Acceleware Corp.

Financial Statements
December 31, 2008 and 2007

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Contents

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Auditors' Report

To the Shareholders of
Acceleware Corp.

We have audited the balance sheets of Acceleware Corp. as at December 31, 2008 and 2007 and the statements of operations, comprehensive loss and deficit and cash flows for the year ended December 31, 2008 and 2007. 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, 2008 and 2007 and the results of its operations and its cash flows for the year ended December 31, 2008 and 2007, in accordance with Canadian generally accepted accounting principles.

RSM Richter LLP

Chartered Accountants

Calgary, Alberta
April 24, 2009

Acceleware Corp.

Balance Sheets
As at:

		December 31, 2008		December 31, 2007
Assets				
Current				
Cash and cash equivalents	$	1,052,724	$	6,196,894
Short-term investments		-		1,550,017
Accounts receivable		312,340		1,198,480
Inventories (note 4)		217,981		1,077,306
Prepaid expenses		47,583		78,457
		1,630,628		10,101,154
Investment (note 6)		721,817		1,011,313
Property and equipment (note 7)		744,596		1,456,826
	$	3,097,041	$	12,569,293
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities	$	693,051	$	1,177,404
Deferred revenue		247,320		225,010
Current debt (note 5)		355,587		-
		1,295,958		1,402,414
Commitments (note 15)				
Shareholders' Equity				
Share capital (note 8)		16,261,366		15,229,099
Warrants (note 8)		1,406,584		3,902,506
Contributed surplus (note 8)		3,960,120		1,365,390
Deficit		(19,826,987)		(9,330,116)
		1,801,083		11,166,879
	$	3,097,041	$	12,569,293

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

Approved on behalf of the Board:

(signed) "Bohdan Romaniuk"
Director

(signed) "Dennis Nerland"
Director

Acceleware Corp.

Statement of Operations, Comprehensive Loss and Deficit
For the Years Ending December 31:

		2008		2007
Revenue				
Product sales	$	3,205,984	$	2,220,564
Maintenance		406,135		179,911
Interest		185,797		231,403
		3,797,916		2,631,878
Expenses				
Costs of product sales		3,041,933		1,383,369
General and administrative		6,485,998		5,295,647
Research and development (note 9)		3,639,064		2,046,045
Write-down of investment (note 6)		315,047		433,420
Impairment of leasehold improvements and furniture and fixtures (note 7)		271,445		-
Loss on disposal of property and equipment		299,778		-
Amortization		241,522		211,143
		(14,294,787)		9,369,624
Loss for the period, being comprehensive loss		(10,496,871)		(6,737,746)
Deficit, beginning of period		(9,330,116)		(2,592,371)
Deficit, end of period	$	(19,826,987)	$	(9,330,116)
Loss per share				
Basic and diluted	$	(0.25)	$	(0.20)
Weighted average outstanding		41,995,213		34,504,493

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

Acceleware Corp.

Statements of Cash Flows
For the Years Ending December 31:

	2008	2007
Cash flows from (used for) operating activities		
Loss for the period, being comprehensive loss	$ (10,496,871)	$ (6,737,746)
Items not involving cash:		
Amortization	483,044	299,788
Loss on disposal of property and equipment	299,778	-
Accrued interest on investment (note 6)	(25,553)	-
Write-down of investment (note 6)	315,047	433,420
Write-down of inventory	737,466	-
Impairment of leasehold improvements and furniture and fixtures (note 7)	271,445	-
Accrued interest on debt (note 5)	4,610	-
Stock-based compensation (note 8)	260,134	499,048
	(8,150,900)	(5,505,490)
Changes in non-cash working capital items		
Accounts receivable	886,140	(704,349)
Prepaid expenses	30,874	(64,376)
Inventories	(103,821)	(753,102)
Accounts payable and accrued liabilities	(484,353)	903,125
Deferred revenue	22,310	100,687
	(7,799,750)	(6,023,505)
Cash flows from financing activities		
Issuance of common shares and warrants, net of issue costs (note 8)	870,942	15,986,636
Proceeds from issuing debt (note 5)	350,977	-
	1,221,919	15,986,636
Cash flows from investing activities		
Redemption of short-term investment	1,550,017	(1,550,017)
Purchase of investment (note 6)	-	(1,444,733)
Proceeds from sale of property and equipment	21,440	-
Purchase of property and equipment	(137,796)	(1,398,483)
	1,433,661	(4,393,233)
Increase (decrease) in cash and cash equivalents	(5,144,170)	5,569,898
Cash and cash equivalents, beginning of period	6,196,894	626,996
Cash and cash equivalents, end of period	$ 1,052,724	$ 6,196,894
Comprised of:		
Cash on hand	$ 800,643	$ 532,024
Cash equivalents	252,081	5,664,870
	$ 1,052,724	$ 6,196,894

The accompanying notes are an integral part of these 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").

