Acceleware Ltd.

Financial Statements
For the years ended December 31, 2019 and 2018

(in Canadian dollars)

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Contents

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Management's Report to Shareholders

The accompanying financial statements of Acceleware Ltd. (the "Company" or "Acceleware") have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS"). The financial statements and other financial information have been prepared using the accounting policies described in Note 4 to the financial statements and reflect Management's best estimates and judgements based on available information.

The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. Management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality.

MNP LLP, an independent firm of Chartered Professional Accountants, was engaged to audit the financial statements and their independent professional opinion is provided herein.

The Audit Committee, consisting of independent members of the Board of Directors, has reviewed these financial statements with Management and the auditors and has reported the results of this review to the Board of Directors. The Board of Directors has approved the financial statements.

(Signed)
Geoff Clark
Chief Executive Officer
April 21, 2020

(Signed)
Tracy Grierson
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Acceleware Ltd.:

Opinion

We have audited the financial statements of Acceleware Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, 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 Acceleware Ltd. 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 Acceleware Ltd. has a comprehensive loss of $1,558,810 and an accumulated deficit balance of $28,979,259 as at December 31, 2019. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

Management's Responsibility 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 Responsibility

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.

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

MNP LLP

Calgary, Alberta
April 21, 2020

Chartered Professional Accountants

MNP

Acceleware Ltd.

Statements of Financial Position
(in Canadian dollars)

As at December 31,

		2019		2018
Assets				
Current				
Cash and cash equivalents	$	**4,381,194**	$	3,225,126
Trade and other receivables *(note 6)*		**1,612,892**		1,397,786
Contract assets *(note 12)*		**120,431**		1,082,352
Alberta SR&ED tax credits receivable *(note 7)*		**173,097**		227,311
Deposits and prepaid expenses		**63,185**		37,183
Totals current assets		**6,350,799**		5,969,758
Non-current				
Property and equipment *(note 8)*		**29,945**		197,931
Right of use assets *(note 10)*		**134,170**		—
Total assets	$	**6,514,914**	$	6,167,689
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities *(note 9)*	$	**4,659,735**	$	3,470,918
Contract liabilities *(note 12)*		**553,101**		353,911
Lease obligations *(note 10)*		**115,568**		93,352
Total current liabilities		**5,328,404**		3,918,181
Non-current				
Lease obligations *(note 10)*		**39,767**		95,660
Total liabilities		**5,368,171**		4,013,841
Going concern *(note 3)*				
Shareholders' Equity				
Share capital *(note 11(a))*		**22,270,968**		22,134,230
Reserves *(note 11(a)(c))*		**7,855,034**		7,440,067
Deficit		**(28,979,259)**		(27,420,449)
Total shareholders' equity		**1,146,743**		2,153,848
Total liabilities and shareholders' equity	$	**6,514,914**	$	6,167,689

Approved on behalf of the Board of Directors:

"signed"

Bohdan Romaniuk, Director

"signed"

Dennis Nerland, Director

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

Acceleware Ltd.

Statements of Comprehensive Loss
(in Canadian dollars)

For the years ended December 31,

		2019		2018
Revenue *(note 12)*	**$**	**1,453,924**	$	4,317,361
Expenses				
Cost of revenue		**2,853**		67,669
General and administrative *(note 13)*		**2,271,641**		2,393,999
Research and development *(note 14)*		**687,519**		2,019,879
Total expenses		**2,962,013**		4,481,547
Loss from operations		**(1,508,089)**		(164,186)
Other income (expense)				
Finance income		**63,215**		730
Finance expense *(note 10)*		**(12,094)**		(10,319)
Foreign exchange (loss) gain		**(101,842)**		75,153
Total other income (expense)		**(50,721)**		65,564
Total comprehensive loss for the year attributable to shareholders	**$**	**(1,558,810)**	$	(98,622)
Loss per share				
Basic and diluted	**$**	**(0.015)**	$	(0.001)
Weighted average shares outstanding – basic and diluted *(note 11(d))*		**104,455,708**		102,786,637

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

Acceleware Ltd.

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

	Share capital		Reserves				
	Common shares	Amount	Warrants	Contributed surplus	Total	Deficit	Total shareholders' equity
Balance at January 1, 2018	# 97,391,991	$ 20,477,965	$ 653,581	$ 6,696,439	$ 7,350,020	$ (27,321,827)	$ 506,158
Total comprehensive loss	—	—	—	—	—	(98,622)	(98,622)
Exercise of warrants *(note 11(a))*	4,651,396	1,549,200	(487,028)	—	(487,028)	—	1,062,172
Expiry of warrants *(note 11(a))*	—	—	(155,705)	155,705	—	—	—
Exercise of stock options for cash *(note 11(a))*	1,084,283	59,781	—	—	—	—	59,781
Share-based payments							
Current period expense *(note 11(b))*	—	—	—	624,359	624,359	—	624,359
Stock options exercised *(note 11(a))*	—	47,284	—	(47,284)	(47,284)	—	—
Balance at December 31, 2018	**# 103,127,670**	**$ 22,134,230**	**$ 10,848**	**$ 7,429,219**	**$ 7,440,067**	**$ (27,420,449)**	**$ 2,153,848**
Total comprehensive loss	—	—	—	—	—	(1,558,810)	(1,558,810)
Expiry of warrants *(note 11(a))*	—	—	(10,848)	10,848	—	—	—
Exercise of stock options for cash *(note 11(a))*	1,484,000	74,200	—	—	—	—	74,200
Share-based payments							
Current period expense *(note 11(b))*	—	—	—	477,505	477,505	—	477,505
Stock options exercised *(note 11(a))*	—	62,538	—	(62,538)	(62,538)	—	—
Balance at December 31, 2019	**# 104,611,670**	**$ 22,270,968**	**$ —**	**$ 7,855,034**	**$ 7,855,034**	**$ (28,979,259)**	**$ 1,146,743**

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

Acceleware Ltd.

