

Espial Group, Inc.

Annual Report

Fiscal 2016

Espial

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Transforming the Viewing Experience Worldwide

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This document has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of Espial Group Inc's ("Espial" or the "Company") financial condition and results of operations for the three and twelve month periods ended December 31, 2016 compared to the same periods in 2015. The MD&A should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2016 and December 31, 2015. The financial statements have been prepared in Canadian dollars using International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The information contained herein is dated as of February 23, 2017 and is current to that date, unless otherwise stated. Additional information relating to the Company may also be found on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain statements in this management's discussion and analysis may constitute forward-looking statements, including those identified by the expressions such as "anticipate", "believe", "estimate", "expect", "foresee", "intend", "plan", or similar expressions to the extent that they relate to the Company or its management. The forward-looking statements are not historical facts but reflect the Company's current assumptions and expectations regarding future events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations and assumptions. Please see "Risk Factors Affecting Future Results" for a more complete discussion of these and other risks.

BUSINESS OVERVIEW

Espial is a leading developer and marketer of software solutions that enable video service providers (typically cable multiple-system operators, telecommunications, satellite and other network operators) to deploy next-generation, advanced video services for all screens (TVs, tablets, PCs, and mobile phones) with engaging subscriber viewing experiences incorporating intuitive intelligent content discovery and instinctive navigation. With customers spanning six continents, Espial is headquartered in Ottawa, Canada, has research and development and sales centers in Canada, the U.S., the UK, Europe and Asia.

Espial G4™ is a family of software clients for the TV (via set-top box), mobile devices (smart phones, tablets, etc.) and other devices that delivers an immersive and personalized viewing experience, seamlessly blending advanced TV services including 4K live TV, VOD, and DVR-functionality with Over the Top ("OTT") content. Video service providers can achieve 'Web-speed' innovation with G4's flexible, open software leveraging RDK and HTML5 technologies.

The Espial Media Service Platform and Espial MediaBase Platform are 'back-office' software platforms that enable the delivery of television everywhere and video-on-demand services by video service providers to their subscribers. Espial's powerful platforms facilitate the provisioning of innovative video services such as video-on-demand, time-shift television and interactive services. Espial's solutions also include previous generation STB client solutions that are marketed by Espial for use in legacy STBs, which have lower central processing unit and memory resources available.

Espial Elevate™ is a cloud-hosted, video service managed 24x7x365 by Espial and currently provided to over forty video service providers in the U.S. and Canada. Elevate brings state-of-the-art premium video services for live TV, VOD, DVR, and over-the-top services such as Netflix to these operators in a cost-effective manner.

Espial Elite™ is Espial's professional services team which provides system installation, customization, and integration services to video service providers who are deploying a new generation of IP video services. Highly

skilled in the IP Video arena, Espial Elite can provide end-to-end system integration of Espial's software solutions together with third-party video systems to accelerate time-to-market for these video service providers.

The Espial TV Browser product allows consumer electronics manufacturers to provide a full web experience on Connected (aka "Smart") TVs. Espial provides them with a high performance browser and app-engine for an immersive, personalized user experience including access to over-the-top video, social media, news and sports sites.

We remain confident that TV service providers around the world believe that the delivery of video content is critical to their future business success. Accelerating competition, much of it from online/over-the-top competitors, is causing providers to deploy a new generation of STB hardware and client software on a more accelerated timetable than was the norm previously. We believe the nature of early stage disruption that is occurring in the TV industry, combined with our size as a company and the size of individual contract awards, suggest that our revenue will continue to have significant variability in the foreseeable future. As such, we caution readers that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of likely future performance or annual operating results.

CRITICAL ACCOUNTING POLICIES

The Company prepares its consolidated financial statements in accordance with IFRS. For reporting purposes, we prepare our financial statements in Canadian dollars.

Management makes certain estimates and relies on certain assumptions relating to the reporting of our assets and liabilities as well as revenues and expenses, and related disclosure of contingent assets and liabilities in order to prepare our financial statements in conformity with IFRS. Estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

On an on-going basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Because this can vary in each situation, actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgements and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

Our revenues are derived from the license of our software products and related consulting services and product support. We may license our software in multiple element arrangements in which the customer purchases a combination of software, support and/or consulting services such as training and integration services.

Revenue from software licenses is recognized when all of the following criteria have been met: transfer to the buyer of the significant risks and rewards of ownership; the Company does not retain continuing managerial involvement; the revenue amount can be reliably measured; it is probable that the economic benefits will flow to the Company and costs incurred can be reliably measured. If a customer has been identified as newly formed, undercapitalized or in financial difficulty in the period a sale takes place or if there are other uncertainties regarding ultimate collection, revenue is deferred and recognized when cash is received or when payments become due if amounts are considered collectible and all other revenue recognition criteria have been met.

Product support revenue is deferred and recognized over the term of the maintenance, typically twelve months.

Professional services revenue is generally recognized by reference to the stage of completion of the contract, taking into consideration the cost incurred to date in relation to the total expected cost to complete the deliverable. If the estimated cost to complete a contract increases over the life of the contract resulting in a loss on the contract, the loss is recognized immediately into the statement of income (loss) and comprehensive income (loss).

Arrangements may be comprised of multiple product and service elements. Revenue for customer support and maintenance and professional services included in a multiple element arrangement are unbundled from the total fee for the arrangement based on their fair value as determined by reliable objective evidence. Where reliable objective evidence does not exist, reference to third party prices or estimates of standalone price for the element are used to determine a fair value. In situations where reliable objective evidence or other evidence of fair value does not exist for the delivered elements but does exist for the undelivered elements, the Company may apply the residual method. The residual method allocates the consideration to the undelivered element based on its fair value and the remaining consideration to the delivered elements.

Warranty costs are accrued based on the expected costs to be incurred. Historically there has not been any warranty costs incurred or accrued.

Unbilled receivables arise where professional services are performed or product delivered prior to our ability to invoice in accordance with the contract terms.

Deferred revenue arises when customers are invoiced in advance of revenue recognition criteria being met.

Intangible assets

Intangible assets resulting from the acquisition of companies are recorded at fair value, estimated by management based on the expected discounted future cash flows associated with the acquired intangible assets. Acquired intangible assets are amortized on a straight-line basis over their expected future life.

Goodwill

Goodwill is calculated as the excess of the fair value of consideration paid over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed. As there is only one cash generating unit in the Company, goodwill is allocated to the Company as a whole. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised immediately in the consolidated statement of income (loss) and comprehensive income (loss). An impairment loss recognised for goodwill is not reversed in subsequent periods.

Share-based Compensation

We measure equity settled stock options granted based on their fair value at the grant date and recognize compensation expense over the vesting period. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net income (loss). Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based payment is transferred from share-based reserve to share capital.

Determining the fair value of the share-based awards requires judgement, including estimating the expected life of the options, the expected volatility of our stock and expected dividends. In addition, judgement is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual results

differ significantly from these estimates, share-based compensation expense and our results of operations could be materially impacted. The fair value of the awards is determined by using the Black-Scholes option-pricing model.

Functional Currency

The functional currency of the parent company and each of its subsidiaries is the Canadian dollar. Revenue and expenses in foreign currencies are translated at the average rate for the period. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognized in the statement of income (loss) and comprehensive income (loss).

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to select appropriate accounting policies and to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Revenue Recognition

Application of the accounting principles related to measurement and recognition of revenue requires the Company to make judgements and estimates.

Revenue arrangements may be comprised of multiple product and service elements. Judgement is required in determining the deliverables that exist in an arrangement and the nature of these deliverables. Revenue recognition requires the arrangement fee to be allocated to the elements on a relative fair value basis unless the residual method is used. The residual method relies on fair values being determinable for the undelivered elements including post contract support and professional services; the residual is allocated to the value of the software license. Judgement and estimates are required when determining the fair value of elements utilizing standalone prices for similar deliverables where it exists or third party evidence of standalone price.

Revenue for product elements is recognized when delivered. Judgement is required in determining when delivery has occurred including assessing if significant obligations to install the product exist that must be completed, the timing of when the significant risks and rewards of ownership have been transferred, and if a risk of return or refund exists due to non-compliance with product or service specifications.

Revenue for service elements is recognized as the services are performed. Estimates of proportional performance of service arrangements are required to recognize revenue including effort spent to date versus total effort expected to complete.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on our assessment of the likelihood of collection of specific customer balances. If there is deterioration in a customer's credit worthiness or actual defaults are higher than our historical experience, our estimates of recoverability for the accounts receivable could be adversely affected. The evaluation of collection of customer accounts is typically done on an individual account basis. If, based on an evaluation of accounts, we conclude that it is probable that a customer will not be able to pay all amounts due, we estimate the expected loss. We believe the amount reserved at December 31, 2016 of \$323,010 is reasonable.

Functional Currency

Determination of functional currency involves significant judgement in determining the primary economic environment by considering the currency and economic factors that mainly influence sales prices, operating

costs, financing and related transactions. Revenue contracts are predominately priced and billed in Canadian dollars, US dollars and Euros whereas the cost structure inputs are primarily in Canadian dollars. Secondary indicators of functional currency, including financing and cash holdings are primarily in Canadian dollars. As the primary indicators of functional currency do not clearly indicate a specific currency, the indicators as a whole have been judged to indicate the Canadian dollar is the functional currency of the parent company and its subsidiaries. The functional currencies of the Company and its subsidiaries are reassessed when facts change.

Purchase price allocation

The Company applies judgement in determining whether the assets it acquires are considered to be asset acquisitions or business combinations. A business, as defined in IFRS 3 Business Combinations, usually consists of (i) inputs, (ii) processes, and (iii) outputs. Management uses estimates and judgements to determine whether the acquired assets consist of a set of integrated activities and assets that is capable of being managed for the purpose of providing a return or other economic benefits directly to the owner and if so, then accounts for the acquisition as a business

The Company acquired certain assets of ARRIS Group, collectively known as the Whole Home Solution ("WHS") during the year ended December 31, 2016, (see "Recent Developments"). As a result of this acquisition, management was required to estimate the fair values of each identifiable asset and liability acquired through the acquisition. Fair value of cash and cash equivalents, and prepaid and other assets were estimated to approximate their carrying values in ARRIS's records at the date of the transaction. Fair value of deferred revenue was estimated using the income approach which determines the fair value of a liability using costs to fulfil the obligation plus a normal profit margin. Fair value of property and equipment was estimated based on replacement value and a provision for onerous contract was set up based on management's estimates. The fair values of the intangible assets were valued using the excess earnings method under the income approach.

