

Acceleware Corp.

**Financial Statements
December 31, 2010 and 2009**

Acceleware Corp.

Financial Statements December 31, 2010 and 2009

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Acceleware Corp.

Management's Report to Shareholders

The accompanying financial statements of Acceleware Corp. (the "Company", the "Corporation" or "Acceleware") have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements and other financial information have been prepared using the accounting policies described in Note 2 to the financial statements and reflect management's best estimates and judgements based on available information.

The Corporation's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. Management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this report is consistent with the information presented in the financial statements.

Meyers Norris Penny, LLP, an independent firm of Chartered Accountants, was engaged to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and their independent professional opinion is provided herein.

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

(Signed)
Geoff Clark
Chief Executive Officer
March 3, 2011

(Signed)
Michal Okoniewski
Chief Scientific Officer

Independent Auditors' Report

To the Shareholders of Acceleware Corp.:

We have audited the accompanying financial statements of Acceleware Corp., which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Acceleware Corp. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance in Canadian generally accepted accounting principles.

Emphasis of Matter – Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company has incurred a loss for the period of \$738,994 and has an accumulated deficit of \$21,673,373. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

Meyer Norris Penny LLP

Calgary, Alberta
March 3, 2011

Chartered Accountants

Acceleware Corp.

Balance Sheets As at December 31:

	2010	2009
Assets		
Current		
Cash and cash equivalents	\$ 353,584	\$ 547,172
Accounts receivable	517,584	567,210
Alberta SR&ED tax credits receivable (note 9)	109,301	178,974
Prepaid expenses	22,748	16,709
	1,003,217	1,310,065
Property and equipment (note 4)	272,241	565,437
	\$ 1,275,458	\$ 1,875,502
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 536,654	\$ 574,282
Deferred revenue	123,945	207,015
	660,599	781,297
Going concern (note 1)		
Commitments (note 14)		
Subsequent events (note 16)		
Shareholders' Equity		
Share capital (note 7)	16,474,036	16,359,210
Contributed surplus (note 7)	5,814,196	5,669,374
Deficit	(21,673,373)	(20,934,379)
	614,859	1,094,205
	\$ 1,275,458	\$ 1,875,502

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:

	2010	2009
Revenue	\$ 2,484,441	\$ 3,598,997
Expenses		
Cost of revenue	458,626	1,026,983
General and administrative	1,605,673	2,457,726
Research and development (note 8)	1,006,098	1,181,534
Gain on investment (note 6)	—	(82,328)
(Gain) loss on disposal of property and equipment	(1,509)	3,627
Amortization	154,547	118,847
	3,223,435	4,706,389
Loss for the period, being comprehensive loss	(738,994)	(1,107,392)
Deficit, beginning of period	(20,934,379)	(19,826,987)
Deficit, end of period	\$ (21,673,373)	\$ (20,934,379)
Loss per share		
Basic and diluted	\$ (0.01)	\$ (0.02)
Weighted average shares outstanding	54,138,364	51,372,681

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

Acceleware Corp.

Statements of Cash Flows For the Years Ending December 31:

	2010	2009
Cash flows from (used for) operating activities		
Loss for the period, being comprehensive loss	\$ (738,994)	\$ (1,107,392)
Items not involving cash:		
Amortization	309,094	237,694
(Gain) loss on disposal of property and equipment	(1,509)	3,627
Gain on investment (note 6)	—	(82,328)
Write-down of inventory	—	75,101
Accrued interest on debt	—	2,850
Stock-based compensation (note 7)	144,822	302,670
	(286,587)	(567,778)
Changes in non-cash working capital items		
Accounts receivable	49,626	(254,870)
Alberta SR&ED tax credit receivable	69,673	(178,974)
Prepaid expenses	(6,039)	30,874
Inventories	—	191,036
Accounts payable and accrued liabilities	60,289	(118,769)
Deferred revenue	(83,070)	(40,305)
	(196,108)	(938,786)
Cash flows from financing activities		
Proceeds from issuing debt (note 5)	—	123,000
Repayment of debt (note 5)	—	(481,438)
	—	(358,438)
Cash flows from investing activities		
Proceeds from investment (note 6)	—	804,145
Proceeds from sale of property and equipment	2,520	5,546
Purchase of property and equipment	(16,909)	(18,019)
Change in non-cash working capital	16,909	—
	2,520	791,672
Decrease in cash and cash equivalents	(193,588)	(505,552)
Cash and cash equivalents, beginning of year	547,172	1,052,724
Cash and cash equivalents, end of year	\$ 353,584	\$ 547,172
Comprised of:		
Cash on hand	\$ 313,564	\$ 484,101
Cash equivalents	40,020	40,020
	\$ 353,584	\$ 547,172
Interest received	\$ 204	\$ 35,664
Interest paid	\$ 725	\$ 876
Income taxes paid	\$ 945	\$ —

