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

This document has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of our financial condition and results of operations for the three and twelve month periods ended December 31, 2013 compared to same period in 2012. The MD&A should be read in conjunction with our audited consolidated financial statements and MD&A for the years ended December 31, 2013 and December 31, 2012. The financial statements have been prepared in Canadian dollars using International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The information contained herein is dated as of February 26, 2014 and is current to that date, unless otherwise stated. Additional information relating to the Company may also be found on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

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

BUSINESS OVERVIEW:

Espial is a leading developer and marketer of TV Browser and TV Everywhere software solutions to consumer electronics manufacturers and telecommunications service providers. Over 35 million licenses of our software are in use globally.

The Espial TV Browser product allows Smart TV manufacturers to provide a full web experience on their TVs, set-top boxes, digital media adapters and other devices. TV manufacturers are projected to ship increasing numbers of web-enabled TVs over the next several years. Espial provides them with a high performance browser to provide their consumers with a full web experience including access to over-the-top video, social media, news sites and sports sites.

The Espial Media Service Platform and Espial MediaBase Platform enable the delivery of TV Everywhere and IPTV services over Internet Protocol broadband networks. Our products allow communications service providers, including telecommunications operators, cable TV, satellite TV and Internet service providers (ISPs), to deploy TV Everywhere and IPTV services to their subscribers. Espial's powerful platforms facilitate the provisioning of innovative video services such as video-on-demand, time-shift TV and interactive services. TV Everywhere and IPTV deployments in the industry continue to increase, however the timing and growth rates remain challenging to predict. Some factors affecting this are industry consolidation in Europe and Japan (including some of our existing customers), long integration timelines, extended sales cycles to service providers, the current financial challenges many European countries face and the rise of new web-based TV competitors such as Netflix.

We do not consider these growth patterns to be unusual for these industries in such an early stage as this one, but these industry dynamics, combined with our size as a company and the size of individual contract awards, suggest that our revenue will continue to have significant variability in the foreseeable future. As such, we caution readers that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of likely future performance or annual operating results.

We remain confident that telecommunication service providers around the world believe that the delivery of video content is critical to their future business successes. In addition, customer feedback continues to suggest that cable television service providers have begun to assess the value of IPTV to their businesses much sooner than the industry had anticipated and this also bodes well for the future growth of the market. Finally, we are optimistic that consumer electronics manufacturers will continue to invest in next-generation TV and TV devices requiring a full web browsing experience.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

The Company prepares its consolidated financial statements in accordance with IFRS. For reporting purposes, we prepare our financial statements in Canadian dollars.

Management makes certain estimates and relies on certain assumptions relating to the reporting of our assets and liabilities as well as revenues and expenses, and related disclosure of contingent assets and liabilities in order to prepare our financial statements in conformity with IFRS. On an on-going basis, we evaluate our estimates, including those related to the valuation of goodwill and long-lived assets and the assumptions used in determining the fair value of stock options and warrants. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Because this can vary in each situation, actual results may differ from these estimates under different assumptions or conditions.

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

Revenue Recognition

Our revenues are derived from the license of our software products and related consulting services and product support. We may license our software in multiple element arrangements in which the customer purchases a combination of software, support and/or consulting services such as training and implementation 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 revenue amount is measurable; it is probable that the economic benefits will flow to the Company and costs incurred can be reasonably 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 if all other revenue recognition criteria have been met. It is our general business practice not to offer or agree to an arrangement that would allow the customer a right to return the product for refund or credit at their discretion.

Product support revenue is deferred and recognized over the term of the maintenance, typically between twelve and thirty six months.

Professional services revenue is generally recognized on a proportional performance basis taking into consideration the time and cost completed to date in relation to the total expected time and cost to complete the deliverable.

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 relative 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, we may apply the residual method. The residual method allocates the consideration to the undelivered elements based on their 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 incurred or accrued.

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

Deferred revenue arises when customers are invoiced in advance of revenue recognition criteria being met.

Intangible assets

Intangible assets resulting from the acquisition of companies are recorded at fair value, estimated by management based on the expected discounted future cash flows associated with the acquired intangible assets. Acquired intangible assets are amortized on a straight-line basis over their expected future life.

Goodwill

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

Research and Development Expenses

Research and development expenses are recorded net of research and development refundable investment tax credits. Research and development expenses are charged to the consolidated statements of operations in the period in which they are incurred unless the criteria for treating as an intangible asset are met.