Impairment of tangible and intangible assets

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Provisions

From time to time the Company is involved in claims in the normal course of business. Management assesses such claims and where considered likely to result in a material exposure and where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. The Company does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected from the contract.

Fair value of Stock-based compensation

The Company uses the Black-Scholes valuation model to determine the fair value of equity settled stock options. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield and the risk-free interest rate. The Company also estimates the expected forfeiture rate. Variation in actual results for any of these inputs will result in a different value of the stock option realized from the original estimate.

Estimation Uncertainty

Estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

New and revised IFRS accounting pronouncements and amendments

The following amendment was adopted by the Company in the fiscal year.

Amendments to IAS 16 and IAS 38

In May 2014, the International Accounting Standards Board issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment.

They also introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The amendments explain that an expected future reduction in selling prices could be indicative of a reduction of the future economic benefits embodied in an asset. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is allowed. The Company has adopted these amendments with no impact on the consolidated financial statements.

The following is a list of standards and amendments that have been issued but not yet adopted by the Company.

IAS 7: Disclosure Initiative

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 9 Financial Instruments

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 15: Revenue from Contracts with Customers

On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 2: Share Based Payment

In June 2016, the International Accounting Standards Board issued amendments to IFRS 2 Share-based Payment. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. They also provide guidance on the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2018. Early adoption is allowed and specific transitional provisions apply. The Company does not intend to adopt these amendments in fiscal 2016 and is currently evaluating the impact of adoption of these amendments on the consolidated financial statements.

IFRS 16: Leases

In January 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases (IAS 17) standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception.

The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either:

- apply IFRS 16 with full retrospective effect; or
- recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

The Company does not intend to adopt these amendments in fiscal 2016 and is currently evaluating the impact of adoption of these amendments on the consolidated financial statements.

Recent Developments

On June 29, 2016 the Company entered into an agreement pursuant to which Espial acquired certain assets of ARRIS Group related to the business of developing, distributing, and supporting the software products marketed to video service providers as the Whole Home Solution ("WHS"). The Company closed the acquisition with an effective date of August 19, 2016. The WHS is comprised of a cloud-hosted software to TV service provider customers, client software incorporated into various set-top-boxes and gateways, and client software licensed for download onto PC browsers and IOS and Android smart phones and tablets for use in connection with the WHS system.

The acquisition of WHS expands the Company's solution portfolio with a cloud-hosted Video-as-a-Service platform that is complimentary to and will leverage Espial's current solutions for next-generation IP video services. Additionally, the Company gains a broad base of new customer relationships and further scales its integration, operations, and software development teams.

The acquisition was determined to constitute a business and was accounted for using the acquisition method of accounting, whereby the results of operations of the acquired assets are included in the Company's consolidated financial statement from the acquisition date and the related identifiable assets acquired and liabilities assumed are recorded at their fair values on the date of acquisition. Acquisition costs were \$258,338 with the full amount recognized in general and administrative expenses in the statement of income and comprehensive income.

The Company has undertaken a purchase price analysis including valuation of intangible assets acquired.

The fair values of the assets acquired and liabilities assumed are:

Assets acquired:	
Cash	\$ 162,770
Prepaid expenses	47,750
Property and equipment	279,287
Intellectual property	713,710
	<hr/>
	1,203,517
Liabilities assumed:	
Deferred income	530,412
Onerous contract provision	347,139
	<hr/>
Gain on acquisition	\$ 325,966

The net cash outflow (inflow) as at August 19, 2016 related to the acquisition was:

Consideration paid in cash	\$	1
Less: cash received on closing		<u>(162,770)</u>
		<u>\$ (162,769)</u>

The estimated impact of the acquisition on the consolidated results of the Company was as follows. Included in the year ended December 31, 2016 is \$4,492,993 in revenues and a net loss of \$540,056, attributable to the additional business generated by the acquisition of WHS. Management believes estimating the pro forma revenue and expenses for this business combination assuming it had been effected at the beginning of the reporting period to be impracticable due to the material changes that were being made by ARRIS to affect the sale including staff terminations, contract changes, internal reporting changes and management changes.

Comparison of the three and twelve month periods ended December 31, 2016 and 2015

RESULTS OF OPERATIONS

The following table sets out selected information from our consolidated statement of operations, for the periods indicated:

	Three Months Ended		Twelve Months Ended	
	December 31, 2016 (Unaudited)	December 31, 2015 (Unaudited)	December 31, 2016	December 31, 2015
Revenue				
Software	\$9,752,798	\$ 2,426,721	\$18,142,077	\$ 11,767,217
Professional services	1,096,363	1,576,139	4,614,199	8,294,954
Support and maintenance	1,904,540	1,206,346	5,888,294	4,772,521
Total Revenue	12,753,702	5,209,206	28,644,570	24,834,692
Cost of revenue	2,315,220	1,758,727	7,240,272	6,372,626
Gross margin	10,438,482	3,450,479	21,404,298	18,462,066
Expenses				
Sales and marketing	1,495,225	1,278,857	5,574,759	5,041,954
General and administrative	1,080,378	861,738	4,138,290	3,423,686
Research and development	5,141,489	2,306,297	15,510,661	8,730,666
Amortization of Intangible assets	269,024	192,378	804,785	677,109
	7,986,116	4,639,270	26,028,495	17,873,415
Income (loss) before other income (expense)	2,452,365	(1,188,791)	(4,624,197)	588,651
Other income (expense)	64,599	131,826	(154,519)	647,959
Interest income	69,299	89,339	322,691	309,408
Income (loss) before tax	2,586,263	(967,626)	(4,456,025)	1,546,018
Income taxes	(111,555)	(45,069)	(418,744)	(274,010)
Net income (loss) and comprehensive income (loss)	\$2,474,708	\$ (1,012,695)	\$(4,874,769)	\$ 1,272,008

Included in the functional expense categories above, is the following non-cash expenses.

	Three Months Ended		Twelve Months Ended	
	Dec. 31, 2016 (Unaudited)	Dec. 31, 2015 (Unaudited)	Dec. 31, 2016 (Unaudited)	Dec. 31, 2015 (Unaudited)
Sales and marketing	\$ 18,608	\$ 15,487	\$ 65,596	\$ 47,225
General and administrative	17,574	14,627	61,954	44,602
Research and development	67,194	55,926	236,880	170,537
Depreciation	\$ 103,376	\$ 86,040	\$ 364,430	\$ 262,364
Sales and marketing	\$ 108,015	\$ 46,903	\$ 371,446	\$ 183,894
General and administrative	183,978	228,563	822,786	976,763
Research and development	127,910	52,336	360,952	218,624
Share-based compensation	\$ 419,903	\$ 327,802	\$ 1,555,184	\$ 1,379,281

Non-IFRS Measurements

We use Adjusted net income (loss) which removes the impact of our amortization of intangible assets and stock based compensation expense, to measure our performance as these measures align our results and improve comparability against our peers. We use Adjusted EBITDA to provide investors with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess the Company's ability to meet its capital expenditure and working capital requirements.

Adjusted net income (loss) and Adjusted EBITDA are not recognized, defined or standardized measures under IFRS. Our definition of Adjusted net income (loss) and Adjusted EBITDA will likely differ from that used by other companies and therefore comparability may be limited. Adjusted net income (loss) and Adjusted EBITDA should not be considered a substitute for or in isolation from measures prepared in accordance with IFRS. Investors are encouraged to review our financial statements and disclosures in their entirety and are cautioned not to put undue reliance on non-IFRS measures and view them in conjunction with the most comparable IFRS financial measures. We have reconciled Adjusted net income (loss) and Adjusted EBITDA to the most comparable IFRS financial measure as follows:

	Three months ended December 31, 2016	Three months ended December 31, 2015	Twelve months ended December 31, 2016	Twelve months ended December 31, 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income (loss)	\$ 2,474,708	\$ (1,012,696)	\$ (4,874,769)	\$ 1,272,008
Add				
Share-based compensation	419,903	327,802	1,555,184	1,379,281
Amortization of intangibles	269,024	192,378	804,785	677,109
Adjusted net income (loss)	3,163,635	(492,516)	(2,514,800)	3,328,398
Add(less)				
Depreciation	103,376	86,040	364,430	262,364
Net interest (income) expense	(69,299)	(89,339)	(322,691)	(309,407)
Other (income) expense	(64,599)	(131,826)	154,519	(647,961)
Income tax	111,555	45,069	418,744	274,010
Adjusted EBITDA	\$ 3,244,668	\$ (582,572)	\$ (1,899,798)	\$2,907,404

Revenue

We generate revenue by selling software licenses either on a per device (e.g. set-top box, Smart TV, Blu-ray player) basis or on a per subscriber basis. These licenses typically include upfront fees, together with recurring annual maintenance fees. We also generate revenue by offering professional services such as consultancy, software integration and installation. We expect to generate revenue through the sale of additional licenses to our existing TV service providers and consumer electronics manufacturers, as they increase penetration of their TV offerings in their traditional subscriber base, as well as through the addition of new TV service providers. Subsequent to the initial license purchase, TV service providers may purchase additional licenses for additional products and services.

