

ACCELEWARE CORP.

Management's Discussion and Analysis
Seventeen Months Ended December 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR ACCELEWARE CORP.

This management discussion and analysis focuses on key statistics from the financial statements and pertains to known risks and uncertainties relating to Acceleware Corp. (formerly Poseidon Capital Corp.). This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion also includes various forward-looking statements regarding Acceleware Corp. and its future activities and financial results. These statements are based on certain assumptions that are considered reasonable by management. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties and actual results could differ materially from those indicated by such forward-looking statements. This discussion and analysis of the financial condition and results of operations for the seventeen-month and three-month period ended December 31, 2006 should be read in conjunction with the audited December 31, 2006 financial statements of Acceleware Corp. and related notes contained in other parts of this report, and the Acceleware Inc. audited financial statements for the year ended July 31, 2005 as disclosed in the Filing Statement dated December 22, 2005. Management's discussion and analysis is presented as of April 24, 2006. All financial information contained herein is expressed in Canadian dollars unless otherwise indicated.

Background

Acceleware Corp. was incorporated as Poseidon Capital Corp. under the *Business Corporations Act* (Alberta) on August 6, 2004. Effective June 12, 2006, Poseidon Capital Corp. changed its name to "Acceleware Corp.". For the purposes of this discussion all references to Poseidon Capital Corp. prior to June 12, 2006 are in the name of Acceleware Corp.

Pursuant to a final prospectus dated January 14, 2005, Acceleware Corp. completed its initial public offering of 4,000,000 common shares ("Common Shares") at a price of \$0.20 per share for gross proceeds of \$800,000 on March 30, 2005. Subsequently, the Common Shares were listed on the TSX Venture Exchange Inc. (the "TSXV") and began trading on April 6, 2005.

Acceleware Corp. executed a letter of intent dated July 25, 2005 (as amended August 15, 2005) to acquire all of the issued and outstanding shares (the "Acquisition") of Acceleware Inc. an Alberta corporation. Acceleware Inc. is a technology company based in Calgary, Alberta that specializes in the development, manufacturing and marketing of special purpose software/hardware accelerators used to reduce engineering design simulation and data processing run times. On December 22, 2005, Acceleware Corp., Acceleware Inc. and the shareholders of Acceleware Inc. entered into a share purchase agreement (the "Acquisition Agreement") in connection with the Acquisition. In addition, Acceleware Corp. filed a filing statement on www.sedar.com dated December 22, 2005, which contained complete disclosure of the details of the Acquisition (the "Filing Statement").

On January 12, 2006, Acceleware Corp. acquired all of the issued and outstanding securities of Acceleware Inc. pursuant to the Acquisition Agreement. Pursuant to the Acquisition Agreement, Acceleware Corp. issued 11,623,952 Common Shares to the Acceleware Inc. shareholders on a pro rata basis. In addition, Acceleware Corp. issued 673,930 options to purchase Common Shares to certain principals and employees of Acceleware Inc. in exchange for the cancellation of 1,110,000 Acceleware Inc. options. Following completion of the Acquisition, Acceleware Inc. became a wholly-owned subsidiary of Acceleware Corp.

As the shareholders of Acceleware Inc. were issued sufficient voting shares to obtain voting control of Acceleware Corp., the transaction is accounted in accordance with Canadian Institute of Chartered Accountants' Emerging Issues Committee Abstract 10 – Reverse Takeover Accounting. The transaction is accounted as a continuation of Acceleware Inc. where the transaction is treated as an issuance of shares by Acceleware Inc. for the net monetary assets of Acceleware Corp. The assets and liabilities of Acceleware are included in the consolidated balance sheet at their historical carrying values, and the net monetary assets of Acceleware Corp. less the transaction costs are accounted as cash received on the issuance of shares.

Acceleware Inc. previously had a July 31 year-end. Following the reverse takeover transaction, Acceleware Inc. changed its fiscal year-end to December 31. Financial statements for those quarters prior to the Acquisition have not been prepared for Acceleware Inc. and therefore are not presented in this MD&A.

The December 31, 2006 financial statements that are prepared for Acceleware Corp. are presented as audited financial statements that include the financial information for both Acceleware Corp. and Acceleware Inc. As the Company is amalgamated on December 31, 2006, these are not consolidated financial statements. As such, all references to Acceleware or the Company in the remainder of this MD&A refer equally to the financial information and activities of Acceleware Corp. and Acceleware Inc., unless Acceleware Corp. or Acceleware Inc. are expressly referred to, in which case the disclosed information applies only to the specifically named entity. On December 31, 2006, Acceleware Inc. amalgamated with Acceleware Corp., with Acceleware Corp. as the continuing entity.