To date, development costs incurred between the completion of a working model and the point where a product is released have been insignificant. Accordingly, all research and development costs have been charged to the consolidated statements of operations in the period in which they were incurred.

Stock-Based Compensation

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

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

Foreign Currency Translation

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on our assessment of the likelihood of collection of specific customer balances. If there is deterioration in a customer's credit worthiness or actual defaults are higher than our historical experience, our estimates of recoverability for the accounts receivable could be adversely affected. The evaluation of collection of customer accounts is typically done on an individual account basis. If, based on an evaluation of accounts, we conclude that it is probable that a customer will not be able to pay all amounts due, we estimate the expected loss. We believe the amount reserved at December 31, 2013 of $nil is reasonable.

Income Taxes

We account for income taxes using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for account purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change of statutory tax rates is recognized in net earnings in the year of the change. Deferred income tax assets are recorded when their recoverability is considered probable and is reviewed at the end of each reporting period.

Impairment of long lived assets

We monitor events and changes in circumstances that may require an assessment of the recoverability of our long-lived assets. At each balance sheet date, we assesses whether there is any indication that any long-lived assets or finite life tangible assets are impaired. An impairment charge is recognized if the recoverable amount, determined as the higher of an asset's fair value less cost to sell and 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.

Purchase price allocation

On February 4, 2013 the Company acquired ANT plc. and 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, accounts receivable, accounts payable deferred revenue, prepaid and deposits and tax credit receivable were estimated to approximate their carrying values in ANT's records at the date of the transaction. Property and equipment were estimated based on the replacement values and provisions were set up based on management's estimates. The fair values of the intangibles were valued using the excess earnings method under the income approach. None of the purchase price was allocated to goodwill.

Provisions

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

New Standards effective for 2013

IFRS 10 Consolidated Financial Statements was effective for the period that begins on or after January 1, 2013. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. The application of IFRS 10 has not had any material on the amounts recognized in the consolidated financial statements.

IFRS 13 Fair Value Measurement IFRS 13 was effective for the period that begins on or after January 1, 2013. Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

Revised IFRS in Issue but not Effective

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended December 31, 2013 and, accordingly, have not been applied in preparing these financial statements. The more significant standards are noted below. The Company has not yet assessed the potential impact of these standards on its financial reporting.

Impairment of assets
In May 2013, the IASB amended IAS 36, Impairment of Assets ("IAS 36"), to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014.

Financial instruments: Asset and liability offsetting
In December 2011, the IASB amended IAS 32, Financial Instruments: Presentation ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014.

Financial instruments

IFRS 9, Financial Instruments: Classification and Measurement ("IFRS 9"), was issued by the IASB in November 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, 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. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in other comprehensive income instead of net income unless this would create an accounting mismatch. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date for implementation of this standard has been deferred pending the finalization of the impairment, classification and measurement requirements.

Recent Developments

On November 15, 2013, the Company completed a private placement ("the Financing") of 5,714,286 units for gross proceeds of $4,000,000. Each unit was issued at a price of $0.70 per Unit and consists of one common share of the Corporation and one half of one common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one common share of the Company at a price of $0.72 per share for a period of twelve months from November 15, 2013. The net proceeds of the Financing were $3,623,037.

On November 30, 2012 the Company announced that it had entered into a co-operation agreement pursuant to which Espial had offered to acquire all of the outstanding shares of ANT in exchange for cash consideration of £0.205 per outstanding share subject to ANT shareholder and English Court approvals. ANT's board of directors announced its support of the acquisition and recommended that shareholders accept the offer. On February 4, 2013 the Company received all approvals and the acquisition closed with an effective date of February 4, 2013.

The acquisition was accounted for using the acquisition method of accounting, whereby the results of operations of the acquired company 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. The purchase price was cash consideration of $6,955,196. The purchase price allocation is complete.

