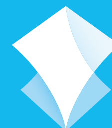
FIRST QUARTER REPORT FISCAL 2017

For the three-month period ended June 30, 2016



STINGRAY

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BASIS OF PREPARATION AND FORWARD LOOKING STATEMENTS

The following is the quarterly financial report and Management's Discussion and Analysis ("MD&A") of the results of operations and financial position of Stingray Digital Group Inc., ("Stingray" or "the Corporation"), and should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements and accompanying notes for the three-month periods ended June 30, 2016 and 2015, and with the most recent audited consolidated financial statements and MD&A for the year ended March 31, 2016. This MD&A reflects information available to the Corporation as at August 2, 2016. Additional information relating to the Corporation is also available on SEDAR at www.sedar.com. The auditors of the Corporation have not performed a review of the interim financial report for the three-month periods ended June 30, 2016 and 2015.

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. This forward-looking information includes, but is not limited to, statements with respect to management's expectations regarding the future growth, results of operations, performance and business prospects of the Corporation. This forward-looking information relates to, among other things, our objectives and the strategies to achieve these objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimations and intentions, and may also include other statements that are predictive in nature, or that depend upon or refer to future events or conditions. Statements with the words "could", "expect", "may", "will", "anticipate", "assume", "intend", "plan", "believes", "estimates", "guidance", "foresee", "continue" and similar expressions are intended to identify statements containing forward looking information, although not all forward-looking statements included such words. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events.

Although management believes the expectations reflected in such forward-looking statements are reasonable, forward-looking statements are based on the opinions, assumptions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include, but are not limited to the following risk factors : increases in royalties or restricted access to music rights; our dependence on Pay-TV providers; the rapidly evolving audio and video entertainment industry; competition from other content providers; the expansion of our operations into international markets; our rapid growth and our growth strategy; our acquisitions, business combinations and joint ventures; our dependence on key personnel; exchange rate fluctuations; economic and political instability in emerging countries; royalty calculation methods; rapid technological and industry changes; unavailability of additional funding; failure to generate cash revenues; reliance on our credit facilities; costly and protracted litigation in defence of copyrighted content; our inability to protect our proprietary technology; our reliance on third party hardware, software and related services; our inability to maintain our corporate culture; unfavourable economic conditions; our exposure to foreign privacy and data security laws; unauthorized and pirated music and video content; natural catastrophic events and interruption by man-made problems; additional income tax liabilities; maintaining our reputation; litigation and other claims; credit risk; liquidity risk; failure to comply with CRTC requirements; failure to maintain or renew our CRTC licences; the increase in broadcasting licence fees payable by us; unfavourable changes in government regulation affecting our industry.

In addition, if any of the assumptions or estimates made by management prove to be incorrect, actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such assumptions include, but are not limited to, the following: our ability to generate sufficient revenue while controlling our costs and expenses; our ability to manage our growth effectively; the absence of material adverse changes in our industry or the global economy; trends in our industry and markets; the absence of any changes in law, administrative policy or regulatory requirements applicable to our business, including any change to our licences with the CRTC; minimal changes to the distribution of the pay audio services by Pay-TV providers in light of recent CRTC policy decisions; our ability to manage risks related to international expansion; our ability to maintain good business relationships with our clients, agents and partners; our ability to expand our sales and distribution infrastructure and our marketing; our ability to develop products and technologies that keep pace with the continuing changes in technology, evolving industry standards, new product introductions by competitors and changing client preferences and requirements; our ability to protect our technology and intellectual property rights; our ability to manage and integrate acquisitions; our ability to retain key personnel; and our ability to raise sufficient debt or equity financing to support our business growth. Accordingly, prospective purchasers are cautioned not to place undue reliance on such statements. All of the forward-looking information in this MD&A is qualified by these cautionary statements. Statements containing forward-looking information contained herein are made only as of the date of this MD&A. The Corporation expressly disclaims any obligation to update or alter statements containing any forward-looking information, or the factors or assumption underlying them, whether as a result of new information, future events or otherwise, except as required by law.

SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

The Corporation believes that Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Net income, Adjusted Net income per share, Adjusted free cash flow, Net debt including contingent considerations and Net debt to Adjusted EBITDA are important measures in evaluating our performance. Each of these non-IFRS financial measures is not an earnings or cash flow measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. Our method of calculating such financial measures may differ from the methods used by other issuers and, accordingly, our definition of these non-IFRS financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that non-IFRS financial measures should not be construed as an alternative to net income determined in accordance with IFRS as indicators of our performance or to cash flows from operating activities as measures of liquidity and cash flows.

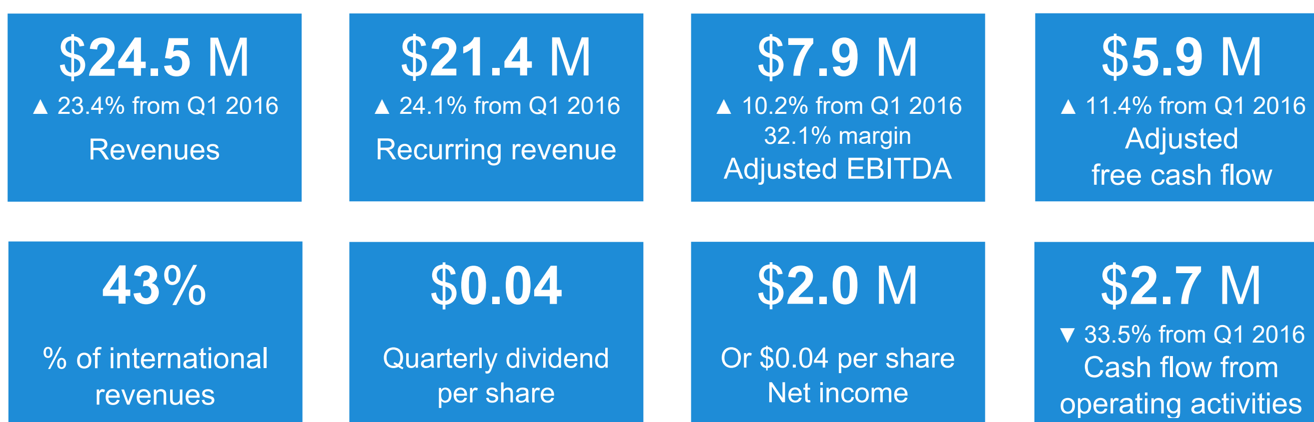
OVERVIEW

Stingray is a leading B2B multi-platform music and in-store media solutions provider operating on a global basis. The Corporation reaches an estimated 400 million TV subscribers (or households) in 152 countries. The Corporation broadcasts high quality music and video content on a number of platforms including digital TV, satellite TV, IPTV, the Internet, mobile devices and game consoles.

The Corporation is headquartered in Montreal and currently has close to 300 employees worldwide, including in the United States, the United Kingdom, the Netherlands, Switzerland, France, Israel, Australia and South Korea.

