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Fundamental Research Corp.

Investment Analysis for Intelligent Investors

June 11, 2008

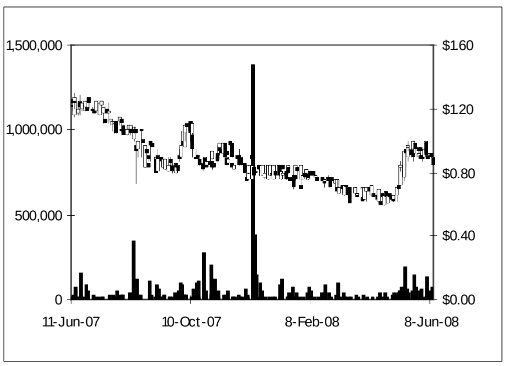
Acceleware Corp. (TSX-V: AXE) – Posts record revenues

Sector/Industry: Technology **www.acceleware.com**

Market Data (as of June 10, 2008)

Current Price	C$0.85
Fair Value	**C$2.50 (↑)**
Rating*	**BUY**
Risk*	**4 (Speculative)**
52 Week Range	C$0.59 -C$1.30
Shares O/S	42,081,330
Market Cap	C$35.77 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	3.73
YoY Return	-32.0%
YoY TSX-V	-15.7 %

*see back of report for rating and risk definitions



Q1-2008 Highlights

- The company posted 272% YOY revenue growth in Q1-2008, as revenues increased from $0.33 million to $1.24 million, the highest revenues in a quarter to date.
- In Q1-2008, AXE launched products targeting their second and third vertical markets, namely the seismic and imaging markets. AXE's products for the imaging market are already in use by two major pharmaceutical companies, including Eli Lilly (NYSE: LLY).
- AXE is now developing a rack solution for server rooms, called the Datacenter Accelerator. The Datacenter Accelerator, is not only priced much higher (hundreds of thousand dollars), but also has much higher gross margins compared to AXE's other products.
- Overall, the company's performance in Q1 well exceeded our expectations. We have raised our revenue forecasts for FY2008 and FY2009.

Financial Summary (YE Dec 31)

(C$)	**2006 (17 mo)**	**2007**	**2008E**	**2009E**
Revenue	1,030,115	2,400,475	4,823,169	9,959,531
EBITDA	(2,216,812)	(6,758,006)	(7,705,199)	(6,099,871)
Net Income	(2,267,738)	(6,737,746)	(7,729,585)	(6,463,763)
EPS	(0.13)	(0.20)	(0.18)	(0.15)
Cash	626,996	6,196,894	50,766	260,491
Debt	-	-	-	-
Assets	1,817,544	12,569,293	6,980,297	8,825,186
ROE	-113%	-60%	-153%	-106%

Acceleware Corp. (TSXV: AXE), based in Calgary, Alberta, develops, manufactures and markets special purpose software / hardware accelerators used to reduce engineering design simulation and data processing run times. According to Acceleware, simulations that take 5 - 8 hours can be completed within just 15-30 minutes using the company's accelerators. The company has experienced significant growth in distribution since being founded in February 2004.

Q1-2008 was one of the best quarters to date

Q1-2008, we believe, was one of the company's best quarters to date. AXE made significant progress in Q1 and its performance well exceeded our expectations.

The company posted YOY revenue growth of 272% in Q1-2008, as revenues increased from \$0.33 million to \$1.24 million, the highest revenues in a quarter to date. Also, in Q1-2008, AXE launched products targeting their second and third vertical markets, namely the seismic and imaging markets. We initiated coverage on AXE in January 2007. Although we had expected the company to enter the seismic market in late 2007/early 2008, the company's entry into the imaging market came much sooner than expected. AXE's products for the imaging market are already in use by two major pharmaceutical companies, including Eli Lilly (NYSE: LLY). The fact that a leading pharmaceutical company like Eli Lilly has adopted AXE's products at such an early stage, we believe, is highly encouraging, and reflects the potential of AXE in this market.