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

Assets acquired:	
Cash	$4,834,784
Accounts receivable	1,343,254
Tax credit receivable	404,111
Prepaid and deposits	250,771
Property, equipment & software	144,003
Customer lists & intellectual property	2,132,220
	9,109,143
Liabilities assumed:	
Accounts payable & accrued liabilities	1,043,397
Provisions	647,141
Deferred income	463,409
	2,153,947
Total purchase price consideration	$6,955,196

Comparison of the three and twelve month periods ended December 31, 2013 and 2012

RESULTS OF OPERATIONS:

The following table sets out selected information from our consolidated statement of operations, for the periods indicated:

	Three Months Ended		Twelve Months Ended	
	December 31, 2013 (Unaudited)	December 31, 2012 (Unaudited)	**December 31, 2013**	December 31, 2012
Revenue				
Software	**$2,482,863**	$ 1,517,179	**$7,031,332**	$ 7,536,633
Professional services	**328,477**	221,607	**1,315,749**	2,201,640
Support and maintenance	**1,091,201**	977,992	**4,202,331**	3,542,244
Total Revenue	**3,902,541**	2,716,779	**12,549,412**	13,280,517
Cost of revenue	**738,575**	802,624	**2,299,217**	2,985,279
Gross margin	**3,163,966**	1,914,155	**10,250,195**	10,295,238
Expenses				
Sales and marketing	**710,362**	978,995	**3,923,040**	4,099,143
General and administrative	**394,635**	360,878	**1,987,502**	1,709,280
Research and development	**1,578,599**	1,583,393	**6,606,819**	5,584,185
Business restructuring charges	**-**	-	**1,049,222**	-
Amortization of Intangible assets	**161,460**	288,196	**1,101,889**	1,146,573
	2,845,056	3,211,462	**14,668,472**	12,539,181
Loss before other expense	**318,910**	(1,297,307)	**(4,418,277)**	(2,243,943)
Interest income	**3,360**	14,328	**16,533**	56,001
Foreign exchange gain	**33,241**	149,293	**(277,641)**	6,284
Interest expense	**(151,196)**	(139,396)	**(563,557)**	(525,481)
Income (loss) before tax	**204,315**	(1,276,082)	**(5,242,942)**	(2,707,139)
Taxes	**(55,371)**	-	**(286,483)**	-
Net loss and comprehensive loss	**$148,944**	$ (1,273,082)	**(5,529,425)**	$ (2,707,139)

Included in the functional expense categories above, is the following non-cash expenses.

	Three Months Ended		Twelve Months Ended	
	Dec. 31, 2013 (Unaudited)	Dec. 31, 2012 (Unaudited)	**Dec. 31, 2013 (Unaudited)**	Dec. 31, 2012 (Unaudited)
Sales and marketing	**$ 10,722**	$ 10,934	**$ 38,188**	$ 37,425
General and administrative	**10,127**	10,326	**36,067**	35,346
Research and development	**38,720**	39,483	**137,903**	135,147
Depreciation	**$ 59,569**	$ 60,743	**$ 212,158**	$ 207,919
Sales and marketing	**5,143**	$ 2,660	**15,168**	$ 17,365
General and administrative	**21,161**	27,259	**94,018**	116,644
Research and development	**10,447**	7,813	**34,783**	7,479
Share based compensation	**$ 36,751**	$ 37,732	**$ 143,969**	$ 141,488

Revenue

We generate revenue by selling software licenses either on a per device (e.g. set-top box, Smart TV, Blu-ray player) basis or on a per subscriber basis. These licenses typically include upfront fees, together with recurring annual maintenance fees. We also generate revenue by offering professional services such as consultancy, software integration and installation. We expect to generate revenue through the sale of additional licenses to our existing communications service providers and consumer electronic manufacturers, as they increase penetration of their TV offerings in their traditional subscriber base, as well as through the addition of new communications service providers. Subsequent to the initial license purchase, communications service providers may purchase additional licenses for new products and services. We also earn license fees when current subscribers replace or upgrade their existing set-top boxes or when they install additional set-top boxes in their homes.

A significant portion of our revenue is generated via channel partners who integrate our products into their IPTV solutions that are sold to communications service providers. We have entered into license agreements with several leading set-top box manufacturers, network vendors and IPTV system integrators. This global distribution network provides us with broad worldwide reach to capitalize on the expected growth in the IPTV market. As well an increasing percentage of our revenue is expected to come from Smart TV manufacturers which license our browser products to provide a full web experience on their TVs and other devices such as set-top boxes, digital media adapters

Revenue increased by 44% to $3,902,541 in the last quarter of 2013 from $2,716,779 in the same period of 2012. Revenue from software license sales and deployments totalled $2,482,863, an increase of 64% from $1,517,179 in the same quarter of 2012 primarily due to higher royalties from North American based customers. Revenue from support totalled $1,091,201 an increase of 12% from $977,992 in the same quarter of 2012 primarily due to the increase in cumulative licenses under support. Revenue from professional services totalled $328,477, an increase of 48% from $221,607 in the same quarter of 2012 due in part to the initiation of a significant integration project for a large North American cable company.

