

*Interim Condensed Consolidated Financial Statements of*

**ESPIAL GROUP INC.**

*Quarters ended September 30, 2016 and 2015*

(Unaudited)

**ESPIAL GROUP INC.**  
**Interim Condensed Consolidated Financial Statements**  
**For the Quarters ended September 30, 2016 and 2015**

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# ESPIAL GROUP INC.

## Interim Condensed Consolidated Balance Sheets

(In Canadian Dollars)

(Unaudited)

	September 30, 2016	December 31, 2015
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 44,301,376	\$ 49,947,096
Accounts receivable	7,377,903	8,397,948
Investment tax credits receivable	341,588	413,920
Prepaid expenses and other assets	727,933	734,906
	<b>52,748,800</b>	<b>59,493,870</b>
Equipment (Note 6)	1,401,990	1,062,544
Intangible assets (Note 6)	1,352,078	1,658,610
Goodwill (Note 6)	3,632,604	3,632,604
	<b>\$ 59,135,472</b>	<b>\$ 65,847,628</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 3,934,975	\$ 3,165,144
Deferred revenue	2,667,266	3,690,638
Total Liabilities	<b>6,602,241</b>	<b>6,855,782</b>
<b>COMMITMENTS (Note 8)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 4)	126,351,683	126,583,844
Share based payments reserve	15,182,829	14,059,806
Deficit	(89,001,281)	(81,651,804)
	<b>52,533,231</b>	<b>58,991,846</b>
	<b>\$ 59,135,472</b>	<b>\$ 65,847,628</b>

APPROVED BY THE BOARD



**JAISON DOLVANE**



**TAWFIQ ARAFAT**

See accompanying notes to interim condensed consolidated financial statements

# ESPIAL GROUP INC.

## Interim Condensed Consolidated Statements of Income and Loss and Comprehensive Income and Loss

(In Canadian Dollars)

(Unaudited)

	Three Months Ended		Nine months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue				
Software	<b>\$ 3,448,616</b>	\$ 5,217,518	<b>\$ 8,389,279</b>	\$ 9,340,496
Professional services	<b>1,069,103</b>	2,146,008	<b>3,517,836</b>	6,718,815
Support and maintenance	<b>1,500,398</b>	1,345,828	<b>3,983,754</b>	3,566,175
Total revenue	<b>6,018,117</b>	8,709,354	<b>15,890,869</b>	19,625,486
Cost of revenue	<b>1,753,499</b>	1,971,800	<b>4,925,053</b>	4,613,899
Gross margin	<b>4,264,618</b>	6,737,554	<b>10,965,816</b>	15,011,587
Expenses				
Sales and marketing	<b>1,397,239</b>	1,414,264	<b>4,079,535</b>	3,763,098
General and administrative	<b>1,187,202</b>	868,960	<b>3,057,912</b>	2,561,948
Research and development	<b>4,038,234</b>	2,502,968	<b>10,369,171</b>	6,424,368
Amortization of intangible assets	<b>186,395</b>	155,069	<b>535,761</b>	484,730
	<b>6,809,070</b>	4,941,261	<b>18,042,379</b>	13,234,144
Income (loss) before other income (expense)	<b>(2,544,452)</b>	1,796,293	<b>(7,076,563)</b>	1,777,443
Interest income	<b>81,443</b>	95,093	<b>253,391</b>	220,068
Foreign exchange gain (loss)	<b>216,565</b>	410,628	<b>(219,117)</b>	516,135
Income (loss) before taxes	<b>(2,246,444)</b>	2,302,014	<b>(7,042,289)</b>	2,513,646
Income tax expense	<b>(189,525)</b>	(98,700)	<b>(307,188)</b>	(228,942)
Net income (loss) and comprehensive income (loss)	<b>\$ (2,435,969)</b>	\$ 2,203,314	<b>\$ (7,349,477)</b>	\$ 2,284,704
Income (loss) per common share - basic	<b>\$ (0.07)</b>	\$ 0.06	<b>\$ (0.20)</b>	\$0.07
Weighted average number of common shares outstanding - basic (Note 5)	<b>37,341,312</b>	36,393,006	<b>37,352,967</b>	32,117,869
Income (loss) per common share - diluted	<b>\$ (0.07)</b>	\$ 0.06	<b>\$ (0.20)</b>	\$0.07
Weighted average number of common shares outstanding - diluted (Note 5)	<b>37,341,312</b>	38,127,445	<b>37,352,967</b>	33,873,953