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

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

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

Acceleware Corp. (the "Company" or "Acceleware") 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 also provides specialized software development services and training programs in the field of high performance computing. 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 \$21,673,373 (including a net loss of \$738,994 for the year ended December 31, 2010) 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 new revenue streams such as a software-only products, consulting services and training; 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.

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

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.

Cash and cash equivalents

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

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

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

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

Beginning in 2009, the Company claims provincial (Alberta) investment tax credits as a result of incurring scientific research and experimental development ("SR&ED") expenditures. Provincial investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the provincial investment tax credit claim. The provincial investment tax credits are refundable and have been recorded as Alberta SR&ED tax credit receivable, and as a reduction in research and development on the income statement. It is possible that the allowed amount of the provincial investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency and the Alberta Tax and Revenue Administration.

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, lab supplies, and an allocation of office costs and fixed asset amortization. No development costs have been deferred as at December 31, 2010 or as at December 31, 2009.

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 accounts receivable on the balance sheet when there is reasonable assurance of recovery. As at December 31, 2010 there was \$6,248 (December 31, 2009 - \$70,215) included in accounts receivable pursuant to government assistance programs.

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.

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

2. Significant Accounting Policies (cont'd)

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.

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. Total foreign exchange losses of \$35,214 (2009 - \$79,270) are included in income, of which \$33,639 (2009 - \$76,314) were realized.

Earnings (loss) per share

Basic net earnings (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.

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; amortization; asset valuations; impairment assessments for investments and long-lived assets; taxes and related valuation allowances and provisions; fair value of stock-based compensation; fair value of warrants and contingencies. Actual results could differ from those estimates.

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Notes to Financial Statements December 31, 2010 and 2009

2. Significant Accounting Policies (cont'd)

Financial Instruments

All financial instruments, including all derivatives, are recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired. 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 Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

The fair value of cash and cash equivalents is considered to be Level 1.

3. Recent Accounting Pronouncements Issued and not yet Effective

International Financial Reporting Standards:

In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company's first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period of 2010. Starting in the first quarter of 2011, the Company will provide unaudited financial information in accordance with IFRS including comparative figures for 2010. The Company has completed a preliminary assessment of the accounting and reporting differences likely to affect the Company's reporting under IFRS as compared to current Canadian GAAP, however, management has not yet finalized its determination of the impact of these differences on the financial statements.

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

3. Recent Accounting Pronouncements Issued and not yet Effective – cont'd

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Handbook: Section 1582, Business Combinations; Section 1601, Consolidated Financial Statements; and Section 1602, Non-controlling Interests. These sections replace the former Handbook Section 1581, Business Combinations, and Handbook Section 1600, Consolidated Financial Statements, and establish new sections for accounting for a non-controlling interest in a subsidiary. Handbook Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Handbook Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011 and allows for early adoption. The Company is currently assessing the effect these standards may have on the Company's results of operations and consolidated financial position.

Equity

In August 2009, the AcSB issued amendments to Section 3251 Equity as a result of issuing Section 1602 Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The new standards are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The amendments apply only to entities that have adopted Section 1602 and are not expected to have an impact on the Company's financial statements.

Comprehensive revaluation of assets and liabilities:

In August 2009, the AcSB issued amendments to Section 1625 Comprehensive Revaluation of Assets and Liabilities for consistency with new Section 1582 Business Combinations. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011 and are not expected to have an impact on the Company's financial statements.

