Espial Group, Inc.

Annual Report

Fiscal 2017

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Transforming the Viewing Experience Worldwide

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

This document has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of Espial Group Inc.'s ("Espial" or the "Company") financial condition and results of operations for the three and twelve-month periods ended December 31, 2017 compared to the same periods in 2016. The MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2017 and December 31, 2016. The financial statements have been prepared in Canadian dollars using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The information contained herein is dated as of February 22, 2018 and is current to that date, unless otherwise stated. Additional information relating to the Company may also be found on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

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

BUSINESS OVERVIEW:

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

Espial Elevate™ software as a service ("SaaS") video platform is a cloud-hosted, video service managed 24x7x365 by Espial. It is a multi-tenant SaaS video platform allowing Espial's customers to manage, deliver and monetize compelling video experiences. Elevate SaaS video platform also provides customers with cloud tools for their operations, marketing, support and engineering teams, including analytics, promotions, segmentation and diagnostics. The platform offers Espial's customer's subscribers a rich user interface with voice-based navigation, discovery, and viewing of traditional content and streaming services like Netflix and YouTube.

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

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

Espial Elite™ is Espial's professional services team which provides system installation, and integration services to video service providers who are deploying a new generation of IP video services. Highly skilled in the IP Video arena, Espial Elite can provide end-to-end system integration of Espial's software solutions together with third-party video systems to accelerate time-to-market for these video service providers.

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

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

CRITICAL ACCOUNTING POLICIES:

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 the consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

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

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

Revenue Recognition

Our revenues are derived from the license of, or the right to use, our software products, professional services, support and maintenance, and from subscriptions to Elevate, our cloud-hosted SaaS video platform. We may license some of our software products on a term or perpetual basis, for which the customer uses the Espial software on their devices, and deploys these devices to their end users. Professional services are primarily for integration and consulting services and do not include significant customization to, or development of, the software. Support and maintenance revenue relates to fees for maintenance and support for customers with perpetual licenses. We may license our software in multiple element arrangements in which the customer purchases a combination of software, subscription, support and/or professional services such as training and implementation services.

Revenue 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.

Arrangements may be comprised of multiple product and service elements. When sold in a multiple element arrangement, the software licenses, software subscription, professional services and support and maintenance are considered separate units of accounting as they have stand-alone value to the customer. 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.

Software license revenue is recognized when the right to use the license is delivered or made available to the customer, at a point in time.

Software subscription revenue is recognized over the contract term in which the service or access to the software is delivered, typically on a monthly basis. The contract term generally begins when the service is made available to the customer.

Support and maintenance revenue for customers with software licenses is deferred and recognized over the term of the contract, typically twelve months.

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

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 a business combination 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 useful lives.

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 in a business combination. As there is only one cash generating reporting unit, 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 the consolidated statements of loss and comprehensive 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 the net loss. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based payment is transferred from share-based reserve to share capital.

Determining the fair value of the share-based awards requires judgement, including estimating the expected life of the options, the expected volatility of our stock and expected dividends. In addition, judgement is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share-based compensation expense and our results of operations could be materially impacted. The fair value of the awards is determined using the Black-Scholes option-pricing model.

Foreign Currency

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Revenue Recognition

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

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

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

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on our assessment of the likelihood of collection of specific customer balances. If there is deterioration in a customer’s credit worthiness or actual defaults are higher than our historical experience, our estimates of recoverability for the accounts receivable could be adversely affected. The evaluation of collection of customer accounts is typically done on an individual account basis. If, based on an evaluation of accounts, we conclude that it is probable that a customer will not be able to pay all amounts due, we estimate the expected loss. We believe the amount reserved at December 31, 2017 of nil is reasonable.

Functional Currency

Determination of functional currency involves significant judgement in determining the primary economic environment by considering the currency and economic factors that mainly influence sales prices, operating costs, financing and related transactions. Revenue contracts are predominately priced and billed in Canadian dollars, US dollars and Euros whereas the cost structure inputs are primarily in Canadian dollars. Secondary indicators of functional currency, including financing and cash holdings are primarily in Canadian dollars. As the primary indicators of functional currency do not clearly indicate a specific currency, the indicators as a whole have been judged to indicate the Canadian dollar is the functional currency of the parent company and its subsidiaries. The functional currencies of the Company and its subsidiaries are reassessed when facts change.

Purchase price allocation

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

Impairment of tangible and intangible assets

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

Provisions

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

Onerous contracts

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

Fair value of Stock-based compensation

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

Estimation Uncertainty

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

NEW AND REVISED IFRS ACCOUNTING PRONOUNCEMENTS

The following amendments were adopted by the Company in the fiscal year.

IAS 7: Disclosure Initiative

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company has adopted this amendment with no impact on the 2017 annual consolidated financial statements.

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company has adopted this amendment with no impact on the 2017 annual consolidated financial statements.

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

IFRS 9 *Financial Instruments*

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The adoption of the standard is not expected to have a material impact on the Company's consolidated financial statements and related disclosures.

IFRS 15: Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*, with amendments in 2016. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 may be applied retrospectively to each prior period presented (full retrospective method) or with the cumulative effect of adoption recognized as at the date of initial application (modified retrospective method).

IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. On April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

The Company is in the process of concluding its implementation plan to develop the necessary accounting policies, estimates and judgments required to adopt IFRS 15 as well as any changes required to business processes, systems and internal controls to implement the policies and disclosures required upon adoption of IFRS 15. The Company has not completed its review and is not currently in the position to make a reliable estimate of the full impact of IFRS 15 on the consolidated financial statements and related disclosures as all potential impacts of the new revenue recognition standard continue to be assessed. Based on implementation work completed to date, the Company has identified some areas that will have an impact and its findings, as currently understood, have been summarized below. The Company cautions that conversion to IFRS 15 is a complicated process and that the areas below are not intended to represent a comprehensive list of those expected to impact the Company's financial statements and that further impacts are likely. The adoption of this standard will require expanded financial statement disclosure on revenue, performance obligations and contract balances. The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018 using the cumulative-effect method, where the transition adjustment, if any, will be recognized in equity.

The Company currently believes that as a result of adoption, the Company will be required to capitalize and amortize certain incremental sales commissions paid to employees as contract acquisition costs. During the year, the Company reviewed the impact such a change would have on its January 1, 2018 opening retained earnings adjustment, and as at December 31, 2017, such impact is not be expected to be material. The Company has put in place processes to track the impact, if any, for the year, and to support the calculation of commissions under IFRS 15 when adopted on January 1, 2018.

The Company currently reports revenue from some customers that deploy its software in the period a royalty report is received. These royalty reports are often received in the quarter following the actual deployment and can be referred to as lag-based usage reporting. Under the new standard, recognizing revenue from sales-or usage-based royalties on a lag basis is no longer acceptable. The adoption of the new standard will require the Company to estimate the amount of royalties used by customers that report on a lag basis and recognize revenue in the period based on that estimate. The Company is currently reviewing its process in order to meet this requirement. The impact of this change is expected to require an adjustment to opening retained earnings at January 1, 2018 to account for the estimated fourth quarter royalties that would have been recognized previously using lag-based reporting. The Company is not currently in a position to reliably quantify this impact.

IFRS 2: Share Based Payment

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for: 1) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; 2) share-based payment transactions with a net settlement feature for withholding tax obligations; and 3) 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.

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018 and does not expect the amendments to have a material impact on the financial statements.

IFRS 16: Leases

On January 13, 2016 the IASB issued IFRS 16 *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

IFRIC 22: Foreign Currency Transaction and Advance Consideration

On December 8, 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*. The interpretation is applicable for annual periods beginning on or after January 1, 2018. Early application is permitted.

The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company intends to adopt the Interpretation in its financial statements on a prospective basis for the annual period beginning on January 1, 2018. The adoption of the interpretation is expected to impact the foreign exchange rate the Company applies on professional services revenue transactions.

