

Acceleware Ltd.

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

(in Canadian dollars)

Acceleware Ltd.

Condensed Interim Financial Statements For the Six Months Ended June 30, 2017 and 2016 (in Canadian dollars)

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Acceleware Ltd.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Acceleware Ltd.

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

As at:

	June 30, 2017	December 31, 2016
Assets		
Current		
Cash and cash equivalents	\$ 993,573	\$ 1,922,318
Trade and other receivables	170,120	196,525
Work in process (note 7)	176,394	323,438
Alberta SR&ED tax credits receivable	101,180	132,237
Deposits and prepaid expenses	46,816	41,184
	1,488,083	2,615,702
Non-current		
Property and equipment	104,625	88,575
Total assets	\$ 1,592,708	\$ 2,704,277
Liabilities and Equity		
Current		
Accounts payable and accrued liabilities	\$ 473,376	\$ 794,027
Deferred revenue	198,020	174,682
Finance lease (note 5)	33,058	30,578
	704,454	999,287
Non-current		
Convertible debt (note 6c)	727,940	643,215
Derivative liability (note 6c)	132,257	271,705
Finance lease (note 5)	38,832	27,517
Total liabilities	1,603,483	1,941,724
Going concern (note 3)		
Commitments (note 8)		
Shareholders' Equity		
Share capital (note 6a)	18,607,378	18,478,200
Reserves (note 6b,d)	7,055,919	6,868,369
Deficit	(25,674,072)	(24,584,016)
Total shareholders' equity	(10,775)	762,553
Total liabilities and shareholders' equity	\$ 1,592,708	\$ 2,704,277

Approved on behalf of the Board:

(signed) "Bohdan Romaniuk"

Director

(signed) "Dennis Nerland"

Director

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

Acceleware Ltd.

Condensed Statements of Comprehensive Loss (Unaudited)

(in Canadian dollars)

For the:

	Three months ended June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Revenue (note 8)	\$ 312,612	\$ 410,318	\$ 810,801	\$ 852,855
Expenses				
Cost of revenue	43,282	119,061	87,686	296,434
General and administrative	543,873	368,871	954,180	701,249
Research and development	479,143	272,554	924,607	533,276
	1,066,298	760,486	1,966,473	1,530,959
Loss from operations	(753,686)	(350,168)	(1,155,672)	(678,104)
Finance income	—	42	119	366
Finance expense	(41,915)	(922)	(86,272)	(1,361)
Gain on derivative instruments	157,231	—	139,448	—
Foreign exchange (loss) gain	(2,827)	(15,484)	12,321	(52,451)
	112,489	(16,364)	65,616	(53,446)
Total comprehensive loss for the period attributable to shareholders	\$ (641,197)	\$ (366,532)	\$ (1,090,056)	\$ (731,550)
Loss per share				
Basic and diluted	\$ (0.007)	\$ (0.006)	\$ (0.013)	\$ (0.011)
Weighted average shares outstanding	85,571,246	66,232,793	85,493,655	66,211,529

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

Acceleware Ltd.

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

	Share capital				Reserves					
	Common shares		Amount		Warrants	Contributed surplus		Total	Deficit	Total shareholders' equity
Balance at December 31, 2015	#	66,109,266	\$	17,056,812	\$	—	\$ 6,180,534	\$ 6,180,534	\$ (22,574,007)	\$ 663,339
Total comprehensive loss		—		—		—	—	—	(731,550)	(731,550)
Exercise of stock options for cash (note 6a)		252,495		21,000		—	—	—	—	21,000
Share-based payments										
Current period expense (note 6d)		—		—		—	14,654	14,654	—	14,654
Stock options exercised (note 6d)		—		15,160		—	(15,160)	(15,160)	—	—
Balance at June 30, 2016	#	66,442,761	\$	17,092,972	\$	—	\$ 6,180,028	\$ 6,180,028	\$ (23,305,557)	\$ (32,557)
Balance at December 31, 2016	#	84,857,911	\$	18,478,200	\$	625,582	\$ 6,242,787	\$ 6,868,369	\$ (24,584,016)	\$ 762,553
Total comprehensive loss		—		—		—	—	—	(1,090,056)	(1,090,056)
Exercise of warrants (note 6b)		10,000		3,411		(1,211)	—	(1,211)	—	2,200
Exercise of stock options for cash (note 6a)		703,335		68,667		—	—	—	—	68,667
Share-based payments										
Current period expense (note 6d)		—		—		—	245,861	245,861	—	245,861
Stock options exercised (note 6d)		—		57,100		—	(57,100)	(57,100)	—	—
Balance at June 30, 2017	#	85,571,246	\$	18,607,378	\$	624,371	\$ 6,431,548	\$ 7,055,919	\$ (25,674,072)	\$ (10,775)