Acceleware Corp. is a technology company based in Calgary, Alberta, that specializes in the development and marketing of special purpose software accelerators used to reduce engineering design simulation and data processing run times. The Company trades on the TSX Venture Exchange under the symbol AXE.

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 assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has accumulated losses amounting to $19,826,987 (including a net loss of $10,496,871 for the year ended December 31, 2008) largely due to investments in new product development and in the penetration of new markets.

The Company plans to manage its cash flow and investment in new products to match the cash requirements to cash generated from operations. Plans include programs to improve gross margin through the introduction of a software only business model, focus on core vertical markets, reduce operating expenses, and limit capital expenditures. The Company's management ("Management") believes that successful execution of its business plan will result in sufficient cash flow to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of the objectives discussed above, or that sufficient financing from outside sources will be available. Further, if the Company's operations are unable to generate cash flow levels at or above current projections, the Company may not have sufficient funds to meet its obligations over the next twelve months. Should such events occur, Management is committed to implementing all or a portion of its contingency plan. This plan has been developed and designed to provide additional cash flow, and includes, but is not limited to, deferring certain additional product development initiatives, and further reducing sales, marketing and general and administrative expenses. The failure of the Company to achieve one or all of the above items may have a material adverse impact on the Company's financial position, results of operations and cash flows.

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

2. Significant Accounting Policies

Revenue recognition

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.

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

Revenues from interest are recognized when earned.

Contracts with multiple-element arrangements as defined in Canadian Institute of Chartered Accountants ("CICA") Handbook 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.

Short-term investments

Short-term investments are comprised of Bankers' Acceptance with original maturity at date of purchase that are greater than three months and less than 1 year and are classified as held-for-trading financial assets.

Valuation of inventories

Inventories are 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
Leasehold improvements	five years straight-line
Computer hardware	three years straight-line

2. Significant Accounting Policies (cont'd)

Impairment of long-lived assets

Long-lived assets, which are comprised of property and equipment, 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 ("SR&ED") 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, 2008 or as at December 31, 2007.

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. The effect of forfeitures is recognized as they occur.

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. Realized foreign exchange gains and (losses) of $51,119 (2007 – ($32,746)) are included in income.

Financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, short-term investments, investment, accounts payable and accrued liabilities, the fair values of which approximate their carrying values. See note 3 below for adoption, applied retrospectively without restatement commencing January 1, 2007, of new accounting standards related to the Company's financial instruments.

Earnings (loss) per share

Basic net earnings or loss per share is computed by dividing the net earnings (loss) 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 (loss) per share is made if the result of this calculation is anti-dilutive.

Warrants

The proceeds from units issued are allocated between shares and warrants on the basis of their estimated fair values.

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 relevant 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 are used when accounting for items such as: revenue recognition; allowances for uncollectible accounts receivable and inventory obsolescence; amortization; asset valuations; impairment assessments for investments and long-lived assets; employee benefits; taxes and related valuation allowances and provisions; fair value of stock-based compensation; fair value of warrants and contingencies. In particular, management has used estimates in determining the fair value of its investment in Asset Backed Commercial Paper – see note 6. Actual results could differ from those estimates.

3. Adoption of New Accounting Standards

Capital Disclosures

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535 “Capital Disclosures”. The new section requires an entity to disclose information about its objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements. The Company’s capital management strategy is outlined in note 11 to the financial statements.

Financial Instruments

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862 “Financial Instruments” and Section 3863 “Financial Instruments – Presentation”, which replace Section 3861 “Financial Instruments – Disclosure and Presentation”. The new sections revise and enhance financial instruments disclosure requirements and place increased emphasis on disclosure about the nature and extent of the risks arising from financial instruments and how the Company manages those risks.

In accordance with these new standards, the Company’s financial instruments are classified as follows:

- Cash and cash equivalents, short-term investments and investment are classified as held-for-trading and accordingly are carried at their fair values;
- Accounts receivable are classified as loans and receivables, and accordingly are carried at their amortized costs;
- Accounts payable, accrued liabilities and current debt are classified as other financial liabilities and are currently carried at their amortized cost.

The additional disclosure required by the adoption of this change in accounting policy is disclosed in note 11.

General Standards on Financial Statement Presentation

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400 “General Standards on Financial Statement Presentation”, which requires the Company to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The adoption of this standard did not have a material impact on the Company’s financial statements.

