

Acceleware Corp.

**Interim Financial Statements
June 30, 2010 and 2009**

Acceleware Corp.

Interim Financial Statements June 30, 2010 and 2009

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Acceleware Corp.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Acceleware Corp. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Acceleware Corp.

Balance Sheets

As at:

| | June 30, 2010 (unaudited) | December 31, 2009 (audited) |
|---|------------------------------|--------------------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 267,863 | \$ 547,172 |
| Accounts receivable | 360,174 | 567,210 |
| Alberta SR&ED tax credits receivable (note 8) | 248,675 | 178,974 |
| Prepaid expenses | 18,174 | 16,709 |
| | <u>894,886</u> | <u>1,310,065</u> |
| Property and equipment (note 6) | 403,651 | 565,437 |
| | <u>\$ 1,298,537</u> | <u>\$ 1,875,502</u> |
| Liabilities and Shareholders' Equity | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 413,158 | \$ 574,282 |
| Deferred revenue | 122,238 | 207,015 |
| | <u>535,396</u> | <u>781,297</u> |
| Shareholders' Equity | | |
| Share capital (note 7) | 16,474,036 | 16,359,210 |
| Contributed surplus (note 7) | 5,776,769 | 5,669,374 |
| Deficit | (21,487,664) | (20,934,379) |
| | <u>763,141</u> | <u>1,094,205</u> |
| | <u>\$ 1,298,537</u> | <u>\$ 1,875,502</u> |

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

Approved on behalf of the Board:

(signed) "Bohdan Romaniuk"

Director

(signed) "Dennis Nerland"

Director

Acceleware Corp.

Statement of Operations, Comprehensive Loss and Deficit For the:

| | Three months ended June 30, 2010 (unaudited) | Three months ended June 30, 2009 (unaudited) | Six months ended June 30, 2010 (unaudited) | Six months ended June 30, 2009 (unaudited) |
|--|---|---|---|---|
| Revenue (note 9) | \$ 646,725 | \$ 1,000,372 | \$ 1,140,460 | \$ 2,205,906 |
| Expenses | | | | |
| Cost of revenue | 116,675 | 343,860 | 205,359 | 424,480 |
| General and administrative | 429,739 | 627,632 | 919,860 | 1,274,386 |
| Research and development (note 8) | 181,191 | 253,767 | 487,937 | 838,969 |
| Loss (gain) on investment (note 5) | — | 6,024 | — | (7,224) |
| (Gain) loss on disposal of property and equip. | (181) | (250) | (181) | 5,172 |
| Amortization | 40,363 | 29,660 | 80,770 | 59,167 |
| | 767,787 | 1,260,693 | 1,693,745 | 2,594,950 |
| Loss for the period, being comprehensive loss | (121,062) | (260,321) | (553,285) | (389,044) |
| Deficit, beginning of period | (21,366,602) | (19,955,710) | (20,934,379) | (19,826,987) |
| Deficit, end of period | \$ (21,487,664) | \$ (20,216,031) | \$ (21,487,664) | \$ (20,216,031) |
| Loss per share | | | | |
| Basic and diluted | \$ (0.002) | \$ (0.005) | \$ (0.01) | \$ (0.008) |
| Weighted average shares outstanding | 54,534,748 | 50,433,534 | 53,735,409 | 50,357,432 |

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

Acceleware Corp.

Statements of Cash Flows For the:

| | Three months ended June 30, 2010 (unaudited) | Three months ended June 30, 2009 (unaudited) | Six months ended June 30, 2010 (unaudited) | Six months ended June 30, 2009 (unaudited) |
|--|---|---|---|---|
| Cash flows from (used for) operating activities | | | | |
| Loss for the period, being comprehensive loss | \$ (121,062) | \$ (260,321) | \$ (553,285) | \$ (389,044) |
| Items not involving cash: | | | | |
| Amortization | 80,726 | 59,320 | 161,540 | 118,334 |
| (Gain) loss on disposal of property and equipment | (181) | (250) | (181) | 5,172 |
| Loss (gain) on investment (note 5) | — | 6,024 | — | (7,224) |
| Write-down of inventory | — | — | — | 21,080 |
| Accrued interest on debt (note 4) | — | 255 | — | 2,494 |
| Stock-based compensation (note 7) | 30,192 | 64,221 | 107,394 | 170,934 |
| | (10,325) | (130,751) | (284,532) | (78,254) |
| Changes in non-cash working capital items | | | | |
| Accounts receivable | (36,490) | (399,721) | 207,036 | (312,720) |
| Alberta SR&ED tax credit receivable (note 8) | (27,028) | — | (69,701) | — |
| Prepaid expenses | (522) | 15,102 | (1,465) | 23,139 |
| Inventories | — | 36,188 | — | 33,512 |
| Accounts payable and accrued liabilities | 21,889 | (24,505) | (46,297) | 18,650 |
| Deferred revenue | (48,566) | 42,232 | (84,777) | 4,608 |
| | (101,042) | (461,455) | (279,736) | (311,065) |
| Cash flows from financing activities | | | | |
| Repayment of debt (note 4) | — | (20,815) | — | (69,993) |
| | — | (20,815) | — | (69,993) |
| Cash flows from investing activities | | | | |
| Proceeds from investment (note 5) | — | — | — | 49,176 |
| Proceeds from sale of property and equipment | 427 | 250 | 427 | 4,002 |
| Purchase of property and equipment | — | (7,342) | — | (7,342) |
| | 427 | (7,092) | 427 | 45,836 |
| Decrease in cash and cash equivalents | (100,615) | (489,362) | (279,309) | (335,222) |
| Cash and cash equivalents, beginning of period | 368,478 | 1,206,864 | 547,172 | 1,052,724 |
| Cash and cash equivalents, end of period | \$ 267,863 | \$ 717,502 | \$ 267,863 | \$ 717,502 |
| Comprised of: | | | | |
| Cash on hand | \$ 227,803 | \$ 461,692 | \$ 227,803 | \$ 461,692 |
| Cash equivalents | 40,060 | 255,810 | 40,060 | 255,810 |
| | \$ 267,863 | \$ 717,502 | \$ 267,863 | \$ 717,502 |
| Interest received | \$ 20 | \$ 22,688 | \$ 60 | \$ 24,309 |
| Interest paid | \$ 6 | \$ 576 | \$ 6 | \$ 11,419 |
| Income taxes paid | \$ — | \$ — | \$ — | \$ 234 |

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

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

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

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

The unaudited interim financial statements of the Company have been prepared in accordance with Canadian generally accounting principles and are consistent with those policies set out in the audited financial statements of the Company for the year ended December 31, 2009, except as disclosed below. These unaudited interim financial statements do not contain all the disclosures provided in the December 31, 2009 financial statements and should be read in conjunction with these statements. 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 has accumulated losses amounting to \$21,487,663 (including a net loss of \$553,285 for the six months ended June 30, 2010) largely due to investments in new product development and in the penetration of new markets.

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

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

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

2. Adoption of New Accounting Standards

Accounting changes:

In June 2009, the AcSB issued an amendment to Section 1506 Accounting Changes which the Company adopted as of January 1, 2010. The amendment excludes from the scope of Section 1506 changes in accounting policies upon the complete replacement of an entity's primary basis of accounting, as will occur when an entity adopts IFRS. Adoption of this standard did not have an impact on the Company's financial statements.

Recent Accounting Pronouncements Issued and not yet Effective

International Financial Reporting Standards

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

Business combinations, consolidated financial statements and non-controlling interests

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

Equity

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

Comprehensive revaluation of assets and liabilities:

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

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

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

Revenue recognition

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

3. Inventories

As at June 30, 2010 and December 31, 2009, the Company carried no inventory on its balance sheet. During the three months ended June 30, 2009, the Company expensed inventories of \$73,320 including write-downs of slow moving and obsolete inventories in the amount of \$nil. During the six months ended June 30, 2009, the Company expensed inventories of \$153,920 including write-downs of slow moving and obsolete inventories in the amount of \$21,080.

