Acceleware Corp.
(Formerly Poseidon Capital Corp.)

Financial Statements
December 31, 2006

Suite 7 3535 Research Road NW Calgary Alberta T2L 2K8
Phone 1.403.210.9650 **Fax** 1.403.210.9541 **Web** www.acceleware.com

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Contents

RSM Richter

RSM Richter LLP
Chartered Accountants

Suite 910, 736 – 8th Ave. SW
Calgary, AB T2P 1H4
Tel: (403) 206-0840 Fax: (403) 206-0841
www.rsmrichter.com

Auditors' Report

To the Shareholders of
Acceleware Corp.

We have audited the balance sheet of Acceleware Corp. as at December 31, 2006 and the statements of earnings, deficit and cash flows for the period then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at July 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated September 15, 2005 (except for Note 15 dated December 22, 2005).

RSM Richter LLP RSM Richter LLP

Chartered Accountants

Calgary, Alberta
April 25, 2007

Acceleware Corp.
(Formerly Poseidon Capital Corp.)
Balance Sheets
As at:

		December 31, 2006		July 31, 2005
Assets				
Current				
Cash and cash equivalents	**$**	**626,996**	$	239,093
Accounts receivable		**494,131**		96,128
Inventory		**324,204**		-
Prepaid expenses		**14,081**		-
		1,459,412		335,221
Property and Equipment (note 3)		**358,132**		14,335
Intangible Assets		**-**		3,567
	$	**1,817,544**	$	353,123
Liabilities and Shareholder's Equity				
Current				
Accounts payable and accrued liabilities	**$**	**274,281**	$	25,703
Deferred revenue		**124,323**		-
		398,604		25,703
Commitment (note 6)				
Shareholders' Equity				
Share capital (note 4)		**3,140,414**		601,998
Share subscription received		**-**		25,000
Warrants (note 4)		**529,458**		**-**
Contributed surplus (note 5)		**341,439**		25,055
Deficit		**(2,592,371)**		(324,633)
		1,418,940		327,420
	$	**1,817,544**	$	353,123

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

Approved on behalf of the Board:

(signed) "Sean Krakiwsky"

Director

(signed) "Dennis Nerland"

Director

Acceleware Corp.

(Formerly Poseidon Capital Corp.)
Statements of Operations and Deficit
For the:

		Seventeen Months Ended December 31, 2006		Twelve Months Ended July 31, 2005
Revenue				
Product sales	$	**886,714**	$	-
Maintenance		**87,401**		-
Consulting		**56,000**		12,350
Interest		**22,185**		-
		1,052,300		12,350
Expenses				
Costs of product sales		**519,547**		-
General and administrative		**1,987,379**		55,077
Research and development, including stock-based compensation expense of $49,044 (2005 - 120,902) (note 6)		**740,001**		118,418
Amortization		**73,111**		6,398
		3,320,038		179,893
Loss for the period		**(2,267,738)**		(167,543)
Deficit, beginning of period		**(324,633)**		(157,090)
Deficit, end of period	$	**(2,592,371)**	$	(324,633)
Loss per share				
Basic and diluted	$	**0.13**	$	$0.03
Weighted average outstanding		**17,259,320**		12,577,832

See accompanying notes to financial statements.

Acceleware Corp.
(Formerly Poseidon Capital Corp.)
Statements of Cash Flows
For the:

.		Seventeen Months Ended December 31, 2006		Twelve Months Ended July 31, 2005
Cash flows from (used for) operating activities				
Loss for the period	$	**(2,267,738)**	$	(167,543)
Items not involving cash:				
Amortization		**73,111**		6,398
Write-down of intangible asset		**3,567**		-
Stock-based compensation		**190,511**		126,071
		(2,000,549)		(35,074)
Changes in non-cash working capital items				
Accounts receivable		**(398,003)**		(80,107)
Prepaid expenses		**(14,081)**		-
Inventory		**(324,204)**		-
Accounts payable and accrued liabilities		**248,578**		9,888
Deferred revenue		**124,323**		-
		(2,363,936)		(105,293)
Cash flows from financing activities				
Issuance of common shares and warrants, net of issue costs		**2,452,011**		426,813
Share subscription received		**-**		25,000
Redemption of common shares		**-**		(13,600)
Repayments of advances to shareholders		**-**		(99,268)
		2,452,011		338,945
Cash flows from investing activities				
Purchase of property and equipment		**(416,908)**		(8,004)
Net monetary assets acquired on reverse takeover, net of transaction costs		**716,736**		-
		299,828		(8,004)
Increase in cash and cash equivalents		**387,903**		225,648
Cash and cash equivalents, beginning of period		**239,093**		13,445
Cash and cash equivalents, end of period	$	**626,996**	$	239,093
Comprised of:				
Cash on hand (bank overdraft)	$	**(7,271)**	$	239,093
Cash equivalents		**634,267**		**-**
	$	**626,996**	$	239,093

See accompanying notes to financial statements.

1. Description of business, basis of presentation and going concern

Poseidon Capital Corp. was incorporated under the Business Corporations Act (Alberta) on August 6, 2004. On June 12, 2006 the name of the corporation was changed to Acceleware Corp. (the “Company” or “Acceleware”). On December 31, 2006, Acceleware Inc. amalgamated with Acceleware Corp., with Acceleware Corp. as the continuing entity. For the purposes of these financial statements all references to Poseidon Capital Corp. prior to June 12, 2006, are in the name of Acceleware Corp. Prior to completing its qualifying transaction on January 12, 2006, Acceleware Corp. was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange Inc.

On January 12, 2006, Acceleware Corp. completed an arm’s length acquisition of all of the issued and outstanding shares of Acceleware Inc., 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. The shareholders of Acceleware Inc. were issued sufficient voting shares to obtain voting control of Acceleware Corp. As a result, 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. (see note 4(ii)). The assets and liabilities of Acceleware Inc. are included in the 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 and stock options.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for financial statements and in management’s opinion, have been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below. They have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has accumulated losses amounting to $2,592,371 and the net loss was $2,267,738 for the seventeen month period ended December 31, 2006. 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. Subsequent to year-end, the Company completed two private-placements for gross proceeds of $10,925,000. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern for a reasonable period of time.

2. Significant Accounting Policies

Revenue recognition

Revenues from consulting services are recognized on a percentage of completion basis which is based on pre-determined milestones.

Revenue from product sales is recognized when persuasive evidence of an arrangement exists, the product has been shipped, the price is fixed and determinable, and collection is reasonably assured.

Maintenance revenue is deferred and recognized on a pro-rata basis over the term of the maintenance contract, typically 12 months.

Contracts with multiple-element arrangements as defined in CICA EIC-142 – Revenue Arrangements with Multiple Deliverables, such as those including both product sales and maintenance contracts are accounted as separate units of accounting and are recognized as each element is earned based on the relative fair value of each element and only when there are no undelivered elements that are essential to the functionality of the delivered elements.

Contracts with an initial up-front payment and a subscription commitment have the total proceeds of the contract deferred and recognized on a pro-rata basis over the life of the subscription term. The initial cost of products are expensed immediately on the subscription arrangement and the cost of replacement products in the future years are expenses at the time of each subsequent replacement.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand (and temporary overdrafts) and investments with original maturity at date of purchase of three months or less.

Valuation of inventories

Inventory is valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization over the estimated useful life of assets is provided on the following bases and annual rates:

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

During the seventeen month period ended December 31, 2006, the Company changed the depreciation rate on computer hardware from 20% declining balance to three years straight line based on its continued observation of actual use of the computer hardware as compared to previous estimations of the pattern of consumption that formed the basis for the initial method. The change in estimate resulted in additional depreciation expense of $13,430 during the seventeen month period ended December 31, 2006. It is impractical to determine the effect of the change in estimate on future periods.

2. Significant Accounting Policies (cont'd)

Impairment of long-lived assets

Long-lived assets, which are comprised of capital assets, are amortized over their useful lives. The Company reviews long-lived assets for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

Investment tax credits

The Company claims investment tax credits as a result of incurring scientific research and experimental development expenditures. Investment tax credits are recognized when the related expenditures are incurred, and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim. It is possible that the allowed amount of the investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency.

