

**ACCELEWARE CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

This management's discussion and analysis of financial condition and results of operations ("MD&A") should be read together with Acceleware Corp.'s ("Acceleware", the "Corporation" or the "Company") audited annual financial statements and the accompanying notes for the year ended December 31, 2010 (the "Financial Statements") which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "GAAP"). Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) under Acceleware Corp.

This MD&A is presented as of March 3, 2011. All financial information contained herein is expressed in Canadian dollars unless otherwise indicated.

**Forward Looking Statements**

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

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

- the expectation of Acceleware's ability to continue operating as a going concern, fund its operations through the sale of its products and services, and access external financing if required;
- projections of sales increases through focus on core markets, increasing the number of independent software vendor ("ISV") partners, and continuous performance improvements;
- potential benefits to Acceleware's customers, including cost savings and increases to cash flow and productivity;
- advantages to using Acceleware's products and services;
- ease and efficiency of implementing Acceleware's products and services; and
- supply and demand for Acceleware's primary products and services.

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

- that the cost savings initiatives taken to date, coupled with the future revenue and cash flow expected by the Company's management ("Management") will be sufficient to fund future operations - this assumption being subject to the risk and uncertainty that the Company may not generate enough cash flow from operating activities to meet its capital requirements and that the Company may not be able to secure additional capital resources from external sources to fund any shortfall. Operating cash flow may be negatively impacted by general economic conditions, increased competition, increased equipment or labour costs, and adverse movements in foreign currencies. Should the Company experience a cash flow shortfall from operating activities, Management's contingency plan may not be sufficient to reverse the shortfall;
- that it will be able to increase sales of its products and services by focussing on key vertical markets, increasing the number of ISV partners, and continuously improving its products – which is subject to the risks that sales in core vertical markets may be negatively affected by general

- economic conditions, that the Company may not be able to successfully attract and integrate its offerings into ISVs' products and that its research and development efforts may be unable to develop continuous improvements; and
- that it will be able to withstand the impact of increasing competition – which is subject to the risk that the adoption of graphics processing unit (“GPU”) computing (and any future hardware platform utilized by the Company) may be negatively affected by future advances in competing technology.

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

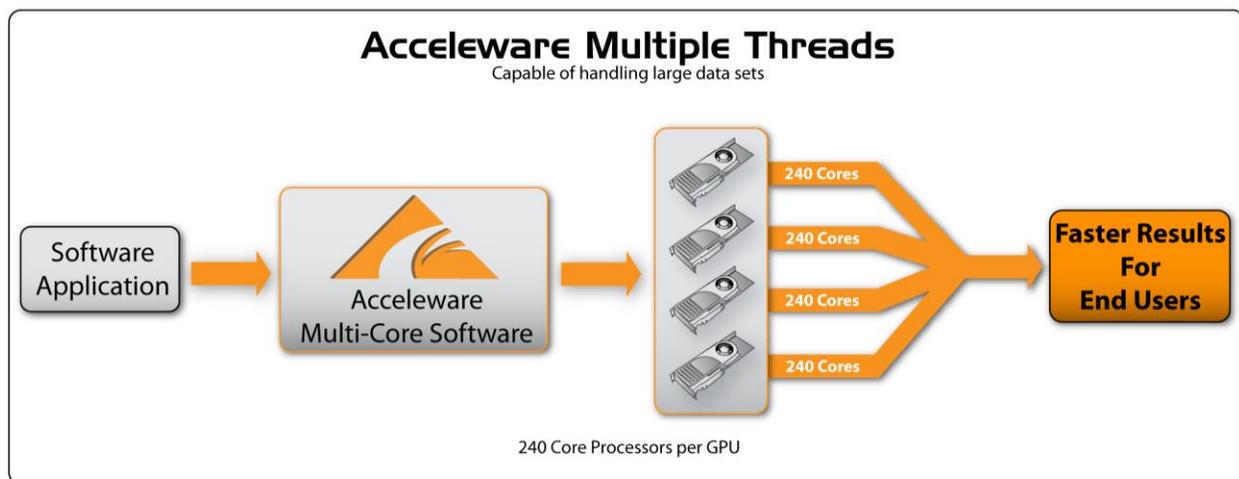
**Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Forward-looking statements include statements with respect to the timing and amount of estimated future revenue and sales and the Corporation's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

## Company Overview

Acceleware is a high performance computing (“HPC”) company that specializes in developing technologies that significantly reduce the computer processing time required for large scale mathematical calculations. Acceleware develops and sells specialized proprietary software; a combination of specialized proprietary software and third party hardware; and consulting services.

Acceleware solutions and services are deployed by major organizations worldwide to accelerate computer simulation and data processing applications in areas such as computer aided engineering (“CAE”), oil and gas exploration and development, medical imaging, industrial and consumer product design, and academic research. Acceleware’s core markets are CAE and oil and gas exploration and development applications. Computing tasks in these fields can take several days, weeks, months or a year to complete, and represent a major bottleneck that prevents progress and innovation. Acceleware’s solutions allow organizations to accomplish the same tasks many times faster (for example hours rather than days, or days rather than weeks), and also allow organizations to tackle larger, more complex problems. By enhancing a client’s ability to compute, Acceleware helps them to compete.

Acceleware’s proprietary software interface allows existing software programs to utilize the multi-core computing platforms that are available today. The Company’s proprietary software allows these existing third-party software applications to leverage a combination of Graphic Processing Units (“GPUs”), Central Processing Units (“CPUs”) and/or other many-core accelerator technologies as mathematical co-processors. Through this technology, Acceleware has brought supercomputing to the desktop.



In CAE, most of the major mobile telephone manufacturers in the world are using Acceleware’s electromagnetic design solutions to design their products more rapidly. Acceleware’s fourth-generation software acceleration solutions that support multi-board GPU solutions can accelerate entire industrial simulation and processing applications by over 35 times.

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

In the CAE market, Acceleware partners with software developers to increase the speed at which partners’ software runs. Some of the Company’s current software partners include SPEAG, Synopsys and Agilent Technologies. Acceleware reaches the CAE market through a combination of partner channels and direct sales.

Acceleware has developed seismic data processing applications for customers and partners in the oil and gas exploration and development market. Acceleware accesses the oil and gas exploration and development market through a combination of channel and direct sales. The Company provides partners with software solutions as an add-on or replacement to an existing seismic data processing platform to increase the functionality of and/or the speed of partners' software. Some of the Company's current software partners include Tsunami Development and Paradigm Geophysical.

In a variety of markets, Acceleware provides HPC consulting services to developers and users, under fixed price or hourly contracts. In addition to these consulting services, Acceleware provides public and private training courses to developers of HPC solutions.

Acceleware was founded in February 2004 by a group of graduate students and professors from the University of Calgary's Electrical Engineering department and became a public company on the TSX Venture Exchange in January 2006 through a reverse takeover of a capital pool company, Poseidon Capital Corp. The Company is headquartered in Calgary, Alberta. As at December 31, 2010, Acceleware had 22 employees including: 2 in administration; 5 in sales, marketing, and product management; and 15 in research and development.