Revenue recognition

In December 2009, the CICA issued EIC 175, *Multiple Deliverable Revenue Arrangements*, replacing EIC 142, *Revenue Arrangements with Multiple Deliverables*. This abstract was amended to: (1) exclude from its application those arrangements that would be accounted for in accordance with Financial Accounting Standards Board (FASB) Statement of Position (SOP) 97-2 Software Revenue Recognition as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

4. Property and equipment

December 31, 2010				
	Cost	Accumulated Amortization and Impairment		Net Book Value
Furniture and fixtures	\$ 263,377	\$ 206,958	\$	56,419
Computer hardware	662,957	557,484		105,473
Computer software	77,659	77,659		—
Leasehold improvements	647,126	536,777		110,349
	\$ 1,651,119	\$ 1,378,878	\$	272,241

December 31, 2009				
	Cost	Accumulated Amortization and Impairment		Net Book Value
Furniture and fixtures	\$ 265,527	\$ 194,092	\$	71,435
Computer hardware	656,690	350,931		305,759
Computer software	77,659	77,659		—
Leasehold improvements	647,126	458,883		188,243
	\$ 1,647,002	\$ 1,081,565	\$	565,437

50% of amortization expense is allocated to research and development. For the year ended December 31, 2010 \$154,547 (2009 – \$118,847) in amortization expense is included in research and development expense on the statement of operations, comprehensive loss and deficit.

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

5. Current Debt

In the year ended December 31, 2009, the Company utilized a line of credit that was secured by the Company's investment in third party non-bank sponsored asset backed commercial paper ("ABCP"). The line of credit had a maximum limit of \$410,479 that could be increased at the lender's option, was due on demand, had no set maturity date, had an interest rate of 90 day Bank of Montreal Bankers Acceptances and required payments of interest only. \$nil was outstanding on the line of credit as of December 31, 2010 and 2009. The line of credit was eliminated with the sale of the Company's investment in ABCP.

6. Investment - Asset Backed Commercial Paper

The Company held an investment in third party ABCP with a face amount of \$1,441,241, 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 continued to hold the investment into 2009. As liquidity developed throughout 2009, the Company was able to liquidate the investment for gross proceeds of \$752,466 on December 9, 2009.

The company received a payment of \$49,176 in the three months ended March 31, 2009 which was its share of accumulated interest in the conduit trusts from August 2007 to August 2008. The balance of interest in the conduit trusts of \$20,360 was paid to the Company in the three months ended June 30, 2009, and recorded as interest income.

On July 31, 2009 the Company received a partial redemption of its class A-1 notes of \$2,501. The Company liquidated its investment in December, 2009 for proceeds of \$752,466 resulting in a gain of \$82,328 for the year ended December 31, 2009. The following table shows the changes in fair value since December 31, 2008:

Fair value, December 31, 2008	\$	721,817
Accumulated interest received January 21, 2009		(49,176)
Redemption		(2,501)
Sale of notes		(752,466)
Gain on sale of investment		82,328
Fair value, December 31, 2009 and 2010	\$	—

The difference between the fair value determined as at December 31, 2008 and the sum of the sale proceeds, the accumulated interest received on January 21, 2009 and the redemption was included in income as a gain on investment.

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

7. 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, 2008	50,281,330	\$ 16,261,366
Issued in satisfaction of debt (i)	1,956,905	97,844
Balance, December 31, 2009	52,238,235	\$ 16,359,210
Issued in satisfaction of debt (ii)	2,296,513	114,826
Balance, December 31, 2010	54,534,748	\$ 16,474,036

