

Acceleware Ltd.

Financial Statements

For the years ended December 31, 2023 and 2022

(in Canadian dollars)

Acceleware Ltd.

Financial Statements

For the Years Ended December 31, 2023 and 2022

(in Canadian dollars)

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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, 2023 and December 31, 2022, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of material 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, 2023 and December 31, 2022, 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, 2023 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.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

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 Sergey Fesenko.

Calgary, Alberta

March 21, 2024

MNP LLP

Chartered Professional Accountants

Acceleware Ltd.

Statement of Financial Position (in Canadian dollars)

As at December 31,

	2023	2022
Assets		
Current		
Cash and cash equivalents	\$ 951,569	\$ 1,146,468
Trade and other receivables (note 5)	280,618	1,034,940
Prepaid expenses	23,770	60,345
Totals current assets	1,255,957	2,241,753
Non-current		
Right of use assets (note 8)	49,705	80,368
Other non-current assets (note 12(b))	204,265	206,711
Total assets	\$ 1,509,927	\$ 2,528,832
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities (note 6)	\$ 2,185,515	\$ 2,308,103
Notes payable (note 7)	944,010	678,774
Other current liabilities (notes 8 and 12(b))	111,804	93,498
Total current liabilities	3,241,329	3,080,375
Non-current		
Deferred revenue (note 12(a))	4,350,000	4,350,000
Convertible debenture (note 9)	1,454,700	1,257,041
Derivative liabilities (note 9)	119,600	647,300
Other non-current liabilities (notes 8 and 10)	325,073	353,130
Total liabilities	9,490,702	9,687,846
Shareholders' Equity		
Share capital (note 11)	25,256,988	24,521,588
Reserves	9,108,283	8,620,071
Deficit	(42,346,046)	(40,300,673)
Total shareholders' equity	(7,980,775)	(7,159,014)
Total liabilities and shareholders' equity	\$ 1,509,927	\$ 2,528,832

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.

Statement of Loss and Comprehensive Loss

(in Canadian dollars)

For the years ended December 31,

	2023	2022
Revenue (note 12)	\$ 279,011	\$ 328,293
Expenses		
Cost of revenue	—	18,748
General and administrative (note 13)	1,993,800	2,078,196
Research and development (note 14)	254,740	3,445,155
Total expenses	2,248,540	5,542,099
Loss from operations	(1,969,529)	(5,213,806)
Other income (expense)		
Finance expense (notes 7, 8, 9 and 10)	(599,376)	(341,664)
Change in fair value of derivative financial instruments (note 9)	527,700	414,800
Foreign exchange loss	(4,168)	(1,498)
Total other income (expense)	(75,844)	71,638
Total loss and comprehensive loss for the year attributable to shareholders	\$ (2,045,373)	\$ (5,142,168)
Loss per share		
Basic and diluted	\$ (0.02)	\$ (0.05)
Weighted average shares outstanding – basic and diluted (note 11(d))	116,858,574	109,281,222

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

Acceleware Ltd.

Statement of Changes in Shareholders' Equity

(in Canadian dollars)

		Share capital			Reserves					Total shareholders' equity
		Common shares	Amount		Warrants	Contributed surplus	Total Reserves		Deficit	
Balance at December 31, 2021	#	108,095,340	\$ 23,178,884	\$	—	\$ 7,856,632	\$ 7,856,632	\$	(35,158,505)	\$ (4,122,989)
Total loss and comprehensive loss		—	—		—	—	—		(5,142,168)	(5,142,168)
Exercise of stock options for cash (note 11(a))		310,000	48,600		—	—	—		—	48,600
Issuance of shares and warrants (note 11(a) and 11(b))		6,666,667	1,248,257		532,600		532,600			1,780,857
Share-based payments										
Current period expense (note 11(c))		—	—		—	276,686	276,686		—	276,686
Stock options exercised (note 11(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)
Total loss and comprehensive loss		—	—		—	—	—		(2,045,373)	(2,045,373)
Exercise of stock options for cash (note 11(a))		1,355,000	229,700		—	—	—		—	229,700
Issuance of shares and warrants (note 11(a) and 11(b))		1,949,036	280,728		142,551	—	142,551		—	423,279
Share-based payments										
Current period expense (note 11(c))		—	—		—	570,633	570,633		—	570,633
Stock options exercised (note 11(a))		—	224,972		—	(224,972)	(224,972)		—	—
Balance at December 31, 2023	#	118,376,043	\$ 25,256,988	\$	675,151	\$ 8,433,132	\$ 9,108,283	\$	(42,346,046)	\$ (7,980,775)

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

Acceleware Ltd.