IFRIC 23: Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted.

The interpretation clarifies the accounting for income tax treatments (current and deferred tax) that have yet to be accepted by tax authorities. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019 and does not expect the Interpretation to have a material impact on the financial statements.

Comparison of the three and twelve month periods ended December 31, 2017 and 2016

RESULTS OF OPERATIONS:

The following table sets out selected information from our consolidated statements of income (loss) and comprehensive income (loss), for the periods indicated:

	Three Months Ended December 31		Twelve Months Ended December 31		
	2017	2016	**2017**	2016	2015
Revenue					
Software license	**$ 6,081,188**	$ 9,752,798	**$ 17,919,074**	$ 18,142,077	$ 11,767,217
Software subscription	**1,032,115**	-	**1,032,115**	-	-
Professional services	**974,680**	1,096,364	**6,029,779**	4,614,199	8,294,954
Support and maintenance	**2,069,494**	1,904,540	**8,452,096**	5,888,294	4,772,521
Total revenue	**10,157,477**	12,753,702	**33,433,064**	28,644,570	24,834,692
Cost of revenue	**2,370,121**	2,315,220	**8,673,925**	7,240,272	6,372,626
Gross margin	**7,787,356**	10,438,482	**24,759,139**	21,404,298	18,462,066
Expenses					
Sales and marketing	**1,967,242**	1,495,225	**7,300,613**	5,574,759	5,041,954
General and administrative	**1,365,094**	1,080,378	**5,192,959**	4,138,290	3,423,686
Research and development	**4,067,935**	5,141,489	**19,305,520**	15,510,661	8,730,666
Amortization of intangible assets	**249,819**	269,024	**985,747**	804,785	677,109
	7,650,090	7,986,116	**32,784,839**	26,028,495	17,873,415
Income (loss) before other income (expense)	**137,266**	2,452,365	**(8,025,700)**	(4,624,197)	588,651
Other income (expense)	**245,737**	64,599	**(156,849)**	(154,519)	647,959
Interest income	**87,145**	69,299	**290,772**	322,691	309,408
Income (loss) before taxes	**470,148**	2,586,263	**(7,891,777)**	(4,456,025)	1,546,018
Income taxes	**(242,354)**	(111,555)	**(631,182)**	(418,744)	(274,010)
Net income (loss) and comprehensive income (loss)	**$ 227,794**	$ 2,474,708	**$ (8,522,959)**	$ (4,874,769)	$ 1,272,008

Included in the functional expense categories above, are the following non-cash expenses:

	Three Months Ended December 31		Twelve Months Ended December 31		
	2017	2016	**2017**	2016	2015
Sales and marketing	**$ 25,120**	$ 18,608	**$ 87,981**	$ 65,596	$ 47,225
General and administrative	**23,724**	17,574	**83,094**	61,954	44,602
Research and development	**90,711**	67,194	**317,712**	236,880	170,537
Depreciation	**$ 139,555**	$ 103,376	**$ 488,787**	$ 364,430	$ 262,364
Sales and marketing	**$ 97,053**	$ 108,015	**$ 384,470**	$ 371,446	$ 183,894
General and administrative	**181,942**	183,978	**783,449**	822,786	976,763
Research and development	**58,294**	127,910	**416,769**	360,952	218,624
Share based expense	**$ 337,289**	$ 419,903	**$ 1,584,688**	$ 1,555,184	$ 1,379,281

Non-IFRS Measurements

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

	Three Months Ended December 31		**Twelve Months Ended December 31**		
	2017	2016	**2017**	2016	2015
Net income (loss)	**$ 227,794**	$ 2,474,708	**$ (8,522,959)**	$ (4,874,769)	$ 1,272,008
Add (less)					
Share-based compensation	**337,289**	419,903	**1,584,688**	1,555,184	1,379,281
Amortization of intangibles	**249,819**	269,024	**985,747**	804,785	677,109
Depreciation	**139,555**	103,376	**488,787**	364,430	262,364
Interest income	**(87,145)**	(69,299)	**(290,772)**	(322,691)	(309,407)
Other (income) expense	**(245,737)**	(64,599)	**156,849**	154,519	(647,961)
Income tax	**242,354**	111,555	**631,182**	418,744	274,010
Adjusted EBITDA	**$ 863,929**	$ 3,244,668	**$ (4,966,478)**	$ (1,899,798)	$ 2,907,404

Revenue

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

The following table summarizes revenues for the three and twelve months ended December 31, 2017 and 2016:

	Three months ended December 31, 2017		Three months ended December 31, 2016		**Twelve months ended December 31, 2017**		Twelve months ended December 31, 2016	
	Revenues	**% of total**	Revenues	% of total	**Revenues**	**% of total**	Revenues	% of total
Software licenses	**$6,081,188**	**60%**	$9,752,798	76%	**$17,919,074**	**54%**	$18,142,077	63%
Software subscription	**1,032,115**	**10%**	-	0%	**1,032,115**	**3%**	-	0%
Professional services	**974,680**	**10%**	1,096,364	9%	**6,029,779**	**18%**	4,614,199	16%
Support	**2,069,494**	**20%**	1,904,540	15%	**8,452,096**	**25%**	5,888,294	21%
Total	**$10,157,477**	**100%**	$12,753,702	100%	**$33,433,064**	**100%**	$28,644,570	100%

Revenue decreased by 20% to $10,157,477 in the fourth quarter of 2017 from $12,753,702 in the same period of 2016. Revenue from software license sales and deployments totalled $6,081,188, a decrease of 38% from $9,752,798 in the same quarter of 2016 primarily due to a large block license purchase made by a North American customer in Q4 of 2016. Revenue from support totalled $2,069,494, an increase of 9% from $1,904,540 in the same quarter of 2016 due primarily to the increase in customers purchasing support related to the Espial software. In Q4, the Company had its first customers launch its Elevate SaaS video platform. Software subscription revenue of $1,032,115 from this service related primarily to North American customers that had been using the Company's managed support services that switched to the Elevate SaaS video platform. Revenue from professional services totalled $974,680, as compared to revenue of $1,096,364 in the same quarter of 2016, representing a decrease of 11% as a result of timing of integration work for various customers.

Revenue increased by 17% to $33,433,064 for the year ended December 31, 2017 from $28,644,570 in the same period of 2016. Revenue from software license sales and deployments totalled $17,919,074, a minor decrease of 1% from $18,142,077 in the same period of 2016. Revenue from support totalled $8,452,096, an increase of 44% from $5,888,294, in the same period of 2016 due in part to customers the Company acquired as part of an acquisition in 2016 purchasing support related to the Espial software. Software subscription revenue increased from nil to $1,032,115 primarily related to North American customers that had been using the Company's managed support services that switched to the Elevate SaaS video platform. Revenue from professional services totalled $6,029,779, an increase of 31% from $4,614,199 in the same period of 2016. The increase is primarily due to professional services provided to a large European customer to provide agile engineering and delivery services.

Revenues by Geography

The following table summarizes the geographic distribution of revenues for the three and twelve months ended December 31, 2017 and 2016:

	Three months ended December 31, 2017		Three months ended December 31, 2016		**Twelve months ended December 31, 2017**		Twelve months ended December 31, 2016	
	Revenues	**% of total**	Revenues	% of total	**Revenues**	**% of total**	Revenues	% of total
North America	**$6,163,111**	**61%**	$7,758,240	61%	**$19,665,586**	**59%**	$11,383,936	39%
Europe	**1,821,618**	**18%**	4,212,664	33%	**9,270,019**	**28%**	13,929,803	49%
Asia Pacific	**2,172,748**	**21%**	782,798	6%	**4,497,459**	**13%**	3,330,831	12%
Total	**$10,157,477**	**100%**	$12,753,702	100%	**$33,433,064**	**100%**	$28,644,570	100%

North American revenues decreased to $6,163,111 in the fourth quarter of 2017 from $7,758,240 in 2016 primarily due to a large block license purchase made by a North American customer in Q4 of 2016, offset by increases in software subscription revenue related to the Company's Elevate SaaS video platform service. European revenues decreased to $1,821,618 in the fourth quarter of 2017 from $4,212,664 in 2016 primarily due to lower license and professional services from a European customer. Asia Pacific revenues increased to $2,172,748 in the fourth quarter of 2017 from $782,798 in 2016 primarily due to increased license revenue to Smart TV manufacturers.