Revenue decreased by 6% to $12,549,412 in the year ended December 31, 2013 from $13,280,517 in the same period of 2012. The decrease was due primarily to our European customers decreasing capital spending due to the poor overall economic climate in Europe and the impact of a channel partner, NSN, exiting the IPTV middleware business, of which our software was a component of their solution. The negative impact of NSN and Europe was partially offset by increases in revenue from North America and Asia. Revenue from software license sales and deployments totalled $7,031,332, a decrease of 7% from $7,536,633 in the same period of 2012 primarily due to lower royalties (see above discussion of the impact the European economic situation has had on our business). Revenue from support totalled $4,202,331, an increase of 19% from $3,542,244 in the same period of 2012, primarily due to the increase in cumulative licenses under support. Revenue from professional services totalled $1,315,749, a decrease of 40% from $2,201,640 in the same period of 2012. In 2012 we were in the final stages of completion of an integration services contract for one of our larger European customers. The early nature of our market can result in significant quarterly fluctuations in revenue as our customers roll-out their next generation services to their existing subscriber base.

In February, 2013, the Company acquired ANT (see "Recent Developments"). The operations of the acquired company have been integrated into the operations of Espial and the management will not track revenue separately or manage the acquired business as a separate unit. Due to the recent nature of the acquisition, management can estimate the revenue resulting for the acquisition, however going forward we do not plan to separate revenue in this way as the products and the acquired sales force have been fully integrated. Included in the three and twelve month period ended December 31, 2013 is $1,840,034 and $5,526,581 respectively in revenues attributable to the additional business generated by the acquired company. Had this business combination been effected at January 1, 2013, the revenue of the Company for the twelve month period ended December 31, 2013 would have been higher by approximately $993,000. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group for the twelve month period ended December 31, 2013 and to provide a reference point for comparison in future periods.

The following table summarizes revenues for the three and twelve month periods ended December 31, 2013 and 2012:

	Three months ended December 31, 2013		Three months ended December 31, 2012		**Twelve months ended December 31, 2013**		Twelve months ended December 31, 2012	
	Revenues	**% of total**	Revenues	% of total	**Revenues**	**% of total**	Revenues	% of total
Software	**2,482,863**	**64%**	$1,517,179	56%	**7,031,332**	**56%**	$ 7,536,633	57%
Professional services	**328,477**	**8%**	221,607	8%	**1,315,749**	**11%**	2,201,640	17%
Support	**1,091,201**	**28%**	977,993	36%	**4,202,331**	**33%**	3,542,244	26%
Total	**$3,902,541**	**100%**	$ 2,716,779	100%	**$12,549,412**	**100%**	$ 13,280,517	100%

Revenues by Geography

In the fourth quarter of fiscal 2013, the geographic makeup of total revenues was as follows: customers based in Europe accounted for 33% (48% in 2012); customers based in Asia accounted for 23% (21% in 2012); and customers in North America accounted for 44% (31% in 2012).

For the year ended December 31, 2013 the geographic makeup of total revenues was as follows: customers based in Europe accounted for 33% (60% in 2012); customers based in Asia accounted for 33% (19% in 2012); and customers in North America accounted for 34% (21% in 2012).

The following table summarizes the geographic distribution of revenues for the three and twelve month periods ended December 31, 2013 and 2012:

	Three months ended December 31, 2013		Three months ended December 31, 2012		**Twelve months ended December 31, 2013**		Twelve months ended December 31, 2012	
	Revenues	**% of total**	Revenues	% of total	**Revenues**	**% of total**	Revenues	% of total
Europe	**1,292,531**	**33%**	$1,314,381	48%	**4,161,299**	**33%**	$7,922,460	60%
Asia Pacific	**892,517**	**23%**	563,747	21%	**4,125,156**	**33%**	2,524,494	19%
North America	**1,717,493**	**44%**	838,651	31%	**4,262,957**	**34%**	2,833,563	21%
Total	**$3,902,541**	**100%**	$2,716,779	100%	**$12,549,412**	**100%**	$13,280,517	100%

European revenues were $1,292,531 in the last quarter of 2013 compared to $1,314,381 in 2012. Asia revenues were $892,517 in the last quarter of 2013 compared to $563,747 in 2012 due to increased sales to consumer electronic manufacturers. North American revenues increased to $1,717,493 in the fourth quarter of 2013 compared to $838,651 in 2012 primarily due to sales to channel partners serving the North American cable industry.