Statements of Cash Flows
(in Canadian dollars)

For the years ended December 31,

		2019		2018
Cash flows from operating activities				
Total comprehensive loss	$	**(1,558,810)**	$	(98,622)
Adjustments for:				
Depreciation expense *(notes 8 and 10)*		**200,352**		95,591
Share-based payments expense *(note 11(b))*		**477,505**		624,359
Interest expense on lease obligations *(note 10)*		**12,094**		—
Bad debt expense (net)		—		4,232
Changes in non-cash working capital items				
Trade and other receivables		**(215,106)**		(1,198,397)
Contract assets		**961,921**		(1,082,352)
Alberta SR&ED tax credits receivable		**54,214**		(2,540)
Deposits and prepaid expenses		**(26,002)**		970
Accounts payable and accrued liabilities		**1,188,817**		2,843,165
Contract liabilities		**199,190**		215,746
Net cash flows from operating activities		**1,294,175**		1,402,152
Cash flows (used for) from financing activities				
Stock options and warrants exercised *(note 11(a))*		**74,200**		1,121,953
Payments on lease obligations *(note 10)*		**(177,611)**		(80,294)
Net cash flows (used for) from financing activities		**(103,411)**		1,041,659
Cash flows used for investing activities				
Purchase of property and equipment *(note 8)*		**(68,354)**		—
Receipt of government assistance for purchase of property and equipment *(note 8)*		**33,658**		—
Net cash flows used for investing financing activities		**(34,696)**		—
Increase in cash and cash equivalents		**1,156,068**		2,443,811
Cash and cash equivalents, beginning of year		**3,225,126**		781,315
Cash and cash equivalents, end of year	**$**	**4,381,194**	$	3,225,126
Comprised of:				
Cash on deposit	**$**	**911,818**	$	3,204,963
Cash equivalents		**3,469,376**		20,163
	$	**4,381,194**	$	3,225,126

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

1. General information

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

2. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and in effect as of January 1, 2019.

These financial statements were approved by the Board of Directors on April 21, 2020.

(b) Functional and presentation currency

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

(c) Basis of measurement

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

(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.

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.

Identification of whether a contract contains a lease and determination of extension or termination of an option within a lease contract is also subject to judgement.

2. Basis of presentation (cont'd)

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

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

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

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

The Company makes estimates relating to the selection of the appropriate incremental borrowing rate to be applied to lease payments if the rate implicit in the lease is not readily available.

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

3. Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has a deficit balance of $28,979,259 (December 31, 2018 - $27,420,449) largely due to investments in new product development and in the penetration of new markets. In particular, the Company invested $687,519 net of government assistance of $1,246,649 for the year ended December 31, 2019 (December 31, 2018 - $2,019,879 net of government assistance of $1,774,902), in research and development, principally for the Company's proprietary RF heating technology ("RF XL" or "RF heating").

The Company actively manages its cash flow and investment in new products to match its cash generated from operations including government assistance. In order to maximize cash generated from operations, the Company plans to focus on high gross margin revenue streams such as software, and RF heating services; focus on selected core vertical markets; minimize operating expenses where possible; and limit capital expenditure. As the Company continues to develop its RF heating technology, new research and development investments will be financed through a combination of internal cash flow from the high-performance computing software business, government assistance 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

3. Going concern (cont'd)

generate cash flow levels at or above current projections, the Company may not have sufficient funds to meet its obligations over the next twelve months.

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

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

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

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

4. Significant accounting policies

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

(a) Foreign currency translation

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

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

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

4. Significant accounting policies (cont'd)

(b) Revenue recognition

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

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

Software and maintenance

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

The Company currently recognizes revenue from the sale of software licenses at the time the control of the software has been transferred to the customer. This usually occurs when the software licenses have been delivered to the customer. The transaction price is documented in the contract or purchase order and agreed to by the customer. Payment is generally due at the time of shipment. As such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due (payment terms are generally net 30 days). Standalone selling price for software is observable in PCS transactions without multiple performance obligations.

PCS revenue associated with software licenses is recognized rateably over the term of the PCS period, which typically is one year. Any unrecognized revenue is recorded in deferred revenue. 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 deferred revenue 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.

Services

The Company enters into contracts to provide services related to technology feasibility, engineering design, training, process simulation consulting, testing, and custom software development. The Company evaluates these arrangements to determine the appropriate unit of account (performance obligation) for revenue recognition purposes. These services are recognized when the performance obligation has been satisfied which is either at a point in time, or over time, using an input method to measure progress towards complete satisfaction of the service. The Company uses labour hours expended which it believes is appropriate for the nature of the contract and the pattern of delivery of the performance obligation. The transaction price is documented on the contract or purchase order and agreed to by the customer. Payment is due at the time a milestone or services are complete and, as such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due (usually payment terms of net 30-60 days).