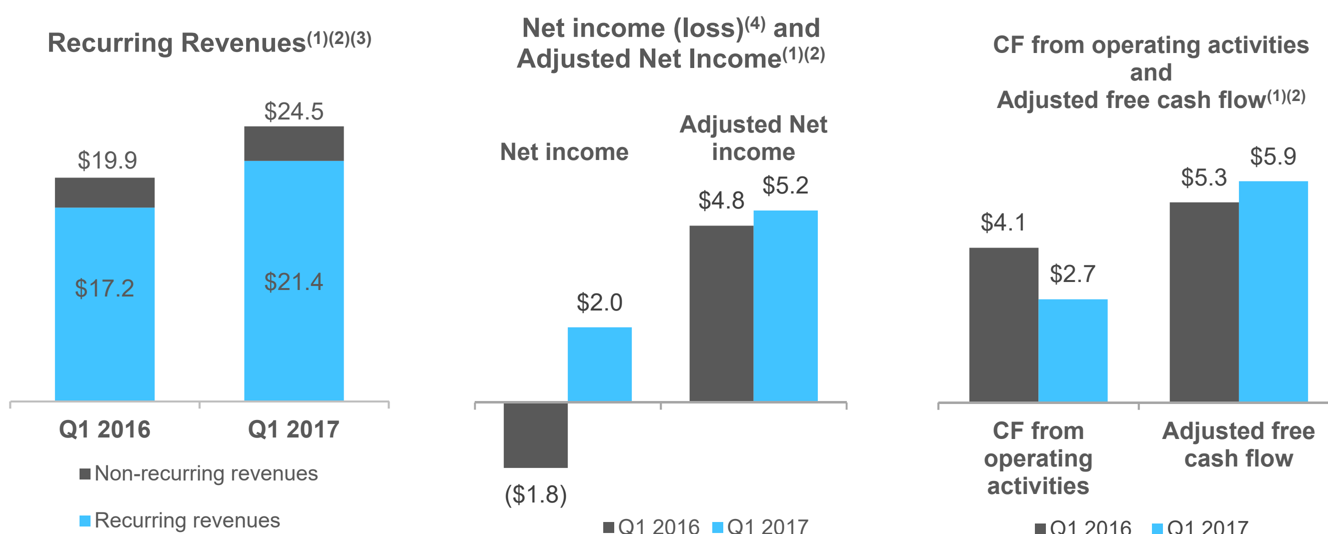
KEY PERFORMANCE INDICATORS(1)

For the three months ended June 30, 2016:



Note:
(1) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 6.

For the three months ended June 30, 2016 and June 30, 2015:



Note:
(1) In millions of Canadian dollars.
(2) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 6.
(3) Recurring revenues include subscriptions and usage in addition to fixed fees charged to our customers on a monthly, quarterly and annual basis for continuous music services. Non-recurring revenues mainly include support, installation, equipment and one-time fees.
(4) Initial public offering expenses and CRTC tangible benefits of $5.5 million recognized in Net loss in full in Q1 2016. This impact has been adjusted in the Adjusted Net income.

FINANCIAL AND BUSINESS HIGHLIGHTS

Highlights of the first quarter ended June 30, 2016

Compared to the quarter ended June 30, 2015 (“Q1 2016”):

- Revenues increased 23.4% to $24.5 million;
- Recurring revenues of $21.4 million, an increase of 24.1%;
- The contribution of International revenues increased to 42.7% from 33.7%;
- Adjusted EBITDA increased 10.2% to $7.9 million;
- Adjusted EBITDA margin was 32.1% compared with 35.9% for Q1 2016;
- Net income was $2.0 million compared with a net loss of $1.8 million for Q1 2016;
- Adjusted Net income of $5.2 million compared to $4.8 million in Q1 2016;
- Cash flow from operating activities was $2.7 million compared to $4.1 million in Q1 2016; and
- Adjusted free cash flow of $5.9 million, an increase of 11.4%.

Business Highlights:

- In May 2016, the Corporation launched the Stingray Music Mobile App in the Netherlands. Furthermore, in July 2016, the Stingray Music mobile app achieved 1 million downloads, doubling its user base in only one year. Every week, users spend an average of 5 hours listening to their favourite tracks and artists on the mobile app; an engagement far above industry average.

- In May and June 2016, the Corporation announced the renewal of important long-term contracts, including NCTC and the expansion of its distribution deal with Comcast.

- On June 15, 2016, the Corporation acquired all of the issued and outstanding shares of Festival 4K B.V. for a total consideration of EUR 1.9 million (CA$2.7 million). Available to more than 7 million subscribers currently under contract, Festival 4K B.V. offers the leading 4K Ultra HD channel with an international customer base. Its diverse programming includes hundreds of hours of shows and events recorded live. Pay-TV providers carrying the Festival 4K channel include VOO in Belgium, Free in France, and Vodafone in Spain.

- On June 21, 2016, the Corporation announced the acquisition of four (4) of Bell Media’s popular music video channels: MuchLoud, MuchRetro, MuchVibe and Juicebox for a total consideration of $4.0 million. Following the completion of the acquisition, the four channels will be reintroduced under the Stingray brand.

- On July 7, 2016, the Corporation strengthened its presence in the pivotal Asia-Pacific region with the opening of a regional headquarters in Singapore. This launch follows the recent acquisition of iConcerts, a television channel that reaches more than 250 million households, and Digital Music Distribution PTY in Australia.

- On August 2, 2016, the Corporation increased the quarterly dividend by 14% to $0.04 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend will be payable on or around September 15, 2016 to shareholders on record as of August 31, 2016.

- On August 2, 2016, the Corporation announced an expansion of its management team with the appointment of Rick Bergan as the Head of Content Distribution for the United States. Mr. Bergan will be responsible for sales development and will forge strategic relationships with sales agents and TV operators in the United States.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Three-month period ended June 30, 2016 **Q1 2017**		Three-month period ended June 30, 2015 **Q1 2016**		Three-month period ended March 31, 2016 **Q4 2016**	
(in thousands of Canadian dollars)	$	% of revenues	$	% of revenues	$	% of revenues
Revenues	24,547	100.0 %	19,895	100.0 %	25,658	100.0 %
Recurring Revenues	21,401	87.2 %	17,243	86.7 %	21,484	83.7 %
Revenues	24,547	100.0 %	19,895	100.0 %	25,658	100.0 %
Music programming, cost of services and content	8,741	35.6 %	6,982	35.1 %	8,973	35.0 %
Selling and marketing	3,019	12.3 %	2,147	10.8 %	3,467	13.5 %
Research and development, support and information technology	2,349	9.6 %	1,721	8.7 %	2,254	8.8 %
General and administrative	3,482	14.2 %	2,380	12.0 %	3,957	15.4 %
IPO expenses and CRTC tangible benefits	–	– %	5,495	27.6 %	21	0.1 %
Depreciation, amortization and write-off	3,761	15.3 %	3,678	18.5 %	3,218	12.5 %
Net finance expense[3]	648	2.6 %	866	4.4 %	836	3.3 %
Change on fair value of investments	91	0.4 %	(263)	(1.3) %	1,113	4.3 %
Income (loss) before income taxes	2,456	10.0 %	(3,111)	(15.6) %	1,819	7.1 %
Income taxes (recovery)	412	1.7 %	(1,334)	(6.7) %	(1,428)	(5.6) %
Net income (loss)	2,044	8.3 %	(1,777)	(8.9) %	3,247	12.7 %
Adjusted EBITDA[1]	7,881	32.1 %	7,151	35.9 %	8,219	32.0 %
Adjusted Net income[1]	5,207	21.2 %	4,783	24.0 %	7,135	27.8 %
Adjusted free cash flow[1]	5,861	23.9 %	5,260	26.4 %	6,280	24.5 %
Cash flow from operating activities	2,722	11.1 %	4,109	20.7 %	7,709	30.0 %
Net debt excluding contingent considerations[1]	37,286	–	6,348	–	31,834	–
Net debt to Adjusted EBITDA[1][2]	1.18x	–	0.22x	–	1.03x	–
Net debt including contingent considerations[1]	49,440	–	18,763		44,181	
Net debt including contingent considerations to Adjusted EBITDA[1][2]	1.56x	–	0.66x	–	1.43x	–
Net income (loss) per share basic	0.04	–	(0.05)	–	0.06	–
Net income (loss) per share diluted	0.04	–	(0.05)	–	0.06	–
Adjusted Net income per share basic[1]	0.10	–	0.12	–	0.14	–
Adjusted Net income per share diluted[1]	0.10	–	0.12	–	0.14	–
Revenue by category						
Music Broadcasting	17,888	72.9 %	14,120	71.0 %	19,425	75.7 %
Commercial Music	6,659	27.1 %	5,775	29.0 %	6,233	24.3 %
Revenues	24,547	100.0 %	19,895	100.0 %	25,658	100.0 %
Revenues by geography						
Canada	14,077	57.3 %	13,183	66.3 %	13,500	52.6 %
International[4]	10,470	42.7 %	6,712	33.7 %	12,158	47.4 %
Revenues	24,547	100.0 %	19,895	100.0 %	25,658	100.0 %

Notes:

(1) Refer to “Forward looking statements” and “Supplemental information on Non-IFRS measures” on page 2 and for reconciliations to the most directly comparable IFRS financial measure, refer to “Supplemental information on Non-IFRS measures” on page 6.