The following table summarizes revenues for the three and twelve month periods ended December 31, 2016 and 2015:

	Three months ended December 31, 2016		Three months ended December 31, 2015		Twelve months ended December 31, 2016		Twelve months ended December 31, 2015	
	Revenues	% of total	Revenues	% of total	Revenues	% of total	Revenues	% of total
Software	\$ 9,752,798	76%	\$2,426,721	47%	\$18,142,077	63%	\$11,767,217	55%
Professional services	1,096,363	9%	1,576,139	30%	4,614,199	16%	8,294,954	21%
Support	1,904,540	15%	1,206,346	23%	5,888,294	21%	4,772,521	24%
Total	\$ 12,753,702	100%	\$5,209,206	100%	\$28,644,570	100%	\$24,834,692	100%

On August 19, 2016 the Company acquired WHS (see "Recent Developments"). The operations of the acquired business will be integrated into the operations of Espial and management will not track revenue separately or manage the acquired business as a separate unit. Included in the three and twelve month periods ended December 31, 2016 is \$2,499,011 and \$3,350,567 in license revenues respectively and \$760,070 and \$1,142,426 of support revenue respectively resulting from the WHS acquisition. For the three month period ended December 31, 2016, net income attributable to the additional business generated by WHS was \$73,689 while for the twelve month period a net loss of \$540,056. Due to the recent nature of the acquisition, management can estimate the revenue and expense resulting for the acquisition for these periods only. Going forward, we do not plan to separate revenue in this way as the products and the acquired sales force will be fully integrated. Management believes estimating the pro forma revenue and expenses for this business combination assuming it had been effected at the beginning of the reporting period to be impracticable due to the material changes that were being made by ARRIS to affect the sale including staff terminations, contract changes, internal reporting changes and management changes.

Revenue increased by 145% to \$12,753,702 in the fourth quarter of 2016 from \$5,209,206 in the same period of 2015. Revenue from software license sales and deployments totalled \$9,752,798, an increase of 302% from \$2,426,721 in the same quarter of 2015. The increase was primarily due to non recurring revenue from a North American customer, purchases of software from a European customer that has recently launched its next generation TV service using Espial software, and revenue attributed to the acquisition of WHS. Revenue from support totalled \$1,904,540 an increase of 58% from \$1,206,346 in the same quarter of 2015, primarily due to revenue attributable to the acquisition of WHS. Revenue from professional services totalled \$1,096,363, a decrease of 30% from \$1,576,139 in the same quarter of 2015 due to lower integration related professional services as one large European customer launched its next generation TV service earlier in 2016.

Revenue increased by 15% to \$28,644,570 in the year ended December 31, 2016 from \$24,834,692 in the same period of 2015. Revenue from software license sales and deployments totalled \$18,142,077, an increase of 54% from \$11,767,217 in the same period of 2015 primarily due to revenue attributed to the acquisition of WHS and non recurring revenue from a North American customer. Revenue from support totalled \$5,888,294, an increase of 23% from \$4,772,521 in the same period of 2015 primarily due to revenue attributed to the acquisition of WHS. Revenue from professional services totalled \$4,614,199, a decrease of 44% from \$8,294,954 in the same period of 2015. The decrease is primarily due to integration work being performed for a North American customer in fiscal 2015 that was completed last year and lower integration revenue from one European customer as the integration was completed and they commercially launched their new TV service earlier in fiscal 2016.

Revenues by Geography

The following table summarizes the geographic distribution of revenues for the three and twelve month periods ended December 31, 2016 and 2015:

	Three months ended December 31, 2016		Three months ended December 31, 2015		Twelve months ended December 31, 2016		Twelve months ended December 31, 2015	
	Revenues	% of total	Revenues	% of total	Revenues	% of total	Revenues	% of total
Europe	\$4,212,664	33%	\$2,135,203	41%	\$13,929,803	49%	\$10,761,198	43%
Asia Pacific	782,797	6%	616,408	12%	3,330,831	12%	3,000,206	12%
North America	7,758,240	61%	2,457,595	47%	11,383,936	39%	11,073,288	45%
Total	\$12,753,702	100%	\$5,209,206	100%	\$28,644,570	100%	\$24,834,692	100%

In the fourth quarter of fiscal 2016, the geographic makeup of total revenues was as follows: customers based in Europe accounted for 33% (41% in 2015); customers based in Asia accounted for 6% (12% in 2015); and customers in North America accounted for 61% (47% in 2015).

For the year ended December 31, 2016 the geographic makeup of total revenues was as follows: customers based in Europe accounted for 49% (43% in 2015); customers based in Asia accounted for 12% (12% in 2015); and customers in North America accounted for 39% (45% in 2015).

European revenues were \$4,212,664 in the last quarter of 2016 compared to \$2,135,203 in 2015 primarily due to purchases of software from a European customer that has recently launched its next generation TV service using Espial software. Asia revenues were \$782,797 in the last quarter of 2016 compared to \$616,408 in 2015. North American revenues increased to \$7,758,240 in the fourth quarter of 2016 compared to \$2,457,595 in 2015 due primarily to non recurring revenue from a North American customer and revenue attributable to the WHS acquisition.

European revenues were \$13,929,803 in the year ended December 31, 2016 compared to \$10,761,198 for the same period of 2015 primarily due to purchases of software from a European customer that has recently launched its next generation TV service using Espial software and revenue related to the integration work for two European cable operators. Asia revenues increased to \$3,330,831 in 2016 from \$3,000,206 in 2015. North American revenues were \$11,383,936 in 2016 compared to \$11,073,288 in 2015.

Cost of Revenue and Gross Margin

Cost of revenue consists primarily of staffing and other costs associated with providing professional services and maintaining customer support for the Company's products and hardware, software and support purchased from third party suppliers.

Cost of revenues for the fourth quarter of 2016 was \$2,315,220 compared to \$1,758,727 in the same period last year. Cost of revenues for the year ended December 31, 2016 increased to \$7,240,272 from \$6,372,626 for the same period last year. The increase in cost of revenue is primarily due to an increase in third party royalties attributable to WHS operations, hardware costs related to integration work for a European customer, offset by reduced staffing costs due to lower professional services.

Gross margin in the fourth quarter of 2016 was \$10,438,482 compared to \$3,450,479 in 2015. As a percentage of revenue, the gross margin increased to 82% in the fourth quarter of 2016 from 66% in 2015, primarily due to the greater amount of license revenue which has high gross margins. For the year ended December 31, 2016 gross margin increased to \$21,404,298 from \$18,462,066 in 2015. As a percentage, gross margin increased to 75% from 74% 2015. The increase in gross margin percentage for the quarter is primarily due to higher revenue from licensing, offset partially by lower utilization of some professional services staff and hardware costs related to integration work for a European customer.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of compensation, including share-based compensation and sales commissions paid to the Company's sales, marketing and field technical support personnel. Other significant sales and marketing expenses include travel for the sales and marketing staff, rent and other occupancy costs for the Company's international sales offices, and other advertising, promotion and trade show costs.

Sales and marketing expenses increased in the fourth quarter of 2016 to \$1,495,225 from \$1,278,857 in 2015. For the year ended December 31, 2016 sales and marketing expenses increased to \$5,574,760 from \$5,041,955. The increases in the three and twelve month periods were due primarily to higher expenditures in marketing programs and tradeshows, higher salary related costs in marketing and sales and higher stock compensation expense.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation, including share-based compensation, paid to the Chief Executive Officer and the Company's finance, legal and corporate administrative staff. Other significant general and administrative expenses include professional fees, travel, rent and occupancy costs.

General and administrative expenses increased to \$1,080,378 during the fourth quarter of 2016 from \$861,738 in 2015. For the year ended December 31, 2016, general and administrative expenses increased to \$4,138,290 from \$3,423,686 in 2015. The increases in the three and twelve month periods were due primarily to acquisition costs and higher occupancy costs.

Research and Development Expenses

Research and development is a critical component of Espial's on-going success. The Company intends to continue to expand its product offerings and introduce new features and applications. Research and development expenses consist primarily of compensation, including stock compensation, paid to engineering personnel. Some of these remuneration costs are paid to independent contractors whom the Company occasionally use to provide additional technical capacity on a short-term basis. Other research and development expenses include travel, rent and other occupancy costs for our engineering and field technical support personnel.

Research and development expenses increased to \$5,141,489 during the fourth quarter of 2016 from \$2,306,297 in 2015. For the year ended December 31, 2016 research and development expense increased to \$15,510,661 from \$8,730,665 in 2015. The increases for the three and twelve month periods were due to; (i) the cost of the additional staff acquired as part of WHS; (ii) increased personnel costs related to an increased number of staff; (iii) lower allocation to cost of sales for R&D staff used to deliver professional services; and, (iv) higher occupancy and travel costs..

Amortization of Property and Equipment

Amortization of property and equipment in the fourth quarter of 2016 was \$103,376 compared to \$86,040 in 2015. Amortization of property and equipment for the year ended December 31, 2016 and 2015 was \$364,430 and \$262,364, respectively.

Amortization of Intangible Assets

Amortization of intangible assets for the three months ended December 31, 2016 and 2015 was \$269,024 and \$192,378, respectively. Amortization of intangible assets for the year ended December 31, 2016 and 2015 was \$804,785 and \$677,109, respectively.

Share-based compensation expense

During the fourth quarter of 2016, share-based compensation expense increased to \$419,903 from \$327,802 in the fourth quarter ended 2015. For the years ended December 31, 2016 and 2015, stock compensation expense was \$1,555,184 and \$1,379,281, respectively. The increases in the three and twelve month periods are due to increased number of options issued during the year ended December 31, 2016.

The following table presents the stock compensation expense by function during the periods noted below:

	Three Months ended		Year ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Sales and marketing	\$ 108,015	\$ 46,903	\$ 371,446	\$ 183,894
General and administration	183,978	228 563	822,786	976,763
Research and development	127,910	52 336	360,952	218,624
	\$ 419,903	\$ 327,802	\$ 1,555,184	\$ 1,379,281

Other Income

Other income in the fourth quarter of 2016 was \$133,898 compared to \$221,165 in the same period in 2015. The change was attributable to (i) interest income of \$69,299 compared to \$89,339 last year due to increased cash held in interest bearing accounts, and (ii) 2016 foreign exchange loss of \$261,367 compared to a gain \$131,826 in 2015, and (iii) gain on acquisition of \$325,966 in 2016.

For the year ended December 31, 2016 other income was \$168,172 compared to \$957,368 in the same period in 2015. The change was attributable to (i) 2016 interest income was \$322,691 compared to \$309,407 in 2015 due to increased cash held in interest bearing accounts, (ii) 2016 foreign exchange loss of \$480,485 compared to a gain of \$647,961 in 2015 due to the weakening of the Canadian dollar, and (iii) gain on acquisition of \$325,966 in 2016.

A gain on acquisition totaling \$325,966 arose on the acquisition of WHS because the fair value of the separately identifiable assets and liabilities exceeded the total consideration paid, principally due to the acquisition of certain assets that will benefit the Company that had limited value to the seller.

