

**ACCELEWARE CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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, 2008 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 April 24, 2009. 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 substantial completion of the Corporation's restructuring program resulting in 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;
- the change in business model to improve profitability;
- 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 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 the change to a software-only business model will significantly reduce the cost of products – which is subject to the risk that the software-only business model may not be successful in generating sufficient revenue to offset previous hardware sales, which may be negatively affected by the rate at which customers adopt the new model, general economic conditions, and other factors;
- 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.

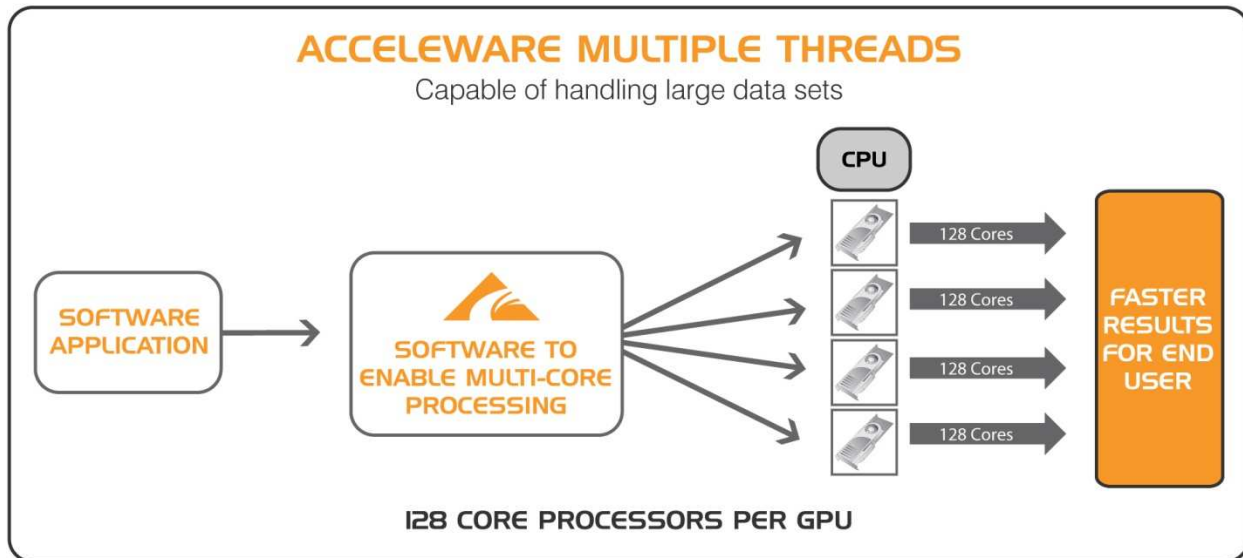
**Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Forward-looking statements include statements with respect to the timing and amount of estimated future revenue and sales and the Corporation's 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 develops and sells a specialized proprietary software or combination of specialized proprietary software and third party hardware that significantly reduces the computer processing time required for large scale mathematical calculations.

Acceleware solutions are deployed by major organizations worldwide to accelerate computer simulation and data processing applications in areas such as electronics, oil & gas, medical imaging, industrial and consumer product design, and academic research. 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.



Today, most of the major mobile phone manufacturers in the world are using Acceleware’s 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. Acceleware’s partners assist the Company in marketing its products to the end user.

Acceleware partners with software developers to increase the speed at which partners’ software runs. In return, these partners assist the Company in marketing its products to the end user. Some of the Company’s current software partners include CST, SPEAG, Remcom, Synopsys and Agilent Technologies. Acceleware reaches the market through a combination of partner channels and direct sales, depending on the market vertical.

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. As at December 31, 2008, Acceleware had 39 employees based in the Company's headquarters in Calgary, Alberta, including: 3 in administration; 4 in operations; 10 in sales, marketing, and product management; and 22 in research and development. This headcount total is a significant reduction from where it stood as at December 31, 2007, when Acceleware had 71 employees including: 12 in administration; 9 in operations; 19 in sales, marketing, and product management; and 31 in research and development. As discussed in more detail below, Management has focused significant effort on restructuring the Corporation during the second half of the year ended December 31, 2008.

## Overall Performance

The year ended December 31, 2008 was a transitional year for the Company. The first half of the year, the Company faced significant anticipated growth along with opportunities to finance such growth. As the global economic and capital market environments deteriorated, Management was faced with much lower growth prospects and a lack of financing alternatives. The second half of 2008 was marked by restructuring and cost reduction initiatives.