North American revenues increased to $19,665,586 for the year ended December 31, 2017 from $11,383,936 in 2016 primarily due to higher software license and support revenue in part to revenue from customers the Company acquired as part of an acquisition in 2016, plus the revenue from the Company's recently introduced Elevate SaaS video platform service. European revenues decreased to $9,270,019 in the year ended December 31, 2017 compared to $13,929,803 for the same period in 2016 primarily due to lower software revenue. Asia Pacific revenues increased to $4,497,459 in the year ended December 31, 2017 from $3,330,831 for the same period in 2016 primarily due to increased license revenue purchases from Smart TV manufacturers.

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 from software and support purchased from third party suppliers for cloud hosting services.

Cost of revenue for the fourth quarter of 2017 increased to $2,370,121 from $2,315,220 for the same period last year. Cost of revenue for the year ended December 31, 2017 increased to $8,673,925 from $7,240,272. The increase for the three and twelve month periods was due primarily to an increase in the number of employees used to deliver professional services, and third party hosting and royalties associated with our Elevate SaaS video platform.

Gross margin decreased in the fourth quarter of 2017 to $7,787,356 from $10,438,482 in 2016, primarily as a result of lower software license revenue, which has higher margins than other types of revenue. As a percentage of revenue, gross margin decreased to 77% in Q4 of 2017 from 82% in Q4 of 2016 due to lower license revenue. For the year ended December 31, 2017, gross margin increased to $24,759,139 from $21,404,298 in 2016 due to an increase in total revenue. As a percentage of revenue, the gross margin decreased slightly to 74% in 2017 from 75% in 2016 primarily due to lower license revenue as a percentage of total revenue.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of compensation, including stock-based compensation and sales commissions, paid to the Company's sales, marketing and 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 the Company's international sales offices, and other advertising, promotion and trade show costs.

Sales and marketing expenses increased in the fourth quarter of 2017 to $1,967,242 from $1,495,225 in 2016. Sales and marketing expense for the year ended December 31, 2017 increased to $7,300,613 from $5,574,759 for the same period last year. The increase for the three and twelve-month periods was due primarily to an increase in sales and marketing headcount, commission expense, marketing programs and travel costs.

General and Administrative Expenses

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

General and administrative expenses increased to $1,365,094 during the fourth quarter of 2017 from $1,080,378 in 2016, primarily due to greater occupancy and employee incentive costs.

For the year ended December 31, 2017, general and administrative expenses increased to $5,192,959 from $4,138,290 in 2016 primarily due to costs incurred to reach an agreement to end the proceedings associated with a dissident shareholder of the Company in the second quarter of 2017, and higher occupancy costs from the Company's expansion in the US.

Research and Development Expenses

Research and development is a critical component of Espial's on-going success and will continue to be moving forward. The Company's R&D is focused on new features, functionality, and applications for its current products, as well as introduction of new products which includes the Company's recently launched Elevate SaaS video platform service. Research and development expenses consist primarily of compensation, including stock-based compensation, paid to the Company's engineering personnel. Some of these remuneration costs are paid to independent contractors that Espial occasionally uses to provide additional technical capacity on a short-term basis. Other research and development expenses include travel, rent and other occupancy costs for engineering and field technical support personnel.

Research and development expense decreased to $4,067,935 during the fourth quarter of 2017 from $5,141,489 in 2016 primarily due to lower third party subcontractor costs, and higher recoverability of eligible R&D expenses through the Company's claim of investment tax credits. For the year ended December 31, 2017, research and development expense increased to $19,305,520 from $15,510,661 in 2016 which was primarily due to increased personnel costs related to an increase in head count.

Amortization of Property and Equipment

Amortization of property and equipment increased in the fourth quarter of 2017 to $139,555 from $103,376 in 2016. Amortization of property and equipment for the year ended December 31, 2017 and 2016 was $488,787 and $364,430, respectively. The increase related primarily to the expansion of the Company's US facility and related equipment for its Elevate SaaS video platform service.

Amortization of Intangible Assets

Amortization of intangible assets for the three months ended December 31, 2017 and 2016 was $249,819 and $269,024, respectively. Amortization of intangible assets for the year ended December 31, 2017 and 2016 was $985,747 and $804,785, respectively. The increase for the twelve month period was due to the amortization of intangibles acquired as part of a business acquisition that closed in the second half of 2016.

Stock compensation expense

During the fourth quarter of 2017, stock compensation expense decreased to $337,289 from $419,903 in the fourth quarter of 2016, primarily due to various stock options that had vesting expenses in the fourth quarter of 2016 that expired in 2017. For the years ended December 31, 2017 and 2016, stock compensation expense was $1,584,688 and $1,555,184, respectively.

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

	Three Months Ended		Twelve Months Ended	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Sales and marketing	**$ 97,053**	$ 108,015	**$ 384,470**	$ 371,446
General and administration	**181,942**	183,978	**783,449**	822,786
Research and development	**58,294**	127,910	**416,769**	360,952
	$ 337,289	$ 419,903	**$ 1,584,688**	$ 1,555,184

Other Income (Expenses)

Other income, which is the sum of other income and interest income, in the fourth quarter of 2017 was $332,882 compared to $133,898 in the same period in 2016. The increase is attributable to (i) interest income of $87,145 compared to $69,299 in the same quarter last year, (ii) 2017 foreign exchange gain of $61,588 compared to a loss of $261,367 in 2016, and (iii) income of $184,149 in 2017 related to the reversal of a provision previously recognized, compared to a gain on acquisition of $325,966 in 2016.

For the year ended December 31, 2017 other income was $133,923 compared to $168,172 in the same period in 2016. The change was attributable to (i) 2017 interest income was $290,772 compared to $322,691 in 2016 due to lower cash balances during fiscal 2017, (ii) 2017 foreign exchange loss of $340,998 compared to a loss of $480,485 in 2016, and (iii) income of $184,149 in 2017 related to the reversal of a provision previously recognized, compared to a gain on acquisition of $325,966 in 2016.

In 2016, the gain on acquisition arose on the acquisition of the Whole Home Solution (“WHS”) because the fair value of the separately identifiable assets and liabilities exceeded the total consideration paid, principally due to the acquisition of certain assets that will benefit the Company that had limited value to the seller.

Taxes

Taxes for the fourth quarter of 2017 were $242,354 compared to $111,555 in 2016. For the years ended December 31, 2017 and 2016, taxes were $631,182 and $418,744, respectively. All taxes relate to withholding tax on software licenses sold to customers domiciled in Asia and to services provided to certain European customers.

