Espial Group, Inc.

Annual Report

Fiscal 2015

Espial
200 Elgin St. Suite 1000
Ottawa, ON K2P 1L5
CANADA
Phone: +1 613-230-4770
Fax: +1 613-230-8498
www.espial.com

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, 2015 compared to the same periods in 2014. The MD&A should be read in conjunction with our audited consolidated financial statements and MD&A for the years ended December 31, 2015 and December 31, 2014. 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 25, 2016 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 TV Browser and TV Everywhere software solutions to consumer electronics manufacturers and telecommunications service providers. Over 35 million licenses of our software are in use globally.

The Espial TV Browser product allows Smart TV manufacturers to provide a full web experience on their TVs, set-top boxes, digital media adapters and other devices. TV manufacturers are projected to ship increasing numbers of web-enabled TVs over the next several years. Espial provides them with a high performance browser to provide their consumers with a full web experience including access to over-the-top video, social media, news sites and sports sites.

The Espial Media Service Platform and Espial MediaBase Platform enable the delivery of TV Everywhere and IPTV services over Internet Protocol broadband networks. Our products allow communications service providers, including telecommunications operators, cable TV, satellite TV and Internet service providers (ISPs), to deploy TV Everywhere and IPTV services to their subscribers. Espial's powerful platforms facilitate the provisioning of innovative video services such as video-on-demand, time-shift TV and interactive services. TV Everywhere and IPTV deployments in the industry continue to increase, however the timing and growth rates remain challenging to predict. Some factors affecting this are industry consolidation in Europe and Japan (including some of our existing customers), long integration timelines, extended sales cycles to service providers, the current financial challenges many European countries face and the rise of new web-based TV competitors such as Netflix.

We do not consider these growth patterns to be unusual for these industries in such an early stage as this one, but these industry dynamics, 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.

We remain confident that telecommunication service providers around the world believe that the delivery of video content is critical to their future business successes. In addition, customer feedback continues to suggest that cable television service providers have begun to assess the value of IPTV to their businesses much sooner than the industry had anticipated and this also bodes well for the future growth of the market. Finally, we are optimistic that consumer electronics manufacturers will continue to invest in next-generation TV and TV devices requiring a full web browsing experience.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

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 judgments 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 judgments 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 between twelve and thirty six 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 and comprehensive income.

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 relative 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, we may apply the residual method. The residual method allocates the consideration to the undelivered elements based on their 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 recognized immediately in income or loss in the consolidated statement of income and loss and comprehensive income and loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Stock-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 earnings. 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 stock-based awards requires judgment, including estimating the expected life of the options, the expected volatility of our stock and expected dividends. In addition, judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-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.

Foreign Currency Translation

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).

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, 2015 of $101,287 is reasonable.

Purchase price allocation

On June 23, 2015 the Company acquired certain assets of Bluestreak Technology (Canada) Inc. including 100% of its France based subsidiary, Bluestreak Technologie SAS (collectively "BST"), and 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, accounts receivable, accounts payable and accrued liabilities, deferred revenue, prepaid and other assets,and tax credit receivable were estimated to approximate their carrying values in BST records at the date of the transaction. Equipment was estimated based on the replacement values. The fair values of the intangibles were valued using the excess earnings method under the income approach. The excess of the fair value of consideration paid over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed was allocated to goodwill.

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.

New and revised IFRS in issue but not effective

Financial instruments
IFRS 9, Financial Instruments: Classification and Measurement ("IFRS 9"), was Issued in November 2009 and revised in October 2010, IFRS 9, as issued, is the first phase in the IASB's project to replace IAS 39 Financial Instruments: recognition and measurement ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial

instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. The standard is effective for annual periods beginning January 1, 2018. The Company does not intend to early adopt IFRS 9 at this time but continues to monitor the individual phases of the IASB project. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 15, Revenue from Contracts with Customers

In May, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), a new standard on revenue recognition. The new standard provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains the following:

- a single model that applies to contracts with customers; and
- two approaches to recognizing 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. The new standard also provides application guidance on numerous topics, including warranties; licences; and when to capitalize costs of obtaining or fulfilling contracts that are not addressed in other accounting standards (e.g., inventory). IFRS 15 applies for annual periods beginning on or after January 1, 2018. Early application is permitted. The extent of the impact of adoption of IFRS 15 has not yet been determined.

IFRS 16: Leases

In January 2016, the International Accounting Standards Board issued IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from contract with customers has also been applied. The Company does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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 is currently evaluating the impact of adopting these amendments on the consolidated financial statements.

Recent Developments

On June 23, 2015 the Company entered into an agreement pursuant to which Espial acquired certain assets of Bluestreak Technology (Canada) Inc. including 100% of its France based subsidiary, Bluestreak Technologie SAS, for cash consideration of $1,100,000 plus acquired cash and working capital for a total purchase price of $2,769,601. The acquisition further strengthens Espial's software expertise and experience integrating leading over-the-top services. These capabilities enhance Espial's RDK and HTML5 solutions which blend linear television with web-based video services.

The acquisition has been 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 $50,000 with the full amount recognized in general and administrative in the statement of income and comprehensive income.

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

Assets acquired	
Cash and cash equivalents	$ 1,047,978
Accounts receivable	1,040,928
Tax credit receivable	145,240
Prepaid expenses and other assets	67,706
Equipment	64,771
Goodwill	291,796
Intangible assets	743,433
	3,401,852
Liabilities assumed	
Accounts payable and accrued liabilities	553,099
Deferred revenue	79,152
	632,251
Total purchase price consideration	**$ 2,769,601**

Goodwill and intangible assets have been allocated to the Company's single reporting unit. The value of the goodwill, all of which is tax deductible, relates to the estimated value of the assembled workforce. Intangible assets will be amortized over a period of three and a half years.

The net cash outflow related to the acquisition of BST was:

Consideration paid in cash	$ 2,769,601
Less: cash balances acquired	(1,047,978)
	$ 1,721,623

On May 6, 2015 the Company completed a public offering of 8,750,000 common shares at a price of $4.00 per Common Share on a bought-deal basis. The aggregate gross proceeds to the Company for the Offering were $35,000,000. The net proceeds, after deducting share issue costs of $2,383,312, which have been netted against the value of the common shares, were $32,616,688.