See accompanying notes to interim condensed consolidated financial statements

# ESPIAL GROUP INC.

## Interim Condensed Consolidated Statements of Cash Flows

(In Canadian Dollars)  
(Unaudited)

	Nine months Ended	
	September 30, 2016	September 30, 2015
<b>CASH (USED IN) PROVIDED BY</b>		
<b>OPERATING</b>		
Net (loss) income	\$ (7,349,477)	\$ 2,284,704
Items not affecting cash		
Depreciation of property and equipment	261,053	176,324
Amortization of intangible assets	535,761	484,730
Share-based compensation expense	1,135,282	1,051,478
Provisions	-	(275,234)
	<b>(5,417,381)</b>	<b>3,722,002</b>
Changes in non-cash operating working capital items (Note 7)	<b>403,753</b>	<b>(5,536,973)</b>
	<b>(5,013,628)</b>	<b>(1,814,971)</b>
<b>INVESTING</b>		
Purchase of equipment	(321,212)	(357,895)
Purchase of intangible software	(229,229)	(42,629)
Share repurchase program (Note 4)	(259,626)	-
Purchase of business, net of cash acquired (Note 10)	162,769	(1,721,623)
	<b>(647,298)</b>	<b>(2,122,147)</b>
<b>FINANCING</b>		
Proceeds from options exercised	15,206	374,402
Proceeds from warrants exercised	-	350,988
Proceeds from equity financing	-	35,000,000
Costs of share issuance	-	(2,383,312)
	<b>15,206</b>	<b>33,342,078</b>
Cash and cash equivalents (outflow) inflow	<b>(5,645,720)</b>	<b>29,404,960</b>
Cash and cash equivalents, beginning of period	<b>49,947,096</b>	<b>18,111,324</b>
Cash and cash equivalents, end of period	<b>\$ 44,301,376</b>	<b>\$ 47,516,284</b>
Supplementary information:		
Interest received	\$ 253,392	\$ 220,068
Taxes paid	\$ (307,189)	(228,942)

See accompanying notes to interim condensed consolidated financial statements

# ESPIAL GROUP INC.

## Interim Condensed Consolidated Statements of Shareholders' Equity

(In Canadian Dollars, except share amounts)  
(Unaudited)

	Common Shares			Share-based payment reserve	(Deficit)	Shareholders' Equity
	Number	Amount	Warrants			
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	-	-	-	320,863	-	320,863
Warrants exercised	100,000	101,864	(29,864)	-	-	72,000
Options exercised	378,180	489,863	-	(219,309)	-	270,554
Net and comprehensive income	-	-	-	-	359,225	359,225
Balance at March 31, 2015	27,364,447	\$91,664,297	\$898,199	\$13,088,144	(\$82,564,587)	\$23,086,053
Share-based compensation	-	-	-	425,417	-	425,417
Proceeds from share issuance	8,750,000	32,616,688	-	-	-	32,616,688
Warrants exercised	172,627	412,478	(133,490)	-	-	278,988
Options exercised	101,027	172,332	-	(77,041)	-	95,291
Net and comprehensive loss	-	-	-	-	(277,835)	(277,835)
Balance at June 30, 2015	36,388,101	\$124,865,795	\$764,709	\$13,436,520	\$(82,842,422)	\$56,224,602
Share-based compensation	-	-	-	305,198	-	305,198
Options exercised	9,510	8,557	-	-	-	8,557
Net and comprehensive income	-	-	-	-	2,203,314	2,203,314
Balance at September 30, 2015	36,397,611	\$124,874,352	\$764,709	\$13,741,718	\$(80,639,108)	\$58,741,671
<b>Balance at December 31, 2015</b>	<b>37,348,057</b>	<b>\$126,583,844</b>	<b>\$ -</b>	<b>\$14,059,806</b>	<b>(\$81,651,804)</b>	<b>\$58,991,846</b>
Share-based compensation	-	-	-	389,456	-	389,456
Options exercised (Note 4)	10,458	17,030	-	(7,600)	-	9,430
Net and comprehensive loss	-	-	-	-	(1,967,532)	(1,967,532)
Balance at March 31, 2016	37,358,515	\$126,600,874	\$ -	\$14,441,662	(\$83,619,336)	\$57,423,200
Share-based compensation	-	-	-	385,463	-	385,463
Options exercised (Note 4)	9,729	10,435	-	(4,659)	-	5,776
Net and comprehensive loss	-	-	-	-	(2,945,976)	(2,945,976)
Balance at June 30, 2016	37,368,244	\$126,611,309	\$ -	\$14,822,466	(\$86,565,312)	\$54,868,463
Share-based compensation	-	-	-	360,363	-	360,363
Shares purchased and cancelled (Note 4)	(128,500)	(259,626)	-	-	-	(259,626)
Net and comprehensive loss	-	-	-	-	(2,435,969)	(2,435,969)
<b>Balance at September 30, 2016</b>	<b>37,239,744</b>	<b>\$126,351,683</b>	<b>\$ -</b>	<b>\$15,182,829</b>	<b>(\$89,001,281)</b>	<b>\$52,533,231</b>