During the year ended December 31, 2008, Acceleware recognized revenue of \$3,797,916 representing a 44% increase over the \$2,631,878 recognized during the year ended December 31, 2007. The Company recognizes revenue on approximately 90% of all sales and amortizes the remaining 10% of those sales (deferred revenue) into revenues over 13 months from the date of the sale. In anticipation of growth, the Company made a significant investment in computer hardware inventory during the first half of 2008. This investment was subsequently written down as revenue did not grow as quickly as expected, and much of the inventory has become obsolete as suppliers have introduced new models. The total inventory write-down was \$737,466 for the year ended December 31, 2008. The risks associated with investing in hardware inventory (sales forecasting risk and hardware obsolescence risk, among others) has led Management to implement a software-only business model. The Company had a net loss for the year ended December 31, 2008 of \$10,496,871 a 56% increase compared to a net loss of \$6,737,746 for the year ended December 31, 2007. In addition to the inventory write-down noted above, the Company incurred significant expenses in restructuring. To date, restructuring charges of approximately \$1,234,313 have been incurred, primarily related to severance of \$330,681, vacation liabilities of \$84,409, net loss on property and equipment of \$299,778, impairment of leasehold improvements and furniture and fixtures of \$271,445 and prospectus offering costs of \$248,000. As of the date of this MD&A, the Company has substantially completed the restructuring, and estimates that restructuring charges of approximately \$100,000 will be incurred in the three months ended March 31, 2009.\* Prior to the decision to implement the restructuring plan, the Company incurred additional costs to ramp up for future growth including additional staff in the first half of 2008. Excluding the inventory write-down and the restructuring charges, net loss would have been \$8,525,092 for 2008.

The Company recognized an additional impairment of \$315,047 (2007 - \$433,420) in the carrying value of its investment in asset-backed commercial paper ("ABCP") during 2008 (see note 6 of the audited financial statements for further details). The non-liquidity of the ABCP has reduced the cash available to fund the Company's operations.

During the summer of 2007, the Company moved into a new 10,000 square foot office facility in Calgary. The facility has enough space to accommodate up to 100 employees, test laboratories, server facilities and inventory storage. After the restructuring, the Company sub-leased approximately 42% of the facility, and expects to continue to sublease approximately the same amount of space for the entire remaining term of the lease.

At December 31, 2008 Acceleware had \$334,670 in working capital, including \$1,052,724 in cash and cash equivalents, and \$355,587 in short term debt. This is a significant deterioration from a year earlier when the Company had \$8,698,740 in working capital including \$6,196,894 in cash and cash equivalents, and no debt. 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 profitability through the introduction

---

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

of a software-only business model, to 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.\*

During the year, the Company raised net proceeds totaling \$401,805 in a private placement of common shares of the Corporation.

### **2008 Highlights and Events**

**On January 30, 2008**, Acceleware announced the launch of a seismic data acceleration solution for migration. Migration is the most common seismic data processing method used to recover subsurface images of the earth's interior using surface-recorded data volumes obtained from seismic reflection surveys. The Acceleware solution directly speeds up the Kirchhoff Pre-Stack Time Migration method.\*

**On March 7, 2008**, Acceleware announced the launch of its AxRecon image reconstruction solution for the medical imaging, security, and non-destructive testing markets. AxRecon is designed to reduce the processing time of image reconstruction for Computed Tomography (CT) Scanners.

**On May 13, 2008**, Acceleware announced the availability of Acceleware AxKTM™, an application library that enables users of 3D Pre-Stack Time Migration (PSTM) solutions to easily access the multi-fold performance benefits of today's leading GPUs (Graphic Processor Units) for the oil and gas sector delivering required processing power for the world's most computing intensive seismic applications.\*

**On June 3, 2008**, Acceleware announced the adoption of the AxRecon image reconstruction solution for micro-computed tomography (CT) by a major pharmaceutical company. Eli Lilly, a leading developer of pharmaceutical products, has selected the AxRecon™ solution to speed up image reconstruction times used in the pharmaceutical development process. Pharmaceutical researchers regularly use CT Scanners in the drug development process to observe the effects of novel drug candidates on anatomy.