(2) Net debt to Adjusted EBITDA consists of Net debt divided by Adjusted EBITDA rolling twelve months.

(3) Interest paid during the Q1 2017 was $260 (Q1 2016; $1,278, Q4 2016; $244).

(4) International means all jurisdictions except Canada.

SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Net income, Adjusted Net income per share, Adjusted free cash flow, Net debt including and excluding contingent considerations and Net debt to Adjusted EBITDA are non-IFRS measures that the Corporation uses to assess its operating performance. See "Supplemental information on Non-IFRS Measures" on page 2.

The following tables show the reconciliation of Net income (loss) to Adjusted EBITDA:

(in thousands of Canadian dollars)	Three-month period ended June 30, 2016 **Q1 2017**	Three-month period ended June 30, 2015 **Q1 2016**	Three-month period ended March 31, 2016 **Q4 2016**
Net income (loss)	**2,044**	**(1,777)**	**3,247**
Net finance expense	648	866	836
Change in fair value of investments	91	(263)	1,113
Income taxes	412	(1,334)	(1,428)
Depreciation of property and equipment and write-off	574	455	594
Amortization of intangibles	3,187	3,223	2,624
Stock-based compensation[(1)]	290	221	390
Restricted and deferred share unit	326	175	319
IPO expenses and CRTC tangible benefits	–	5,495	21
Acquisition, restructuring and other various costs	309	90	503
Adjusted EBITDA	**7,881**	**7,151**	**8,219**
Net finance expense	(648)	(866)	(836)
Income taxes	(412)	1,334	1,428
Depreciation of property and equipment and write-off	(574)	(455)	(594)
Income taxes related to change in fair value of investments, share-based compensation, amortization of intangible assets, IPO expenses and CRTC tangible benefits and acquisition, restructuring and other various costs	(1,040)	(2,381)	(1,082)
Adjusted Net income	**5,207**	**4,783**	**7,135**

Note:
(1) Stock-based compensation includes related employee benefits

The following table shows the reconciliation of Cash flow from operating activities to Adjusted free cash flow:

(in thousands of Canadian dollars)	Three-month period ended June 30, 2016 **Q1 2017**	Three-month period ended June 30, 2015 **Q1 2016**	Three-month period ended March 31, 2016 **Q4 2016**
Cash flow from operating activities	**2,722**	**4,109**	**7,709**
Add / Less :			
Capital expenditures	(632)	(930)	(1,100)
Net change in non-cash operating working capital items	3,544	(3,479)	(718)
Acquisition, restructuring and other various costs	227	65	368
IPO expenses and CRTC tangible benefits	–	5,495	21
Adjusted free cash flow	**5,861**	**5,260**	**6,280**

The following table shows the calculation of Net debt including and excluding contingent considerations:

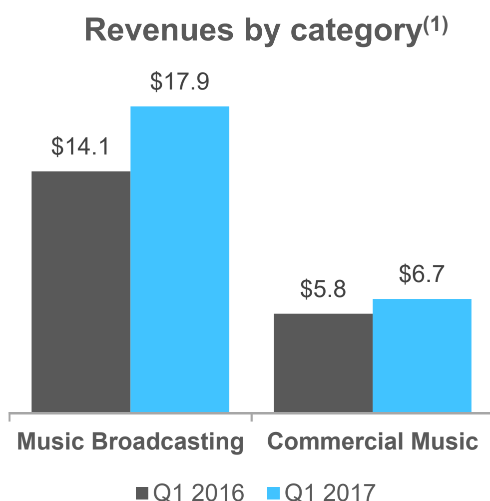
(in thousands of Canadian dollars)	**June 30, 2016**	**March 31, 2016**	**June 30, 2015**
Contingent considerations, including current portion	12,154	12,347	12,415
Revolving facility	40,513	35,035	7,393
(Cash and cash equivalents)	(3,227)	(3,201)	(1,045)
Net debt including contingent considerations	**49,440**	**44,181**	**18,763**
Contingent considerations, including current portion	(12,154)	(12,347)	(12,415)
Net debt excluding contingent considerations ("Net debt")	**37,286**	**31,834**	**6,348**

FINANCIAL RESULTS FOR THE THREE-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

Revenues

Revenues in Q1 2017 increased to $24.5 million or 23.4%, from $19.9 million for Q1 2016. The increase in revenues was primarily due to the acquisitions of iConcerts, Brava Group, Digital Media Distribution (DMD) and Nümédia combined with growth Commercial Music in Canada.

Trends by Revenue Categories were as follow:



Note:
(1) In millions of Canadian dollars.

Music Broadcasting

The most significant contributors to the increase of 26.7% or $3.8 million from Q1 2016 in Music Broadcasting revenues were as follows (arrows reflect the impact):

▲ Acquisitions of iConcerts, Brava Group and DMD and new contracts signed in Latin America and the Middle East.

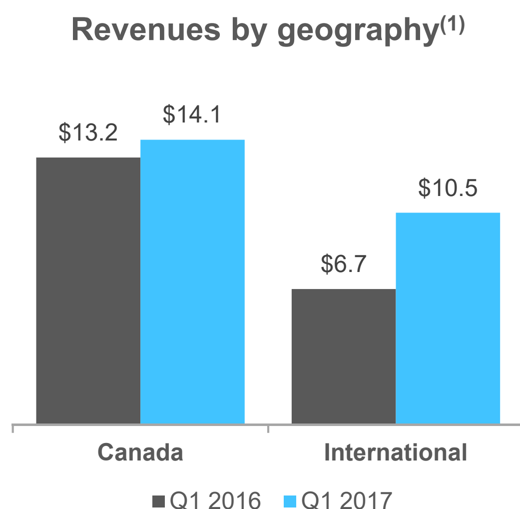
Commercial Music

The most significant contributors to the increase of 15.3% or $0.9 million from Q1 2016 in Commercial Music revenues were as follows (arrows reflect the impact):

▲ Music and digital signage recurring revenues

▲ Acquisition of Nümédia, which included additional non-recurring revenues related to equipment sales.

Trends by Revenues by Geographic Region:



Note:
(1) In millions of Canadian dollars.

Canada

The most significant contributors to the increase of 6.8% or $0.9 million from Q1 2016 in revenues for Canada were as follows (arrows reflect the impact):

▲ Commercial Music and digital signage recurring revenues, non-recurring sales of equipment and installation and the contribution of the Viva and Nümédia acquisitions.

International

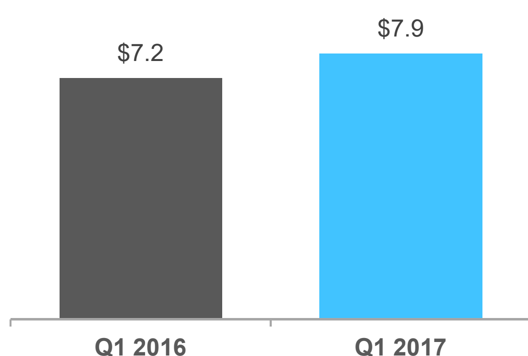
The most significant contributors to the increase of 56.0% or $3.8 million from Q1 2016 in International revenues were as follows (arrows reflect the impact):

▲ Acquisitions of iConcerts, Brava Group and DMD and new contracts signed in Latin America and the Middle East.