Just like the EM simulation market, the seismic data processing and the imaging markets face considerable bottlenecks in processing complex computations. AXE's products, by offering an efficient solution to this problem, have already generated a significant amount of interest among end-users and software vendors.

Oil and Gas Seismic Data Processing Market

In January 2008, the company announced the launch of its seismic data acceleration solution targeting the oil and gas market. Just like the electromagnetic (EM) simulation market, one of the major problems of the seismic data processing market is lengthy process times. Processing of 2D and 3D land and marine data typically takes from days to months. AXE's solutions, by providing a multi-fold performance increase, have the potential to significantly reduce processing times and deliver faster results, thereby allowing oil and gas companies to make faster and more efficient drilling decisions.

AXE's solutions focus on speeding up the Kirchhoff Pre-Stack Time Migration (KPSTM), processing time of which is typically weeks or months. KPSTM is one of the most widely used seismic migration methods in the industry. (*Seismic migration is basically a data-processing technique used to create images of earth structure from the data recorded by a seismic reflection survey.)* In addition to reducing processing times, AXE's solutions have a smaller footprint (AXE's solutions use 75% less space resulting in lower rental costs for floor space), and provide improved economics in power and cooling; features which further add value to the company's product offerings.

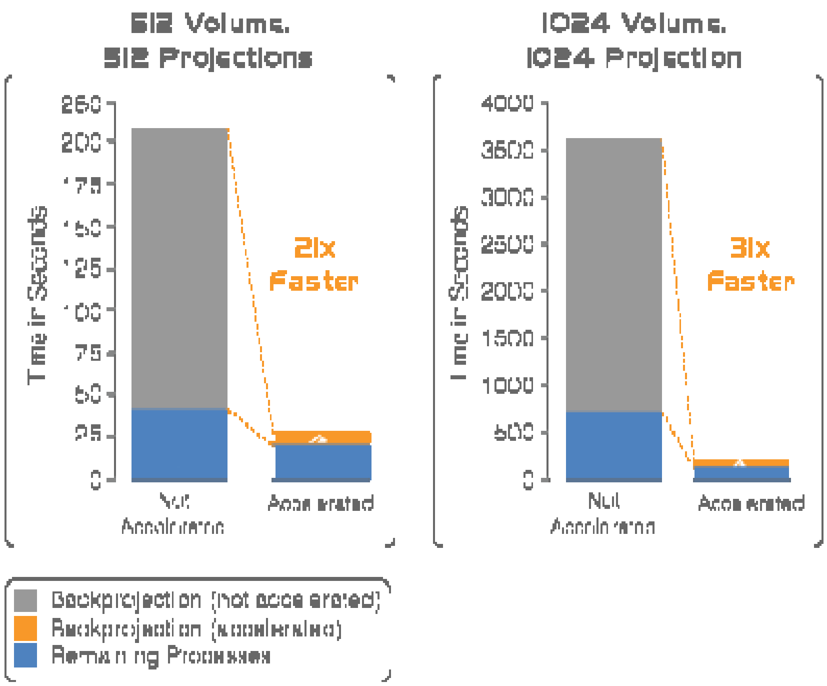
AXE's solutions, which were integrated with the SUMMIG software created by Techco Geophysical Services Ltd., demonstrated their capability to increase the speed of KPSTM computations by up to 8x. Subsequently, in May 2008, the company launched a complete solver library called the AxKTM™ that can be fully integrated with any KPSTM software solution.

AXE can sell their products either directly to end-users or to current seismic software developers. The company's strategy is to initially sell their products directly to end-users, and simultaneously build partnerships with seismic processing firms.

Imaging Market

Image reconstruction (a technique to generate 3D images) for Computed Tomography (CT) Scanners, which involves complex computations, takes hours of processing time. Therefore, clinicians and researchers have to typically compromise on quality to speed up processes. In March 2008, AXE launched its image reconstruction product, called AxRecon™, targeting the medical imaging, security, and non-destructive testing markets. AxRecon™, which easily integrates with users' reconstruction software, has the capability to speed up reconstruction by up to 50x while maintaining image quality. The image below shows the reduction in process times.