Overall Performance

As at December 31, 2006, the Company had \$1,060,808 in working capital and no debt. The seventeen-month period ended December 31, 2006 marked Acceleware's transition from a development stage enterprise to a commercial undertaking with planned principal operations. Acceleware has taken its first product family to market and has begun generating revenues.

Currently, Acceleware is selling product into the electromagnetic simulation (EM) market consisting of the largest mobility, electronics, and government organizations in the world. Within this market there are roughly forty potential channel partners operating in the Computer Assisted Design (CAD) and Computer Assisted Engineering (CAE) space. As at December 31, 2006 the Company had established partnership agreements with seven such CAD/CAE companies. The Company does not yet sell directly to end-users. Through these partners and the efforts of the Company, demand is building for the Accelerator™ and ClusterInaBox™ acceleration products. In addition to the activities within the EM market, Acceleware has a working beta product for the seismic segment of the oil and gas market and is actively planning for a commercial launch. Also, market research and business planning has begun for entry into biomedical markets.

Acceleware had recognized revenue of \$1,052,300 and deferred revenue of \$124,323 during the seventeen-month period ended December 31, 2006. To provide further clarity with regard to sales performance, Acceleware had overall gross margins averaging 49.5% during this 17-month period. Gross margins are anticipated to increase as the Company increases sales to new channel partners on an undiscounted basis and with better volume pricing from the Company's hardware suppliers. Reported customer satisfaction with respect to these sales has been high.

For over two years, Acceleware has been collaborating with NVIDIA Corporation (NASDAQ: NVDA), the worldwide leader in programmable graphics processor technologies. As a result of the Company's research and development efforts, Acceleware has become a global leader in fostering the commercial deployment of graphical processing units (GPU) for non-graphics applications, and the first to provide a standard commercial product offering in the electromagnetic simulation market.

On January 22, 2007, NVIDIA endorsed Acceleware's business strategy and research and development efforts by investing \$2,925,000 in Acceleware and, in the process, became an insider of the Company. Acceleware granted NVIDIA a non-voting observer seat on Acceleware's board of directors. Following NVIDIA's investment, Acceleware raised additional funds through a brokered private placement by Northern Securities Inc. for gross proceeds of \$8,000,000, that closed on February 14, 2007.

In anticipation of future growth, the Company continued to add employees and in aggregate the Company has expanded from six personnel at July 31, 2005 to thirty personnel at December 31, 2006.

Currently, in the EM market, most of the major mobile phone manufacturers in the world are using Acceleware's products. These companies run what is referred to as a "cell-phone head" simulation on dual-CPU workstations. These simulations take in the order of five to eight hours. Acceleware's technology, by comparison, offers manufacturers dramatically enhanced performance. For example, when running identical simulations on the Company's V1.0 ClusterInaBox, completion times are in the range of 45 to 60 minutes, while Acceleware's V2.0 ClusterInaBox™ product can complete these same simulations in 15 to 30 minutes. The Company is working toward releasing the v3.0 product line, with even more dramatic performance acceleration, within the next twelve months. The Company expects that its ability to continuously improve product performance will result in sustained and growing revenue streams as end-users upgrade to increasingly faster and more powerful Accelerator™ boards in pursuit of markedly enhanced performance and improved return on investment (ROI) in the simulation technology they deploy. As a benchmark, the Accelerator™ product line was recently upgraded from version 1.0 to 2.0, increasing performance by a factor of 2, with memory and features doubling as well, within 12 months of version 1.0's initial product launch.

Selected Information

The audited financial statements for the seventeen-month period ended December 31, 2006 (the "Financial Statements") are incorporated by reference herein and form an integral part of Management's Discussion and Analysis. The Financial Statements can be found on www.sedar.com. All financial information is reported in Canadian dollars unless otherwise noted.

The following table shows selected financial information for Acceleware's audited annual financial statements for the years ended July 31, 2005 and the period ended July 31, 2004 (as disclosed in the Filing Statement dated December 22, 2005) and Acceleware Corp.'s audited financial statements for the seventeen-month period ended December 31. Readers are cautioned that there are inherent distortions in comparing a seventeen-month fiscal period with the other fiscal periods noted in the table.

