# ACCELEWARE LTD.
## MANAGEMENT'S DISCUSSION AND ANALYSIS
## FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2020

This management's discussion and analysis of financial condition and results of operations ("MD&A") should be read together with Acceleware Ltd.'s ("Acceleware" or the "Company") audited annual financial statements and the accompanying notes for the year ended December 31, 2020 (the "Financial Statements"), which were prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information relating to the Company is available on SEDAR at www.sedar.com.

This MD&A is presented as of March 23, 2021. All financial information contained herein is expressed in Canadian dollars unless otherwise indicated.

### FORWARD LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believes" and similar expressions. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A may contain forward-looking statements, pertaining to the following:

- the expectation of Acceleware's ability to continue operating as a going concern, fund its operations through the sale of its products and services, and access external financing when required;
- the future growth prospects for radio frequency ("RF") heating technology for heavy oil and oil sands based on technical and economic feasibility analyses and testing performed to date;
- the patentability of concepts developed through RF Heating research and development ("R&D") efforts;
- the expectation that the positive economic and technical analyses and testing to date will be reinforced by future results of subsequent testing of the RF technology;
- the expectation of software revenue growth in the oil and gas sector through innovative licensing arrangements;
- potential benefits of the Company's software to customers, including cost savings and increases to cash flow and productivity;
- the impact on local and global markets of epidemic or pandemic disease, including the novel coronavirus disease known as COVID-19;
- oil and natural gas production levels of both Organization of Petroleum Exporting Countries ("OPEC") and non-OPEC countries;
- advantages to using Acceleware's products and technology;
- the demand for new products currently under development at the Company;
- ease and efficiency of implementing Acceleware's products; and
- supply and demand for Acceleware's primary software products.

With respect to forward-looking statements contained in this MD&A, the Company has assumed, among other things:

- that the future revenue and resulting cash flow expected by the Company's management ("Management") and ability to attract new financing will be sufficient to fund future operations - this assumption being subject to the risk and uncertainty that the Company may not generate enough cash flow from operating activities to meet its capital requirements and that the Company may not be able to secure additional capital resources from external sources to fund any shortfall. Operating cash flow may be negatively affected by general economic conditions, increased competition, increased equipment or labour costs, and adverse movements in foreign currencies. Should the Company experience a cash flow shortfall from operating activities, Management's contingency plan may not be sufficient to reverse the shortfall;
- that industry and government interest in reducing greenhouse gas ("GHG") emissions, reducing industrial water use, and minimizing land disturbance remains constant or increases;
- that the long-term impact of the COVID-19 pandemic on the Company's products and services and R&D efforts will be manageable;
- that the long-term effect of any agreement or non-agreement among both OPEC and non-OPEC countries regarding production levels on the Company's products, services, and R&D efforts will be manageable;
- that the analyses coupled with lab and field testing that the Company has performed to date regarding the technical and economic feasibility of RF Heating technology for heavy oil and oil sands will be confirmed in future commercial-scale testing and in commercial products;
- that the Company will receive and maintain all regulatory approvals required to carry out the commercial-scale testing of its RF heating technology at Marwayne, Alberta (the "Pilot");
- that the RF Heating concepts developed by the Company are unique, novel and non-infringing of intellectual property owned by others;
- that the Company will be able to maintain sales of its software products and services by focusing on innovative licensing arrangements and continuously improving its products – which is subject to the risks that sales in core vertical markets may be negatively affected by general economic conditions, that the Company's R&D efforts may be unable to develop continuous improvements; and
- that it will be able to withstand the impact of increasing competition.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A.

**Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Forward-looking statements include statements with respect to the timing and amount of estimated future revenue and sales and the Company's ability to protect and commercially exploit its intellectual property. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.**

## BUSINESS OVERVIEW

Acceleware is an innovator of transformative technologies leading to a new era of responsible and cost-effective energy development focused within two business segments: radio frequency heating ("RF Heating") for enhanced oil recovery and high-performance computing ("HPC") scientific software.

RF XL is Acceleware's patented RF heating technology, designed to improve the extraction of heavy oil and bitumen, featuring a cost effective and environmentally-friendly alternative to steam assisted gravity drainage ("SAGD"). When applied, RF XL has the potential to reduce both capital and operating costs, while offering significant environmental benefits, including:

- immediate GHG emission reductions;
- the elimination of external water use;
- a substantial decrease in land use;
- no requirement for solvents; and
- no need for water treatment facilities or tailings ponds.

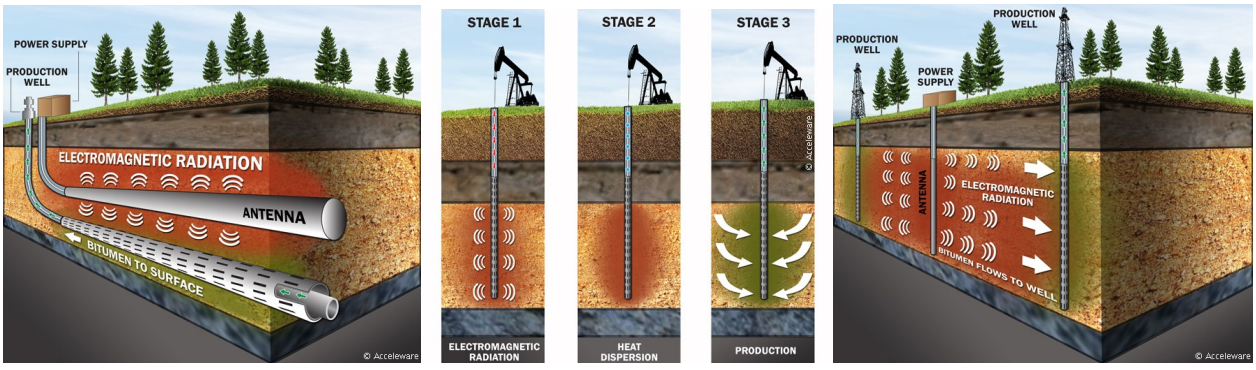
The Company believes that RF XL, as an electrically-driven process, can provide a clear pathway to zero-GHG production of heavy oil and oil sands and provide optimal alignment between industry and government to recognize innovation as a meaningful component of the oil and gas industry's overall emission reduction plans.*

Acceleware's HPC segment helps customers meet their oil and gas exploration needs with seismic imaging software that provides the most accurate and advanced imaging available for oil exploration in complex geological zones and formations, and clients' electronic and medical product development needs with state-of-the-art electro-magnetic ("EM") simulation software.

*RF Heating for Enhanced Oil Recovery*

Acceleware's RF heating technology broadly falls into two distinct use-cases:

1. RF XL targets long horizontal wells most often associated with in-situ oil sands production.
2. Modular RF is technology primarily aimed at deeper, vertical wells where efficiencies can be gained due to the innovative approach offered by downhole RF power generation.




Multiple Vertical – RF flood | Single Vertical – Cyclic RF flood | Horizontal – RF injector

**RF Heating can be used in a variety of vertical and horizontal well arrangements.**

*This paragraph contains forward looking information. Please refer to "Forward Looking Statements" and "Risk Factors and Uncertainties" for a discussion of the risks and uncertainties related to such information.