On June 24, 2014, the Company completed a public offering for common shares on a bought-deal basis (the "Offering"). The Company also granted the underwriters an over-allotment option to purchase up to an additional 526,320 Common Shares at the Offering Price which was exercised on July 24, 2014. Pursuant to the Offering and exercise of the over-allotment, the Company issued 4,035,120 common shares at a price of $2.85 (the "Offering Price") for gross proceeds of $11,500,092. The net proceeds, after deducting share issue costs of $935,206, which have been netted against the value of the common shares, were $10,564,886. Related to the Offering the Company granted the underwriters 210,528 compensation warrants to acquire one common share of the Company for each warrant at a price of $2.85 per share for a period of eighteen months from June 30, 2014. As of December 31, 2015 the company had received $560,983 from the exercise of 196,836 warrants and 13,692 warrants have expired unexercised.

Comparison of the three and twelve month periods ended December 31, 2015 and 2014

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, 2015 (Unaudited)	December 31, 2014 (Unaudited)	**December 31, 2015**	December 31, 2014
Revenue				
Software	$ 2,426,721	$ 2,898,646	$ 11,767,217	$ 8,723,977
Professional services	1,576,139	1,100,466	8,294,954	6,429,023
Support and maintenance	1,206,346	1,259,481	4,772,521	4,850,757
Total Revenue	5,209,206	5,258,593	24,834,692	20,003,757
Cost of revenue	1,758,727	840,697	6,372,626	4,297,770
Gross margin	3,450,479	4,417,896	18,462,066	15,705,987
Expenses				
Sales and marketing	1,278,857	1,162,783	5,041,954	3,991,274
General and administrative	861,738	849,277	3,423,686	2,843,589
Research and development	2,306,297	2,254,322	8,730,666	6,756,519
Amortization of Intangible assets	192,378	162,993	677,109	645,869
	4,639,270	4,429,375	17,873,415	14,237,251
Income (loss) before other income (expense)	(1,188,791)	(11,479)	588,651	1,468,736
Foreign exchange gain	131,826	131,942	647,959	205,653
Interest income	89,339	36,136	309,408	82,476
Interest expense	-	-	-	(106,163)
Income (loss) before tax	(967,626)	156,599	1,546,018	1,650,702
Income taxes	(45,069)	(317,830)	(274,010)	(478,818)
Net income (loss) and comprehensive income (loss)	$ (1,012,695)	$ (161,231)	$ 1,272,008	$ 1,171,884

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

	Three Months Ended		Twelve Months Ended	
	Dec. 31, 2015 (Unaudited)	Dec. 31, 2014 (Unaudited)	**Dec. 31, 2015 (Unaudited)**	Dec. 31, 2014 (Unaudited)
Sales and marketing	$ 15,487	$ 10,095	$ 47,225	$ 35,076
General and administrative	14,627	9,534	44,602	33,128
Research and development	55,926	36,455	170,537	126,664
Depreciation	$ 86,040	$ 56,084	$ 262,364	$ 194,868
Sales and marketing	$ 46,903	$ 23,649	$ 183,894	$ 63,317
General and administrative	228,563	292,123	976,763	631,671
Research and development	52,336	63,284	218,624	166,522
Share based compensation	$ 327,802	$ 337,373	$ 1,379,281	$ 861,510

Non-IFRS Measurements

We use Adjusted net income (loss) and Adjusted diluted earnings (loss) per share, which remove 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 our ability to meet our capital expenditure and working capital requirements.

Adjusted net income (loss), Adjusted diluted earnings (loss) per share and Adjusted EBITDA are not recognized, defined or standardized measures under IFRS. Our definition of Adjusted net income (loss), Adjusted EBITDA and Adjusted diluted earnings (loss) per share will likely differ from that used by other companies and therefore comparability may be limited. Adjusted net income (loss), Adjusted EBITDA and Adjusted diluted earnings (loss) per share 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, 2015	Three months ended December 31, 2014	**Twelve months ended December 31, 2015**	Twelve months ended December 31, 2014
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Net income (loss)	**$ (1,012,696)**	$ (161,231)	**$ 1,272,008**	$ 1,171,884
Add				
Stock based compensation	**327,802**	337,373	**1,379,281**	861,510
Amortization of intangibles	**192,378**	162,993	**677,109**	645,870
Adjusted net income (loss)	**(492,516)**	339,135	**3,328,398**	2,679,264
Add(less)				
Depreciation	**86,040**	56,084	**262,364**	194,868
Net interest (income) expense	**(89,339)**	(36,136)	**(309,407)**	23,687
Foreign exchange gain	**(131,826)**	(131,942)	**(647,961)**	(205,653)
Income tax	**45,069**	317,830	**274,010**	478,818
Adjusted EBITDA	**$ (582,572)**	$ 544,971	**$2,907,404**	$3,170,984
Basic net income (loss) per share	**$(0.04)**	$(0.01)	**$0.04**	$0.05
Diluted net income (loss) per share	**$(0.04)**	$(0.01)	**$0.04**	$0.05
Adjusted diluted net income (loss) per share	**$(0.01)**	$0.01	**$0.10**	$0.11

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 communications 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 communications service providers. Subsequent to the initial license purchase, communications service providers may purchase additional licenses for new products and services. We also earn license fees when current subscribers replace or upgrade their existing set-top boxes or when they install additional set-top boxes in their homes.

Revenue decreased by 1% to $5,209,206 in the fourth quarter of 2015 from $5,258,593 in the same period of 2014. Revenue from software license sales and deployments totalled $2,426,721, a decrease of 16% from $2,898,646 in the same quarter of 2014 primarily due to royalties from a Smart TV customer that purchased a block of up-front licenses in 2014, offset by increased license revenue from the Company's service provider customers. Revenue from support totalled $1,206,346 a decrease of 4% from $1,259,481 in the same quarter of 2014. Revenue from professional services totalled $1,576,139, an increase of 43% from $1,100,466 in the same quarter of 2014 primarily due to integration work being performed for two European cable operators that selected Espial as their software and integration partner for Espial's G4 client software.