	Seventeen Months Ended Dec 31, 2006 (Audited)	Twelve Months Ended July 31, 2005 (Audited)	Six Months Ended July 31, 2004 (Unaudited)
Total Revenue	\$1,052,300	12,350	Nil
Net Loss	(\$2,267,738)	(\$167,543)	(\$157,090)
Loss Per Share	(\$0.13)	(\$0.01)	(\$0.01)
Total Assets	\$1,817,544	\$353,123	\$40,386
Long-Term Debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

The seventeen-month period ending December 31, 2006 marked a period of significant change for the Company. Acceleware Inc. transitioned from a development stage enterprise to a commercial undertaking with planned principal operations and became a wholly-owned subsidiary of Acceleware Corp., a listed company on the TSXV. Acceleware recognized revenues of \$260,113 and \$1,052,300 for the three month and seventeen month periods ending December 31, 2006, respectively. Over the same periods, the net loss increased to \$701,316 and \$2,267,738, respectively, as the Company increased its spending on research, development, sales and marketing activity, primarily through the hiring of additional staff to meet its business plan. As a result of funds received from private placements and the reverse takeover transaction, the total assets of the Company have increased significantly to \$1,817,544 as at December 31, 2006, compared to \$353,123 as at July 31, 2005.

Results of Operations

During the seventeen-month period ended December 31, 2006, the Company reported revenues of \$1,052,300 compared to \$12,350 for the year ended July 31, 2005. For the three-month period ended December 31, 2006, recognized revenue was \$260,113, compared to \$136,151 for the three-month period ended September 30, 2006, for sales of the Company's Accelerator™ and ClusterInaBox™ hardware acceleration products. The increase in recognized revenue during the quarter over the previous quarter was due to higher channel partner sales subsequent to the summer season, continuous integration with newly signed channel partners and increased recognition of deferred revenue. Cost of products sold for the seventeen-month period ended December 31, 2006 was \$519,547 compared to \$nil for the year ended July 31, 2005 and \$120,797 for the three-month period ended December 31, 2006.

For the seventeen-month period ended December 31, 2006, research and development expenditures were \$740,001 compared to \$118,418 (net of development stage product revenues of \$33,390) for the year ended July 31, 2005. Research and development costs include salaries and related costs of personnel directly engaged in these activities, direct materials and the combined benefit of \$279,548 of government assistance through the NRC - Industrial Research Assistance Program and scientific research and experimental development tax credits ("SR&ED"). Included in the research and development expenses for the seventeen-month period ended December 31, 2006 was \$49,044 in respect of stock-based compensation compared to \$120,902 for the year ended July 31, 2005. These research and development expenditures were incurred in the further development of the Company's existing and new hardware acceleration products and integration of the products with the Company's channel partners.

General and administrative expenses include all salaries (excluding research and development personnel) and related expenses (including benefits and payroll taxes); sales and marketing activities; facility costs; professional fees; insurance costs; investor relations; and foreign exchange expenses. For the three-months ended December 31, 2006, the Company incurred general and administrative expenses of \$799,711. The Company incurred general and administrative expenses for the seventeen-month period ended December 31, 2006 totaling \$1,987,379 compared to \$55,077 for the year ended July 31, 2005. Included in the general and administrative expenses for the seventeen-month period ended December 31, 2006 was \$141,467 in respect of stock based compensation compared to \$5,169 for the year ended July 31, 2005.

The increase in both research and development expenditures and general and administrative expenses was primarily due to the increase in employees and sales and marketing activities from the prior year.

Overall, the Company had a net loss of \$2,267,738 for the seventeen-month period ended December 31, 2006 compared to a net loss of \$167,543 for the period ended July 31, 2005. The net loss for the three-month period ended December 31, 2006 was \$701,316.

Summary of Quarterly Results

The following table highlights revenue, net income and loss per share for the most recent quarter ended December 31, 2006. Financial statements for those quarters prior to the Acquisition (effective January 12, 2006) have not been prepared for Acceleware and therefore are not presented in this MD&A. As a result, quarterly results for the three months ended March 31, 2006 are not presented (December 31, 2005 financial information for Acceleware was not prepared).