4. Current Debt

In the year ended December 31, 2009, the Company utilized a line of credit that was secured by the Company's investment in third party non-bank sponsored asset backed commercial paper ("ABCP"). The line of credit had a maximum limit of \$410,479 that could be increased at the lender's option, was due on demand, had no set maturity date, had an interest rate of 90 day Bank of Montreal Bankers Acceptances and required payments of interest only. \$nil was outstanding on the line of credit as of December 31, 2009 and as at June 30, 2010. The line of credit was eliminated with the sale of the Company's investment in ABCP.

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Notes to Financial Statements June 30, 2010 and 2009

5. Investment - Asset Backed Commercial Paper

The Company held an investment in third party ABCP with a face amount of \$1,441,241, which it acquired in 2007. The investment was made on a short term basis. However, due to liquidity issues experienced in and the collapse of the Canadian ABCP market in 2007, the Company continued to hold the investment into 2009. As liquidity developed throughout 2009, the Company was able to liquidate the investment for gross proceeds of \$752,466 on December 9, 2009.

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

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

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

At December 31, 2008, the Company assessed the ABCP to determine the fair value including the characteristics of the new notes received under the Plan. To determine the value of the affected ABCP it held, the Company established ranges of estimated fair value. An impairment charge of \$315,047 was recorded during 2008. This loss was due to the widening credit spreads and the downgrade from the provisional rating of "AA" of the affected ABCP to the final rating of "A" of the new notes received under the Plan. Class B, C and tracking notes were unrated. 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 amount 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 of \$990 between the \$1,443,743 settlement amount and the \$1,444,733 original cost was received as interest.

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

5. Investment - Asset Backed Commercial Paper (cont'd)

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

The valuation technique used by the Company to estimate the fair value of its investment in ABCP as at September 30, 2009, 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 0.3%.

On August 11, 2009 DBRS revised their rating on the class A-2 notes to "BBB(low)" citing negative rating migration in certain underlying assets. Consequently, the Class A-2 notes were valued using discount rates based on the average yield of "BBB(low)" rated corporate bonds having similar maturities. Discount rates for class A-1 notes have been estimated using average yield of "A" rated corporate bonds having similar maturities, adjusted for consideration of additional risk for the lack of information, lack of liquidity and uncertainty with respect to the exact nature of the resulting instrument. A weighted average discount rate of 8.3% was used in the Company's fair value estimate of its ABCP.

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

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

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

At June 30, 2009 the Company assessed the ABCP to determine fair value of the new notes, and found the fair value to be \$679,865.

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

6. Property and equipment

| June 30, 2010 | | | |
|------------------------|--------------|---|-------------------|
| | Cost | Accumulated Amortization and Impairment | Net Book Value |
| Furniture and fixtures | \$ 265,527 | \$ 201,236 | \$ 64,291 |
| Computer hardware | 654,607 | 458,455 | 196,152 |
| Computer software | 77,659 | 77,659 | — |
| Leasehold improvements | 647,126 | 503,917 | 143,209 |
| | \$ 1,644,002 | \$ 1,241,268 | \$ 403,651 |

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

7. Share capital

Authorized:

Unlimited common shares

Unlimited first preferred shares, conditions to be determined

Unlimited second preferred shares, conditions to be determined

| Common shares | Number | Amount |
|------------------------------------|------------|---------------|
| Balance, December 31, 2009 | 52,238,235 | \$ 16,359,210 |
| Issued in satisfaction of debt (i) | 2,296,513 | 114,826 |
| Balance, June 30, 2010 | 54,534,748 | \$ 16,474,036 |

- (i) Effective March 3, 2010 the Company settled outstanding indebtedness of \$114,826 through the issuance of common shares of the Company ("Common Shares") at deemed prices of \$0.05 per Common Share (the "Debt Settlement"). The deemed price of \$0.05 was determined using the weighted average closing price of the Common Shares on the TSX Venture exchange for the five trading days preceding March 3, 2010. The outstanding debt was comprised of employee wages and consulting fees. A total of 2,296,513 Common Shares were issued under the debt settlement.