Significant accounting policies (cont'd)

(b) Revenue recognition (cont'd)

Contracts with multiple products or services

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

(c) Contract assets

Contract assets represent the work expended to date on contracts with performance obligations that are measured at a point in time and when the performance obligation has not yet been delivered to the customer. Work expended to date is measured at cost and includes all expenditures related directly to the specific performance obligations. Contract assets also include unbilled revenue which represents the gross unbilled amount expected to be collected from customers for contracts with performance obligations measured over time for work performed to date. Work expended over time is measured at cost plus profit recognized to date less progress billings and recognized losses.

Cost includes all expenditures related directly to the specific project.

(d) Cash and cash equivalents

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

(e) Property and equipment

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

Furniture and fixtures	20% declining balance
Computer hardware	three years straight-line
Computer software	100% declining balance
Leasehold improvements	five years straight-line

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

4. Significant accounting policies (cont'd)

(e) Property and equipment (cont'd)

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

(f) SR&ED investment tax credits

The Company claims federal investment tax credits as a result of incurring scientific research and experimental development ("SR&ED") expenditures. Federal investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Federal investment tax credits are accounted for as a reduction of research and development expense on the statements of comprehensive loss. Management has made a number of estimates and assumptions in determining the expenditures eligible for the federal investment tax credit claim. It is possible that the allowed amount of the federal investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency.

The Company claimed provincial (Alberta) investment tax credits as a result of incurring SR&ED expenditures. Provincial investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the provincial investment tax credit claim. The provincial investment tax credits are refundable and have been recorded as Alberta SR&ED tax credit receivable, and as a reduction in research and development expenses on the statements of comprehensive loss. It is possible that the allowed amount of the provincial investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency and the Alberta Tax and Revenue Administration. As of December 5, 2019, Bill 20 of the Fiscal Measures and Taxation Act, 2019 eliminated the Alberta SR&ED tax credit effective January 1, 2020.

(g) Research and development costs and government assistance

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization in terms of International Accounting Standard ("IAS") 38 "Intangible Assets". Research and development ("R&D") costs comprise salaries, consultant fees, share-based payments, lab supplies, and an allocation of office costs and depreciation. No development costs have been deferred as at December 31, 2019 (December 31, 2018 - $nil).

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

4. Significant accounting policies (cont'd)

(h) Taxes

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

Current tax

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

Deferred tax

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

(i) Share-based payments

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

(j) Loss per share

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

4. Significant accounting policies (cont'd)

(k) Financial instruments

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

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

Reclassifications

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

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

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

Derecognition of financial assets

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

4. Significant accounting policies (cont'd)

(k) Financial instruments (cont'd)

Financial liabilities

Recognition and initial measurement

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

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

Classification and subsequent measurement

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

Derecognition of financial liabilities

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

Equity instruments

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

(l) Impairment of non-financial assets

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

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's or group of assets' (1) estimated fair value less costs of disposal and (2) value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable independent cash inflows (a cash generating unit or "CGU"). Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but the increase is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the statements of comprehensive loss. The Company has one CGU and has determined that no indicators of impairment exist at December 31, 2019 or December 31, 2018.

4. Significant accounting policies (cont'd)

(m) Leases

With the adoption of IFRS 16, Acceleware assesses at the inception of a contract whether that contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts that contain a lease component, Acceleware then recognizes a right of use asset and a lease obligation at the lease commencement date.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, Acceleware uses its incremental borrowing rate as the discount rate for leases for the right to use office space and uses the interest rate implicit in the lease for leases of the right to use computer hardware. Lease payments included in the measurement of the lease obligations comprise fixed (and in-substance fixed) lease payments, less:

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

The right of use asset is initially measured based on the initial amount of the lease obligation adjusted for:

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

The lease obligation is subsequently measured at amortized cost using the effective interest method. Acceleware will remeasure the lease obligation when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Acceleware's estimate of the amount expected to be payable under a residual value guarantee, or if Acceleware changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease obligation is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

Acceleware elects to apply the practical expedient not to recognize right of use assets and lease obligations for short-term (12 months or less) leases of all asset classes. Acceleware elects to apply the practical expedient not to recognize right of use assets and lease obligations for leases of low value (less than $5,000) assets on a case-by-case basis. The lease payments associated with either short-term leases or leases of low-value underlying assets are recognized as an expense on a straight-line basis over the lease term.

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

(in Canadian dollars)

4. Significant accounting policies (cont'd)

(n) Contract liabilities

Contract liabilities arise if a particular milestone payment exceeds the revenue recognized to date and are recognized at a point in time once services are provided or are recognized for payments relating to maintenance services received at the time of the initial sales transaction and are released over the service period.

(o) Segment reporting

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

5. New standards and interpretations

(a) New accounting standards adopted as of January 1, 2019

IFRS 16 Leases

Acceleware adopted IFRS 16 on January 1, 2019 using the modified retrospective approach and accordingly the information presented for the year ended December 31, 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, Acceleware has elected to record right of use assets based on the corresponding lease obligation, adjusted by the amount of any prepaid or accrued lease payments. IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right of use assets and lease obligations for all major leases.

The Company elected to adopt the following practical expedients as permitted by IFRS 16;

- Short term leases and leases of low value assets: Exclude leases from initial recognition where (1) the lease term ends within twelve months of the date of initial application or lease commencement or (2) the assets are of low value. These will continue to be expensed on a straight-line basis over the lease term.

- The definition of a lease under IFRS 16 was applied to existing contracts at January 1, 2019.