	Dec 31, 2006	Sept 30, 2006	June 30, 2006	Mar 31, 2006	Dec 31, 2005
Revenue	\$260,113	136,151	\$311,424	N/A	N/A
Net Income/(Loss)	(\$701,316)	(\$564,840)	(\$357,181)	N/A	N/A
Earnings/(Loss) Per Share	(\$0.03)	(\$0.03)	(\$0.02)	N/A	N/A

Liquidity and Capital Resources

Operating Activities

Cash flow used for operations totaled \$2,363,936 for the seventeen-month period ended December 31, 2006, compared to \$105,293 for the year ended July 31, 2005. As a result of increased sales during the year, accounts receivable increased to \$494,131 as at December 31, 2006, compared to \$17,394 as at July 31, 2005. Inventories increased to \$324,204 as the Company acquired hardware parts to assemble its hardware acceleration products. Maintenance revenue and initial subscription hardware and software sales are deferred and recognized to income over the term of the contracts. Revenue of \$124,323 was deferred, of which \$58,778 will be recognized over a period of one year or less and the remaining \$65,545 over approximately 5 years. These funds associated with the deferred revenue have been received by the Company.

Cash flow used for operations for the three-month period ended December 31, 2006 was \$985,527. As at December 31, 2006, the Company had current liabilities of \$398,604 compared to current liabilities of \$25,703 as at July 31, 2005. The increase in current liabilities was due to trade show and marketing expenses incurred near the end of the quarter, increasing accrued payroll liability for employee vacation entitlements and the set-up of deferred revenues.

Investing Activities

Capital asset additions, consisting generally of computer equipment and furniture totaled \$416,908 for the seventeen-month period ended December 31, 2006, compared to \$8,004 for the year ended July 31, 2005. For the three-month period ended December 31, 2006, capital asset additions were \$200,182. As a result of the reverse takeover during the seventeen-month period ended December 31, 2006, net assets acquired, net of transaction costs amounted to \$716,739.

Financing Activities

The Company has financed operations, research and development and capital expenditures primarily through equity offerings of shares and government assistance and tax credits from NRC and SR&ED respectively. Net proceeds from the issuance of Common Shares and warrants totaled \$2,452,011 for the seventeen-month period ended December 31, 2006, compared to \$426,813 for the year ended July 31, 2005. \$640,642 (net) was raised in a private placement prior to the reverse takeover transaction. Net proceeds of \$1,691,599 were raised pursuant to three private placements following the Acquisition and net proceeds of \$119,770 came by way of exercise of stock options.

The Company incurred expenses of \$136,898 relating to due diligence, and the retaining of sponsor, auditor, legal, technical and other professional services ("share issue costs") to assist it in negotiating the terms of the Qualifying Transaction and the preparation of all legal agreements and other required documents needed to complete the Qualifying Transaction. These expenses were deducted from the net monetary assets of Acceleware Corp. received by Acceleware Inc.

For the \$1,500,000 (gross) equity offering completed August 18, 2006, the Company incurred share issue costs of \$201,401 (cash costs: \$133,301 and non-cash costs: \$68,100, with \$51,300 allocated to Agent options and \$16,800 allocated to shares issued to the Agent). Acceleware's cash and cash equivalents increased to \$626,996 as at December 31, 2006, compared to \$239,093 as at July 31, 2005. As at December 31, 2006, the Company had a working capital surplus of \$1,060,808 (July 31, 2005: \$309,518). The Company had no debt as at December 31, 2006 and July 31, 2005.

Off-Balance Sheet Arrangements

Guarantees

Generally it is not the Company's policy to issue guarantees to third parties, however, it has entered into certain agreements as more fully described in Note 10 to the Financial Statements. As of December 31, 2006, the Company believes that it is remote that the indemnification provisions described therein would require any material cash payment. As is the case with any business, the Company may be subject to certain regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of its business.

Risks Factors and Uncertainties

The Company may require additional financing to expand operations and intends to raise funds from time to time. Funding requirements may vary depending on a number of factors, including the progress of the Company's research and development program, the establishment of new channel partners and market acceptance of the Company's products. The current collaboration with NVIDIA Corporation is viewed as an important contributor to the timely execution of the current business plan. NVIDIA is also the sole source of the Company's digital processor cards. If management is unable to maintain a positive relationship with NVIDIA, the Company will make appropriate adjustments in the execution of its business plan. The Company continues to evaluate other hardware alternatives. However, should NVIDIA fail to supply the digital processor cards in a manner that meets the Company's quality, quantity, cost or time requirements, or if the Company were unable to obtain alternative supplies of these components from other providers in a timely manner or on acceptable terms, this could adversely affect its ability to sell products. Subsequent to year-end, the financing risk has been mitigated with the completion of two private placements for gross proceeds of \$10,925,000.