Inventories

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031 “Inventories”, which requires inventory to be valued on a first-in, first-out basis or weighted average basis. The new standard also requires fixed and variable production overheads that are incurred in converting material into finished goods to be allocated to the cost of inventory on a systematic basis. The Company assessed a retrospective adjustment to its inventories and considered it not material, therefore no adjustment has been made. The adoption of this standard requires the Company to disclose additional information on the movement and nature of inventories as outlined in note 4.

3. Adoption of New Accounting Standards (cont'd)

Recent Accounting Pronouncements Issued and not yet Effective

Goodwill and Intangible Assets

CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces CICA Handbook Section 3062 "Goodwill and Intangible Assets", and Section 3450 "Research and Development Costs", establishes the standards for recognition, measurement and disclosure of goodwill and intangible assets. Under these new standards, internally generated intangible assets may be recognized in the financial statements under certain circumstances. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2009. The Company has not yet determined the impact of the adoption of this change on these financial statements.

International Financial Reporting Standards

The CICA plans to transition from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) effective January 1, 2011. The impact of the transition to IFRS on the Company's financial statements has not yet been determined.

4. Inventories

	December 31, 2008	December 31, 2007
Computer hardware	$ 196,901	$ 806,963
Demonstrator inventory	21,080	270,343
	$ 217,981	$ 1,077,306

During the year ended December 31, 2008, the Company expensed inventories of $3,041,933 (2007 - $1,383,369) including write-downs of slow moving and obsolete inventories in the amount of $737,466 (2007 – $46,448).

5. Current Debt

In 2008, the Company utilized a line of credit that is secured by an investment security held by the Company. The line of credit has a maximum limit of $355,587 that may be increased at the lender's option, no set maturity date, an interest rate of 90 day Bank of Montreal Bankers Acceptances and payments of interest only.

6. Investment – Measurement Uncertainty - Asset Back Commercial Paper Investment

The Company holds an investment in third party non-bank sponsored asset backed commercial paper ("ABCP") with a face amount of $1,444,733, which it acquired in 2007. The investment was made on a short term basis. However, due to liquidity issues experienced in and the collapse of the Canadian ABCP market in 2007, the Company continues to hold the investment.

The Pan-Canadian Investors Committee was formed to develop a solution to the liquidity issues facing the Canadian ABCP market. On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Structured ABCP approved an agreement in principle to restructure the affected ABCP issued by 20 trusts. On December 24, 2008, an agreement was reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta, regarding the restructuring of $32 billion of third-party ABCP. The restructuring plan (the "Plan") was implemented on January 21, 2009, subsequent to the date of these financial statements.

In accordance with the Plan, the affected ABCP has been replaced with new longer-term floating rate notes expected to mature in December 2016 and having an estimated yield of the 30 day Canadian Bankers Acceptance Rate less 50 basis points. The Plan also provides, in certain circumstances, for the pooling of certain assets as well as the establishment of new margin funding facilities to support any collateral calls that may occur in the future.

The margin funding facilities are provided by third party lenders, including Canadian companies, asset providers, noteholders and the governments of Canada, Quebec, Ontario and Alberta. The facilities provided by the governments rank senior to all other margin funding facilities and, in the event of margin calls, they would be the last in and the first out. These facilities are designed to reduce the risk that holders of the newly issued notes will not be able to meet margin calls if future circumstances require them. The key parties to the restructuring have also agreed to a moratorium which prevents collateral calls for a period of 18 months from date of issue.

At December 31, 2008, the Company assessed the ABCP to determine the fair value including the characteristics of the new notes received under the Plan. To determine the value of the affected ABCP it held, the Company established ranges of estimated fair value. An impairment charge of $315,047 was recorded during 2008. This loss was due to the widening credit spreads and the downgrade from the provisional rating of "AA" of the affected ABCP to the final rating of "A" the new notes received under the Plan. Class B, C and tracking notes were unrated. Subsequent to December 31, 2008, the ABCP was replaced under the Plan with five classes of new notes.

The valuation technique used by the Company to estimate the fair value of its investment in ABCP as at December 31, 2008, incorporates probability weighted discounted cash flows considering available public information regarding market conditions and other factors that a market participant would consider for such investments. In establishing the estimated fair value of the ABCP, the Company considered the quality of the underlying assets and determined the fair value using a discounted cash flow analysis based on its assessment of the prevailing conditions, which may change in subsequent periods. Among the most important assumptions used to estimate the fair value of the notes are the observable discount rates and the credit ratings of the notes. The Company assumes that the notes will generate a weighted average interest rate of 1.0% (December 31, 2007 – 3.5%).