QUARTERLY RESULTS OF OPERATIONS:

The following table sets out selected information from Espial's eight (8) most recent completed quarters:

	Mar. 31, 2016	Jun. 30, 2016	Sept. 30, 2016	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017	Dec. 31, 2017
Revenue								
Software license	$2,440,739	$2,499,924	$3,448,616	$9,752,798	$5,025,351	$3,724,373	$3,088,162	$6,081,188
Software subscription	-	-	-	-	-	-	-	1,032,115
Professional services	1,672,025	776,708	1,069,103	1,096,363	1,585,934	1,915,529	1,553,636	974,680
Support and maintenance	1,211,218	1,272,138	1,500,398	1,904,540	2,052,725	2,169,863	2,160,014	2,069,494
	5,323,982	4,548,770	6,018,117	12,753,702	8,664,010	7,809,765	6,801,812	10,157,477
Cost of revenue	1,928,983	1,242,571	1,753,499	2,315,220	2,236,021	2,110,892	1,956,892	2,370,121
Gross margin	3,394,999	3,306,199	4,264,618	10,438,482	6,427,989	5,698,873	4,844,920	7,787,356
Expenses								
Sales and marketing	1,264,443	1,417,853	1,397,239	1,495,225	1,655,158	1,904,307	1,773,906	1,967,242
General and administrative	864,748	1,005,962	1,187,202	1,080,378	1,006,700	1,703,876	1,117,289	1,365,094
Research and development	2,890,216	3,440,721	4,038,234	5,141,489	5,285,630	5,470,961	4,480,994	4,067,935
Amortization of intangible assets	174,683	174,683	186,395	269,024	182,879	301,829	251,220	249,819
	5,194,090	6,039,219	6,809,070	7,986,116	8,130,367	9,380,973	7,623,409	7,650,090
Income (loss) before other income (expense)	(1,799,091)	(2,733,020)	(2,544,452)	2,452,365	(1,702,378)	(3,682,100)	(2,778,489)	137,266
Other income (expense)	(223,550)	(212,132)	216,565	64,599	(82,996)	(66,419)	(253,172)	245,737
Interest income	86,732	85,216	81,443	69,299	62,544	63,980	77,103	87,145
Income (loss) before taxes	(1,935,909)	(2,859,936)	(2,246,444)	2,586,263	(1,722,830)	(3,684,539)	(2,954,558)	470,148
Income taxes	(31,623)	(86,040)	(189,525)	(111,555)	(77,117)	(122,026)	(189,683)	(242,354)
Net and Comprehensive income (loss)	$(1,967,532)	$(2,945,976)	$(2,435,969)	$2,474,708	$(1,799,947)	$(3,806,565)	$(3,144,241)	$227,794
Basic earnings per share	$(0.05)	$(0.08)	$(0.07)	$0.07	$(0.05)	$(0.10)	$(0.09)	$0.01
Diluted earnings per share	$(0.05)	$(0.08)	$(0.07)	$0.06	$(0.05)	$(0.10)	$(0.09)	$0.01

Adjusted EBITDA

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.

Net and Comprehensive income (loss)	$(1,967,532)	$(2,945,976)	$(2,435,969)	$2,474,708	$(1,799,947)	$(3,806,565)	$(3,144,241)	$227,794
Add (less)								
Share-based compensation	389,456	385,463	360,363	419,903	432,486	446,510	368,403	337,289
Amortization of intangibles	174,683	174,683	186,395	269,024	182,879	301,829	251,220	249,819
Depreciation	68,451	80,162	112,441	103,376	99,831	103,406	145,996	139,555
Interest income	(86,732)	(85,216)	(81,443)	(69,299)	(62,544)	(63,980)	(77,103)	(87,145)
Other (income) expense	223,550	212,132	(216,565)	(64,599)	82,996	66,419	253,172	(245,737)
Income tax	31,623	86,040	189,525	111,555	77,117	122,026	189,684	242,354
Adjusted EBITDA[1]	$(1,166,501)	$(2,092,712)	$(1,885,253)	$3,244,668	$(987,182)	$(2,830,355)	$(2,012,869)	$863,929

[1] Adjusted EBITDA is a non-IFRS measure. See section "Non-IFRS Measurements."

Software revenue has increased overall over the last eight quarters. Due to timing of license expansion and rollout of existing customers, and the size of new contract awards, software revenue is subject to variability from quarter to quarter. Although there is no inherent seasonality in the Company's license revenue, the fourth quarter can at times benefit from year-end purchases by its customers using remaining capital budgets. Professional services revenue varies quarter to quarter due to the size and timing of customer implementations. Support and maintenance revenue increases as more licenses are deployed by customers and will decrease if customers chose not to renew. Software subscription revenue is a new offering for the Company in Q4 of 2017 for which the Company is targeting long-term growth, but may be subject to variability in the near term due to the timing and size of new customers. Cost of revenue generally increases as the Company's revenue increases. Sales and marketing, and general and administrative expenses have increased over time in line with growth of the Company's business and its products. Research and development has increased overall as a result of the Company's continued investment in product development. As a significant portion of our expenses are transacted in foreign currencies, fluctuations in foreign exchange rates can create variability in quarterly expenses.

LIQUIDITY and CAPITAL RESOURCES:

Cash and Cash Equivalents

	December 31, 2017	December 31, 2016
Cash and cash equivalents	**$ 38,813,911**	$ 43,047,878

The Company maintains a strong cash position, with no debt as at December 31, 2017. Given the current cash balance, the Company believes that there is sufficient liquidity to meet its current obligations and operating plans.

As of December 31, 2017, the Company's cash and cash equivalents totalled $38,813,911, compared to $38,029,378 at September 30, 2017, which represents an increase of $784,533 since the start of the quarter. At December 31, 2016, the Company's cash and cash equivalents totalled $43,047,878, representing a decrease of $4,233,967 since the start of the year. The Company has historically financed its cash requirements through the issuance of equity and debt.

Working Capital

During the year, the Company generated cash of $4,418,058 in working capital. This was due to a decrease in accounts receivable of $3,683,143, and increases of $235,584 and $1,291,505 in accounts payable and accrued liabilities, and deferred revenue, respectively. These were offset by increases in investment tax credits receivable, and prepaid expenses and other assets of $603,612 and 188,562, respectively.

Operations

Cash used in operating activities before changes in working capital for the year ended December 31, 2017 was $5,798,328 compared to $2,488,884 in the same period of 2016. Cash used resulted from the net loss for the year of $8,522,959 and provisions of $334,591, offset by non-cash items of amortization of $985,747, depreciation of $488,787 and stock-based compensation of $1,584,688.

Investing Activities

Purchases of property and equipment for the year ending December 31, 2017 totalled $1,114,735 compared to $443,556 for the same period in 2016, mainly due to expansion and facilities fit-up costs related to the SaaS business. Expenditures on intangibles for the year were $108,867 compared to $250,531 in the same period of 2016. In 2016, the Company received cash of $162,769 related to the purchase of WHS; no acquisitions were made in 2017.

Financing Activities

During 2017, the Company used $1,638,309 for share repurchases under the Company's normal course issuer bid program and received $8,214 from the exercise of employee options to purchase common shares.

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:

2018	$ 1,316,144
2019	1,321,485
2020	1,273,521
2021	1,237,424
2022 to 2024	2,949,555
	$ 8,098,129

Lease payments recognized as an expense during the three months ended December 31, 2017 and 2016 were $513,559 and $373,162, respectively. Lease payments recognized as an expense during the year ended December 31, 2017 and 2016 were $1,862,212 and $1,300,042, respectively.

Capital Disclosures

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

Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth, operating, and capital requirements for the foreseeable future, as at the date of this report. The Company may however, from time to time, enter into debt and equity arrangements if it believes it is in the long term interest of shareholders. There is a risk that such arrangements may result in dilution to existing shareholders.

Off-Balance Sheet Arrangements

The Company had no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

Risk Factors Affecting Future Results

There are a number of risk factors that could cause future results to differ materially from those described herein. Please refer to the 2015 and 2016 Annual Information Forms at www.sedar.com for a full discussion of these risk factors. There have been no material changes to the Company risks in the quarter ended December 31, 2017.

Evaluation of Disclosure Controls and Procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures. Under the supervision and with the participation of the President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), management evaluated the effectiveness of the Company's disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed or submitted by Espial under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Management concluded that the Company's disclosure controls and procedures were effectively designed as at the December 31, 2017 year end.