European revenues were $4,161,299 in the year ended December 31, 2013 compared to $7,922,460 for the same period of 2012. We believe the ongoing financial issues faced by many European countries has caused some of our customers to delay capital spending decisions and roll out of next generation TV and video offerings. We believe this customer slowdown to be related to the current European economic situation and not an indication of the longer term growth prospects of our industry. Asia revenues increased to $4,125,156 in 2013 from $2,524,494 in 2012, primarily due to sales of the Company's browser products to Smart TV and consumer electronic manufacturers. North American revenues were $4,262,957 in 2013 compared to $2,833,563 in 2012, primarily due to sales to channel partners serving the North American cable industry.

Cost of Revenue and Gross Margin

Cost of revenue consists primarily of staffing and other costs associated with providing professional services and maintaining customer support, and royalty and support commitments to first party software suppliers.

Cost of revenues for the fourth quarter of 2013 was $738,575 compared to $802,624 in the same period last year. Cost of revenues for the year ended December 31, 2013 decreased to $2,299,217 from $2,985,279 for the same period last year. The decreases for the quarter and the year are primarily due to lower third party license costs.

Our gross margin in the fourth quarter of 2013 was $3,163,966 compared to $1,914,155 in 2012. As a percentage of revenue, the gross margin increased to 81% in 2013 from 71% in 2012. The increase was primarily due to higher software license revenue which has a higher margin. For the year ended December 31, 2013 our gross margin increased to $10,250,195, or 82% from $10,295,238, or 78% in 2012, primarily due to lower third party license costs.

Sales and Marketing Expenses

Our sales and marketing expenses consist primarily of compensation, including stock compensation and sales commissions, paid to our sales, marketing and field technical support personnel. Other significant sales and marketing expenses include travel and living costs for the sales and marketing staff, rent and other occupancy costs for our international sales offices, and other advertising, promotion and trade show costs.

Our sales and marketing expenses decreased in the fourth quarter of 2013 to $710,362 from $978,995 in 2012 primarily due to lower compensation, travel and tradeshow costs. For the year ended December 31, 2013 sales and marketing expense decreased slightly to $3,923,040 from $4,099,143 in 2012.

General and Administrative Expenses

Our general and administrative expenses consist primarily of compensation, including stock compensation, paid to our Chief Executive Officer and our finance, legal and corporate administrative staff. Other significant general and administrative expenses include professional fees and travel, rent and occupancy costs.

Our general and administrative expenses increased to $394,635 during the fourth quarter of 2013 from $360,878 in 2012 primarily due to expenses related to increased occupancy costs related to the acquisition of ANT plc., offset by a reversal of a provision related to a customer dispute that existed in ANT prior to the acquisition. For the year ended December 31, 2013, our general and administrative expenses increased to $1,987,502 from $1,709,280 in 2012, also due primarily to expenses related to the Company's acquisition of ANT plc.

Research and Development Expenses

Research and development is a critical component of our on-going success. We intend to continue to expand our product offerings and introduce new features and applications. Research and development expenses consist primarily of compensation, including stock compensation, paid to our engineering personnel. Some of these remuneration costs are paid to independent contractors whom we occasionally use to provide additional technical capacity on a short-term basis. Other research and development expenses include travel, rent and other occupancy costs for our engineering and field technical support personnel.

Research and development expense decreased slightly to $1,578,599 during the fourth quarter of 2013 from $1,583,393 in 2012. For the year ended December 31, 2013 our research and development expense increased to $6,606,819 from $5,584,185 in 2012, primarily due to higher salary costs incurred in the first half of the year as the Company integrated the operations of ANT plc.

Amortization of Property and Equipment
Our amortization of property and equipment in the fourth quarter of 2013 was $59,569 compared to $60,743 in 2012. Amortization of property and equipment for the year ended December 31, 2013 and 2012 was $212,158 and $207,919, respectively.