Research and development costs

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. Research and development costs are comprised of wages and benefits, stock-based compensation and lab supplies. No development costs have been deferred as at December 31, 2006.

Reimbursements of eligible costs pursuant to government assistance programs are recorded as a reduction of research and development costs when the related costs are incurred. Claims not settled by the balance sheet date are recorded as "contributions receivable" on the balance sheet when there is reasonable assurance of recovery.

Income taxes

The Company follows the liability method with respect to accounting for income taxes. Future tax assets and liabilities are determined based on differences between the carrying amount and the tax basis of assets and liabilities (temporary differences). Future income tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when these differences are expected to reverse. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

Stock-based compensation plan

The Company uses the fair value method to account for options to be granted to employees, directors and officers. All options and similar instruments that are granted to non-employees are also accounted at fair value. The fair value method consists of recording compensation costs to earnings over the vesting period of options granted. At the time of exercise, the consideration and the related contributed surplus recognized to the exercise date are credited to share capital.

2. Significant accounting policies (cont'd)

Foreign currency transactions

Foreign currency monetary items are translated at rates of exchange prevailing at the balance sheet date. Foreign currency non-monetary items are translated at rates of exchange in effect on the date of the transaction. Revenues and expenses are translated at the rates of exchange prevailing on the dates of the transactions. All foreign exchange gains and losses are included in income.

Financial instruments

The Company holds various forms of financial instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Earnings per share

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

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. The determination of the amount of the Scientific Research and Development claim, and hence the receivable amount, requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near term dependent on the review and audit by the government agency. Estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Significant accounting policies (cont'd)

Change in accounting policy

Effective January 1, 2007, the Company adopted the CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". The section 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 the derivatives are 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.

The new accounting standard is not expected to have a significant effect on the Company's financial results for the year ended December 31, 2007.

3. Property and equipment

	December 31, 2006		
	Cost	Accumulated Amortization	**Net Book Value**
Furniture and fixtures	**$** 36,759	$ 3,676	**$ 33,083**
Computer software	37,976	20,956	**17,020**
Computer hardware	366,412	58,383	**308,029**
	$ 441,147	$ 83,015	**$ 358,132**

	July 31, 2005		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ -	$ -	$ -
Computer software	3,939	3,499	440
Computer hardware	20,300	6,405	13,895
	$ 24,239	$ 9,904	$ 14,335

4. Share capital

Authorized:

Unlimited common shares
Unlimited first preferred shares, conditions to be determined
Unlimited second preferred shares, conditions to be determined

Issued:

Common shares	Number		Amount
Balance, July 31, 2004	11,000,000	$	76,000
Issued for cash on exercise of options	90,000		8,284
Issued for services	1,465,000		109,875
Issued for cash to directors and officers	250,000		50,000
Issued for cash	2,956,805		375,292
Redemption of shares	(440,000)		(17,453)
Balance, July 31, 2005	15,321,805		601,998
Issued for cash, net of offering costs (i)	3,823,529		640,642
Balance prior to reverse takeover	19,145,334		1,242,640
Redeemed on reverse takeover (ii)	(19,145,334)		-
Issued to Acceleware shareholders on reverse takeover (ii)	11,623,952		-
Issued to Acceleware Corp. shareholders on reverse takeover (ii)	5,953,874		592,620
Issued for cash, net of offering costs (iii)	825,885		133,018
Issued for cash, net of offering costs (iv)	3,571,430		938,887
Issued for cash, net of offering costs (v)	250,000		96,679
Issued for service to Agent	40,000		16,800
Issued for cash on exercise of Agent's options	216,126		69,770
Issued for cash, on exercise of Director’s options	135,000		50,000
Balance, December 31, 2006	22,616,267	$	3,140,414

(i) On August 15, 2005, the Company completed a private placement and issued 3,823,529 Class A Common shares at a price of $0.17 per share (equivalent to $0.28 after reverse takeover) for total proceeds of $650,000 and incurred selling costs of $9,358. Officers, directors and employees subscribed for 588,235 shares for proceeds of $100,000.