See accompanying notes to interim condensed consolidated financial statements

# ESPIAL GROUP INC.

## Notes to Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited) (In Canadian Dollars, except share amounts)

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### 1. DESCRIPTION OF BUSINESS

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

The Company’s address and principal place of business is 200 Elgin Street, Suite 1000, Ottawa, Ontario, K2P 1L5, Canada.

### 2. BASIS OF PRESENTATION

#### (a) Statement of Compliance

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”)* and do not include all information required for full annual financial statements for International Financial Reporting Standards (“IFRS”). These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Annual Report for the year ended December 31, 2015 and were prepared using the same accounting policies, except as described below.

These unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on, November 1, 2016.

#### (b) Basis of Measurement

These unaudited interim condensed consolidated statements have been prepared on a historical cost basis. The policies were consistently applied to all the periods presented unless otherwise noted. All figures presented in the interim condensed consolidated financial statements and tabular disclosures to the interim condensed consolidated financial statements are reflected in Canadian dollars, which is the functional currency of the Company and each of its subsidiaries.

#### (c) Basis of Consolidation

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

#### (d) Significant Accounting Policies

Except as disclosed below, the accounting policies applied in these unaudited interim condensed consolidated financial statements are the same as those applied in the Company’s consolidated financial statements as at and for the year ended December 31, 2015.

# **ESPIAL GROUP INC.**

## **Notes to Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited) (In Canadian Dollars, except share amounts)**

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### **3. NEW AND REVISED IFRS ACCOUNTING PRONOUNCEMENTS**

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

#### **IFRS 15: Revenue from Contracts with Customers**

In April 2016, the International Accounting Standards Board issued narrow scope amendments to IFRS 15 Revenue from Contracts with Customers. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract. They also help determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. Similar to the standard, the prospective application date of these amendments is for annual periods beginning on or after January 1, 2018. Early adoption is allowed. The Company does not intend to adopt these amendments in fiscal 2016 and is currently evaluating the impact of adoption of these amendments on the consolidated financial statements.

#### **IFRS 2: Share Based Payment**

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

### **4. SHARE CAPITAL**

Share capital consists of an unlimited number of common shares of which 37,239,744 common shares were issued and outstanding at September 30, 2016 (December 31, 2015 – 37,348,057).

#### **Share Repurchase Program**

In September 2016, Espial announced its plan to repurchase up to 3,221,191 of its common shares, representing 10% of its public float of common shares, through a Normal Course Issuer Bid (NCIB). During the recent quarter Espial repurchased for cancellation a total of 128,500 common shares for a total cost of \$259,626. The issuer bid commenced on August 24, 2016 and expires on August 23, 2017.



# ESPIAL GROUP INC.

## Notes to Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited) (In Canadian Dollars, except share amounts)

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### *Stock option plans*

As at September 30, 2016, there were 2,054,462 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, ranging from 66% to 90%; risk-free interest rate is based on the government of Canada bond rate, estimated at 0.57% at the time of issue; dividend yield is NIL%; expected life of each option is 1.5 years after vesting. The forfeiture rate was estimated at 10%.

During the three months ended September 30, 2016, there were 732,000 options granted. The per share fair value of stock options granted during the three months ended September 30, 2016 was \$1.14. During the nine months ended September 30, 2016, there were 1,432,000 options granted. The per share fair value of stock options granted during the nine month period ended September 30, 2016 was \$1.17

The following table summarizes information about option activity for the nine months ended September 30, 2016 and for the year ended December 31, 2015.