Statement of Cash Flows

(in Canadian dollars)

For the years ended December 31,

	2023	2022
Cash flows from operating activities		
Total loss and comprehensive loss	\$ (2,045,373)	\$ (5,142,168)
Adjustments for:		
Depreciation expense	37,800	70,799
Decommissioning expense (note 10)	9,747	69,189
Share-based payments expense (note 11(c))	570,633	276,686
Change in fair value of derivative financial instruments	(527,700)	(414,800)
Interest expense (notes 7,8,9,10)	590,158	332,647
Changes in non-cash working capital items		
Trade and other receivables	754,322	1,925,662
Prepaid expenses	36,575	25,851
Accounts payable and accrued liabilities	(185,221)	(2,938,929)
Deferred government assistance for R&D	—	(725,231)
Contract liabilities	15,800	(40,739)
Deferred revenue (note 12(a))	—	1,300,000
Net cash flows used in operating activities	(743,259)	(5,261,033)
Cash flows from financing activities		
Net proceeds on issuance of common shares (note 11(a))	652,979	1,829,457
Net proceeds on issuance of convertible debenture (note 9)	—	2,161,657
Net proceeds on issuance of notes payable (note 7)	196,226	678,774
Interest payments (notes 7 and 9)	(262,159)	(171,132)
Payments on lease obligations (note 8)	(38,686)	(38,767)
Net cash flows provided by financing activities	548,360	4,459,989
Decrease in cash and cash equivalents	(194,899)	(801,044)
Cash and cash equivalents, beginning of year	1,146,468	1,947,512
Cash and cash equivalents, end of year	\$ 951,569	\$ 1,146,468
Comprised of:		
Cash on deposit	\$ 931,777	\$ 1,126,676
Cash equivalents	19,792	19,792
	\$ 951,569	\$ 1,146,468

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

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

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. The Company is incorporated under the Alberta Business Corporations Act, has its registered offices at 1900, 520 – 3rd 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, 2023.

These financial statements were approved and authorized for issuance by the Board of Directors on March 20, 2024.

(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. Certain comparative figures have been reclassified to conform with the current year presentation.

(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 the period in which the revision is made and future periods if the revision affects both the current and future periods.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

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 and determination of satisfactory completion of the performance obligation can be made, revenue is recognized. The Company makes use of judgements when determining satisfactory completion of performance obligations for data revenue and uses estimates when calculating maintenance and software revenue for fixed fee service engagements included in the financial statements. Where the outcome of performance obligations cannot be reliably measured or satisfactorily determined, contract revenue is not recognized until such time that the outcome of the performance obligations can be reasonably measured and determined.

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 decommission and reclaim certain facilities and leased assets. To determine the future value of the liability, estimates of the amount, timing and inflation of the associated cash flows are made. The present value of the cost is recorded as a decommissioning liability using a risk-free discount rate. Due to the nature of current and future project developments, these costs will be incurred many years in the future. Because of these factors, different estimates and associated timing could be used for such costs. Assumptions of higher future costs, regulatory changes, higher inflation, lower risk-free rates or an assumption of earlier or specified timing of decommissioning would cause the decommissioning liability 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.

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.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

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 \$42,346,046 (December 31, 2022 - \$40,300,673), net loss of \$2,045,373 (December 31, 2022 - \$5,142,168) and negative cash flows from operating activities of \$743,259 (December 31, 2022 - \$5,261,033) largely due to investments in new product development and in the commercialization of those new products. In particular, the Company invested \$254,740 in research and development (net of government assistance of \$2,618,242) for the year ended December 31, 2023 (December 31, 2022 - \$3,445,155 net of government assistance of \$2,229,025), 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 these items may have a material adverse impact on the Company's financial position, results of financial performance and cash flows.