Taxes

Taxes for the fourth quarter of 2016 were \$111,555 compared to \$45,069 in 2015. Taxes for the year ended December 31, 2016 and 2015 was \$418,744 and \$274,010, respectively. All taxes relate to withholding tax on software licenses sold to customers domiciled in Asia and to services provided to certain European customers.

QUARTERLY RESULTS OF OPERATIONS

The following table sets out selected information from our consolidated statement of operations, for the latest eight (8) quarters of operations

	Mar. 31, 2015	Jun. 30, 2015	Sept. 30, 2015	Dec. 31, 2015	Mar. 31, 2016	Jun. 30, 2016	Sept. 30, 2016	Dec. 31, 2016
Revenue	\$5,415,877	\$5,500,255	\$8,709,354	\$5,209,206	\$5,323,982	\$4,548,770	\$6,018,117	\$12,753,702
Cost of revenue	1,169,387	1,472,712	1,971,800	1,758,727	1,928,983	1,242,571	1,753,499	2,315,220
Gross margin	4,246,490	4,027,543	6,737,554	3,450,478	3,394,999	3,306,199	4,264,618	10,438,482
Expenses								
Sales and marketing	1,146,086	1,202,748	1,414,264	1,278,857	1,264,443	1,417,853	1,397,239	1,495,225
General and administrative	790,041	902,947	868,960	861,738	864,748	1,005,962	1,187,202	1,080,378
Research and development	1,893,272	2,028,129	2,502,968	2,306,297	2,890,216	3,440,721	4,038,234	5,141,489
Amortization of intangible assets	161,219	168,442	155,069	192,378	174,683	174,683	186,395	269,024
	3,990,618	4,302,266	4,941,261	4,639,270	5,194,090	6,039,219	6,809,070	7,986,116
Income (loss) before other income (expense)	255,872	(274,723)	1,796,293	(1,188,791)	(1,799,091)	(2,733,020)	(2,544,452)	2,452,365
Interest income	36,390	88,586	95,093	89,339	86,732	85,216	81,443	69,299
Other income (expense)	103,756	1,750	410,629	131,826	(223,550)	(212,132)	216,565	64,599
Income (loss) before taxes	396,018	(184,387)	2,302,014	(967,626)	(1,935,909)	(2,859,936)	(2,246,444)	2,586,263
Income taxes	(36,793)	(93,448)	(98,700)	(45,069)	(31,623)	(86,040)	(189,525)	(111,555)
Net and Comprehensive income (loss)	\$359,225	\$(277,835)	\$ 2,203,314	\$(1,012,695)	\$(1,967,532)	\$(2,945,976)	\$(2,435,969)	\$2,474,708

LIQUIDITY and CAPITAL RESOURCES

Cash and Cash equivalents

The Company has historically financed its cash requirements through the issuance of equity and debt. As at December 31, 2016, the Company had cash and cash equivalents of \$43,047,878 compared to \$49,947,096 as at December 31 2015.

Working Capital

During the year ended December 31, 2016 the Company used cash of \$2,644,456 to finance working capital. This use of cash was primarily due to increase in accounts receivable of \$2,077,615, and a decrease in deferred revenues of \$2,166,727 offset by decreases in investment tax credits of \$92,902 and in prepaid expenses of \$129,601, and an increase in accounts payable and accrued liabilities of \$1,377,383.

Operations

Cash used in operating activities (not including non-cash operating working capital items) in the year ended December 31, 2016 was \$2,488,884 compared to cash generated of \$3,315,528 in the same period of 2015. Cash used was driven by net loss in the year ended December 31, 2016 of \$4,874,769, plus non-cash items including amortization of \$804,785, depreciation of \$364,430 and share-based compensation of \$1,555,184, offset by a gain on acquisition of \$325,966 and utilization of \$12,548 of provisions.

Investing Activities

Purchases of property and equipment for the year ended December 31, 2016 totalled \$443,556 compared to \$532,511 for 2015. Purchases of intangible software for the year totalled \$250,531 compared to \$95,492 for 2015. The Company received cash of \$162,769 related to the acquisition of WHS in 2016 compared to \$1,721,623 used in 2015 for the acquisition of a business and certain related assets.

Financing Activities

During the year ended December 31, 2016, the Company received \$16,232 from the exercise of employee options to purchase common shares.

Cash used for share repurchases under the Company's normal course issuer bid program in 2016 was \$1,250,792 and nil in 2015. The Company currently has no material commitments for capital expenditures. The Company's minimum lease commitments over the remaining life of the leases are as follows:

2017	\$1,080,383
2018	1,060,465
2019	943,155
2020	761,401
2021 to 2024	<u>2,474,745</u>
	<u>\$ 6,320,149</u>

Lease payments recognized as an expense during the three month periods ended December 31, 2016 and 2015 were \$373,162 and \$335,427 respectively. Lease payments recognized as an expense during the year ended December 31, 2016 and 2015 were \$1,300,042 and \$1,127,507 respectively.

CAPITAL DISCLOSURES

The Company manages its capital, being cash and cash equivalents, debt, if any, and equity, with the primary objective being safeguarding of its working capital. The Board of Directors has not established capital benchmarks or other targets.

Management believes that cash on hand at the date of this report is sufficient to fund operations for the foreseeable future. The Company may however, from time to time, enter into debt and equity arrangements if it believes it is in the long term interest of shareholders. There is a risk that such arrangements may result in dilution to existing shareholders.

RISK FACTORS AFFECTING FUTURE RESULTS

There are a number of risk factors that could cause future results to differ materially from those described herein. Please refer to the 2014 and 2015 Annual Information Forms at www.sedar.com for a full discussion of these risk factors. There have been no material changes to the Company risks in the quarter ended December 31, 2016.

In addition to these risks there can be no assurance the Company will realise expected benefits and synergies from the acquisition of WHS.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining disclosure controls and procedures. Under the supervision and with the participation of the President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), management evaluated the effectiveness of the Company disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed or submitted by Espial under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Management concluded that the Company's disclosure controls and procedures were effectively designed as at the December 31 year end.

EVALUATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining internal control over financial reporting. Under the supervision and with the participation of the Company's President and CEO and the CFO, management evaluated the effectiveness of the Company's internal control over financial reporting. Internal control is a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the annual financial statements or interim financial statements. The CEO and CFO did not identify any material weaknesses in their evaluation of internal control, and concluded that the Company's internal control over financial reporting was effective, as at December 31, 2016.

There has been no change to internal controls in the most recent quarter ended on December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Consolidated Financial Statements of

ESPIAL GROUP INC.

For the years ended December 31, 2016 and 2015



KPMG LLP
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Canada
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Espial Group Inc.

We have audited the accompanying consolidated financial statements of Espial Group Inc., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, the consolidated statements of income (loss) and comprehensive income (loss), cash flows and changes in equity for the years ended December 31, 2016, and December 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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



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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Espial Group Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that tapers at both ends, serving as a decorative underline.

Chartered Professional Accountants, Licensed Public Accountants

February 23, 2017

Ottawa, Canada

ESPIAL GROUP INC.
Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

Consolidated Balance Sheets

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Consolidated Statements of Cash Flows

Consolidated Statements of Changes in Equity

Notes to the Consolidated Financial Statements

ESPIAL GROUP INC.
Consolidated Balance Sheets
(In Canadian Dollars)

December 31, 2016

December 31, 2015

CURRENT ASSETS		
Cash and cash equivalents	\$ 43,047,878	\$ 49,947,096
Accounts receivable	10,475,563	8,397,948
Investment tax credits receivable	321,018	413,920
Prepaid expenses and other assets	653,055	734,906
	<u>54,497,514</u>	<u>59,493,870</u>
Equipment (Note 4)	1,420,957	1,062,544
Intangible assets (Note 5)	1,818,067	1,658,610
Goodwill (Note 5)	3,632,604	3,632,604
	<u>\$ 61,369,142</u>	<u>\$ 65,847,628</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 4,542,527	\$ 3,165,144
Provisions (Note 11)	334,591	-
Deferred revenue	2,054,323	3,690,638
	<u>6,931,441</u>	<u>6,855,782</u>
Total Liabilities	<u>6,931,441</u>	<u>6,855,782</u>
COMMITMENTS (Note 9)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	125,362,413	126,583,844
Share based payments reserve	15,601,861	14,059,806
Deficit	(86,526,573)	(81,651,804)
	<u>54,437,701</u>	<u>58,991,846</u>
	<u>\$ 61,369,142</u>	<u>\$ 65,847,628</u>

APPROVED BY THE BOARD



Jaison Dolvane



Peter Seeligsohn

See accompanying notes

ESPIAL GROUP INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(In Canadian dollars), except share amounts

	Years Ended	
	December 31, 2016	December 31, 2015
Revenue		
Software	\$ 18,142,077	\$ 11,767,217
Professional services	4,614,199	8,294,954
Support and maintenance	5,888,294	4,772,521
Total Revenue	28,644,570	24,834,692
Cost of revenue	7,240,272	6,372,626
Gross margin	21,404,298	18,462,066
Expenses		
Sales and marketing	5,574,759	5,041,954
General and administrative	4,138,290	3,423,686
Research and development	15,510,661	8,730,666
Amortization of intangible assets (Note 5)	804,785	677,109
	26,028,495	17,873,415
Income before other income (expense)	(4,624,197)	588,651
Other Income (expense) (Note 16)	(154,519)	647,959
Interest income	322,691	309,408
Income (loss) before taxes	(4,456,025)	1,546,018
Income taxes (Note 10)	(418,744)	(274,010)
Net income (loss) and comprehensive income (loss)	\$ (4,874,769)	\$ 1,272,008
Income (loss) per common share - basic	\$(0.13)	\$0.04
Weighted average number of common shares outstanding - basic (Note 6)	37,262,729	33,328,166
Income (loss) per common share – diluted	\$(0.13)	\$0.04
Weighted average number of common shares outstanding – diluted (Note 6)	37,262,729	34,412,014

See accompanying notes.

ESPIAL GROUP INC.