The impact of the transition to IFRS 16 is shown in note 20.

6. Trade and other receivables

		December 31, 2019		December 31, 2018
Trade receivables	**$**	**525,047**	$	249,115
Government assistance receivable for R&D *(note 14)*		**1,009,413**		1,127,682
Goods and services tax and other receivables		**78,432**		25,139
Allowance for doubtful accounts		**—**		(4,150)
	$	**1,612,892**	$	1,397,786

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

(in Canadian dollars)

7. Alberta SR&ED tax credit receivable

The benefit of investment tax credits for SR&ED expenses is recognized in the year the qualifying expenditure is made, provided there is reasonable assurance of recovery. This benefit is presented as a reduction of the related research and development costs recorded in the statements of comprehensive loss. The Company recorded $173,097 in refundable Alberta SR&ED tax credits for the year ended December 31, 2019 (December 31, 2018 - $227,311).

8. Property and equipment

Cost:	Furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Opening balance at January 1, 2019	$ 94,418	$ 1,261,365	$ 99,210	$ 107,661	$ 1,562,654
Adoption of IFRS 16 (note 20)	—	(437,214)	—	—	(437,214)
Additions	—	59,317	—	—	59,317
Government assistance	—	(33,658)	—	—	(33,658)
Closing balance at December 31, 2019	$ 94,418	$ 849,810	$ 99,210	$ 107,661	$ 1,151,099

Accumulated depreciation and impairment:	Furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Opening balance at January 1, 2019	$ 84,154	$ 1,073,698	$ 99,210	$ 107,661	$ 1,364,723
Adoption of IFRS 16 (note 20)	—	(258,443)	—	—	(258,443)
Depreciation	2,052	12,822	—	—	14,874
Closing balance at December 31, 2019	$ 86,206	$ 828,077	$ 99,210	$ 107,661	$ 1,121,154
Net book value at December 31, 2019	**$ 8,212**	**$ 21,733**	**$ —**	**$ —**	**$ 29,945**

Cost:	Furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Opening balance at January 1, 2018	$ 94,418	$ 1,175,432	$ 99,210	$ 107,661	$ 1,476,721
Additions	—	85,933	—	—	85,933
Closing balance at December 31, 2018	$ 94,418	$ 1,261,365	$ 99,210	$ 107,661	$ 1,562,654

Accumulated depreciation and impairment:	Furniture and fixtures	Computer hardware	Computer software	Leasehold improvements	Total
Opening balance at January 1, 2018	$ 81,590	$ 980,671	$ 99,210	$ 107,661	$ 1,269,132
Depreciation	2,564	93,027	—	—	95,591
Closing balance at December 31, 2018	$ 84,154	$ 1,073,698	$ 99,210	$ 107,661	$ 1,364,723
Net book value at December 31, 2018	**$ 10,264**	**$ 187,667**	**$ —**	**$ —**	**$ 197,931**

Depreciation expense is allocated 50% to research and development expense and 50% to general and administrative expense. For the year ended December 31, 2019, $56,229 (December 31, 2018 – $47,796) in depreciation is included in each of general and administrative and research and development expense on the statements of comprehensive loss.

(in Canadian dollars)

9. Accounts payable and accrued liabilities

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

		December 31, 2019		December 31, 2018
Trade accounts payable	**$**	**155,796**	$	1,227,328
Accrued liabilities and other payables		**648,795**		673,168
Other payroll liabilities		**176,671**		553,381
Customer deposits		**—**		63,105
Deferred government assistance for R&D *(note 14)*		**3,678,473**		953,936
	$	**4,659,735**	$	3,470,918

10. Right of use assets and lease obligations

On February 29, 2012, Acceleware entered into a premise lease agreement to lease 5,244 square feet of office space commencing August 1, 2012 and ending July 31, 2017, a period of five years. Effective August 1, 2015, the lease was renegotiated and extended to July 31, 2020. In addition to the basic monthly rents, the Company must pay a proportionate share of property taxes, operating costs, utilities and additional services. These payments are fixed throughout the year with an annual true up and are excluded from lease payments below.

The Company has certain computer equipment under various leases expiring 2020 through 2023. The leases carry a weighted average annual interest rate of 6.89%.

The following table summarizes the changes in the Company's right of use assets by asset class:

Cost:		Office Space		Computer hardware		Total
Adoption of IFRS 16 (note 20)	$	131,840	$	437,214	$	569,054
Additions		—		9,037		9,037
Closing balance at December 31, 2019	**$**	**131,840**	**$**	**446,251**	**$**	**578,091**

Accumulated depreciation :		Office Space		Computer hardware		Total
Adoption of IFRS 16 (note 20)		—		258,443		258,443
Depreciation	$	87,893	$	97,585	$	185,478
Closing balance at December 31, 2019	**$**	**87,893**	**$**	**356,028**	**$**	**443,921**
Net book value at December 31, 2019	**$**	**43,947**	**$**	**90,223**	**$**	**134,170**

(in Canadian dollars)

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

Depreciation expense for right of use computer hardware and office space assets is allocated 50% to research and development expense and 50% to general and administrative expense. For the year ended December 31, 2019, $43,948 (December 31, 2018 – $41,947) of depreciation expense for computer hardware and office space right of use assets is included in each of general and administrative and research and development expense on the statements of comprehensive loss. At year end, the net book value of computer hardware pledged as security for lease obligations is $90,223 (December 31, 2018 - $183,810).