4. Share capital (cont'd)

(ii) On January 12, 2006, pursuant to a share purchase agreement, the shareholders and option holders of Acceleware exchanged all of their issued and outstanding shares and stock options for shares and stock options of Acceleware Corp. on the basis of one Acceleware share for 0.6071428 Acceleware Corp. common shares and stock options. The shareholders of Acceleware were issued sufficient voting shares to obtain voting control of Acceleware Corp. As a result, the transaction is accounted in accordance with Canadian Institute of Chartered Accountants' Emerging Issues Committee Abstract 10 – Reverse Takeover Accounting. The transaction is accounted for as a continuation of Acceleware where the transaction is treated as an issuance of shares and stock options for the net monetary assets of Acceleware Corp. less any transaction costs.

The net assets of Acceleware Corp. at the date of the reverse takeover and their allocation to share capital and contributed surplus were as follows:

Net monetary assets of Acceleware Corp.	$	853,637
Share issue costs		(136,898)
	$	716,739
Fair value of stock options issued	$	124,119
Share capital		592,620
	$	716,739

(iii) On February 15, 2006, the Acceleware Corp. completed a non-brokered private placement of 825,885 units at a price of $0.31 per unit for gross proceeds of $256,024 and incurred selling costs of $6,581. Officers and directors subscribed for 536,031 units for proceeds of $166,170. Each unit consists of one common share and one common purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.50 per common share for a period of 12 months from the issuance of the warrants. Acceleware Corp. has recorded the fair value of the warrants issued as a separate component of shareholders' equity. The fair value of the share purchase warrants issued was estimated to be $116,425 using the Black-Scholes option pricing model based on the following assumptions: dividend yield (nil), expected volatility (125%), risk-free interest rate (3.97%) and weighted average life of 1 year. At December 31, 2006, no warrants had been exercised.

(iv) On August 18, 2006, Acceleware Corp. completed an offering of 3,571,430 units, at a price of $0.42 per Unit for aggregate gross proceeds of $1,500,000 and incurred selling costs of $201,401 (cash costs: $133,301 and non-cash costs: Agent options of $51,300 and Agent shares of $16,800). The selling costs were allocated to the common shares in an amount of $145,613 and warrants in an amount of $55,788. Officers and directors subscribed for 139,000 units for proceeds of $58,380. Each Unit consists of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.70 per common share for a period of 18 months from the issuance of the warrants. The Company recorded the fair value of the warrants issued as a separate component of shareholders' equity. The fair value of the share purchase warrants issued was estimated to be $415,500 using the Black-Scholes option pricing model based on the following assumptions: dividend yield (Nil), expected volatility (125%), risk-free interest rate (4.06%), and weighted average life of 18 months.

4. Share capital (cont'd)

(v) On October 19, 2006, Acceleware Corp. completed a non-brokered private placement of 250,000 units, at a price of $0.60 per unit for gross proceeds of $150,000. Each unit consists of one common share and one common purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.96 per common share for a period of 12 months for the issuance of the warrants. Acceleware Corp. has recorded the fair value of the warrants issued as a separate component of shareholders' equity. The fair value of the share purchase warrants issued was estimated to be $53,321 using the Black-Scholes option pricing model based on the following assumptions: dividend yield (nil), expected volatility (125%), risk-free interest rate (4.17%) and weighted average life of 1 year. At December 31, 2006, no warrants had been exercised.

Warrants

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

	Number		Weighted Average Exercise Price
Balance, July 31, 2005	-		-
Issued	2,861,600	$	0.665
Expired	-		-
Exercised	-		-
Balance, December 31, 2006	2,861,600	$	0.665

The weighted average grant date fair value of the warrants issued during the year is $0.20 per warrant.