Consolidated Statements of Cash Flows

(In Canadian dollars)

	Years Ended	
	December 31, 2016	December 31, 2015
CASH PROVIDED BY (USED IN)		
OPERATING		
Net income (loss)	\$ (4,874,769)	\$ 1,272,008
Items not affecting cash		
Depreciation of property and equipment (Note 4)	364,430	262,364
Amortization of intangible assets (Note 5)	804,785	677,109
Share-based compensation expense (Note 6 and 12)	1,555,184	1,379,281
Gain on acquisition (Note 17)	(325,966)	-
Provisions (Note 11)	(12,548)	(275,234)
	(2,488,884)	3,315,528
Changes in non-cash operating working capital items (Note 8)	(2,644,456)	(3,407,276)
	(5,133,340)	(91,748)
INVESTING		
Purchase of equipment (Note 4)	(443,556)	(532,511)
Purchase of intangibles	(250,531)	(95,492)
Purchase of business, net of cash acquired (Note 17)	162,769	(1,721,623)
	(531,318)	(2,349,626)
FINANCING		
Options exercised	16,232	379,005
Share repurchase program (Note 6)	(1,250,792)	-
Warrants exercised (Note 6)	-	1,281,453
Proceeds from equity financing (Note 6)	-	35,000,000
Costs of share issuance (Note 6)	-	(2,383,312)
	(1,234,560)	34,277,146
Net cash and cash equivalents inflow (outflow)	(6,899,218)	31,835,772
Cash and cash equivalents, beginning of year	49,947,096	18,111,324
Cash and cash equivalents, end of year	\$ 43,047,878	\$ 49,947,096
Supplementary information:		
Interest paid	\$ -	\$ -
Taxes paid	\$ 418,744	\$ 274,010

See accompanying notes.

ESPIAL GROUP INC.

Consolidated Statements of Changes in Equity

(In Canadian Dollars, except share amounts)

	Common Shares		Warrant	Share Based Payments Reserve	(Deficit)	Shareholders' Equity (Deficit)
	Number	Amount				
Balance at December 31, 2014	26,886,267	\$91,072,570	\$928,063	\$12,986,590	\$(82,923,812)	\$22,063,411
Share-based compensation	-	-	-	1,379,281	-	1,379,281
Warrants exercised	1,220,365	2,189,980	(908,527)	-	-	1,281,453
Warrants expired	-	19,536	(19,536)	-	-	-
Proceeds from share issuance	8,750,000	32,616,688	-	-	-	32,616,688
Options exercised	491,425	685,070	-	(306,065)	-	379,005
Net and comprehensive income	-	-	-	-	1,272,008	1,272,008
Balance at December 31, 2015	37,348,057	\$126,583,844	\$ -	\$14,059,806	\$(81,651,804)	\$58,991,846
Balance at December 31, 2015	37,348,057	\$126,583,844	\$ -	\$14,059,806	\$(81,651,804)	\$58,991,846
Share-based compensation	-	-	-	1,555,184	-	1,555,184
Shares repurchased and cancelled (Note 6)	(648,100)	(1,250,792)	-	-	-	(1,250,792)
Options exercised	21,437	29,361	-	(13,129)	-	16,232
Net and comprehensive loss	-	-	-	-	(4,874,769)	(4,874,769)
Balance at December 31, 2016	36,721,394	\$125,362,413	\$ -	\$15,601,861	\$(86,526,573)	\$54,437,701

See accompanying notes.

ESPIAL GROUP INC.

Notes to Consolidated Financial Statements

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1. DESCRIPTION OF BUSINESS

Espial Group Inc. (“Espial” or the “Company”) develops multiscreen client software solutions for set top box (“STB”) and other devices as well as back-office software TV delivery systems for TV service providers using HTML5 as a key ingredient in high performance, cloud based TV user experiences. Leveraging open standards, including HTML5 and the RDK stack, Espial client solutions deliver user experiences with fast performance, elegant design and ease-of-use on STBs and Smart TV’s. This allows customers to provide its consumers with interfaces that enable rich user experiences, innovative new Web services, TV programming, On-Demand content, and service provider apps.

The Company is incorporated in Canada. The Company’s address and principal place of business is 200 Elgin Street, Suite1000, Ottawa, Ontario K2P 1L5 Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

These audited consolidated financial statements were approved and authorized for issue by the Board of Directors on February 23, 2017.

(b) Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis except those accounts as noted in the financial instruments section (Note 14). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below:

(c) Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries), Espial Inc., Espial DE, Inc., Espial (UK) Limited, Espial Unipessoal LDA, Espial SAS (formerly Bluestreak Technologie SAS), Espial Group Limited and Espial Limited. All intercompany balances and revenue and expense transactions have been eliminated on consolidation.

(d) Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, cashable investments and other highly liquid, low risk financial instruments which have terms of three months or less at the time of acquisition or maturity greater than three months but cashable within 90 days with no significant penalty.

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(e) Foreign Currency Transactions

All figures presented in the consolidated financial statements and tabular disclosures to the consolidated financial statements are reflected in Canadian dollars, which is the functional currency of the Company and each of its subsidiaries. Revenue and expenses in foreign currencies are translated at the rate of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Canadian dollars at the foreign exchange rate applicable at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognized in the consolidated statement of income (loss) and comprehensive income (loss) in the period in which they arise.

(f) Property, Equipment and Intangible Assets

Property and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation is calculated using the declining-balance method over the estimated useful lives of the assets less estimated residual value as follows:

Office furniture and fixtures	20%
Computer equipment	30%
Leasehold improvements	Straight-line over the shorter of useful life or term of lease

Intangible assets resulting from business combinations are initially recorded at their fair value at the acquisition date. Following initial recognition, intangible assets are carried at cost, less accumulated amortization and impairment losses. Intangible assets acquired separately are carried at cost less accumulated amortization and impairment losses.

Intangible assets are amortized on a straight-line basis over their expected useful lives with the exception of computer software, which is amortized using the declining-balance method.

Intellectual property	3-5 years
Customer lists	3-7 years
Computer software	30%

An asset's residual value, useful life and amortization method are reviewed on an annual basis, and adjusted prospectively, if appropriate.

ESPIAL GROUP INC.

Notes to Consolidated Financial Statements

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(g) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill is calculated as the excess of the fair value of consideration paid over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed. As there is only one cash generating unit in the Company, goodwill is allocated to the Company as a whole. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised immediately in the consolidated statement of income (loss) and comprehensive income (loss). An impairment loss recognised for goodwill is not reversed in subsequent periods.

(h) Impairment of Tangible and Intangible Assets

At each balance sheet date, the Company assesses whether there is any indication that any non financial tangible assets or finite life intangible assets are impaired. An impairment loss is recognized if the recoverable amount, determined as the higher of an asset's fair value less cost to sell and its value in use, calculated as the discounted future cash flows generated from use and eventual disposal of an asset, is less than its carrying value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised immediately in the consolidated statement of income (loss) and comprehensive income (loss). When an impairment loss is subsequently reversed, the carrying amount is increased to the revised recoverable amount, but does not exceed its original carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

(i) Operating Lease

Management has determined that the benefits and risks incident to ownership have not been transferred relating to its leasing of various property, desktop and server requirements and therefore has classified them as operating leases and recognized the monthly lease payments as an expense on a straight line basis.

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(j) Revenue Recognition

The Company's revenues are derived from the licensing of the Company's software products and related consulting services and product support. The Company may license its software in multiple element arrangements in which the customer purchases a combination of software, support and/or consulting services such as training and integration services.

Revenue from software licenses is recognized when all of the following criteria have been met: transfer to the buyer of the significant risks and rewards of ownership; the Company does not retain continuing managerial involvement; the revenue amount can be reliably measured; it is probable that the economic benefits will flow to the Company and costs incurred can be reliably measured. If a customer has been identified as newly formed, undercapitalized or in financial difficulty in the period a sale takes place or if there are other uncertainties regarding ultimate collection, revenue is deferred and recognized when cash is received or when payments become due if amounts are considered collectible and all other revenue recognition criteria have been met.

Product support revenue is deferred and recognized rateably over the term of the maintenance contract, typically twelve months.

Professional services revenue is generally recognized by reference to the stage of completion of the contract, taking into consideration the cost incurred to date in relation to the total expected cost to complete the deliverable. If the estimated cost to complete a contract increases over the life of the contract resulting in a loss on the contract, the loss is recognized immediately into the consolidated statement of income (loss) and comprehensive income (loss).

Arrangements may be comprised of multiple product and service elements. Revenue for customer support and maintenance and professional services included in a multiple element arrangement are unbundled from the total fee for the arrangement based on their fair value as determined by reliable objective evidence. Where reliable objective evidence does not exist, reference to third party prices or estimates of standalone price for the element are used to determine a fair value. In situations where reliable objective evidence or other evidence of fair value does not exist for the delivered elements but does exist for the undelivered elements, the Company may apply the residual method. The residual method allocates the consideration to the undelivered element based on its fair value and the remaining consideration to the delivered elements.

Warranty costs are accrued based on the expected costs to be incurred. Historically there has not been any warranty costs paid or incurred.

Unbilled receivables arise where professional services are performed or product delivered prior to the Company's ability to invoice in accordance with the contract terms.

Deferred revenue arises when cash is collected in advance of revenue recognition criteria being met.

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(k) Interest Income

Interest income is recognized when it is probable that the economic benefits will flow and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(l) Research and Development

Research costs are expensed as incurred. Development costs are deferred and amortized when the criteria for recognition of an intangible asset are met, or otherwise, are expensed as incurred. To date, no development cost have been deferred.

(m) Income Taxes

Current tax expense is the tax currently payable and is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of income (loss) and comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Current tax expense may also arise from withholding taxes paid to foreign governments on royalties paid to the Company in Canada.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(n) Investment Tax Credits

Investment tax credits relating to scientific research and experimental development expenditures are recorded in the fiscal period the qualifying expenditures are incurred based on management's interpretation of applicable legislation. Credits are recorded provided there

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is reasonable assurance that the tax credit will be realized. Credits claimed are subject to review by the tax authorities.

Refunds claimed in connection with research and development activities are accounted for using the cost reduction method. Under this method, assistance and credits relating to current expenditures, which are primarily salaries and related benefits, are included in the determination of profit or loss as a reduction of the research and development expenses.