The Company expects to continue to incur operating losses as it focuses on the integration of the Company's products with new channel partners and commercialization and expansion into the oil and gas market. Based on current plans, it is anticipated that total expenses will increase during fiscal 2007 as a result of the factors mentioned above. Management believes that the Company has sufficient resources to fund operations through the next eighteen to twenty four months. However, in light of the inherent uncertainties associated with securing new sales and additional partnership agreements, further financing may be required to support the Company's operations in the future.

The Company derives a significant component of its revenues from two major channel partners (that resell the Company's products globally). In aggregate, these two channel partners generated approximately 90% of total revenues for the seventeen-months ended December 31, 2006. The Company is actively seeking other channel partners to mitigate the Company's revenue reliance on these existing major customers. Should these customers not continue to purchase and resell the Company's products and the Company is unable to attract new channel partners, revenue and the sustainability of the Company would be materially affected in future periods.

If, or when, additional funds are required, potential sources of financing include strategic relationships and public or private sales of the Company's common shares. The Company does not have any committed sources of financing at this time and it is uncertain whether additional funding will be available, should the need arise, on terms that will be acceptable to the Company. If funds are raised by issuing additional common shares or other securities convertible into Acceleware Corp. Common Shares, the ownership interests of existing shareholders will be diluted. If management is unable to obtain financing when required, the Company will not be able to carry out the business plan, including sales and marketing initiatives. The Company would have to significantly limit its operations and business, and the Company's financial condition and results of operations would be materially harmed.

For a more detailed discussion of risk factors that could materially affect the Company's results of operations and financial condition, please refer to the Risk Factors and Uncertainties Section of Acceleware Corp.'s Short Form Offering Document dated June 26, 2006 that is available on www.sedar.com.

Transactions with Related Parties

During the seventeen-months ended December 31, 2006, raw materials in an amount of \$76,725 were purchased from a company controlled by an officer of Acceleware. Since June 30, 2006, no amount was payable to the related party. These transactions occurred in the normal course of operations and have been recognized at the agreed to exchange amount, which in the opinion of management approximates the fair value of the transaction. The company controlled by the officer had accounts with various hardware suppliers that Acceleware utilized, while Acceleware was awaiting approval from these suppliers to create accounts of its own. Effective May 30, 2006, Acceleware ceased to purchase from the officer's company.

Critical Accounting Policies 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 judgments 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 2 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 judgment 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 the consolidated financial statements.

Going Concern Assumption

During the fiscal reporting period, the Company has transitioned from a development stage enterprise, in accordance with the Canadian Institute of Chartered Accountants' Emerging Issues Committee Abstract II – Enterprises in the Development Stage, and has commenced commercial operations. 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 dependant 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 obtain 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

In this fiscal period, the Company commenced commercial operations and therefore was required to adopt a revenue recognition policy as described below. The revenue recognition requirements pertaining to multiple deliverables and software are very complex and are affected by interpretations of the rules and certain judgments. One of the critical judgments 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.

Allowance for doubtful accounts

The Company evaluates the collectibility of trade receivables based on a combination of factors. The Company regularly analyzes significant customer accounts, and, when and if it becomes aware of a specific customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, a specific bad debt reserve is recorded to reduce the related receivable to the amount that is reasonably believed to be collectible. Reserves for bad debts on all other customer balances are based on a variety of factors, including the length of time that the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. As of December 31, 2006, no allowance for doubtful accounts was provided based on the foregoing analysis. If circumstances related to specific customers changed, estimates of the recoverability of receivables would be required.

Changes in Accounting Policies including Initial Adoption

A) Initial Adoption

The initial adoption of accounting policies for revenue recognition and inventory were required to address the change of the Company's status from a development stage enterprise to a commercial undertaking with planned principal operations. A full description of the revenue recognition policy is provided below. In addition, the property and equipment accounting policy was amended to address the addition of Furniture & Fixtures. An earnings per share policy was also adopted. Further information regarding the accounting policies may be found in Note 2 to the Financial Statements.

Revenue recognition

In this fiscal period, the Company commenced commercial operations and therefore was required to adopt a revenue recognition policy in respect of its products and services. The Company has developed software code (or a software computational engine) marketed as the Kernal™ to accelerate the speed and performance of digital processor boards. The Company enters into arrangements with computer aided engineering software companies ("Resellers") to integrate the Reseller's end-user software with Aceleware's software computational engine and hardware accelerators (currently, the digital processor boards). As a result, Aceleware's Kernel software is included in the Resellers' end-user software, but cannot be accessed unless specially encoded digital signal processor boards are supplied by Aceleware. The Resellers may resell Aceleware's software and hardware to their end users after entering into end user license agreements with such end users.