Discount rates have been estimated using average yield of "A" rated corporate bonds having similar maturities, adjusted for consideration of additional risk for the lack of information, lack of liquidity and uncertainty with respect to the exact nature of the resulting instrument. A weighted average discount rate of 8.2% (December 31, 2007 – 5.6%) was used in the Company's fair value estimate of its ABCP.

6. Investment – Measurement Uncertainty (cont'd)

The recalibration of the valuation model as at December 31, 2008 based on current available information resulted in an estimated fair value of the Company's ABCP of $721,817. This represents a reduction in the estimated fair value of $315,047 (2007 - $433,420) (including accrued interest of $25,553 (2007 – nil)) as a result of the recent financial and credit market condition. This estimated fair value represents approximately 50% of the principal value as at December 31, 2008. An increase in the estimated discount rates of 1.0% (to 9.2%) would decrease the fair value of the ABCP by $46,637. An increase in the expected maturity date of the notes by one year would decrease the fair value of the ABCP by $45,264.

Subsequent to the year end, on January 12, 2009, the Court granted an order for the implementation of the restructuring plan for the ABCP, and the restructuring was completed on January 21, 2009. As a result, the Company received the following new replacement ABCP notes with a total settlement value of $1,443,743, as follows:

- $963,147 Master Asset Vehicle ("MAV") II Class A-1 notes
- $241,507 MAV II Class A-2 notes
- $43,840 MAV II Class B notes
- $38,613 MAV II Class C notes
- $156,636 MAV II Class 15 notes

The difference between the $1,443,743 settlement value and the $1,444,733 original cost was received as interest. The estimated fair value of the replacement notes received on January 21, 2009 has not materially changed from the December 31, 2008 estimated fair value of the original ABCP. The replacement notes will be classified as held for trading financial assets. Changes in fair value will be recorded in income as they arise. Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring could give rise to a further material change in the value of the Company's investment in ABCP which could impact the Company's earnings in future periods.

Determining the estimated fair value of ABCP requires the use of estimates and economic expectations. Measurement uncertainty exists and possible changes that could have a material effect on the future fair value of the notes include (1) changes in the value of the underlying assets, (2) developments related to the liquidity of the ABCP market, and (3) the effects of a severe and/or prolonged economic slowdown in North America.

7. Property and equipment

	December 31, 2008		
	Cost	Accumulated Amortization and Impairment	**Net Book Value**
Furniture and fixtures	$ 265,527	$ 164,532	**$ 100,995**
Computer hardware	602,171	224,707	**377,464**
Computer software	77,659	77,659	**-**
Leasehold improvements	647,126	380,989	**266,137**
	$ 1,592,483	$ 847,887	**$ 744,596**

Acceleware Corp.

Notes to Financial Statements
December 31, 2008 and 2007

7. Property and equipment – (cont'd)

	December 31, 2007		
	Cost	Accumulated Amortization and Impairment	**Net Book Value**
Furniture and fixtures	$ 265,527	$ 27,559	$ **237,968**
Computer hardware	906,124	241,504	**664,620**
Computer software	77,659	55,931	**21,728**
Leasehold improvements	590,320	57,810	**532,510**
	$ 1,839,630	$ 382,804	$ **1,456,826**

Due to the restructuring described in note 17 and as a cost recovery measure, the Company has sub-leased and expects to continue to sub-lease excess office space. The rental proceeds offset the rental expenses. However, the rental proceeds are not sufficient for the Company to recover the cost of the leasehold improvements or furniture that have been rented with the subject office space. At December 31, 2008, it is estimated that property and equipment in an amount of $271,445 were impaired. This impairment is comprised of $196,773 relating to leasehold improvements and $74,672 relating to furniture and fixtures. The value was determined by multiplying the proportionate share of office space subleased with the carrying value of these assets prior to the arrangement. The value of these items is assumed to be nil at the end of the office lease term.

8. Share capital

Authorized:

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

Common shares	Number		Amount
Balance, December 31, 2006	22,616,267	$	3,140,414
Issued for cash, net of offering costs (i)	4,500,000		1,535,955
Issued for cash, net of offering costs (ii)	6,153,846		4,473,099
Issued for cash, net of offering costs (iii)	90,000		63,545
Issued for cash, net of offering costs (iv)	2,409,699		1,788,692
Issued for cash, net of offering costs (v)	3,614,458		2,649,599
Stock option plan exercises:			
Issued for cash	180,666		80,719
Transferred from contributed surplus			60,651
Warrant exercises:			
Issued for cash	1,786,885		1,124,641
Transferred from warrants			311,784
Balance, December 31, 2007	41,351,821		15,229,099
Issued for cash, net of offering costs (vi)	8,200,000		401,805
Stock option plan exercises:			
Issued for cash	142,571		58,280
Transferred from contributed surplus			43,094
Warrant exercises:			
Issued for cash	586,938		410,857
Transferred from warrants			118,231
Balance, December 31, 2008	50,281,330	$	16,261,366

8. Share capital (cont'd)

(i) 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 and incurred selling costs of $61,044. 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. 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 $1,328,001 using the Black-Scholes option pricing model based on the following assumptions: dividend yield (Nil), expected volatility (125%), risk free interest rate (4.10%), and weighted average life of 24 months.