(o) Share-Based Payments

The Company measures equity settled stock options granted based on their fair value at the grant date and recognizes compensation expense over the vesting period. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net income (loss). Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based payments are transferred from share-based payment reserve to share capital.

(p) Earnings or Loss Per Share

Basic net earnings or loss per share is calculated by dividing the net income (loss) by the weighted average number of shares outstanding for the period. Diluted earnings per share are calculated similar to basic earnings per share except the weighted average number of common shares outstanding is adjusted for the effects of all dilutive potential common shares, which are comprised of additional shares from the assumed exercise or conversion of share options. Options under the share-based payment plan that have a dilutive impact are assumed to have been exercised on the later of the beginning of the period or the date granted and are included in the diluted weighted average number of shares.

(q) Financial Instruments

All financial instruments are initially recognized at fair value including transaction costs, except those financial instruments classified as fair value through profit or loss ("FVTPL") for which transaction costs are expensed when incurred.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Short-term investments, when applicable, include financial instruments which have terms of greater than three months and less than one year at the time of acquisition. They are classified as held-to-maturity and are measured at amortized cost.

Cash, cash equivalents, and accounts receivable are classified as loans and receivables and are measured at amortized cost, using the effective interest rate method.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost, using the effective interest rate method.

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Due to the short-term nature of these current assets and liabilities, the fair values approximate amortized cost. Financial assets that are measured at amortized cost are assessed for indicators of impairment at each balance sheet date.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value:

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- Level 3 – Applies to assets or liabilities for which there is no observable market data.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

Certain categories of financial assets, such as trade and other receivables, are assessed for impairment individually and on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or it becoming probable that the borrower will enter bankruptcy or financial reorganization. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

(r) Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to select appropriate accounting policies and to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the

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reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Revenue Recognition

Application of the accounting principles related to measurement and recognition of revenue requires the Company to make judgements and estimates.

Revenue arrangements may be comprised of multiple product and service elements. Judgement is required in determining the deliverables that exist in an arrangement and the nature of these deliverables. Revenue recognition requires the arrangement fee to be allocated to the elements on a relative fair value basis unless the residual method is used. The residual method relies on fair values being determinable for the undelivered elements including post contract support and professional services; the residual is allocated to the value of the software license. Judgement and estimates are required when determining the fair value of elements utilizing standalone prices for similar deliverables where it exists or third party evidence of standalone price.

Revenue for product elements is recognized when delivered. Judgement is required in determining when delivery has occurred including assessing if significant obligations to install the product exist that must be completed, the timing of when the significant risks and rewards of ownership have been transferred, and if a risk of return or refund exists due to non-compliance with product or service specifications.

Revenue for service elements is recognized as the services are performed. Estimates of proportional performance of service arrangements are required to recognize revenue including effort spent to date versus total effort expected to complete.

Functional Currency

Revenue contracts are predominately priced and billed in Canadian dollars, US dollars and Euros whereas the cost structure inputs are primarily in Canadian dollars. Secondary indicators of functional currency, including financing and cash holdings are primarily in Canadian dollars. As the primary indicators of functional currency do not clearly indicate a specific currency, the indicators as a whole have been judged to indicate the Canadian dollar is the functional currency of the parent company and its subsidiaries. The functional currencies of the Company and its subsidiaries are reassessed when facts change.

Purchase price allocation

As described in Note 16 of these consolidated financial statements, the Company acquired certain assets of ARRIS Group, collectively known as the Whole Home Solution ("WHS") during the year ended December 31, 2016. As a result of this acquisition, management was required to estimate the fair values of each identifiable asset and liability acquired through the acquisition. Fair value of cash and cash equivalents, and prepaid and other assets were estimated to approximate their carrying values in ARRIS's records at the date of the transaction. Fair value of deferred revenue was estimated using the income approach which determines the fair value of a liability using costs to fulfil the obligation plus a normal profit

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margin. Fair value of property and equipment was estimated based on replacement value and a provision was set up based on management's estimates. The fair values of the intangible assets were valued using the excess earnings method under the income approach.

Impairment

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. Further information on the estimates used in determining the recoverable amount of the cash generating unit is provided in Note 5.

No impairment was recognized for the year ended December 31, 2016.

Provisions

From time to time the Company is involved in claims or disputes in the normal course of business. Management assesses such claims or disputes and where considered likely to result in a material exposure and where the amount of the claim or dispute is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. The Company does not provide for claims or disputes that are considered unlikely to result in a significant loss, claims or disputes for which the outcome is not determinable or claims or disputes where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims or disputes are provided for when reasonably determinable.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected from the contract.

Fair value of Stock-based compensation

The Company uses the Black-Scholes valuation model to determine the fair value of equity settled stock options. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield and the risk-free interest rate. The Company also estimates the expected forfeiture rate. Variation in actual results for any of these inputs will result in a different value of the stock option realized from the original estimate. The assumptions and estimates used are further outlined in Note 6.

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Estimation Uncertainty

Estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

3. NEW AND REVISED IFRS ACCOUNTING PRONOUNCEMENTS AND AMENDMENTS

The following amendment was adopted by the Company in the fiscal year.

Amendments to IAS 16 and IAS 38

In May 2014, the International Accounting Standards Board issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment.

They also introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The amendments explain that an expected future reduction in selling prices could be indicative of a reduction of the future economic benefits embodied in an asset. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is allowed. The Company has adopted these amendments with no impact on the consolidated financial statements.

The following is a list of standards and amendments that have been issued but not yet adopted by the Company.

IAS 7: Disclosure Initiative

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7).

The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses

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On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12).

The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 9 *Financial Instruments*

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)).

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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IFRS 15: Revenue from Contracts with Customers

On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 2: Share Based Payment

In June 2016, the International Accounting Standards Board issued amendments to IFRS 2 Share-based Payment. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. They also provide guidance on the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2018. Early adoption is allowed and specific transitional provisions apply. The Company does not intend to adopt these amendments in fiscal 2016 and is currently evaluating the impact of adoption of these amendments on the consolidated financial statements.

IFRS 16: Leases

In January 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases (IAS 17) standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception.

The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either: apply IFRS 16 with full retrospective effect; or recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

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The Company does not intend to adopt these amendments in fiscal 2016 and is currently evaluating the impact of adoption of these amendments on the consolidated financial statements.

4. EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Balance at December 31, 2015	\$3,113,355	\$749,337	\$649,244	\$4,511,936
Additions	635,944	58,392	28,507	722,843
Balance at December 31, 2016	3,749,299	807,729	677,751	5,234,779
Accumulated depreciation				
Balance at December 31, 2015	2,459,901	494,973	494,518	3,449,392
Depreciation expense	291,427	56,712	16,291	364,430
Balance at December 31, 2016	2,751,328	551,685	510,809	3,813,822
Carrying Value at December 31, 2016	\$997,971	\$256,044	\$166,942	\$1,420,957

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Balance at December 31, 2014	\$2,711,464	\$660,175	\$543,015	\$3,914,654
Additions	401,891	89,162	106,229	597,282
Balance at December 31, 2015	\$3,113,355	\$749,337	\$649,244	\$4,511,936
Accumulated depreciation				
Balance at December 31, 2014	2,267,257	442,562	477,209	3,187,028
Depreciation expense	192,644	52,411	17,309	262,364
Balance at December 31, 2015	2,459,901	494,973	494,518	3,449,392
Carrying Value at December 31, 2015	\$653,454	\$254,364	\$154,726	\$1,062,544

Included in the functional expense categories for the years ended December 31, 2016 and 2015, are the following non-cash expenses related to depreciation:

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	Dec. 31, 2016	Dec. 31, 2015
Sales and marketing	\$ 65,596	\$ 47,225
General and administrative	61,954	44,602
Research and development	236,880	170,537
Depreciation	\$ 364,430	\$ 262,364

5. INTANGIBLE ASSETS and GOODWILL

	Intellectual Property	Computer Software	Customer Lists	Total
Cost				
Balance at December 31, 2015	\$5,655,110	\$1,156,770	\$3,155,544	\$9,967,424
Additions	713,710	250,531	-	964,241
Balance at December 31, 2016	6,368,820	1,407,301	3,155,544	10,931,665
Accumulated amortization				
Balance at December 31, 2015	5,210,898	1,019,742	2,078,174	8,308,814
Amortization expense	300,462	78,688	425,634	804,784
Balance at December 31, 2016	5,511,360	1,098,430	2,503,808	9,113,598
Carrying Value at December 31, 2016	\$ 857,460	\$ 308,871	\$ 651,736	\$1,818,067

	Intellectual Property	Computer Software	Customer Lists	Total
Cost				
Balance at December 31, 2014	\$5,655,110	\$1,061,278	\$2,412,111	\$9,128,499
Additions	-	95,492	743,433	838,925
Balance at December 31, 2015	5,655,110	1,156,770	3,155,544	9,967,424
Accumulated amortization				
Balance at December 31, 2014	4,997,676	981,478	1,652,551	7,631,705
Amortization expense	213,222	38,264	425,623	677,109
Balance at December 31, 2015	5,210,898	1,019,742	2,078,174	8,308,814
Carrying Value at December 31, 2015	\$ 444,212	\$ 137,028	\$1,077,370	\$1,658,610

Intellectual Property has a remaining useful life between one and three years. Customer Lists have a remaining useful life of two years.

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Goodwill

The recoverable amount of the cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial forecasts developed by management covering a five-year period and a discount rate of 20% per annum.

Cash flow projections during the forecast period are based on expected gross margins similar to what the Company experienced from 2012 to 2016, revenue and operating costs increasing at a compounded average growth rate of 30% and 17%, respectively. The cash flows beyond that five-year period have been extrapolated using a steady 2.5% per annum growth rate which is an estimate of inflation. Management believes that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the recoverable amount of the cash-generating unit.

6. SHARE CAPITAL

Share capital consists of an unlimited number of common shares with no stated par value of which 36,721,394 common shares were issued and outstanding at December 31, 2016 (2015 – 37,348,057).

Share Repurchase Program

In September 2016, Espial announced its plan to repurchase up to 3,221,191 of its common shares, representing 10% of its public float of common shares, through a Normal Course Issuer Bid (NCIB). During 2016 Espial repurchased for cancellation a total of 648,100 common shares for a total cost of \$1,250,792. The issuer bid commenced on August 24, 2016 and expires on August 23, 2017.