Operating Expenses

(in thousands of Canadian dollars)	Q1 2017 % of revenues	Q1 2016 % of revenues	Variance			Significant contributions to variance :
Music programming, cost of services and content	**$8,741** 35.6%	**$6,982** 35.1%	**$1,759**	**25.2%**	▲	Primarily due to acquisitions that occurred in Fiscal 2016 and content costs to support international growth. Costs related to additional equipment and installation sales.
Selling and marketing	**$3,019** 12.3%	**$2,147** 10.8%	**$872**	**40.6%**	▲	Primarily due to incremental selling costs from recent acquisitions, additional employees and marketing efforts to support international growth.
Information technology and research and development	**$2,349** 9.6%	**$1,721** 8.7%	**$628**	**36.5%**	▲	Primarily due to IT costs related to DMD, Brava and iConcerts and additional staff to support new technologies and growth.
General and administrative	**$3,482** 14.2%	**$2,380** 12.0%	**$1,102**	**46.3%**	▲	Primarily due to additional staff to support our international expansion and administrative costs related to recent acquisitions.
Depreciation, amortization and write-off	**$3,761** 15.3%	**$3,678** 18.5%	**$83**	**2.3%**	▲	Remained relatively stable.

Adjusted EBITDA(1)(2)



Notes:
(1) In millions of Canadian dollars.
(2) Refer to “Supplemental information on Non-IFRS measures” on page 2 and 6.

Adjusted EBITDA in Q1 2017 increased to $7.9 million or 10.2%, from $7.2 million for Q1 2016. Adjusted EBITDA margin was 32.1% in Q1 2017 compared to 35.9% in Q1 2016. The increase in Adjusted EBITDA was primarily due to the acquisitions realized in Fiscal 2016 partially offset by higher general and administrative expenses related to international expansion. The decrease in EBITDA margin was mainly related to costs comprised in recent acquisitions from which future synergies are expected.

Acquisition, restructuring and other various costs mainly included costs related to integration costs for our recent acquisitions and litigation fees.

Net Finance Expenses

Finance expenses decreased to $0.6 million from $0.9 million in Q1 2016. The decrease was mainly related to the significantly lower debt level in Q1 2017 compared to Q1 2016. In addition, in Q1 2016, the Corporation recorded a foreign exchange gain. The Corporation repaid approximately $101 million of its debt during June 2015 mainly with the proceeds of the Initial Public Offering (IPO).

Change in fair value of investment

In Q1 2017, a loss on fair value of $0.1 million was recorded compared to a gain of $0.3 million in Q1 2016. The loss in Q1 2017 represented the translation in US$ considering a lower exchange rate.

Income Taxes

Income taxes increased to $0.4 million for Q1 2017 from a recovery of $1.3 million for Q1 2016. In Q1 2016, the income taxes expenses included the recognition of deferred tax assets related to the CRTC tangible benefits and financing fees of the IPO (secondary offering), which impacted positively the total income taxes expenses.

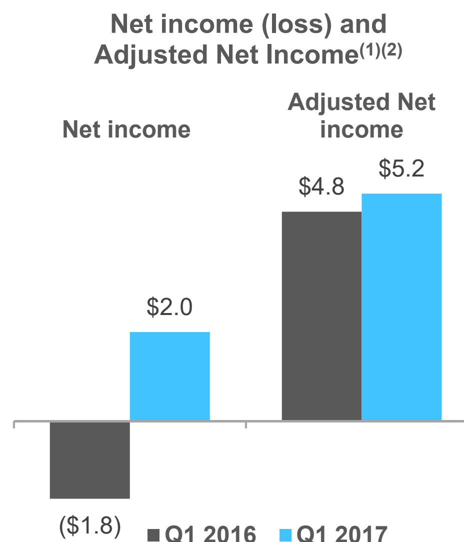
Net income (loss) and net income (loss) per share

Net income in Q1 2017 was $2.0 million ($0.04 per share) compared to a net loss of $1.8 million (($0.05) per share) in Q1 2016. The increase was mainly attributable to one-time IPO expenses and CRTC tangible benefits expenses incurred in Q1 2016 and, higher operating results partially offset by a change in fair value of investments and higher income taxes.

Adjusted Net income and Adjusted Net income per share

Adjusted Net Income in Q1 2017 increased to $5.2 million ($0.10 per share) or 8.9%, from $4.8 million ($0.12 per share) in Q1 2016. The increase was primarily due to higher Adjusted EBITDA from recent acquisitions partially offset by higher income tax expenses.

Net income (loss) and Adjusted Net Income[(1)(2)]



Notes:
(1) In millions of Canadian dollars.
(2) Refer to “Supplemental information on Non-IFRS measures” on page 2 and 6.

Quarterly results

Our revenues increased over the last eight quarters from $17.2 million in the second quarter of Fiscal 2015 to $24.5 million in the first quarter of Fiscal 2017. The increase was mainly attributable to the successful integration of acquisitions and new contracts in international markets and Canada. The decrease in Q1 2017 revenues compared to Q4 2016 was mainly related to lower non-recurring revenues in Music Broadcasting and the unfavorable foreign exchange impact between the Canadian dollar and the U.S. dollar. Recurring revenues as a percentage of total revenues represented 86.7% in Q1 2016 compared to 87.2% in Q1 2017.

Adjusted EBITDA increased from $6.7 million in the second quarter of Fiscal 2015 to $7.9 million in the first quarter of Fiscal 2017. The increase was mainly attributable to the successful integration of acquisitions and new contracts signed. The decrease in Q1 2017 Adjusted EBITDA compared to Q4 2016 was related to the decrease in non-recurring revenues in Music Broadcasting and the unfavorable foreign exchange impact between the Canadian dollar and the U.S. dollar.

Net income (loss) fluctuated over the last eight quarters from $2.2 million in the second quarter of Fiscal 2015 to $2.0 million in the first quarter of Fiscal 2017. In Q1 2016, the net loss was mainly attributable to the one-time IPO expenses and CRTC tangible benefits expenses of $5.5 million offset by related tax impact of $1.5 million. In Q2 2016, the most significant component of the increase was the recognised gain on fair value on investment of $7.5 million which was offset by related tax impact of $1.0 million. The Corporation also recognised a gain on fair value of contingent considerations of $1.1 million. In Q4 2016, the Corporation recognised deferred tax assets related to tax losses of foreign subsidiaries of $3.4 million offset by the loss on fair value on investment of $1.1 million which was related to unfavorable foreign exchange between the Canadian dollar and the U.S. dollar as the investment is denominated in U.S. dollar.