(ii) 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 and incurred selling costs of $1,331,285 (cash costs of $745,732 and non cash costs of $585,554). 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. 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 $2,195,614 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 22 months. Northern Securities Inc. ("Northern") acted as underwriter for the offering.

(iii) On May 14, 2007, Acceleware Corp. completed a non-brokered private placement of 90,000 units to Robert Miller, Vice President of Marketing and Product Development for Acceleware, at a price of $1.08 per unit for gross proceeds of $97,200. Each unit consists of one common share and one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of $1.80 per common share for a period of 12 months. 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 $33,655 using the Black-Scholes option pricing model based on the following assumptions: dividend yield (Nil), expected volatility (125%), risk free interest rate (4.63%), and weighted average life of 12 months.

(iv) On October 9, 2007, Acceleware Corp. completed a non-brokered private placement of 2,409,699 shares at a price of $0.83 per share for aggregate gross proceeds of $2,000,050. In connection with the offering, Acceleware issued 100,000 agent warrants, for a non cash cost of $48,980 and incurred cash costs of $162,378 for total selling costs of $211,358. Each agent warrant acquires one common share at a price of $1.30 per share until December 14, 2008. The fair value of the agent warrants issued was estimated to be $48,980 using the Black-Scholes option pricing model based on the following assumptions: dividend yield (Nil), expected volatility (125%), risk free interest rate (4.39%), and weighted average life of 14 months.

8. Share capital (cont'd)

(v) On December 12, 2007, Acceleware Corp. completed a brokered private placement of 3,614,458 shares at a price of $0.83 per share for aggregate gross proceeds of $3,000,000. In connection with the offering, Acceleware issued 180,723 broker warrants, a non cash cost of $78,582 and incurred cash costs of $271,819 for total selling costs of $350,401. Each broker warrant acquires one common share at a price of $1.30 until December 12, 2009. The fair value of the broker warrants issued was estimated to be $78,582 using the Black-Scholes option pricing model based on the following assumptions: dividend yield (Nil), expected volatility (125%), risk free interest rate (3.78%), and weighted average life of 24 months.

(vi) On December 31, 2008, Acceleware Corp. completed a non-brokered private placement of 8,200,000 shares at a price of $0.05 per share for aggregate gross proceeds of $410,000 and incurred offering costs of $8,195 for net proceeds of $401,805.

Warrants

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

	Number		Amount		Weighted Average Exercise Price
Balance, December 31, 2006	2,861,600	$	529,458	$	0.665
Issued in respect of private placement January 22, 2007 (i)	2,250,000		1,328,001		1.290
Issued in respect of private placement February 14, 2007 (ii)	3,076,923		2,195,614		2.000
Issued in respect of private placement May 14, 2007 (iii)	90,000		33,655		1.800
Issued in respect of private placement October 9, 2007 (iv)	100,000		48,980		1.300
Issued in respect of private placement December 12, 2007 (v)	180,723		78,582		1.300
Expired	(100,000)		-		-
Exercised	(1,786,885)		(311,784)		0.629
Balance, December 31, 2007	6,672,361	$	3,902,506	$	1.539
Expired	(3,654,700)		(2,377,691)		1.816
Exercised	(586,938)		(118,231)		0.700
Balance, December 31, 2008	2,430,723	$	1,406,584	$	1.290

8. Share capital (cont'd)

In 2008, no warrants were granted. In 2007, the warrant exercise price was based upon the market price prevailing at the warrant grant date. The grant date fair value of the warrants issued was estimated to be $0.65 per warrant using the Black-Scholes warrant pricing model based on the following weighted average assumptions: dividend yield (nil), expected volatility (125%), risk free interest rate (4.03%), and expected life (2 years).

Warrants outstanding and exercisable:

Exercise Price	Warrants Outstanding	Weighted Average Remaining Term (Years)	Warrants Exercisable
1.29	2,250,000	0.06	2,250,000
1.30	180,723	0.95	180,723
	2,430,723	0.13	2,430,723

Escrowed shares

At December 31, 2008, an aggregate of 2,021,095 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 the final amount released from escrow on January 18, 2009.