AxRecon™ Benchmarks



Source: Acceleware

As mentioned earlier, AxRecon™ is already in use by two major pharmaceutical companies, including Eli Lilly (NYSE: LLY), to speed up image reconstruction times for their research. AXE's goal going forward in this market is to generate a suite of accelerated image reconstruction solvers.

EM Market – Products adopted by Korea's national certification and research agency

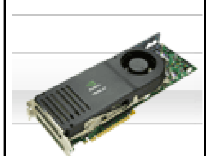
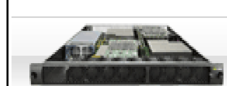
The company continues to experience strong growth in the EM simulation market. Most of the company's revenues at this time comes from this segment, and, as mentioned earlier, well exceeded our expectations in FY2007 and Q1-2008.

One major development in this sector since our previous report was that, AXE and its channel partner, Schmid & Partner Engineering AG (SPEAG), recently announced that Korea's national certification and research agency, Radio Research Laboratory (RRL), is adopting their combined simulation solution to conduct testing and certification of all cellular handsets in Korea.

RRL is mandated to certify all cellular handsets for the Korean market, perform compliance testing and simulations to create national standards, and determine the safety of mobile devices for human exposure.

Developing a rack solution for server rooms – the new product will be priced at hundreds of thousand dollars

After the board-level Accelerator and the stand-alone workstation ClusterInABox, AXE is now developing a rack solution for server rooms, called the Datacenter Accelerator. This product basically uses AXE's proprietary software and GPU acceleration solution to increase the speed of the NVIDIA® Tesla™ S870, which itself is a four-GPU solution for an enterprise server environment. The table below shows the evolution of the company's products, starting from the board level Accelerators to the latest Datacenter Accelerator.

	Accelerator Boards		ClusterInABox (Dual)		ClusterInABox (Quad)	Datacentre Accelerator
	A20	**A30**	**D20**	**D30**	**Q30**	
Maximum Performance (Mcells/s)	400	450	800	900	1700	
Simulation Size (Million cells)	1-28	1-50	1-56	1-100 A30 boards	1-200 A30 boards	
Hardware	-	-	contains two A20 boards	contains two A30 boards	contains four A30 boards	contains four A30 boards
Application Acceleration	upto 10x		upto 20x		upto 35x	upto 35x
	A30 		D30 		Q30 	

The foundation for the Datacenter Accelerator product has been assembled, but additional development is required for it to be marketable. The Datacenter Accelerator is priced significantly higher (hundreds of thousand dollars) than the boards and the ClusterInABox , which are priced between \$10,000 and \$70,000. **Our research indicates that the NVIDIA® Tesla™ S870 is priced at about US\$12,000, which means that the Datacenter Accelerator, is not only priced much higher, but also has much higher gross margins compared to the other products.** Our discussions with management indicated that sales of their new Datacenter Accelerators are expected to commence later this year.

A discussion on the company's Q1 results follow.

Revenues exceed expectations again

In Q1-2008, the company posted YOY revenue growth of 272%, as revenues increased from \$0.33 million to \$1.24 million, the highest revenues in a quarter to date. 90% of the revenues came from product sales (which recorded YOY growth of 277%), and the remaining 10% came from maintenance costs (240% YOY growth).

In Q4-2007, the company reported $0.95 million in revenues versus $0.25 million in the comparable period in the previous year. For the 12-month period in FY2007, the company reported $2.40 million in revenues (our estimate was $2.30 million) versus $1.03 million in the 17-month period ended December 2006. The table below shows the company's revenues in Q1-2008 and FY2007 and their comparable periods in the previous year.

