Interim Condensed Consolidated Financial Statements of

ESPIAL GROUP INC.

Three months ended March 31, 2018 and 2017

(Unaudited)

ESPIAL GROUP INC.

Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2018 and 2017

	PAGE
Interim Condensed Consolidated Balance Sheets	3
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss	4
Interim Condensed Consolidated Statements of Cash Flows	5
Interim Condensed Consolidated Statements of Shareholders' Equity	6
Interim Condensed Notes to the Consolidated Financial Statements	7

ESPIAL GROUP INC.

Interim Condensed Consolidated Balance Sheets

(In Canadian Dollars)
(Unaudited)

	March 31, 2018	December 31, 2017*
CURRENT ASSETS		
Cash and cash equivalents	**$ 34,933,015**	$ 38,813,911
Accounts receivable (Note 5)	**7,559,762**	6,792,420
Investment tax credits receivable	**989,880**	924,630
Prepaid expenses and other assets (Note 5)	**998,312**	841,617
	44,480,969	47,372,578
Property, plant and equipment (Note 8)	**1,888,266**	2,046,905
Intangible assets (Note 8)	**951,919**	941,187
Goodwill (Note 8)	**3,632,604**	3,632,604
	$ 50,953,758	$ 53,993,274
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 3,281,079**	$ 4,778,111
Provisions (Note 12)	**711,054**	-
Deferred revenue (Note 5)	**4,214,394**	3,345,828
	8,206,527	
Provisions (Note 12)	**100,422**	-
Total Liabilities	**8,306,949**	8,123,939
COMMITMENTS (Note 10)		
SHAREHOLDERS' EQUITY (Note 6)		
Share capital	**123,573,929**	123,738,952
Share based payments reserve	**17,528,887**	17,179,915
Accumulated other comprehensive loss	**(235,627)**	-
Deficit	**(98,220,380)**	(95,049,532)
	42,646,809	45,869,335
	$ 50,953,758	$ 53,993,274

* The Company applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

APPROVED BY THE BOARD

Jaison Dolvane

Peter Seeligsohn

See accompanying notes

ESPIAL GROUP INC.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(In Canadian Dollars)
(Unaudited)

	Three Months Ended	
	March 31, 2018	March 31, 2017*
Revenue (Note 5)		
Software licenses	**$ 2,024,498**	$ 5,025,351
Software subscription	**1,166,843**	-
Professional services	**906,072**	1,585,934
Support and maintenance	**1,834,844**	2,052,725
Total revenue	**5,932,257**	8,664,010
Cost of revenue	**1,726,937**	2,236,021
Gross margin	**4,205,320**	6,427,989
Expenses		
Sales and marketing	**1,634,894**	1,655,158
General and administrative	**867,934**	1,006,700
Research and development	**3,916,177**	5,285,630
Amortization of intangible assets	**175,267**	182,879
Business restructuring (Note 12)	**1,873,793**	-
	8,468,065	8,130,367
Loss before other income (expense)	**(4,262,745)**	(1,702,378)
Other income (expenses)	**461,230**	(82,996)
Interest income	**101,686**	62,544
Loss before taxes	**(3,699,829)**	(1,722,830)
Income taxes	**(36,556)**	(77,117)
Net loss	**(3,736,385)**	(1,799,947)
Other comprehensive loss:		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences –foreign operations	**(235,627)**	-
Total comprehensive loss	**$ (3,972,012)**	$ (1,799,947)
Loss per common share - basic	**$ (0.10)**	$ (0.05)
Weighted average number of common shares outstanding - basic (Note 7)	**35,917,607**	36,540,333
Loss per common share – diluted	**$ (0.10)**	$ (0.05)
Weighted average number of common shares outstanding - diluted (Note 7)	**35,917,607**	36,540,333

* The Company applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

See accompanying notes

ESPIAL GROUP INC.