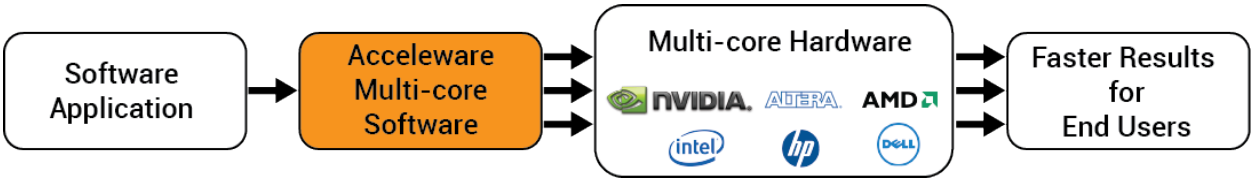
In 2010, Acceleware began investigating technology that would use RF energy for in-situ heating of heavy oil and bitumen. Over the ensuing ten years, Acceleware vigorously developed RF heating technology with 7 patents granted and 27 patent applications pending or under development.

Through the Company's RF heating development and services business, Acceleware developed sophisticated simulation software tools based on its proprietary AxFDTD solution coupled with third party reservoir simulation software. In late 2013, Acceleware commercialized and introduced these simulation tools as AxHEAT™, a product aimed at oil and gas companies who are investigating the effectiveness of RF heating to increase the efficiency of heavy oil and oil sands production.*

RF heating for oil production is not a new concept, as failed trials were conducted in Russia and North America as far back as 1948. Acceleware believes that these early failures were a result of technology limitations imposed by adapting communications technology for RF heating. Acceleware believes these limitations can be overcome with an entirely new approach to RF heating technology. The Company's RF heating R&D efforts have focused on reducing the capital cost of the technology, making it more flexible for use in a variety of resource plays, and improving its scalability to be conducive for very long horizontal wells commonly used in Alberta's oil sands, as well as in Latin America, Asia, the Middle East and elsewhere. Acceleware's unique expertise with RF heating technology has also resulted in the generation of revenue both locally and abroad.

*High-Performance Computing Software*

Acceleware's traditional high performance computing market has been centered around EM simulation software, and the Company continues to provide products to this industry. Its first software commercialized was an accelerated finite difference time domain ("FDTD") solution for the EM simulation industry. AxFDTD™ has been used by many Fortune 500 companies such as GE, Apple, Samsung, LG, Blackberry, Foxconn, Nikon, Renault, Mitsubishi, Merck, Boeing and Lockheed Martin, many of which continue to use the software today. With AxFDTD, Acceleware was a pioneer in the graphics processing unit ("GPU") computing revolution as most of the major mobile telephone manufacturers in the world are using Acceleware's EM design solutions which facilitate more rapid design of their products. Acceleware's fourth-generation software acceleration solutions, which support multi-board GPU systems, can accelerate entire industrial simulation and processing applications by more than 35 times.




The EM solutions developed by Acceleware can be easily integrated by software developers, saving them the expense and time of migrating applications to high performance multi-core platforms. Acceleware improves the overall experience for end users of these applications by providing greater computing speed without the need for end users to learn new skills or change their work processes.

In the EM market, software developers choose to partner with Acceleware to increase the speed of their software. Such partners currently include SPEAG, ZMT Zurich MedTech and Keysight Technologies. Acceleware reaches the EM market through a combination of partner channels and direct sales. Investment in AxFDTD continues for traditional markets because it is an enabling technology for AxHEAT.

* this paragraph contains forward looking information. Please refer to "Forward Looking Statements" and "Risk Factors and Uncertainties" for a discussion of the risks and uncertainties related to such information

Acceleware recognized the similarity between EM FDTD and certain seismic imaging algorithms, which led the Company to enter the seismic imaging market in 2008. The Company's first product was a GPU accelerated Kirchhoff Time Migration solution, followed closely by AxRTM™ in 2009, a central processing unit ("CPU") and GPU enabled Reverse Time Migration ("RTM") library.

In 2013, Acceleware introduced AxWave™, a forward modelling variant of AxRTM which allows customers to accurately model seismic acquisition and perform data characterization.

In late 2014, Acceleware added AxFWI™ a revolutionary modular full waveform inversion ("FWI") application to its seismic imaging suite. AxFWI allows geophysicists to create high quality subsurface velocity models in dramatically less time than before. Acceleware accesses the oil and gas geoscience software market with innovative licensing structures through a direct sales model that targets oil and gas exploration companies and seismic service providers.

**Seismic forward modelling in complex subsurface geology using AxWave**

In February 2004, Acceleware was founded by a group of graduate students and professors from the University of Calgary's Electrical Engineering department for the purpose of building software solutions that targeted the GPU as a compute platform. Since 2006, Acceleware's common shares have been listed on the TSX Venture Exchange (symbol: AXE). Acceleware is headquartered in Calgary, Alberta.

On December 31, 2020, Acceleware had 17 employees and long-term contractors, including three in administration; four in sales, marketing and product management; and ten in R&D and engineering.

For further information about the Company, please visit **www.acceleware.com.**

## OPERATING SUMMARY

Acceleware continues to advance the development of its patented RF heating technology through the fourth quarter of 2020 and into early 2021. This progress builds on the Company's previously announced 2020 key accomplishments which include:

- the partnership with Broadview Energy to host the Pilot at a site in the Cold Lake Oil Sands region near the town of Marwayne, Alberta;
- a successful full-power test of two modules, or 500 kW, of the Clean Tech Inverter ("CTI") prototype;
- receipt of all required regulatory approvals from the Alberta Energy Regulator for the Pilot; and
- grant of a key RF XL patent in the United States

The Company's most notable achievements during the three months ended December 31, 2020 ("Q4 2020") include:

1. **Confirmation from major oil sand producer of ongoing support for RF XL Pilot:** In 2018 an oil sand producer (the "First Producer") committed to contribute up to $2 million of funding to support the Pilot, along with the ongoing commitment to provide input into design and test specifications prior to completion. In December 2020, the First Producer reaffirmed its commitment to continue to invest in the Pilot after reviewing key technology field test results and simulations.

2. **A second major oil sands producer committed support to RF XL Pilot**: An agreement to provide financial and technical support for the Pilot was signed with a second major oil sands producer (the "Second Producer"). The Second Producer will provide funding of $2 million and technical expertise in support of the Pilot under the terms of an agreement with Acceleware. In exchange for the funding and under similar terms as the First Producer, the Second Producer will provide input into designs and test specifications prior to completion, and will receive, along with the other Pilot participants, exclusive access to the full set of detailed technical data and test results for one year following completion of the Pilot. Acceleware has granted the Second Producer prioritized rights to host a subsequent test of Acceleware's RF XL technology, preferred pricing on pre-commercial products, and preferred access to RF XL products over operators who do not participate in the Pilot.

3. **Partnership with Saa Dene Group:** Acceleware established Acceleware | Kisâstwêw, a limited partnership with Saa Dene Group (Partnership Website). Acceleware | Kisâstwêw merges two great cultures to drive the commercialization and adoption of Acceleware technologies, including RF XL. Acceleware's culture of innovation is ideally aligned with Saa Dene Group's extensive scope of experience and collaboration, influence within the Canadian energy industry, and desire for responsible energy resource development and stewardship.

In addition to the key events in Q4 2020, Acceleware announced in March 2021 that the Pilot is now fully funded based on current costs estimates, which range between $16 and $20 million. A total of $19.25 million of direct funding has been raised to date after securing a $5 million investment from Alberta Innovates, the province of Alberta's largest research and innovation agency combined with $5.25 million from Sustainable Development Technology Canada ("SDTC"), $5 million from Emissions Reduction Alberta ("ERA"), and $4 million provided by two major oil sands producers.