## **Overall Performance**

During the year ended December 31, 2010 Acceleware showed significantly improved profitability and cash flow from operating activities, compared to the year ended December 31, 2009. However, revenue decreased in 2010 compared to the previous year. Profitability and cash flow from operating activities improved as the Company shifted its product mix to higher margin products, and continued to focus on controlling expenses. Revenue decreased principally due to the absence in 2010 of a large one time sale of software that occurred in 2009. In addition, the Company focussed on software and services in 2010, and had reduced hardware sales compared to 2009.

The Company had a net loss for the year ended December 31, 2010 of \$738,994 a 33% decrease compared to a net loss of \$1,107,392 for the year ended December 31, 2009. The reduced net loss is a result of decreased expenses, primarily general and administrative, and cost of revenue, offset by reduced revenue. Throughout 2010, management continued to focus on cost reduction resulting in lower general and administrative expense. In addition, the focus away from hardware product sales caused a reduction in cost of revenue.

During the year ended December 31, 2010, Acceleware recognized revenue of \$2,484,411 representing a 31% decrease over the \$3,598,997 recognized during the year ended December 31, 2009. The decrease is a result of the absence in 2010 of a significant one-time sale of software that was recognised in 2009. In addition the Company focussed away from hardware sales which also reduced recognised revenue for 2010. The reduction in product sales also resulted in a reduction of maintenance revenue. However, consulting revenue increased in 2010 compared to 2009.

At December 31, 2010 Acceleware had \$342,618 (2009- \$528,768) in working capital, including \$353,584 (2009 - \$547,172) in cash and cash equivalents, and no (2009 - \$nil) short term debt. The decrease in working capital is due principally to the decrease in cash and cash equivalents. The decrease in cash and cash equivalents is due to cash used in operating activities. Management's objective is to manage cash flow and investment in new products to ensure that cash requirements do not exceed 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. 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, if required, 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 Company maintained positive cash flow for the second half of 2010.

## 2010 Highlights and Events

**January 19th, 2010** – the Company announced a partnership with Crosslight Software to deliver acceleration for thin-film solar cell and image pixel sensor simulations. It is expected that Crosslight's electrical and electromagnetics simulation tool for semiconductor design, combined with Acceleware's acceleration solution for the finite difference time domain (FDTD) algorithm now delivers simulation results up to 100X faster than the existing open source solver on a high end workstation.

**January 29th, 2010** – the Company announced that it has granted stock options to acquire up to 1,355,000 common shares of the Corporation to certain of its employees, officers and directors. The options have an exercise price of \$0.10 per common share and expire on January 29, 2015. One-half of the options vest immediately and the remaining options shall vest on the first anniversary of the grant date. The stock option grant is subject to regulatory approval. Further, the Corporation announced that James Bell resigned as Corporate Secretary of the Corporation and that Eric Keller of Davis LLP was appointed to fill that role.

**March 3, 2010** – the Company announced that on March 3, 2010 it settled outstanding indebtedness of \$114,825.66 through the issuance of common shares of the Company ("Common Shares") at deemed prices of \$0.05 per Common Share (the "Debt Settlement"), subject to TSX Venture Exchange final approval. The outstanding debt is 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 have now agreed to convert such debt into common shares. A total of 2,296,513 Common Shares were issued under the Debt Settlement. The Common Shares are subject to a four month hold period that expires on July 4, 2010.

**May 18, 2010** – the Company announced a marketing partnership with Microsoft Corporation to provide training courses for GPU programmers using CUDA™ and OpenCL programming languages that add detailed instruction on Microsoft's HPC Server 2008 cluster operating system. This new training offering targets developers planning to deploy applications on GPUs and HPC Server to write software for the Windows operating system that run on both workstations and cluster environments seamlessly.

**June 9th, 2010** – the Company announced a new distribution partnership with Paradigm™, a leading provider of enterprise software solutions to the global oil and natural gas exploration and production industry, to deliver a full-wave Reverse Time Migration (RTM) solution that incorporates Acceleware's RTM product, AxRTM™ optimized for clusters of multicore CPUs and GPUs.

**July 20, 2010** – the Company announced support for NVIDIA's next generation Fermi architecture of Tesla GPUs to power the company's line of Oil & Gas and Electromagnetic software acceleration products. The new Tesla 20-series Fermi GPUs combined with Acceleware software libraries deliver a significant performance boost for computing tasks while maintaining the GPU advantages for High Performance Computing (HPC) including low cost, lower energy requirements and a compact, flexible footprint.

**July 20, 2010** – The Company announced support for NVIDIA's next generation Fermi architecture of Tesla GPUs to power the company's line of Oil & Gas and Electromagnetic software acceleration products.

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**September 9, 2010** – The Company announced their fall 2010 comprehensive CUDA/OpenCL training schedule co-sponsored by Microsoft Corp. Acceleware’s upcoming five day CUDA/OpenCL training classes in association with Microsoft will take place at the following locations:

October 18-22 in Washington, DC  
November 8-12 in London, England  
November 15-19 in Tampa, Florida  
December 6-10 in Irvine, California

**September 16, 2010** – The Company announced that Geoff Clark has been appointed Chief Executive Officer of Acceleware.

**November 16, 2010** – The Company announced that it had entered into a consulting engagement (the “Consulting Agreement”) with a major oil company as a follow-on to a contract signed in mid-2009. The Consulting Agreement will enable one of the customer’s important in-house seismic imaging algorithms to run faster on multi-core CPU clusters. The Consulting Agreement is valued at between US\$175,000 and US\$250,000.

### **Strategic Update**

Prior to, and during 2009, Acceleware significantly changed its business strategy. Key changes were:

- changing its product sales model to predominantly software-only from a mixture of hardware and software;
- introduction of consulting services as a significant revenue stream; and
- narrowing the Company’s focus to two key verticals – CAE and oil and gas exploration applications.

Since the end of 2009, the following events and activities occurred:

#### *Change in product sales business model*

The Company continues to focus on software-only product sales and has not invested in hardware inventory during 2010. Key partners have adapted to the new model and are purchasing software tokens as expected. New products such as AxRTM for oil and gas applications are marketed using a software-only model.

#### *Consulting services business*

In 2009, Acceleware introduced consulting services as a product line. As GPU and high performance computing adoption increases, Acceleware has seen an increased demand for its specialized expertise both within its core verticals, and in new markets. The company provides proof of concept, contract development, software code porting, and training services to its consulting clients. Where possible, the Company uses services as leverage to increase adoption of its products with its core verticals.

Relative to 2009 the Company saw increased consulting services business in 2010 from key customers in oil and gas and in CAE. Consulting services relate to both GPU and CPU HPC projects, and in some cases aligns well with the Company’s core products. In several cases, the Company is developing long-term recurring business from key customers.