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

Acceleware Ltd.

Condensed Statements of Cash Flows (Unaudited)

(in Canadian dollars)

For the:

	Three months ended June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Cash flows from (used for) operating activities				
Comprehensive loss before tax	\$ (641,197)	\$ (366,532)	\$ (1,090,056)	\$ (731,550)
Items not involving cash:				
Amortization	16,264	15,129	34,594	30,733
Share-based payments (note 6d)	158,356	7,156	245,861	14,654
Rent inducement	5,014	5,014	10,028	10,028
Gain on derivative instruments (note 6c)	(157,231)	—	(139,448)	—
Accretion on convertible debt (note 6c)	17,849	—	38,475	—
Accrued interest on convertible debt (note 6c)	23,125	—	46,250	—
Accrued interest on loans and borrowings	—	1,013	—	1,013
Changes in non-cash working capital items				
Trade and other receivables	495,648	(126,279)	26,405	135,023
Work in process	9,765	109,335	147,044	206,148
Alberta SR&ED tax credit receivable	75,607	98,754	31,057	73,648
Prepaid expenses	(459)	25,902	(5,632)	13,607
Accounts payable and accrued liabilities	(59,401)	99,672	(330,679)	13,393
Deferred revenue	(43,109)	10,917	23,338	(1,551)
	(99,769)	(119,919)	(962,763)	(234,854)
Cash flows from financing activities				
Shares issued for cash (note 6a)	—	21,000	70,867	21,000
Repayment of finance lease (note 5)	(13,012)	(4,548)	(21,179)	(9,808)
Increase in loans and borrowings	—	200,000	—	200,000
	(13,012)	216,452	49,688	211,192
Cash flows from investing activities				
Purchase of property and equipment	(8,490)	(3,020)	(15,670)	(6,924)
Increase (decrease) in cash and cash equivalents	(121,271)	93,513	(928,745)	(30,586)
Cash and cash equivalents, beginning of period	1,114,844	237,858	1,922,318	361,957
Cash and cash equivalents, end of period	\$ 993,573	\$ 331,371	\$ 993,573	\$ 331,371
Comprised of:				
Cash on hand	\$ 573,362	\$ 310,892	\$ 573,362	\$ 310,892
Cash equivalents	420,211	20,479	420,211	20,479
	\$ 993,573	\$ 331,371	\$ 993,573	\$ 331,371

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

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

1. General information

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

2. Basis of presentation

(a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of condensed interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and have been prepared following the same accounting policies and method of computation as the annual financial statements for the year ended December 31, 2016. The disclosures provided below are incremental to those included with the annual financial statements. Certain information and disclosures normally included in the notes to the annual financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on August 16, 2017.

(b) Functional and presentation currency

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

(c) Basis of measurement

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

(d) Significant accounting assumptions, estimates and judgements

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

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Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

2. Basis of Presentation (cont'd)

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

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

Estimates are used when accounting for revenue recognition both in terms of contracts with multiple deliverables, and in consulting contracts recognized using percentage of completion. The Company evaluates each element of a contract with multiple elements in order to estimate the fair value of each separable component of the transaction. Management applies judgement when assessing whether certain deliverables in a customer arrangement should be included or excluded from a unit of account to which contract accounting is applied. The judgement is typically related to the sale and inclusion of software, maintenance, and consulting services in a customer arrangement and involves an assessment that principally addresses whether the deliverable has stand-alone value to the customer that is not dependent upon other components of the arrangement. The percentage of completion is calculated based on the labour hours incurred to date on each contract at the end of the respective accounting period divided by the total estimated hours for the contract and then multiplied by the estimated contracted revenue expected to be earned. Judgement and estimates are required to evaluate the estimated hours to complete. Due to the nature of the contracts, estimates may change significantly from one accounting period to the next.