Revenue increased by 24% to $24,834,692 in the year ended December 31, 2015 from $20,003,757 in the same period of 2014. Revenue from software license sales and deployments totalled $11,767,217, an increase of 35% from $8,723,977 in the same period of 2014. The increase was primarily due to increased license revenue from a North American channel partner that manufactures set-top-boxes and increased license revenue from service providers. Revenue from support totalled $4,772,521, a decrease of 2% from $4,850,757 in the same period of 2014. Revenue from professional services totalled $8,294,954, an increase of 29% from $6,429,023 in the same period of 2014 primarily due to systems integration work for two European cable operators that selected Espial as their software and integration partner for Espial's G4 client software.

The following table summarizes revenues for the three and twelve month periods ended December 31, 2015 and 2014:

	Three months ended December 31, 2015		Three months ended December 31, 2014		**Twelve months ended December 31, 2015**		Twelve months ended December 31, 2014	
	Revenues	**% of total**	Revenues	% of total	**Revenues**	**% of total**	Revenues	% of total
Software	**$2,426,721**	**47%**	**$2,898,646**	**55%**	**$11,767,217**	55%	**$8,723,977**	**44%**
Professional services	**1,576,139**	**30%**	**1,100,466**	**21%**	**8,294,954**	21%	**6,429,023**	**32%**
Support	**1,206,346**	**23%**	**1,259,481**	**24%**	**4,772,521**	24%	**4,850,757**	**24%**
Total	**$5,209,206**	**100%**	**$5,258,593**	**100%**	**$24,834,692**	100%	**$20,003,757**	**100%**

Revenues by Geography
In the fourth quarter of fiscal 2015, the geographic makeup of total revenues was as follows: customers based in Europe accounted for 41% (30% in 2014); customers based in Asia accounted for 12% (38% in 2014); and customers in North America accounted for 47% (32% in 2014).

For the year ended December 31, 2015 the geographic makeup of total revenues was as follows: customers based in Europe accounted for 43% (36% in 2014); customers based in Asia accounted for 12% (24% in 2014); and customers in North America accounted for 45% (40% in 2014).

The following table summarizes the geographic distribution of revenues for the three and twelve month periods ended December 31, 2015 and 2014:

	Three months ended December 31, 2015		Three months ended December 31, 2014		**Twelve months ended December 31, 2015**		Twelve months ended December 31, 2014	
	Revenues	**% of total**	Revenues	% of total	**Revenues**	**% of total**	Revenues	% of total
Europe	**$2,135,203**	**41%**	**$1,608,454**	**30%**	$10,761,198	**43%**	**$7,193,809**	**36%**
Asia Pacific	**616,408**	**12%**	**1,984,378**	**38%**	3,000,206	**12%**	**4,771,042**	**24%**
North America	**2,457,595**	**47%**	**1,665,761**	**32%**	11,073,288	**45%**	**8,038,906**	**40%**
Total	**$5,209,206**	**100%**	**$5,258,593**	**100%**	**$24,834,692**	**100%**	**$20,003,757**	**100%**

European revenues were $2,135,203 in the last quarter of 2015 compared to $1,608,454 in 2014 primarily due to professional services related to the integration work for two European cable operators that selected Espial as their software and integration partner for Espial's G4 client software. Asia revenues were $616,408 in the last quarter of 2015 compared to $1,984,378 in 2014. In the fourth quarter of 2014 a SmartTV manufacturer purchased a large block of licenses. North American revenues increased to $2,457,595 in the fourth quarter of 2015 compared to $1,665,760 in 2014 due primarily to integration work being performed for a North American cable company that purchased the Company's IPTV solution.

European revenues were $10,761,198 in the year ended December 31, 2015 compared to $7,193,809 for the same period of 2014 primarily due to revenue related to the integration work for two European cable operators. Asia revenues decreased to $3,000,206 in 2015 from $4,771,042 in 2014 due to lower license revenue primarily from a SmartTV manufacturer that purchased a large block of licenses in 2014. North American revenues were $11,073,288 in 2015 compared to $8,038,905 in 2014, primarily due to a large license purchase from a North American channel partner.

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, and royalty and support commitments to first party software suppliers.

Cost of revenues for the fourth quarter of 2015 was $1,758,727 compared to $840,697 in the same period last year. Cost of revenues for the year ended December 31, 2015 increased to $6,372,626 from $4,297,770 for the same period last year. During the year the Company expanded its professional services capability and the increase in costs is primarily due to higher salary costs for employees that support and deliver professional services. .

Gross margin in the fourth quarter of 2015 was $3,450,479 compared to $4,417,896 in 2014. As a percentage of revenue, the gross margin decreased to 66% in 2015 from 84% in 2014. For the year ended December 31, 2015 our gross margin increased to $18,462,066 from $15,705,987 in 2014. As a percentage, our gross margin decreased to 74% from 79% 2014. The decrease in gross margin percentage for the quarter and year is primarily due to higher salary costs for employees delivering professional services compared to last year as the company expanded its professional services capability. The expansion was due in part to increased revenue related to integration work, plus adding additional management, program managers and specialists for future anticipated projects.

Sales and Marketing Expenses

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

Sales and marketing expenses increased in the fourth quarter of 2015 to $1,278,857 from $1,162,783 in 2014 primarily due to an increase in headcount and related salary costs. For the year ended December 31, 2015 sales and marketing expense increased to $5,041,955 from $3,991,274. The increase was due primarily due to higher salary costs in marketing and sales related to expansion of sales and marketing headcount as well as increased program marketing costs.

General and Administrative Expenses
General and administrative expenses consist primarily of compensation, including stock compensation, paid to the Chief Executive Officer and finance, legal and corporate administrative staff. Other significant general and administrative expenses include professional fees and travel, rent and occupancy costs.
General and administrative expenses increased to $861,738 during the fourth quarter of 2015 from $849,277 in 2014. For the year ended December 31, 2015, general and administrative expenses increased to $3,423,686 from $2,843,589 in 2014, due primarily to stock compensation expense.

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 we 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 expense increased to $2,306,297 during the fourth quarter of 2015 from $2,254,322 in 2014 due primarily to increased headcount and related compensation expense. For the year ended December 31, 2015 research and development expense increased to $8,730,665 from $6,756,519 in 2014 due to increased personnel costs related to increased number of staff.

Amortization of Property and Equipment
Amortization of property and equipment in the fourth quarter of 2015 was $86,040 compared to $52,968 in 2014. Amortization of property and equipment for the year ended December 31, 2015 and 2014 was $262,364 and $194,868, respectively.