With respect to progress on the Pilot, the Marwayne site was cleared in early 2021, long-lead equipment and materials for the test have been ordered, and many service company partners have been selected and contracted. Subject to weather or other unforeseen delays, Acceleware anticipates construction at the site will be complete before the end of June 2021, followed by heating which is expected to commence in early Q3 2021. While the initial heating phase is anticipated to run for approximately six months, this period may be extended to allow Acceleware to capture additional information on the efficiency and operation of the technology.

There are 7 patents granted to protect various proprietary technologies related to Acceleware's RF Heating R&D, and 27 patent applications pending or under development. The Company continues to work closely with the patent offices and its intellectual property advisors.

Acceleware continues to focus on driving external awareness of the Company and on positioning its RF Heating technology more prominently in the oil and gas and clean-tech communities. Several new blog posts and videos were released via social media which feature discussions on the RF Heating technology by Acceleware's engineering team. The collection of videos is available for viewing here: Acceleware Vlog Posts 2020 .

The Company has found significant interest from numerous media sources for information related to our corporate story and product development. This interest has led to featured interviews and presentations on programs such as Canadian Energy Center Facts, Data, Indigenous Opportunities, the Danielle Smith Show on AM 770 CHQR radio; the Crownsmen Energy Show; Over a Barrel, a podcast hosted by the Canadian Heavy Oil Association; and Global Energy Show webinar on zero greenhouse gas ("GHG") production of heavy oil and oil sands reservoirs. The Company was featured on a podcast hosted by the Alberta Clean Technology Industry Alliance and released a whitepaper on the potential for a zero-GHG project for oil sands and heavy oil producers relying on electrification through RF XL. Episode 21 of the podcast featuring Acceleware can be accessed at the following link: Episode 21 ACTIA podcast with Acceleware and the whitepaper can be accessed from the Company's website at the following link: Acceleware White Papers.

Acceleware's involvement with the Clean Resource Innovation Network ("CRIN") in 2019 led to a series of articles featuring Acceleware, two of which were published in Q1 2020, by JuneWarren-Nickle's Energy Group ("JWN") and a third was published on International Women's Day March 8, 2021. These articles showcased RF Heating technology and its impact on Canada's evolving energy landscape. The articles in the series can be accessed here:

- The State of Tech Innovation with Acceleware CEO Geoff Clark
- Acceleware Entrepreneurs Work to Reduce Costs and Green-Up Oilsands Production
- Acceleware's Laura McIntyre is Positively Choosing to Challenge Industry

The Company's relationship with JWN also led to Acceleware's nomination as a finalist at the JWN Energy Excellence Awards in the category of "Environmental Excellence: Land" alongside other nominees such as ConocoPhillips Canada and Cenovus Energy Inc. Details of the award are available at the following link: JWN Energy Excellence Awards Companies Earn High Marks.

## FINANCIAL SUMMARY

As outlined above, by the end of 2020, Acceleware had successfully completed many key milestones for the Pilot including engineering de-risking, design completion, lab testing, field testing, site selection, regulatory approval, and ordering of long-lead materials and supplies, all of which contributed to an increased level of R&D spending. Cumulative Pilot expenses as at December 31, 2020 were approximately $7.7 million (December 31, 2019 - $5.1 million) and have been funded by approximately $4.6 million from government programs (December 31, 2019 - $3.1 million), $0.8 million by milestone contributions from a major oil-sands producer (December 31, 2019 - $0.5 million), and by funds generated internally from sales of software, maintenance and services contracts. SDTC and ERA pay in advance for each milestone and Acceleware has received approximately $6.0 million of the total $10.25 million as of December 31, 2020 (December 31, 2019 – approximately $5.7 million). Although Acceleware experienced lower revenue in 2020 as compared to 2019 due to an intentional allocation of resources to progressing the Pilot and the negative impact due to the oil and gas industry of the COVID-19 pandemic, software and maintenance revenue for FDTD and seismic software continued to provide positive cash flows for the Pilot.

Acceleware has undertaken rapid and effective response measures to protect against the impacts of COVID-19 following government restrictions that were imposed to control the spread of the virus. Since the onset of the pandemic, the Company's priority has remained the health and safety of its staff, clients, partners and other

stakeholders. Acceleware implemented modified work practices, staggered work hours as needed, and introduced physical distancing and work-from-home protocols to meet all appropriate health and safety standards. The Company is pleased to report that transitioning its workforce to remote working environments has resulted in minimal productivity disruption. Acceleware meets eligibility criteria for the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy and received funding of approximately $311,000 during the year ended December 31, 2020 (December 31, 2019 – nil). The Company applied for other COVID-19 relief programs, including a loan provided by Canada's COVID-19 Economic Response Plan through the Regional Relief and Recovery Fund of the Innovation, Science and Economic Development Institution of Canada, but was not approved.

**YEAR IN REVIEW**

Revenue of approximately $0.9 million was generated for the year ended December 31, 2020 compared to approximately $1.5 million for the year ended December 31, 2019 from the Company's software, maintenance and services revenue streams. In addition to recognized revenue, Acceleware has also received non-refundable milestone cash payments of $0.3 million for the year ended December 31, 2020 (December 31, 2019 - $0.2 million) which are recorded in deferred revenue. Data revenue equal to the amount recorded in deferred revenue will be recognized as revenue at the end of the Pilot or when the data contract is terminated, whichever is earlier. Total deferred revenue recorded on the statement of financial position as at December 31, 2020 is $0.75 million (December 31, 2019 – $0.45 million).

Total comprehensive loss for the year ended December 31, 2020 was approximately $2.1 million (December 31, 2019 – approximately $1.6 million) as the majority of spending focused on R&D initiatives that (1) have a longer-term payback and (2) are directed at increasing the Company's profile and presence in the clean technology segment of the energy industry.

Gross R&D expenses during the year ended December 31, 2020 were approximately $2.5 million compared to approximately $1.9 million incurred during the year ended December 31, 2019 due to increased R&D activity noted above as well as the elimination of the Alberta SR&ED tax credit as of January 1, 2020. Federal and provincial government assistance of approximately $1.5 million was recognized in 2020 (December 31, 2019 - $1.2 million), which offsets research and development costs incurred.

General and administrative ("G&A") expenses incurred during the year ended December 31, 2020 were approximately $2.1 million compared to approximately $2.3 million during the year ended December 31, 2019 due primarily to lower share-based payment costs, marketing costs, and professional fees partially offset by higher payroll costs. The Company continues to prioritize cost management in these uncertain economic times.

As at December 31, 2020, Acceleware had working capital of approximately $0.03 million (December 31, 2019 – approximately $1.5 million) including cash and cash equivalents of approximately $1.9 million (December 31, 2019 – approximately $4.4 million). The decrease in working capital and cash is attributable to R&D spending for the Pilot.

In the interests of matching cash requirements with a combination of cash generated from operations, external funding, and capital raising activities, the Company actively manages its cash flow and investments in new products. Acceleware intends to maximize cash generated from operations through several initiatives which include continuing to focus on higher gross margin software products that are marketed through a combination of direct and reseller models; minimizing operating expenses where possible; and limiting capital expenditures. As the Company continues to develop its RF Heating technology, new R&D investments will be financed through a combination of internal cash flow from the HPC business, project funding agreements, government assistance and external financing, when available.* As noted in the operating summary, Acceleware was successful in late 2020 and early 2021 in securing a further $7 million in funding from Alberta Innovates and a second major oil-sands producer, the majority of which is

* this paragraph contains forward looking information. Please refer to "Forward Looking Statements" and "Risk Factors and Uncertainties" for a discussion of the risks and uncertainties related to such information.

expected to be received in 2021 at designated milestones over the course of the Pilot. With these new funding agreements and based on the Pilot's current cost estimates, Management believes it to be fully funded.