Acceleware has made significant progress in introducing NVIDIA’s new hardware programming language (CUDA) in its products and services and was one of the earliest adopters of NVIDIA’s Tesla GPU computing technology, the latter of which constitutes a vital platform for Acceleware’s software. Acceleware’s CUDA training sessions have become popular within the industry. During 2010 the Company announced support for the latest generation of Tesla GPU hardware.

In 2010 Acceleware hosted several CUDA training classes in both open enrolment format and custom designed for one organization. In 2010, the Company announced a partnership to offer CUDA and Open-CL (an open-source computing language) training classes in conjunction with Microsoft Corporation.

### Core verticals

In the CAE market, software is sold to end users primarily through channel partners or Independent Software Vendors (“ISV”) that have integrated Acceleware’s solution into their software packages. Acceleware currently works with some of the world’s largest companies in the electronics market, which consists of mobile phone manufacturers, industrial electronics firms, and government organizations. ISVs are an important sales channel for Acceleware, and work with the Company’s sales force by selling on Acceleware’s behalf, co-selling with Acceleware’s sales people, or referring potential customers to Acceleware. In 2010, Acceleware’s CAE ISV partners included Schmid & Partner Engineering AG (“SPEAG”), Remcom, Agilent Technologies, Synopsis, Inc., and Computer Simulation Technology (“CST”). The Company will continue to use ISVs with its software-only model.

To drive future sales growth, Acceleware will work to add new ISV partnerships. In addition to expanding the Company’s potential customer base, new ISV partnerships also provide Acceleware with additional reselling agents who are strongly incented to cross-sell Acceleware’s products alongside their software solutions.\*

In addition to adding ISV partners, Acceleware is working to deliver new products and solutions to address the needs of a larger proportion of the installed base of its ISV partners. The Company is continuously improving its software acceleration products and expects to continue to release improved products with significant increases in performance every year.\*

In 2010, the Company actively sold products and consulting services to the oil and gas exploration market. In late 2009, the Company introduced its latest release on AxRTM with TTI which the Company believes is a state-of-the-art RTM seismic data processing product. This and other seismic data acceleration solutions, with dense packaging and improved economics in power and cooling, provides a multi-fold performance increase that reduce lengthy processing times and enable expedited drilling decisions for the oil and gas industry. In 2010 several organizations began evaluations of AxRTM.

The Company currently sells product and services solutions into the oil and gas market and will continue to develop improvements to its products and intensify its marketing and business development activities in this market throughout 2011. The Company currently sells its seismic processing solutions through two resellers, and is actively pursuing other resellers. Acceleware has also seen significant sales directly to end-users in this market, and expects to continue to see significant direct sales going forward.\*

In 2010 the Company signed an agreement with Paradigm Geophysical to distribute AxRTM (the Company’s reverse time migration seismic application). Paradigm is a leading developer of software for the seismic processing industry. The Company is expecting to begin generating revenue from this partnership in 2011.\*

Management believes that adding new partners and increasing the proportion of the partners’ end-users that can be addressed by Acceleware’s solutions will drive revenue growth, strengthen Acceleware’s competitive position in the market verticals where Acceleware operates, and help to establish market leadership. Management believes that market leadership in these verticals will result in higher sales penetration over the long-term, as well as improved profitability. Growth in the Company’s existing vertical markets will be funded by operations, existing cash resources and investments in the Company and further financing as required from time to time.\*

Acceleware’s intellectual property is comprised of its proprietary algorithms, software algorithms and multi-core hardware interface that have been protected as trade secrets to date.

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## Selected Annual Information

The audited financial statements and the accompanying notes for the twelve month period ended December 31, 2010 (the “Financial Statements”) are incorporated by reference herein and form an integral part of Management’s Discussion and Analysis. The Financial Statements can be found on [www.sedar.com](http://www.sedar.com). All financial information is reported in Canadian dollars unless otherwise noted.

The following table shows selected financial information from Acceleware’s audited annual financial statements for the years ended December 31, 2010, December 31, 2009 and December 31, 2008.

	Twelve Months Ended Dec 31, 2010 (Audited)	Twelve Months Ended Dec 31, 2009 (Audited)	Twelve Months Ended Dec 31, 2008 (Audited)
Total revenue	\$2,484,441	\$3,598,997	\$3,797,916
Net loss	(\$738,994)	(\$1,107,392)	(\$10,496,871)
Loss per share (basic and diluted)	(\$0.01)	(\$0.02)	(\$0.25)
Total assets	\$1,275,458	\$1,875,502	\$3,097,041
Long-term debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

Acceleware’s recognized revenues have decreased over the three periods presented due to a change in product mix to focus on software and services and away from a software and hardware solution. Net loss decreased over the three years presented as management has focussed on cost reduction, and the switch away from hardware sales has reduced cost of revenue. Net loss decreased significantly from \$10,496,871 in 2008 to \$1,107,392 in 2009 as the Company completed a full year of restructured operations with reduced spending on research and development, marketing and sales, and general administration. Net Loss further decreased to \$738,994 in 2010 as the Company further reduced costs. The Company is now planning for more modest growth in revenue and expects its net loss to continue to decrease in future years. Total assets decreased from \$3,097,041 as at December 31, 2008 to \$1,875,502 as at December 31, 2009 due to net loss in fiscal 2009 and the absence of significant financing, total assets further decreased to \$1,275,458 as at December 31, 2010 due to the net loss in fiscal 2010.\*

## Results of Operations

### Revenue

During the year ended December 31, 2010, the Company reported total revenues of \$2,484,441, a 31% decrease compared to \$3,598,997 for the year ended December 31, 2009. The decrease is a result of two factors: the absence in 2010 of revenue from a one-time sale of software in 2009, and a reduction in hardware based product sales brought on by the Company’s switch to a software-only business model. As a result of these factors, product sales decreased 67% to \$587,065 for the year ended December 31, 2010 from \$1,762,806 recorded in the year ended December 31, 2009. The decrease in product sales also resulted in a decrease in maintenance revenue as fewer products earning maintenance were sold. Maintenance revenue decreased 26% to \$365,350 in 2010 from \$490,726 in 2009. The decrease in product sales and maintenance was partially offset by an increase in consulting revenue to \$1,531,822 in 2010 from \$1,309,801 in 2009, due principally to the increase revenue brought on by the introduction of Acceleware’s HPC training courses. Interest revenue decreased significantly from \$35,664 in the year ended December 31, 2009 to \$204 for the year ended December 31, 2010, due to a significant reduction in cash and cash equivalents and investments earning interest.