Amortization of Intangible Assets
Amortization of intangible assets for the three months ended December 31, 2015 and 2014 was $192,378 and $162,993, respectively. Amortization of intangible assets for the year ended December 31, 2015 and 2014 was $677,109 and $645,869, respectively.

Stock compensation expense
During the fourth quarter of 2015, stock compensation expense decreased to $327,802 from $337,373 in the fourth quarter ended 2014. For the years ended December 31, 2015 and 2014, stock compensation expense was $1,379,281 and $861,510, respectively. The increase is due to increased number of options issued during the year ended December 31, 2015, and 2014.

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

	Three Months ended		Year ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Sales and marketing	**$ 46,903**	**$ 23,649**	**$ 183,894**	**$ 63,317**
General and administration	**228 563**	**250,440**	**976,763**	**631,671**
Research and development	**52 336**	**63,284**	**218,624**	**166,522**
	$ 327,802	**$ 337,373**	**$ 1,379,281**	**$ 861,510**

Other Income (Expense)
Other income in the fourth quarter of 2015 was $221,165 compared to $168,078 in the same period in 2014. The change was attributable to (i) interest income of $89,339 compared to $36,136 last year due to increased cash held in interest bearing accounts, and (ii) 2015 foreign exchange gain of $131,826 compared to $131,942 in 2014.

For the year ended December 31, 2015 other income was $957,368 compared to $181,966 in the same period in 2014. The change was attributable to (i) 2015 interest income was $309,407 compared to $82,476 in 2014 due to increased cash held in interest bearing accounts, (ii) 2015 interest expense was $0 compared to $106,163 in 2014 as the Company's term debt was fully paid in April, 2014, and (iii) 2015 foreign exchange gain of $647,961 compared to $205,653 in 2014 due to the weakening of the Canadian dollar.

Taxes
Taxes for the fourth quarter of 2015 were $45,069 compared to $317,830 in 2014. Taxes for the year ended December 31, 2015 and 2014 was $274,010 and $478,818, respectively. All taxes relate to withholding tax on software licenses sold to customers domiciled in Asia and to services provided to certain European customers. The reduction in taxes is due to the reduction of Asian revenue during 2015.

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, 2014	Jun. 30, 2014	Sept. 30, 2014	Dec. 31, 2014	Mar. 31, 2015	Jun. 30, 2015	Sept. 30, 2015	Dec. 31, 2015
Revenue	$4,974,824	$4,712,514	$5,057,826	$5,258,593	$5,415,877	$5,500,255	$8,709,354	$5,209,206
Cost of revenue	754,131	1,310,717	1,392,225	840,697	1,169,387	1,472,712	1,971,800	1,758,727
Gross margin	4,220,693	3,401,797	3,665,601	4,417,896	4,246,490	4,027,543	6,737,554	3,450,478
Expenses								
Sales and marketing	922,301	924,620	981,570	1,162,783	1,146,086	1,202,748	1,414,264	1,278,857
General and administrative	543,938	637,026	813,345	849,277	790,041	902,947	868,960	861,738
Research and development	1,522,097	1,434,899	1,545,203	2,254,322	1,893,272	2,028,129	2,502,968	2,306,297
Amortization of intangible assets	160,770	160,770	161,338	162,993	161,219	168,442	155,069	192,378
	3,149,106	3,157,315	3,501,456	4,429,375	3,990,618	4,302,266	4,941,261	4,639,270
Income (loss) before other income (expense)	1,071,587	244,482	164,145	(11,479)	255,872	(274,723)	1,796,293	(1,188,791)
Interest income (expense)	(83,707)	(10,912)	34,796	36,136	36,390	88,586	95,093	89,339
Foreign exchange gain (loss)	113,781	(92,321)	52,252	131,942	103,756	1,750	410,629	131,826
Income (loss) before taxes	1,101,661	141,249	251,193	156,599	396,018	(184,387)	2,302,014	(967,626)
Income taxes	(73,087)	(50,678)	(37,223)	(317,830)	(36,793)	(93,448)	(98,700)	(45,069)
Net and Comprehensive income (loss)	$1,028,574	$90,571	$213,970	$(161,231)	$359,225	$(277,835)	$ 2,203,314	$(1,012,695)

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, 2015, the Company had cash and cash equivalents of $49,947,096 compared to $18,111,324 as at December 31 2014.

Working Capital

During the year ended December 31, 2015 the Company used cash of $3,407,276 to finance working capital. This use of cash was primarily due to increases in accounts receivable of $3,495,962 and prepaid expenses of $99,347 offset by a decrease in investment tax credits of $43,649, an increase in accounts payable and accrued liabilities of $90,565 and an increase in deferred revenues of $53,819.

Operations

Cash generated in operating activities, not including non-cash operating working capital items, in the year ended December 31, 2015 was $3,315,528 compared to $2,562,364 in the same period of 2014. Cash generated was driven by net income in the year ended December 31, 2015 of $1,272,008, plus non-cash items including amortization of $677,109, depreciation of $262,364, stock compensation of $1,379,281, partially offset by a drawdown/reversal of $275,234 of provisions.

Investing Activities

Purchases of property and equipment for the year ended December 31, 2015 totalled $532,511 compared to $383,146 for 2014. Purchases of intangible software for the year totalled $95,492 compared to $43,265 for 2014. The June, 2015 purchase of Bluestreak Technologies (see "recent Developments") net of cash acquired, was $1,721,623.

Financing Activities

During the year ended December 31, 2015, the Company received $379,005 from the exercise of employee options to purchase common shares, $1,281,453 from the exercise of warrants to purchase common shares, and net proceeds from an equity financing of common shares from treasury of $32,616,688.

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:

2016	$ 872,887
2017	849,260
2018	834,061
2019	835,767
2020 to 2024	3,461,919
	$ 6,853,894

Lease payments recognized as an expense during the three month periods ended December 31, 2015 and 2014 were $335,427 and $141,435 respectively. Lease payments recognized as an expense during the year ended December 31, 2015 and 2014 were $1,127,507 and $631,748 respectively.

CAPITAL DISCLOSURES

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

On May 6, 2015, the Company completed a public offering for common shares on a bought-deal basis (the "May Offering"). Pursuant to the May Offering, the Company issued 8,750,000 common shares at a price of $4.00 for gross proceeds of $35,000,000. The net proceeds from the May Offering, after deducting share issue costs of $2,383,312, were $32,616,688.