Interim Condensed Consolidated Statements of Cash Flows

(In Canadian Dollars)
(Unaudited)

	Three Months Ended	
	March 31, 2018	March 31, 2017*
CASH (USED IN) PROVIDED BY		
OPERATING		
Net loss	**$ (3,736,385)**	$ (1,799,947)
Items not affecting cash		
Depreciation of property plant and equipment	**123,852**	99,831
Amortization of intangible assets	**175,085**	182,879
Share-based compensation expense	**348,972**	432,486
Business restructuring provisions (Note 12)	**920,307**	-
Provisions	**-**	(62,565)
	(2,168,169)	(1,147,316)
Changes in non-cash operating working capital items (Note 9)	**(1,485,261)**	420,045
	(3,653,430)	(727,271)
INVESTING		
Purchase of equipment	**(63,980)**	(145,743)
Purchase of intangibles	**(185,997)**	-
	(249,977)	(145,743)
FINANCING		
Options exercised	**8,550**	6,183
Share repurchase program	**(173,573)**	(473,233)
	(165,023)	(467,050)
Net cash and cash equivalents outflow	**(4,068,430)**	(1,340,064)
Cash and cash equivalents, beginning of period	**38,813,911**	43,047,878
Effects of exchange rates on cash and cash equivalents	**187,534**	-
Cash and cash equivalents, end of period	**$ 34,933,015**	$ 41,707,814
Supplementary information:		
Taxes paid	**$ 36,556**	$ 77,117

* The Company applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

See accompanying notes

ESPIAL GROUP INC.

Interim Condensed Consolidated Statements of Shareholders’ Equity

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

	Common Shares					
	Number	Amount	Share-based payment reserve	Accumulated other comprehensive loss	(Deficit)	Shareholders’ Equity
Balance at December 31, 2016	36,721,394	$125,362,413	$15,601,861	$-	$(86,526,573)	$54,437,701
Share-based compensation	-	-	432,486	-	-	432,486
Shares repurchased and cancelled (Note 6)	(218,400)	(473,233)	-	-	-	(473,233)
Options exercised	6,400	11,193	(5,010)	-	-	6,183
Net loss	-	-	-	-	(1,799,947)	(1,799,947)
Balance at March 31, 2017	36,509,394	$124,900,373	$16,029,337	$-	$(88,326,520)	$52,603,190
Balance at December 31, 2017	**35,923,094**	**$123,738,952**	**$17,179,915**	**$**	**$(95,049,532)**	**$45,869,335**
Adjustment to deficit – change in accounting policy (Note 3)	-	-	-	-	565,537	565,537
Share-based compensation	-	-	348,972	-	-	348,972
Shares repurchased and cancelled (Note 6)	(87,900)	(173,573)	-	-	-	(173,573)
Options exercised	9,500	8,550	-	-	-	8,550
Net loss	-	-	-	-	(3,736,385)	(3,736,385)
Other comprehensive loss				(235,627)	-	(235,627)
Balance at March 31, 2018	**35,844,694**	**$123,573,929**	**$17,528,887**	**$(235,627)**	**$(98,220,380)**	**$42,646,809**

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. BASIS OF PRESENTATION

(a) Statement of Compliance

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS’) 34 *Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”)* and do not include all information required for full annual financial statements for International Financial Reporting Standards (“IFRS”). These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Annual Report for the year ended December 31, 2017 and were prepared using the same accounting policies, except as described below.

This is the first set of financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 3.

These unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on May 10, 2018.

(b) Basis of Measurement

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

(c) Basis of Consolidation

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

(d) Significant Accounting Policies

Except as disclosed in Note 3 and Note 5 (Revenue), and in Note 13 (Functional Currency), the accounting policies applied in these unaudited interim condensed consolidated financial statements are the same as those applied in the Company’s consolidated financial statements as at and for the year ended December 31, 2017.

(e) **Estimates and judgements**

The significant judgments made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2017, except for significant judgments and key sources of estimation uncertainty related to the application of IFRS 15, described in Note 3.

(f) **Foreign currency**

Except as noted below with respect to a change in the functional currency of one the Company's U.S.-based subsidiaries, the functional and presentation currency of the parent and each of its subsidiaries is the Canadian dollar, unchanged from the disclosure made in the Company's consolidated financial statements for the year ended December 31, 2017.