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Notes to Financial Statements June 30, 2010 and 2009

7. Share capital (cont'd)

Stock options

During the six months ended June 30, 2010, the Company granted to certain employees, officers, and directors, a series of options to purchase a total of 1,355,000 Common Shares at an exercise price of \$0.10 per share. 677,500 of the options will vest immediately and 677,500 will vest one year from the date of grant. The options expire 5 years from the date of grant. The exercise price was based upon the minimum option price allowed by the TSX Venture Exchange, which was higher than the market price prevailing at the stock option grant date. The weighted average grant date fair value of the stock options issued was estimated to be \$0.069 per option using the Black-Scholes option pricing model based on the following weighted average assumptions: expected volatility of 223%, a risk-free interest rate of 2.11%, expected dividend yield of nil% and expected life of 5 years. The estimated fair value of the options is amortized to expense over the option vesting period on a straight line basis. Total stock based compensation expense for the three months ended June 30, 2010 was \$30,193 (three months ended June 30, 2009 - \$63,509) and \$107,395 for the six months ended June 30, 2010 (\$169,511 for the six months ended June 30, 2009).

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

| | Number | Weighted Average Exercise Price |
|----------------------------|-----------|---------------------------------------|
| Balance, December 31, 2009 | 3,716,930 | \$0.323 |
| Granted | 1,355,000 | 0.100 |
| Forfeited | (268,400) | 0.362 |
| Expired | (453,572) | 0.201 |
| Balance, June 30, 2010 | 4,349,958 | \$0.264 |

Summary of options outstanding and exercisable as at June 30, 2010 are as follows:

| Range of exercise price outstanding | | Number outstanding | Weighted average contractual life (years) | Weighted average exercise price | Number exercisable |
|--|--------|-----------------------|--|---------------------------------------|--------------------|
| \$0.10 | \$0.10 | 3,047,500 | 4.03 | \$0.100 | 2,208,500 |
| 0.25 | 0.25 | 406,787 | 0.14 | 0.250 | 406,787 |
| 0.40 | 0.70 | 317,171 | 1.23 | 0.476 | 304,565 |
| 0.80 | 1.14 | 578,500 | 1.98 | 1.019 | 524,950 |
| \$0.10 | \$1.14 | 4,349,958 | 3.19 | \$0.264 | 3,444,802 |

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

7. Share capital (cont'd)

Contributed surplus

Contributed surplus consists of the following:

| | | |
|----------------------------|----|-----------|
| Balance, December 31, 2009 | \$ | 5,669,374 |
| Stock-based compensation | | 107,395 |
| Balance, June 30, 2010 | \$ | 5,776,769 |

8. Research and development

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

| | 3 months ended | | 3 months ended | |
|---|-----------------------|-----------------|----------------|----------|
| | June 30, 2010 | | June 30, 2009 | |
| Research and development costs, includes stock-based compensation expense of \$10,486 (2009 – \$16,673) | \$ | 300,238 | \$ | 328,857 |
| Government assistance – NRC IRAP (non-refundable) | | (50,768) | | (33,840) |
| Government assistance – Alberta Ingenuity Fund | | (41,250) | | (41,250) |
| Alberta refundable SR&ED tax credits | | (27,029) | | — |
| | \$ | 181,191 | \$ | 253,767 |

| | 6 months ended | | 6 months ended | |
|---|-----------------------|------------------|----------------|----------|
| | June 30, 2010 | | June 30, 2009 | |
| Research and development costs, includes stock-based compensation expense of \$28,222 (2009 – \$48,123) | \$ | 749,244 | \$ | 941,559 |
| Government assistance – NRC IRAP (non-refundable) | | (109,105) | | (33,840) |
| Government assistance – Alberta Ingenuity Fund | | (82,500) | | (68,750) |
| Alberta refundable SR&ED tax credits | | (42,673) | | — |
| | \$ | 487,937 | \$ | 838,969 |