On June 24, 2014, the Company completed a public offering for common shares on a bought-deal basis (the "June Offering"). The Company also granted the underwriters an over-allotment option to purchase up to an additional 526,320 Common Shares at the Offering Price which was exercised on July 24, 2014. Pursuant to the June Offering and exercise of the over-allotment, the Company issued 4,035,120 common shares at a price of $2.85 (the "Offering Price") for gross proceeds of $11,500,092. The net proceeds, after deducting share issue costs of $935,206 were $10,564,886.

Management believes that cash on hand at the date of this report is sufficient to fund our operations for the foreseeable future. We may however, from time to time, enter into debt and equity arrangements if we believe it is in the long term interest of our 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 Espial's 2014 Annual Information Form at www.sedar.com for a full discussion of these risk factors. In addition to these risks there can be no assurance the Company will realise expected benefits and synergies from the acquisition of Bluestreak Technologies.

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 our President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), management evaluated the effectiveness of our disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted by us 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 by us in our annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to our management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosure. Management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2015 our 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 our 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, 2015.

There has been no change to internal controls in the most recent quarter ended on December 31, 2015 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, 2015 and 2014

KPMG LLP
Suite 1800
150 Elgin Street
Ottawa ON K2P 2P8
Canada

Telephone (613) 212-KPMG (5764)
Fax (613) 212-2896
Internet www.kpmg.ca

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, 2015 and December 31, 2014, the consolidated statements of income and comprehensive income, cash flows and changes in equity for the years ended December 31, 2015, and December 2014, 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, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
February 25, 2016
Ottawa, Canada

ESPIAL GROUP INC.
Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

ESPIAL GROUP INC.

Consolidated Balance Sheets

(In Canadian Dollars)

	December 31, 2015	December 31, 2014
CURRENT ASSETS		
Cash and cash equivalents	$ 49,947,096	$ 18,111,324
Accounts receivable	8,397,948	3,861,058
Investment tax credits receivable	413,920	312,329
Prepaid expenses and other assets	734,906	567,853
	59,493,870	22,852,564
Equipment (Note 4)	1,062,544	727,626
Intangible assets (Note 5)	1,658,610	1,496,794
Goodwill (Note 5)	3,632,604	3,340,808
	$ 65,847,628	$ 28,417,792
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 3,165,144	$ 2,521,480
Deferred revenue	3,690,638	3,557,667
	6,855,782	6,079,147
Provisions (Note 11)	-	275,234
Total Liabilities	6,855,782	6,354,381
COMMITMENTS (Note 9)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	126,583,844	91,072,570
Warrants (Note 6)	-	928,063
Share based payments reserve	14,059,806	12,986,590
Deficit	(81,651,804)	(82,923,812)
	58,991,846	22,063,411
	$ 65,847,628	$ 28,417,792

APPROVED BY THE BOARD

Jaison Dolvane

Peter Seeligsohn

See accompanying notes

ESPIAL GROUP INC.

Consolidated Statements of Income and Comprehensive Income

(In Canadian dollars), except share amounts

	Year Ended	
	December 31, 2015	December 31, 2014
Revenue		
Software	$ 11,767,217	$ 8,723,977
Professional services	8,294,954	6,429,023
Support and maintenance	4,772,521	4,850,757
Total Revenue	24,834,692	20,003,757
Cost of revenue	6,372,626	4,297,770
Gross margin	18,462,066	15,705,987
Expenses		
Sales and marketing	5,041,954	3,991,274
General and administrative	3,423,686	2,843,589
Research and development	8,730,666	6,756,519
Amortization of intangible assets (Note 5)	677,109	645,869
	17,873,415	14,237,251
Income before other income (expense)	588,651	1,468,736
Foreign exchange gain (Note 15)	647,959	205,653
Interest income	309,408	82,476
Interest expense	-	(106,163)
Income before taxes	1,546,018	1,650,702
Income taxes (Note 10)	(274,010)	(478,818)
Net income and comprehensive income	$ 1,272,008	$ 1,171,884
Income per common share - basic	$0.04	$0.05
Weighted average number of common shares outstanding - basic (Note 6)	33,328,166	22,786,909
Income per common share – diluted	$0.04	$0.05
Weighted average number of common shares outstanding – diluted (Note 6)	34,412,014	24,572,562

See accompanying notes.

ESPIAL GROUP INC.
Consolidated Statements of Cash Flows
(In Canadian dollars)

	Year Ended	
	December 31, 2015	December 31, 2014
CASH PROVIDED BY (USED IN)		
OPERATING		
Net income	$ 1,272,008	$ 1,171,884
Items not affecting cash		
Depreciation of property and equipment (Note 4)	262,364	194,868
Amortization of intangible assets (Note 5)	677,109	645,869
Share-based compensation expense (Note 6)	1,379,281	861,510
Interest accretion on term loan	-	57,944
Provisions (Note 11)	(275,234)	(369,711)
	3,315,528	2,562,364
Changes in non-cash operating working capital items (Note 8)	(3,407,276)	(1,715,059)
	(91,748)	847,305
INVESTING		
Purchase of equipment (Note 4)	(532,511)	(383,146)
Purchase of intangibles	(95,492)	(43,265)
Purchase of business, net of cash acquired (Note 16)	(1,721,623)	-
	(2,349,626)	(426,411)
FINANCING		
Repayment of term loan	-	(2,500,000)
Options exercised	379,005	17,310
Warrants exercised (Note 6)	1,281,453	2,201,141
Proceeds from equity financing (Note 6)	35,000,000	11,500,092
Costs of share issuance (Note 6)	(2,383,312)	(935,206)
	34,277,146	10,283,337
Net cash and cash equivalents inflow	31,835,772	10,704,231
Cash and cash equivalents, beginning of year	18,111,324	7,407,093
Cash and cash equivalents, end of year	$ 49,947,096	$ 18,111,324
Supplementary information:		
Interest paid	$ -	$ 48,219
Taxes paid	$ 274,010	$ 478,818

See accompanying notes.

ESPIAL GROUP INC.