Change in functional currency

On January 1, 2018, the Company determined that the functional currency of one of its U.S.-based subsidiaries changed from the Canadian dollar, to the U.S. dollar. In making this change in functional currency to the US dollar, the Company followed the guidance in IAS 21, The Effects of Changes in Foreign Exchange Rates, and has applied the change prospectively with the January 1, 2018 statement of financial position translated at the January 1, 2018 exchange rate of 1 USD = $1.25 Canadian dollars. The change in functional currency was triggered by the launch and establishment of Elevate, the Company's cloud-hosted software-as-a-service ("SaaS") product in the US market, which resulted in the primary economic environment of the U.S. subsidiary becoming predominantly the US dollar. The financial statements for this subsidiary are measured in U.S. dollars, and translated to the Canadian dollar at the end of the period for consolidation. Assets and liabilities have been translated into U.S. dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences, if any, are recognized in other comprehensive income and accumulated in shareholders' equity.

3. CHANGE IN ACCOUNTING POLICY

(a) IFRS 15 *Revenue from Contracts with Customers*

The Company adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of January 1, 2018. IFRS 15 introduced a single model for recognizing revenue from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods and services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. As a result, the Company has changed its accounting policy for revenue recognition as follows:

Nature of goods and services

The Company's revenues are derived from the license of, or the right to use, the Company's software products, sales of support and maintenance and professional services, and from subscriptions to Elevate, the Company's cloud-hosted SaaS video platform. A subscription to

Elevate allows the customer to use the hosted software over the contract term without taking possession of the software.

The Company licenses some of its software products on a term or perpetual basis, enabling the customer to use the Espial software on their devices, and deploys these devices to their end users. Professional services are primarily for training or integration and configuration services and do not include significant customization to, or development of, the software. Support and maintenance revenue relates to fees from customers with perpetual licenses.

Revenue is recognized upon transfer of control of promised goods or services to the customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The Company's contracts often include a number of promised goods or services such as software licenses, subscription, support, and/or professional services. The Company's goods and services are generally distinct and accounted for as separate performance obligations. A good or service is distinct if the customer can benefit from it on its own or together with other readily available resources, and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer.

When a contract includes more than one performance obligation, the total amount of consideration to be received is allocated to distinct goods and services based on the stand-alone selling price ("SSP") for each of the goods and services in the customer contract. For software subscription, professional services, and support and maintenance, the SSP is determined based on the price at which the Company separately sells or would separately sell each good or service. For software licenses, where the SSP is highly variable, the Company applies the residual method, which determines the SSP of the software licenses by subtracting the sum of the SSP's of the other goods or services in the contract from the total transaction price.

Software licenses provide the customer with a right to use the software. Revenue is recognized for these licenses when the customer can benefit from the licenses, which is typically when it is delivered or made available to the customer, at a point in time.

Software license revenue from usage-based royalties are recognized in the period in which the customer uses the license, at a point in time.

Software subscription revenue is recognized ratably over the contract term, and generally begins when the customer has right-to-use and access to the platform.

Support and maintenance services for customers with software licenses are separate performance obligations. Revenue is recognized ratably over the term of the services, which is typically twelve months

Professional services revenue is recognized over time as the services are delivered to the customer. When contracted on a fixed fee basis, revenue is generally recognized progressively by reference to the stage of completion of the contract, measured by the cost incurred to date in relation to the total expected cost to complete the deliverable, commonly referred to as the percentage-of-completion method. For contracts billed on a time and materials basis, the Company invoices the customer and recognizes revenue equal to the amount of time incurred during the period. 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.

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

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the costs to be recoverable, and has determined that certain sales commissions meet the requirements to be capitalized. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer of the goods or services to which the asset relates. The amortization period includes anticipated contract renewals where there is either no renewal commission or a renewal commission that is not commensurate with the initial commission. The Company applies the practical expedient available under IFRS and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less.

The Company has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.

Significant judgments and estimates

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

The Company uses judgement to assess if its goods and services are distinct, and should be accounted for as separate performance obligations, or together as a combined performance obligation. In arrangements with multiple performance obligations, estimates are required to determine the SSP in order to allocate revenue to each performance obligation in the contract.

For usage-based royalties, the Company may be required to estimate the number of licenses used by a customer in the period to measure the amount of software revenue to be recognized at the reporting date. When required, the Company's estimate is based on the customer's historical license usage, adjusted for any known changes to the customer's expected usage moving forward, which requires the Company to exercise judgement.