Amortization of Intangible Assets
Amortization of intangible assets for the three months ended December 31, 2013 and 2012 was $161,460 and $288,196, respectively. The decrease is due to intellectual property related to a previous acquisition in 2008 being fully amortized, partially offset by the increase in intangible assets as a result of the ANT acquisition. Amortization of intangible assets for the year ended December 31, 2013 and 2012 was $1,101,889 and $1,146,573, respectively.

Stock compensation expense.
During the fourth quarter of 2013, stock compensation expense decreased to $36,751 from $37,732 in the fourth quarter ended 2012. For the year ended December 31, 2013 and 2012, stock compensation expense was $143,968 and $141,488, respectively.

Other Income (Expense)
Our other expense in the fourth quarter of 2013 was $114,595 compared to income of $24,224 in the same period in 2012. The change was attributable to (i) interest income of $3,360 compared to $14,328 last year, (ii) 2013 interest expense was $151,196 compared to $139,396 in 2012, and (iii) 2013 foreign exchange gain of $33,241 compared to a gain of $149,293 in 2012.

For the year ended December 31, 2013 other expense was $824,665 compared to other expense of $463,197 in the same period in 2012. The change was attributable to (i) 2013 interest income was $16,533 compared to interest income of $56,001 in 2012, (ii) 2013 interest expense was $563,557 compared to $525,481 in 2012, and (iii) 2013 foreign exchange loss of $277,641 compared to a foreign exchange gain of $6,284 in 2013.

Taxes
Taxes for the fourth quarter of 2013 were $55,371 compared to nil in 2012. Taxes for the year ended December 31, 2013 and 2012 was $286,483 and nil, respectively. All taxes relate to withholding tax on software licenses sold to customers domiciled in Japan and Korea.

Business restructuring costs
In the first quarter of fiscal 2013, the Company incurred a restructuring charge of $1,049,222 related to the acquisition of ANT primarily related to employee termination costs, transaction costs and a provision for leased facility space that is no longer used.

QUARTERLY RESULTS OF OPERATIONS:

The following table sets out selected information from our consolidated statement of operations, for the latest eight (8) quarters of operations

	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012	Mar. 31, 2013	Jun. 30, 2013	30-Sep-13	Dec. 31, 2013
Revenue	$3,650,536	$3,842,525	$3,070,677	$2,716,779	$2,542,059	$2,279,506	$3,825,306	$3,902,541
Cost of revenue	842,397	819,674	520,584	802,624	513,314	504,330	542,997	738,575
Gross margin	2,808,139	3,022,851	2,550,093	1,914,155	2,028,745	1,775,176	3,282,309	3,163,966
Expenses								
Sales and marketing	1,059,321	1,082,378	978,449	978,995	1,135,423	992,918	1,084,387	710,362
General and administrative	493,090	457,335	397,977	360,878	588,508	545,775	458,583	394,635
Research and development	1,207,482	1,328,074	1,465,235	1,583,393	1,764,309	1,806,048	1,457,814	1,578,599
Business restructuring costs	-	-	-	-	1,049,222	-	-	-
Amortization of intangible assets	285,467	286,785	286,126	288,196	361,961	393,556	184,912	161,460
	3,045,360	3,154,572	3,127,787	3,211,462	4,899,423	3,738,297	3,185,696	2,845,056
Loss before other income (expense)	(237,220)	(131,721)	(577,694)	(1,297,307)	(2,870,678)	(1,963,121)	96,613	318,910
Interest income (expense)	(120,345)	(112,859)	(111,208)	(125,068)	(134,362)	(133,210)	(131,616)	(147,836)
Foreign exchange gain (loss)	(1,038)	(51,953)	(90,018)	149,293	(223,283)	22,253	(109,853)	33,241
Income (loss) before taxes	(358,603)	(296,533)	(778,920)	(1,273,082)	(3,228,323)	(2,074,078)	(144,856)	204,315
Taxes	-	-	-	-	(43,846)	(58,837)	(128,429)	(55,371)
Net and Comprehensive loss	$(358,604)	$(296,533)	$(778,920)	$(1,273,082)	$(3,272,169)	$(2,132,915)	$(273,285)	$148,944

LIQUIDITY and CAPITAL RESOURCES:

Cash and Short Term Investments

The Company has historically financed its cash requirements through the issuance of debt and equity. As at December 31, 2013, the Company had cash and short-term investments of $7,407,093 compared to $11,220,195 as of December 31 2012. The Company used the cash primarily to fund the acquisition and integration of ANT plc. (see "Recent Developments"), as well as funding its loss from operations for the twelve month period ended December 31, 2013.