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

The Company makes use of estimates when making allowances for uncollectible trade and other receivables. The Company evaluates each receivable at year end using factors such as age of receivable, payment history, and credit risk to estimate when determining if an allowance is required, and the amount of the allowance.

The Company must make use of estimates in calculating the fair value of share-based payments. Amounts recorded for share-based payments are subject to the inputs used in the Black-Scholes option pricing model, including assumptions such as volatility, dividend yield, risk-free interest rates, forfeiture rate estimates, and expected option life. Management estimates the fair values of the derivative liability related to the convertible debenture at initial recognition and at the end of each reporting period using both the Black-Scholes option pricing model and binomial option pricing model which requires Management estimates.

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

Acceleware Ltd.

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

3. Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has accumulated losses amounting to \$25,674,072 (December 31, 2016 - \$24,584,016) largely due to investments in new product development and in the penetration of new markets. In particular, the loss of \$1,090,056 for the six months ended June 30, 2017, resulted from a significant research and development investment in the Company's proprietary RF heating technology.

Within its software and services business, the Company actively manages its cash flow and investment in new products to match its cash requirements to cash generated from operations. In order to maximize cash generated from operations, the Company plans to continue to focus on high gross margin revenue streams such as software products, consulting services and training; focus on selected core vertical markets; minimize operating expenses where possible; and limit capital expenditure. As the Company continues to develop its RF heating technology, new research and development investments will be financed through a combination of internal cash flow from the software and services business, and external financing. Management believes that successful execution of its business plan will result in sufficient cash flow and new financing to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of the objectives discussed above, or that sufficient financing from outside sources will be available. Further, if the Company's operations are unable to generate cash flow levels at or above current projections, the Company may not have sufficient funds to meet its obligations over the next twelve months.

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

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

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

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

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Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

4. Recent Accounting Pronouncements Issued and not yet Effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2018 or later periods. The standards affected are as follows:

(a) IFRS 9 Financial instruments

The Company will be required to adopt IFRS 9, Financial Instruments ("IFRS 9") effective for fiscal years ending on or after January 1, 2018 with earlier application permitted. This is a result of the first phase of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 has also been amended not to require the restatement of comparative period financial statements for the initial application of the classification and measuring requirements of IFRS 9, but instead requires modified disclosures on transition to IFRS 9. The Company is analyzing the new standard to determine its impact on the Company's financial statements.

(b) IFRS 15 Revenue from Contracts with Customers

On May 28, 2015, the IASB issued the final revenue standard, IFRS 15 Revenue from Contracts with Customers, which will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue - Barter Transactions Involving Advertising Services. The standard provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted. The Company is analyzing the new standard to determine its impact on the Company's financial statements.

(c) IFRS 16 Leases

On January 13, 2016, the IASB issued a new Leases Standard, IFRS 16, which supersedes IAS 17 Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. A company assesses whether to apply the requirements in IFRS 16 by identifying whether a contract is (or contains) a lease. IFRS 16 defines a lease and includes application guidance to help companies make this assessment. The definition applies to both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). Most significantly, IFRS 16 changes significantly how a company accounts for leases that were off balance sheet under IAS 17, other than short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture). Applying IFRS 16, in essence for all leases, a company is required to:

- (i) recognize lease assets and lease liabilities in the balance sheet, initially measured at the present value of unavoidable future lease payments;
- (ii) recognize depreciation of lease assets and interest on lease liabilities in the income statement over the lease term; and
- (iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the cash flow statement.

The Company is analyzing the new standard to determine its impact on the Company's financial statements.

