Consolidated Financial Statements of

ESPIAL GROUP INC.

For the years ended December 31, 2016 and 2015

KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Espial Group Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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

Opinion

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 23, 2017

Ottawa, Canada

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

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

	December 31, 2016	December 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 43,047,878	$ 49,947,096
Accounts receivable	10,475,563	8,397,948
Investment tax credits receivable	321,018	413,920
Prepaid expenses and other assets	653,055	734,906
	54,497,514	59,493,870
Equipment (Note 4)	1,420,957	1,062,544
Intangible assets (Note 5)	1,818,067	1,658,610
Goodwill (Note 5)	3,632,604	3,632,604
	$ 61,369,142	$ 65,847,628
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 4,542,527	$ 3,165,144
Provisions (Note 11)	334,591	-
Deferred revenue	2,054,323	3,690,638
	6,931,441	6,855,782
Total Liabilities	6,931,441	6,855,782
COMMITMENTS (Note 9)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	125,362,413	126,583,844
Share based payments reserve	15,601,861	14,059,806
Deficit	(86,526,573)	(81,651,804)
	54,437,701	58,991,846
	$ 61,369,142	$ 65,847,628

APPROVED BY THE BOARD

Jaison Dolvane

Peter Seeligsohn

See accompanying notes

ESPIAL GROUP INC.

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

(In Canadian dollars), except share amounts

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

See accompanying notes.

ESPIAL GROUP INC.

Consolidated Statements of Cash Flows

(In Canadian dollars)

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

See accompanying notes.

ESPIAL GROUP INC.

Consolidated Statements of Changes in Equity

(In Canadian Dollars, except share amounts)

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

See accompanying notes.

1. DESCRIPTION OF BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) **Statement of Compliance**

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

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

(b) **Basis of Presentation**

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

The principal accounting policies are set out below:

(c) **Basis of Consolidation**

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

(d) **Cash and Cash Equivalents**

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

(e) Foreign Currency Transactions

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

(f) Property, Equipment and Intangible Assets

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

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

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

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

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

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

(g) **Goodwill**

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

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

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

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

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

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

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

(i) **Operating Lease**

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

(j) Revenue Recognition

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

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

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

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

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

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

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

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

(k) **Interest Income**

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

(l) **Research and Development**

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

(m) **Income Taxes**

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

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

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

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

(n) **Investment Tax Credits**

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

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

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

(o) **Share-Based Payments**

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

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

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

(q) **Financial Instruments**

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

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

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

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

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

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

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

Purchase price allocation

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

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

Impairment

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

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

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

Provisions

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

Onerous contracts

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

Fair value of Stock-based compensation

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

Estimation Uncertainty

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

3. NEW AND REVISED IFRS ACCOUNTING PRONOUNCEMENTS AND AMENDMENTS

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

Amendments to IAS 16 and IAS 38

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

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

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

IAS 7: Disclosure Initiative

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

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

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses

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

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

IFRS 9 *Financial Instruments*

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

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

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

The standard introduces additional changes relating to financial liabilities.

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

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

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

IFRS 15: Revenue from Contracts with Customers

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

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

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

IFRS 2: Share Based Payment

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

IFRS 16: Leases

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

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

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

4. EQUIPMENT

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

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

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

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

5. INTANGIBLE ASSETS and GOODWILL

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

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

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

Goodwill

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

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

6. SHARE CAPITAL

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

Share Repurchase Program

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

Stock option plans

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

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

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

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

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

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

The following table summarizes 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**

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

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

Earnings per share

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

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

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

7. SEGMENTED INFORMATION

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

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

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

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

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

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

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

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

8. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

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

9. COMMITMENTS

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

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

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

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

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

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

10. INCOME TAXES

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

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

Net deferred tax assets and (liabilities)

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

The unrecognized temporary differences of the Company are comprised of:

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

As at December 31, 2016, 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		8,810		
2027		4,000		
2028		2,332,222		
2029		1,543,407		
2030		552,931		
2031		481,919		
2032		1,463,950		
2033		1,374,384		
2034		27,161		
2035		143,307		64,688
2036		673,611		351,055
Indefinite			10,722,347	
	CAD$ 0	US$ 13,358,957	£ 10,722,347	€ 415,743

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

11. PROVISIONS

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

Provisions for the year ended December 31, 2016 were:

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

Provisions for the year ended December 31, 2015 were:

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

12. EMPLOYEE BENEFITS EXPENSE

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

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

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

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

13. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

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

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market risk

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

Currency risk

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

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

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

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

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

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

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

December 31, 2015	CAD	USD	GBP	EUR
Accounts receivable	$1,730,030	$986,442	$ 86,189	$3,411,267
Accounts payable and accrued liabilities	(1,380,555)	(496,569)	(281,297)	(288,302)
	$ 349,475	$489,873	$(195,108)	$3,122,965

Interest risk

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

Credit risk

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

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

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

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

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

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

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

Liquidity risk

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

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

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

Fair values

Establishing fair value

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

Other comprehensive income or loss (OCI*)*

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

15. CAPITAL MANAGEMENT

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

16. OTHER INCOME (EXPENSE)

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

17. ACQUISITION OF WHOLE HOME SOLUTIONS

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

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

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

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

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

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

Assets acquired:	
Cash	$ 162,770
Prepaid expenses	47,750
Property and equipment	279,287
Intellectual property	713,710
	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.