Stock option plans

As at December 31, 2016, there were 1,972,042 options for common shares remaining available for issuance under the stock option plan. Options are granted periodically and vest over four years. One quarter of the options vest after 12 months and the remainder vest in thirty-six equal tranches over the three years thereafter. The maximum term of these options is ten years. The Company uses the Black-Scholes option pricing model to value the options at the time of grant. Management periodically reviews the estimates used for calculating the fair value of options, volatility is calculated at the time of option grant using historical share price trading activity, risk-free interest rate is based on the government of Canada bond rate, dividend yield is NIL%; expected life of each option is 1.5 years after vesting. The forfeiture rate is estimated at 10%.

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During the year ended December 31, 2016, there were 1,442,000 options granted (2015 - 1,047,500).

For the year ended December 31, 2016, the Company recorded stock compensation expense of \$1,555,184 (2015 - \$1,379,281).

The per share weighted average fair value of stock options granted during the year ended December 31, 2016 was \$1.17 on the date of grant using the Black-Scholes option pricing model with the following assumptions: exercise price is equal to the price of the underlying share, volatility ranging from 64% to 90% for employee stock compensation, risk-free interest rate of 0.5%, dividend yield of NIL% and expected life of each option is 1.5 years after vesting. The per share weighted average fair value of stock options granted during the year ended December 31, 2015 was \$1.89 on the date of grant using the Black-Scholes option pricing model with the following assumptions: volatility ranging from 79% to 96% for employee stock compensation, risk-free interest rate of 0.5%, dividend yield of NIL% and expected life of stock options of 1.5 years after vesting.

The following table summarizes information about option activity for the years ended December 31, 2015 and 2016:

	Number of Options	Weighted-average Exercise Price
Outstanding, at December 31, 2014	3,508,000	\$1.78
Granted	1,047,500	\$2.96
Exercised	(491,425)	\$0.77
Forfeited	(51,956)	\$2.05
Outstanding, at December 31, 2015	4,012,119	\$2.25
Granted	1,442,000	\$2.00
Exercised	(21,437)	\$0.76
Forfeited	(60,445)	\$2.66
Outstanding, at December 31, 2016	5,372,237	\$2.19

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The following table summarizes information about stock options outstanding at December 31, 2016:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life	Number Outstanding	Weighted Average Exercise Price
\$0.36 - \$1.00	1,363,351	3.7	1,334,287	\$0.85
\$1.01 - \$2.00	904,500	8.1	158,248	\$1.64
\$2.01 - \$4.00	2,996,539	8.1	1,242,598	\$2.93
\$4.01 - \$7.00	107,847	1.0	107,847	\$6.75
	5,372,237	6.9	2,842,980	\$2.03

The following table summarized information about stock options outstanding at December 31, 2015:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life	Number Outstanding	Weighted Average Exercise Price
\$0.36 - \$1.00	1,394,737	4.8	1,251,658	\$0.86
\$1.01 - \$2.00	199,500	5.3	135,748	\$1.63
\$2.01 - \$4.00	2,309,983	8.6	529,983	\$2.90
\$4.01 - \$7.00	107,899	2.0	107,899	\$6.75
	4,012,119	6.9	2,025,288	\$1.76

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Earnings per share

The following table summarizes the calculation of the weighted average number of basic and diluted common shares for the years ended December 31, 2016 and 2015.

Twelve months ended December 31,	2016	2015
Issued common shares at January 1	37,348,057	26,886,267
Effect of shares issued from share offering	-	5,729,452
Effect of shares issued from warrants	-	336,036
Effect of shares issued from options	15,575	376,411
Effect of shares repurchased and cancelled under NCIB	(100,903)	-
Weighted average number of basic common shares at December 31	37,262,729	33,328,166
Effect of share options on issue	-	1,083,848
Weighted average number of diluted common shares at December 31	37,262,729	34,412,014

Options and warrants that are anti-dilutive are not included in the computation of diluted earnings per share. For the year ended December 31, 2016, due to the net loss, all options were excluded from the calculation of diluted earnings per share because they are anti-dilutive. For the year ended December 31, 2015, 2,345,399 stock options were excluded from the calculation of diluted earnings per share because they are anti-dilutive.

7. SEGMENTED INFORMATION

The Company's Chief Executive Officer ("CEO") has been identified as the chief operating decision maker. The CEO evaluates the performance of the Company and allocates resources based on the information provided by the Company's internal management system at a consolidated level. The Company has determined that it has only one operating segment: computer software solutions. This segment engages in business activities from which it earns license, support and professional services revenues and incurs expenses.

Revenues from external customers are attributed to geographic areas based on the location of the contracting customers. The following table sets forth external revenue by geographic areas:

	December 31, 2016	December 31, 2015
Europe	\$13,929,803	\$10,761,198
Asia Pacific	3,330,831	3,000,206
North America	11,383,936	11,073,288
	\$28,644,570	\$24,834,692

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For the year ended December 31, 2016, the Company had 3 customers that individually accounted for 21%, 16% and 13% of revenue. For the year ended December 31, 2015, the Company had 3 customers that individually accounted for 24%, 13% and 11% of revenue.

The following table sets forth property and equipment attributable to Canada (the Company's country of domicile), the United States and the United Kingdom. The three regions own all of the Company's equipment.

	December 31, 2016	December 31, 2015
Canada	\$861,526	\$788,634
United States	357,369	94,183
United Kingdom	202,062	179,727
	\$1,420,957	\$1,062,544

The following table sets forth intangible assets attributable to Canada, the United States and the United Kingdom. The three regions own all of the Company's intangible assets. The goodwill is owned by Canada, \$291,796, and the United States, \$3,340,808.

	December 31, 2016	December 31, 2015
Canada	\$ 667,403	\$ 681,310
United States	627,837	1,953
United Kingdom	522,827	975,347
	\$ 1,818,067	\$ 1,658,610

8. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	December 31, 2016	December 31, 2015
Accounts receivable	\$(2,077,615)	\$(3,495,962)
Investment tax credits receivable	92,902	43,649
Prepaid expenses and other assets	129,601	(99,347)
Accounts payable and accrued liabilities	1,377,383	90,565
Deferred revenue	(2,166,727)	53,819
	\$(2,644,456)	\$(3,407,276)

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9. COMMITMENTS

The Company has entered into several operating leases for office space and various equipment leases.

The Company rents premises in Canada, the United States, France and the United Kingdom under operating leases, which expire at varying dates up to October 31, 2024. The lease agreements provide for base rent plus the Company's proportionate share of taxes and operating costs. The leases do not contain contingent rent clauses, purchase options, escalation clauses, any restrictions regarding further leasing or additional debt.

The equipment leases are all for periods of three years or less, contain purchase options at fair value at termination of lease, do not contain any contingent rent clauses, escalation clauses, any restrictions regarding dividends, further leasing or additional debt.

The Company's minimum lease commitments over the remaining life of the leases are as follows:

2017	\$1,080,383
2018	940,755
2019	775,561
2020	761,401
2021 to 2024	2,474,744
	<u>\$ 6,032,844</u>

Lease payments recognized as an expense during the years ended December 31, 2016 and 2015 were \$1,300,042 and \$1,127,507 respectively.

10. INCOME TAXES

The income tax expense reported differs from the amount computed by applying the statutory rate to the net income for the following reasons:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Statutory income tax rate	26.5%	26.5%
Expected income tax expense (recovery)	(1,180,847)	337,082
Withholding taxes	418,744	274,010
Tax effect of losses and temporary differences not recognized (used)	672,532	(777,170)
Permanent differences	508,315	440,088
	<u>\$ 418,744</u>	<u>\$ 274,010</u>
Income tax expense	<u>\$ 418,744</u>	<u>\$ 274,010</u>

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Net deferred tax assets and (liabilities)

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Losses carried forward	\$92,397	\$ 177,685
Intangible asset	(92,397)	(177,685)
Net deferred tax assets and (liabilities)	<u>\$ -</u>	<u>\$ -</u>

The unrecognized temporary differences of the Company are comprised of:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Losses carried forward	\$ 37,069,460	\$ 36,851,668
Unclaimed research and development	26,699,591	24,824,163
Share issue costs	1,879,462	2,614,524
Equipment	2,057,944	2,129,602
	<u>\$ 67,706,457</u>	<u>\$ 66,419,957</u>

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As at December 31, 2016, the Company has non-capital losses available to reduce taxable income which expire as follows:

	<u>Canada</u>	<u>United States</u>	<u>United Kingdom</u>	<u>France</u>
2019		1,495,882		
2020		2,117,395		
2021		231,902		
2022		466,673		
2023		441,403		
2026		8,810		
2027		4,000		
2028		2,332,222		
2029		1,543,407		
2030		552,931		
2031		481,919		
2032		1,463,950		
2033		1,374,384		
2034		27,161		
2035		143,307		64,688
2036		673,611		351,055
Indefinite			10,722,347	
	CAD\$ 0	US\$ 13,358,957	£ 10,722,347	€ 415,743

The Company has unused scientific research and experimental development (SR&ED) expenditures of \$27 million which are available, without expiry, to reduce future taxable income. The Company also has Canadian federal investment tax credit carry forwards of \$8 million which are available to be applied against taxes payable and which begin to expire in 2018. Ontario tax credits of \$1 million are also available to apply against Ontario taxes payable which begin to expire in 2029. In addition, to the United States losses noted above, the Company has \$74 million of losses, which expire between 2019 and 2027; these losses have an annual restriction on the amount that can be used per year due to Internal Revenue Code Section 382. Internal Revenue Code Section 382 imposes an annual limitation on the use of a company's net operating loss carry-forwards when a company has an ownership change. No benefit of the loss carry-forwards and investment tax credits balance has been recorded in these financial statements.

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11. PROVISIONS

The Company has provided an estimated cost for an onerous contract it assumed in the acquisition of the Whole Home Solution (Note 16).