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Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

5. Finance Lease

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

	June 30, 2017	December 31, 2016
2017	\$ 20,853	\$ 32,426
2018	28,846	16,902
2019	23,803	11,555
2019	3,460	—
Minimum lease payments	76,962	60,883
Less: interest portion (at a rate of 6.76%)	5,072	2,788
Net minimum lease payments	71,890	58,095
Less: current portion	33,058	30,578
	\$ 38,832	\$ 27,517

The equipment under finance lease has been recognized in property and equipment at the present value of minimum lease payments. Interest charges on leased equipment during the six months ended June 30, 2017 were approximately \$1,546 (six months ended June 30, 2016 – \$808). Other than interest, no costs were incurred relating to these leases. These leases are secured by the assets under lease. At June 30, 2017, the net book value of equipment pledged as security for finance leases is \$61,164 (December 31, 2016 - \$54,780).

6. Share capital and other components of shareholders' equity

(a) Share capital

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

Common shares issued	Number	Amount
Balance, December 31, 2016	84,857,911	\$ 18,478,200
Issued on exercise of stock options (i)	703,335	125,767
Issued on exercise of warrants (ii)	10,000	3,411
Balance, March 31, 2017	85,571,246	\$ 18,607,378

- i. During the six months ended June 30, 2017, 703,335 stock options (six months ended June 30, 2016 - nil) were exercised for cash proceeds of \$68,667 (six months ended June 30, 2016 - \$nil). Non-cash compensation charges of \$57,100 (six months ended June 30, 2016 - \$nil) were reclassified from contributed surplus to share capital on the exercise of these options.
- ii. During the six months ended June 30, 2017, 10,000 warrants (six months ended June 30, 2016 - nil) were exercised for cash proceeds of \$2,200 (six months ended June 30, 2016 - \$nil). Non-cash amount of \$1,211 (six months ended June 30, 2016 - \$nil) was reclassified from warrants to share capital on the exercise of these warrants.

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

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

(b) Warrants

As a result of the October 7, 2016 private placement of units, the Company issued 9,090,909 share purchase warrants. The warrants have an exercise price of \$0.22 and expire on October 7, 2018. During the six months ended June 30, 2017, 10,000 warrants were exercised (see note 6(a)), leaving 9,080,909 warrants outstanding.

(c) Convertible debentures

On December 16, 2016, the Company completed a non-brokered private placement of unsecured convertible debentures in the principal amount of \$925,000 (the "Debentures"), with proceeds net of issue costs of \$911,120.

The Debentures have a term of four years (the "Term") and bear interest at 10% per annum, payable semi-annually. The Debentures are currently convertible into units ("Units") of the Company at a price of \$0.15 per Unit (the "Conversion Price"), at any time during the term, at the holders' option (the "Conversion Privilege"). The Units consist of one common share and one-half common share purchase warrant. Each warrant entitles the holder to acquire one common share, at an exercise price equal to two times the Conversion Price of the units. The warrants expire on December 16, 2018.

The Company has the option to force conversion (the "Forced Conversion Option") of the Debentures 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 150% of the Conversion Price.

If at any time during the Term, the Company announces an offering of common shares below the Conversion Price, the Debenture holders have the option (the "Anti-Dilution Option") to convert at the offering price or \$0.12, whichever is higher, provided the Debentures are converted within 15 days of the announcement. At any time during the Term, the Company has the option to pre-pay all or a portion of the Debentures provided the Company pays all interest that would have accrued on the redeemed Debentures up to maturity ("the Pre-payment Option").

In accordance with IAS 39, the Debentures are considered to comprise a debt host with multiple embedded derivatives relating to the Conversion Privilege, the Forced Conversion Option the Pre-payment Option and the Anti-Dilution Option. The embedded derivatives do not meet the definition of equity and are required to be recognized separately.

At initial recognition, the embedded derivatives were measured at fair value. Subsequent to initial recognition, the embedded derivatives are marked to market at each financial reporting date and any change in fair value is recognized in profit or loss.

The initial carrying amount of the debt host is the residual amount after separating the embedded derivatives net of associated transaction costs. Subsequently, this debt host is measured at amortized cost with interest recognized using the effective interest rate method which will accrete the debt host to the face value of the debentures over the Term.