**QUARTER IN REVIEW**

Revenue of approximately $0.1 million was generated in Q4 2020 compared to approximately $0.2 million in the three months ended December 31, 2019 ("Q4 2019"). Revenue of approximately $0.1 million was generated in the previous quarter ended September 30, 2020 ("Q3 2020"). Revenue in all three periods is primarily attributable to software and maintenance sales.

Total comprehensive loss for Q4 2020 was approximately $1.0 million compared to a comprehensive loss of approximately $0.6 million for Q4 2019 and a comprehensive loss of approximately $1.1 million for Q3 2020.

Gross R&D expenses incurred in Q4 2020 were approximately $0.8 million compared to gross R&D expenses in Q4 2019 and Q3 2020 of approximately $0.5 million due to an increased level of activity on the Pilot. Federal and provincial government assistance of approximately $0.5 million was recognized in Q4 2020 compared to approximately $0.3 million in Q4 2019 and Q3 2020 offsetting gross research and development costs.

G&A expenses of approximately $0.7 million in Q4 2020 were $0.2 million higher than in the same period in 2019 due to higher payroll costs. The Company continues to prioritize cost control given uncertain economic conditions.

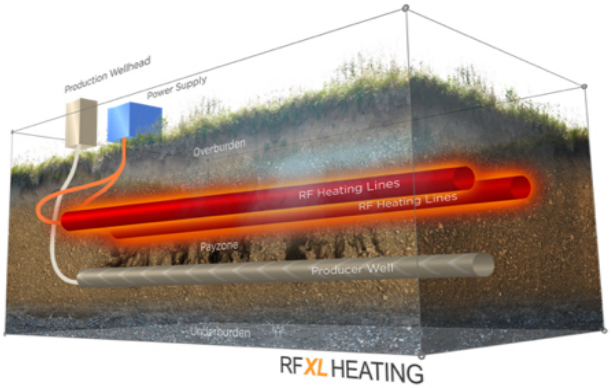
## STRATEGIC UPDATE

Acceleware will continue to focus on the energy markets, with RF Heating, AxRTM, AxWave, AxFWI, and AxHEAT as the primary strategic revenue-generating and investment technologies. Innovations and improvements to AxFDTD will continue for the EM markets and be an enabling technology for AxHEAT in the energy market. Acceleware has a proven track record for successful development and commercialization of revolutionary technologies.

Historically low oil prices combined with the unprecedented impact of COVID-19 and measures taken by governments and companies to contain its spread may affect the Company's ability to raise additional funding for the final stages of the Pilot, should further funding be required. A delay in the testing program may result in additional costs and a delay in technology commercialization. To mitigate this risk, the Company plans to prioritize the RF Heating segment by concentrating capital allocation and resources deployment to it.

*RF Heating*

Acceleware began investigating technology in 2010 that would use RF energy for in-situ heating of heavy oil and bitumen. In each of the four years up to 2017, the Company received funding from NRC-IRAP to partially finance its RF Heating technology development. In 2018, the Company began preparation for the Pilot, which will use two megawatts of electricity with an 800m horizontal well.




**Schematic of the RF XL Pilot**

Since 2017, Acceleware has been awarded a $5.25 million non-repayable contribution from SDTC, a $5 million non-repayable contribution from ERA and $5 million from Alberta Innovates in accordance with their mandates to bring clean technologies to market that are economically viable and reduce GHG emissions. Acceleware raised a further $2 million in funding for its Pilot from each of two major oil sands producers. The Company continues to pursue partnerships with oil sands producers to provide additional financial and technical support for this commercial-scale field test in an oil sands reservoir and to pave the way for continued commercialization after the completion of the Pilot at Marwayne.

Acceleware, with partner GE, completed the design, manufacturing, and factory testing of the prototype Acceleware Clean Tech Inverter ("CTI") which is the electronic platform for RF XL. In late 2019, the prototype CTI was field tested at the Company's simulated "ditch" reservoir in Alberta with record-level results, and is now ready for deployment at the Pilot. Acceleware has also finalized design concepts for drilling and completing RF XL wells and has completed front-end engineering and design of the surface facilities that will be used during the test.

Acceleware has received approval from its core funders for the partnership with Broadview to host the Pilot on their site near Marwayne, Alberta. In October 2020, the Company received approval of its Experiment Recovery Scheme Application under the Oil Sands Conservation Act from the AER for the Pilot, and in December 2020 received approval for its application under the Environmental Protection and Enhancement Act. Acceleware now has all regulatory approvals required to proceed with the Pilot.

*HPC*

In 2019, the Company focused on selling seismic imaging software to the oil and gas exploration market and continued the development of its suite of seismic products, as well as adding features, functionality and performance to AxRTM, AxWave and AxFWI. Going forward, the Company will access the oil and gas geoscience software market with innovative licensing structures through a direct sales model.

The Company continues to develop AxRTM, AxWave and AxFWI, which are GPU-accelerated and CPU-optimized seismic solutions, providing a multi-fold performance increase over alternative solutions, resulting in reduced processing times and enabling expedited drilling decisions for the oil and gas industry.

While the Company is focusing on energy markets, it continues to develop and sell its EM FDTD solution to end users primarily through independent software vendors ("ISV") that have integrated Acceleware's solution into their software architecture. Acceleware currently works with some of the world's largest companies in the electronics market, which consists of mobile phone manufacturers, industrial electronics firms, and government organizations. Acceleware's key ISV partners include SPEAG, ZMT Zurich MedTech AG, Keysight Technologies, Synopsis, Inc., and Crosslight Software Inc.

## SELECTED ANNUAL INFORMATION

The audited financial statements and the accompanying notes for the year ended December 31, 2020 (the "Financial Statements") are incorporated by reference herein and form an integral part of this MD&A. The Financial Statements can be found on www.sedar.com and on the Company's website at https://acceleware.com/. All financial information is reported in Canadian dollars unless otherwise noted.

The following table shows selected financial information from Acceleware's audited annual financial statements for the years ended December 31, 2020, December 31, 2019, and December 31, 2018.

| | Year Ended Dec 31, 2020 (Audited) | Year Ended Dec 31, 2019 (Audited) | Year Ended Dec 31, 2018 (Audited) |
|---|---|---|---|
| Total revenue | $899,281 | $1,453,924 | $4,317,361 |
| Total comprehensive loss | ($2,099,653) | ($1,558,810) | ($98,622) |
| Loss per share (basic and diluted) | ($0.020) | ($0.015) | ($0.001) |
| Total assets | $3,855,050 | $6,514,914 | $6,167,689 |
| Long-term debt (in the form of finance leases)[1] | $173,932 | $155,335 | $189,012 |
| Dividends | Nil | Nil | Nil |

[1] Includes current portion of finance leases

Revenue in 2018 was approximately $4.3 million and included approximately $3.3 million earned from a single contract with a Canadian affiliate of Advanced Micro Devices, Inc. ("AMD") under a consulting services agreement. Management expects revenues to experience significant fluctuations due to a change of the software revenue model in 2018. The Company now expects fewer overall sales transactions with higher overall revenue per transaction, which could potentially lead to increased volatility in revenue. Total comprehensive loss was also significantly lower in 2018 compared to both 2020 and 2019 due to the higher revenue. Total assets decreased as at December 31, 2020 compared to December 31, 2019 and 2018. The decrease in total assets is attributable to R&D spending for the Pilot and the timing of receipt of funding milestone payments.