	Number of Options	Weighted-average Exercise Price
<b>Outstanding, at December 31, 2015</b>	<b>4,012,119</b>	<b>\$2.25</b>
Granted	695,000	\$1.99
Exercised	(10,458)	\$0.90
Forfeited	(17,917)	\$2.62
<b>Outstanding, at March 31, 2016</b>	<b>4,678,744</b>	<b>\$2.22</b>
Granted	5,000	\$2.21
Exercised	(9,729)	\$0.59
Forfeited	(2,528)	\$1.32
<b>Outstanding, at June 30, 2016</b>	<b>4,671,487</b>	<b>\$2.22</b>
Granted	732,000	\$2.01
Forfeited	(10,000)	\$3.03
<b>Outstanding, at September 30, 2016</b>	<b>5,393,487</b>	<b>\$2.19</b>

# ESPIAL GROUP INC.

## Notes to Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited) (In Canadian Dollars, except share amounts)

	Number of Options	Weighted-average Exercise Price
<b>Outstanding, at December 31, 2014</b>	<b>3,508,000</b>	<b>\$1.78</b>
Granted	1,047,500	\$2.96
Exercised	(491,425)	\$0.77
Forfeited	(51,956)	\$2.05
<b>Outstanding, at December 31, 2015</b>	<b>4,012,119</b>	<b>\$2.25</b>

The following table summarizes information about stock options outstanding at September 30, 2016:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life	Number Outstanding	Weighted Average Exercise Price
\$0.26 - \$1.00	1,369,601	4.0	1,320,325	\$0.85
\$1.01 - \$2.00	894,500	8.4	152,622	\$1.64
\$2.01 - \$4.00	3,021,539	8.4	1,111,615	\$2.93
\$4.01 - \$7.00	107,847	1.2	107,847	\$6.75
	<b>5,393,487</b>	<b>7.1</b>	<b>2,692,409</b>	<b>\$1.99</b>

### 5. EARNINGS (LOSS) PER SHARE

The following table summarized the calculation of the weighted average number of basic and diluted common shares for the three and nine months ended September 30:

Three months ended September 30	2016	2015
Issued common shares at July 1	<b>37,368,244</b>	36,388,101
Effect of shares issued from options	-	4,905
Effect of shares repurchased under NCIB	<b>(26,932)</b>	-
Weighted average number of basic common shares at September 30	<b>37,341,312</b>	36,393,006
Effect of warrants on issue	-	642,869
Effect of share options on issue	-	1,091,570
<b>Weighted average number of diluted common shares for the three months ended September 30</b>	<b>37,341,312</b>	38,127,445

# ESPIAL GROUP INC.

## Notes to Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited) (In Canadian Dollars, except share amounts)

Options that are anti-dilutive are not included in the computation of diluted earnings per share. For the three months ended September 30, 2016, due to the net loss, all options were excluded from the calculation of diluted earnings per share because they are anti-dilutive. For the three months ended September 30, 2015, 2,352,899 stock options were excluded from the calculation of diluted earnings per share because they are anti-dilutive.

Nine months ended September 30,	2016	2015
Issued common shares at January 1	37,348,057	26,886,267
Effect of shares issued from share offering	-	4,711,538
Effect of shares issued from warrants	-	181,659
Effect of shares issued from options	13,953	338,405
Effect of shares repurchased under NCIB	(9,043)	-
Weighted average number of basic common shares at September 30	37,352,967	32,117,869
Effect of warrants on issue	-	650,368
Effect of share options on issue	-	1,105,716
Weighted average number of diluted common shares at September 30	37,352,967	33,873,953

For the nine months ended September 30, 2016, due to the net loss, all options were excluded from the calculation of diluted earnings per share because they are anti-dilutive. For the nine months ended September 30, 2015, 2,352,899 stock options were excluded from the calculation of diluted earnings per share because they are anti-dilutive.

### 6. SEGMENTED INFORMATION

The Company operates in one operating segment: computer software solutions. The Company 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:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Europe	\$ 3,303,384	\$ 2,318,270	\$ 9,717,121	\$ 8,598,013
Asia Pacific	580,017	694,704	2,548,034	2,411,784
North America	2,134,716	5,696,380	3,625,714	8,615,689
	\$ 6,018,117	\$ 8,709,354	\$ 15,890,869	\$ 19,625,486

# ESPIAL GROUP INC.

## Notes to Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited) (In Canadian Dollars, except share amounts)

For the three months ended September 30, 2016, the Company had three customers that individually accounted for 21%, 21% and 14% of revenue. For the three months ended September 30, 2015, the Company had one customer that individually accounted for 49% of revenue. For the nine months ended September 30, 2016, the Company had two customers that individually accounted for 20% and 10% of revenue and for the nine months ended September 30, 2015, the Company had three customers that individually accounted for 27%, 14% and 13% of revenue.