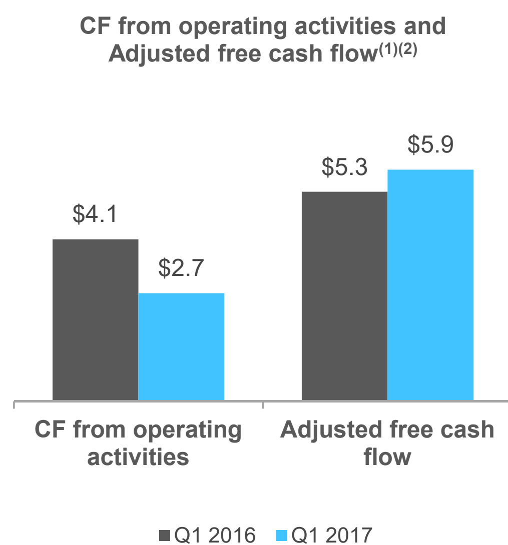
Summary of Consolidated Quarterly Results

	Quarters ended							
(in thousands of Canadian dollars, except per share amounts)	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014
	Fiscal 2017	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2015	Fiscal 2015	Fiscal 2015
Revenues by category								
Music Broadcasting	17,888	19,425	17,013	15,614	14,120	14,075	13,896	13,064
Commercial Music	6,659	6,233	6,076	5,688	5,775	5,573	4,633	4,115
Total revenues	**24,547**	**25,658**	**23,089**	**21,302**	**19,895**	**19,648**	**18,529**	**17,179**
Revenues by geography								
Canada	14,077	13,500	13,759	13,094	13,183	13,192	12,144	11,714
International	10,470	12,158	9,330	8,208	6,712	6,456	6,385	5,465
Total revenues	**24,547**	**25,658**	**23,089**	**21,302**	**19,895**	**19,648**	**18,529**	**17,179**
Recurring revenues	21,401	21,484	19,699	18,785	17,243	17,127	16,416	15,618
Recurring revenues as a percentage of total revenues	87.2%	83.7%	85.3%	88.2%	86.7%	87.2%	88.6%	90.9%
Adjusted EBITDA	**7,881**	**8,219**	**8,009**	**7,625**	**7,151**	**7,731**	**6,986**	**6,734**
Net income (loss)	**2,044**	**3,247**	**3,169**	**9,242**	**(1,777)**	**1,923**	**1,499**	**2,167**
Net income (loss) per share basic	0.04	0.06	0.06	0.18	(0.05)	0.06	0.04	0.06
Net income (loss) per share diluted	0.04	0.06	0.06	0.18	(0.05)	0.06	0.04	0.06
Adjusted Net income	**5,207**	**7,135**	**6,194**	**6,198**	**4,783**	**5,260**	**4,376**	**4,607**
Adjusted Net income per share basic	0.10	0.14	0.12	0.12	0.12	0.15	0.13	0.14
Adjusted Net income per share diluted	0.10	0.14	0.12	0.12	0.12	0.15	0.13	0.13

Reconciliation of Quarterly Non-IFRS Measures

	Quarters ended							
(in thousands of Canadian dollars)	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014
	Fiscal 2017	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2015	Fiscal 2015	Fiscal 2015
Net income (loss)	**2,044**	**3,247**	**3,169**	**9,242**	**(1,777)**	**1,923**	**1,499**	**2,167**
Net finance expenses (income)	648	836	(810)	(1,310)	866	942	1,310	1,202
Change in fair value of investment	91	1,113	(646)	(7,549)	(263)	(451)	(450)	(450)
Income taxes	412	(1,428)	920	2,117	(1,334)	(241)	(114)	(348)
Depreciation of property and equipment and write-off	574	594	609	488	455	597	586	541
Amortization of intangibles	3,187	2,624	3,443	3,592	3,223	3,653	3,583	3,288
Stock-based compensation	290	390	369	371	221	376	112	80
Restricted and deferred share unit expenses	326	319	227	242	175	221	–	–
IPO expenses and CRTC tangible benefits	–	21	–	305	5,495	–	–	–
Acquisition, restructuring and other various costs	309	503	728	127	90	711	460	254
Adjusted EBITDA	**7,881**	**8,219**	**8,009**	**7,625**	**7,151**	**7,731**	**6,986**	**6,734**
Net finance expenses (income)	(648)	(836)	810	1,310	(866)	(942)	(1,310)	(1,202)
Income taxes	(412)	1,428	(920)	(2,117)	1,334	241	114	348
Depreciation of property and equipment and write-off	(574)	(594)	(609)	(488)	(455)	(597)	(586)	(541)
Income taxes related to change in fair value of investment, share-based compensation, restricted and deferred share unit expenses, amortization of intangible assets, IPO expenses and CRTC tangible benefits and acquisition, restructuring and other various costs	(1,040)	(1,082)	(1,096)	(132)	(2,381)	(1,173)	(828)	(732)
Adjusted Net income	**5,207**	**7,135**	**6,194**	**6,198**	**4,783**	**5,260**	**4,376**	**4,607**

LIQUIDITY AND CAPITAL RESOURCES



Notes:
(1) In millions of Canadian dollars.
(2) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 6.

Cash flow from operating activities

Cash flow generated from operating activities amounted to $2.7 million for Q1 2017 compared to $4.1 million for Q1 2016. The decrease was mainly due to the negative net change in working cash capital items associated with higher accounts receivables and higher trade payables paid. The decrease was partially offset by higher operating results and lower interest paid.

Adjusted free cash flow

Adjusted free cash flow in Q1 2017 increased to $5.9 million or 11.4%, from $5.3 million in Q1 2016. The increase was mainly related to lower interest paid and lower capital expenditures partially offset by income tax paid and a foreign exchange loss.

Investing Activities

Net cash flow used in investing activities amounted to $5.2 million for Q1 2017 compared to $0.9 million for Q1 2016. The increase of $4.3 million in cash flow was primarily related to the acquisition of Festival 4K B.V. and Bell Music Channels (Much channels), partially offset by lower capital expenditures.

Financing Activities

Net cash flow used in financing activities amounted to $2.5 million for Q1 2017 compared to net cash flow provided by financing activities of $3.5 million for Q1 2016. The decrease of $6.0 million in cash flow was mainly attributable to the net increase in the revolving credit facility offset by the dividend payment and contingent considerations paid for Brava Group and Telefonica – On the spot.

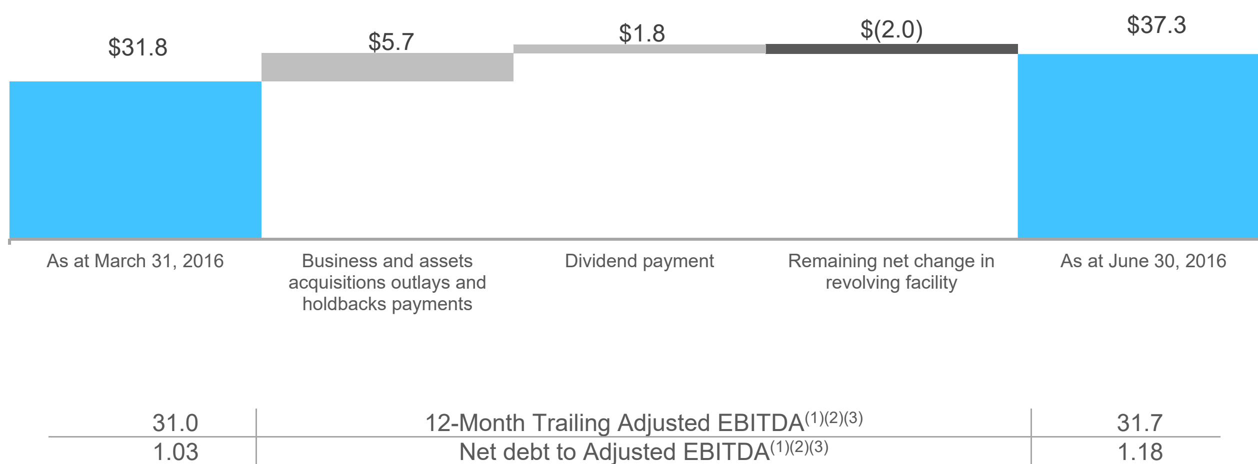
Contractual Obligations

The Corporation is committed under the terms of contractual obligations with various expiration dates, primarily the rental of office space, financial obligations under its credit agreement, broadcast licence and commitments for copyright royalties. There have been no material changes to these obligations since March 31, 2016 except for obligations related to the rental of office space.