**On June 11, 2008**, Acceleware announced that it has entered into an engagement letter with Versant Partners Inc., as lead agent on behalf of a syndicate of agents including, Caris & Company, Blackmont Capital Inc. and Northern Securities Inc. to sell by way of a best efforts short form prospectus offering of a minimum of 18,072,290 units of the Corporation (each a "Unit") and a maximum of 30,120,482 Units at a price of \$0.83 per Unit for minimum gross proceeds of \$15,000,000 and maximum gross proceeds of \$25,000,000. On July 18, 2008, Acceleware announced it would not continue with the short form prospectus offering due to market conditions.

**On June 17, 2008**, Acceleware and Vector Fields, a world leader in electromagnetic modeling software, announced a partnership to accelerate microwave design by combining Vector Fields' Concerto automation software package with Acceleware's FDTD Accelerator solution. Vector Fields produces software for modeling and analyzing electromagnetic equipment and effects.

**On June 17, 2008**, Acceleware also announced the release of the world's first commercially available GPU-based cluster solution, the C30-16. This solution combines Acceleware's new clustering technology with its portfolio of

---

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

specially designed parallel processing computational algorithms to harness the power of 64 GPUs, delivering significant performance and scalability for enterprise customers.

**On June 18, 2008**, Acceleware announced acceleration of matrix equation solvers found in simulation and data processing software commonly used for scientific and industrial applications. These new methods significantly extend the problem solving capability of the Acceleware Platform, allowing a broad new range of application providers the opportunity to deliver the compelling performance of multi-core and hardware accelerators to their technical computing customers.

**On July 18 2008**, Acceleware announced that it will not continue with the short form prospectus offering previously announced in a press release dated July 11, 2008 due to market conditions.

**On July 22, 2008**, Acceleware announced that as a result of the withdrawal of its short form prospectus offering announced on June 11, 2008, the Company is restructuring the organization, reducing expenditures including reducing the number of personnel, and implementing key changes to Company Management.

**On August 25, 2008**, Acceleware announced a new CUDA (Compute Unified Device Architecture) based Acceleware solution for accelerating EM simulations with CST MICROWAVE STUDIO delivering performance gains of up to 40% compared to the current product.\*

**On September 23, 2008**, Acceleware announced that Kodak, a world leader in image sensor technology, has adopted Acceleware's Cluster Solution to accelerate the design process for optoelectronic image sensors.

**On October 6, 2008**, Acceleware announced the resignation of Sean Krakiwsky as a Director and adviser of the Corporation.

**On November 4, 2008**, Acceleware announced demonstrations of a fully GPU-accelerated version of Reverse Time Migration (RTM) at the Society of Exploration Geophysicists (SEG) annual convention in Las Vegas from November 10-13, 2008.

**On December 4, 2008** Acceleware announced that Mr. Norman Tsui, the Company's Vancouver-based Chief Financial Officer, has provided notice of his intention to step down from that position effective December 5, 2008, to pursue other business opportunities and to spend more time with his family. Acceleware announced that Mr. Tsui would be retained by the Company on a part-time consulting basis to provide continuity during the transition to a new Chief Financial Officer as well as to provide analytical and related support for ongoing commercial transactions in the normal course of business over the same period.

**On December 31, 2008** Acceleware announced that it has completed a non-brokered private placement of 8,200,000 common shares at a price of \$0.05 per common share for gross proceeds of \$410,000. The private placement was increased from the amount disclosed in the press release dated December 10, 2008 from 8,000,000 common shares to 8,200,000 common shares.

As at the date of this MD&A, the Company has substantially completed its restructuring, and has appointed a new CFO.

---

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

## Strategic Update

Prior to the first quarter of 2009, Acceleware's revenues were derived largely from the sale of High Performance Computing hardware carrying its proprietary software solution. The Company sold the Acceleware Accelerator™, the ClusterInABox Dual™, and the ClusterInABox Quad™ into the market. During the first quarter of 2009, the Company has begun to sell only its proprietary software solutions, while facilitating the integration of the software with third party hardware vendors. The reasons for the change include:

- elimination of the investment in inventory;
- simplification of business processes in logistics and service, repair and warranty;
- the third party hardware is not unique to Acceleware; and
- large customers often prefer to deal with existing hardware vendors.

Acceleware has informed its product channel partners that it is moving to a software-only sales model in 2009 and will not be maintaining equipment inventory for combined sales of hardware and software once existing hardware inventories are used up. The Company has also introduced a new pricing schedule which better reflects the significant improvements achieved in delivering accelerated computing performance in successive generations of its products. The new pricing schedule was launched in the first quarter of 2009. Management expects this change in business model will improve profitability.\*

The Company has also taken important steps to operationally align itself more closely with NVIDIA, its principal hardware technology partner. Acceleware has made significant progress in introducing NVIDIA's new hardware programming language (CUDA) in its products 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.