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

		December 31, 2019		December 31, 2018
Opening balance	**$**	**189,012**	$	183,373
Adoption of IFRS 16 (note 20)		**131,840**		-
Additions		**-**		76,564
Interest expense		**12,094**		9,369
Repayment of lease obligations		**(177,611)**		(80,294)
Closing balance		**155,335**		189,012
Less: current portion		**(115,568)**		(93,352)
Non-current portion	**$**	**39,767**	$	95,660

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

		December 31, 2019		December 31, 2018
2019	**$**	**—**	$	99,834
2020		**125,360**		72,133
2021		**30,332**		26,730
2022		**2,686**		—
2023		**2,686**		—
Minimum lease payments		**161,064**		198,697
Less: interest portion at a rate of 5.0% (2018 – 5.1%)		**5,729**		9,685
Net minimum lease payments	**$**	**155,335**	$	189,012

Variable lease payments for operating costs not included in the above table are approximately $60,000 per year (December 31, 2018 - $60,000).

(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.

Common shares issued	Number		Amount
Balance, December 31, 2017	97,391,991	$	20,477,965
Issued on exercise of stock options (i)	1,084,283		107,065
Issued on exercise of common share purchase warrants (ii)	4,651,396		1,549,200
Balance, December 31, 2018	103,127,670	$	22,134,230
Issued on exercise of stock options (i)	1,484,000		136,738
Balance, December 31, 2019	**104,611,670**	**$**	**22,270,968**

i. During the year ended December 31, 2019, 1,484,000 stock options (December 31, 2018 - 1,084,283) were exercised for cash proceeds of $74,200 (December 31, 2018 - $59,781). Non-cash compensation charges of $62,538 (December 31, 2018 - $47,284) were reclassified from contributed surplus reserves to share capital on the exercise of these stock options. The average share price on the dates that options were exercised was approximately $0.13 (December 31, 2018 - $0.24).

ii. There were 1,840,644 common share purchase warrants outstanding and exercisable as at December 31, 2018 at an exercise price of $0.27. These common share purchase warrants were not exercised prior to expiry on September 26, 2019 and $10,848 (December 31, 2018 - $155,705) was reclassified from warrants reserves to contributed surplus reserves on the statements of changes in shareholders' equity. During the year ended December 31, 2018, 4,651,396 common share purchase warrants were exercised for cash proceeds of $1,062,172. The fair value of the common share purchase warrants at time of issue of $487,028 was reclassified from warrants reserves to share capital.

(b) Share-based payments

At December 31, 2019, the Company had one equity-settled share-based compensation plan. The Company accounts for options granted under this plan in accordance with the fair value method of accounting for share-based compensation. The estimated fair value of the options that are ultimately expected to vest is recorded over the option's vesting period and charged to share-based payments expense.

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

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

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

The weighted average grant date fair value of the stock options granted during 2019 was estimated to be $0.12 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 175%, a risk-free interest rate of 1.81%, expected dividend yield of nil%, expected forfeiture rate of 1.8% and expected life of five years. The expected volatility was determined by calculating the historical volatility of the Company's common share price from the date of grant back to the date five years prior to the date of grant. The estimated fair value of each tranche of options not immediately vesting is amortized to share-based payments over the option vesting period on a straight-line basis. For options that had vesting conditions based on the closing price of the Company's common shares, the vesting period was estimated using a binomial option pricing simulation based on the following weighted average assumptions: expected volatility of 177%, a risk-free interest rate of 1.78%, expected dividend yield of nil%, expected forfeiture rate of 1.0% and expected life of five years. The exercise price on the date of grant is equal to the share price on the date the options are granted.

During 2018, the Company granted to certain employees, contractors, officers, and directors options to purchase a total of 2,141,534 common shares at a weighted average exercise price of $0.29 per common share. Of the total options granted, 940,000 options vest one year from the date of grant, and 765,000 options vest over two years, such that 375,000 of the options will vest one year from the date of grant, and 375,000 will vest two years from the date of grant. The remaining options vest based on the market price of the Company's common shares, such that 218,267 options will vest when the closing market price of the Company's common shares exceeds $0.37 for ten consecutive trading days, and 218,267 options will vest when the closing market price of the Company's common shares exceeds $0.445 for ten consecutive trading days. All options granted expire five years from the date of grant.

The weighted average grant date fair value of the stock options granted during 2018 was estimated to be $0.269 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 175%, a risk-free interest rate of 2.09%, expected dividend yield of nil%, expected forfeiture rate of 1.3% and expected life of 5 years. The expected volatility was determined by calculating the historical volatility of the Company's common share price from the date of grant back to the date five years prior to the date of grant. The estimated fair value of each tranche of options not immediately vesting is amortized to share-based payments over the option vesting period on a straight-line basis. For options that had vesting conditions based on the closing price of the Company's common shares, the vesting period was estimated using a binomial option pricing simulation based on the following weighted average assumptions: expected volatility of 175%, a risk-free interest rate of 2.09%, expected dividend yield of nil%, expected forfeiture rate of 1.3% and expected life of five years.

Total share-based payments expenses for the year ended December 31, 2019 were $320,495 relating to general and administrative (December 31, 2018 - $433,057) and $157,010 relating to research and development (December 31, 2018 - $191,302) for a total of $ 477,505 (December 31, 2018 - $624,359).