For professional services, the Company exercises judgement in determining the appropriate measure of progress for recognizing revenue over time. Estimates of proportional performance are required to recognize revenue including effort spent to date versus the total expected effort to deliver the services. When a percentage of completion estimate is used, estimates related to cost to complete are routinely revised based on changes in the facts relating to each contract.

Impact of Adoption of IFRS 15:

The Company applied IFRS 15 using the cumulative effect method and has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at January 1, 2018. The comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. Apart from the changes identified and the quantitative impacts detailed below, revenue recognition related to the Company's goods and services remains substantially unchanged.

i. Software revenue from usage-based royalties received on a lag basis

Previously, the Company recorded revenue for the use of software licenses from certain customers in the period the customer reported the usage of its products to the Company. However, the use or deployment could have been in previous reporting periods (on a "lag basis"). Under IFRS 15, recognizing revenue from sales or usage-based royalties in a period subsequent to the period in which the usage occurred is no longer acceptable. The adoption of the new standard requires the Company to estimate the amount of royalties used by customers that report on a lag basis and recognize revenue based on that estimate.

ii. Sales commissions capitalized as contract acquisition assets

Under IFRS 15, the Company is required to recognize as an asset the incremental costs of obtaining a contract with a customer. Previously, the Company expensed such costs in full as they were incurred. The incremental costs of obtaining a contract are those that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company has identified certain incremental sales commissions that are paid to employees as contract acquisition costs that are required to be capitalized. These costs are capitalized to prepaid expenses and other assets in the interim condensed consolidated balance sheet, and amortized to sales and marketing expense in the interim condensed consolidated statement of comprehensive loss. Such costs are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates which is generally on the same basis in which the Company recognizes revenue.

The following table summarizes the impact of the transition to IFRS 15 on the Company's opening deficit at January 1, 2018.

	Impact of adoption of IFRS 15 - January 1, 2018
Deficit – December 31, 2017 (as reported)	$ (95,049,532)
Usage-based royalties reported on lag basis	396,175
Sales commissions capitalized	169,362
Total adjustment	565,537
Deficit – January 1, 2018 under IFRS 15	$ (94,483,995)

The following tables summarize the impact of adopting IFRS 15 on the Company's interim condensed consolidated financial statements as at, and for the three months ending March 31, 2018. There was no material impact on the Company's interim statement of cash flows for the three months ended March 31, 2018.

Interim Condensed Consolidated Balance Sheet

At March 31, 2018	As reported	Adjustments	Balances without adoption of IFRS 15
Prepaid expenses and other assets	$ 998,312	(144,483)	$ 853,829
Deficit	$ (98,220,380)	(144,483)	$ (98,364,863)

Interim Condensed Consolidated Statement of Loss and Comprehensive Loss

Three Months Ended March 31, 2018		As reported	Adjustments		Balances without adoption of IFRS 15
Software revenue	$	2,024,498	396,175	$	2,420,673
Sales and marketing expense	$	1,634,894	(24,879)	$	1,610,015
Net loss	$	(3,736,385)	421,054	$	(3,315,331)

(b) IFRS 9 *Financial Instruments*

The Company adopted IFRS 9 Financial Instruments with a date of initial application of January 1, 2018. IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. The standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IFRS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

Trade and other receivables that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of the Company's financial assets.

IFRS 9 also replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. ECL's are a probability-weighted estimate of credit losses. The Company calculated ELC's based on consideration of customer-specific factors and factual credit loss experience over the past five years. As a percentage of revenue, the Company's actual credit loss experience has not been material.

The adoption of IFRS 9 has not had an effect on the Company's accounting policies related to financial liabilities.

There was no material impact of the adoption of IFRS 9 on the Company's interim condensed consolidated financial statements at January 1, 2018.

4. NEW AND REVISED IFRS ACCOUNTING PRONOUNCEMENTS

IFRS 2 *Share Based Payment*

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment.

The amendments apply for annual periods beginning on or after January 1, 2018 and can be applied prospectively or retrospectively. 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 has adopted the amendments on a prospective basis with no impact on the unaudited interim condensed financial statements.

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 and can be applied prospectively. The Interpretation clarifies that the date of a 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 adopted the Interpretation in its financial statements on a prospective basis. The adoption of the interpretation has impacted the foreign exchange rate the Company applies on professional services revenue transactions as a result of advance payments received from customers. Advanced payments made by customers in the three months ended March 31, 2018 were nominal and the adoption of the interpretation has not materially impacted the unaudited interim condensed consolidated financial statements.