Consolidated Statements of Changes in Equity

(In Canadian Dollars, except share amounts)

	Common Shares					
	Number	**Amount**	**Warrant**	**Share Based Payments Reserve**	**(Deficit)**	**Shareholders' Equity (Deficit)**
Balance at December 31, 2013	**19,771,120**	**$77,781,292**	**$1,436,004**	**$12,125,080**	**($84,095,696)**	**$7,246,680**
Share-based compensation	-	-	-	861,510	-	861,510
Warrants exercised (Note 6)	3,057,140	2,855,509	(654,368)	-	-	2,201,141
Warrants expired (Note 6)	-	164,436	(164,436)	-	-	-
Warrants issued (Note 6)	-	(310,863)	310,863	-	-	-
Proceeds from share issuance (Note 6)	4,035,120	10,564,886	-	-	-	10,564,886
Options exercised	22,887	17,310	-	-	-	17,310
Net and comprehensive income	-	-	-	-	1,171,884	1,171,884
Balance at December 31, 2014	**26,886,267**	**$91,072,570**	**$928,063**	**$12,986,590**	**($82,923,812)**	**$22,063,411**
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 (Note 6)	1,220,365	2,189,980	(908,527)	-	-	1,281,453
Warrants expired (Note 6)	-	19,536	(19,536)	-	-	-
Proceeds from share issuance (Note 6)	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**

See accompanying notes.

1. DESCRIPTION OF BUSINESS

Espial Group Inc. ("Espial" or the "Company") designs, develops and markets software solutions to enable the delivery of Internet Protocol Television (IPTV). IPTV is a platform that facilitates the provisioning of digital television and other innovative video services with Internet-like functionality over an Internet Protocol (IP) enabled broadband network infrastructure. The Company's products allow communications service providers, including cable TV, satellite TV and telecommunications service providers to deploy IPTV services to their subscribers.

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 25, 2016.

(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 Corporation, Espial (UK) Limited (formerly ANT), 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.

(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 and comprehensive income 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	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.

(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 and comprehensive income. 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 profit or 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.

(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 between twelve and thirty-six 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 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.

***(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 and loss and comprehensive income and 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 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 earnings. 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 earnings or 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.

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.

Compound financial instruments

The component parts of long-term debt and the associated warrants are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rates for similar debt instruments. The fair value of the long-term debt is measured annually using prevailing market interest rates for similar debt instruments for financial statement note disclosure requirements.

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 re-organization. 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 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 Bluestreak Technology (Canada) Inc., including 100% of its France based subsidiary, Bluestreak Technologie SAS. during the year ended December 31, 2015. 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, accounts receivable, accounts payable and accrued liabilities, deferred revenue, prepaid and other assets and tax credit receivable were estimated to approximate their carrying values in Bluestreak's records at the date of the transaction. Equipment was estimated based on replacement value and provisions were 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, 2015.

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

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 IN ISSUE BUT NOT EFFECTIVE

Financial instruments
IFRS 9, Financial Instruments: Classification and Measurement ("IFRS 9"), was Issued in November 2009 and revised in October 2010, IFRS 9, as issued, is the first phase in the IASB's project to replace IAS 39 Financial Instruments: recognition and measurement ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. The standard is effective for annual periods beginning January 1, 2018. The Company does not intend to adopt IFRS 9 early at this time but continues to monitor the individual phases of the IASB project. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 15, Revenue from Contracts with Customers

In May, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), a new standard on revenue recognition. The new standard provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains the following:

- a single model that applies to contracts with customers; and
- two approaches to recognizing 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. The new standard also provides application guidance on numerous topics, including warranties; licences; and when to capitalize costs of obtaining or fulfilling contracts that are not addressed in other accounting standards (e.g., inventory). IFRS 15 applies for annual periods beginning on or after January 1, 2018. Early application is permitted. The extent of the impact of adoption of IFRS 15 has not yet been determined.

IFRS 16: Leases

In January 2016, the International Accounting Standards Board issued IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from contract with customers has also been applied. The Company does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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 is currently evaluating the impact of adopting these amendments on the consolidated financial statements.

(In Canadian Dollars, except share amounts)

4. EQUIPMENT

	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 1, 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**

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Balance at December 31, 2013	$2,525,074	$516,467	$506,163	$3,547,704
Disposals	-	-	(16,196)	(16,196)
Additions	186,390	143,708	53,048	383,146
Balance at December 31, 2014	$2,711,464	$660,175	$543,015	$3,914,654
Accumulated depreciation				
Balance at December 31, 2013	2,116,822	406,123	485,411	3,008,356
Disposals	-	-	(16,196)	(16,196)
Depreciation expense	150,435	36,439	7,994	194,868
Balance at December 31, 2014	2,267,257	442,562	477,209	3,187,028
Carrying Value at December 31, 2014	**$444,207**	**$217,613**	**$65,806**	**$727,626**

Included in the functional expense categories for the years ended December 31, 2015 and 2014, are the following non-cash expenses related to depreciation:
.

	Dec. 31, 2015	Dec. 31, 2014
Sales and marketing	**$ 47,225**	$ 35,076
General and administrative	**44,602**	33,128
Research and development	**170,537**	126,664
Depreciation	**$ 262,364**	$ 194,868

(In Canadian Dollars, except share amounts)

5. INTANGIBLE ASSETS and GOODWILL

	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	Computer Software	Customer Lists	Total
Cost				
Balance at December 31, 2013	$5,655,110	$1,018,013	$2,412,111	$9,085,234
Additions	-	43,265	-	43,265
Balance at December 31, 2014	**5,655,110**	**1,061,278**	**2,412,111**	**9,128,499**
Accumulated amortization				
Balance at December 31, 2013	4,784,453	956,550	1,244,833	6,985,836
Amortization expense	213,223	24,928	407,718	645,869
Balance at December 31, 2014	**4,997,676**	**981,478**	**1,652,551**	**7,631,705**
Carrying Value at December 31, 2014	**$ 657,434**	**$ 79,800**	**$ 759,560**	**$1,496,794**

The Intellectual Property and Customer Lists from the ANT PLC. acquisition in 2013 have a remaining useful life of two years. The Customer Lists from the Bluestreak acquisition this year have a remaining useful life of three years.

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 2011 to 2015, revenue and operating costs increasing at a compounded average growth rate of 25% and 22%, 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 37,348,057 common shares were issued and outstanding at December 31, 2015 (2014 – 26,886,267).