(in Canadian dollars)

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

(b) 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, 2017	8,182,509	$ 0.13
Granted	2,141,534	0.29
Forfeited	(88,334)	0.24
Expired	(23,334)	0.15
Exercised	(1,084,283)	0.06
Balance, December 31, 2018	9,128,092	$ 0.17
Granted	3,506,066	0.13
Forfeited	(100,000)	0.13
Expired	(1,183,334)	0.22
Exercised	(1,484,000)	0.05
Balance, December 31, 2019	**9,866,824**	**$ 0.17**

Summary of options outstanding and exercisable as at December 31, 2019 are as follows:

Exercise price outstanding	Grant Date	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
$0.05	January 21, 2015	1,103,422	0.06	$0.05	1,103,422
$0.12	September 11, 2019	550,000	4.70	0.12	—
$0.13	January 31, 2019	2,856,066	4.08	0.13	—
$0.15	August 30, 2018	1,006,170	1.67	0.15	1,006,170
$0.20	October 25, 2018	320,000	3.82	0.20	247,500
$0.21	February 22, 2017	2,569,632	2.15	0.21	2,270,000
$0.30	January 24, 2018	1,461,534	3.07	0.30	512,500
		9,866,824	2.76	$0.17	5,139,592

(in Canadian dollars)

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

Summary of options outstanding and exercisable as at December 31, 2018 are as follows:

Exercise price outstanding	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
$0.05	2,587,422	0.81	$0.050	2,587,422
$0.15	1,389,504	2.84	0.150	1,119,496
$0.20	320,000	4.99	0.200	—
$0.21	3,049,632	3.32	0.210	1,600,000
$0.30	1,781,534	4.24	0.300	—
	9,128,092	2.60	$0.173	5,606,918

(c) Contributed surplus

		Amount
Balance, December 31, 2017	$	6,696,439
Share-based payments		624,359
Warrants expired		155,705
Options exercised		(47,284)
Balance, December 31, 2018	$	7,429,219
Share-based payments		477,505
Warrants expired		10,848
Options exercised		(62,538)
Balance, December 31, 2019	**$**	**7,855,034**

(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, 2019 (December 31, 2018 – options outstanding and common share warrants outstanding) as the effect is anti-dilutive.

(in Canadian dollars)

12. Revenue

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

		December 31, 2019		December 31, 2018
Software	**$**	**773,727**	$	111,156
Maintenance		**643,405**		618,778
Services		**36,792**		3,587,427
	$	**1,453,924**	$	4,317,361

(a) Services revenue

Pilot test data contract

During the year ended December 31, 2018, the Company entered into a contract with a major oil sands producer related to providing data from a commercial-scale pilot project of the Company's RF XL technology. Under the terms of the agreement, Acceleware will receive funding of up to $2,000,000 upon the achievement of certain milestones. The contract contains three performance obligations, consisting of a software license, PCS and the data. For the year-ended December 31, 2019, the Company invoiced $200,000 in milestone payments (December 31, 2018 - $300,000), recognized $7,516 in revenue (December 31, 2018 - $42,484) and deferred $200,000 (December 31, 2018 - $257,516) for amounts received in advance of providing the data and the balance of PCS. Costs of $120,431 (December 31, 2018 - $19,331) incurred to date associated with providing the data are included in contract assets.

AMD Contract

During the year ended December 31, 2018, the Company entered into a consulting services agreement with an affiliate of Advanced Micro Devices, Inc. ("AMD"). Under the terms of the agreement, Acceleware received US$2,510,000 in exchange for custom software development human resources and consulting services. For the year ended December 31, 2019, the Company recognized $13,105 of revenue (December 31, 2018 - $3,276,848, of which $1,063,021 represented unbilled revenue (contract assets); this unbilled revenue was invoiced and collected during 2019).

(in Canadian dollars)

12. Revenue (cont'd)

(b) Contract amounts

Contract assets primarily relate to the Company's rights to payment for work completed but not billed as at year end. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities relate to the advance payments received from customers. Contract assets and liabilities are accounted for on a contract-by-contract basis, with each contract accordingly presented as either net contract assets or a net contract liability.

Contract assets		**December 31, 2019**		December 31, 2018
Balance, beginning of year	**$**	**1,082,352**	$	—
Additions		**101,100**		1,082,352
Invoiced		**(1,063,021)**		—
	$	**120,431**	$	1,082,352

Contract liabilities		**December 31, 2019**		December 31, 2018
Balance, beginning of year	**$**	**353,911**	$	150,085
Additions		**842,595**		834,526
Recognized as revenue		**(643,405)**		(630,700)
	$	**553,101**	$	353,911

(c) Geographic revenue segmentation

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

		Canada		**USA**		**Total**
December 31, 2019	**$**	**25,016**	**$**	**1,428,908**	**$**	**1,453,924**
December 31, 2018	$	55,458	$	4,261,903	$	4,317,361

The Company derives significant revenues from three major customers each of which exceeded 10% of total revenues for the year ended December 31, 2019. Revenue from these customers was $1,269,750 in December 31, 2019 (December 31, 2018 - $3,667,148).