	2006 (17 mo)	2007 (12 mo)	Q1-2007	Q1-2008
Revenues	$1,030,115	$2,400,475	$332,664	$1,238,523
Gross Margins	49.6%	42.4%	52.6%	34.2%

Revenues increased due to increased penetration and as one more channel partner started generating significant sales. The company now derives significant revenues from three channel partners in the EM market. The increase in revenues were slightly offset by a strong C$/US$. About 98% of the company's revenues came from foreign countries in Q1-2008 (96% in FY2007), of which, we believe, a significant portion were paid in US$.

We have raised our revenue forecasts for FY2008, and FY2009, to $4.82 million (from $4.32 million) and $9.96 million (from $8.98 million), respectively.

Gross margins continued to drop YOY in Q1-2008. Gross margins dropped YOY in Q1-2008 (52% to 34%) and Q4-2007 (52% to 35%), and were below our estimates. We were disappointed even though management expects margins to improve in subsequent quarters.

Gross margins dropped in Q4-2007 due to a one-time expense associated with a write-down of field demonstration units at client sites. According to AXE, gross margins in Q4-2007 would have been 47% if these one-time costs were not recorded. Gross margins also dropped significantly in Q1-2008. Management attributed the drop this time to a large hardware only sale for the co-development of a new product and valuation allowance applied to outstanding field demonstration units at client sites that are available for sale but not yet sold. Since these costs are non-recurring, we expect margins to improve going forward.

Operating margins improved due to higher revenues

Total selling, general and administrative (SG&A) and research and development (R&D) costs increased by 97% YOY in Q1-2008, from $1.33 million to $2.62 million. However, due to the significant increase in revenues, costs as a percentage of sales dropped from 401% to 212%. Therefore, even though gross margins dropped YOY, operating and net margins improved YOY in Q1-2008. The table below shows the company's margins in FY2007 and Q1-2008, along with their comparable periods in the previous year.

Margins	2006 17 mo	2007 12 mo	Mar-07 3 mo ended	Mar-07 3 mo ended
Gross Margin	49.6%	42.4%	52.6%	34.2%
EBITDA Margin	-215.2%	-281.5%	-348.4%	-177.6%
EBIT Margin	-222.3%	-290.3%	-363.8%	-182.9%
Net Margin	-220.1%	-280.7%	-353.5%	-173.5%

In Q1-2008, salaries alone accounted for 61% of total costs (up from 58% in Q1-2007 and 57% in FY2007). SG&A and R&D expenses increased as the number of employees more than doubled (30 personnel at December 31, 2006 to 74 at March 31, 2007), increased sales and marketing activities, and due to additional expenses related to the further development and integration of products.

We have lowered our gross margins estimate for FY2008 to 40% (down from 50%), but have maintained our estimate for FY2009 at 50%. We have raised our estimates for SG&A and R&D expenses.

Net loss

AXE posted a net loss of $2.15 million (EPS: -$0.05) in Q1-2008 versus $1.18 million (EPS: -$0.06) in Q1-2007. In FY2007, the company posted a net loss of $6.74 million (EPS: -$0.20) versus $2.27 million (EPS: -$0.13) in FY2006. Our estimate was $6.26 million (EPS: -$0.15).

Our revised EPS forecasts for FY2008, and FY2009, are net losses of $7.73 million (EPS: -$0.18), down from $6.05 million (EPS: -$0.14), and $6.46 million (EPS: -$0.15), down from $5.14 million (EPS: -$0.12), respectively.

Cash Flows

The company spent $6.02 million on operations in FY2007 ($5.51 million on operations and $0.52 million on working capital) versus $2.36 million in FY2006 (17 months). The cash conversion cycle dropped to 156 days in FY2007 (from 298 days in FY2006; our estimate for FY2007 was 201 days), which was encouraging.

Activity Analysis	2006	2007
Days Accounts Receivable	248	182
Inventory Days	323	284
Days Accounts Payable	273	311
Cash Conversion Cycle	**298**	**156**

In Q1-2008, the company spent $2.34 million on operations versus $1.25 million in Q1-2007.