Agent options

On February 14, 2007, Acceleware Corp. granted the agent 492,308 non-transferable agent options. Each agent option 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 agent options. Each unit consists of one common share and one-half of one common share-purchase option. Each whole purchase option is exercisable into one common share at a price of $2.00 per common share for a period of 22 months from February 14, 2007. The fair value of the 492,308, $1.30 agent options, are estimated to be $406,045 and the fair value of the 246,154, $2.00, Agent options, are estimated to be $179,509. The grant date fair value of the agent options issued was estimated to be $0.79 per option, both 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 22 months. No agent options were granted in 2008.

8. Share capital (cont'd)

Stock options

During the twelve months ended December 31, 2008, the Company granted to certain employees and officers, a series of options to purchase a total of 310,000 common shares of Acceleware Corp. at prices ranging from $0.70 to $0.82 per share. Ten percent of the options will vest immediately, thirty percent will vest one year from the date of grant, thirty percent will vest two years from the date of grant and thirty percent will vest three years from the date of grant. The options expire 5 years from the date of grant. The exercise price was based upon the market price prevailing at the stock option grant date. The weighted average grant date fair value of the stock options issued was estimated to be $0.65 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 125%, a risk-free interest rate of 3.42% and expected dividend yield of nil% and expected life of 5 years.

During the twelve months ended December 31, 2007, the Company granted to certain employees, a series of options to purchase a total of 1,169,000 common shares of Acceleware Corp. at prices ranging from $0.83 to $1.60 per share. Of the total options, 755,000 of the options granted to date have vesting terms of one third of the options vest on the date of grant, one third vest one year from the date of grant, and one third vest two years from the date of grant and 414,000 of the options granted to date have vesting terms of ten percent of the options vest on the date of grant, thirty percent vest one year from the date of grant, thirty percent vest two years from the date of grant and thirty percent vest three years from the date of grant. The options expire 5 years from the date of grant. The option exercise price was based upon the market price prevailing at the stock option grant date. The grant date fair value of the stock options issued was estimated to be $0.89 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: dividend yield (nil), expected volatility (125%), risk free interest rate (4.37%), expected life (5 years). The estimated fair value of the options is amortized to expense over the option vesting period on a straight line basis. Stock based compensation expense for the twelve months ended December 31, 2008 was $260,134 (2007 - $499,048).

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

	Number	Weighted Average Exercise Price
Balance, December 31, 2006	2,425,214	$0.338
Granted	1,907,462	1.217
Forfeited	(50,334)	0.576
Exercised	(64,666)	0.495
Exercised (Agent)	(116,000)	0.420
Balance, December 31, 2007	4,101,676	$0.739
Granted	310,000	0.769
Forfeited	(934,927)	0.766
Exercised	(80,000)	0.400
Exercised (Agent)	(62,571)	0.420
Expired	(738,462)	1.533
Balance, December 31, 2008	2,595,716	0.525

Acceleware Corp.

Notes to Financial Statements
December 31, 2008 and 2007

8. Share capital (cont'd)

Summary of options outstanding and exercisable are as follows:

Range of exercise price outstanding		Options Outstanding: Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable: Number exercisable
$0.20	$0.31	1,187,502	1.66	$0.236	1,187,502
0.38	0.60	547,714	2.62	0.439	527,040
0.70	0.90	353,000	3.87	0.829	52,300
1.09	1.14	507,500	3.34	1.084	338,264
$0.20	$1.14	2,595,716	2.49	$0.525	2,105,106

Contributed surplus

Contributed surplus consists of the following:

Balance, December 31, 2006	$	341,439
Stock-based compensation		499,048
Issued on financing (Agent)		585,554
Exercise of options		(60,651)
Balance, December 31, 2007	$	1,365,390
Stock-based compensation		260,134
Expiry of warrants		2,377,690
Exercise of options		(43,094)
Balance, December 31, 2008	$	3,960,120

9. 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, lab supplies, a proportionate share of rent, office supplies and depreciation. 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. Research and development costs incurred during the period are as follows:

		For the Year Ended December 31, 2008		For the Year Ended December 31, 2007
Research and development costs, includes stock-based compensation expense of $55,950 (2007 – 76,375)	$	3,692,148	$	2,173,333
Government assistance IRAP/NRC		-		(127,288)
Government assistance – Alberta Ingenuity Credits		(53,084)		-
	$	3,639,064	$	2,046,045

During the year ended December 31, 2007, the Company completed its Industrial Research Assistance Program funding agreement with the National Research Council ("NRC") which funded certain research and development costs relating to hardware acceleration products. The Company received a total of $294,375, which was recorded as a reduction against research and development costs of $127,288 for 2007 and $167,087 for 2006. The funding is repayable quarterly, based on 2% of revenues, commencing July 1, 2008 and ending on the earlier of March 31, 2012 or on the date total repayments equal 150% of the funding advanced. With the agreement of the NRC, repayment for the six month period ending December 31, 2008 has been suspended and shall resume in the three month period ending March 31, 2009.