- (i) Effective June 11, 2009 the Company settled outstanding indebtedness of \$97,844 through the issuance of common shares of the Company ("Common Shares") at deemed prices of \$0.05 per Common Share (the "Debt Settlement"). The deemed price of \$0.05 was determined using the weighted average closing price of the Common Shares on the TSX Venture exchange for the five trading days preceding June 11, 2009. The outstanding debt was comprised of employee wages and consulting fees. As part of the restructuring that occurred in 2008, certain employees voluntarily agreed to defer a portion of their salary and subsequently agreed to convert such debt into Common Shares. A total of 1,956,905 Common Shares were issued under the debt settlement.
- (ii) Effective March 3, 2010 the Company settled outstanding indebtedness of \$114,826 through the issuance of common shares of the Company ("Common Shares") at deemed prices of \$0.05 per Common Share (the "Debt Settlement"). The deemed price of \$0.05 was determined using the weighted average closing price of the Common Shares on the TSX Venture exchange for the five trading days preceding March 3, 2010. The outstanding debt was comprised of employee wages and consulting fees. A total of 2,296,513 Common Shares were issued under the debt settlement.

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

7. Share capital (cont'd)

Stock options

During the year ended December 31, 2010, the Company granted to certain employees, officers, and directors, a series of options to purchase a total of 1,355,000 Common Shares at an exercise price of \$0.10 per share. 677,500 of the options will vest immediately and 677,500 will vest one year from the date of grant. The options expire 5 years from the date of grant. The exercise price was based upon the minimum option price allowed by the TSX Venture Exchange, which was higher than 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 \$0.069 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 223%, a risk-free interest rate of 2.11%, expected dividend yield of nil% and expected life of 5 years. The estimated fair value of the options is amortized to expense over the option vesting period on a straight line basis. Total stock based compensation expense for the year ended December 31, 2010 was \$144,822 (year ended December 31, 2009 - \$302,670).

During the year ended December 31, 2009, the Company granted to certain employees officers, and directors, a series of options to purchase a total of 1,917,500 Common Shares at an exercise price of \$0.10 per share. 858,750 of the options will vest immediately, 100,000 will vest six months from the date of grant, 858,750 will vest one year from the date of grant, and 100,000 will vest eighteen months from the date of grant. The options expire 5 years from the date of grant. The exercise price was based upon the minimum option price allowed by the TSX Venture Exchange, which was higher than 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 \$0.057 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 278%, a risk-free interest rate of 1.85% and expected dividend yield of nil% and expected life of 5 years. The estimated fair value of the options is amortized to expense over the option vesting period on a straight line basis.

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, 2008	2,595,716	0.525
Granted	1,917,500	0.100
Forfeited	(796,286)	0.445
Balance, December 31, 2009	3,716,930	0.323
Granted	1,355,000	0.100
Forfeited	(1,178,529)	0.311
Expired	(787,501)	0.222
Balance, December 31, 2010	3,105,900	0.256

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

7. Share capital (cont'd)

Summary of options outstanding and exercisable as at December 31, 2010 are as follows:

Range of exercise price outstanding		Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.10	\$0.10	2,412,500	3.51	\$0.100	1,895,000
0.25	0.25	36,429	0.03	0.250	36,429
0.44	0.70	243,971	0.71	0.481	232,721
0.80	1.14	413,000	1.46	1.032	385,100
\$0.10	\$1.14	3,105,900	2.98	\$0.256	2,549,250

Summary of options outstanding and exercisable as at December 31, 2009 are as follows:

Range of exercise price outstanding		Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable
\$0.10	\$0.10	1,857,500	4.07	\$0.100	928,750
0.20	0.31	856,788	0.33	0.224	829,788
0.38	0.60	308,142	1.47	0.441	308,142
0.70	0.90	259,500	2.94	0.829	155,400
1.08	1.14	435,000	2.33	1.083	435,000
\$0.10	\$1.14	3,716,930	2.71	\$0.323	2,657,080

Contributed surplus

Contributed surplus consists of the following:

Balance, December 31, 2008	\$	3,960,120
Stock-based compensation		302,670
Expiry of warrants		1,406,584
Balance, December 31, 2009	\$	5,669,374
Stock-based compensation		144,822
Balance, December 31, 2010	\$	5,814,196

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

8. 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. Research and development costs incurred during the period are as follows:

	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009
Research and development costs, includes stock-based compensation expense of \$42,418 (2009 – \$81,299)	\$ 1,420,736	\$ 1,735,910
Government assistance – NRC IRAP (non-refundable)	(172,420)	(189,402)
Government assistance – Alberta Ingenuity Fund	(132,917)	(186,000)
Alberta refundable SR&ED tax credits	(109,301)	(178,974)
	\$ 1,006,098	\$ 1,181,534

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 September 30, 2012 and the date total repayments equal 150% (\$441,563) of the funding advanced. If the total payments made by the Company as of September 30, 2012 are less than 100% of the funding advanced, payments will continue until the earlier of December 31, 2018 and the date total repayments equal 100% of the funding advanced. The Company's assistance for NRC IRAP and Alberta Ingenuity Fund for the years ended December 31, 2010 and December 31, 2009 is non-refundable.

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Notes to Financial Statements December 31, 2010 and 2009

9. Income taxes

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

	December 31, 2010	December 31, 2009
Future income tax assets:		
Non-capital losses carried forward	\$ 3,434,736	\$ 3,415,174
Share issue costs	62,868	131,992
Scientific research and experimental development tax pools	1,586,130	1,450,798
Capital losses carried forward	86,097	86,097
Property and equipment and other	49,507	52,607
Valuation allowance	(5,219,338)	(5,136,668)
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 28.00% (December 31, 2009 – 29.00%) to loss before income taxes. The difference results from the following:

	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009
Loss before provision for income taxes	\$ 738,994	\$ 1,107,392
Computed expected recovery	206,918	321,144
Enactment of tax rate changes and other	(79,410)	(71,802)
Non-deductible expense	(44,838)	(94,346)
Change in valuation allowance	(82,670)	(154,996)
	\$ —	\$ —

The Company has \$13,738,945 (2009 - \$13,660,695) in non-capital losses available to claim against future taxable income. The company has 688,775 in capital losses available to claim against future capital gains. 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	7,168,037
2029	326,065
2030	166,993
	\$ 13,738,945

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

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

9. Income taxes (cont'd)

The Company has \$6,344,519 (2009 - \$5,803,192) in deductible SR&ED expenditures and \$1,980,924 (2009 - \$1,778,209) of SR&ED investment tax credits available to claim against future taxable income or income taxes. The investment tax credits expire between 2014 and 2030.

The Company recorded \$109,301 in refundable Alberta SR&ED tax credits for the year ended December 31, 2010 (2009 - \$178,974). The Alberta SR&ED tax credits are recorded as a reduction of research and development expenses.

10. Financial Instruments

Fair Value

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

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.

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 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, 2010	December 31, 2009
Cash and cash equivalents	\$ 186,672	\$ 184,405
Accounts receivable	477,675	444,638
Accounts payable and accrued liabilities	(17,925)	(16,340)
Net exposure	\$ 646,422	\$ 612,703

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

10. Financial Instruments (cont'd)

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

	Year ended December 31, 2010	Year ended December 31, 2009
Revenue	\$ 2,357,014	\$ 3,016,129
Expenses	(239,816)	(490,632)
Net exposure	\$ 2,117,198	\$ 2,525,497

The table below depicts the average and ending USD to Canadian dollar exchange rates for the period.

	Average exchange rate for year ended December 31, 2010	Average exchange rate for year ended December 31, 2009	Exchange rate as at December 31, 2010	Exchange rate as at December 31, 2009
USD per one Canadian dollar	\$ 0.9690	\$ 0.8800	\$ 1.0054	\$ 0.9555

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.

	decrease/(increase) in net and comprehensive loss for the year ended December 31, 2009	decrease/(increase) in net and comprehensive loss for the year ended December 31, 2009
1 cent strengthening in the Canadian dollar	\$ (27,015)	\$ (28,079)
1 cent weakening in the Canadian dollar	\$ 27,015	\$ 28,079

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, 2010.

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

	December 31, 2010	December 31, 2009
1 – 30 days	\$ 473,316	\$ 430,807
31 - 60 days	22,842	59,618
61 – 90 days	1,463	29,686
91 – 120 days	10,576	45,462
Over 120 days	9,387	1,637
	\$ 517,584	\$ 567,210

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

10. Financial Instruments (cont'd)

Liquidity Risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or that it can only do so at an abnormally high cost.