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

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 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.

5. REVENUE

Disaggregation of revenues

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

	Three months ended	
	March 31, 2018	March 31, 2017
North America	**$ 3,229,789**	$ 5,088,367
Europe	**1,938,810**	3,054,971
Asia Pacific	**763,658**	520,672
	$ 5,932,257	$ 8,664,010

For the three months ended March 31, 2018, the Company had three customers that individually accounted for 32%, 15% and 11% of revenue. For the three months ended March 31, 2017, the Company had two customers that individually accounted for 49%, and 19% of revenue.

The Company's revenues are all recognized over time, with the exception of software licenses, where transfer of control of the license occurs at a point in time. The following table groups the Company's revenue based on the timing of revenue recognition for its products and services:

	Three months ended	
	March 31, 2018	March 31, 2017
Software licenses revenue - transferred at a point in time	**$ 2,024,498**	$ 5,025,351
All other revenue - transferred over time	**3,907,759**	3,638,659
	$ 5,932,257	$ 8,664,010

Contract balances

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company records unbilled revenue where professional services are performed or products are delivered prior to the Company's ability to invoice in accordance with the contract terms, or deferred revenue when revenue is recognized subsequent to invoicing.

The following table provides information about the Company's accounts receivable at March 31, 2018, which includes trade and unbilled revenue from contracts with customers.

	March 31, 2018	December 31, 2017
Trade receivables	**$ 4,461,132**	$ 3,558,195
Unbilled revenue	**2,816,507**	2,968,038
Total receivables from contracts with customers	**7,277,639**	6,526,233
Other	**282,123**	266,187
Total accounts receivable	**$ 7,559,762**	$ 6,792,420

As at March 31, 2018, three customers individually accounted for 26%, 20%, and 20% of accounts receivable. As at December 31, 2017, two customers individually accounted for 41% and 10% respectively of accounts receivable.

As at March 31, 2018, deferred revenue, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, is $4,214,394 (December 31, 2017 - $3,345,828).

The following table details the changes in unbilled revenue and deferred revenue during the period.

	Unbilled revenue
Opening balance – December 31, 2017	$ 2,968,038
Impact of foreign exchange	103,783
Increase in unbilled from revenue recognized	3,152,073
Decrease in unbilled from transfer to trade receivables and other adjustments	(3,407,387)
Ending Balance – March 31, 2018	**$ 2,816,507**

	Deferred revenue
Opening balance – December 31, 2017	$ 3,345,828
Increase in deferred from payments received, excluding revenue recognized	2,763,135
Decreases in deferred from revenue recognized that was included in the opening deferred revenue balance and other adjustments	(1,894,569)
Ending Balance – March 31, 2018	**$ 4,214,394**

Assets recognized from costs to obtain a contract with a customer

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if the expected benefit of those costs is longer than one year. The Company determined that certain commissions paid to sales employees meet the requirement to be capitalized. Total capitalized cost included in prepaid expenses and other assets to obtain a contract at March 31, 2018 was $351,076 (March 31, 2017 – nil).

6. SHARE CAPITAL

Share capital consists of an unlimited number of common shares of which 35,844,694 common shares were issued and outstanding at March 31, 2018 (December 31, 2017 – 35,923,094).

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 three months ended March 31, 2018 Espial repurchased for cancellation a total of 87,900 common shares for a total cost of $173,573. 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 1,542,900 common shares.

Stock option plans

As at March 31, 2018, there were 1,389,906 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 twelve 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%.

There were no options granted during the three months ended March 31, 2018.

The following table summarizes information about option activity for the three ended March 31, 2018 and for the year ended December 31, 2017.