## RESULTS OF OPERATIONS – YEAR TO DATE

*Revenue*

| **Revenue** | **Year Ended December 31, 2020** | Year Ended December 31, 2019 | % change Year over Year |
|---|---|---|---|
| Software | **$ 628,833** | $ 773,727 | -19% |
| Maintenance | **270,448** | 643,405 | -58% |
| Services | **-** | 36,792 | -100% |
| | **$ 899,281** | $ 1,453,924 | -38% |

During the year ended December 31, 2020, the Company reported total revenue of $899,281, compared to $1,453,924 for the year ended December 31, 2019, a 38% decline due mainly to lower maintenance revenue for contracts that ended in 2019, lower demand for seismic imaging software in a weak oil and gas sector and lower services revenue after discontinuing consulting services in 2019, all exacerbated by the global COVID-19 pandemic.

| **RF Heating Revenue** | **Year Ended December 31, 2020** | Year Ended December 31, 2019 | % change Year over Year |
|---|---|---|---|
| Software | **$ -** | $ 14,350 | -100% |
| Maintenance | **-** | 8,390 | -100% |
| | **$ -** | $ 22,740 | -100% |

RF Heating revenue in 2020 decreased 100% compared to the year ended December 31, 2019 as a result of the Company re-focusing its efforts entirely on the Pilot and away from efforts to generate revenue from the Company's AxHEAT RF heating simulation software.

| **HPC Revenue** | **Year Ended December 31, 2020** | Year Ended December 31, 2019 | % change Year over Year |
|---|---|---|---|
| Software | **$ 628,833** | $ 759,377 | -17% |
| Maintenance | **270,448** | 635,015 | -57% |
| Consulting | - | 36,792 | -100% |
| | **$ 899,281** | $ 1,431,184 | -37% |

HPC revenue in the year ended December 31, 2020 decreased 37% compared to the prior year due mainly to lower maintenance revenue for contracts that ended in 2019, lower demand for seismic imaging software in a weak oil and gas sector and lower services revenue after discontinuing custom software development services in 2019, the effects of which were compounded by the global COVID-19 pandemic.

*Expenses*

| **Expenses** | **Year Ended December 31, 2020** | Year Ended December 31, 2019 | % change Year over Year |
|---|---|---|---|
| Cost of revenue | **$ -** | $ 2,853 | -100% |
| General & administrative | **2,059,303** | 2,271,641 | -9% |
| Research & development | **958,867** | 687,519 | 39% |
| | **$ 3,081,170** | $ 2,962,013 | 2% |

Expenses increased 2% in 2020 compared to the year ended December 31, 2019 due to higher R&D expenses offset by lower G&A expenses. G&A expenses decreased 9% primarily due to lower share-based payment costs, marketing costs, and professional fees partially offset by higher payroll costs. R&D expenses increased 39% as a result of engineering, risk mitigation and regulatory activities for the Pilot. R&D expenses were also higher in 2020 because 2019 included a $173,097 refundable Alberta SR&ED tax credit. The Alberta government eliminated the tax credit as of January 1, 2020.

| **RF Heating Expenses** | **Year Ended December 31, 2020** | Year Ended December 31, 2019 | % change Year over Year |
|---|---|---|---|
| Cost of revenue | **$ -** | $ - | N/A |
| General & administrative | **1,473,351** | 1,608,981 | -8% |
| Research & development | **802,347** | 554,688 | 45% |
| | **$ 2,275,699** | $ 2,163,669 | 5% |

RF Heating expenses increased 5% in 2020 compared to the year ended December 31, 2019 due to higher R&D expenses partially offset by lower G&A expenses. RF Heating R&D expenses are higher due to spending on increased activity for the Pilot. G&A expenses are lower primarily due to lower share-based payment costs, marketing costs, and professional fees partially offset by higher payroll costs.

| HPC Expenses | Year Ended December 31, 2020 | Year Ended December 31, 2019 | % change Year over Year |
|---|---|---|---|
| Cost of revenue | $ - | $ 2,853 | -100% |
| General & administrative | **585,953** | 662,660 | -12% |
| Research & development | **156,520** | 132,831 | 18% |
| | **$ 742,472** | $ 798,344 | -7% |

HPC expenses decreased 7% during the year ended December 31, 2020 as higher contractor costs in R&D were more than offset by lower G&A costs.

*Finance Income and Expenses*

In 2020, finance income decreased to $15,950 from $63,215 in 2019, as the Company drew down short-term investments that are held for expenditures related to the Pilot. Finance expenses for both 2020 and 2019 relate to the interest expense on leases associated with office space and computer equipment.

*Foreign Exchange*

For the year ended December 31, 2020, the Company recognized a $10,205 foreign exchange gain compared to a $101,842 foreign exchange loss for the year ended December 31, 2019. Foreign exchange gains or losses typically occur when (1) the US dollar exchange rate fluctuates between the time revenue or an expense is recognized and when the corresponding receivable or payable is collected, and (2) cash and cash equivalent balances are held in US dollars.

## SUMMARY OF QUARTERLY RESULTS

The following table highlights revenue, cash generated (used) in operating activities, total comprehensive (loss) income and earnings (loss) per share for the eight most recently completed quarters ended December 31, 2020.

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** |
| Revenue | $74,347 | $130,219 | $611,712 | $83,003 | $154,715 | $197,001 | $213,475 | $888,733 |
| Cash generated (used) in operating activities | (981,479) | (544,129) | (1,216,156) | 368,055 | 221,293 | (478,372) | 339,678 | 1,211,576 |
| Total comprehensive (loss) income for the period | (1,041,937) | (541,689) | (50,709) | (465,318) | (621,751) | (551,412) | (453,145) | 67,498 |
| Loss (earnings) per share basic and diluted | ($0.01) | ($0.005) | ($0.000) | $0.004 | ($0.006) | ($0.005) | ($0.004) | $0.001 |

In Q2 2020 and Q1 2019, Acceleware recorded significantly higher revenue relative to other quarters. The fluctuation is due to new sales of software licenses for seismic imaging software under the Company's new licensing model. The Company discontinued its reseller model for seismic software and commenced selling software directly to oil and gas customers. Due to the change in the software revenue model, the Company now expects fewer overall sales transactions with higher overall revenue, which could potentially lead to increased volatility in quarterly revenue. As a result of increased spending on the Pilot in 2019 and 2020, the Company recorded a total comprehensive loss in each of the last seven quarters and negative cash flows from operating activities in the last three quarters of 2020.

## RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2020

| **Revenue** | **Three months ended Dec 31, 2020** | Three months ended Dec 31, 2019 | Three months ended Sept 30, 2020 | % change Q4 2020 over Q4 2019 | % change Q4 2020 over Q3 2020 |
|---|---|---|---|---|---|
| Software | **$ 17,362** | $ 3,443 | **$** 5,338 | 404% | 225% |
| Maintenance | **56,985** | 151,272 | 124,880 | -62% | -54% |
| | **$ 74,347** | $ 154,715 | **$** 130,218 | -52% | -43% |

During Q4 2020, the Company recognized revenue of $74,347 representing a 52% decrease over Q4 2019, driven entirely by lower software revenue in the HPC division. Revenue decreased 43% compared to Q3 2020 due to a reduction in HPC software and maintenance revenue.

| **RF Heating Revenue** | **Three months ended Dec 31, 2020** | Three months ended Dec 31, 2019 | Three months ended Sept 30, 2020 | % change Q4 2020 over Q4 2019 | % change Q4 2020 over Q3 2020 |
|---|---|---|---|---|---|
| Software | **$ -** | **$** - | **$** - | N/A | N/A |
| Maintenance | - | 2,340 | - | -100% | N/A |
| | **$** - | **$** 2,340 | **$** - | -100% | N/A |

RF Heating revenue fell to $nil for Q4 2020 compared to $2,340 in Q4 2019 and $nil in Q3 2020, as a result of the Company re-focusing its efforts entirely on the Pilot. In addition to software and maintenance revenue, the Company continues to offer RF heating simulation and feasibility services.

| **HPC Revenue** | **Three months ended Dec 31, 2020** | Three months ended Dec 31, 2019 | Three months ended Sept 30, 2020 | % change Q4 2020 over Q4 2019 | % change Q4 2020 over Q3 2020 |
|---|---|---|---|---|---|
| Software | **$ 17,362** | $ 3,443 | $ 5,338 | 404% | 225% |
| Maintenance | **56,985** | 148,932 | 124,880 | -62% | -54% |
| | **$ 74,347** | $ 152,375 | $ 130,218 | -51% | -43% |

HPC revenue declined to $74,347 in Q4 2020 from $152,375 in Q4 2019 and $130,218 in Q3 2020 due in part to the impact of COVID-19 and as a result of the Company re-focusing its efforts entirely on the Pilot. The Company ceased to offer HPC consulting services in early 2019.

*Expenses*

| **Expenses** | **Three months ended Dec 31, 2020** | Three months ended Dec 31, 2019 | Three months ended Sept 30, 2020 | % change Q4 2020 over Q4 2019 | % change Q4 2020 over Q3 2020 |
|---|---|---|---|---|---|
| General & administrative | **$ 703,230** | $ 539,560 | $ 439,088 | 30% | 60% |
| Research & development | **318,237** | 201,807 | 183,408 | 58% | 74% |
| | **$ 1,021,467** | $ 741,367 | $ 622,496 | 38% | 64% |

Expenses increased 38% during Q4 2020 compared to Q4 2019 and increased 64% compared to Q3 2020 due to higher payroll and payroll related G&A expenses and higher consultant and materials R&D expenses.

| **RF Heating expenses** | **Three months ended Dec 31, 2020** | Three months ended Dec 31, 2019 | Three months ended Sept 30, 2020 | % change Q4 2020 over Q4 2019 | % change Q4 2020 over Q3 2020 |
|---|---|---|---|---|---|
| General & administrative | **$ 525,212** | **$** 386,700 | **$** 317,117 | 36% | 66% |
| Research & development | **235,592** | 157,518 | 164,393 | 50% | 43% |
| | **$ 760,804** | **$** 544,218 | **$** 481,510 | 40% | 58% |

RF Heating expenses were 40% higher than in Q4 2019 and 58% higher than Q3 2020. G&A expenses were higher due to increased payroll and payroll related expenses. R&D expenses were higher due to higher contractor and materials costs related to the ramp-up of activity for the Pilot.

| **HPC expenses** | **Three months ended Dec 31, 2020** | Three months ended Dec 31, 2019 | Three months ended Sept 30, 2020 | % change Q4 2020 over Q4 2019 | % change Q4 2020 over Q3 2020 |
|---|---|---|---|---|---|
| General & administrative | **$ 178,017** | **$** 152,860 | **$** 116,063 | 16% | 53% |
| Research & development | **45,645** | 44,289 | 34,247 | 3% | 33% |
| | **$ 223,663** | **$** 197,149 | **$** 150,310 | 13% | 49% |

HPC expenses increased 13% in Q4 2020 compared to Q4 2019 and increased 49% compared to Q3 2020 primarily due to higher payroll and payroll related expenses.

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2020, Acceleware had working capital of $28,930 (December 31, 2019 – $1,472,395), $1,942,014 in cash and cash equivalents (December 31, 2019 - $4,381,194), and $173,932 in combined short-term and long-term debt in the form of leases (December 31, 2019 - $155,335). The decrease in cash is attributable to increased spending for the Pilot, timing of receipt of government assistance and lower HPC revenue.

In the interests of matching cash requirements with a combination of cash generated from operations, external funding, and capital raising activities, the Company actively manages its cash flow and investments in new products. Acceleware intends to maximize cash generated from operations through several initiatives which include continuing to focus on higher gross margin software products that are marketed through a combination of direct and reseller models; minimizing operating expenses where possible; and limiting capital expenditures. As the Company continues to develop its RF Heating technology, new R&D investments will be financed through a combination of internal cash flow from the HPC business, project funding agreements, government assistance, industry partners and external financing, when available. Management believes that successful execution of its business plan will result in sufficient cash flow and new financing to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of the objectives discussed above, or that sufficient financing from outside sources will be available. Further, if the Company's operations are unable to generate cash flow levels at or above current projections, the Company may not have sufficient funds to meet its obligations over the next twelve months. Should such events occur, Management is committed to implementing all or a portion of its contingency plan. This plan has been developed and designed to provide additional cash flow, and includes, but is not limited to: deferring certain additional product development initiatives; reducing sales, marketing and G&A expenses; and seeking outside financing. The failure of the Company to achieve one or all the above items may have a material adverse impact on the Company's financial position, results of financial performance and cash flows.[*]

Cash flow used in operations totaled $981,479 for the three months ended December 31, 2020 compared to cash provided by operations of $221,295 for the three months ended December 31, 2019. Cash used in operations before changes in non-cash working capital was $994,719 for the three months ended December 31, 2020 compared to cash used in operations before changes in non-cash working capital of $470,871 in Q4 2019, due to higher R&D spending for the Pilot, timing of receipt of Pilot funding payments and lower revenue.

***Trade and Other Receivables***

Trade and other receivables as at December 31, 2020 decreased to $1,206,962, compared to $1,612,892 as at December 31, 2019. The Company maintains close contact with its customers to mitigate risk in the collection of receivables and a large portion of the receivables is due from provincial and federal government bodies related to a contract for government assistance, and therefore is deemed lower-risk.

***Alberta SR&ED Tax Credits***

The Company has recorded $nil as at December 31, 2020 (December 31, 2019 - $173,097) in SR&ED tax credit receivables. The Fiscal Measures and Taxation Act, 2019 eliminated the Alberta SR&ED tax credit effective January 1, 2020 therefore, no additional receivables were recorded subsequent to December 31, 2019.

***Current Liabilities***

As at December 31, 2020, the Company had current liabilities of $3,652,474 compared to current liabilities of $4,878,404 as at December 31, 2019. The change in current liabilities is due to recognition of deferred government assistance for R&D.

***Income Tax***

The Company follows the liability method with respect to accounting for income taxes. Deferred tax assets and liabilities are determined based on differences between the carrying amount and the tax basis of assets and liabilities (temporary differences). Deferred tax assets and liabilities are measured using the substantively enacted tax rates

[*] this paragraph contains forward looking information. Please refer to "Forward Looking Statements" and "Risk Factors and Uncertainties" for a discussion of the risks and uncertainties related to such information

that will be in effect when these differences are expected to reverse. Deferred tax assets, if any, are recognized only to the extent that, in the opinion of Management, it is probable that the assets will be realized.