10. Income taxes

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

		December 31, 2008		December 31, 2007
Future income tax assets:				
Non-capital losses carried forward	$	3,026,581	$	1,454,534
Share issue costs		231,331		319,829
Scientific research and experimental development tax pools		1,510,887		643,283
Tax basis of investment		90,365		54,178
Property and equipment		122,509		(24,497)
Valuation allowance		(4,981,673)		(2,447,327)
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 29.50% (December 31, 2007 – 32.12%) to loss before income taxes. The difference results from the following:

		For the Year Ended December 31, 2008		For the Year Ended December 31, 2007
Loss before provision for income taxes	$	10,496,871	$	6,737,746
Computed expected recovery		3,096,577		2,164,164
Deductible financing expenses		2,418		398,601
Enactment of tax rate changes and other		(477,166)		(916,161)
Non-deductible stock option and other expense		(87,483)		(169,644)
Change in valuation allowance		(2,534,346)		(1,476,960)
	$	-	$	–

The Company has $12,106,323 (2007 - $5,818,135) in non-capital losses available to claim against future taxable income. The non-capital losses expire as follows:

2013	$	112,701
2014		62,579
2015		54,746
2026		1,349,574
2027		4,498,250
2028		6,028,473
	$	12,106,323

The future income tax benefit of these losses has not been recognized in the accounts of the Company.

The Company has $6,043,547 (2007 - $2,407,079) in deductible SR&ED expenditures and $1,414,677 (2007 - $687,383) of SR&ED investment tax credits available to claim against future taxable income or income taxes. The investment tax credits expire between 2013 and 2028.

11. Financial Instruments

The Company's objective for investments is to hold securities which are highly liquid and temporary in nature. However, the Company currently holds an investment in asset backed commercial paper, which has become illiquid due to the issues discussed in note 6 above. All other securities are considered highly liquid. To date, the Company has not entered into derivative contracts to manage these risks.

Fair Value

The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair values due to the immediate or short-term maturity of these financial instruments. The carrying value of current debt approximates fair value as it bears a floating rate of interest.

While the Company believes that it has utilized an appropriate methodology to estimate the fair value of the Company's investment in ABCP, given the number of uncertainties there can be no assurance that management's estimate of potential recovery as at December 31, 2008 is accurate (details are outlined in note 6).

Interest Rate Risk

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

The Company is exposed to interest rate risk with respect to its current debt as this debt is subject to floating market rates of interest.

Currency Risk

A significant portion of the Company's revenues is made from sales to customers in foreign countries, and is denominated in United States dollars ("USD"). Accordingly, the Company is exposed to related foreign currency risk arising from fluctuations in USD exchange rates. The Company's objective in managing its foreign currency risk is to minimize its net exposure to USD by matching, to the extent possible, its USD revenues with USD purchases. The Company does not engage in any foreign currency hedging at this time.

The USD working capital exposure as at year end is as follows:

		December 31, 2008
Cash and cash equivalents	$	278,760
Accounts receivable		245,846
Accounts payable and accrued liabilities		(177,068)
Net exposure	$	347,538

11. Financial Instruments (cont'd)

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

		December 31, 2008
Revenue	$	3,291,865
Operating expenses		(2,334,819)
Net exposure	$	957,046

The table below depicts the average and ending USD to Canadian dollar exchange rates for the year ended December 31, 2008.

		Average exchange rate for year ended December 31, 2008		Exchange rate as at December 31, 2008
USD per one Canadian dollar	$	0.9441	$	0.8166

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

		Impact to net and comprehensive loss for the year ended December 31, 2008
1 cent strengthening in the Canadian dollar	$	(11,874)
1 cent weakening in the Canadian dollar	$	11,874

Other Price Risk

Other price risk could impact the Company's assumptions on value of and liquidity in its investment in asset backed commercial paper as outlined in note 6. While the Company believes that it has utilized an appropriate methodology to estimate fair value, given the number of uncertainties there can be no assurance that management's estimate of potential recovery as at December 31, 2008 is accurate.

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 four customers. The Company manages its credit risk by closely monitoring the granting of credit. Trade receivables that are greater than 30 days are considered past due but not impaired. Based on the status of trade accounts receivables, no allowance for doubtful accounts has been recorded as at December 31, 2008.