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

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

4. Material 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 sale of software license. 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.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

4. Material accounting policies (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 costs

Contract costs 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) 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, 2023 (December 31, 2022 - \$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.

(e) 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.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

4. Material accounting policies (cont'd)

(f) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of loss and comprehensive loss except to the extent it relates to items recognized in other comprehensive loss 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.

(g) 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 statement of loss and 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.

(h) 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.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

4. Material accounting policies (cont'd)

(i) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, trade accounts and other receivable, accounts payable and accrued liabilities, notes payable, convertible debenture, 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.

The Company classifies its financial assets and financial liabilities in the following measurement categories:

- i. those to be measured subsequently at fair value through profit or loss ("FVTPL");
- ii. those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and
- iii. those to be measured at amortized cost.

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 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 expire or are discharged or cancelled. 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 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 liability component of a convertible debt is recognized initially at the fair value which is equal to the net present value of future cash flows applying an interest rate at the date of issue of a similar liability that does not have an equity convertible option. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. 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.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

4. Material accounting policies (cont'd)

(i) Financial instruments (cont'd)

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.

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.

(j) 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.

(k) 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.

(l) 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.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

4. Material accounting policies (cont'd)

(m) 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. The proceeds from the issue of units consisting of a common share and a common share purchase warrant is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, wherein, the fair value of the common shares is based on the market closing price on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

5. Trade and other receivables

	December 31, 2023	December 31, 2022
Trade receivables	\$ 7,428	\$ 888
Government assistance receivable for R&D (note 15)	250,000	1,000,000
Goods and services tax and other receivables	23,190	34,052
Allowance for doubtful accounts	—	—
	\$ 280,618	\$ 1,034,940

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, 2023	December 31, 2022
Trade accounts payable	\$ 730,455	\$ 1,340,583
Withholding taxes payable	37,355	54,454
Accrued liabilities and other payables(a), (b)	1,417,705	913,066
	\$ 2,185,515	\$ 2,308,103

a) Accrued liabilities and other payables include deferred compensation amounts owing to management of \$1,159,808 (December 31, 2022 - \$779,665).

b) In the normal course of operations, there is a pending claim against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, the final determination of the litigation will not materially affect the Company's financial position or results of operations.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

7. Notes payable

During the year ended December 31, 2023, the Company issued promissory notes totaling \$875,000 bearing interest at a weighted average annual effective interest rate of 20%. Repayment terms are 180 days from the date of the promissory note and range from February 11, 2024 to June 3, 2024. Amounts outstanding as at December 31, 2023 includes interest payable of \$69,010 (December 31, 2022 – \$nil).

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. The principal and interest were completely repaid during the year ended December 31, 2023.

8. Right of use assets and lease obligations

Right of use asset is comprised of office space. There were no additions in the year (December 31, 2022 - \$nil) and there were no disposals in the year (December 31, 2022 - \$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 variable lease payments below.

Depreciation expense for right of use office space assets is allocated 50% to research and development expense and 50% to general and administrative expense. For the year ended December 31, 2023, \$15,332 (December 31, 2022 – \$14,202) of depreciation expense for 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.

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

	December 31, 2023	December 31, 2022
Opening balance	\$ 91,355	\$ 121,654
Interest expense	3,390	8,387
Repayment of lease obligations	(38,686)	(38,686)
Closing balance	56,059	91,355
Less: current portion	(32,689)	(30,181)
Non-current portion	\$ 23,370	\$ 61,174

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

	December 31, 2023	December 31, 2022
2023	—	38,686
2024	36,000	36,000
2025	27,000	27,000
Minimum lease payments	63,000	101,686
Less: interest portion at a rate of 8.0% (2022 – 7.9%)	4,029	14,444
Net minimum lease payments	\$ 58,971	\$ 87,242

Variable lease payments for operating costs not included in the above table are approximately \$60,000 per year (December 31, 2022 - \$60,000).