	Number of Options	Weighted-average Exercise Price
Outstanding, at December 31, 2017	**5,863,533**	**$2.17**
Granted	-	-
Exercised	(9,500)	$0.90
Forfeited	(75,000)	$1.80
Outstanding, at March 31, 2018	**5,779,033**	**$2.18**

	Number of Options	Weighted-average Exercise Price
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 March 31, 2018:

	Options Outstanding		**Options Exercisable**	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Life**	**Number Outstanding**	**Weighted Average Exercise Price**
$0.26 - $1.00	1,337,751	2.5	1,337,751	$0.84
$1.01 - $2.00	789,500	7.6	423,662	$1.88
$2.01 - $4.00	3,606,000	7.6	2,100,877	$2.82
$4.01 - $7.00	45,782	0.4	45,782	$6.40
	5,779,033	**6.3**	**3,908,072**	**$2.08**

7. LOSS PER SHARE

The following table summarized the calculation of the weighted average number of basic and diluted common shares for the three months ended March 31:

Three months ended March 31	**2018**	2017
Issued common shares at January 1	**35,923,094**	36,721,394
Effect of shares from option exercise	**4,450**	1,600
Effect of shares repurchased under NCIB	**(9,937)**	(182,661)
Weighted average number of basic and diluted common shares at March 31	**35,917,607**	36,540,333

Options that are anti-dilutive are not included in the computation of diluted loss per share. For the three months ended March 31, 2018 and 2017, due to the net losses, all options were excluded from the calculation of diluted loss per share because they are anti-dilutive.

8. SEGMENTED INFORMATION

The Company operates in one operating segment: computer software solutions. The Company engages in business activities from which it earns license, support and professional services revenues and incurs expenses.

Revenues from external customers are attributed to geographic areas based on the location of the contracting customers and are disclosed in Note 5 of the interim condensed consolidated financial statements.

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.

	March 31, 2018	December 31, 2017
Canada	**$ 767,723**	$ 810,712
United States	**718,068**	743,217
Europe	**402,475**	492,976
	$ 1,888,266	$ 2,046,905

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

	March 31, 2018	December 31, 2017
Canada	**$ 581,588**	$ 473,530
United States	**330,935**	389,526
Europe	**39,396**	78,131
	$ 951,919	$ 941,187

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

9. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	Three months ended	
	March 31, 2018	**March 31, 2017**
Accounts receivable	**$ (606,476)**	$ 2,299,310
Investment tax credits receivable	**(65,250)**	(50,722)
Prepaid expenses and other assets	**(78,614)**	(164,477)
Accounts payable and accrued liabilities	**(1,297,086)**	(1,157,795)
Deferred revenue	**562,165**	(506,271)
	$ (1,485,261)	$ 420,045

10. 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	$ 1,014,683
2019	1,351,413
2020	1,303,124
2021 to 2024	4,259,075
	$ 7,928,295

Lease payments recognized as an expense during the three months ended March 31, 2018 and 2017 were $397,143 and $439,386 respectively.

11. EMPLOYEE BENEFITS EXPENSE

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

	Three Months ended	
	March 31, 2018	March 31, 2017
Salaries	**$ 4,450,078**	$ 5,437,462
Benefits	**1,098,450**	1,151,431
Variable compensation and other labour costs	**362,115**	512,563
Share based payments	**348,972**	432,486
	$ 6,259,615	$ 7,533,942

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

	Three Months ended	
	March 31, 2018	March 31, 2017
Sales and marketing	**$ 94,297**	$ 109,775
General and administration	**178,327**	196,318
Research and development	**76,348**	126,393
	$ 348,972	$ 432,486

12. PROVISIONS

During the quarter, the Company commenced a restructuring plan. Under the plan, the Company consolidated certain functions and research capabilities and as a result will be closing certain offices and reducing staff globally. As at March 31, 2018, the majority of staff reduction costs had been paid. The estimated costs of closing certain locations, which is primarily the difference between committed lease payments and expected recovery from sub-leasing, has been recorded as a provision and will be paid out monthly or quarterly until 2023, which is the latest lease termination date.

The Company has provided an estimated cost for the restructuring plan:

	Personnel	Facilities	Other	Total
Balance at December 31, 2017	**$ -**	**$ -**	**$ -**	**$ -**
Restructuring provision	1,118,217	591,069	164,507	1,873,793
Utilized	(849,242)	(48,568)	(164,507)	(1,062,317)
Closing March 31, 2018	**$ 268,975**	**$ 542,501**	**$ -**	**$ 811,476**

Included in ‘other’ is $108,831 in property, plant and equipment that was deemed impaired as a result of the closure of certain locations. This amount has been included in the non-cash adjustment of $920,307 in the Company’s interim condensed consolidated statement of cash flows.