Provisions for the year ended December 31, 2016 were:

	Onerous Contract
Opening December 31, 2015	\$ -
Onerous contract	347,139
Impact of foreign exchange	14,204
Utilized	(26,752)
Closing December 31, 2016	<u>\$334,591</u>

Provisions for the year ended December 31, 2015 were:

	Disputes	Building	Total
Opening December 31, 2014	\$112,595	\$162,639	\$275,234
Impact of foreign exchange	14,555	21,024	35,579
Reversed	-	(183,663)	(183,663)
Utilized	(127,150)	-	(127,150)
Closing December 31, 2015	\$ -	\$ -	\$ -

12. EMPLOYEE BENEFITS EXPENSE

The following table presents the employee benefits earned by the employees during the periods noted below:

	December 31, 2016	December 31, 2015
Salaries	\$ 16,190,960	\$ 11,603,014
Benefits	2,847,400	1,975,448
Variable compensation and other labour costs	1,840,119	1,672,099
Share based payments	1,555,184	1,379,281
	<u>\$ 22,433,663</u>	<u>\$ 16,629,842</u>

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The following table presents the share-based compensation expense by function during the periods noted below:

	December 31, 2016	December 31, 2015
Sales and marketing	\$371,446	\$183,894
General and administration	822,786	976,763
Research and development	360,952	218,624
	\$ 1,555,184	\$ 1,379,281

13. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The key management personnel have been identified as the directors of the Company, the Chief Executive Officer, the Chief Technology Officer and the Chief Financial Officer based on their authority and responsibility for planning and directing the activities of the Company. The remuneration of key management personnel during the year was as follows:

	December 31, 2016	December 31, 2015
Salaries and short-term benefits	\$ 1,227,409	\$ 1,278,811
Share-based compensation	755,842	894,203
	\$ 1,983,251	\$ 2,173,014

The remuneration of directors and key management personnel is determined by the Compensation Committee of the Board of Directors having regard to performance of individuals and market trends.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments.

Currency risk

The Company is exposed to foreign exchange fluctuations against the Canadian dollar as sales are denominated in US dollars, Euro, GBP and other foreign currencies, while expenditures are primarily denominated in Canadian dollars. Also, additional earnings volatility arises from the translation of monetary assets and liabilities denominated in foreign

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currencies at the rate of exchange on each date of the Consolidated Balance Sheets; the impact of which is reported as a foreign exchange gain or loss.

The Company's objective in managing its currency risk is to minimize its exposure to currencies other than its functional currency. The Company does so by matching foreign denominated assets with foreign denominated liabilities. The Company did not use derivative financial instruments to manage this risk in the years ended December 31, 2016 or 2015.

For the years ended December 31, 2016 and 2015, the Company had a foreign exchange loss of \$480,485 and gain of \$647,959, respectively.

A 10% strengthening of the Canadian dollar against the US dollar and the Euro, with all other variables held constant, would have decreased both income (loss) and comprehensive income (loss) by approximately \$185,000 and \$715,000, respectively in the year ended December 31, 2016. A 10% strengthening of the Canadian dollar against the GBP, with all other variables held constant, would have increased both income (loss) and comprehensive income (loss) by approximately (\$388,000), in the year ended December 31, 2016. For the year ended December 31, 2015 a 10% strengthening of the Canadian dollar against the US dollar and the Euro, with all other variables held constant, would have decreased income (loss) and comprehensive income (loss) by approximately \$839,000 and \$561,000, respectively in the year ended December 31, 2015. A 10% strengthening of the Canadian dollar against the GBP, with all other variables held constant, would have increased income (loss) and comprehensive income (loss) by approximately \$388,000, in the year ended December 31, 2015

The summary quantitative data about the Company's exposure to currency risk is as follows (amounts are in local currency):

December 31, 2016	CAD	USD	GBP	EUR
Accounts receivable	\$3,201,824	\$2,924,961	\$ -	\$2,538,696
Accounts payable and accrued liabilities	(1,891,157)	(1,676,398)	(169,738)	(346,103)
	\$1,310,667	\$1,248,563	\$(169,738)	\$2,192,593
December 31, 2015	CAD	USD	GBP	EUR
Accounts receivable	\$1,730,030	\$986,442	\$ 86,189	\$3,411,267
Accounts payable and accrued liabilities	(1,380,555)	(496,569)	(281,297)	(288,302)
	\$ 349,475	\$489,873	\$(195,108)	\$3,122,965

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Interest risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company believes that interest rate risk is low as the majority of cash equivalents are made in fixed rate instruments.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and cash equivalents.

The Company provides credit to its customers in the normal course of operations and has established credit evaluation, approval and monitoring processes to mitigate credit risk. The Company sells its products and services primarily to large corporations; as a result the Company's credit risk exposure is low.

The Company maintains a provision in allowance for doubtful accounts for anticipated bad debts. The Company had concentrated credit risk with three customers that accounted for 29%, 21% and 20% respectively, of its trade accounts and unbilled receivables as at December 31, 2016. At December 31, 2015, the Company had concentrated credit risk with 3 customers that accounted for 31%, 20% and 14% respectively, of its trade accounts and unbilled receivables.

As at December 31, 2016 the Company's aging of its trade accounts receivable was approximately 92% under sixty days, 0% between 60 and 90 days and 8% over 90 days and the allowance for doubtful accounts is \$323,010. As at December 31, 2015 the Company's aging of its trade accounts receivable was approximately 86% under sixty days, 0% between 60 and 90 days and 14% over 90 days and the allowance for doubtful accounts was \$101,287.

The Company invests its excess cash in short-term investments with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations and future planned capital expenditures with the secondary objective of maximizing the overall yield of the investment. The Company manages its credit risk on investments by dealing only with major Canadian banks and investing only in instruments that management believes have high credit ratings. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations.

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The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 43,047,878	\$ 49,947,096
Accounts receivable	10,475,563	8,397,948
	\$ 53,523,441	\$ 58,345,044

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. Management believes that the cash on hand at the date of this report is sufficient to fund operations for the foreseeable future. The Company may however, from time to time, enter into debt and equity arrangements if management and the board of directors believe it is in the long term interest of shareholders. There is a risk that such arrangements may result in dilution to existing shareholders.

The following are the contractual maturities of the undiscounted cash flows of financial liabilities at December 31, 2016.

	Future value	3 Months	3-12 Months	1 to 5 years	more than 5 years
Accounts payable and accrued liabilities	\$4,542,527	\$3,744,828	\$ 797,699	-	-
Provisions	334,591	83,648	250,943	-	-
Commitments	6,032,844	270,096	810,287	\$3,196,639	\$1,755,822
Total	\$10,909,962	\$4,098,572	\$1,858,929	\$3,196,639	\$1,755,822

Fair values

Establishing fair value

The fair values of cash and cash equivalents, accounts receivable, income tax receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. Cash and cash equivalents are level 1 in the fair value hierarchy and accounts receivable, income tax receivable and accounts payable and accrued liabilities are level 2.

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Other comprehensive income or loss (OCI)

The Company has not included a statement of other comprehensive income because there are no adjustments that would affect OCI in the current and prior period. As a result, net income is equivalent to comprehensive income for both the current and prior periods.

15. CAPITAL MANAGEMENT

The Company's capital is composed of shareholders' equity and from time to time use of an operating credit facility and debt. The Company's objective in managing its capital is to ensure financial stability and sufficient liquidity to increase shareholder value through organic growth and investment in sales, marketing and product development and from time to time acquisitions of other companies or technologies. The Company's key management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. The Board of Directors is responsible for overseeing this process. In order to maintain or adjust its capital structure, the Company could issue new shares, repurchase shares, approve special dividends or issue debt.

16. OTHER INCOME (EXPENSE)

	December 31, 2016	December 31, 2015
Foreign exchange (loss)	\$(480,485)	\$647,959
Gain on acquisition (Note #17)	325,966	-
	\$ (154,519)	\$ 647,959

17. ACQUISITION OF WHOLE HOME SOLUTIONS

On June 29, 2016 the Company entered into an agreement pursuant to which Espial acquired certain assets of ARRIS Group related to the business of developing, distributing, and supporting the software products marketed to multiple system operators as the Whole Home Solution ("WHS"). The Company closed the acquisition with an effective date of August 19, 2016. The WHS is comprised of a cloud-hosted software to TV service provider customers, client software incorporated into various set-top-boxes and gateways, and client software licensed for download onto PC browsers and IOS and Android smart phones and tablets for use in connection with the WHS system.

The acquisition of WHS expands the Company's solution portfolio with a cloud-hosted Video-as-a-Service platform that is complimentary to and will leverage Espial's current solutions for next-generation IP video services. Additionally, the Company gains a broad base of new customer relationships and further scales its integration, operations, and software development teams.

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The acquisition was determined to constitute a business and was accounted for using the acquisition method of accounting, whereby the results of operations of the acquired assets are included in the Company's consolidated financial statement from the acquisition date and the related identifiable assets acquired and liabilities assumed are recorded at their fair values on the date of acquisition. Acquisition costs were \$258,338 with the full amount recognized in general and administrative in the statement of income (loss) and comprehensive income (loss).

The Company has undertaken a purchase price analysis including valuation of intangible assets acquired.

A gain on acquisition totaling \$325,966 arose on the acquisition of WHS because the fair value of the separately identifiable assets and liabilities exceeded the total consideration paid, principally due to the acquisition of certain assets that will benefit the Company that had limited value to the seller.

The fair values of the assets acquired and liabilities assumed are:

Assets acquired:	
Cash	\$ 162,770
Prepaid expenses	47,750
Property and equipment	279,287
Intellectual property	713,710
	<hr/>
	1,203,517
Liabilities assumed:	
Deferred income	530,412
Onerous contract provision	347,139
	<hr/>
Gain on acquisition	\$ 325,966

The net cash outflow (inflow) as at August 19, 2016 related to the acquisition was:

Consideration paid in cash	\$ 1
Less: cash received on closing	(162,770)
	<hr/>
	\$ (162,769)

The estimated impact of the acquisition on the consolidated results of the Company:

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Included in the year ended December 31, 2016 is \$4,492,993 in revenues and a net loss of \$540,056, attributable to the additional business generated by the acquisition of WHS. Management believes estimating the pro forma revenue and expenses for this business combination assuming it had been effected at the beginning of the reporting period to be impracticable due to the material changes that were being made by ARRIS to affect the sale including staff terminations, contract changes, internal reporting changes and management changes.