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Notes to Condensed Interim Financial Statements

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(in Canadian dollars)

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

(c) Convertible debentures (cont'd)

The Conversion Privilege and Anti-Dilution Option were measured at fair value upon initial recognition using a Black-Scholes option pricing model. The issue date fair value of the Conversion Privilege and the Anti-Dilution Option were estimated to be approximately \$0.038 per Unit (\$319,169) using the Black-Scholes option pricing model based on the following assumptions: expected volatility of 57%, a risk-free interest rate of 1.07%, expected dividend yield of nil%, expected forfeiture rate of nil% and expected life of 4 years for the common share component of the Unit and 2 years for the common share purchase warrant component. At June 30, 2017, the fair value of the Conversion Privilege and Anti-Dilution Option were estimated to be \$0.043 per Unit (\$272,512 in aggregate) using the Black-Scholes option pricing model based on the following assumptions: expected volatility of 21%, a risk-free interest rate of 1.07%, expected dividend yield of nil%, expected forfeiture rate of nil% and expected life of 3.46 years for the common share component of the Unit and 1.46 years for the common share purchase warrant component.

The Forced Conversion Option was measured at fair value upon initial recognition using a binomial option pricing model and considering the financing cost saved if the Company exercises its option. The weighted average issue date fair value of the Forced Conversion Option was estimated to be approximately \$0.006 per unit (\$47,464) using the Binomial option pricing model based on the following weighted average assumptions: expected volatility of 57%, a risk-free interest rate of 1.07% and expected life of 4 years. On June 30, 2017, the weighted average fair value of the Forced Conversion Option was estimated to be approximately \$0.022 per unit (\$140,255) using the Binomial option pricing model based on the following weighted average assumptions: expected volatility of 21%, a risk-free interest rate of 1.07% and expected life of 3.46 years. Using a flat interest rate curve assumption, the Pre-payment Option was determined to have little material value. The net derivative liability as at June 30, 2017 decreased to \$132,257 (December 31, 2016 - \$271,705).

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

Fair value of host debt instrument, December 31, 2016	\$	643,215
Accretion		38,475
Accrued interest		46,250
Fair value of host debt instrument, June 30, 2017	\$	727,940

(d) Share-based payments

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

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Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

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

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

During the six months ended June 30, 2017, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 3,099,632 common shares at an exercise price of \$0.21 per share. Of the total, 2,800,000 options vest over two years, such that 1,400,000 of the options will vest one year from the date of grant, and 1,400,000 will vest two years from the date of grant. The remaining options vest based on the market price of the Company's common shares, such that 149,816 options will vest when the closing market price of the Company's common shares exceeds \$0.26 for ten consecutive trading days, and 149,816 options will vest when the closing market price of the Company's common shares exceeds \$0.31 for ten consecutive trading days. All options granted expire 5 years from the date of grant. The weighted average grant date fair value of the stock options granted during 2017 was estimated to be \$0.202 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 182%, a risk-free interest rate of 1.16%, expected dividend yield of nil%, expected forfeiture rate of 1.7% and expected life of 5 years. The expected volatility was determined by calculating the historical volatility of the Company's common share price from the date of grant back to the date five years prior to the date of grant. The estimated fair value of each tranche of options not immediately vesting is amortized to share-based payments over the option vesting period on a straight-line basis. Total share-based payment expenses for the three months ended June 30, 2017 were \$113,565 relating to general and administrative (three months ended June 30, 2016 - \$5,127) and \$44,791 relating to research and development (three months ended June 30, 2016 - \$2,029) for a total of \$158,356 (three months ended June 30, 2016 - \$7,156). Total share-based payment expenses for the six months ended June 30, 2017 were \$174,630 relating to general and administrative (six months ended June 30, 2016 - \$5,127) and \$71,231 relating to research and development (six months ended June 30, 2016 - \$4,935) for a total of \$245,861 (six months ended June 30, 2016 - \$7,156).