Evaluation of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining internal control over financial reporting. Under the supervision and with the participation of the Company's President and CEO and the CFO, management evaluated the effectiveness of the Company's internal control over financial reporting. Internal control is a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the annual financial statements or interim financial statements. The CEO and CFO did not identify any material weaknesses in their evaluation of internal control, and concluded that the Company's internal control over financial reporting was effective, as at December 31, 2017.

There has been no change to internal controls in the most recent quarter ended on December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outstanding Share Information

Class of Security	Number outstanding at February 22, 2018	Number outstanding at December 31, 2017	Number outstanding at December 31, 2016
Common shares	35,930,584	35,923,094	36,721,394
Stock options	5,863,533	5,863,533	5,372,237

Outstanding common shares decreased by 798,300 in 2017 due to the repurchase of 806,900 shares under the Normal Course Issuer Bid (NCIB), less options exercised of 8,600.

Outstanding stock options increased by 491,296 in 2017 due to options granted of 1,113,500, less options exercised of 8,600, and options forfeited of 613,604.

Consolidated Financial Statements of

ESPIAL GROUP INC.

For the years ended December 31, 2017 and 2016

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Canada
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Espial Group Inc.

We have audited the accompanying consolidated financial statements of Espial Group Inc., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years ended December 31, 2017, and December 2016, 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, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
February 22, 2018
Ottawa, Canada

ESPIAL GROUP INC.
Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

ESPIAL GROUP INC.

Consolidated Balance Sheets

(In Canadian Dollars)

	Years Ended	
	December 31, 2017	December 31, 2016
CURRENT ASSETS		
Cash and cash equivalents	**$ 38,813,911**	$ 43,047,878
Accounts receivable	**6,792,420**	10,475,563
Investment tax credits receivable	**924,630**	321,018
Prepaid expenses and other assets	**841,617**	653,055
	47,372,578	54,497,514
Property, plant and equipment (Note 4)	**2,046,905**	1,420,957
Intangible assets (Note 5)	**941,187**	1,818,067
Goodwill (Note 5)	**3,632,604**	3,632,604
	$ 53,993,274	$ 61,369,142
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 4,778,111**	$ 4,542,527
Provisions (Note 11)	**-**	334,591
Deferred revenue	**3,345,828**	2,054,323
Total Liabilities	**8,123,939**	6,931,441
COMMITMENTS (Note 9)		
SHAREHOLDERS' EQUITY (Note 6)		
Share capital	**123,738,952**	125,362,413
Share based payments reserve	**17,179,915**	15,601,861
Deficit	**(95,049,532)**	(86,526,573)
	45,869,335	54,437,701
	$ 53,993,274	$ 61,369,142

APPROVED BY THE BOARD

Jaison Dolvane

Peter Seeligsohn

See accompanying notes

ESPIAL GROUP INC.

Consolidated Statements of Loss and Comprehensive Loss

(In Canadian Dollars, except share amounts)

	Years Ended	
	December 31, 2017	December 31, 2016
Revenue		
Software license	**$ 17,919,074**	$ 18,142,077
Software subscription	**1,032,115**	-
Professional services	**6,029,779**	4,614,199
Support and maintenance	**8,452,096**	5,888,294
Total Revenue	**33,433,064**	28,644,570
Cost of revenue	**8,673,925**	7,240,272
Gross margin	**24,759,139**	21,404,298
Expenses		
Sales and marketing	**7,300,613**	5,574,759
General and administrative	**5,192,959**	4,138,290
Research and development	**19,305,520**	15,510,661
Amortization of intangible assets (Note 5)	**985,747**	804,785
	32,784,839	26,028,495
Loss before other income (expense)	**(8,025,700)**	(4,624,197)
Other income (expense) (Note 16)	**(156,849)**	(154,519)
Interest income	**290,772**	322,691
Loss before taxes	**(7,891,777)**	(4,456,025)
Income taxes (Note 10)	**(631,182)**	(418,744)
Loss and comprehensive loss	**$ (8,522,959)**	$ (4,874,769)
Loss per common share - basic	**$(0.23)**	$(0.13)
Weighted average number of common shares outstanding - basic (Note 6)	**36,339,611**	37,262,729
Loss per common share – diluted	**$(0.23)**	$(0.13)
Weighted average number of common shares outstanding – diluted (Note 6)	**36,339,611**	37,262,729

See accompanying notes

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

	Years Ended	
	December 31, 2017	December 31, 2016
CASH PROVIDED BY (USED IN)		
OPERATING		
Net loss	**$ (8,522,959)**	$ (4,874,769)
Items not affecting cash		
Depreciation of property and equipment (Note 4)	**488,787**	364,430
Amortization of intangible assets (Note 5)	**985,747**	804,785
Share-based compensation expense (Note 6 and 12)	**1,584,688**	1,555,184
Gain on acquisition (Note 17)	**-**	(325,966)
Provisions (Note 11)	**(334,591)**	(12,548)
	(5,798,328)	(2,488,884)
Changes in non-cash operating working capital items (Note 8)	**4,418,058**	(2,644,456)
	(1,380,270)	(5,133,340)
INVESTING		
Purchase of equipment (Note 4)	**(1,114,735)**	(443,556)
Purchase of intangibles (Note 5)	**(108,867)**	(250,531)
Purchase of business, net of cash acquired (Note 17)	**-**	162,769
	(1,223,602)	(531,318)
FINANCING		
Options exercised	**8,214**	16,232
Share repurchase program (Note 6)	**(1,638,309)**	(1,250,792)
	(1,630,095)	(1,234,560)
Net cash and cash equivalents outflow	**(4,233,967)**	(6,899,218)
Cash and cash equivalents, beginning of year	**43,047,878**	49,947,096
Cash and cash equivalents, end of year	**$ 38,813,911**	$ 43,047,878
Supplementary information:		
Taxes paid	**$ 631,182**	$ 418,744

See accompanying notes

ESPIAL GROUP INC.

Consolidated Statements of Shareholders' Equity

(In Canadian Dollars, except share amounts)

	Common Shares				
	Number	**Amount**	**Share-based payment reserve**	**(Deficit)**	**Shareholders' Equity**
Balance at December 31, 2015	**37,348,057**	**$126,583,844**	**$14,059,806**	**$(81,651,804)**	**$58,991,846**
Share-based compensation	-	-	1,555,184	-	1,555,184
Shares repurchased and cancelled (Note 6)	(648,100)	(1,250,792)	-	-	(1,250,792)
Options exercised	21,437	29,361	(13,129)	-	16,232
Net and comprehensive loss	-	-	-	(4,874,769)	(4,874,769)
Balance at December 31, 2016	**36,721,394**	**$125,362,413**	**$15,601,861**	**$(86,526,573)**	**$54,437,701**
Balance at December 31, 2016	**36,721,394**	**$125,362,413**	**$15,601,861**	**$(86,526,573)**	**$54,437,701**
Share-based compensation	-	-	1,584,688	-	1,584,688
Shares repurchased and cancelled (Note 6)	(806,900)	(1,638,309)	-	-	(1,638,309)
Options exercised	8,600	14,848	(6,634)	-	8,214
Net and comprehensive loss	-	-	-	(8,522,959)	(8,522,959)
Balance at December 31, 2017	**35,923,094**	**$123,738,952**	**$17,179,915**	**$(95,049,532)**	**$45,869,335**

See accompanying notes

1. DESCRIPTION OF BUSINESS

Espial Group Inc. ("Espial" or the "Company") is a developer and marketer of software solutions that enable video service providers (typically cable multiple-system operators, telecommunications, satellite and other network operators) to deploy next-generation, advanced video services for all screens (TVs, tablets, PCs, and mobile phones) with engaging subscriber viewing experiences incorporating intuitive intelligent content discovery and instinctive navigation.

The Company is incorporated in Canada. The Company's address and principal place of business is 200 Elgin Street, Suite 1000, 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 22, 2018.