On May 6, 2015 the Company completed a public offering of 8,750,000 common shares at a price of $4.00 per Common Share on a bought-deal basis. The aggregate gross proceeds to the Company for the Offering were $35,000,000. The net proceeds, after deducting share issue costs of $2,383,312, which have been netted against the value of the common shares, were $32,616,688.

On June 24, 2014, the Company completed a public offering for common shares on a bought-deal basis (the “Offering”). The Company also granted the underwriters an over-allotment option to purchase up to an additional 526,320 Common Shares at the Offering Price which was exercised on July 24, 2014. Pursuant to the Offering and exercise of the over-allotment, the Company issued 4,035,120 common shares at a price of $2.85 (the “Offering Price”) for gross proceeds of $11,500,092. The net proceeds, after deducting share issue costs of $935,206, which have been netted against the value of the common shares, were $10,564,886. Related to the Offering the Company granted the underwriters 210,528 compensation warrants to acquire one common share of the Company for each warrant at a price of $2.85 per share for a period of eighteen months from June 30, 2014. As of December 31, 2015 the company had received $560,983 from the exercise of 196,836 warrants and 13,692 warrants have expired unexercised.

On December 30, 2010, Espial entered into a non-revolving term loan in the principal amount of $3,500,000. As part of the transaction the Company issued 823,529 warrants that entitled the holder thereof to purchase up to 823,529 common shares of the Company for a period of five years at a price of $0.70 per share. On November 13, 2015 the company received $576,470 from the exercise of all 823,529 warrants.

Stock option plans

As at December 31, 2015, there were 3,457,492 options for common shares remaining available for issuance under the 2007 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%.

During the year ended December 31, 2015, there were 1,047,500 options granted (2014 - 1,374,000).

(In Canadian Dollars, except share amounts)

For the year ended December 31, 2015, the Company recorded stock compensation expense of $1,379,281 (2014 - $861,510).

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: exercise price is equal to the price of the underlying share, volatility of 92% for employee stock compensation, risk-free interest rate of 0.7%, 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, 2014 was $1.92 on the date of grant using the Black-Scholes option pricing model with the following assumptions: volatility of 99% for employee stock compensation, risk-free interest rate of 1.3%, 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, 2014 and 2015:

	Number of Options	Weighted-average Exercise Price
Outstanding, at December 31, 2013	**2,271,232**	**$1.20**
Granted	1,374,000	$2.83
Exercised	(22,887)	$0.76
Forfeited	(114,345)	$3.06
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**

(In Canadian Dollars, except share amounts)

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

	Options Outstanding		**Options Exercisable**	
Range of Exercise Prices	**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**

The following table summarized information about stock options outstanding at December 31, 2014:

	Options Outstanding		**Options Exercisable**	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Life**	**Number Outstanding**	**Weighted Average Exercise Price**
$0.36 - $1.00	1,843,900	6.0	1,540,371	$0.83
$1.01 - $2.00	255,500	6.2	145,185	$1.51
$2.01 - $4.00	1,342,250	9.1	78,250	$2.60
$4.01 - $7.00	66,350	2.5	66,350	$6.98
	3,508,000	**7.1**	**1,797,596**	**$1.18**

(In Canadian Dollars, except share amounts)

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, 2015 and 2014.

Twelve months ended December 31,	**2015**	2014
Issued common shares at January 1	**26,886,267**	19,771,120
Effect of shares issued from share offering	**5,729,452**	2,051,446
Effect of shares issued from warrants	**336,036**	956,847
Effect of shares issued from options	**376,411**	7,496
Weighted average number of basic common shares at December 31	**33,328,166**	22,786,909
Effect of warrants on issue	**-**	664,997
Effect of share options on issue	**1,083,848**	1,120,656
Weighted average number of diluted common shares at December 31	**34,412,014**	24,572,562

Options and warrants that are anti-dilutive are not included in the computation of diluted earnings per share. 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. For the year ended December 31, 2014, 1,518,600 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, 2015	December 31, 2014
Europe	10,761,198	$ 7,193,809
Asia Pacific	3,000,206	4,771,042
North America	11,073,288	8,038,906
	24,834,692	$ 20,003,757

(In Canadian Dollars, except share amounts)

For the year ended December 31, 2015, the Company had 3 customers that individually accounted for 24%, 13% and 11% of revenue. For the year ended December 31, 2014, the Company had 2 customers that individually accounted for 14% and 11% of revenue.

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

	December 31, 2015	December 31, 2014
Canada	**$788,634**	$463,360
United States	**94,183**	125,467
United Kingdom	**157,644**	138,799
France	**22,083**	-
	$1,062,544	$727,626

The following table sets forth intangible assets attributable to Canada, the United States, the United Kingdom and France. The four 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, 2015	December 31, 2014
Canada	**$ 681,310**	$ 61,081
United States	**1,953**	104,914
United Kingdom	**975,347**	1,330,799
	$ 1,658,610	$ 1,496,794

8. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	December 31, 2015	December 31, 2014
Accounts receivable	$(3,495,962)	$(1,803,836)
Investment tax credits receivable	43,649	(302)
Prepaid expenses and other assets	(99,347)	(64,863)
Accounts payable and accrued liabilities	90,565	648,975
Deferred revenue	53,819	(495,033)
	$(3,407,276)	$(1,715,059)

9. COMMITMENTS

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

(In Canadian Dollars, except share amounts)

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:

2016	$ 872,887
2017	849,260
2018	834,061
2019	835,767
2020 to 2024	3,461,919
	$ 6,853,894

Lease payments recognized as an expense during the years ended December 31, 2015 and 2014 were $1,127,507 and $631,748 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:

	December 31, 2015	December 31, 2014
Statutory income tax rate	**26.5%**	26.5%
Expected income tax expense	**337,082**	310,550
Withholding taxes	**274,010**	478,818
Tax effect of losses and temporary differences used	**(777,170)**	(606,682)
Permanent differences	**440,088**	296,132
Income tax expense	**$ 274,010**	$ 478,818

Net deferred tax assets and (liabilities)

	December 31, 2015	December 31, 2014
Losses carried forward	$ 177,685	$ 262,974
Intangible asset	(177,685)	(262,974)
Net deferred tax assets and (liabilities)	$ -	$ -

(In Canadian Dollars, except share amounts)

The unrecognized temporary differences of the Company are comprised of:

	December 31, 2015	December 31, 2014
Losses carried forward	$ 36,851,668	$ 35,919,667
Unclaimed research and development	24,824,163	23,211,409
Share issue costs	2,614,525	748,165
Equipment	2,129,602	3,757,981
	$ 66,419,957	$ 63,637,222

As at December 31, 2015, the Company has non-capital losses available to reduce taxable income which expire as follows:

	Canada	United States	United Kingdom	France
2015		1,495,882		
2020		2,117,395		
2021		231,902		
2022		466,673		
2023		441,403		
2026		8,810		
2027		3,200		
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		234,110		64,688
Indefinite			10,905,798	
	CAD$ 0	US$ 12,775,349	£ 10,905,798	€ 64,688

The Company has unused scientific research and experimental development (SR&ED) expenditures of $25 million which are available, without expiry, to reduce future taxable income. The Company also has Canadian federal investment tax credit carry forwards of $7 million which is 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 Canadian Dollars, except share amounts)

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.