Warrants outstanding and exercisable:

Exercise Price	Warrants Outstanding	Weighted Average Remaining Term (Years)	Warrants Exercisable
0.50	825,885	0.13	825,885
0.70	1,785,715	1.13	1,785,715
0.96	250,000	0.80	250,000
	2,861,600	0.81	2,861,600

4. Share capital (cont'd)

Escrowed shares

At December 31, 2006, an aggregate of 10,105,476 common shares remain subject to escrow agreements pursuant to the requirements of the TSX Venture Exchange. Pursuant to the escrow agreements, an aggregate of 2,021,095 escrowed shares (representing 15% of the 13,473,952 originally escrowed shares) will be released from escrow on each of January 18, 2007, July 18, 2007, January 18, 2008, July 18, 2008 and January 18, 2009.

Agent options

On August 18, 2006, Acceleware Corp. granted Leede Financial Markets Inc. (the “Agent”) a non transferable option to purchase 178,571 common shares of Acceleware Corp. The Agent's option is exercisable at a price of $0.42 per share for a period of 18 months from the date of completion of the offering. The Company accounted the options granted using the fair value method and accordingly incurred non-cash share issue costs in the amount of $51,300 with a corresponding addition to contributed surplus. The fair value of the share purchase warrants issued was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield (Nil), expected volatility (125%), risk-free interest rate (4.06%), and weighted average life of 18 months.

Stock options

Acceleware Corp. maintains a Stock Option Plan (the "Plan") for directors and officers, employees and consultants of the Company. Each option entitles the holder to acquire one share of Acceleware Corp. Pursuant to the Plan, the Board of Directors has reserved a total of 10% of the issued and outstanding common shares for the issuance of stock options. Stock options granted under the Plan may not be outstanding for a period of more than five years.

4. Share capital (cont'd)

Stock-based compensation

The Company records compensation expense when stock options are issued to directors, officers, employees, and consultants. The fair value of stock options is determined at the date of the grant and this amount is charged to earnings over the vesting period of the options.

Prior to the reverse takeover, the Acceleware granted options to purchase 180,000 common shares at a price of $0.15 per share (equivalent to $0.25 per share after reverse takeover) to employees of the Company. The options vested on issuance and expire three years from the date of grant.

Subsequent to the reverse takeover, Acceleware Corp. granted options to purchase:

i) 778,142 common shares at a price per share ranging from $0.30 to $0.60 to employees, directors and officers. One third of the options vests on the date of grant, one third vests one year from the date of grant, and one third vests two years from the date of grant. The options expire 5 years from the date of grant.

ii) 200,000 common shares at a price per share of $0.42 to an officer. One quarter of the options vest on the date of grant, one quarter vests one year from the date of grant, one quarter vests two years from the date of grant, and one quarter vests three years from the date of grant. The options expire 5 years from the date of grant.

iii) 63,571 common shares at a price per share ranging from of $0.38 to $0.60 to employees. All options vest on the date of grant. The options expire 5 years from the date of grant.

iv) 46,000 common shares at a price per share ranging from $0.38 to $0.40 to employees. One third of the options vests one year from the date of grant, one third vests two years from the date of grant and, one third vests three years from the date of grant. The options expire 5 years from the date of grant.

v) 45,000 common shares at a price per share at $0.60 to employees. One third of the options vests on January 1, 2007, one third vests one year from the date of grant, and one third vests two years from the date of grant. The options expire 5 years from the date of grant.

vi) 20,000 common shares at a price per share ranging from $0.38 to $0.40 to employees. One third of the options vests three months from the date of grant, one third vests two years from the date of grant and, one third vests three years from the date of grant. The options expire 5 years from the date of grant.

4. Share capital (cont'd)

Stock-based compensation (cont'd)

The estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis. The fair value of each option granted during the period was estimated on the date of the grant using the Black-Scholes fair value option-pricing model with the noted assumptions.

