

Registered number: 2822565

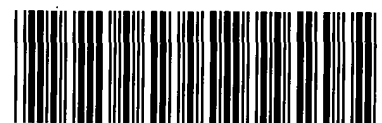
Espial Limited

Unaudited

Directors' report and financial statements

for the year ended 31 December 2013

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Espial Limited

Company Information

Directors C Smith (appointed 5 February 2013)
 J Dolvane (appointed 5 February 2013)

Registered number 2822565

Registered office 1st Floor
 335 Cambridge Science Park
 Milton Road
 Cambridge
 CB4 0WN

Bankers Barclays Bank
 58 High Street
 Newmarket
 Suffolk
 CB8 8NH

Solicitors Charles Russell LLP
 8 - 10 New Fetter Lane
 London
 EC4A 1RS

Espial Limited

Directors' report for the year ended 31 December 2013

The directors present their report and the financial statements for the year ended 31 December 2013.

Principal activities

The company's principal activity during the year continued to be the development and licensing of software for use in the TV-related consumer electronics market.

Directors

The directors who served during the year were:

C Smith (appointed 5 February 2013)
J Dolvane (appointed 5 February 2013)
G Ralph (resigned 2 May 2013)
D Fell (resigned 7 February 2013)
M Lobo (resigned 18 February 2013)
R Hoggarth (resigned 4 February 2013)
T Brown (resigned 4 February 2013)
D Kynaston (resigned 4 February 2013)

Going concern

The company is expected to continue to generate cash flows on its own account for the foreseeable future, but, in the short term, will require working capital support from the parent company Espial Group Limited. Espial Group Limited has confirmed their continued support in the provision of working capital to Espial Limited.

Research and development

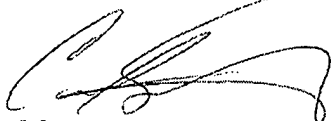
The company undertakes continuous research and development activities in order to bring new innovations and to enhance the effectiveness of its software solutions in the consumer electronics market. Expenditure on research and development in 2013 amounted to £1,531,211 (2012: £2,114,627).

Qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006, and elected not to prepare a Strategic Report under section 414B..

This report was approved by the board on *NOVEMBER 3, 2014* and signed on its behalf.



C Smith
Director

Espial Limited

**Profit and loss account
for the year ended 31 December 2013**

	Note	2013 £	2012 £
Turnover	1	3,350,693	4,099,830
Cost of sales		(292,138)	(822,136)
Gross profit		3,058,555	3,277,694
Administrative expenses		(3,539,400)	(3,762,614)
Operating loss	3	(480,845)	(484,920)
Interest receivable and similar income		408	7,360
Loss on ordinary activities before taxation		(480,437)	(477,560)
Tax on loss on ordinary activities	6	(141,746)	293,937
Loss for the financial year	12	(622,183)	(183,623)

The notes on pages 5 to 12 form part of these financial statements.

Espial Limited
Registered number: 2822565.

**Balance sheet
as at 31 December 2013**

	Note	£	2013 £	£	2012 £
Fixed assets					
Tangible assets	7		190,660		298,124
Current assets					
Debtors: amounts falling due after more than one year	8	-		76,335	
Debtors: amounts falling due within one year	8	626,172		1,533,866	
Cash at bank		190,616		844,948	
		<u>816,788</u>		<u>2,455,149</u>	
Creditors: amounts falling due within one year	9	(3,878,699)		(4,950,119)	
Net current liabilities			<u>(3,061,911)</u>		<u>(2,494,970)</u>
Total assets less current liabilities			<u>(2,871,251)</u>		<u>(2,196,846)</u>
Provisions for liabilities					
Other provisions	10		(365,884)		(418,106)
Net liabilities			<u>(3,237,135)</u>		<u>(2,614,952)</u>
Capital and reserves					
Called up share capital	11		631,454		631,454
Share premium account	12		9,787,208		9,787,208
Profit and loss account	12		(13,655,797)		(13,033,614)
Shareholders' deficit			<u>(3,237,135)</u>		<u>(2,614,952)</u>

The directors consider that the company is entitled to exemption from the requirement to have an audit under the provisions of section 477 of the Companies Act 2006 ("the Act") and members have not required the company to obtain an audit for the year in question in accordance with section 476 of the Act.

The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and for preparing financial statements which give a true and fair view of the state of affairs of the company as at 31 December 2013 and of its loss for the year in accordance with the requirements of sections 394 and 395 of the Act and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements, so far as applicable to the company.

The financial statements have been prepared in accordance with the provisions applicable to small companies within Part 15 of the Companies Act 2006 and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

Espial Limited

Balance sheet (continued)
as at 31 December 2013

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

NOVEMBER 3, 2014


C Smith
Director

The notes on pages 5 to 12 form part of these financial statements.