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

8. Research and Development (cont'd)

During the year ended December 31, 2007, the Company completed its Industrial Research Assistance Program funding agreement with the National Research Council ("NRC") which funded certain research and development costs relating to hardware acceleration products. The Company received a total of \$294,375, which was recorded as a reduction against research and development costs of \$127,288 for 2007 and \$167,087 for 2006. The funding is repayable quarterly, based on 2% of revenues, commencing July 1, 2008 and ending on the earlier of September 30, 2012 and the date total repayments equal 150% (\$441,563) of the funding advanced. If the total payments made by the Company as of September 30, 2012 are less than 100% of the funding advanced, payments will continue until the earlier of December 31, 2018 and the date total repayments equal 100% of the funding advanced. The Company's assistance for NRC IRAP and Alberta Ingenuity Fund for the periods ended June 30, 2010 and June 30, 2009 is non-refundable.

The Company recorded \$27,029 in refundable Alberta SR&ED tax credits for the three months ended June 30, 2010 (three months ended June 30, 2009 - \$nil) and \$69,701 for the six months ended June 30, 2010 (six months ended June 30, 2010 - \$nil). The Alberta SR&ED tax credits are recorded as a reduction of research and development expenses.

9. Financial Instruments

Fair Value

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

Interest Rate Risk

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

Currency Risk

A significant portion of the Company's revenues is made from sales to customers in foreign countries, and is denominated in United States dollars ("USD"). Accordingly, the Company is exposed to related foreign currency risk arising from fluctuations in USD exchange rates. The Company does not engage in any foreign currency hedging at this time.

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

9. Financial Instruments (cont'd)

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

| | June 30, 2010 | December 31, 2009 |
|--|----------------------|-------------------|
| Cash and cash equivalents | \$ 84,299 | \$ 184,405 |
| Accounts receivable | 274,601 | 444,638 |
| Accounts payable and accrued liabilities | (14,122) | (16,340) |
| Net exposure | \$ 344,778 | \$ 612,703 |

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

| | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|---------------------|---|--|---|--------------------------------------|
| Revenue | \$ 619,560 | \$ 831,707 | \$ 1,102,560 | \$ 1,916,164 |
| Expenses | (53,784) | (118,562) | (164,462) | (268,589) |
| Net exposure | \$ 565,776 | \$ 713,145 | \$ 938,098 | \$ 1,647,575 |

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

| | Average exchange rate for three months ended June 30 | Average exchange rate for six months ended June 30 | Exchange rate as at June 30, 2010 | Exchange rate as at December 31, 2009 |
|-------------|---|---|--------------------------------------|--|
| 2010 | \$ 0.9731 | \$ 0.9673 | \$ 0.9429 | |
| 2009 | \$ 0.8571 | \$ 0.8290 | | \$ 0.9555 |

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

| | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|------------------------|---|--|---|--------------------------------------|
| One cent strengthening | \$ (8,757) | \$ (12,016) | \$ (12,325) | \$ (19,563) |
| One cent weakening | \$ 8,757 | \$ 12,016 | \$ 12,325 | \$ 19,563 |

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

9. Financial Instruments (cont'd)

Credit Risk

Credit risk reflects the risk that the Company may be unable to recover its accounts receivable. The Company is exposed to credit risk as a substantial portion of its revenue is generated from four customers. The Company manages its credit risk by closely monitoring the granting of credit. Trade receivables that are greater than 30 days are considered past due but not impaired. Based on the status of trade accounts receivables, no allowance for doubtful accounts has been recorded as at June 30, 2010.