(b) **Basis of Measurement**

These consolidated financial statements have been prepared on a historical cost basis except those accounts as noted in the financial instruments section (Note 14). The policies were consistently applied to all the periods presented unless otherwise noted.

(c) **Basis of Consolidation**

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries), Espial Inc., Espial DE, Inc., Espial (UK) Limited, Espial Unipessoal LDA, Espial SAS, 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 loss and comprehensive loss in the period in which they arise.

(f) **Property, Equipment and Intangible Assets**

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

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

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

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

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

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

(g) **Goodwill**

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

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

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

(h) **Impairment of Tangible and Intangible Assets**

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

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

An impairment loss is recognised immediately in the consolidated statement of loss and comprehensive 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 license of, or the right to use, the Company's software products, professional services, support and maintenance, and from subscriptions to Elevate, the Company's cloud-hosted software as a service ("SaaS") video platform. The Company may license some of its software products on a term or perpetual basis, for which the customer uses the Espial software on their devices, and deploys these devices to their end-users. The Company may license its software in multiple element arrangements in which the customer purchases a combination of software, subscription, support and/or professional services such as training and implementation services.

Revenue 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.

Software license revenue is recognized when use to the licence is delivered or made available to the customer, at a point in time.

Software subscription revenue is recognized over the contract term in which the service or access to the software is delivered, typically on a monthly basis. The contract term generally begins when the service is made available to the customer.

Support and maintenance revenue for customers with software licences is deferred and recognized rateably over the term of the maintenance contract, typically twelve months.

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

Arrangements may be comprised of multiple product and service elements. When sold in a multiple element arrangement, the software licenses, subscription software, professional services and support and maintenance are considered separate units of accounting as they have stand-alone value to the customer. 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 products 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 costs 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 loss and comprehensive 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 loss. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based payments are transferred from share-based payment reserve to share capital.

(p) **Earnings or Loss Per Share**

Basic net loss per share is calculated by dividing the net 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.

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

Determination of functional currency involves significant judgement in determining the primary economic environment by considering the currency and economic factors that mainly influence sales prices, operating costs, financing and related transactions. Revenue contracts are predominately priced and billed in Canadian dollars, US dollars and Euros whereas the cost structure inputs are primarily in Canadian dollars. Secondary indicators of functional currency, including financing and cash holdings are primarily in Canadian dollars. As the primary indicators of functional currency do not clearly indicate a specific currency, the indicators as a whole have been judged to indicate the Canadian dollar is the functional currency of the parent company and its subsidiaries. The functional currencies of the Company and its subsidiaries are reassessed when facts change.

Purchase price allocation

As described in Note 17 of these consolidated financial statements, the Company acquired certain assets of ARRIS Group, collectively known as the Whole Home Solution ("WHS") during the year ended December 31, 2016. As a result of this acquisition, management was required to estimate the fair values of each identifiable asset and liability acquired through the acquisition. Fair value of cash and cash equivalents, and prepaid and other assets were estimated to approximate their carrying values in ARRIS's records at the date of the transaction. Fair value of deferred revenue was estimated using the income approach which determines the fair value of a liability using costs to fulfil the obligation plus a normal profit margin. Fair value of property and equipment was estimated based on replacement value and a provision was set up based on management's estimates. The fair values of the intangible assets were valued using the excess earnings method under the income approach.

Impairment

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

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

No impairment was recognized for the year ended December 31, 2017.

Provisions

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

Onerous contracts

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

Fair value of Stock-based compensation

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

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 management 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 management from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

3. NEW AND REVISED IFRS ACCOUNTING PRONOUNCEMENTS

The following amendments were adopted by the Company in the fiscal year.

IAS 7: Disclosure Initiative

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

The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes The Company has adopted this amendment with no impact on the consolidated financial statements.

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses

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

The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company has adopted this amendment with no impact on the consolidated financial statements.

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

IFRS 9 *Financial Instruments*

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted.

The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The adoption of the standard is not expected to have a material impact on the Company's consolidated financial statements and related disclosures.

IFRS 15: Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*, with amendments in 2016. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 may be applied retrospectively to each prior period presented (full retrospective method) or with the cumulative effect of adoption recognized as at the date of initial application (modified retrospective method).

IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. On April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

The Company is in the process of concluding its implementation plan to develop the necessary accounting policies, estimates and judgments required to adopt IFRS 15 as well as any changes required to business processes, systems and internal controls to implement the policies and disclosures required upon adoption of IFRS 15. The Company has not completed its review and is not currently in the position to make a reliable estimate of the full impact of IFRS 15 on the consolidated financial statements and related disclosures as all potential impacts of the new revenue recognition standard continue to be assessed. Based on implementation work completed to date, the Company has identified some areas that will have an impact and its findings, as currently understood, which have been summarized below. The Company cautions that conversion to IFRS 15 is a complicated process and that the areas below are not intended to represent a comprehensive list of those expected to impact the Company's financial statements and that further impacts are likely. The adoption of this standard will require expanded financial statement disclosure on revenue, performance obligations and contract balances. The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018 using the cumulative-effect method, where the transition adjustment, if any, will be recognized in equity.

The Company currently believes that as a result of adoption, the Company will be required to capitalize and amortize certain incremental sales commissions paid to employees as contract acquisition costs. During the year, the Company reviewed the impact such a change would have on its January 1, 2018 opening retained earnings adjustment, and as at December 31, 2017, the impact is not expected to be material. The Company has put in place processes to track the impact, if any, for the year and to support the calculation of commissions under IFRS 15 when adopted on January 1, 2018.

The Company currently reports revenue from some customers that deploy its software in the period a royalty report is received. These royalty reports are often received in the quarter following the actual deployment and can be referred to as lag-based usage reporting. Under the new standard, recognizing revenue from sales-or usage-based royalties on a lag basis is no longer acceptable. The adoption of the new standard will require the Company to estimate the amount of royalties used by customers that report on a lag basis and recognize revenue in the period based on that estimate. The Company is currently reviewing its process in order to meet this requirement. The impact of this change is expected to require an adjustment to opening retained earnings at January 1, 2018 to account for the estimated fourth quarter royalties that would have been recognized previously using lag-based reporting. The Company is not currently in a position to reliably quantify this impact.

IFRS 2: Share Based Payment

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for: 1) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; 2) share-based payment transactions with a net settlement feature for withholding tax obligations; and 3) 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.

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018 and does not expect the amendments to have a material impact on the financial statements.

IFRS 16: Leases

On January 13, 2016 the IASB issued IFRS 16 *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

IFRIC 22: Foreign Currency Transaction and Advance Consideration

On December 8, 2016, the IASB issued IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. The interpretation is applicable for annual periods beginning on or after January 1, 2018. Early application is permitted.

The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company intends to adopt the Interpretation in its financial statements on a prospective basis for the annual period beginning on January 1, 2018. The adoption of the interpretation is expected to impact the foreign exchange rate the Company applies on professional services revenue transactions.

IFRIC 23: Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted.

The interpretation clarifies the accounting for income tax treatments (current and deferred tax) that have yet to be accepted by tax authorities.

The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019 and does not expect the Interpretation to have a material impact on the financial statements.