	December 31, 2006	July 31, 2005
Weighted average grant date fair value of options granted during the year	**$ 0.34**	$ 0.03
Expected dividend yield	**Nil%**	Nil%
Expected stock price volatility	**125%**	70%
Risk-free interest rate	**4.01%**	3.4%
Expected option term	**5 years**	3 years

4. Share capital (cont'd)

The changes to the number of stock options granted by Acceleware Corp. and their weighted average exercise price are as follows:

	Number		Weighted Average Exercise Price
Balance, July 31, 2004	375,000	$	0.075
Granted	930,000		0.150
Forfeited	(285,000)		(0.075)
Expired	-		-
Exercised	(90,000)		(0.075)
Balance, July 31, 2005	930,000		0.150
Granted	180,000		0.150
Balance prior to reverse takeover	1,110,000		0.150
Redeemed on reverse takeover	(1,110,000)		0.150
Issued to Acceleware option holders on reverse takeover	673,930		0.250
Issued to Acceleware Corp. option holders on the reverse takeover	801,126		0.200
Granted	1,331,284		0.430
Forfeited	(30,000)		0.380
Expired	-		-
Exercised	(351,126)		0.200
Balance, December 31, 2006	2,425,214	$	0.338

Options outstanding and exercisable are as follows:

Exercise Price	Stock Options Outstanding	Weighted Average Remaining Term (Years)	Stock Options Exercisable
0.20	450,000	3.05	450,000
0.25	673,930	4.03	673,930
0.31	100,000	4.03	33,333
0.38	43,571	4.20	43,571
0.40	166,000	4.35	40,000
0.42	408,571	3.16	238,571
0.44	443,142	4.67	147,714
0.45	20,000	4.35	6,667
0.60	120,000	4.82	31,667
	2,425,214	3.89	1,665,453

5. Contributed surplus

Contributed surplus consists of the following:

Balance, July 31, 2004	$	6,393
Stock-based compensation		16,342
Exercise of options		(1,534)
Redemption of shares		3,854
Balance, July 31, 2005		25,055
Issued on the reverse takeover		124,119
Issued on financing (Agent)		51,300
Stock-based compensation		190,511
Exercise of options		(49,546)
Balance, December 31, 2006	$	341,439

6. Research and development

The Company incurs costs related to its research and development activities. To date, all of the costs relating to the Company's projects under development have been expensed as incurred. These costs include a portion of wages, benefits, stock-based compensation and lab supplies. Reimbursement of eligible research and development project costs related to government assistance programs are recorded as a reduction of research and development costs when incurred. The benefit of investment tax credits for scientific research and experimental development expenses are recognized in the period the qualifying expenditure is made provided there is reasonable assurance of recovery. This benefit is presented as a reduction of the related research and development costs. In the current period, revenue is recognized pursuant to the Company's revenue recognition policy. In the prior year, revenue recognized during the development stage is presented as a reduction of the related research and development costs. Research and development costs incurred during the period are as follows:

	Seventeen Months Ended December 31, 2006	Twelve Months Ended July 31, 2005
Research and development costs, includes stock-based compensation expense of $49,044 (2005 - $120,902)	$ 1,019,549	$ 422,120
Government assistance	(167,087)	(159,618)
Scientific research and experimental development tax credits	(112,461)	(110,694)
Development stage product revenues	-	(33,390)
	$ 740,001	$ 118,418

During the period, the Company entered into an Industrial Research Assistance Program funding agreement with the National Research Council to fund certain research and development costs relating to hardware acceleration products. The Company is eligible to receive the lesser of 32% of the total project costs incurred prior to December 31, 2006 and $350,000. The funding will be repayable quarterly, based on 2% of revenues, commencing May 1, 2008 and ending on the earlier of January 1, 2012 or the date total repayments equal 150% of the funding advanced. The aggregate amount of funding claimed during the seventeen months ended December 31, 2006 is $167,087, recorded as a reduction of research and development expenses, and of which $15,000 is still outstanding as at December 31, 2006.

In the prior period, the Company had a government assistance contract pursuant to which it received $159,618. The government assistance was a grant and accordingly no repayment requirement exists.