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

9. 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. Nil value was allocated to the prepayment option as at December 31, 2023 (December 31, 2022- \$nil).

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, 2023	December 31, 2022
Expected volatility	1.20 - 1.31	0.90 - 1.28
Risk-free interest rate	4.18%	3.86%
Share price on measurement date	\$0.34	\$0.34
Expected dividend yield	Nil	Nil
Expected life	0.25 – 2.25 years	1.25 – 3.25 years

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

9. Convertible debentures (cont'd)

The value of each component, allocated amongst the debt host and embedded derivatives is as follows:

	Total		Debt		Derivative Liabilities
Balance, December 31, 2021	\$	—	\$	—	\$ —
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
Fair value adjustment		(527,700)		—	(527,700)
Accretion		197,659		197,659	—
Balance, December 31, 2023	\$	1,574,300	\$	1,454,700	\$ 119,600

10. 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, 2023		December 31, 2022	
Undiscounted cash flows	\$	295,871	\$	295,871
Discount rate		3.3%		3.3%
Inflation rate		3%		3%
Weighted average expected timing of cash flows		7 years		8 years

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

	December 31, 2023		December 31, 2022	
Balance, beginning of year	\$	291,956	\$	222,767
Liabilities incurred		—		100,000
Effect of change in estimate		—		(39,881)
Accretion		9,747		9,070
Balance, end of year	\$	301,703	\$	291,956

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

11. 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, 2023, 1,355,000 stock options (December 31, 2022 – 310,000) were exercised for cash proceeds of \$229,700 (December 31, 2022 - \$48,600). Non-cash compensation charges of \$224,972 (December 31, 2022 - \$45,847) were reclassified from contributed surplus reserves to share capital on the exercise of these stock options.

On August 21, 2023, the Company closed a non-brokered private placement consisting of 1,949,036 units at a price of \$0.23 per unit for gross proceeds of \$448,278 and proceeds net of issue costs of \$423,279. Each unit is comprised of one common share of Acceleware and one common share purchase warrant. Each warrant will entitle the holder to acquire one additional common share of the Company at a price of \$0.30 per unit for a period of 24-months from the date of issuance. The gross proceeds from the private placement were allocated to share capital and warrants based on each component's pro-rata fair value.

On November 10, 2022, the Company closed a 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 from the date of issuance. The gross proceeds were allocated to share capital and warrants based on each component's fair value.

(b) Warrants

As a result of the August 21, 2023 private placement of units, the Company issued 1,949,036 common share purchase warrants with an aggregate fair value of \$142,551. The fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: expected volatility 113%, a risk-free interest rate of 4.70%, expected dividend yield of nil and expected life of two years.

As a result of the November 10, 2022 private placement, the company issued 6,666,667 common share purchase warrants with an aggregate fair value of \$532,600. The fair value of the warrants was estimated at the date of issuance 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.

As of December 31, 2023, a total of 8,615,703 warrants are outstanding and none have been exercised (December 31, 2022 – 6,666,667). The weighted average number of years remaining on the outstanding warrants is 1.1 (December 31, 2022 – 1.9).

(c) Share-based payments

At December 31, 2023, 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.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

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

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

The Company granted 5,465,000 options during the year (December 31, 2022 – nil options were granted). For the year ended December 31, 2023, the Company granted to certain employees, contractors, officers, and directors options to purchase common shares with the following terms:

	December 31, 2023
Standard options granted	4,565,000
Performance options granted	900,000
Term to expiry	5 years

The options have a weighted average exercise price of \$0.23 per common share and expire five years from the date of grant. Of the 5,465,000 options granted, 2,420,000 shall vest on the first anniversary of the grant date, 1,245,000 shall vest on the second anniversary of the grant date, 450,000 shall vest when the share price of the common shares of the Company closes at or above \$0.29 for ten consecutive trading days, and 450,000 shall vest when the share price of the common shares of the Company closes at or above \$0.345 for ten consecutive trading days.