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<b>Revenue</b>	<b>Year ended December 31, 2010</b>	<b>Year ended December 31, 2009</b>	<b>Percentage change 2010/2009</b>
Product sales	\$ 587,065	\$ 1,762,806	-67%
Maintenance	365,350	490,726	-26%
Consulting	1,531,822	1,309,801	17%
Interest	204	35,664	-99%
	\$ 2,484,441	\$ 3,598,997	-31%

The Company recognizes approximately 82% of software product sales immediately and amortizes the remaining 18% of those sales (deferred revenue) into revenues over 13 months from the date of the sale. As at December 31 2010, revenue of \$123,945 (December 31, 2009 - \$207,015) is deferred, and will be recognized over a period of thirteen months or less.

#### Expenses

<b>Expenses</b>	<b>Year ended December 31, 2010</b>	<b>Year ended December 31, 2009</b>	<b>Percentage change 2010/2009</b>
Costs of revenue	\$ 458,626	\$ 1,026,983	-55%
General and administrative	1,605,673	2,457,726	-35%
Research and development	1,006,098	1,181,534	-15%
(Gain) write-down of investment	--	(82,328)	N/A%
Loss on disposal of assets	(1,509)	3,627	-142%
Amortization	154,547	118,847	30%
	\$ 3,223,435	\$ 4,706,389	-32%

Expenses decreased 32% during the year ended December 31, 2010 to \$3,223,435 from \$4,706,389 for the year ended December 31, 2009. The decrease is a result of the significant reductions in expenses brought about by management's continued focus on cost reduction across all expense categories in 2010.

Cost of revenue for year ended December 31, 2010 decreased 55% to \$458,626 from \$1,026,983 in the year ended December 31, 2009. The reduction is due to a reduction in hardware cost of revenue brought on by the Company's implementation of a software-only business model which is partially offset by the direct costs for personnel associated with consulting services revenue. The risks associated with investing in hardware inventory (sales forecasting risk and hardware obsolescence risk, among others) and the recent availability of third party hardware which is compatible with Acceleware's software has led management to implement the software-only business model, and to eliminate the investment in inventory. The total inventory write-down included in cost of revenue was \$75,101 for the year ended December 31, 2009, and \$nil for the year ended December 31, 2010.

General and administrative expenses ("G&A") include all salaries (excluding consulting and research and development personnel) and related expenses (including benefits and payroll taxes); sales and marketing activities; facility costs; stock-based compensation; and professional fees. For the year ended December 31, 2010 G&A expenses decreased 35% to \$1,605,673 from \$2,457,726 recorded in the year ended December 31, 2009. The decrease is as a result of the Company's continued focus on cost reduction resulting in significantly lower staff levels, reduced marketing expenditures, and reduced facility costs.

For the year ended December 31, 2010, research and development ("R&D") expenditures decreased 15% to \$1,006,098 from \$1,181,534 for the year ended December 31, 2009. The decrease is a result of continued cost reductions undertaken in 2010 which resulted in reduced R&D payroll. Offsetting these reductions were reduced R&D staff assigned to consulting services projects during 2010 compared to 2009 and a decrease in government

funding from National Research Council's – Industrial Research Assistance Program (“NRC-IRAP”) during 2010. In 2010 the company received \$305,336 (2009 – \$375,402) in government funding for R&D. Lastly, the Company recorded \$109,301 (2009 - \$178,974) in refundable Alberta SR&ED tax credits as a reduction in R&D expense.

During the year ended December 31, 2009, (year ended December 31, 2010 - \$nil) the Company recorded an \$82,328 gain on its investment in asset-backed commercial paper (“ABCP”) (see note 6 to the Financial Statements for further details) following the sale of the investment.

Amortization increased 30% to \$154,547 in 2010 from \$118,847 in 2009.

### Net Loss

The Company had a net loss for the year ended December 31, 2010 of \$738,994 a decrease of 33% compared to a net loss of \$1,107,392 for the year ended December 31, 2009. Despite the reduced revenue recorded in fiscal 2010 compared to fiscal 2009, net loss decreased due to lower cost of revenue caused by decreased hardware (including inventory write-down) and staffing costs, and reduced expenses in general and administrative functions due to reduce staffing, marketing and facility costs.

### **Summary of Quarterly Results**

The following table highlights revenue, cash used in operating activities, net loss and loss per share for the eight most recently completed quarters ended December 31, 2010.

	Year 2010				Year 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	672,556	\$671,425	\$646,725	\$493,735	610,884	\$782,207	\$1,000,372	\$1,205,534
Cash generated (used) in operating activities	\$51,552	34,596	(101,042)	(178,694)	(\$352,832)	(274,889)	(461,455)	150,390
Net loss	(\$80,685)	(105,024)	(121,062)	(432,223)	(\$237,880)	(480,468)	(260,321)	(128,723)
Loss per share basic and diluted	(\$0.001)	(\$0.002)	(\$0.002)	(\$0.008)	(\$0.005)	(\$0.009)	(\$0.005)	(\$0.003)

### **Results of Operations – Fourth Quarter**

#### Overall Performance

During the three months ended December 31, 2010 (“Q4, 2010”) Acceleware recorded its third consecutive improvement in quarterly net loss. Net loss decreased compared to the three months ended September 30, 2010 (“Q3, 2010”) resulting from maintaining revenue in Acceleware’s core markets of CAE and oil and gas exploration and development at similar levels to Q3, 2010, while decreasing expenses compared to Q3, 2010. In addition, the Company recorded positive quarterly cash flow from operating activities for two consecutive quarters for the first time in its history.

During the three months ended December 31, 2010, Acceleware had a net loss of \$80,685 a 66% decrease compared to a net loss of \$237,880 for the three months ended December 31, 2009 (“Q4, 2009”). The decrease is a result of reduced expenses across all business functions, and increased revenue. Net loss decreased 23% from \$105,024 recorded in Q3, 2010 on lower expenses related to cost of revenue and G&A. During Q4, 2010 the Company recognized revenue of \$672,556 representing a 10% increase over the \$610,884 recognized during Q4, 2009, principally due to increased consulting revenue. Revenue was comparable to the \$671,425 recognized in Q3, 2010.

### Revenue

During the quarter ended December 31, 2010, the Company recorded revenues of \$672,556 an increase of 10% compared to \$610,884 for the quarter ended December 31, 2009 and comparable to the \$671,425 recorded for Q3, 2010. The increase compared to Q4, 2009 can be attributed to higher consulting and product revenue, partially offset by lower maintenance revenue.