7. Income taxes

The components of the future income tax asset are as follows:

		December 31, 2006		July 31, 2005
Future income tax assets:				
Non-capital losses carried forward	**$**	727,000	$	13,100
Share issue costs		99,727		-
Scientific research and experimental development tax pools		116,660		-
Property and equipment		26,980		1,600
Valuation allowance		(970,367)		(14,700)
Net future income tax asset	$	-	$	-

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial statutory income tax rate of 32.5% (July 31, 2005 – 33.6%) to income before income taxes. The difference results from the following:

		Seventeen Months Ended December 31, 2006		Twelve Months Ended July 31, 2005
Loss before provision for income taxes	$	(2,267,738)	$	(167,543)
Computed expected recovery		737,015		56,294
Deductible financing expenses		27,767		–
Other		(23,761)		3,226
Non-deductible stock option expense		(61,916)		(42,360)
Non-recognition of benefit of current year's tax loss		(679,105)		(17,160)
	$	–	$	–

The Company has $2,236,924 in non-capital losses available to claim against future taxable income. The non-capital losses expire as follows:

2014	$	41,552
2015		105,818
2016		2,089,554
	$	2,236,924

8. Financial instruments

Fair value

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their estimated fair values at December 31, 2006, reflecting their short-term maturity and normal trade credit terms.

Currency risk

A portion of the Company's revenues are made to customers in foreign countries and accordingly the Company is exposed to related foreign currency risk arising from fluctuations in US dollar exchange rates. This risk is mitigated by purchases settled in US dollars.

Credit risk

Credit risk reflects the risk that the Company may be unable to recover its accounts receivable. The Company is exposed to credit risk as a substantial portion of its revenue is predominately generated from two customers. The Company manages its credit risk by closely monitoring the granting of credit.

9. Related party transactions

During the seventeen months ended December 31, 2006, products for resale in the amount of $76,725 (2005 - nil) were purchased from a company controlled by an officer of the Company. These transactions occurred in the normal course of operations have been recognized at the agreed exchange amount which in the opinion of management approximates the fair value of the transaction.

10. Indemnifications

Directors and officers

Under the terms of certain agreements and Acceleware Corp.'s by-laws the individuals who have acted at Acceleware Corp.'s request as directors and/or officers are indemnified to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents Acceleware Corp. from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements. Acceleware Corp has mitigated this risk by obtaining directors' and officers' liability insurance.

Other

In the ordinary course of business, Acceleware Corp. enter contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements, asset use agreements etc. In such contracts Acceleware Corp. may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that Acceleware Corp. could be required to pay cannot be estimated.

11. Economic dependence

The Company sources all of its digital processor cards from one supplier. Should this supplier fail to supply these components in a manner that meets the Company's quality, quantity, cost or time requirements, and if the Company were unable to obtain alternate suppliers of these components in a timely manner or on acceptable terms, this could adversely affect its ability to sell products.

12. Segmented information

The Company operates in an international market within one reportable industry segment. Product sales and services are distributed as follows:

Revenue:		**Canada**	**Foreign Countries**		**Total**
Seventeen months ended December 31, 2006	**$**	**76,373**	**975,926**	**$**	**1,052,300**
Twelve months ended July 31, 2005	$	-	12,350	$	12,350

The Company derives significant revenues from two major customers which both exceed 10% of total revenues for the seventeen months ended December 31, 2006. The first customer accounts for $546,715 (53%) of revenues, the second customer accounts for $379,955 (37%) of revenues.

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

13. Subsequent events

i) 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. One third of the options vests on the date of grant, one third vests one year from the date of grant, and one third vests two years from the date of grant. The options expire 5 years from the date of grant.

ii) On January 22, 2007, Acceleware Corp. completed a non-brokered private placement of 4,500,000 units to NVIDIA Corporation (NASDAQ: NVDA) at a price of $0.65 per unit for aggregate gross proceeds of $2,925,000. Each unit consists of one common share and one-half of one common share-purchase 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.

iii) On February 14, 2007, Acceleware Corp. completed a brokered private placement of 6,153,846 units at a price of $1.30 per unit for aggregate gross proceeds of $8,000,000. Each unit consists of one common share and one-half of one common share-purchase 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 Company paid Northern a cash commission of 8% of the gross proceeds and a $25,000 work fee. In addition, the Company 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.

iv) 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.

14. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.