As at December 31, 2020, the potential tax benefits of Acceleware's available tax pools have not been recognized in the Company's account due to uncertainty surrounding the realization of such benefits.

## RISKS FACTORS AND UNCERTAINTIES

Management defines risk as the probability of a future event that could negatively affect the financial condition and/or results of operations of the Company. The following section describes specific and general risks that could affect the Company. As it is difficult to predict whether any risk will be realized or its related consequences will occur, the actual effect of any risk on the business could be materially different from that anticipated. The following descriptions of risk do not include all possible risks as there may be other risks of which Management is currently unaware.

### *Economic Developments*

Fluctuations in oil and natural gas prices combined with COVID-19 and the measures taken by governments and companies to reduce its spread may have an adverse impact on many aspects of the Company's business. Increased capital market and interest rate volatility may negatively affect the Company's ability to access external financing. The overall market for the Company's products and services may undergo stagnant or negative growth due to reduced capital expenditures by the Company's current and potential customers. Supply-chain shortages or disruptions, the full or partial closure of transportation infrastructure, temporary suspension of some or all business operations, and labour disruptions (including those affecting key employees and directors of the Company) arising from illness, reductions in working hours, layoffs or restrictions on movement may also adversely affect the Company's growth and operating results. Whether and to what extent the market volatility and COVID-19 outbreak will continue to affect the Company's business and operations will depend on future developments which, at this time, remain uncertain and difficult to predict.

### *Liquidity Risk*

The Company actively manages cash flow and investment in new products in order to match its cash requirements to its cash generated from operations, external funding, and capital raising activities. In order to maximize cash generated from operations, the Company plans to continue to focus on higher gross margin software products; to minimize operating expenses where possible; and to limit capital expenditures. As the Company continues to develop its RF Heating technology, new R&D investments will be financed through a combination of internal cash flow from the HPC business, government assistance, industry partners, and external financing. Management believes that successful execution of its business plan will result in sufficient cash flow and new financing to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of the objectives discussed above, or that sufficient financing from outside sources will be available. Further, if the Company's operations are unable to generate cash flow levels at or above current projections, the Company may not have sufficient funds to meet its obligations over the next twelve months. Should such events occur, Management is committed to implementing all or a portion of its contingency plan. This plan has been developed and designed to provide additional cash flow, and includes, but is not limited to, deferring certain additional product development initiatives, reducing sales, marketing and G&A expenses, and 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.[*]

[*] this paragraph contains forward looking information. Please refer to "Forward Looking Statements" and "Risk Factors and Uncertainties" for a discussion of the risks and uncertainties related to such information

***Requirement for Additional Financing***

Management of Acceleware may seek additional funding to support ongoing losses, particularly losses associated with the development and commercialization of its RF Heating technology, until Acceleware reaches a level of revenue which will sustain its operations on an internal basis. The rate of growth in the market for Acceleware's products and services and the Company's success in gaining market share, have been lower than Acceleware originally anticipated. Acceleware cannot be assured that additional funding will be available, or if available, that it will be available on acceptable terms. If adequate funds are not available, Acceleware may have to reduce substantially or eliminate expenditures for research and development, testing, production and marketing of its products and services. There can be no assurance that the Company will be able to raise additional capital if its capital resources are exhausted. The ability to arrange additional financing in the future will depend, in part, upon the prevailing capital market conditions as well as the business and performance of Acceleware. There can be no assurance that Acceleware will be successful in arranging additional financing or that such additional financing will be available on satisfactory terms.

***Failure to Manage Growth Successfully***

In the event that Acceleware's business grows rapidly, the growth may place a strain on managerial and financial resources. Such expansion may result in substantial growth in the number of its employees, the scope of its operating and financial systems and the geographic area of its operations, resulting in increased responsibility for both existing and new management personnel. The Company's future growth will depend upon a number of factors, including the ability to:

- Acquire and train sales and marketing staff to expand Acceleware's presence in the evolving marketplace for the Company's products and services, and keep staff informed regarding the technical features, issues and key selling points of the Company's products and services;
- Attract and retain qualified technical personnel to continue to develop reliable and scalable solutions and services that respond to evolving customer needs and technological developments;
- Maintain high quality customer service and support as sales increase; and
- Expand the Company's internal management while maintaining appropriate financial controls over operations and providing support to other functional areas within the Company.

The Company's inability to achieve any of these objectives could harm the Company's business, financial condition and operating results and prospects.

***Dependence on Key Personnel***

The success of Acceleware is largely dependent on the performance of its key employees and directors. Failure to retain key employees and directors and to attract and retain additional key employees with necessary skills could have a material adverse impact upon the Company's growth and profitability. Competition for highly skilled management, technical and other employees is intense. There can be no assurance that the Company will be successful in attracting and retaining such personnel and the departure or death of any of the members of the Company's executive team and key directors could have a material adverse effect on the Company's business, results of operations and financial condition.

***Intellectual Property Risks***

Because much of the Company's potential success and value lies in its ownership and use of intellectual property, its failure to protect its intellectual property may negatively affect its business and value. Acceleware's ability to compete effectively is largely dependent upon the maintenance and protection of its intellectual property. The Company relies primarily on trade secret, trademark and copyright law, and when appropriate patent protection, as well as confidentiality procedures and licensing arrangements, to establish and protect the rights to its technology. The Company typically enters into confidentiality or license agreements with its employees, consultants, customers, strategic partners and vendors in an effort to control access to and distribution of its products, documentation and

other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's proprietary technology without authorization.

Policing unauthorized use of the Company's intellectual property is difficult. The steps that the Company takes may not prevent misappropriation of its intellectual property, and the agreements the Company enters into may be difficult to enforce. In addition, effective intellectual property protection may be unavailable or limited in some jurisdictions outside Canada and the United States. Litigation may be necessary in the future in order to enforce or protect the Company's intellectual property rights or to determine the validity and scope of the proprietary rights of others. That litigation could cause the Company to incur substantial costs and divert resources away from the Company's daily business, which in turn could materially hinder its business. The Company may be subject to damaging and disruptive intellectual property litigation.

The Company may be subject to intellectual property litigation that could:

- Be time-consuming and expensive;
- Divert attention and resources away from the Company's daily business;
- Impede or prevent delivery of the Company's products and services; and
- Require the Company to pay significant royalties, licensing fees and damages.

Although the Company is not aware that its products or services infringe or violate the intellectual property rights of third parties and although the Company has not been served notice of any potential infringement or violation, the Company may be subject to infringement claims in the future. Since patent applications are kept confidential for a period of time after filing, applications may have been filed that, if issued as patents, could relate to the Company's products or services.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block the Company's ability to provide its products and services in Canada, the US and other jurisdictions and could cause the Company to pay substantial damages. In the event of a successful claim of infringement, the Company and its customers may need to obtain one or more licenses from third parties, which may not be available at a reasonable cost, if at all. The defense of any lawsuit could result in time consuming and expensive litigation, regardless of the merits of such claims, as well as resulting damages, license fees, royalty payments and restrictions on the Company's ability to provide its products or services, any of which could harm its business.

The Company is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements which may not be available on terms acceptable to the Company. Any of the foregoing could have a material adverse effect on the Company's business, results of operations and financial condition.