11. PROVISIONS

The Company has provided an estimated cost of settling disputes relating to contractual issues. During 2015 these disputes were all cleared.

Provisions for the year ended December 31, 2015 was:

	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	**-**	**-**	**-**

Provisions for the year ended December 31, 2014 were:

	Disputes	Building	Total
Opening December 31, 2013	**$ 206,974**	**$ 437,971**	**$ 644,945**
Impact of foreign exchange	5,213	11,032	16,245
Utilised	(99,592)	(286,364)	(385,956)
Non-current December 31, 2014	**$112,595**	**$162,639**	**$275,234**

12. EMPLOYEE BENEFITS EXPENSE

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

	December 31, 2015	December 31, 2014
Salaries	**$ 11,603,014**	$ 8,584,170
Benefits	**1,975,448**	1,235,245
Other labour costs	**1,327,629**	1,179,821
Commissions	**344,470**	399,487
Share based payments	**1,379,281**	861,510
	$ 16,629,842	$ 12,260,233

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

	December 31, 2015	December 31, 2014
Sales and marketing	**$183,894**	$ 63,317
General and administration	**976,763**	631,671
Research and development	**218,624**	166,522
	$ 1,379,281	861,510

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, 2015	December 31, 2014
Salaries and short-term benefits	**$ 1,278,811**	$ 1,271,122
Share-based compensation	**894,203**	613,573
	$ 3,451,825	$ 1,884,695

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 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 year ended December 31, 2015.

(In Canadian Dollars, except share amounts)

For the years ended December 31, 2015 and 2014, the Company had a foreign exchange gain of $647,959 and $205,653, respectively.

A 10% strengthening of the Canadian dollar against the US dollar and the Euro, with all other variables held constant, would have decreased income and comprehensive income 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 and comprehensive income by approximately $388,000, in the year ended December 31, 2015. For the year ended December 31, 2014 a 10% strengthening of the Canadian dollar against the US dollar and the Euro, with all other variables held constant, would have decreased income and comprehensive income by approximately $802,000 and $235,000, respectively in the year ended December 31, 2014. A 10% strengthening of the Canadian dollar against the GBP, with all other variables held constant, would have increased income and comprehensive income by approximately $283,000, in the year ended December 31, 2014

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

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

December 31, 2014	CAD	USD	GBP	EUR
Accounts receivable	1,428,829	1,371,138	55,242	523,729
Accounts payable and accrued liabilities	(1,446,299)	(152,373)	(550,665)	(72,029)
	(17,470)	1,218,765	(495,423)	451,700

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 investments 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.

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.

(In Canadian Dollars, except share amounts)

The Company maintains a provision in allowance for doubtful accounts for anticipated bad debts. 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, 2015. At December 31, 2014, the Company had concentrated credit risk with 3 customers that accounted for 37%, 15% and 10% respectively, of its trade accounts and unbilled receivables.

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 is $101,287. As at December 31, 2014 the Company's aging of its trade accounts receivable was approximately 99% under sixty days, 0% between 60 and 90 days and 1% over 90 days and the allowance for doubtful accounts was $43,504.

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.

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

	December 31, 2015	December 31, 2014
Cash and cash equivalents	**$ 49,947,096**	$ 18,111,324
Accounts receivable	**8,397,948**	3,861,058
	$ 58,345,044	$ 21,972,382

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.

.

(In Canadian Dollars, except share amounts)

The following are the contractual maturities of the undiscounted cash flows of financial liabilities at December 31, 2015.

	Future value	3 Months	3-12 Months	1 to 5 years	more than 5 years
Accounts payable and accrued liabilities	$3,165,144	$2,507,958	$ 657,186	-	-
Commitments	6,853,894	224,175	648,712	$3,340,696	$2,640,311
Total	$10,019,038	$2,732,133	$1,305,898	$3,382,089	$2,640,311

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.

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. ACQUISITION OF BLUESTREAK TECHNOLOGIES.

On June 23, 2015 the Company entered into an agreement pursuant to which Espial acquired certain assets of Bluestreak Technology (Canada) Inc. including 100% of its France based subsidiary, Bluestreak Technologie SAS, for cash consideration of $1,100,000 plus acquired cash and working capital for a total purchase price of $2,769,601. The acquisition further strengthens Espial's software expertise and experience integrating leading over-the-top services. These capabilities enhance Espial's RDK and HTML5 solutions which blend linear television with web-based video services.

(In Canadian Dollars, except share amounts)

The acquisition has been 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 $50,000 with the full amount recognized in general and administrative expense in the statement of income and comprehensive income.

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

Assets acquired	
Cash and cash equivalents	$ 1,047,978
Accounts receivable	1,040,928
Tax credit receivable	145,240
Prepaid expenses and other assets	67,706
Equipment	64,771
Goodwill	291,796
Intangible assets	743,433
	3,401,852
Liabilities assumed	
Accounts payable and accrued liabilities	553,099
Deferred revenue	79,152
	632,251
Total purchase price consideration	**$ 2,769,601**

Goodwill and intangible assets have been allocated to the Company's single reporting unit. The value of the goodwill, all of which is tax deductible, relates to the estimated value of the assembled workforce. Intangible assets will be amortized over a period of three and a half years.

The net cash outflow related to the acquisition of Bluestreak was:

Consideration paid in cash	$ 2,769,601
Less: cash balances acquired	(1,047,978)
	$ 1,721,623