<b>Revenue</b>	<b>Three months ended 12/31/2010</b>	<b>Three months ended 12/31/2009</b>	<b>Three months ended 09/30/2010</b>	<b>% change Q4 2010 over Q4 2009</b>	<b>% change Q4 2010 over Q3 2010</b>
Product sales	\$ 153,126	\$ 89,644	\$ 134,763	71%	14%
Maintenance	61,764	171,429	106,016	-64%	-42%
Consulting	457,613	342,448	430,555	34%	6%
Interest	53	7,363	91	-99%	-42%
	<b>\$ 672,556</b>	<b>\$ 610,884</b>	<b>\$ 671,425</b>	<b>10%</b>	<b>0%</b>

Product sales revenue increased 71% to \$153,126 for Q4, 2010 compared to \$89,644 for Q4, 2009 due to an overall rebound in demand for the Company's CAE software products. Product sales revenue also increased 14% to \$153,126 for Q4, 2010 compared to \$134,763 for Q3, 2010, due to the same improvement in demand. Maintenance revenue decreased 64% to \$61,764 for Q4, 2010 compared to \$171,429 for Q4, 2009 and 42% compared to \$106,016 for Q3, 2010. As the Company has seen reduced product revenue over the last 4 quarters compared to the previous four quarters, maintenance revenue attributed to those sales has also decreased. As the Company continued to market its consulting services offerings, consulting revenue increased 34% to \$457,613 in Q4, 2010 compared to \$342,448 in consulting revenue recognized in Q4, 2009 and increased 6% compared to \$430,555 in Q3, 2010. Consulting revenue has increased in oil and gas markets as well as in Acceleware's HPC training courses which have seen significant traction in 2010. Interest revenue decreased to \$53 for Q4, 2010 from \$7,363 in Q4, 2009 and \$91 in Q3, 2010 due to interest received on the ABCP investment prior to the sale.

### Expenses

<b>Expenses</b>	<b>Three months ended 12/31/2010</b>	<b>Three months ended 12/31/2009</b>	<b>Three months ended 09/30/2010</b>	<b>% change Q4 2010 over Q4 2009</b>	<b>% change Q4 2010 over Q3 2010</b>
Cost of revenue	\$ 134,233	\$ 289,490	\$ 119,034	-54%	13%
General & administrative	312,305	548,235	373,508	-43%	-16%
Research & development	273,847	44,260	244,314	519%	12%
(Gain) loss on investment	--	(62,921)	--	-100%	N/A%
(Gain) loss on disposal of property and equipment	(736)	(320)	(592)	130%	24%
Amortization	33,592	30,020	40,185	12%	-16%
	<b>\$ 753,241</b>	<b>\$ 848,764</b>	<b>\$ 776,449</b>	<b>-11%</b>	<b>-3%</b>

Expenses decreased 11% during the three months ended December 31, 2010 to \$753,241 from \$848,764 for the three months ended December 31, 2009. The decrease is a result of reduction in cost of revenue due to the absence of hardware cost of revenue including inventory the write-down that occurred in Q4, 2009 and a reduction in G&A expense offset by an increase in R&D. Expenses decreased 3% from the \$776,449 recorded in Q3, 2010 due to a reduction in G&A expense.

Cost of revenue for Q4, 2010 decreased 54% to \$134,233 from \$289,490 in Q4, 2009. The reduction is due to a reduction in hardware cost of revenue brought on by the Company's implementation of a software-only business model including an inventory write-down of \$51,594 recorded in the fourth quarter, 2009, which is partially offset by the direct costs for personnel associated with consulting services. Cost of revenue increased 13% compared to the \$119,034 recorded in Q3, 2010. The decrease is a result of increased direct costs for consulting services.

For the three months ended December 31, 2010 G&A expenses decreased 43% to \$312,305 from \$548,235 recorded in Q4, 2009. The decrease is as a result of reductions in staff and expenses as part of the continued cost reduction effort. G&A expenses also decreased 16% in Q4, 2010 compared to the \$373,508 recorded in Q3, 2010, for the same reason.

For the three months ended December 31, 2010, R&D expenditures increased 519% to \$273,847 from \$44,260 for the three months ended December 31, 2009. The increase is a result of two factors. Firstly, government funding from National Research Council's – Industrial Research Assistance Program ("NRC-IRAP") decreased in Q4, 2010, compared to Q4, 2009. Secondly, the Company recorded \$11,433 in refundable Alberta SR&ED tax credits as a reduction in R&D expense in Q4, 2010, compared to \$178,974 for Q4, 2009. These net increases were offset by lower salary costs and consulting fees associated with R&D for Q4, 2010 compared Q4, 2009. R&D increased 12% in Q4, 2010 compared to the \$244,314 recorded in Q3, 2010 due to reduced Alberta SR&ED tax credits and reduced IRAP funding.

During the three months ended December 31, 2009, the Company recorded a \$62,921 gain on its investment in asset-backed commercial paper ("ABCP") (see note 6 to the Financial Statements for further details). The gain is difference between the sale proceeds of \$752,466 and the fair value of \$689,546 as at September 30, 2009. As the investment was sold in Q4, 2009, no gain or loss was recorded in Q4, 2010.

Amortization increased 12% to \$33,592 in Q4, 2010 from \$30,020 in Q4, 2009.

#### Net Loss

The Company had a net loss for the three months ended December 31, 2010 of \$80,685 a decrease of 66% from the \$237,880 recorded in Q4, 2009. The decrease is a result of the reductions in cost of revenue and G&A expense, and increase in consulting revenue. Net loss decreased 23% in Q4, 2010, compared to the \$105,024 net loss recorded in Q3, 2010. The decrease is a result of reduced G&A expense.

#### **Liquidity and Capital Resources**

At December 31, 2010 Acceleware had \$342,618 (2009- \$528,768) in working capital, including \$353,584 (2009 - \$547,172) in cash and cash equivalents, and no (2009 - \$nil) short term debt. The decrease in working capital is due principally to the decrease in cash and cash equivalents. The decrease in cash and cash equivalents is due to cash used in operating activities.

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. 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.\*

Cash used in operations totaled \$196,108 for the year ended December 31, 2010, compared to \$938,786 for the year ended December 31, 2009. The improvement is a result of cash expense reductions stemming from the Company's continued focus on cost reductions. During the last six months of 2010, the Company generated \$83,628 of positive cash flow from operating activities.

As at December 31, 2010, the Company had current liabilities of \$660,599 compared to current liabilities of \$781,297 as at December 31, 2009. The decrease in current liabilities is due to a general decline in trade payables and accrued liabilities resulting from the decrease in cash operating expenses, and a decrease in deferred revenue associated with unrecognized maintenance revenue. As the company has reduced its product revenue resulting from the switch to a software and services model and away from a hardware and software model, deferred revenue associated with product sales has decreased.

#### ***Accounts Receivable***

Accounts receivable as at December 31, 2010 decreased to \$517,584, compared to \$567,210 as at December 31, 2009. The decrease is a result of improved collections activities. The Company maintains close contact with its customers to mitigate risk in the collection of accounts receivable.

#### ***Alberta SR&ED Tax Credit Receivable***

Beginning in tax years ending after January 1, 2010, the Alberta Provincial Government is allowing refundable SR&ED tax credits. The Company has recorded \$109,301 (2009 - \$178,974) in receivables as at December 31, 2010. The decrease year over year stems from reduced R&D expenses that qualify for tax credits.