***Risks of Security Breaches to the Company's Network (Cyber Security)***

An experienced programmer may attempt on occasion to penetrate the Company's network security and could misappropriate the Company's or its customers' proprietary information or cause interruptions in the Company's operations. Acceleware's operations as proprietary software developers, and developers of leading-edge RF Heating technology could increase the risk of a cyber-attack from industrial competitors, cyber criminals and government actors. Acceleware has implemented various means to limit such an occurrence but may be required to expend significant capital and resources to protect against or to alleviate problems caused by such hackers in the future. Additionally, the Company may not have a timely remedy for any attack on the Company's network security. Such purposeful security breaches could have a material adverse effect on the Company's business, results of operations

and financial condition. Risks include the untimely disclosure of proprietary data prior to its adequate protection through patent, trade secret or copyright. Should the Company's customer data be compromised, it could expose the Company to a material risk of loss or litigation, reputational damage and possible liability. In addition to deliberate security breaches, the inadvertent transmission of computer viruses could expose the Company to a material risk of loss or litigation, reputational damage and possible liability.

In offering certain payment services for some products and services, the Company could become increasingly reliant on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as customer credit card numbers. Advances in computer capabilities, discoveries in the field of cryptography and other discoveries, events, or developments could lead to a compromise or breach of the algorithms or licensed encryption authentication technology that the Company uses to protect such confidential information. If such a compromise or breach of the Company's licensed encryption authentication technology occurs, it could have a material adverse effect on the Company's business, its reputation, results of operations and financial condition. The Company may be required to expend significant capital and resources to protect against the threat of such security, encryption and authentication technology breaches or to alleviate problems caused by such breaches.

Acceleware's Management is responsible for assessing and overseeing risks associated with cyber security and determining, with its IT staff, what measures are appropriate to protect against these risks. The Company holds insurance against cyber security incidents. However, the coverage may be inadequate to fully cover every cyber security risk.

***Reliance on Third Party Licenses***

The Company anticipates relying on certain software that Acceleware licenses from third parties, including a software program that is integrated with internally developed software and used in Acceleware's products to perform key functions. There can be no assurance that these third party licenses will continue to be available to the Company on commercially reasonable terms. The loss of, or inability to maintain, any of these licenses, could result in delays or reductions in product and service deployment until equivalent software can be developed, identified, licensed and integrated, which could materially adversely affect the Company's business, results of operations and financial condition.

***Technological Change, New Products and Standards***

To remain competitive, Acceleware must continue to enhance and improve the current line of products. The technology industry is characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render Acceleware's existing products and systems obsolete. Acceleware's products embody complex technology and may not always be compatible with current and evolving technical standards and products developed by others. Failure or delays by Acceleware to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on Acceleware's business, results of operations and financial condition. Acceleware's ability to anticipate changes in technology, technical standards and products will be a significant factor in its ability to compete. There can be no assurance that Acceleware will be successful in identifying, developing, manufacturing and marketing products that will respond to technological change or evolving standards. Acceleware's business may be adversely affected if it incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render Acceleware's products or technologies non-competitive or obsolete.

***Price Volatility of Publicly Traded Securities***

In recent years, the securities markets in the US and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market price for the Common Shares will be subject to market trends generally, notwithstanding any potential

success of the Company in creating revenues, cash flows or earnings. The value of the Company's securities will be affected by such volatility.

***Earnings and Dividend Record***

The Company has no earnings or dividend record. To date, the Company has paid no dividends on its Common Shares and does not anticipate doing so in the foreseeable future.

## TRANSACTIONS WITH RELATED PARTIES

For the year ended December 31, 2020, the Company incurred expenses in the amount of $311,062 (December 31, 2019 - $209,417) 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, $116,375 was included in accounts payable and accrued liabilities as at December 31, 2020 (December 31, 2019 - $50,082). These fees were incurred in the normal course of operations and initially measured at fair value.

For the year ended December 31, 2020, the Company incurred expenses in the amount of $89,169 (December 31, 2019 - $25,532) 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, $17,630 was included in accounts payable and accrued liabilities as at December 31, 2020 (December 31, 2019 - $158). These fees were incurred in the normal course of operations and initially measured at fair value.

For the year ended December 31, 2020, the Company incurred expenses in the amount of $71,050 (December 31, 2019 - $81,000) with a company controlled by the spouse of an officer of the Company for marketing and communication and these expenses are included in general and administrative. Of the total, $8,400 was included in accounts payable and accrued liabilities as at December 31, 2020 (December 31, 2019 - $5,880). These fees were incurred in the normal course of operations and initially measured at fair value.

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

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Salaries and short-term employee benefits | $ | **1,464,280** | $ | 1,145,826 |
| Share-based payments | | **174,892** | | 320,828 |
| | $ | **1,639,172** | $ | 1,466,654 |

## CRITICAL ACCOUNTING ESTIMATES

***General***

The preparation of the Financial Statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The ongoing evaluation of these estimates forms the basis for making judgements about the carrying values of assets and liabilities and the reported amount of revenues and expenses in cases where they are not readily ascertainable from other sources. Actual amounts may differ from these estimates under different assumptions or conditions.

The Company's significant accounting policies are fully described in Note 4 to the Financial Statements. Certain accounting policies are particularly important to the reporting of financial position and results of operations and require the application of judgement by Management. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the

estimate is made. Different Management estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could have a material impact on the Financial Statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of Financial Statements.

## SIGNIFICANT ACCOUNTING POLICIES

***Going Concern Assumption***

The 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's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations as they come due, to obtain additional financing as may be required, and ultimately to achieve successful operations. However, no assurance can be given at this time as to whether the Company will achieve any of these conditions. If the Company were to change its assumption regarding the ability to continue as a going concern for a reasonable period of time, adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities would likely be necessary and potentially material.

***Revenue Recognition***

The Company's revenue recognition requirements pertaining to determining performance obligations and transaction prices for all types of contracts with customers are very complex and are affected by interpretations of those contracts and the applicable standards and certain judgements. One of the critical judgements made is the assessment of the probability of collecting the related accounts receivable balance on a customer-by-customer basis. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection had been made at the time that the transactions were recorded in revenue.

## DISCLOSURE OF OUTSTANDING SHARE DATA

As of the date of this MD&A, Acceleware had the following common shares, options and warrants outstanding:

| | |
|---|---|
| Common Shares | 105,709,170 |
| Stock Options | 9,970,868 |

## ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Additional disclosure concerning the Company's research and development expenses and general and administrative expenses is provided in the audited financial statements for December 31, 2020 that are available on www.sedar.com and as noted below.

| **Research and Development** | **2020** | 2019 |
|---|---|---|
| Salaries | **794,654** | $ 574,692 |
| Consulting | **1,041,792** | 956,177 |
| R&D lab supplies | **465,927** | 267,718 |
| Share-based payments | **48,878** | 157,010 |
| Rent and overhead allocations | **41,144** | 41,880 |
| Amortization | **66,746** | 100,177 |
| Government assistance | **(1,500,274)** | (1,246,649) |
| Alberta SR&ED Tax Credits | **-** | (163,486) |
| **Total** | **$ 958,867** | $ 687,519 |

| **Sales, General and Administration** | **2020** | 2019 |
|---|---|---|
| Salaries | **$ 1,037,362** | $ 954,764 |
| Marketing | **116,338** | 167,609 |
| Travel | **2,403** | 11,962 |
| Share-based payments | **170,805** | 320,495 |
| Rent, supplies and public company fees | **301,571** | 314,306 |
| Amortization | **66,746** | 100,177 |
| Professional fees | **364,078** | 402,328 |
| **Total** | **$ 2,059,303** | $ 2,271,641 |