Operating lease

On May 9, 2016, the Corporation signed a letter of intent for the renewal of its lease and to add additional space in the building under construction located at 99 Prince, Montréal, with a commencement date of July 1, 2017. The renewal of the lease is for a period of five years with an option to extend for an additional term of five years. The estimated commitment under the terms of the operating lease for the premises amounts to $5.8 million.

The following table summarizes the impact on the Net debt excluding contingent considerations (defined as Net debt below) that occurred in the period ended June 30, 2016 including related ratios:



31.0	12-Month Trailing Adjusted EBITDA(1)(2)(3)	31.7
1.03	Net debt to Adjusted EBITDA(1)(2)(3)	1.18

Notes:
(1) In millions of Canadian dollars.
(2) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 6.
(3) Adjusted EBITDA is calculated on the last twelve months in regards to the Net debt to Adjusted EBITDA ratio.

CONSOLIDATED FINANCIAL POSITION

The following table shows the main variances that have occurred in the consolidated financial position of the Corporation between June 30, 2016 and March 31, 2016:

(in thousands of Canadian dollars)	June 30, 2016	March 31, 2016	Variance		Significant contributions
Trade and other receivables	$29,850	$27,761	$2,089	▲	Attributable to additional sales for equipment and labor in Canada and international sales which have longer payment terms.
Intangible assets	$45,186	$47,901	$(2,715)	▼	Mainly attributable to amortization in the current period offset by recognition of intangibles through business acquisitions.
Goodwill	$63,455	$62,022	$1,433	▲	Goodwill related to the acquisition of Festival 4K B.V.
Accounts payable and accrued liabilities	$24,141	$25,819	$(1,678)	▼	Mainly attributable to the timing of payments to suppliers.
Revolving facility	$40,513	$35,035	$5,478	▲	Mainly attributable to business and asset acquisitions, payments of contingent considerations and quarterly dividend.
Contingent considerations, including current portion	$12,154	$12,347	$(193)	▼	Mainly attributable to the payments of contingent considerations for Brava Group and Telefonica – On the Spot offset by the recognition of Festival 4K B.V. contingent consideration.

Transactions Between Related Parties

The key management personnel of the Corporation are the Chief Executive Officer, Chief Financial Officer and certain other key employees of the Corporation.

Key management personnel compensation and directors fees include the following:

(in thousands of Canadian dollars)	Three-month period ended June 30, 2016 **Q1 2017**	Three-month period ended June 30, 2015 **Q1 2016**
Short-term employee benefits	781	666
Share-based compensation	160	165
Restricted share unit	47	54
Deferred share unit	116	–
	1,104	885

Off-Balance Sheet Arrangements

The Corporation had no off-balance sheet arrangements, other than operating leases (which have been discussed under "Contractual Obligations"), that have, or are reasonably likely to have, a current or future material effect on its consolidated financial position, financial performance, liquidity, capital expenditures or capital resources.

Disclosure of Outstanding Share Data

Issued and outstanding shares and outstanding stock options consisted of:

	August 2, 2016	June 30, 2016
Issued and outstanding shares:		
Subordinate voting shares	34,350,911	34,386,371
Variable Subordinate voting shares	537,779	502,319
Multiple voting shares	16,294,285	16,294,285
	51,182,975	51,182,975
Outstanding stock options:		
Stock options	1,523,937	1,523,937

The Corporation has established a stock option plan to attract and retain employees, directors, officers and consultants. The plan provides for the granting of options to purchase subordinate voting shares. Under this plan, 2,500,000 subordinate voting shares have been reserved for issuance. In the first quarter of 2017, 75,000 options were exercised and 344,215 options were granted to eligible employees, subject to service vesting criteria of 4 years of service.

Financial Risk Factors

The Corporation is exposed to a variety of financial risk: credit risk, liquidity risk and market risk (including currency risk and interest risk). The condensed interim consolidated financial statements and management discussion and analysis do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the annual financial statements as at March 31, 2016. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

Risk Factors

For a detailed description of risk factors associated with the Corporation, please refer to the "Risk Factors" section of the Corporation's AIF dated June 15, 2016. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

Future Accounting Changes

For information on future accounting changes, please refer to page 30 of the unaudited condensed interim consolidated financial statements.

Evaluation of Disclosure Controls and Procedures

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and of the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), together with Management, are responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P") and ICFR, as defined in National Instrument 52-109. The Corporation's internal control framework is based on the criteria published in the updated version released in May 2013 of the report Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO Framework").

The Corporation's management, under the supervision of the CEO and CFO, designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and based on 2013 COSO Framework. The DC&P have been designed to provide reasonable assurance that material information relating to the Corporation is made known to the CEO and CFO by others, and that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

There have been no changes in the Corporation's internal control over financial reporting that occurred during the period that have materially affected, or are likely to materially affect, the Corporation's ICFR.

Management's assessment of and conclusion on the design of the Corporation's ICFR as at August 2, 2016, did not include the controls or procedures of the operations of Festival 4K B.V., Transmedia Communications SA, Digital Music Distribution Pty Ltd., Brava HDTV B.V., Brava NL B.V. and DjazzTV B.V., which were acquired in Fiscal 2016 and 2017. The Corporation has accordingly availed itself of provision 3.3(1)(b) of Regulation 52-109 which permits exclusion of these acquisitions in the design and operating effectiveness assessment of its ICFR for a maximum period of 365 days from the date of acquisition.

Subsequent Events

Dividend

The Corporation's dividend policy is at the discretion of the Board of Directors and may vary depending upon, among other things, our available cash flow, results of operations, financial condition, business growth opportunities and other factors that the Board of Directors may deem relevant.

On August 2, 2016, the Corporation has declared a dividend of $0.04 per subordinate voting share, variable subordinate voting share and multiple voting share that will be payable on or around September 15, 2016 to holders of subordinate voting share, variable subordinate voting share and multiple voting share on record as of August 31, 2016.

Additional Information

Additional information about the Corporation is available on our website at www.stingray.com and on the SEDAR website at www.sedar.com.

Consolidated Statements of Comprehensive Income

Three-month period ended June 30, 2016 and 2015

(In thousands of Canadian dollars, except per share amounts)		Three-month periods ended	
(Unaudited)	Note	June 30, 2016	June 30, 2015
Revenues		$ 24,547	$ 19,895
Music programming, cost of services and content		8,741	6,982
Selling and marketing		3,019	2,147
Research and development, support and information technology		2,349	1,721
General and administrative		3,482	2,380
Initial public offering expenses and CRTC tangible benefits	5	–	5,495
Depreciation, amortization and write-off	5, 7	3,761	3,678
Net finance expense	6	648	866
Change in fair value of investments	12	91	(263)
Income (loss) before income taxes		2,456	(3,111)
Income taxes (recovery)		412	(1,334)
Net income (loss)		$ 2,044	$ (1,777)
Net income (loss) per share – Basic		0.04	(0.05)
Net income (loss) per share – Diluted		0.04	(0.05)
Weighted average number of shares – Basic		51,121,070	38,734,953
Weighted average number of shares – Diluted		51,597,745	38,734,953
Comprehensive income			
Net income (loss)		$ 2,044	$ (1,777)
Other comprehensive income, net of tax			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		(819)	–
Total other comprehensive loss		(819)	–
Total comprehensive income		$ 1,225	$ (1,777)

Net income is entirely attributable to Shareholders.