#### ***Investing Activities***

For the year ended December 31, 2010 \$16,909 was invested in property and equipment compared to \$18,019 for the year ended December 31, 2009. During 2009, the Company received \$804,145 in proceeds from an investment in ABCP that was originally purchased for \$1,441,241 in 2007.

#### ***Financing Activities***

The Company has financed operations, R&D and capital expenditures primarily through the sale of the Company's products and cash and investments on hand from the net proceeds of common share issuances from prior periods. In 2010 no cash was received from financing activities. In 2009, net proceeds of \$804,145 from the redemption and sale of the Company's ABCP investment was partially used to repay \$481,438 of current debt.

#### ***Income Tax Valuation Allowance***

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.

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

As at December 31, 2010, the potential tax benefits of Acceleware's available tax pools have not been recognized in the Company's account due to uncertainty surrounding the realization of such benefits. Please see note 10 in the Financial Statements for more details.

### **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.

### **Off-Balance Sheet Arrangements**

#### ***Guarantees***

Generally, while it is not the Company's policy to issue guarantees to third parties, Acceleware has entered into certain such agreements as more fully described in Note 12 to the Financial Statements. As of December 31, 2010, the Company believes that it is remote that the indemnification provisions described therein would require any material cash payment. As is the case with any business, the Company may be subject to certain regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of its business.

### **Risks Factors and Uncertainties**

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

#### ***Liquidity Risk***

Management's objective is to manage cash flow and investment in new products to ensure that cash requirements do not exceed 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. 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, if required, 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.\*

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

### ***Dependence on Market Growth***

The overall market for HPC has experienced growth in recent years. There can be no assurance that the market for the Company's existing products and services will continue to grow or that the Company will be successful in establishing markets for its products and services. If the various markets in which the Company's products and services compete fail to grow, or grow more slowly than the Company currently anticipates, or if the Company is unable to establish markets for its products and services or the Company's products and services do not gain market acceptance, the Company's business, operating results and financial condition could be materially adversely affected.

### ***Requirement for Additional Financing***

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

### ***Reliance on Limited Number of Customers***

The Company derives a significant component of its revenues from three major customers. In aggregate, these three customers generated approximately 50% of total revenues for the year ended December 31, 2010. The Company is actively seeking other customers to mitigate the Company's revenue reliance on these existing major customers. Should these customers not continue to purchase and resell the Company's products and the Company is unable to attract new channel partners, revenue and the sustainability of the Company would be materially affected in future periods.

### ***Competition***

The market for HPC is competitive. Acceleware has experienced and will continue to experience intense competition from other organizations with more established sales and marketing presence, superior technical support services and greater financial resources. The Company's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. As the market for the Company's products and services continues to develop, additional competitors may enter the market and competition may intensify. Increased competition may cause price reductions, reduced profitability and loss of market share, any of which could have an adverse effect on the Company's business, results of operations and financial condition.

### ***Failure to Manage Growth Successfully***

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

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

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

***Lengthy Sales Cycle – Channel Partner Distributors***

The Company's channel partner (distributors) integration/sales cycle, beginning with an interested channel partner that technically integrates with the Company and culminating in a commercial agreement with the channel partner, is expected to range from six to twelve months and may be significantly longer. Once the integration period with the channel partner is completed, the actual “sales” cycle to the channel partner’s customers is relatively short - a matter of weeks or a few months. The lengthy integration cycle with the channel partner and the limited access to the channel partners customers (arising from how the channel partner distribute products and services) limits the Company's ability to forecast the timing and amount of specific sales in a particular quarter and will likely continue to cause significant fluctuations in its quarterly operating results. Because of these fluctuations, management of the Company believes that neither its past performance nor period-to-period comparisons of its operating results are, or may be, a good indication of its future performance. If the Company's operating results for a particular period fail to meet investor expectations that are based on the Company's past performance or on period-to-period comparisons of the Company's operating results, the Company's share price could decline. This cycle is also subject to a number of significant delays over which Company will have little or no control.

***Failure to Adapt to Technological Change and New Product Development***

The hardware development industry is characterized by rapid technological change and the frequent introduction of new products. Accordingly, management of the Company believes that the future success of the Company depends upon its ability to enhance current products and services or develop and introduce new products and services. The Company's inability, for technological or other reasons, to develop and introduce products or services in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the Company's business, results of operations and financial condition. The ability of the Company to compete successfully will depend in large measure on its ability to maintain a technically competent research and development staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its products and services with evolving computer hardware and software platforms and operating environments. There can be no assurance that the Company will be successful in these efforts.

***Risk Associated with International Operations***

Management of the Company believes that its continued growth and profitability will require additional expansion of its sales in foreign markets. This expansion has required, and will continue to require, significant management attention and financial resources and could adversely affect the Company's operating margins. In order to increase international sales in subsequent periods, the Company may establish additional foreign operations, hire additional personnel and recruit international resellers. To the extent that the Company is unable to expand international sales in a timely and cost-effective manner, the Company's business, results of operations and financial condition could be materially adversely affected. In addition, even with the possible recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products and services.

***Risk Associated with Currency Fluctuations***

In the future, it is expected that a portion of revenues may be realized in other foreign currencies as a result of international sales. Fluctuations in the exchange rate between the Canadian dollar and other currencies, particularly the U.S. dollar, may have a material adverse effect on the Company's results of operations, financial condition and any business prospects. The Company currently has no hedge in place on its foreign currency exposure.

***Risk Associated with a Change in the Company's Pricing Model***

The competitive market in which the Company conducts business may require the Company to change its pricing model. If the Company's competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other products, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would likely result in a reduction in profitability and could adversely affect the Company's operating results.

### ***Dependence on Key Personnel***

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

### ***Risks of Acquisitions Negatively Impacting the Company***

In the future, the Company may engage in selective acquisitions of products or businesses that management of the Company believes would be complementary to its existing products. There is a risk that the Company will not be able to identify suitable acquisition candidates available for sale at reasonable prices, complete any acquisition, or successfully integrate any acquired product or business into the Company's operations. Acquisitions may involve a number of other risks, including: diversion of management's attention; disruption to the Company's ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development, or the entire acquired business.

If the Company does not successfully address these risks or any other problems encountered in connection with an acquisition, the acquisition could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, if the Company proceeds with an acquisition paid by cash, it may diminish the Company's liquidity and capital resources, or shares may be issued which could cause significant dilution to existing shareholders.

### ***Intellectual Property Risks***

Because much of the Company's potential success and value lies in its ownership and use of intellectual property, its failure to protect its intellectual property may negatively affect its business and value. The Company's ability to compete effectively is largely dependent upon the maintenance and protection of its intellectual property. The Company relies primarily on trade secret, trademark and copyright law, as well as confidentiality procedures and licensing arrangements, to establish and protect its rights to its technology. The Company typically enters into confidentiality or license agreements with its employees, consultants, customers, strategic partners and vendors in an effort to control access to and distribution of its products, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's proprietary technology without authorization.