11. Financial Instruments (cont'd)

The aging of accounts receivable as at year end is as follows:

		December 31, 2008
Current	$	223,245
1 - 30 days		39,601
31 – 60 days		43,976
61 – 90 days		-
Over 90 days		5,518
	$	312,340

Credit risk includes the Company's assumptions on value and on liquidity from its investment in asset backed commercial paper as outlined in note 6. While the Company believes that it has utilized an appropriate methodology to estimate fair value, given the number of uncertainties there can be no assurance that management's estimate of potential recovery as at December 31, 2008 is accurate.

Capital Risk Management

The Company's objectives for managing capital are:

i. To safeguard the Company's ability to continue as a going concern, so that it can provide adequate returns for shareholders and benefits for other stakeholders.

ii. To ensure sufficient liquidity to enable the internal financing of capital thereby facilitating its ability to continue operations and eventually achieve profitable operations.

iii. To maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Company considers the items included in capital to include shareholders' equity, short-term lines of credit, and long-term debt. The Company manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, financing environment and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, new debt, draw on lines of credit, or scale back the size and nature of its operations. The Company's management of its capital is dependent upon successful execution of its restructuring and cost containment plans and on its ongoing efforts to focus on core vertical markets and achieve profitable operations. The Company is not subject to externally imposed capital requirements.

		December 31, 2008		December 31, 2007
Current debt	$	355,587	$	-
Shareholders' equity		1,801,083		11,166,879
	$	2,156,670	$	11,166,879

12. 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. enters 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.

13. Economic dependence

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

14. 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
Year Ended December 31, 2008	**$**	**320,254**	**3,291,865**	**$**	**3,612,119**
Year Ended December 31, 2007	$	94,230	2,306,245	$	2,400,475

The Company derives significant revenues from three major customers all of which exceed 10% of total revenues for the twelve months ended December 31, 2008. The first customer accounts for $1,080,613 (2007 - $894,212) of revenues, the second customer accounts for $749,484 (2007 - $687,794) of revenues and the third customer accounts for $581,542 (2007 - $310,415) of revenues. Substantially all of the Company's assets are located in Canada.

15. Commitments

Acceleware Corp entered into a premise lease on 9,262 square feet of office space commencing June 1, 2007, and ending on May 31, 2012, a period of five years. The Company secured an additional 2,015 square feet of office space commencing January 1, 2008 for balance of the term, period ending May 31, 2012. A rent inducement of $46,310 was received and will be amortized over the term of the lease and be recorded as a reduction to rent expense. In addition to the basic monthly rent, the Company must pay a proportionate share of realty taxes, operating costs, utilities and additional services. The minimum annual basic rent commitments are as follows:

2009	$	189,694
2010		189,694
2011		189,694
2012		79,039
Thereafter		-

16. Related Party Transactions

In 2008, the Company incurred expenses in the amount of $83,194 to a company controlled by an officer of the Company as fees for duties performed in managing operations. These fees occurred in the normal course of operations and have been recognized at the agreed to exchange amount which in the opinion of management approximates fair value for services rendered. In addition, three officers of the Company have advanced $62,981 to the Company. These amounts are non-interest bearing, unsecured and are to be repaid no later than August 31, 2009. These amounts are recorded in accounts payable.

17. Restructuring

On July 22, 2008, Acceleware disclosed that as a result of the July 18, 2008 announced withdrawal of its short form prospectus offering, it would be restructuring the organization and reducing expenditures, including reducing the number of personnel from approximately 90 to 39 as at December 31, 2008.

To date, restructuring charges of approximately $1,234,313 have been incurred, primarily related to severance of $330,681, vacation liabilities of $84,409, net loss on disposal of property and equipment of $299,778, impairment of leasehold improvements and furniture and fixtures of $271,445 and prospectus offering costs of $248,000. The restructuring charges related to severance, vacation liabilities and prospectus offering costs are recorded on the Statement of Operations under general and administrative expenses. As at December 31, 2008, a balance of approximately $67,750 of the restructuring charges is outstanding in accounts payable and accrued liabilities. The Company may incur further restructuring charges of approximately $100,000 prior to January 31, 2009 and estimates the completion of the overall restructuring by March 31, 2009.

18. Subsequent Events

Subsequent to the year end, the Company granted 1,817,500 options to purchase common shares of the Company to certain directors, officers and employees. On January 9, 2009, 1,617,500 options were granted. The options have an exercise price of $0.10 per common share and expire on January 9, 2014. One-half of the options vest immediately and the remaining options shall vest on the first anniversary of the grant date. On February 15, 2009, 200,000 options were granted. The options have an exercise price of $0.10 per common share and expire on February 15, 2014. One-half of the options shall vest six months after the grant date and the remaining options shall vest eighteen months after the grant date.