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

	December 31, 2023
Grant date fair value	\$0.23
Expected volatility	113%
Risk-free interest rate	3.15%
Forfeiture rate	2%
Expected dividend yield	nil

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.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

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

(c) 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, 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
Granted	5,465,000	0.23
Exercised	(1,355,000)	0.17
Forfeited	(120,000)	0.21
Expired	(2,550,166)	0.28
Balance, December 31, 2023	10,770,998	\$ 0.21

Summary of options outstanding and exercisable as at December 31, 2023 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	Jan 2019 to Jun 2020	3,273,532	0.47	\$0.12	3,273,532
\$0.20 - \$0.21	April 2023	5,345,000	4.29	0.23	—
\$0.29 - \$0.30	May 2021 to Sept 2021	2,152,466	2.65	0.29	2,152,466
		10,770,998	2.80	\$0.21	5,425,998

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	Jan 2019 to June 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

(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, 2023 and 2022 as the effect is anti-dilutive.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

12. Revenue

The components of revenue are as follows:

	December 31, 2023	December 31, 2022
Software	\$ 83,849	\$ 118,024
Maintenance	123,852	187,269
Services	71,310	23,000
	\$ 279,011	\$ 328,293

(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, 2023	December 31, 2022
Balance, beginning of year	\$ 4,350,000	\$ 3,050,000
Invoiced	—	1,400,000
Recognized as software and maintenance revenue	—	(100,000)
Recognized as data revenue	—	—
	\$ 4,350,000	\$ 4,350,000

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

12. Revenue (cont'd)

(b) Contract amounts

Contract costs 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 costs and liabilities are accounted for on a contract-by-contract basis, with each contract accordingly presented as either net contract cost or a net contract liability. The contract costs recorded on the statement of financial position within other non-current assets is \$202,980 as at December 31, 2023 (December 31, 2022 – \$202,980).

The change in contract liabilities included within other current liabilities on the statement of financial position is as follows:

Contract liabilities	December 31, 2023		December 31, 2022	
Balance, beginning of year	\$	63,317	\$	104,056
Additions		150,964		146,530
Recognized as revenue		(135,166)		(187,269)
	\$	79,115	\$	63,317

(c) Geographic revenue segmentation

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

	Canada		USA		Total
December 31, 2023	\$	71,997	\$	207,014	\$ 279,011
December 31, 2022	\$	117,000	\$	211,293	\$ 328,293

The Company derives significant revenues from two major customers each of which exceeded 10% of total revenues for the year ended December 31, 2023. Revenue from these customers was \$245,278 in the year ended December 31, 2023 (December 31, 2022 – two main customers revenue of \$271,092).

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

13. 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, 2023	December 31, 2022
Salaries	\$ 686,058	\$ 915,279
Professional fees	444,920	367,594
Share-based payments (<i>note 11(c)</i>)	327,842	201,739
Rent, office and public company fees	334,795	342,423
Marketing	174,102	203,040
Depreciation	18,900	35,399
Travel	7,183	12,722
	\$ 1,993,800	\$ 2,078,196

14. 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, 2023	December 31, 2022
Salaries	\$ 1,136,463	\$ 1,181,558
Consultants	341,050	482,484
R&D services, supplies and materials	1,079,838	3,845,852
Share-based payments (<i>note 11(c)</i>)	242,791	74,947
Depreciation	18,900	35,399
Rent and overhead allocation	53,940	53,940
Non-refundable government assistance (<i>note 15</i>)	(2,618,242)	(2,229,025)
	\$ 254,740	\$ 3,445,155

15. 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. Under the terms of the agreements, SDTC and ERA provide milestone-based funding, less a holdback, at the beginning of a milestone. During the year ended December 31, 2023, the Company received a holdback payment from SDTC of \$250,000 (December 31, 2022 – \$1,472,352 less a holdback receivable of \$77,143). The entire grant amount has been received, except for \$250,000 holdback from ERA as at December 31, 2023. This amount is recorded in trade and other receivables on the statement of financial position and will be received when ERA has completed their final review of project reports.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

15. Government assistance (cont'd)

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 a payment of \$500,000 during the year (December 31, 2022 – \$1,400,000). The entire grant amount has been received as at December 31, 2023.

