 31, 2021 - $305,893) 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, $206,902 was included in accounts payable and accrued liabilities as at December 31, 2022 (December 31, 2021 - $73,325). These fees were incurred in the normal course of operations and initially measured at fair value.

(b) For the year ended December 31, 2022, the Company incurred expenses in the amount of $65,923 (December 31, 2021 - $24,978) with a company controlled by an officer of the Company for legal fees, and this amount is included in general and administrative expense. As at December 31, 2022, $16,670 was included in accounts payable and accrued liabilities (December 31, 2021 - $411) These fees were incurred in the normal course of operations and initially measured at fair value.

(c) For the year ended December 31, 2022, the Company incurred expenses in the amount of $176,150 (December 31, 2021 - $150,000) 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, $44,750 was included in accounts payable and accrued liabilities as at December 31, 2022 (December 31, 2021 - $12,804). 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, 2022		December 31, 2021
Salaries and short-term employee benefits	**$**	**1,444,038**	$	1,327,777
Share-based payments		**226,008**		160,049
	$	**1,670,046**	$	1,487,826