In 2008, software and hardware was sold to end users primarily through channel partners or Independent Software Vendors ("ISV") in the electronics market that had 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 2008, Acceleware's ISV partners included Schmid & Partner Engineering AG ("SPEAG"), Remcon, Agilent Technologies, Synopsis, Inc., Techco Geophysical Services Ltd., 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 relying on its existing and new ISV partners, the Company is actively pursuing alternative revenue streams, including providing professional services and training to key customers.\*

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.\*

Entering new vertical markets is an important source of growth. On January 30, 2008 the Company launched product solutions into the seismic market and will continue to develop improvements to the product and intensify its marketing and business development activities in this market throughout 2009. The seismic data acceleration solution, with dense packaging and improved economics in power and cooling, provides a multi-fold performance

---

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

increase that reduces lengthy processing times and enables expedited drilling decisions for the oil and gas industry. There is increased opportunity to market directly to end-users in this market.\*

On March 7, 2008, the Company launched a product solution into the imaging market. AxRecon, the Company's image reconstruction solution for the medical imaging, security and non-destructive testing markets, reduces the time required to complete this work from hours to minutes thereby speeding up imaging work flows. In August 2008, as part of its restructuring, Acceleware suspended further development of image reconstruction products indefinitely to focus on other products. The product, however, continues to be maintained for current customers.

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. The Company will continue to finance operations and its growth strategy primarily through the sales of the Company's products.\*

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.

### Selected Annual Information

The audited financial statements and the accompanying notes for the twelve month period ended December 31, 2008 (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, 2008 and December 31, 2007, along with the seventeen-month period ended December 31, 2006. Readers are cautioned that there are inherent distortions in comparing a seventeen-month fiscal period with the other fiscal periods noted in the table.

	Twelve Months Ended Dec 31, 2008 (Audited)	Twelve Months Ended Dec 31, 2007 (Audited)	Seventeen Months Ended Dec 31, 2006 (Audited)
Total revenue	\$3,797,916	\$2,631,878	\$1,052,300
Net loss	(\$10,496,871)	(\$6,737,746)	(\$2,267,738)
Loss per share (basic and diluted)	(\$0.25)	(\$0.20)	(\$0.13)
Total assets	\$3,097,041	\$12,569,293	\$1,817,544
Long-term debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

Acceleware's recognized revenues have increased steadily over the three periods presented due to continued penetration of target markets. Net loss has increased from \$2,267,738 for the sixteen months ended December 31, 2006 to \$6,737,746 for the year ended December 31, 2007 and to \$10,496,871 for the year ended December 31, 2008 as the Company increased its spending on research, development, and sales and marketing activity, primarily through the hiring of additional staff and relocating to new office facilities to meet a high growth business plan. The Company is now planning for more modest growth in revenue and expects its net loss to decrease significantly in future years. As a result of funds received from private placements during the year ended December 31, 2007, the total assets of the Company increased significantly to \$12,569,293 as at December 31, 2007, compared to \$1,817,544 as at December 31, 2006. The absence of significant financing coupled with the net loss in fiscal 2008 resulted in the decrease in total assets to \$3,097,041 as at December 31, 2008.\*

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

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



## Results of Operations

### Revenue

During the year ended December 31, 2008, the Company reported total revenues of \$3,797,916, a 44% increase compared to \$2,631,878 for the year ended December 31, 2007. The increase in recognized revenue over the prior year was due to the addition of new channel partners and higher sales per channel partner from targeted end-users of the Company's product. In addition, the Company expanded into the Seismic processing vertical resulting in increased revenue. Maintenance revenue increased resulting from the larger installed base of the Company's products.

Revenue	Year ended December 31, 2008	Year ended December 31, 2007	Percentage change 2008/2007
Product sales	\$ 3,205,984	\$ 2,220,564	44%
Maintenance	406,135	179,911	126%
Interest	185,797	231,403	-20%
	\$ 3,797,916	\$ 2,631,878	44%

The Company recognizes revenue on approximately 90% of all sales and amortizes the remaining 10% of those sales (deferred revenue) into revenues over 13 months from the date of the sale. Revenue of \$247,320 is deferred, of which \$227,872 will be recognized over a period of thirteen months or less and the remaining \$19,448 over approximately 5 years.