During 2016, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 1,464,502 common shares at an exercise price of \$0.15 per share. Of the total, 1,255,000 options vest over three years, such that 426,658 of the options will vest one year from the date of grant, 426,658 will vest two years from the date of grant and 401,684 will vest three years from the date of grant. The remaining options vest based on the market price of the Company's common shares, such that 104,751 options will vest when the closing market price of the Company's common shares exceeds \$0.185 for ten consecutive trading days, and 104,751 options will vest when the closing market price of the Company's common shares exceeds \$0.22 for ten consecutive trading days. All options granted expire 5 years from the date of grant. The weighted average grant date fair value of the stock options granted during 2016 was estimated to be \$0.145 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 284%, a risk-free interest rate of 0.66%, expected dividend yield of nil%, expected forfeiture rate of 2.1% and expected life of 5 years. The expected volatility was determined by calculating the historical volatility of the Company's common share price from the date of grant back to the date one year prior to the date of grant. The estimated fair value of each tranche of options not immediately vesting is amortized to share-based payments over the option vesting period on a straight-line basis. Total share-based payment expenses for the year ended December 31, 2016 were \$69,473 relating to general and administrative and \$27,282 relating to research and development for a total of \$96,755.

Acceleware Ltd.

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

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

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

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

	Number	Weighted Average Exercise Price
Balance, December 31, 2016	6,056,377	\$ 0.081
Granted	3,099,632	0.210
Exercised	(703,335)	0.100
Balance, June 30, 2017	8,452,674	\$ 0.127

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

Exercise price outstanding	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.05	3,713,540	1.92	\$0.050	3,253,518
\$0.10	175,000	0.90	0.100	175,000
\$0.15	1,464,502	4.17	0.150	259,502
\$0.21	3,099,632	4.65	0.210	—
	8,452,674	3.29	\$0.127	3,688,020

(e) Contributed surplus

Balance, December 31, 2016	\$	6,242,787
Share-based payments		245,861
Options exercised		(57,100)
Balance, June 30, 2017	\$	6,431,548

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

7. Revenue

The Company sub-classifies revenue within the following components: product revenue, maintenance revenue, and consulting revenue. Product revenue comprises license fees charged for the use of software products licensed under multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable. Product revenue also includes the resale of third party hardware as part of customized solutions, as well as sales of hardware assembled internally. Maintenance revenue primarily consists of fees charged for customer support on software products post-delivery and also includes recurring fees derived from software leases. Consulting revenue consists of fees charged for implementation services, custom programming, training and simulation consulting.

	Three months ended	Three months ended	Six months ended	Six months ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Product sales	\$ 4,220	\$ 226,909	\$ 66,371	\$ 482,844
Maintenance	140,377	124,586	308,447	202,904
Consulting	168,015	58,823	435,983	167,107
	\$ 312,612	\$ 410,318	\$ 810,801	\$ 852,855

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

	Three months ended	Three months ended	Six months ended	Six months ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Contract revenue recognized in period	\$ (9,764)	\$ 82,808	\$ 52,922	\$ 307,760
Billed in period	—	192,143	199,966	513,908
Change in work in process	\$ (9,764)	\$ (109,335)	\$ (147,044)	\$ (206,148)

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

	Canada	USA	Total
Three months ended June 30, 2017	\$ 1,085	311,527	\$ 312,612
Three months ended June 30, 2016	\$ 1,152	409,166	\$ 410,318
Six months ended June 30, 2017	\$ 212,838	597,963	\$ 810,801
Six months ended June 30, 2016	\$ 2,304	850,551	\$ 852,855

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

7. Revenue (cont'd)

The Company derives significant revenues from major customers each of whom exceed 10% of total revenues for the three and six months ended June 30, 2017.

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Customer A	\$ 95,141	\$ —	\$ 95,141	\$ —
Customer B	88,748	79,026	215,168	303,978
Customer C	35,053	709	35,053	709
Customer D	—	—	200,000	—
	\$ 218,942	\$ 79,735	\$ 545,362	\$ 304,687

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

8. Commitments

On February 29, 2012, Acceleware entered into a premise lease agreement to lease 5,244 square feet of office space commencing August 1, 2012 and ending July 31, 2017, a period of five years. A rent inducement of \$103,420 was received and included in accounts payable and accrued liabilities. It will be amortized over the term of the lease and recorded as a reduction to rent expense. At June 30, 2017, \$1,671 of the rent inducement remains (December 31, 2016 - \$11,699). Effective August 1, 2016 the lease was renegotiated and extended to July 31, 2020. In addition to the basic monthly rents, the Company must pay a proportionate share of property taxes, operating costs, utilities and additional services. The minimum annual basic rent commitments are as follows:

2017	45,885
2018	91,770
2019	91,770
2020	53,533
	\$ 282,958

9. Operating segments

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

The Company does not discretely allocate assets to its operating segments, nor does Management evaluate operating segments using discrete asset information. Expenses associated with corporate support functions are allocated to the Company's segments based on the segment's percentage of total labour expenses for the allocation period. All intersegment transactions between the Software and Services and RF Heating segments have been eliminated.