The Company sells bundled services that include digital signal processor boards, a perpetual software licence which enhances the performance of the digital signal processor boards and the first year of post-customer-support ("PCS"). PCS includes free post-delivery telephone support, the right to receive unspecified upgrades/enhancements of the software on a when-and-if-available basis and the right to receive error and bug fix releases of the software. Resellers may renew the PCS services for up to another two years by payment of a non-refundable annual fee. The bundled arrangement may also include computers.

The Company recognizes revenue in respect of its software and software related products in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, "Software Revenue Recognition", as amended by SOP 98-4 and SOP 98-9. The revenue recognition principles specific to software revenue recognition are consistent with the broader revenue recognition principles under Canadian GAAP. Pursuant to the Emerging Issues Task Force (EITF) 03-5 of the Financial Accounting Standards Board in the United States, the Company has determined that the digital signal processor boards also fall within the scope of SOP 97-2 as this non-software deliverable is essential to the functionality of the software.

Bundled services and products

Revenue is recognized using the residual method when vendor-specific objective evidence (**VSOE**) of fair value exists for all of the undelivered elements (for example, PCS) in the arrangement, but does not exist for one or more delivered elements (for example, software licenses and digital signal processor boards). The Company allocates revenue to each undelivered element based on its respective fair value, which is the price charged when that element is sold separately or, for elements not yet sold separately, the price established by management if it is probable that the price will not change before the element is sold separately. For PCS, VSOE of fair value is based upon the Company's price list if it is probable that the price will not change before it is sold separately. The price list is consistent with the prices paid by customers when maintenance is sold separately (i.e. the prices paid by customers in connection with renewals). Revenue for the undelivered elements (that is, PCS) is deferred and recognized ratably over the life of the contract, typically 12 months. Revenue is recognized immediately for the residual amount of the arrangement fee attributable to the delivered elements (for example, software and the digital signal processor board), if any, when the four criteria in SOP 97-2 have been met as outlined below.

1. Persuasive evidence of an arrangement exists
2. Delivery has occurred
3. The fee is fixed or determinable, and
4. Collectibility is probable.

These four conditions are generally met when digital signal processor boards are shipped to the reseller and, at the time that shipment takes place: i) a purchase order has been executed; ii) delivery and acceptance terms are freight on board and there is no right of general return; iii) the fee is fixed and determinable as it is based on firm quotes by the Company; and iv) the Company has assessed that collectibility is probable within normal commercial terms.

Bundled services and products with hardware renewal option

The Company has also offered a bundled package option which includes the foregoing bundle, plus the reseller may exchange its digital signal processor board for a next generation digital signal processor upgrade once per year for five years, excluding the first year of the contract. Under this arrangement, resellers pay an additional non-refundable upfront fee and must purchase annual maintenance starting in the second year and ending in the fifth year to continue to receive the annual unspecified upgrades of digital signal processor boards and software. The reseller may opt out of the arrangement by not paying the annual maintenance fee; however, the initial upfront fee or previous annual fees are not refundable. A reseller may reinstate this arrangement by paying a fee. The Company does not intend to offer this option in the future.

Under this arrangement, there is an additional undelivered element of the future unspecified upgrades of the digital signal processor boards, which are considered software-related. VSOE of fair value for this undelivered element does not exist; however, the arrangement to receive these future unspecified upgrades is in substance a subscription, therefore, billings are recorded as unearned revenue and recognized as revenue ratably over the contract period, typically five years. Under the CICA's Abstract 141 "Revenue", the Company would have also been permitted to defer the initial cost of the digital signal processor boards and estimated future cost of replacements of the digital signal processor boards and expense these contract acquisition costs over the term of the arrangement; however, the Company has chosen, for ease of administration as the Company no longer intends to enter into these types of arrangements, to expense the initial cost of products immediately at the time of the subscription arrangement and the cost of replacement products in the future years are expensed at the time of each subsequent replacement.

Deferred revenue

Deferred revenues represent amounts under license and services arrangements for which the earnings process has not been completed. Deferred revenues primarily relate to PCS contracts, which are amortized ratably to revenues over the term of the maintenance contracts, typically twelve months. In addition, deferred revenues also include amounts relating to subscription arrangements, which are amortized ratably to revenue over the term of the arrangement, typically five years.