Working Capital

During the twelve months ended December 31, 2013 we generated cash of $2,194,307 in working capital. After adjusting for purchased working capital related to the acquisition of ANT, cash generated was due to decreases in accounts receivable of $1,044,121 and investment tax credits of $392,084, and an increase in deferred revenues of $2,261,807, offset by an increase in prepaid expenses of $39,497 and decreases in accounts payable and accrued liabilities of $1,040,824 and provisions of $423,384.

Operations

Our cash used in operating activities in the twelve months ended December 31, 2013 was $3,404,772 compared to cash used in operations of $715,998 in the same period of 2012. Cash used was driven by our net loss in the twelve months ended December 31, 2013 of $5,529,425, offset by non-cash items of amortization of $1,101,889, depreciation of $212,158, interest expense of $185,449, provision of $421,188, and stock compensation of $143,969.

Investing Activities

Purchases of property and equipment for the twelve months ended December 31, 2013 totalled $29,815 compared to $211,384 for the same period in 2012. Purchases of intangible software for the year totalled $5,255 compared to $31,384 in the same period in 2012. The acquisition of ANT resulted in the redemption of short-term investments of $8,164,551. The net cash outflow for the purchase of the business was $2,120,412.

Financing Activities

During the twelve months ended December 31, 2013, the Company decreased its borrowings on its line of credit by $3,010,192 and repaid term debt of $1,000,000. On November 15, 2013 the Company completed an issuance of treasury shares and warrants for net proceeds of $3,623,038.

We currently have no material commitments for capital expenditures. The Company's minimum lease commitments over the remaining life of the leases are as follows:

2014	$ 428,958
2015	322,532
2016	215,339
2017	2,880
2018	1,080
	$ 970,789

Lease payments recognized as an expense during the three month periods ended December 31, 2013 and 2012 were $217,114 and $143,725 respectively.

CAPITAL DISCLOSURES

We manage our capital, being cash and short-term investments, debt and equity, with the primary objective being safeguarding of our working capital. We use term debt to finance our capital and operations as well as our cash resources. On December 30 2010, we entered into a term loan for $3.5 million that may be used for general corporate purposes, including covering all capital and operating costs (see "Recent Developments"). We expect to periodically use debt in the future to finance capital requirements. The Board of Directors has not established capital benchmarks or other targets.

As of December 31, 2013, we had an operating credit facility with a Schedule III Canadian chartered bank in an amount of up to US$3.0 million. The operating line is secured by a charge on all of our assets, and bears interest at the prime rate plus 1% and is available based on a percentage of trade accounts receivable and investment tax credits receivable, the "Borrowing Base". The Company must maintain a liquidity ratio of 1.5 times, calculated as the total of cash and equivalents held at the bank plus 80% of eligible accounts receivable divided by all bank debt. As of December 31, 2013, we had drawn $nil on these credit facilities and were in compliance with its covenant.

Current economic events have made it more difficult for companies to access credit and raise equity. We believe that our cash on hand at the date of this report is sufficient to fund our operations for the foreseeable future. We may however, from time to time, enter into debt and equity arrangements if we believe it is in the long term interest of our shareholders. There is a risk that such arrangements may result in dilution to existing shareholders.

RISK FACTORS AFFECTING FUTURE RESULTS:

There are a number of risk factors that could cause future results to differ materially from those described herein. Please refer to our 2012 and 2013 Annual Information Forms at www.sedar.com for a full discussion of these risk factors.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES:

Management is responsible for establishing and maintaining disclosure controls and procedures. Under the supervision and with the participation of our President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), management evaluated the effectiveness of our disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to our management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosure. Management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2013 our year end.

EVALUATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining internal control over financial reporting. Under the supervision and with the participation of our President and CEO and the CFO, management evaluated the effectiveness of the Company's internal control over financial reporting. Internal control is a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the annual financial statements or interim financial statements. Management did not identify any material weaknesses in their evaluation of internal control, and concluded that the Company's internal control over financial reporting was effective, as at December 31, 2013 our year end.

There has been no change to internal controls in the most recent quarter ended on December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.