(In Canadian Dollars, except share amounts)

4. EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Balance at December 31, 2016	$3,749,299	$807,729	$677,751	$5,234,779
Additions	281,180	217,043	616,512	1,114,735
Balance at December 31, 2017	4,030,479	1,024,772	1,294,263	6,349,514
Accumulated depreciation				
Balance at December 31, 2016	2,751,328	551,685	510,809	3,813,822
Depreciation expense	341,568	72,913	74,306	488,787
Balance at December 31, 2017	3,092,896	624,598	585,115	4,302,609
Carrying Value at December 31, 2017	**$937,583**	**$400,174**	**$709,148**	**$2,046,905**

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

(In Canadian Dollars, except share amounts)

Included in the functional expense categories for the years ended December 31, 2017 and 2016, are the following non-cash expenses related to depreciation:

	December 31, 2017	December 31, 2016
Sales and marketing	**$ 87,981**	$ 65,596
General and administrative	**83,094**	61,954
Research and development	**317,712**	236,880
Depreciation	**$ 488,787**	$ 364,430

5. INTANGIBLE ASSETS and GOODWILL

	Intellectual Property	Computer Software	Customer Lists	Total
Cost				
Balance at December 31, 2016	$6,368,820	$1,407,301	$3,155,544	$10,931,665
Additions	-	108,867	-	108,867
Balance at December 31, 2017	**6,368,820**	**1,516,168**	**3,155,544**	**11,040,532**
Accumulated amortization				
Balance at December 31, 2016	5,511,360	1,098,430	2,503,808	9,113,598
Amortization expense	451,122	108,992	425,633	985,747
Balance at December 31, 2017	**5,962,482**	**1,207,422**	**2,929,441**	**10,099,345**
Carrying Value at December 31, 2017	**$ 406,338**	**$ 308,745**	**$ 226,104**	**$941,187**

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

Intellectual Property has a remaining useful life between one and two years. Customer Lists have a remaining useful life of one year. Computer software has a remaining life between five and seven years.

Goodwill

The carrying amount of goodwill is compared against its recoverable amount. 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 2013 to 2017, with revenue and operating costs increasing at a compounded average growth rate of 21% and 5%, 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 of which 35,923,034 common shares were issued and outstanding at December 31, 2017 (2016 – 36,721,394).

Share Repurchase Program

On August 23 2017, Espial announced the renewal of its Normal Course Issuer Bid (NCIB), with its plan to repurchase up to 3,502,141 of its common shares, representing 10% of its public float of common shares. During the year ended December 31, 2017 Espial repurchased for cancellation a total of 806,900 (2016 – 648,100) common shares for a total cost of $1,638,309 (2016 - $1,250,792). The issuer bid commenced on August 24, 2016 and expires on August 24, 2018. Since the commencement of the NCIB, Espial has repurchased for cancelation a total of 1,455,000 common shares.

Stock option plans

As at December 31, 2017, there were 1,321,086 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; the risk-free interest rate is based on the government of Canada bond rate; the dividend yield is NIL%; and the expected life of each option is 1.5 years after vesting. The forfeiture rate is estimated at 10%.

During the year ended December 31, 2017, there were 1,113,500 options granted (2016 - 1,442,000).

For the year ended December 31, 2017, the Company recorded stock compensation expense of $1,584,688 (2016 - $1,555,184).

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The per share weighted average fair value of stock options granted during the year ended December 31, 2017 was $1.33 on the date of grant using the Black-Scholes option pricing model with the following assumptions: exercise price is equal to the price of the underlying share; volatility ranging from 55% to 83% for employee stock compensation, risk-free interest rate of 1.9%, 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, 2016 was $1.17 on the date of grant using the Black-Scholes option pricing model with the following assumptions: volatility ranging from 64% to 90% for employee stock compensation, risk-free interest rate of 0.5%, dividend yield of NIL% and expected life of stock options of 1.5 years after vesting.

The following table summarizes information about option activity for the years ended December 31, 2016 and for the year ended December 31, 2017.

	Number of Options	Weighted-average Exercise Price
Outstanding, at December 31, 2015	**4,012,119**	**$2.25**
Granted	1,442,000	$2.00
Exercised	(21,437)	$0.76
Forfeited	(60,445)	$2.66
Outstanding, at December 31, 2016	**5,372,237**	**$2.19**
Granted	1,113,500	$2.51
Exercised	(8,600)	$0.96
Forfeited	(613,604)	$2.95
Outstanding, at December 31, 2017	**5,863,533**	**$2.17**

The following table summarizes information about stock options outstanding at December 31, 2017:

	Options Outstanding		**Options Exercisable**	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Life**	**Number Outstanding**	**Weighted Average Exercise Price**
$0.26 - $1.00	1,347,251	2.7	1,347,251	$0.84
$1.01 - $2.00	864,500	7.1	453,348	$1.86
$2.01 - $4.00	3,606,000	7.8	1,760,283	$2.85
$4.01 - $7.00	45,782	0.7	45,782	$6.40
	5,863,533	**6.5**	**3,606,664**	**$2.02**

(In Canadian Dollars, except share amounts)

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

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

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, 2017 and 2016.

	December 31, 2017	December 31, 2016
Issued common shares at January 1	**36,721,394**	37,348,057
Effect of shares issued from options	**6,579**	15,575
Effect of shares repurchased and cancelled under NCIB	**(388,362)**	(100,903)
Weighted average number of basic common shares at December 31	**36,339,611**	37,262,729
Effect of share options on issue	**-**	-
Weighted average number of diluted common shares at December 31	**36,339,611**	37,262,729

Options and warrants that are anti-dilutive are not included in the computation of diluted earnings per share. For the years ended December 31, 2017, and December 31, 2016, due to the net losses, all 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:

(In Canadian Dollars, except share amounts)

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, 2017	December 31, 2016
Europe	**$9,270,019**	$13,929,803
Asia Pacific	**4,497,459**	3,330,831
North America	**19,665,586**	11,383,936
	$33,433,064	$28,644,570

For the year ended December 31, 2017, the Company had two customers that individually accounted for 41% and 10% of revenue. For the year ended December 31, 2016, the Company had three customers that individually accounted for 21%, 16% and 13% of revenue.

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

	December 31, 2017	December 31, 2016
Canada	**$ 810,712**	$ 861,526
United States	**743,217**	357,369
United Kingdom	**492,976**	202,062
	$ 2,046,905	$ 1,420,957

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

	December 31, 2017	December 31, 2016
Canada	**$ 473,530**	$ 667,403
United States	**389,526**	627,837
United Kingdom	**78,131**	522,827
	$ 941,187	$ 1,818,067

The goodwill attributable to Canada is $291,796, and to the United States is $3,340,808.

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8. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	December 31, 2017	December 31, 2016
Accounts receivable	**$ 3,683,143**	$(2,077,615)
Investment tax credits receivable	**(603,612)**	92,902
Prepaid expenses and other assets	**(188,562)**	129,601
Accounts payable and accrued liabilities	**235,584**	1,377,383
Deferred revenue	**1,291,505**	(2,166,727)
	$4,418,058	$(2,644,456)

9. COMMITMENTS

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

The Company rents premises in Canada, the United States, Portugal and the United Kingdom under operating leases, which expire at varying dates up to June 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:

2018	1,316,144
2019	1,321,485
2020	1,273,521
2021	1,237,424
2022 to 2024	2,949,555
	$ 8,098,129

Lease payments recognized as an expense during the years ended December 31, 2017 and 2016 were $1,862,212 and $1,300,042 respectively.