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

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

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

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

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

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

#### ***Risk of Defects in the Company's Products***

Products as complex as those offered by the Company frequently contain errors or defects, especially when first introduced or when new versions or updates are released. Despite product testing, Acceleware has in the past released products with defects, discovered software errors in certain of its new versions after introduction, and experienced delays or lost revenue during the period required to correct these errors. Acceleware regularly introduces new releases and periodically introduces new versions of its software. Known errors which the Company considers minor may be considered serious by its customers. There can be no assurance that, despite testing by the Company and by its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after the commencement of commercial shipments. Undetected errors and performance problems may be discovered in the future. Any such defects and errors could result in litigation, adverse customer reactions, negative publicity regarding the Company and its products, harm to the Company's reputation, loss of or delay in market acceptance or required product changes, any of which could have a material adverse effect upon the Company's business, results of operations and financial condition.

#### ***Risks of Security Breaches to the Company's Network***

An experienced programmer may attempt on occasion to penetrate the Company's network security and could misappropriate proprietary information or cause interruptions in the Company's operations. Acceleware has implemented various means to limit such an occurrence but may be required to expend significant capital and resources to protect against or to alleviate problems caused by such hackers in the future. Additionally, the Company may not have a timely remedy for any security attack on the Company's network security. Such purposeful security breaches could have a material adverse effect on the Company's business, results of operations and financial condition. In addition to deliberate security breaches, the inadvertent transmission of computer viruses could expose the Company to a material risk of loss or litigation and possible liability.

In offering certain payment services for some products and services, the Company could become increasingly reliant on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as customer credit card numbers. Advances in computer capabilities, discoveries in the field of cryptography and other discoveries, events, or developments could lead to a compromise or breach of the algorithms or licensed encryption authentication technology that the Company uses to protect such confidential information. If such a compromise or breach of the Company's licensed

encryption authentication technology occurs, it could have a material adverse effect on the Company's business, results of operations and financial condition. The Company may be required to expend significant capital and resources to protect against the threat of such security, encryption and authentication technology breaches or to alleviate problems caused by such breaches. Concerns over the security of Internet transactions and the privacy of users may also inhibit the growth of the Internet generally, particularly as a means of conducting commercial transactions.

#### ***Reliance on Third Party Licenses***

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

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

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

#### ***Reliance on One Primary Hardware Technology***

The current collaboration with NVIDIA Corp. ("NVIDIA") is viewed as an important contributor to the timely execution of the current business plan. NVIDIA hardware is the primary platform for Company's software solutions. If management is unable to maintain a positive relationship with NVIDIA, the Company will make appropriate adjustments in the execution of its business plan. The Company continues to evaluate other hardware alternatives. However, should NVIDIA fail to supply 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.

#### ***Conflicts of Interest***

Certain of the directors and officers of the Company are or may become directors or officers of, or have significant shareholdings in, other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that any such conflict of interest arises, a director who has such a conflict will disclose the conflict to a meeting of the directors of the Company and will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

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

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the Common Shares will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's securities will be affected by such volatility.

***Earnings and Dividend Record***

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

**Transactions with Related Parties**

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.

In 2010, Four officers of the Company have advanced \$94,062 (2009 - \$73,560) to the Company in the form of deferred salary. 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.

In 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.

**Commitments**

Acceleware 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, 2009 for the balance of the term 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:

2011	189,694
Thereafter	79,039

## **Critical Accounting Estimates**

### ***General***

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

The Company's significant accounting policies are fully described in Note 2 to the Financial Statements. Certain accounting policies are particularly important to the reporting of financial position and results of operations, and require the application of judgment by management. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made. Different management estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could have a material impact on the Financial Statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of Financial Statements.

### ***Going Concern Assumption***

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

### ***Revenue Recognition***

The Company's revenue recognition requirements pertaining to multiple deliverables and software are very complex and are affected by interpretations of the rules and certain judgments. One of the critical judgments made is the assessment of the probability of collecting the related accounts receivable balance on a customer-by-customer basis. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection had been made at the time that the transactions were recorded in revenue.

### ***Allowance for Doubtful Accounts***

The Company evaluates the collectability of trade receivables based on a combination of factors. The Company regularly analyzes significant customer accounts, and, when and if it becomes aware of a specific customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, a specific bad debt reserve is recorded to reduce the related receivable to the amount that is reasonably believed to be collectible. Reserves for bad debts on all other customer balances are based on a variety of factors, including the length of time that the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. As of December 31, 2010, no allowance for doubtful accounts was provided based on the foregoing analysis. If circumstances related to specific customers changed, estimates of the recoverability of receivables would be required.

### ***Investments – Measurement Uncertainty of ABCP***

As at December 31, 2008 the Company had \$1,444,733, invested in short-term ABCP (rated at the time of purchase by Dominion Bond Rating Service as "R1-High", the highest credit rating for this type of investment). 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 (see note 6 to the Financial Statements). The Company liquidated its investment in the new notes during the year ended December 31, 2009.

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 assumed that the notes will generate a weighted average interest rate of 0.3%.

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 8.3% was used in the Company’s fair-value estimate of its ABCP.

The recalibration of the valuation model as at December 31, 2009 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 (including accrued interest) as a result of the recent financial and credit market condition. This estimated fair value, which represents approximately 50% of the principal value as at December 31, 2008. An increase in the estimated discount rates of 1% (to 9.3%) would decrease the fair value of the ABCP by \$46,637.

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. (see note 6 to the Financial Statements).

**Primary Sources of GAAP that Have Been Issued but Have Not Yet Come Into Effect or Have Not Been Adopted:**

***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 conversion project consists of three phases:

<b>Phase</b>	<b>Description</b>	<b>Status</b>
<b>Phase 1 Preliminary Impact Assessment</b>	Phase 1 involves the high-level identification and assessment of the differences between IFRS and Canadian GAAP that will impact the Company.	Phase 1 was completed during the third quarter of 2008

<b>Phase 2 Detailed Evaluation</b>	Phase 2 involves performing a detailed impact assessment of the differences between IFRS and Canadian GAAP, reviewing and approving accounting policy choices, identifying impacts on systems and business processes, preparing position papers for areas of significant judgment, quantifying IFRS conversion adjustments, preparing the opening IFRS statement of financial position and drafting pro-forma IFRS-compliant consolidated financial statements.	<p>IFRS 1 elections have been made as detailed below.</p> <p>The position papers was completed and reviewed by the Company’s external auditors during the fourth quarter of 2010.</p> <p>Effect on processes and systems has been evaluated and it has been determined that the Company’s current IT infrastructure is capable of handling the changeover.</p> <p>Opening IFRS statement of financial position has being drafted but has not yet been reviewed by the Company’s external auditors.</p> <p>The IFRS accounting policies and draft IFRS compliant financial statements will be finalized in the first quarter of 2011.</p>
<b>Phase 3 Implementation</b>	Phase 3 involves embedding changes to systems, processes and internal controls, drafting the transitional opening balance sheet and preparing IFRS-compliant consolidated interim and annual consolidated financial statements for the 2011 fiscal year including comparatives.	Phase 3 will commence upon completion of Phase 2

Based on the work completed to date, the Company expects the greatest potential impact of IFRS adoption to be within the following areas:

1. First-time adoption of IFRS (“IFRS 1”)

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion to IFRS shall be directly recognized in retained earnings. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. There are currently 16 elective exemptions and four mandatory exceptions that need to be considered.