### Operating Expenses

Expenses	Year ended December 31, 2008	Year ended December 31, 2007	Percentage change 2008/2007
Costs of product sales	\$ 3,041,933	\$ 1,383,369	120%
General and administrative	6,485,998	5,295,647	23%
Research and development	3,639,064	2,046,045	78%
Write-down of investment	315,047	433,420	-27%
Impairment of leasehold improvements and furniture and fixtures	271,445	-	-
Loss on disposal of assets	299,778	-	-
Amortization	241,522	211,143	14%
	\$ 14,294,787	\$ 9,369,624	53%

Operating expenses increased 53% during the year ended December 31, 2008 compared to the year ended December 31, 2007. To date, restructuring charges of approximately \$1,234,313 have been incurred, primarily related to severance of \$330,681, vacation liabilities of \$84,409, net loss on property and equipment of \$299,778, impairment of leasehold improvements and furniture and fixtures of \$271,445 and prospectus offering costs of \$248,000. As of the date of this MD&A, the Company has substantially completed the restructuring, and estimates that restructuring charges of approximately \$100,000 will be incurred in the three months ended March 31, 2009. Prior to the decision to implement the restructuring plan, the Company incurred additional costs to ramp-up for future growth in the first half of 2008 including the addition of staff, enhanced employee benefit programs, increased research and development and increased marketing activities. \*

---

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

Cost of products sold for the year ended December 31, 2008 increased 120% to \$3,041,933 compared to \$1,383,369 for the year ended December 31, 2007. Cost of products represented 84% of revenue excluding interest (2007 – 58%). In anticipation of growth, the Company made a significant investment in computer hardware inventory during the first half of 2008. This investment was subsequently written down as revenue did not grow as quickly as expected, and much of the inventory has become obsolete as suppliers have introduced new models. The total inventory write-down was \$737,466 for the year ended December 31, 2008. Absent the inventory write-down, cost of products would have been 63% of revenue excluding interest for the year ended December 31, 2008. The risks associated with investing in hardware inventory (sales forecasting risk and hardware obsolescence risk, among others) has led management to implement a software-only business model beginning in 2009.

General and administrative expenses (“G&A”) include all salaries (excluding 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, 2008, G&A increased 22% to \$6,485,998 compared to \$5,295,647 for the year ended December 31, 2007. For 2008, G&A represented 180% of revenue excluding interest compared to 221% for 2007. Included in G&A for 2008 was \$663,090 related to restructuring charges. In addition to restructuring, the increase in G&A over the prior year was due to the addition of employees, increased sales and marketing-related activities, and the implementation of an employee share purchase plan prior to restructuring. Included in the G&A for the year ended December 31, 2008, was \$204,184 in respect of stock-based compensation compared to \$422,671 for the year ended December 31, 2007.

For the year ended December 31, 2008, research and development (“R&D”) expenditures increased 78% to \$3,639,064 compared to \$2,046,045 for year ended December 31, 2007. R&D costs include salaries and related benefits, consulting fees and related costs of personnel directly engaged in these activities, direct materials and overheads. The increase in R&D over the comparable period was due to the addition of researchers engaged in the further development of the Company’s existing and new acceleration products and integration of the products with the Company’s channel partners’ products, particularly in the first half of the year, prior to the implementation of the restructuring plan. R&D for the six months ended June 30, 2008 was \$2,065,308 compared to \$1,573,756 for the six months ended December 31, 2008. For the year ended December 31, 2007 there was a benefit of \$127,288 of government assistance through the National Research Council - Industrial Research Assistance Program. For the year ended December 31, 2008 there was a \$53,084 benefit from Alberta Ingenuity Credits. Included in the R&D expenses for the year ended December 31, 2008 was \$55,950 in respect of stock-based compensation compared to \$76,375 for the year ended December 31, 2007.

During the year ended December 31, 2008, the Company recognized an additional impairment of \$315,047 (2007 - \$433,420) in the carrying value of its investment in asset-backed commercial paper (“ABCP”) (see note 6 of the audited financial statements for further details). Subsequent to the year end, on January 12, 2009, the Court granted an order for the implementation of the restructuring plan for the ABCP, and the restructuring was completed on January 21, 2009. As a result, the Company received the new replacement ABCP notes with a total settlement value of \$1,443,743. The difference between the \$1,443,743 settlement value and the \$1,444,733 original cost was received as interest. Future changes in fair value will be recorded in income as they arise. Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring could give rise to a further material change in the value of the Company’s investment in ABCP which could impact the Company’s earnings in future periods.