(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, 2019		December 31, 2018
Salaries	**$**	**954,764**	$	1,002,020
Professional fees		**402,328**		404,995
Share-based payments *(note 11(b))*		**320,495**		433,057
Rent, office and public company fees		**314,306**		302,184
Marketing		**167,609**		154,087
Depreciation *(notes 8 and 10)*		**100,177**		47,796
Travel		**11,962**		45,628
Bad debt expense		**—**		4,232
	$	**2,271,641**	$	2,393,999

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, 2019		December 31, 2018
Consultants	**$**	**956,177**	$	2,317,186
Salaries		**574,692**		1,281,289
R&D lab supplies and other		**267,718**		79,475
Share-based payments *(note 11(b))*		**157,010**		191,302
Depreciation *(notes 8 and 10)*		**100,177**		47,796
Rent and overhead allocation		**41,880**		87,765
Non-refundable government assistance		**(1,246,649)**		(1,774,902)
Alberta SR&ED tax credits *(note 7)*		**(163,486)**		(210,032)
	$	**687,519**	$	2,019,879

In the year ended December 31, 2018, the Company entered into contribution agreements with Sustainable Development Technology Canada ("SDTC") and Emissions Reduction Alberta ("ERA") to provide funding for a commercial-scale test of RF XL enhanced oil recovery technology. Under the terms of the agreements, SDTC and ERA provide milestone-based funding at the beginning of a milestone. Amounts entitled to but not yet received are holdback amounts on current invoicing and are included in trade and other receivables on the statements of financial position. Funding received in excess of expenses incurred are deferred and are recorded as accounts payable and accrued liabilities on the statements of financial position.

During the year ended December 31, 2019, the Company had received $2,366,299 from SDTC (December 31, 2018 - $1,157,843) and was entitled to receive a further $621,908 (December 31, 2018 - $204,326), and received $1,220,923 from ERA (December 31, 2018 - $438,813) and was entitled to receive a further $387,505 (December 31, 2018 - $923,356). As at December 31, 2019, there was $3,678,473 (December 31, 2018 - $953,936) included in accounts payable and accrued liabilities and $1,009,413 (December 31, 2018 – $1,127,682) included in trade and other receivables pursuant to deferred funding from government assistance programs.

(in Canadian dollars)

15. Income taxes

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial statutory tax rate of 26.5% (December 31, 2018 – 27.0%) to loss before taxes. The difference results from the following:

		December 31, 2019		December 31, 2018
Loss before income tax	**$**	**(1,558,810)**	$	(98,622)
Statutory tax rate		**26.5%**		27.0%
Computed expected income tax (recovery)		**(413,085)**		(26,628)
Non-deductible expenses		**130,505**		170,514
SR&ED investment tax credits		**(184,545)**		(222,254)
Increase in deferred tax assets not recognized		**310,701**		78,368
Change in enacted tax rates		**156,424**		—
Deferred tax recovery	**$**	**—**	$	—

The statutory tax rate decreased from 27% to 26% due to a decrease in the provincial tax rate on July 1, 2019.

The components of the deferred tax liability are as follows:

		December 31, 2019		December 31, 2018
Deferred tax assets:				
SR&ED tax pools	**$**	**492,897**	$	512,589
Right of use assets		**32,938**		—
SR&ED investment tax credits		**(492,897)**		(512,589)
Non-capital loss carry-forwards		**(32,938)**		—
Net deferred tax liability	**$**	**—**	$	—

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

		December 31, 2019		December 31, 2018
SR&ED expenditure pool	**$**	**3,761,695**	$	2,960,279
SR&ED investment tax credits		**2,143,028**		1,898,477
Property and equipment and other		**185,732**		40,625
	$	**6,090,456**	$	4,899,381

The Company has $5,904,723 (December 31, 2018 - $4,858,756) in deductible SR&ED expenditures and $2,143,028 (December 31, 2018 - $1,898,477) of SR&ED investment tax credits available to claim against future taxable income or income taxes. The investment tax credits begin to expire in 2031.

16. Financial instruments

(a) Fair value

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

(b) Interest rate risk

The Company is exposed to interest rate risk in that changes in market interest rates will cause fluctuations in the fair value of future cash flows from its cash equivalents. The short-term nature of these instruments, a maturity within three months of their purchase date, and the highly liquid nature of these investments significantly mitigate the Company's interest rate risk.

(c) Currency risk

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

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

		December 31, 2019		December 31, 2018
Cash and cash equivalents	**$**	**2,051,146**	$	2,241,663
Trade and other receivables		**315,047**		302,931
Accounts payable and accrued liabilities		**(188)**		(756,139)
Net exposure	**$**	**2,366,005**	$	1,788,455

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

		December 31, 2019		December 31, 2018
Revenue	**$**	**1,428,908**	$	4,275,008
Expenses		**(66,861)**		(1,175,124)
Net exposure	**$**	**1,362,047**	$	3,099,884

(in Canadian dollars)

16. Financial instruments (cont'd)

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, 2019	Average exchange rate for the year ended December 31, 2018	**Exchange rate as at December 31, 2019**	Exchange rate as at December 31, 2018
Canadian dollar per one USD	**1.3269**	1.2957	**1.2988**	1.3642

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, 2019		Decrease/(increase) in comprehensive loss for the year ended December 31, 2018
1 cent strengthening in the Canadian dollar	**$**	**(18,217)**	$	(37,041)
1 cent weakening in the Canadian dollar	**$**	**18,217**	$	37,041

(d) 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 a small number of companies and government bodies. 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, 2019 (December 31, 2018 - $4,150).