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Consolidated Statements of Financial Position

June 30, 2016 and March 31, 2016

(In thousands of Canadian dollars) (Unaudited)	Note	June 30, 2016	March 31, 2016
Assets			
Current assets			
Cash and cash equivalents		$ 3,227	$ 3,201
Trade and other receivables		29,850	27,761
Research and development tax credits		426	236
Inventories		728	910
Prepaid expenses and other current assets		3,810	3,487
		38,041	35,595
Non-current assets			
Deposit on acquisition of intangible assets	1	3,000	–
Property and equipment	7	4,697	4,628
Intangible assets	7	45,186	47,901
Goodwill	7	63,455	62,022
Investments	12	16,852	16,943
Investment in joint venture		845	815
Other assets		1,068	1,088
Deferred tax assets		6,903	7,117
Total assets		$ 180,047	$ 176,109
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		24,141	25,819
Dividends payable		–	1,789
Deferred revenues		1,423	915
Current portion of other payables	8	6,505	8,006
Income taxes payable		1,868	1,711
		33,937	38,240
Non-current liabilities			
Revolving facility		40,513	35,035
Other payables	8	9,983	8,695
Deferred tax liabilities		3,726	3,745
Total liabilities		88,159	85,715
Shareholders' equity			
Share capital	9	102,253	102,040
Contributed surplus		2,252	2,196
Deficit		(12,602)	(14,646)
Accumulated other comprehensive income		(15)	804
Total equity		91,888	90,394
Total liabilities and equity		$ 180,047	$ 176,109

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved by the Board of Directors,

(Signed) Eric Boyko, Director   (Signed) L. Jacques Ménard, Director

Consolidated Statements of Changes in Equity

Three-month periods ended June 30, 2016 and 2015

(In thousands of Canadian dollars, except number of share capital) (Unaudited)	Share Capital					
	Number	Amount	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance at March 31, 2015	33,981,088	$ 2,240	$ 1,759	$ (21,841)	$ –	$ (17,842)
Issuance of shares upon exercise of options	140,000	377	(267)	–	–	110
Issuance of subordinate voting shares and variable subordinate voting shares	16,647,100	104,044	–	–	–	104,044
Share issuance costs – net of income taxes of $2,093	–	(5,824)	–	–	–	(5,824)
Share-based compensation	–	–	221	–	–	221
Net loss and comprehensive loss	–	–	–	(1,777)	–	(1,777)
Balance at June 30, 2015	50,768,188	$ 100,837	$ 1,713	$ (23,618)	$ –	$ 78,932
Balance at March 31, 2016	51,107,975	$ 102,040	$ 2,196	$ (14,646)	$ 804	$ 90,394
Issuance of shares upon exercise of options (note 9)	75,000	213	(135)	–	–	78
Share-based compensation (note 11)	–	–	191	–	–	191
Net income	–	–	–	2,044	–	2,044
Other comprehensive loss	–	–	–	–	(819)	(819)
Balance at June 30, 2016	51,182,975	$ 102,253	$ 2,252	$ (12,602)	$ (15)	$ 91,888

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Consolidated Statements of Cash Flows

Three-month periods ended June 30, 2016 and 2015

(In thousands of Canadian dollars) (Unaudited)	Note	Three-month periods June 30, 2016	June 30, 2015
Operating activities:			
Net income (loss)		$ 2,044	$ (1,777)
Adjustments for:			
Share-based compensation	11	191	221
Restricted share unit expense	11	210	175
Deferred share unit expense	11,13	116	–
Depreciation and write-off of property and equipment	7	574	455
Amortization of intangible assets	7	3,187	3,223
Amortization and write-off of financing fees	6	25	190
Other interest expense	6	276	1,003
Change in fair value of derivative		–	(60)
Change in fair value of investments	12	91	(263)
Change in fair value of contingent considerations	6,12	(68)	6
Accretion expense of CRTC tangible benefits	6	77	24
Share of results of joint venture		(30)	(47)
Income taxes expense		412	(1,334)
Interest paid		(260)	(1,278)
Income taxes paid		(579)	92
		6,266	630
Net change in non-cash operating items	10	(3,544)	3,479
		2,722	4,109
Financing activities:			
Increase (decrease) in the revolving facility		5,478	(509)
Repayment of term loan and bridge loan		–	(100,960)
Payment of dividend and stated capital of common share		(1,789)	
Proceeds from the exercise of stock options		78	110
Issuance of shares		–	104,044
Share capital issuance costs		–	(5,682)
Deferred financing costs		–	(431)
Repayment of other payables	12	(1,247)	–
Other		(44)	(20)
		2,476	(3,448)
Investing activities:			
Business acquisitions, net of cash acquired	3	(1,540)	–
Acquisition of property and equipment		(580)	(617)
Acquisition of intangible assets		(52)	
Deposit on acquisition of intangible assets	1	(3,000)	(313)
		(5,172)	(930)
Increase (decrease) in cash and cash equivalents		26	(269)
Cash and cash equivalents, beginning of year		3,201	1,314
Cash and cash equivalents, end of period		$ 3,227	$ 1,045

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

(In thousands of Canadian dollars, unless otherwise stated)
(Unaudited)

1. Significant changes and highlights:

The condensed interim consolidated financial position and performance of Stingray Digital Group Inc. (the "Corporation") was particularly affected by the following events and transactions during the period ended June 30, 2016:

- The acquisition of Festival 4K based in Netherlands in June 2016. It resulted in the recognition of goodwill (notes 3 and 7), intangibles assets (notes 3 and 7), contingent considerations (notes 3 and 12) and additional operating profit related to the acquisition (note 3). The Corporation financed this acquisition using its amended revolving facility.
- On June 21, 2016, the Corporation announced the acquisition of four of Bell Media's popular music video channels: MuchLoud, MuchRetro, MuchVibes and Juicebox for a total consideration of $4,000. In June 2016, the Corporation has made a deposit of $3,000 to Bell Media. This acquisition will enable the Corporation to consolidate its portfolio of television music channels and to provide the most comprehensive music products and services offering worldwide.

2. Subsequent events:

Dividend

On August 2, 2016, the Corporation has declared dividend of $0.04 per subordinate voting share, variable subordinate voting share and multiple voting share that will be payable on or around September 15, 2016 to holders of subordinate voting share, variable subordinate voting share and multiple voting share on record as of August 31, 2016.

3. Business acquisitions:

Period ended June 30, 2016

Festival 4K

On June 15, 2016, the Corporation purchased all of the outstanding shares of Festival 4K B.V. for a total consideration of EUR1,861 (CA$2,678). Festival 4K, one of the first channel in the world to broadcast nonstop 4K UHD, programs a range of live performances including festivals, concerts and theatre productions. As a result of the acquisition, a goodwill of $1,961 has been recognized and is related to the operating synergies expected to be achieved from integrating the acquired business into the Corporation existing worldwide assets. The goodwill will not be deductible for tax purposes.

The fair value of acquired trade receivables was $61 which represented the gross contractual amount. The contingent consideration arrangement requires the Corporation to pay, in cash, to the former owners, a certain multiple of the revenues for 12 months and other conditions, of up to EUR1,000 (CA$1,439) and would be payable on January 2018. The fair value of the contingent consideration has been determined using an income approach based on the estimated amount and timing of projected cash flows.

The results of the business acquisition of Festival 4K for the period ended June 30, 2016 have been included in results since the date of the acquisition. Revenues recorded from the acquisition date to June 30, 2016 were $48 and net income of $2. Had the acquisitions occurred at the beginning of the fiscal year, revenues related to this acquired business would have been approximately $145 and net income of $5.

(In thousands of Canadian dollars, unless otherwise stated)
(Unaudited)

		Preliminary
Assets acquired :		
Cash and cash equivalents	$	16
Accounts receivable		61
Prepaid expense and other current assets		317
Inventory		7
Intangible assets		544
Goodwill		1,961
		2,906
Liabilities assumed :		
Accounts payable and accrued liabilities		119
Deferred tax liabilities		109
		228
Net assets acquired at fair value	$	2,678
Consideration given :		
Cash		1,652
Working capital adjustment		(96)
Contingent consideration		1,122
	$	2,678

As of the reporting date, the Corporation has not completed the purchase price allocation over the identifiable net assets and goodwill as information to confirm fair value of certain assets and liabilities is still to be obtained.