During the summer of 2007, the Company moved into a new 10,000 square foot office facility in Calgary. The facility has enough space to accommodate up to 100 employees, test laboratories, server facilities and inventory storage. After the restructuring, the Company sub-leased approximately 42% of the facility, and currently expects to continue to sublease approximately the same amount of space for the entire remaining term of the lease. While the rental income offsets the rent expenses, it is not sufficient to recover the cost of the associated leasehold improvements or furniture which has been rented with the office space. Consequently, the Company incurred an impairment expense associated with leaseholds and furniture and fixtures of \$271,445 for the year ended December 31, 2008 for which there is no comparable amount for the year ended December 31, 2007.

As part of the restructuring, the Company disposed of surplus property and equipment in 2008. For the year ended December 31, 2008 a loss on disposal of property and equipment was \$299,778 for which there is no comparable amount in the year ended December 31, 2007.

Amortization increased 14% to \$241,522 for the year ended December 31, 2008 compared to \$211,143 for the year ended December 31, 2007.

### Net Loss

The Company had a net loss for the year ended December 30, 2008 of \$10,496,871, an increase of 56% compared to a net loss of \$6,737,746 for the year ended December 31, 2007. In addition to the inventory write-down and the restructuring costs noted above, the net loss increased over the previous year because the Company incurred additional costs to ramp-up for future growth and development of other vertical markets, including additional staff and related benefits and additional facilities, during the first six-months of 2008.

### **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, 2008.

	Year 2008				Year 2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	897,006	472,620	1,073,325	1,354,964	1,024,954	644,023	596,060	366,841
Cash used in operating activities	(\$353,705)	(1,816,308)	(\$3,286,636)	(\$2,343,100)	(\$1,430,588)	(\$1,592,054)	(\$1,750,065)	(\$1,249,797)
Net loss	(\$2,315,605)	(3,108,208)	(\$2,924,638)	(\$2,148,420)	(\$2,121,423)	(\$1,795,667)	(\$1,644,729)	(\$1,175,927)
Loss per share basic and diluted	(\$0.06)	(\$0.07)	(\$0.07)	(\$0.05)	(\$0.06)	(\$0.05)	(\$0.05)	(\$0.06)

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

#### Overall Performance

The net loss was \$2,315,605 for the three months ended December 31, 2008 compared to a net loss of \$2,121,423 for the three months ended December 31, 2007. The increase in net loss was due to the inventory write-down described above (\$608,758 recorded in the fourth quarter), the write-down of ABCP (2008 - \$315,047 compared to 2007 - \$216,710), and restructuring expenses related to loss on disposal of property and equipment (\$197,630) and impairment of leasehold improvements and furniture and fixtures (\$271,445). The Company showed significant improvement in cash flow during the fourth quarter of 2008. Cash used in operating activities fell to \$353,705 during the three months ended December 31, 2008, compared to \$1,430,588 used for the same period a year earlier. Cash used in operating activities was \$1,816,308 for the three months ended September 30, 2008.

#### Revenue

During the quarter ended December 31, 2008, the Company reported revenues of \$897,006 a decrease of 12% compared to \$1,024,954 for the quarter ended December 31, 2007. The decrease is attributable to an overall decline in global economic activity which negatively impacted the sales of the Company's acceleration products. In addition, interest revenue decreased from \$74,507 for the quarter ended December 31, 2007 to \$3,012 for the quarter ended December 31, 2008. Revenue increased significantly (90%) compared to the \$472,620 recorded for the three months ended September 30, 2008. The increase is due to partners and other customers increasing purchases following the Company's restructuring program.

#### Operating Expenses

Cost of products increased 85% to \$1,144,016 for the three months ended December 31, 2008 compared to \$618,133 for the three months ended December 31, 2007. The increase resulted from the inclusion in the cost of products of \$608,758 related to write-down of obsolete inventory for the three months ended December 31, 2008.

G&A expense decreased 59% to \$615,821 for the quarter ended December 31, 2008 from \$1,510,419 for the quarter ended December 31, 2007, while R&D expense decreased 14% to \$623,312 for the quarter ended December 31, 2008 from \$728,398 for the quarter ended December 31, 2007 as the Company began to see the benefit of its restructuring plan.