A new grant funding agreement was entered into with Clean Resource Innovation Network ("CRIN") as of July 13, 2023 which provides non-dilutive and non-repayable funding of up to \$3,000,000 for costs incurred between January 1, 2022 and March 31, 2024 on the commercial-scale pilot test of the RF XL technology. The funding is provided in arrears based on completion of certain milestones. The Company has received \$2,064,433 as of December 31, 2023 (December 31, 2022 – \$nil). The remaining amount committed but not yet received from CRIN is \$935,567.

As as December 31, 2023 total amount committed but not yet received from ERA and CRIN is \$1,185,567 (December 31, 2022 – SDTC, ERA and Alberta Innovates \$1,000,000). Total project costs incurred since inception for the commercial-scale pilot test as at December 31, 2023 are approximately \$28,515,000 (Inception to December 31, 2022 - \$25,960,000).

Proceeds generated from the sale of produced oil from the pilot test are recorded as an offset to project costs within research and development expenses. Proceeds from the sale of produced oil in the year ended December 31, 2023 were \$113,428 (December 31, 2022 - \$187,561).

16. Income taxes

The \$nil 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% to the loss before taxes (December 31, 2022 – 23%).

The difference results from the following:

	December 31, 2023	December 31, 2022
Loss before income tax	\$ 2,045,373	\$ 5,142,168
Statutory tax rate	23%	23%
Computed expected income tax (recovery)	(470,436)	(1,182,699)
Non-deductible expenses	11,173	(29,651)
SR&ED investment tax credits	115,013	(263,397)
Increase (decrease) in deferred tax assets not recognized	344,250	1,475,747
Deferred tax recovery	\$ —	\$ —

The components of the deferred tax asset are as follows:

	December 31, 2023	December 31, 2022
Deferred tax assets:		
SR&ED tax pools	\$ 596,555	\$ 630,909
SR&ED investment tax credits	(596,555)	(630,909)
Net deferred tax asset	\$ —	\$ —

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

16. Income taxes (cont'd)

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

	December 31, 2023	December 31, 2022
Non-capital loss carryforwards	\$ 6,629,192	\$ 4,883,547
SR&ED expenditure pool	9,119,709	5,969,633
SR&ED investment tax credits	2,593,717	4,746,526
Property and equipment and other	648,042	448,060
	\$ 18,990,660	\$ 16,047,767

The non-capital loss carryforwards available to claim against future taxable income begin to expire in 2038. The deductible SR&ED expenditures have no expiry date and the SR&ED investment tax credits available to claim against future taxable income or income taxes begin to expire in 2031.

17. 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 notes 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. At the date of issue, the fair value of the debt components of the convertible debt was estimated using the prevailing market interest rates for similar non-convertible instruments. This amount was recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

(b) Currency risk

A 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, 2023	December 31, 2022
Cash and cash equivalents	\$ 73,104	\$ 58,905
Trade and other receivables	5,616	—
Accounts payable and accrued liabilities	(13,726)	(59,960)
Net exposure	\$ 64,994	\$ (1,055)

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

17. Financial instruments (cont'd)

(b) Currency risk (cont'd)

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

	December 31, 2023	December 31, 2022
Revenue	\$ 207,014	\$ 164,555
Expenses	(41,382)	(224,923)
Net exposure	\$ 165,632	\$ (60,368)

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, 2023	Average exchange rate for the year ended December 31, 2022	Exchange rate as at December 31, 2023	Exchange rate as at December 31, 2022
Canadian dollar per one USD	1.3497	1.3013	1.3226	1.3544

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

	Decrease/(increase) in comprehensive loss for the year ended December 31, 2023	Decrease/(increase) in comprehensive loss for the year ended December 31, 2022
1 percent strengthening in the Canadian dollar	\$ (1,841)	\$ 472
1 percent weakening in the Canadian dollar	\$ 1,841	\$ (472)

(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, 2023 (December 31, 2022 - \$nil).