The Company plans to manage its cash flow and investment in new products to match the cash requirements to cash generated from operations. 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.

Management strives to maintain an optimum level of liquidity by actively managing assets, liabilities and cash flows. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity. Based on the Company's aggregate liquid assets as compared to its liabilities and commitments, management assesses liquidity risk to be low, subject to the ability to generate positive cash flows from operations.

Acceleware's liabilities are all due within one year and are as indicated in the following table:

	December 31, 2010		December 31, 2009
Accounts payable and accrued liabilities	\$	536,654	\$ 574,282
Deferred revenue		123,945	207,015
	\$	660,599	\$ 781,297

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

10. Financial Instruments (cont'd)

Capital Risk Management

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

The Company's objectives for managing capital are:

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

The Company considers the items included in capital to include shareholders' equity, 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. As at December 31, 2010 shareholders' equity was \$614,859 (2009 - \$1,094,205) and the Company had no debt (2009 - \$nil).

11. 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.

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

12. 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.

13. Segmented information

The Company operates in an international market within one reportable industry segment.

(a) Geographic segmentation is as follows:

Revenue:		Canada	Foreign Countries		Total
Year Ended December 31, 2010	\$	128,152	2,356,289	\$	2,484,441
Year Ended December 31, 2009	\$	582,868	3,016,129	\$	3,598,997

(b) Product segmentation of revenue is as follows:

		Year ended December 31, 2010		Year ended December 31, 2009
Product sales	\$	587,065	\$	1,762,806
Consulting		1,531,822		1,309,801
Maintenance		365,350		490,726
Interest		204		35,664
	\$	2,484,441	\$	3,598,997

The Company derives significant revenues from major customers each of whom exceed 10% of total revenues for either the year ended December 31, 2010 or the year ended December 31, 2009.

		Year ended December 31, 2010		Year ended December 31, 2009
Customer A	\$	582,125	\$	499,993
Customer B		417,417		93,045
Customer C		284,248		251,844
Customer D		134,274		1,210,121
Customer E		-		461,634
	\$	1,418,064	\$	2,516,647

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

Acceleware Corp.

Notes to Financial Statements December 31, 2010 and 2009

14. 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 is included in accounts payable and accrued liabilities 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:

2011	\$	189,694
2012		79,039
Thereafter		-
	\$	268,733

15. Related Party Transactions

- (a) In 2010, the Company incurred expenses in the amount of \$134,690 (2009- \$168,180) to a company controlled by an officer of the Company as fees for duties performed in managing operations, and is included in research and development. Of the total, \$10,626 was included in accounts payable as at December 31, 2010 (December 31, 2009 - \$11,811). 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.
- (b) Four officers of the Company have advanced \$94,062 (2009 - \$73,560) to the Company. These amounts are non-interest bearing, unsecured and are to be repaid no later than December 31, 2011. These amounts are recorded in accounts payable.
- (c) For the year ended December 31, 2010 the Company received sub-lease rent in the amount of \$108,900 (2009 - \$148,123) from a corporation which had a director who is also a member of the Company's board of directors. The rent occurred in the normal course of operations and has been recognized at the agreed to exchange amount which in the opinion of management approximates fair market value for the space sub-leased. As of March 12, 2010, the director was no longer a member of the other corporation's board of directors.

16. Subsequent Events

On February 18, 2011, the Company entered into an agreement with an arm's length private company pursuant to which Acceleware will complete a reorganization transaction that is anticipated to provide net proceeds to Acceleware of \$900,000 (the "Proposed Transaction"). The Proposed Transaction involves a corporate restructuring of Acceleware, which will be completed pursuant to a court approved plan of arrangement. Acceleware will transfer all of its assets and liabilities to a new company to be incorporated under and governed by the Business Corporations Act (Alberta) ("New Acceleware") and, as a result, will no longer have access to the tax accounts of Acceleware. New Acceleware will conduct exactly the same business formerly conducted by Acceleware. New Acceleware will use the new financing to accelerate its product development efforts, to increase its marketing and sales presence in its target markets, and for general working capital purposes.