The Company incurred restructuring expenses related to loss on disposal of property and equipment of \$197,630 (2007 – nil) and impairment of leasehold improvements and furniture and fixtures of \$271,445 (2007 - nil) for the three months ended December 31, 2008.

### **Liquidity and Capital Resources**

At December 31, 2008, Acceleware had \$334,670 in working capital, including \$1,052,724 in cash and cash equivalents, and \$355,587 in short term debt. This is a significant deterioration from a year earlier when the Company had \$8,698,740 in working capital including \$6,196,894 in cash and cash equivalents, and no debt.

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 profitability through the introduction of a software-only business model, to 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.\*

Cash used in operations totaled \$7,799,750 for the year ended December 31, 2008, compared to \$6,023,505 for the year ended December 31, 2007.

As at December 31, 2008, the Company had current liabilities of \$1,295,958 compared to current liabilities of \$1,402,414 as at December 31, 2007. The decrease in current liabilities is due to a general decline in trade payables associated with inventory as the Company implements its software-only business model. Included in the current liabilities for December 31, 2008 was current debt of \$355,587 related to a secured line of credit, compared to nil in 2007.

---

\* 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

## **Accounts Receivable**

As a result of decreased sales in the three months ended December 31, 2008, and considerable efforts focused on collections of receivables, accounts receivable decreased to \$312,340, compared to \$1,198,480 as at December 31, 2007. The Company maintains close contact with its channel partners to mitigate risk in the collection of accounts receivable.

## **Asset-Backed Commercial Paper**

The Company recorded an additional write-down of \$315,047 for the year ended December 31, 2008 in the carrying value of its asset-backed commercial paper investment (ABCP). A loss of \$433,420 was recorded for the year ended December 31, 2008 (see note 6 to the Financial Statements).

## **Inventories**

Inventories decreased to \$217,981 at December 31, 2008, compared to \$1,077,306 at December 31, 2007. The Company is discontinuing its hardware sales business to focus on its software-only business model. During 2007 and the first half of 2008, the Company increased purchases of parts to assemble acceleration hardware for the Company's expanding product portfolio. In the second half of 2008 the Company focused its activities on reducing its inventory from the prior quarter and took a write-down on inventory of \$737,466.

## **Investing Activities**

Purchases of property and equipment total \$137,796 for the year ended December 31, 2008. In addition, \$225,680 was added to property and equipment through transfers from inventory for lab testing equipment (shown as inventory changes under non-cash working capital). Purchases of property and equipment totaled \$1,398,483 for the year ended December 31, 2007.

## **Financing Activities**

The Company has financed operations, R&D and capital expenditures primarily through the sale of the Company's products, cash on hand from the net proceeds of common share issuances from prior periods, and a secured line of credit. Net proceeds of \$401,805 from the issuance of common shares by way of private placement, \$469,137 from the exercise of warrants and options and \$350,977 from the utilization of a line of credit (secured by the Company's investments) provided total proceeds of \$1,221,919 for the year ended December 31, 2008. The Company received net proceeds of \$15,986,636 from the issuance of common shares during the year ended December 31, 2007.

## ***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.

As at December 31, 2008, 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**

Subsequent to the year end, the Company granted 1,817,500 options to purchase common shares of the Company to certain directors, officers and employees. On January 9, 2009, 1,617,500 options were granted. The options have an exercise price of \$0.10 per common share and expire on January 9, 2014. One-half of the options vest immediately

and the remaining options shall vest on the first anniversary of the grant date. On February 15, 2009, 200,000 options were granted. The options have an exercise price of \$0.10 per common share and expire on February 15, 2014. One-half of the options shall vest six months after the grant date and the remaining options shall vest eighteen months after the grant date.

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

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

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

## **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, 2008, 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 profitability through the introduction of a software-only business model, to 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.\*

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

The overall market for special purpose hardware accelerators has experienced growth in recent years. There can be no assurance that the market for the Company's existing products will continue to grow or that the Company will be successful in establishing markets for its products. If the various markets in which the Company's products 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 or the Company's products 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 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. 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 Channel Partners***

The Company derives a significant component of its revenues from three major channel partners (distributors) (that resell the Company's products globally). In aggregate, these three channel partners generated approximately 80% of total revenues for the year ended December 31, 2008. The Company is actively seeking other channel partners to mitigate the Company's revenue reliance on these existing major customers. Should these customers not continue to purchase and resell the Company's products and the Company is unable to attract new channel partners, revenue and the sustainability of the Company would be materially affected in future periods.