AXE spent $1.40 million on capital investments in FY2007, and $42,800 in Q1-2008. Operations and investing activities in FY2007, and Q1-2008, were funded by cash raised from private placements and the exercise of warrants ($15.99 million) in FY2007.

Cash and Liquidity Position

At the end of Q1-2008, the company had $5.85 million and $7.10 million in cash (and short-term investments) and working capital. The table below shows the company's cash and liquidity position.

Liquidity Analysis	2006	2007	Q1-2008
Current Ratio	3.66	7.20	6.03
Working Capital (in $)	1,060,808	8,698,740	7,095,204
Debt / Capital	-	-	-
Interest Coverage Ratio	-	-	-

The company continues to be in a sound cash position with no debt. Our models indicate that the company will have to raise close to $0.62 million in FY2008.

Stock Options and Warrants

At the end of Q1-2008, the company had 4.11 million stock options outstanding (2.01 million are currently 'in-the-money' – assuming that none of the outstanding options were exercised since the end of March 2008), with a weighted average exercise price of $0.76 per share, and a weighted average time to maturity of 2.91 years. The company also had 5.70 million warrants outstanding (all of them are currently 'out-of-the-money'), with a weighted average exercise price of $1.68 per share, and maturity periods between 0.09 and 1.70 years.

Valuation and Rating

As a result of all the previously mentioned changes, our valuation on the company increased from $2.45 per share to $2.51 per share.

DCF Valuation - Acceleware Inc.								
(in C$)								
	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal
FFO	(4,964)	(5,599)	(3,251)	(535)	4,684	12,578	18,263	20,513
WC Investment	22	(192)	776	(373)	459	(307)	(280)	(382)
CFO	(4,942)	(5,790)	(2,476)	(908)	5,143	12,271	17,983	20,132
CAPEX	(1,457)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
FCF	(6,399)	(6,790)	(3,476)	(1,908)	4,143	11,271	16,983	19,132
PV	(6,047)	(5,729)	(2,618)	(1,283)	2,488	6,043	8,130	101,765
Discount Rate	12%							
Growth Rate	3%							
Net Present Value	$102,749							
Debt	-							
Cash	$5,849							
Total Value	$108,599							
No. of shares (dil)	43,335,649							
Fair value per share	$2.51							

Therefore, based on our revised valuation models, we reiterate our BUY rating (Risk 4: Speculative) and raise our fair value estimate from $2.45 per share to $2.50 per share.

Risks

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- The HPC market is highly competitive and barriers to entry to the market are very low.
- Entry into the EM market was relatively easier for the company, as management has had good relationships with the industry for the past two decades. However, the company's entry into new design simulation markets will depend heavily on the company's ability to attract potential partners and timing of entry into new markets.
- AXE will be adversely affected if it is not able to cope with changes in technology. Keep in mind that the HPC market has experienced rapid technological changes in the past 10 years.

- Like all other companies, the overall performance of the company depends heavily on market growth and will be adversely affected if the overall markets slow down.

Appendix

Acceleware Corp.- Income Statement
(in C$)

	2006 17 mo	2007	2008E	2009E
Revenues				
Product Sales	886,714	2,220,564	4,465,897	8,507,324
Maintenance	87,401	179,911	357,272	1,452,207
Consulting	56,000	-	-	-
	1,030,115	**2,400,475**	**4,823,169**	**9,959,531**
Expenses				
Costs of Product Sales	519,547	1,383,369	2,893,901	4,979,766
General and Administrative	1,987,379	5,295,647	7,281,515	8,373,742
Research and Development	740,001	2,046,045	2,352,952	2,705,895
Write-down of Investments		433,420		
	3,246,927	**9,158,481**	**12,528,368**	**16,059,402**
EBITDA	(2,216,812)	(6,758,006)	(7,705,199)	(6,099,871)
Amortization	73,111	211,143	295,683	366,114
EBIT	**(2,289,923)**	**(6,969,149)**	**(8,000,881)**	**(6,465,985)**
Interest	22,185	231,403	271,296	2,222
Taxes		-	-	-
Income (Loss)	**(2,267,738)**	**(6,737,746)**	**(7,729,585)**	**(6,463,763)**
Earnings(Loss) per Share	(0.13)	(0.20)	(0.18)	(0.15)