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

| | June 30, 2010 | | December 31, 2009 | |
|---------------|---------------|---------|-------------------|---------|
| 1 – 30 days | \$ | 246,231 | \$ | 430,807 |
| 31 - 60 days | | 89,466 | | 59,618 |
| 61 – 90 days | | 1 | | 29,686 |
| 91 – 120 days | | 18,662 | | 45,462 |
| Over 120 days | | 5,814 | | 1,637 |
| | \$ | 360,174 | \$ | 567,210 |

Liquidity Risk

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

The Company plans to manage its cash flow and investment in new products to match the cash requirements to cash generated from operations. Management believes that successful execution of its business plan will result in sufficient cash flow to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of the objectives discussed above, or that sufficient financing from outside sources will be available.

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

Acceleware's liabilities are as indicated in the following table:

| | June 30, 2010 | | December 31, 2009 | |
|--|---------------|---------|-------------------|---------|
| Accounts payable and accrued liabilities | \$ | 413,158 | \$ | 574,282 |
| Deferred revenue | | 122,238 | | 207,015 |
| | \$ | 535,396 | \$ | 781,297 |

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

9. Financial Instruments (cont'd)

Capital Risk Management

The Company's objectives for managing capital are:

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

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

| | June 30, 2010 | December 31, 2009 |
|----------------------|---------------|-------------------|
| Shareholders' equity | \$ 736,141 | \$ 1,094,205 |

10. Segmented information

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

(a) Geographic segmentation is as follows:

| Revenue: | Canada | Foreign Countries | Total |
|----------------------------------|------------|-------------------|--------------|
| Three months ended June 30, 2010 | \$ 27,165 | 619,560 | \$ 646,725 |
| Three months ended June 30, 2009 | \$ 215,009 | 785,363 | \$ 1,000,372 |
| Six months ended June 30, 2010 | \$ 37,900 | 1,102,560 | \$ 1,140,460 |
| Six months ended June 30, 2009 | \$ 206,686 | 2,221,604 | \$ 2,428,290 |

Acceleware Corp.

Notes to Financial Statements June 30, 2010 and 2009

10. Segmented information (cont'd)

(b) Product segmentation of revenue is as follows:

| | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|---------------|---|--|---|--------------------------------------|
| Product sales | \$ 119,498 | \$ 441,282 | \$ 299,176 | \$ 1,379,920 |
| Maintenance | 93,822 | 103,938 | 197,570 | 214,821 |
| Consulting | 433,385 | 432,464 | 643,654 | 586,856 |
| Interest | 20 | 22,688 | 60 | 24,309 |
| | \$ 646,725 | \$ 1,000,372 | \$ 1,140,460 | \$ 2,205,906 |

During the six months ended June 30, 2010, the Company derived significant revenue from two major customers (one customer for six months ended June 30, 2009) which exceeded 10% of total revenues for the six months ended June 30, 2010. The first customer accounted for \$294,415 of revenue for the period (\$125,908 for the six months ended June 30, 2009) while the second customer accounted for \$160,988 (\$38,857 of revenue for the period. For the six months ended June 30, 2009 a third customer accounted for \$1,105,757 of revenue for the period (\$105,152 of revenue for the six months ended June 30, 2010).

11. Related Party Transactions

- (a) For the six months ended June 30, 2010, the Company incurred expenses in the amount of \$63,068 (six months ended June 30, 2009 - \$64,671) of which \$7,358 (2009 - \$nil) remained in accounts payable as at June 30, 2010 (as at December 30, 2008 - \$nil) 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.
- (b) For the six months ended June 30, 2010, the Company received sub-lease rent in the amount of \$60,900 (six months ended March 31, 2009 - \$73,800) from a corporation which had a director who is also a member of the Company's board of directors. This rent 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 market value for the space sub-leased. As of March 12, 2010, the director was no longer a member of the other corporation's board of directors.
- (c) As at June 30, 2010, three officers of the Company have advanced \$50,313 to the Company. These amounts are non-interest bearing, unsecured and are to be repaid no later than December 31, 2010. As at December 31, 2009 four officers had advanced \$73,560 to the Company under similar terms. These amounts are recorded in accounts payable.