B) Accounting Changes

In July 2006, the CICA issued changes to the CICA Handbook Section 1506, Accounting Changes. The changes to this section particularly affect the following:

- An entity would be permitted to change an accounting policy only when it is required by a primary source of GAAP, or when the change results in a more reliable and relevant presentation in the financial statements;
- Changes in accounting policy should be applied retroactively, except in cases where specific transitional provisions in a primary source of GAAP permit otherwise or where application to comparative information is impractical (the standard provides specific guidance as to what is considered impractical);
- Expanded disclosures about the effects of changes in accounting policy, estimates and errors on the financial statements;
- Disclosure of new primary sources of GAAP that have been issued but have not yet come into effect and have not yet been adopted by the entity.

As permitted, the Company has applied the provisions of this Section this year.

Primary sources of GAAP that have been issued but have not yet come into effect or have not been adopted:

Financial Instrument Standards

Effective January 1, 2007, the Company adopted Canadian Institute of Chartered Accountants (CICA) Section 3855 Financial Instruments – Recognition and Measurement, Section 3865 Hedges, Section 1530 Comprehensive Income and Section 3861 Financial Instruments - Disclosure and Presentation (the Financial Instrument Standards).

Section 3855 describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives and requires that:

- all financial assets be measured at fair value, with some exceptions, such as loans and investments that are classified as held-to-maturity;
- all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value;
- all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

Section 3865 establishes standards for when and how hedge accounting may be applied and specifies that hedge accounting is optional. Currently the Company does not enter into hedge transactions and therefore anticipates that Section 3865 will not be applicable in fiscal 2007.

Section 1530 describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as:

- Changes in the currency translation adjustment relating to self-sustaining foreign operations;
- Unrealized gains or losses on available-for-sale investments;
- Gains or losses on derivatives designated as cash flow hedges.

The CICA has also reissued section 3860 of the CICA Handbook as section 3861, Financial Instruments - Disclosure and Presentation, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions come into effect for fiscal years beginning on or after October 1, 2006.

These new accounting standards are not expected to have a significant effect on the Company's financial results in Fiscal 2007.

Fiscal 2008

Effective December 2006 the CICA issued three new standards: Financial Instruments - Disclosures, Section 3862; Financial Instruments – Presentation, Section 3863; and Capital Disclosures - Section 1535. These proposed sections carry forward unchanged presentation requirements of Financial Instruments – Disclosure and Presentation, Section 3861; and converge with the capital disclosure-related amendments to International Accounting Standards. Section 3862 places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed and also simplifies the disclosures about concentrations of risk, credit risk, liquidity risk and market risk currently found in Section 3861. Additional requirements include more extensive disclosures about exposures to liquidity, currency and other price risks and an analysis of the sensitivity of net income to possible changes thereto; more specific disclosures about collateral; and details of liabilities that are in default or in breach of their terms and conditions. Proposed Section 3863 carries forward, without change, the presentation-related requirements of Section 3861. Proposed Section 1535 requires the disclosure of an entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. As required, the Company will adopt these new accounting standards for its interim and annual financial statements in fiscal 2008.

Harmonization of Canadian GAAP to International Financial Reporting Standards

In 2005, the Accounting Standards Board finalized its strategic plan for financial reporting in Canada whereby Canadian GAAP will converge with International Financial Reporting Standards over a five-year period. The major changeover date is expected to occur in 2011. After this changeover, Canadian GAAP will cease to exist as a separate, distinct basis of financial reporting for publicly accountable companies. The Company will continue to monitor the changes resulting from this transition.

Subsequent Events

Subsequent to year end, the Company granted to certain employees a series of options to purchase a total of 302,500 common shares of Acceleware Corp. at prices ranging from \$0.84 to \$1.40 per share. The options vest as follows: one third on the date of grant, one third one year from the date of grant, and one third two years from the date of grant. The options expire five years from the date of grant.

On January 22, 2007, Acceleware Corp. closed a non-brokered private placement of 4,500,000 units (each a "Unit") to NVIDIA Corporation (NASDAQ: NVDA) at a price of \$0.65 per Unit for aggregate gross proceeds of \$2,925,000 (the "Offering"). Each Unit consists of one common share (a "Common Share") and one-half of one common share-purchase warrant (a "Warrant"). Each whole Warrant is exercisable into one Common Share at a price of \$1.29 per Common Share for a period of 24 months from the issuance of the Warrants. The securities issued pursuant to the Offering are subject to a statutory resale restriction period of four months and a day, which expires on May 23, 2007. The private placement resulted in NVIDIA becoming an insider of the Company, but did not result in a change of control.