As at September 30, 2016 four customers accounted for 36%, 17%, 16% and 13% of accounts receivable. As at December 31, 2015 three customers accounted for 24%, 13% and 11% respectively of accounts receivable.

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

	<u>September 30, 2016</u>	December 31, 2015
Canada	<b>\$869,657</b>	\$788,634
United States	<b>326,469</b>	94,183
Europe	<b>205,864</b>	179,727
	<b><u>\$1,401,990</u></b>	<b><u>\$1,062,544</u></b>

The following table sets forth intangible assets attributable to Canada (the Company's country of domicile), the United States and Europe. The three regions hold all of the Company's intangible assets.

	<u>September 30, 2016</u>	December 31, 2015
Canada	<b>\$ 714,606</b>	\$ 681,310
United States	<b>1,514</b>	1,953
Europe	<b>635,958</b>	975,347
	<b><u>\$ 1,352,078</u></b>	<b><u>\$ 1,658,610</u></b>

Of the goodwill of \$3,632,604, \$291,796 is attributable to Canada, and \$3,340,808 is attributable to the United States.

### 7. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	<u>Nine months</u>	
	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Accounts receivable	<b>\$ 1,020,045</b>	\$ (5,126,983)
Investment tax credits receivable	<b>72,332</b>	76,594
Prepaid expenses and other assets	<b>54,723</b>	(87,684)
Accounts payable and accrued liabilities	<b>769,831</b>	239,986
Deferred revenue	<b>(1,513,178)</b>	(638,886)
	<b><u>\$ 403,753</u></b>	<b><u>\$ (5,536,973)</u></b>

# ESPIAL GROUP INC.

## Notes to Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited) (In Canadian Dollars, except share amounts)

### 8. COMMITMENTS

The Company has entered into several operating leases for office space and various equipment leases. The Company rents premises in Canada, the United States and the United Kingdom under operating leases, which expire at varying dates up to September 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, or 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	\$ 285,089
2017	1,081,568
2018	1,061,760
2019	947,198
2020 to 2024	<u>3,265,814</u>
	<u>\$6,641,429</u>

Lease payments recognized as an expense during the three month periods ended September 30, 2016 and 2015 were \$334,997 and \$347,063 respectively. Lease payments recognized as an expense during the nine month periods ended September 30, 2016 and 2015 were \$929,686 and \$792,080 respectively.

### 9. EMPLOYEE BENEFITS EXPENSE

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

	Three Months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Salaries	\$ 4,221,051	\$ 3,174,058	\$ 10,873,589	\$ 8,383,391
Benefits	687,073	603,874	1,982,042	1,466,644
Variable compensation and other labour costs	409,090	647,586	1,134,130	1,410,140
Share based payments	360,363	305,199	1,135,282	1,051,478
	<u>\$ 5,677,577</u>	<u>\$ 4,730,717</u>	<u>\$ 15,125,043</u>	<u>\$ 12,311,653</u>

# ESPIAL GROUP INC.

## Notes to Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited) (In Canadian Dollars, except share amounts)

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

	Three Months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Sales and marketing	\$ 88,373	\$ 44,083	\$ 263,430	\$ 136,991
General and administration	187,317	199,761	638,809	748,200
Research and development	84,673	61,355	233,043	166,287
	<b>\$ 360,363</b>	<b>\$ 305,199</b>	<b>\$ 1,135,282</b>	<b>\$ 1,051,478</b>

### 10. ACQUISITION OF WHOLE HOME SOLUTIONS

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

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

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

The Company has undertaken a preliminary purchase price analysis including valuation of intangible assets acquired. The analysis, including any value attributable to intangibles, is underway and the Company expects the final allocation to be completed by the end of the year.

# ESPIAL GROUP INC.

## Notes to Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited) (In Canadian Dollars, except share amounts)

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

<b>Assets acquired:</b>	
Cash	\$ 162,770
Prepaid expenses	47,750
Property and equipment	279,287
	<hr/>
	489,807
<b>Liabilities assumed:</b>	
Deferred income	489,806
	<hr/>
<b>Purchase price</b>	<b>\$ 1</b>

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

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

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

Included in the three month period ended September 30, 2016 is \$1,233,913 in revenues and a net loss of \$613,745, attributable to the additional business generated by the acquisition of WHS. Management believes estimating the pro forma revenue and expenses for this business combination assuming it had been effected at the beginning of the reporting period to be impracticable due to the material changes that were being made by ARRIS to affect the sale including staff terminations, contract changes, internal reporting changes and management changes.