Acceleware Corp.- Balance Sheet
(in C$)

	2006	2007	2008E	2009E
Assets				
Current				
Cash	626,996	6,196,894	50,766	260,491
Short-term Investments		1,550,017	-	-
Accounts Receivables	494,131	1,198,480	1,446,951	1,991,906
Inventory	324,204	1,077,306	1,688,109	2,091,502
Prepaid Expenses	14,081	78,457	96,463	149,393
	1,459,412	**10,101,154**	**3,282,289**	**4,493,292**
Deferred Charges	-	-	-	-
Investment		1,011,313	1,036,865	1,036,865
Property and Equipment	358,132	1,456,826	2,661,143	3,295,029
Intangible Assets				
	1,817,544	**12,569,293**	**6,980,297**	**8,825,186**
Liabilities and Shareholders' Equity				
Current				
Accounts Payables and Accrued Liabilities	274,281	1,177,404	1,446,951	1,493,930
Deferred Revenue	124,323	225,010	482,317	1,244,941
	398,604	**1,402,414**	**1,929,268**	**2,738,871**
Shareholders' Equity				
Share Capital	3,669,872	19,131,605	20,246,293	27,246,293
Contributed Surplus	341,439	1,365,390	1,864,438	2,363,486
Deficit	(2,592,371)	(9,330,116)	(17,059,701)	(23,523,464)
	1,418,940	**11,166,879**	**5,051,030**	**6,086,315**
Total Liabilities & S.E	**1,817,544**	**12,569,293**	**6,980,297**	**8,825,186**

Acceleware Corp.- Statement of Cash Flows
(in C$)

	2006	2007	2008E	2009E
Cash Flows from Operating Activities	**17 mo**			
Loss for the Period	(2,267,738)	(6,737,746)	(7,729,585)	(6,463,763)
Items not Involving Cash:				
Amortization	73,111	299,788	295,683	366,114
Write-Down of Intangible Asset	3,567			
Write-Down of Investment		433,420	-	
Accrued Interest on Investments				
Stock-Based Compensation	190,511	499,048	499,048	499,048
	(2,000,549)	**(5,505,490)**	**(6,934,855)**	**(5,598,600)**
Changes in Non-Cash Working Capital Items:				
Accounts Receivable	(398,003)	(704,349)	(248,471)	(544,956)
Prepaid Expenses	(14,081)	(64,376)	(18,006)	(52,930)
Inventory	(324,204)	(753,102)	(610,803)	(403,392)
Deferred Charges	-	-	-	-
Accounts Payables and Accrued Liabilities	248,578	903,125	269,547	46,979
Deferred Revenue	124,323	100,687	257,307	762,624
	(363,387)	**(518,015)**	**(350,427)**	**(191,674)**
	(2,363,936)	**(6,023,505)**	**(7,285,281)**	**(5,790,274)**
Cash Flows from Financing Activities				
Issuance of Common Shares	2,452,011	15,986,636	1,089,136	7,000,000
Issuance of Warrants and Options		-	-	-
	2,452,011	**15,986,636**	**1,089,136**	**7,000,000**
Cash Flows from Investing Activities				
Purchase of Property and Equipment	(416,908)	(1,398,483)	(1,500,000)	(1,000,000)
Investments		(2,994,750)	1,550,017	
Net Monetary Assets Acquired	716,736			
	299,828	**(4,393,233)**	**50,017**	**(1,000,000)**
Increase in Cash	**387,903**	**5,569,898**	**(6,146,128)**	**209,726**
Cash, Beginning of Period	239,093	626,996	6,196,894	50,766
Cash, End of Period	**626,996**	**6,196,894**	**50,766**	**260,491**

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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