The Company currently expects to apply the following elective exemptions:

Impacted Area	Summary of Exemption Available
Share-based payments	The Company may elect not to apply IFRS 2 - Share-Based Payment (“IFRS 2”), to equity instruments granted on or before November 7, 2002 or which vested before the Company’s date of transition to IFRS. The Company may also elect not to apply IFRS 2 to liabilities arising from share-based payment transactions which settled before the date of transition to IFRS.
Arrangements containing a lease	IFRS 1 provides an optional exemption whereby the Company may determine whether an arrangement, existing at the date of transition to IFRS, contains a lease on the basis of the facts and circumstances existing at the date of transition.

The Company is not expecting to apply an elective exemption that relates to the deemed cost of items of property, plant and equipment (“PP&E”). Under this exemption, the Company may elect to report items of PP&E, in its opening consolidated statement of financial position on the transition date at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP.

The remaining elective exemptions have limited or no applicability to the Company.

2. Property, plant and equipment

Canadian GAAP requires the Company to break down its assets into significant components only when practicable. Under IAS 16 - Property, Plant and Equipment, the Company is explicitly required to allocate the amount initially recognized in respect of an item of PP&E to its significant components and depreciate separately each of these components. Where a significant component has a useful life and depreciation method that is the same as the useful life and depreciation method of another significant component of the same item of PP&E, such components may be grouped together in determining the depreciation charge.

The Company has performed an analysis of its PP&E and determined that the useful lives of each significant component of an item of PP&E did not differ materially from the useful lives of other significant components of the same item. Therefore the components requirement of IAS 16 will not have a material impact on the financial statements

3. Impairment of assets

Canadian GAAP impairment testing involves two steps, the first of which compares the asset carrying value with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying value is written down to estimated fair value.

PP&E and intangibles, including goodwill, are tested for impairment in accordance with IAS 36 Impairment of Assets (“IAS 36”). IAS 36 requires that assets, other than goodwill and indefinite life intangibles, be subjected to an impairment test if there are indicators of impairment. For goodwill and indefinite life intangibles, IAS 36 requires that the Company perform impairment tests on an annual basis.

Under IFRS an asset is impaired when the recoverable amount of that asset is less than the carrying amount. If there is any indication that an asset may be impaired, the recoverable amount should be estimated for individual assets. The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties. The value in use is the present value of the future cash flows (i.e. discounted cash flows) expected to be derived from an asset.

If it is not possible to estimate the recoverable amount for the individual asset other than goodwill, the Company must determine the recoverable amount for the cash-generating unit (“CGU”) to which that asset can be allocated. A CGU is the smallest group of assets that generates cash inflows largely independent of other assets or groups of assets. Management is therefore required to determine the CGU's of the Company.

Impairment will be recognized more frequently under IFRS as Canadian GAAP does not require the discounting of cash flows when assessing the recoverability of an assets carrying value. However, IAS 36 does require the reversal of an impairment loss for an asset, other than goodwill, where there is an indication that circumstances have changed and that the impairment loss no longer exists or may have decreased. This is not allowed under Canadian GAAP.

The Company, through an analysis of its operations, has identified the appropriate CGUs. The CGU identified is not expected to have an impact on the Company's processes and controls.

4. Share-based payment

IFRS 2 Share-based Payments ("IFRS 2") requires that an estimation of forfeitures must be factored into the calculation of the stock-based option compensation expense. In addition, when the Company makes a share-based payment that vests in installments (often referred to as graded vesting), IFRS 2 requires that the each tranche within the award be treated as a separate award. Compensation cost for each tranche is recognized over its own distinct vesting period. The Company will therefore have to update its stock option calculations in order to meet the requirements of IFRS 2. Furthermore, the adoption of IFRS 2 could impact the systems and processes that the Company has in place to track stock options and related information.

The Company has assessed the impact of the requirements of IFRS 2 and calculated an adjustment of \$126,629 to contributed surplus and retained earnings at January 1, 2010. This adjustment is still to be reviewed by the Company's external auditors and therefore is still subject to change.

5. Income taxes

IAS 12 Income Taxes is similar to Canadian GAAP in that the Company has to recognize deferred (future) taxes on temporary differences between the carrying value of assets and liabilities and their tax basis. The adoption of IFRS will have a significant impact on the Company's tax accounting in the period of adoption and in subsequent periods for new temporary differences arising on the conversion to IFRS as a result of changes in carrying values of assets, differences in depreciation expense, residual values, capitalization of borrowing and direct costs, and impairment charges and reversals.

The Company is currently assessing the impact of the requirements of IAS 12. The full impact can only be assessed following the quantification of all other IFRS adjustments

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

The impact on information technology and controls over financial reporting and disclosure is not expected to be significant. The Company will complete the assessment of the impact to investor relations and external communication plans once the evaluation of the impact to the consolidated financial statements is complete.

### **Financial Instruments and Other Instruments**

The Company's only financial instruments are the monetary assets and liabilities appearing on its balance sheet.

### Disclosure of Outstanding Share Data

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

Common Shares	54,534,748
Stock Options	3,049,900

### Additional Disclosure for Venture Issuers Without Significant Revenue

Additional disclosure concerning the Company's research and development expenses and general and administrative expenses is provided in the audited financial statements for December 31, 2010 that are available on [www.sedar.com](http://www.sedar.com) and as noted below.

<b>Research and Development</b>	<b>2010</b>	<b>2009</b>
Salaries	\$884,098	\$1,184,226
Consulting	217,249	210,938
R&D lab supplies	51,383	25,737
Stock-based compensation	42,418	81,299
Rent and overhead allocations	225,587	233,710
IRAP-NRC and Alberta Ingenuity funding	(305,336)	(375,402)
Alberta SR&ED tax credits	(109,301)	(178,974)
<b>Total</b>	<b>\$1,006,098</b>	<b>\$1,181,534</b>

<b>Sales, General and Administration</b>	<b>2010</b>	<b>2009</b>
Salaries	\$931,957	\$1,323,208
Marketing	\$44,342	64,338
Travel	\$41,686	75,137
Rent, supplies and public company fees	\$401,989	545,872
Stock-based compensation	\$102,403	221,371
Professional fees	\$83,296	227,800
<b>Total</b>	<b>\$1,605,673</b>	<b>\$2,457,726</b>