On February 14, 2007, Acceleware Corp. closed a brokered private placement of 6,153,846 units (each a "Unit") at a price of \$1.30 per Unit for aggregate gross proceeds of \$8,000,000 (the "Offering"). Each Unit consists of one common share (a "Common Share") and one-half of one common share-purchase warrant (a "Warrant"). Each whole Warrant is exercisable into one Common Share at a price of \$2.00 per Common Share for a period of 22 months from the issuance of the Warrants. The securities issued pursuant to the Offering are subject to a statutory resale restriction period of four months and a day, which expires on June 15, 2007. Northern Securities Inc. ("Northern") acted as underwriter for the Offering. The Corporation paid Northern a cash commission of 8% of the gross proceeds and a \$25,000 work fee. In addition, the Corporation issued Northern 492,308 broker warrants (being an amount equal to 8% of the number of Units sold under the Offering). Each broker warrant entitles the holder thereof to acquire one Unit at a price of \$1.30 for a period of 22 months from the date of issuance of the broker warrants. The private placement did not create any new insiders and did not result in a change of control. The securities issued pursuant to the Offering (except the broker warrants) are subject to a statutory resale restriction period of four months and a day, which expires on June 15, 2007.

On April 24 2007, Acceleware Corp. entered into a five-year lease commitment for 9,262 square feet of commercial office space. The base rent is \$13,121 monthly and \$157,454 annually for a minimum commitment over five years of \$787,454 plus additional rents. Additional rents are comprised of a proportionate share of realty taxes, operating costs, utilities and additional services.

Disclosure of Outstanding Share Data

As at April 24, 2007, Acceleware Corp. had the following common shares, options and warrants outstanding:

Common Shares	34,720,998
Stock Options	2,512,714
Warrants	1,215,715 @ \$0.70 250,000 @ \$0.96 2,250,000 @ \$1.29 3,076,923 @ \$2.00
Agent's Options	162,571 @ \$0.42
Broker Warrants	492,308 @ \$1.30* *Each Broker Warrant consists of one common share and one-half of one common share-purchase warrant at \$2.00

Disclosure Controls And Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Acceleware Corp. is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2006, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to Acceleware Corp. is made known to them by others within the entity. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures are effective and provide a reasonable level of assurance, they do not expect that the disclosure controls and procedures will necessarily and in every conceivable circumstance, prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Acceleware Corp. are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer have assessed the design of Acceleware Corp.'s internal controls over financial reporting and, in the course of doing so, have identified certain weaknesses in internal controls over financial reporting which are as follows:

- a) Due to the limited number of staff at Acceleware Corp. it is not feasible to achieve complete segregation of incompatible duties.
- b) Due to the limited number of staff, Acceleware Corp. does not have a sufficient number of finance personnel with all the technical accounting knowledge to address all complex and non-routine accounting transactions that may arise.
- c) There is a lack of timely monitoring of control procedures, such as timely reconciliations of physical inventory, property and equipment to accounting records. This weakness could result in failure to detect breakdowns in effective operation of underlying controls and could result in material misstatements in the financial statements.

In respect of the last weakness mentioned above, management is hiring personnel and will be implementing new processes to better track movement of inventory and plant, property and equipment. It is anticipated that this weakness will be remediated by April 30, 2007. Although the Company will be hiring additional personnel, it will not be sufficient to address the achievement of adequate segregation of duties and technical accounting expertise as previously described. Management has concluded, and the board of directors has agreed, that taking into account the present stage of the Company's development and the best interests of its shareholders, the Company does not have sufficient size and scale to warrant the hiring of additional staff to correct weaknesses identified in a) and b) above at this time; however, management and the board of directors will work to mitigate the risk of material misstatement in financial reporting by segregating duties as much as possible under the current circumstances. In addition, when complex accounting and technical issues arise during the preparation of quarterly and annual financial statements, management engages external advisors to assist in the implementation and application of accounting policies and procedures. To further assist in mitigating the impact of these weaknesses and to ensure quality financial reporting, the audit committee has engaged an external auditor to perform additional procedures regarding the Company's future interim financial statements. These weaknesses in Acceleware Corp.'s internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected and should also be considered weaknesses in the Company's disclosure controls and procedures. Notwithstanding management's and the Board of Directors' best efforts to mitigate the risk of a material misstatement in financial reporting, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

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, 2006 and the audited financial statements for the year ended July 31, 2005 (as disclosed in the Filing Statement dated December 22, 2005), that are available on www.sedar.com.