#### ***Competition***

The market for hardware accelerators 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 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 keep staff informed regarding the technical features, issues and key selling points of the Company's products;
- 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;

---

\* 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

- 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.

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

As at December 31, 2008, the Company had \$1,444,733, invested in ABCP (rated at the time of purchase by Dominion Bond Rating Service as “R1-High”, the highest credit rating for this type of investment). This ABCP was issued by limited purpose trusts sponsored and managed by non-bank entities. These obligations typically have terms of less than 365 days, and repayment of a maturing ABCP is dependent on the cash generated by the trusts’ underlying assets and the ability of the trusts to issue new ABCP.

On December 24, 2008, an agreement was reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta, regarding the restructuring of \$32 billion of third-party ABCP. The restructuring plan (the “Plan”) was implemented on January 21, 2009, subsequent to the date of these Financial Statements.

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

At this time, there is no market for the new ABCP replacement notes, therefore the funds cannot be accessed until such time as a market develops. The Company is unable to definitively determine if and when this may occur. 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.

***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 or develop and introduce new products. The Company's inability, for technological or other reasons, to develop and introduce products 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 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, and 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 sole 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 2008, the Company paid \$83,194 to a company controlled by an officer of the Company as fees for duties performed in managing operations. These fees occurred in the normal course of operations and have been recognized at the agreed to exchange amount which in the opinion of management approximates fair value for services rendered. In addition, three officers of the Company have advanced \$62,981 to the Company in the form of deferred salary at an interest rate of nil, to be repaid no later than August 31, 2009.

#### ***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, 2008 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:

2009	\$	189,694
2010		189,694
2011		189,694
2012		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, 2008, 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 valuation technique used by the Company to estimate the fair value of its investment in ABCP as at December 31, 2008, incorporates probability weighted discounted cash flows considering available public information regarding market conditions and other factors that a market participant would consider for such investments. In establishing the estimated fair value of the ABCP, the Company considered the quality of the underlying assets and determined the fair value using a discounted cash flow analysis based on its assessment of the prevailing conditions, which may change in subsequent periods. Among the most important assumptions used to estimate the fair value of the notes are the observable discount rates and the credit ratings of the notes. The Company assumes that the notes will generate a weighted average interest rate of 1.0% (December 31, 2007 – 3.5%).

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

The recalibration of the valuation model as at December 31, 2008 based on current available information resulted in an estimated fair value of the Company’s ABCP of \$721,817. This represents a reduction in the estimated fair value of \$315,047 (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 9.2%) 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:**

##### ***Goodwill and Intangible Assets***

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

##### ***International Financial Reporting Standards***

The CICA plans to transition from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) effective January 1, 2011. The Company is currently in the IFRS familiarization and planning phase of its IFRS changeover plan. Activities in this phase include senior finance staff becoming familiar with the differences between GAAP and IFRS, particularly as they apply to the Company, development of a project plan, including task definition resource allocation and training, requirements for external expertise, and the potential impact on internal controls and information systems. Senior staff are currently becoming familiar with the exemptions that may be applied under IFRS-1.

#### **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	50,281,330
Stock Options	3,605,572
Broker Warrants	180,723@\$1.30

### 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, 2008 that are available on [www.sedar.com](http://www.sedar.com) and as noted below.

<b>Research and Development</b>	<b>2008</b>	<b>2007</b>
Salaries	\$2,602,622	\$1,422,521
Consulting	\$422,515	\$374,568
R&D lab supplies	\$132,715	\$37,767
Stock-based compensation	\$55,950	\$76,375
Rent and overhead allocations	\$478,346	\$262,102
IRAP-NRC and Alberta Ingenuity Credits	(\$53,084)	(\$127,288)
<b>Total</b>	<b>\$3,639,064</b>	<b>\$2,046,045</b>

<b>Sales, General and Administration</b>	<b>2008</b>	<b>2007</b>
Salaries	\$3,890,060	\$2,739,953
Marketing	\$497,928	\$558,082
Travel	\$550,889	\$441,424
Rent, supplies and public company fees	\$977,298	\$649,567
Stock-based compensation	\$204,184	\$422,673
Professional fees	\$365,639	\$483,948
<b>Total</b>	<b>\$6,485,998</b>	<b>\$5,295,647</b>