**Notes to the financial statements
for the year ended 31 December 2013**

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical-cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

1.2 Going concern

The financial statements have been prepared on a going concern basis, which assumes that the company will continue for the foreseeable future.

The company is reliant on the continued support of the parent undertaking, Espial Group Limited, who have indicated that they will continue such support for the foreseeable future, being no less than 12 months from the date of signing of the financial statements. During the year, the company achieved a loss of £587,409 (2012: £684,204).

1.3 Revenue recognition

Revenue represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Amounts receivable consist of royalties, licence fees, professional services and support and maintenance payments.

Revenue is recognised for any element of a sale when all of the basic criteria are met for that element, these are given below:

- Licence fees and Royalties – revenue is recognised when persuasive evidence for the arrangement exists, delivery has occurred, fees are fixed or determinable, non-refundable and require no further commitments with the collection being probable. Royalties are recognised on receipt of appropriate third party evidence.
- Professional Services – invoiced in line with customer contracts and recognised on the basis of work performed using the stage of completion method.
- Support and Maintenance – invoiced in line with customer contracts and recognised over the period covered.

Revenue is accrued on the above elements when revenue can be recognised but has not been invoiced. Revenue is deferred on the above elements when it has not been recognised but the invoice has been raised. Revenue relating to contracts with multiple elements is allocated based on the fair value of each element and is recognised in accordance with the accounting principles for each element described above.

1.4 Interest receivable

Interest receivable is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Notes to the financial statements
for the year ended 31 December 2013

1. Accounting policies (continued)

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	-	over 5 years
Office equipment	-	over 2 - 5 years
Computer equipment	-	over 3 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

1.6 Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

1.7 Taxation

The Company has taken advantage of the Research and Development (R&D) tax credit scheme that encourages small and medium sized companies to increase their R&D spending. A proportion of qualifying expenditure on R&D activities can be deducted when calculating the profit for tax purposes. Tax credits are accounted for when it is virtually certain that the cash will be received in return for surrendering tax losses. The majority of the qualifying expenditure for the Group is made up by staff costs.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.8 Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

1.9 Operating leases

Rentals under operating leases are charged to the Profit and loss account on a straight line basis over the lease term.

**Notes to the financial statements
for the year ended 31 December 2013**

1. Accounting policies (continued)

1.10 Pensions

The company provides pension arrangements through a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1.11 Share-based payments

Prior to the group's acquisition by Espial Inc, the company employees participated in a share based payments scheme in the parent undertaking, Espial Group Limited. On 5 February 2013, all outstanding share options were vested and expired 90 days thereafter.

1.12 Dilapidation

A dilapidation provision is reflected in the Group accounts to take into account the costs that are likely to be incurred on the cessation of the current building lease. These have been estimated by a 3rd party and take into account the costs likely to be incurred in reinstating the building back to its original condition.

2. Turnover

93.5% of the company's turnover (2012 - 100.0%) is attributable to geographical markets outside the United Kingdom.

3. Operating loss

The operating loss is stated after charging:

	2013 £	2012 £
Depreciation of tangible fixed assets:		
- owned by the company	108,218	102,360
Auditors' remuneration	-	9,000
Auditors' remuneration - non-audit	-	13,500
Pension costs	2,484	118,851
Research and development costs	1,531,211	2,114,627
Operating lease rentals - land and buildings	237,957	165,902
Loss on disposal of fixed assets	-	196
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Espial Limited

Notes to the financial statements
for the year ended 31 December 2013

4. Directors' remuneration

	2013 £	2012 £
Aggregate remuneration	53,788	263,279
Compensation for loss of office	53,181	-

During the year retirement benefits were accruing to 2 directors (2012 - 5) in respect of defined contribution pension schemes.

5. Share based payments

The company operated an Enterprise Management Incentive (EMI) share option scheme relating to shares in the parent company for the benefit of all its employees and employees are entitled to participate once they have completed three months service. Options granted to non-UK based employees or in excess of the qualifying limits for EMI are unapproved options for UK tax purposes or are outside the scope of UK taxation.

At 31 December 2012 a total of 2,919,954 options were outstanding. On the acquisition of the company by Espial Inc, on 5 February 2013, all outstanding share options were vested and could be exercised within 90 days thereof, after which point they expired.

The company recognised a total charge of £nil (2012: £52,957) in the profit and loss account in respect of options granted to staff.