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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, 2017	December 31, 2016
Statutory income tax rate	**26.5%**	26.5%
Expected income tax expense (recovery)	**(2,091,321)**	(1,180,847)
Withholding taxes	**631,182**	418,744
Change in future tax rates	**(2,116,570)**	-
Tax effect of losses and temporary differences not recognized (used)	**3,690,087**	672,532
Permanent differences	**517,804**	508,315
Income tax expense	**$ 631,182**	$ 418,744

Net deferred tax assets and (liabilities)

	December 31, 2017	**December 31, 2016**
Losses carried forward	**$ 6,752**	$ 92,397
Intangible asset	**(6,752)**	(92,397)
Net deferred tax assets and (liabilities)	**$ -**	$ -

The unrecognized temporary differences of the Company are comprised of:

	December 31, 2017	December 31, 2016
Losses carried forward	**$ 28,160,489**	$ 37,069,460
Unclaimed research and development	**36,446,230**	26,699,591
Share issue costs	**1,140,366**	1,879,462
Equipment	**2,507,679**	2,057,944
	$ 68,254,764	$ 67,706,457

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As at December 31, 2017, the Company has non-capital losses available to reduce taxable income which expire as follows:

	Canada	United States	United Kingdom	France
2019		1,495,882		
2020		2,117,395		
2021		231,902		
2022		466,673		
2023		441,403		
2026		-		
2027		-		
2028		2,341,032		
2029		1,543,407		
2030		553,731		
2031		482,719		
2032		1,464,750		
2033		1,375,184		
2034		27,961		
2035		144,107		64,688
2036		448,469		838,588
2037		362,841		1,122,517
Indefinite			4,843,020	
	CAD$ -	US$ 13,497,456	£ 4,843,020	€ 2,025,793

The Company has unused scientific research and experimental development (SR&ED) expenditures of $36 million which are available, without expiry, to reduce future taxable income. The Company also has Canadian federal investment tax credit carry forwards of $9 million which are available to be applied against taxes payable and which begin to expire in 2018. Ontario tax credits of $2 million are also available to apply against Ontario taxes payable which begin to expire in 2029. In addition, to the United States losses noted above, the Company has $74 million of losses, which expire between 2019 and 2027; these losses have an annual restriction on the amount that can be used per year due to Internal Revenue Code Section 382. Internal Revenue Code Section 382 imposes an annual limitation on the use of a company's net operating loss carry-forwards when a company has an ownership change. No benefit of the loss carry-forwards and investment tax credits balance has been recorded in these financial statements.

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11. PROVISIONS

The Company has provided an estimated cost for an onerous contract it assumed in the acquisition of the Whole Home Solution (Note 17).

Provisions for the year ended December 31, 2017, and December 31, 2016 were:

Opening December 31, 2015	**$ -**
Onerous contract	347,139
Impact of foreign exchange	14,204
Utilized	(26,752)
Opening balance December 31, 2016	**$ 334,591**
Impact of foreign exchange	(21,979)
Reversed	(184,149)
Utilized	(128,463)
Closing December 31, 2017	**$ -**

12. EMPLOYEE BENEFITS EXPENSE

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

	December 31, 2017	December 31, 2016
Salaries	**$ 21,796,112**	$ 16,190,960
Benefits	**3,882,448**	2,847,400
Variable compensation and other labour costs	**2,509,851**	1,840,119
Share based payments	**1,584,688**	1,555,184
	$ 29,773,099	$ 22,433,663

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

	December 31, 2017	December 31, 2016
Sales and marketing	**$ 384,470**	$ 371,446
General and administration	**783,449**	822,786
Research and development	**416,769**	360,952
	$ 1,584,688	$ 1,555,184

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, 2017	December 31, 2016
Salaries and short-term benefits	**$ 1,359,491**	$ 1,227,409
Share-based compensation	**750,708**	755,842
	$ 2,110,199	$ 1,983,251

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 included in other (income) expense.

The Company's objective in managing its currency risk is to minimize its exposure to currencies other than its functional currency. The Company does so by matching foreign denominated assets with foreign denominated liabilities. The Company did not use derivative financial instruments to manage this risk in the years ended December 31, 2017 or 2016.

For the years ended December 31, 2017 and 2016, the Company had a foreign exchange loss of $340,998 and $480,485, respectively.

A 10% strengthening of the Canadian dollar against the US dollar and the Euro, with all other variables held constant, would have increased the loss and comprehensive loss by approximately $432,000 and $146,000, respectively in the year ended December 31, 2017. A 10%

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strengthening of the Canadian dollar against the GBP, with all other variables held constant, would have decreased the loss and comprehensive loss by approximately $246,000 in the year ended December 31, 2017. For the year ended December 31, 2016 a 10% strengthening of the Canadian dollar against the US dollar and the Euro, with all other variables held constant, would have decreased the loss and comprehensive loss by approximately $185,000 and $715,000, respectively in the year ended December 31, 2016. A 10% strengthening of the Canadian dollar against the GBP, with all other variables held constant, would have increased the loss and comprehensive loss by approximately $388,000, in the year ended December 31, 2016.

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

December 31, 2017	**CAD**	**USD**	**GBP**	**EUR**
Accounts receivable	$161,574	$4,044,915	£ -	€969,256
Accounts payable and accrued liabilities	(1,791,683)	(1,566,551)	(147,327)	(327,958)
	$(1,630,109)	$2,478,364	£(147,327)	€641,298

December 31, 2016	CAD	USD	GBP	EUR
Accounts receivable	$3,201,824	$2,924,961	£ -	€2,538,696
Accounts payable and accrued liabilities	(1,891,157)	(1,676,398)	(169,738)	(346,103)
	$1,310,667	$1,248,563	£(169,738)	€2,192,593

Interest risk

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

Credit risk

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

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

The Company maintains a provision in allowance for doubtful accounts for anticipated bad debts. The Company had concentrated credit risk with two customers that accounted for 46% and 17% respectively, of its trade accounts and unbilled receivables as at December 31, 2017. At

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December 31, 2016, the Company had concentrated credit risk with 3 customers that accounted for 29%, 21% and 20% respectively, of its trade accounts and unbilled receivables.

As at December 31, 2017 the Company's aging of its trade accounts receivable was approximately 100% under sixty days, 0% between 60 and 90 days and 0% over 90 days and the allowance for doubtful accounts is nil. As at December 31, 2016 the Company's aging of its trade accounts receivable was approximately 92% under sixty days, 0% between 60 and 90 days and 8% over 90 days and the allowance for doubtful accounts was $323,010.

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, 2017	December 31, 2016
Cash and cash equivalents	**$ 38,813,911**	$ 43,047,878
Accounts receivable	**6,792,420**	10,475,563
	$ 45,606,331	$ 53,523,441

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 and cash equivalents 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.

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The following are the contractual maturities of the undiscounted cash flows of financial liabilities at December 31, 2017:

	Future value	**3 Months**	**3-12 Months**	**1 to 5 years**	**more than 5 years**
Accounts payable and accrued liabilities	$4,778,111	$3,672,131	$1,105,980	$ -	$ -
Commitments	8,098,129	329,036	987,108	5,029,174	1,752,811
Total	$12,876,240	$4,001,167	$2,093,088	$5,029,174	$1,752,811

(In Canadian Dollars, except share amounts)

Fair values

Establishing fair value

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

Other comprehensive income or loss (OCI*)*

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

15. CAPITAL MANAGEMENT

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

16. OTHER INCOME (EXPENSE)

	December 31, 2017	December 31, 2016
Foreign exchange loss	**$(340,998)**	$(480,485)
Reversal of provision (Note 11)	**184,149**	-
Gain on acquisition (Note 17)	**-**	325,966
	$ (156,849)	**$ (154,519)**

17. ACQUISITION OF WHOLE HOME SOLUTIONS

On June 29, 2016 the Company entered into an agreement pursuant to which Espial acquired certain assets of ARRIS Group related to the business of developing, distributing, and supporting the software products marketed to multiple system operators as the Whole Home Solution ("WHS"). The Company closed the acquisition with an effective date of August 19, 2016.

(In Canadian Dollars, except share amounts)

The acquisition of WHS expanded the Company's solution portfolio with a cloud-hosted managed support platform that is complimentary to and will leverage Espial's current solutions for next-generation IP video services. Additionally, the Company gained 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 statements 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 loss and comprehensive loss.

The Company completed a purchase price analysis including valuation of intangible assets acquired. A gain on acquisition totaling $325,966 arose on the acquisition of WHS because the fair value of the separately identifiable assets and liabilities exceeded the total consideration paid, principally due to the acquisition of certain assets that will benefit the Company that had limited value to the seller.

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

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

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

Consideration paid in cash	$ 1
Less: cash received on closing	(162,770)
	$ (162,769)

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

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