(in Canadian dollars)

16. Financial instruments (cont'd)

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

		December 31, 2019		December 31, 2018
1 – 30 days	$	**304,906**	$	257,291
31 - 60 days		**—**		12,813
61 – 90 days		**214,167**		—
91 – 120 days		**84,406**		—
Over 120 days		**—**		4,150
Allowance for doubtful accounts		**—**		(4,150)
		603,479		270,104
Government assistance receivable		**1,009,413**		1,127,682
	$	**1,612,892**	$	1,397,786

There are no customers whose trade receivables exceed 15% of the total trade and other receivables at December 31, 2019 (December 31, 2018: $923,356), except for the government assistance receivable (see note 14).

(e) 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, 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. Based on the Company's aggregate liquid assets as compared 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, 2019, Acceleware's financial liabilities are all due within one year, with the exception of lease obligations (see note 10).

17. Capital risk management

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

The Company's objectives for managing capital are:

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

The Company considers the items included in capital to include shareholders' equity, and non-current liabilities. The Company manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, financing environment and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, new debt, draw on lines of credit, or scale back the size and nature of its operations. The Company's management of its capital is dependent upon cost containment and on its ongoing efforts to focus on core vertical markets and achieve profitable operations. The Company is not subject to externally imposed capital requirements. As at December 31, 2019, shareholders' equity was $1,146,743 (December 31, 2018 - $2,153,848) and the Company had $39,767 in non-current liabilities in the form of lease obligations (December 31, 2018 - $95,660).

18. Operating segments

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

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

(in Canadian dollars)

18. Operating segments (con't)

For the year ended December 31, 2019:

		RF Heating		HPC		Total
Revenue	$	22,740	$	1,431,184	$	1,453,924
Expenses						
Cost of revenue		—		2,853		2,853
General and administrative		1,608,981		662,660		2,271,641
Research and development		554,688		132,831		687,519
		2,163,669		798,344		2,962,013
(Loss) income from operations	**$**	**(2,140,929)**	**$**	**632,840**	**$**	**(1,508,089)**

For the year ended December 31, 2018:

		RF Heating		HPC		Total
Revenue	$	42,484	$	4,274,877	$	4,317,361
Expenses						
Cost of revenue		14,001		53,668		67,669
General and administrative		1,653,590		740,409		2,393,999
Research and development		1,498,071		521,808		2,019,879
		3,165,662		1,315,885		4,481,547
(Loss) income from operations	**$**	**(3,123,178)**	**$**	**2,958,992**	**$**	**(164,186)**

(in Canadian dollars)

19. Related party transactions

(a) For the year ended December 31, 2019, the Company incurred expenses in the amount of $209,417 (December 31, 2018 - $249,500) 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, $50,082 was included in accounts payable and accrued liabilities as at December 31, 2019 (December 31, 2018 - $172,719). These fees were incurred in the normal course of operations.

(b) For the year ended December 31, 2019, the Company incurred expenses in the amount of $25,532 (December 31, 2018 - $119,279) with a company controlled by a director of the Company for legal fees and these expenses are included in general and administrative. Of the total, $158 was included in accounts payable and accrued liabilities as at December 31, 2019 (December 31, 2018 - $2,179). These fees were incurred in the normal course of operations.

(c) For the year ended December 31, 2019, the Company incurred expenses in the amount of $81,000 (December 31, 2018 - $16,550) with a company controlled by the spouse of an officer of the Company for marketing and communication and these expenses are included in general and administrative. Of the total, $5,880 was included in accounts payable and accrued liabilities as at December 31, 2019 (December 31, 2018 - $2,415). These fees were incurred in the normal course of operations.

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

		December 31, 2019		December 31, 2018
Salaries and short-term employee benefits	**$**	**1,145,826**	$	961,527
Share-based payments		**320,828**		309,894
	$	**1,466,654**	$	1,271,421

(in Canadian dollars)

20. Adoption of IFRS 16

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

The effect of IFRS 16 is as follows:

Statements of Financial Position as at January 1, 2019		**Without IFRS 16**		**Adjustments**		**As reported**
Assets						
Property and equipment	$	197,931	$	(178,771)	$	19,160
Right of use assets		—		131,840		131,840
Liabilities						
Lease obligations (current)	$	93,352	$	89,094	$	182,446
Lease obligations (long term)		95,660		42,746		138,406

21. Subsequent event

(a) On January 23, 2020, the Company granted stock options to acquire up to 1,462,466 common shares of the Company to certain employees, officers and directors. The options have an exercise price of $0.10 per common share and expire on January 23, 2025. Of the 1,462,466 options granted, 582,500 shall vest on the first anniversary of the grant date, 582,500 shall vest on the second anniversary of the grant date, 148,733 shall vest when the share price of the common shares of the Company closes at or above $0.125 for ten consecutive trading days, and 148,733 shall vest when the share price of the common shares of the Company closes at or above $0.15 for ten consecutive trading days. The Company's stock option plan allows for 10,527,167 common shares to be reserved for issuance under the plan. Upon issuance of the options granted, there will be 10,225,868 common shares reserved under options outstanding, leaving 301,299 common shares that may be reserved for issuance under the Company's stock option plan. The stock option grant is subject to regulatory approval.

(b) Subsequent to year end, the COVID-19 global pandemic as well as significant commercial and geopolitical conflict among major oil producers has caused significant financial market turmoil. The situation is dynamic with all countries around the world responding in different ways. The Company continues to monitor and assess the impacts COVID-19 and falling global oil prices will have on its business activities. However, it is not possible to reliably estimate the length or severity of these impacts at this time and the resulting effect on the Company's financial results.