6. Taxation

	2013 £	2012 £
Analysis of tax charge/(credit) in the year		
UK corporation tax charge/(credit) on loss for the year	-	(386,484)
Adjustments in respect of prior periods	6,853	-
	6,853	(386,484)
Foreign tax on income for the year	134,893	92,547
	141,746	(293,937)
Tax on loss on ordinary activities		

Notes to the financial statements
for the year ended 31 December 2013

6. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2012 - lower than) the standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%). The differences are explained below:

	2013 £	2012 £
Loss on ordinary activities before tax	(480,437)	(477,560)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%)	(111,702)	(117,002)
Effects of:		
Disallowed expenses and non-taxable income	3,634	(13,919)
Depreciation for year in excess of capital allowances	11,904	(4,523)
Foreign tax	134,893	92,547
Adjustments to tax charge in respect of prior periods	6,853	-
Short term timing difference leading to an increase (decrease) in taxation	(2,981)	-
Adjustment in research and development tax credit leading to an increase (decrease) in the tax charge	-	(252,842)
Unrelieved tax losses carried forward	99,145	1,802
Current tax charge/(credit) for the year (see note above)	141,746	(293,937)

Factors that may affect future tax charges

The company has approximately £15,601 (2012: £2,243) of capital allowances in arrears of depreciation, £2,000 of other timing differences and £1,734,738 (2012: £1,898,551) of tax losses carried forward. No deferred tax asset has been recognised in relation to these items as there is uncertainty over the timing of the utilisation of these amounts.

Espial Limited

**Notes to the financial statements
for the year ended 31 December 2013**

7. Tangible fixed assets

	Leasehold Improvements £	Office equipment £	Computer equipment £	Total £
Cost				
At 1 January 2013	229,685	168,353	394,632	792,670
Additions	-	-	754	754
At 31 December 2013	229,685	168,353	395,386	793,424
Depreciation				
At 1 January 2013	60,869	159,122	274,555	494,546
Charge for the year	45,937	5,097	57,184	108,218
At 31 December 2013	106,806	164,219	331,739	602,764
Net book value				
At 31 December 2013	122,879	4,134	63,647	190,660
At 31 December 2012	168,816	9,231	120,077	298,124

8. Debtors

	2013 £	2012 £
Due after more than one year		
Prepayments and accrued income	-	76,335
Due within one year		
Trade debtors	441,215	358,290
Other debtors	184,957	1,175,576
	626,172	1,533,866

Espial Limited

**Notes to the financial statements
for the year ended 31 December 2013**

**9. Creditors:
Amounts falling due within one year**

	2013 £	2012 £
Trade creditors	34,298	223,786
Amounts owed to group undertakings	3,257,635	4,032,244
Other taxation and social security	30,626	84,812
Other creditors	556,140	609,277
	<u>3,878,699</u>	<u>4,950,119</u>

10. Provisions

	Potential Disputes £	Building £	Total £
At 1 January 2013	328,106	90,000	418,106
Additions	-	294,102	294,102
Amounts used	(210,688)	(135,636)	(346,324)
At 31 December 2013	<u>117,418</u>	<u>248,466</u>	<u>365,884</u>

Potential Disputes

The company has provided an estimated cost of settling disputes with two customers relating to contractual issues. These costs represent the Directors' best estimate of the likely amounts required to settle these disputes, although at present the timing of any potential cash outflow is currently unknown.

Building

The current dilapidation provision will be utilised on the expiry of the current lease, which has a current maturity date of 22 March 2022 with an optional break clause on the 30 August 2016.

11. Share capital

	2013 £	2012 £
Authorised		
28,000,000 Ordinary shares of £0.05 each	<u>1,400,000</u>	<u>1,400,000</u>
Allotted, called up and fully paid		
12,629,099 Ordinary shares of £0.05 each	<u>631,454</u>	<u>631,454</u>

Espial Limited

**Notes to the financial statements
for the year ended 31 December 2013**

12. Reserves

	Share premium account £	Profit and loss account £
At 1 January 2013	9,787,208	(13,033,614)
Loss for the financial year		(622,183)
At 31 December 2013	<u>9,787,208</u>	<u>(13,655,797)</u>

13. Pension commitments

The company operates a defined contribution pension scheme for its directors and employees. The assets of the scheme are held separately from those of the company in an independently administered fund. At 31 December 2013, there were no outstanding pension contributions (2012: £12,821).

14. Operating lease commitments

At 31 December 2013 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2013 £	2012 £
Expiry date:		
Between 2 and 5 years	<u>236,000</u>	<u>168,743</u>

15. Related party transactions

The company has taken advantage of the exemption conferred by the Financial Reporting Standard for Smaller Entities from disclosing transactions with related parties that are part of the same group.

16. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Espial Group Limited, a company registered in England. The ultimate parent undertaking and controlling party at 31 December 2013 is Espial Group Inc, a company registered in Canada. Copies of its group accounts, which are publicly available, and which include the company, can be obtained from Espial Group Inc, 200 Elgin Street, Suite 900, Ottawa, Ontario, Canada, K2P 1L5.