Acceleware Ltd.

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

9. Operating segments (cont'd)

For the three months ended June 30, 2017

		RF Heating		Software & Services		Total
Revenue	\$	—	\$	312,612	\$	312,612
Expenses						
Cost of revenue		—		43,282		43,282
General and administrative		380,209		163,664		543,873
Research and development		350,370		128,773		479,143
		730,579		335,719		1,066,298
(Loss) income from operations		(730,579)		(23,107)		(753,686)

For the three months ended June 30, 2016

		RF Heating		Software & Services		Total
Revenue	\$	—	\$	410,318	\$	410,318
Expenses						
Cost of revenue		—		119,061		119,061
General and administrative		195,941		172,930		368,871
Research and development		246,783		25,771		272,554
		442,724		317,762		780,486
(Loss) income from operations		(442,724)		92,556		(350,168)

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

9. Operating segments (cont'd)

For the six months ended June 30, 2017

		RF Heating		Software & Services		Total
Revenue	\$	200,000	\$	610,801	\$	810,801
Expenses						
Cost of revenue		—		87,686		87,686
General and administrative		656,519		297,661		954,180
Research and development		689,659		234,948		924,607
		1,346,178		620,295		1,966,473
(Loss) income from operations		(1,146,178)		(9,494)		(1,155,672)

For the six months ended June 30, 2016

		RF Heating		Software & Services		Total
Revenue	\$	86,648	\$	766,207	\$	852,855
Expenses						
Cost of revenue		17,643		278,791		296,434
General and administrative		377,090		324,159		701,249
Research and development		482,867		50,409		533,276
		877,600		653,359		1,530,959
(Loss) income from operations		(790,952)		112,848		(678,104)

Acceleware Ltd.

Notes to Condensed Interim Financial Statements

Six Months Ended June 30, 2017 and 2016

(in Canadian dollars)

10. Related Party Transactions

- (a) For the three months ended June 30, 2017, the Company incurred expenses in the amount of \$41,250 (three months ended June 30, 2016 - \$39,000) and \$81,000 for the six months ended June 30, 2017 (six months ended June 30, 2016 - \$78,000) with a company controlled by an officer of the Company as fees for duties performed in managing operations, and this amount is included in research and development expense. As at June 30, 2017, \$64,207 was included in accounts payable and accrued liabilities (December 31, 2016 - \$88,419). These fees occurred in the normal course of operations and in the opinion of management represent fair value for services rendered.
- (b) For the three months ended June 30, 2017, the Company incurred expenses in the amount of \$5,138 (three months ended June 30, 2016 - \$12,711) and \$22,194 for the six months ended June 30, 2017 (six months ended June 30, 2016 - \$19,666) 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 March 31, 2017, \$3,288 was included in accounts payable and accrued liabilities (December 31, 2016 - \$36,207). These fees occurred in the normal course of operations and in the opinion of management represent fair value for services rendered.
- (c) For the three months ended June 30, 2017, the Company incurred expenses in the amount of \$5,400 (three months ended June 30, 2016 - \$nil) and \$7,650 for the six months ended June 30, 2017 (six months ended June 30, 2016 - \$nil) with a company controlled by the spouse of an officer of the Company for writing services, and this amount is included in general and administrative expense. As at June 30, 2017, \$3,150 was included in accounts payable and accrued liabilities (December 31, 2016 - \$nil). These fees occurred in the normal course of operations and in the opinion of management represent fair value for services rendered.
- (d) Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management included:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Salaries and short-term employee benefits	\$ 180,598	\$ 161,069	\$ 364,664	\$ 330,205
Share-based payments	63,100	5,240	125,584	9,889
	\$ 247,698	\$ 166,309	\$ 490,248	\$ 340,094