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

17. Financial instruments (cont'd)

(c) Credit risk (cont'd)

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

	December 31, 2023		December 31, 2022	
1 – 30 days	\$	7,428	\$	888
Allowance for doubtful accounts		—		—
		7,428		888
Government assistance receivable		250,000		1,000,000
Other receivables		23,190		34,052
	\$	280,618	\$	1,034,940

There is one customer whose trade and other receivable exceed 15% of the total trade and other receivables at December 31, 2023 (December 31, 2022 - one).

(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, 2023, Acceleware's financial liabilities are all due within one year, with the exception of lease obligations, decommissioning liabilities, and convertible debenture.

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

18. 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 following items as capital:

	December 31, 2023	December 31, 2022
Convertible debentures – host debt and derivative	\$ 1,574,300	\$ 1,904,341
Lease obligation	58,487	91,355
Decommissioning liability	301,703	291,956
Total debt	\$ 1,934,490	\$ 2,287,652
Deferred revenue	4,350,000	4,350,000
Shareholder's equity	(7,980,776)	(7,159,014)
	(1,696,286)	(521,362)

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 manages its capital with a view to cost containment, continued focus on core vertical markets and the objective of achieving profitable operations. The Company is not subject to externally imposed capital requirements.

Acceleware Ltd.

Notes to Financial Statements

For the years ended December 31, 2023 and 2022

(in Canadian dollars)

19. 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. All liabilities of the Company are associated with the RF Heating segment, except for contract liabilities and those for corporate support functions.

For the year ended December 31, 2023:

	RF Heating		HPC		Total
Revenue	\$	77,310	\$	201,701	\$ 279,011
Expenses					
General and administrative		1,769,793		224,007	1,993,800
Research and development		254,740		—	254,740
		2,024,533		224,007	2,248,540
Loss from operations	\$	(1,947,223)	\$	(22,306)	\$ (1,969,529)

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) income from operations	\$	(4,959,520)	\$	(254,286)	\$ (5,213,806)

Acceleware Ltd.

Notes to Financial Statements For the years ended December 31, 2023 and 2022 (in Canadian dollars)

20. Related party transactions

- (a) For the year ended December 31, 2023, the Company incurred expenses in the amount of \$249,239 (December 31, 2022 - \$317,327) 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, \$273,308 was included in accounts payable and accrued liabilities as at December 31, 2023 (December 31, 2022 - \$206,902). These fees were incurred in the normal course of operations and initially measured at fair value.
- (b) For the year ended December 31, 2023, the Company incurred expenses in the amount of \$7,060 (December 31, 2022 - \$nil) with a close family member of an officer and director of the Company for communication and other services, and this amount is included in general and administrative expense. Of the total, \$1,700 was included in accounts payable and accrued liabilities as at December 31, 2023 (December 31, 2022 - \$nil). These fees were incurred in the normal course of operations and initially measured at fair value.
- (c) For the year ended December 31, 2023, the Company incurred expenses in the amount of \$167,178 (December 31, 2022 - \$176,150) with a company controlled by the spouse of an officer of the Company for marketing, communication, management and strategy development and these expenses are included in general and administrative. Of the total, \$80,373 was included in accounts payable and accrued liabilities as at December 31, 2023 (December 31, 2022 - \$44,750). These fees were incurred in the normal course of operations and initially measured at fair value.
- (d) For the year ended December 31, 2023, the Company issued promissory notes totaling \$340,000 bearing interest at an annual effective rate of 20% repayable within six months of issuance to officers and directors of the Company in the normal course of operations. In the opinion of management, these transactions represent fair value. The promissory notes, including accrued interest, are included in other current liabilities on the statement of financial position.
- (e) Key management includes the Company's directors and members of the executive Management team. Compensation awarded to key management included:

	December 31, 2023	December 31, 2022
Salaries and short-term employee benefits	\$ 1,138,588	\$ 1,444,038
Share-based payments	334,300	226,008
	\$ 1,472,888	\$ 1,670,046