4. Segment information:

Business description

The Corporation is incorporated under the *Canada Business Corporations Act.* The Corporation is domiciled in Canada and its registered office is located at 730 Wellington, Montréal, Québec, H3C 1T4. The Corporation is a provider of multi-platform music services. It broadcasts high quality music and video content on a number of platforms including digital TV, satellite TV, IPTV, the Internet, mobile devices and game consoles.

These interim consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Stingray Music USA Inc., Stingray Music Rights Management LLC, 2144286 Ontario Inc., Pay Audio Services Limited Partnership, Stingray Business Inc., Music Choice Europe Limited, Stingray Digital International Ltd., Music Choice India Private Ltd., Music Choice Europe Deutschland GmbH, Xtra Music Ltd., 2Connect Media BV, Alexander Medien Gruppe BV, *Les Réseaux Urbains Viva Inc,* Brava HDTV B.V., Brava NL B.V., DJazz B.V., Transmedia Communications SA and its wholly-owned subsidiaries, Digital Music Distribution Pty Ltd, 9076-3392 Québec Inc. (doing business as Nümédia) and Festival 4K B.V..

Operating segments

Under IFRS 8, *Operating Segments*, the Corporation determined that it operated in a single operating segment since operations, resources and assets are mainly centralized, optimized and managed in Canada. International operations are leveraged from Canadian expertise.

The following tables provide geographic information on Corporation's revenues, property and equipment, intangibles assets and goodwill.

(In thousands of Canadian dollars, unless otherwise stated)
(Unaudited)

Revenue is derived from the following geographic areas based on selling locations.

	Three-month periods ended	
	June 30, 2016	June 30, 2015
Revenues		
Canada	$ 14,077	$ 13,183
Other countries	10,470	6,712
	$ 24,547	$ 19,895

Long-term assets are derived from the following geographic areas based on subsidiaries locations.

	June 30, 2016	March 31, 2016
Deposit on acquisition of intangible, property and equipment, Intangible assets and goodwill		
Canada	$ 55,138	$ 53,524
Netherlands	20,542	18,811
United Kingdom	16,220	16,857
Australia	12,039	12,620
Other countries	12,399	12,739
	$ 116,338	$ 114,551

5. Other information:

The following table shows the depreciation and amortization and IPO expenses and CRTC tangible benefits distributed by function:

	Three-month periods ended	
	June 30, 2016	June 30, 2015
Depreciation, amortization and write-off :		
Music programming, cost of services and content	$ 3,388	$ 3,223
General and administrative	373	455
	$ 3,761	$ 3,678
IPO expenses and CRTC tangible benefits :		
Music programming, cost of services and content	$ –	$ 4,158
General and administrative	–	1,337
	$ –	$ 5,495

The music programming, cost of services and content and the general and administrative expense would have been respectively $12,129 (2015 – $14,363) and $3,855 (2015 – $4,172), if the presentation by function of the depreciation, amortization and write-off expense, IPO expenses and CRTC tangible benefits would have been adopted in the statements of comprehensive income.

During the three-month period ended June 30 2016, transaction costs related to business acquisitions amounting to $7 (2015 – $90) have been recognized in general and administrative in the statements of comprehensive income.

(In thousands of Canadian dollars, unless otherwise stated)
(Unaudited)

6. Net finance expense:

	Three-month periods ended	
	June 30, 2016	June 30, 2015
Interest expense and standby fees	$ 276	$ 1,003
Change in fair value of contingent considerations	(68)	6
Change in fair value of derivative	–	(60)
Accretion expenses of CRTC tangible benefits payable	77	24
Amortization and write-off of financing fees	25	190
Foreign exchange loss (gain)	338	(297)
	$ 648	$ 866

7. Property and equipment, intangible assets and goodwill:

	Property and equipment	Intangible assets	Goodwill
Year ended March 31, 2016			
Opening net book amount as at March 31, 2015	$ 4,330	$ 45,441	$ 39,129
Additions	2,146	1,235	–
Additions through business acquisitions	297	13,809	22,508
Disposal and write-offs	(166)	–	–
Depreciation of property and equipment	(1,980)	–	–
Amortization of intangible assets	–	(12,882)	–
Foreign exchange differences	1	298	385
Closing net book amount as at March 31, 2016	$ 4,628	$ 47,901	$ 62,022
Three-month period ended June 30, 2016			
Opening net book amount as at March 31, 2016	$ 4,628	$ 47,901	$ 62,022
Additions	647	231	–
Additions through business acquisitions (note 3)	–	544	1,961
Depreciation of property and equipment	(574)	–	–
Amortization of intangible assets	–	(3,187)	–
Foreign exchange differences	(4)	(303)	(528)
Closing net book amount as at June 30, 2016	$ 4,697	$ 45,186	$ 63,455

(In thousands of Canadian dollars, unless otherwise stated)
(Unaudited)

8. Other payables:

	June 30, 2016	March 31, 2016
Contingent considerations	$ 12,154	$ 12,347
CRTC tangible benefits	4,254	4,230
Post-employment benefit obligations	80	124
	16,488	16,701
Current position	(6,505)	(8,006)
	$ 9,983	$ 8,695

9. Share capital:

Authorized:

Unlimited number of subordinate voting shares, participating, without par value

Unlimited number of variable subordinate voting shares, participating, without par value

Unlimited number of multiple voting shares (10 votes per share), participating, without par value

Unlimited number of special shares, participating, without par value

Unlimited number of preferred shares issuable in one or more series, non-participating, without par value

Issued and outstanding:

The movements in share capital were as follows:

	Number of shares	**Carrying amount**
Year ended March 31, 2016		
As at March 31, 2015		
Class A common shares	17,751,369	$ 2,228
Class B common shares	6,229,719	12
Class C common shares	10,000,000	–
	33,981,088	2,240
Issued upon exercise of stock options		
Class A common shares	80,000	192
Converted		
Class A common shares	(17,831,369)	(2,420)
Class B common shares	(6,229,719)	(12)
Class C common shares	(10,000,000)	–
Subordinate voting shares and variable subordinate voting shares	17,766,803	1,316
Multiple voting shares	16,294,285	1,116
	–	–
Issued upon initial public offering and exercise of over-allotment option		
Subordinate voting shares and variable subordinate voting shares	16,647,100	104,044
Share issuance costs, net of income taxes of $1,993	–	(5,542)
Issued upon exercise of stock options		
Subordinate voting shares	399,787	1,106
As at March 31, 2016		
Subordinate voting shares and variable subordinate voting shares	34,813,690	100,924
Multiple voting shares	16,294,285	1,116
	51,107,975	$ 102,040

(In thousands of Canadian dollars, unless otherwise stated)
(Unaudited)

	Number of shares	Carrying amount
Three-month period ended June 30, 2016		
As at March 31, 2016		
Subordinate voting shares and variable subordinate voting shares	34,813,690	$ 100,924
Multiple voting shares	16,294,285	1,116
	51,107,975	102,040
Issued upon exercise of stock options		
Subordinate voting shares	75,000	213
As at June 30, 2016		
Subordinate voting shares and variable subordinate voting shares	34,888,690	101,137
Multiple voting shares	16,294,285	1,116
	51,182,975	$ 102,253

10. Supplemental cash flow information:

	Three-month periods ended	
	June 30, 2016	June 30, 2015
Trade and other receivables	$ (2,170)	$ (1,603)
Research and development tax credit	(190)	(214)
Inventories	189	(559)
Prepaid expenses and other current assets	(26)	776
Other assets	(5)	77
Accounts payable and accrued liabilities	(1,793)	119
Income taxes payable	(8)	(95)
Deferred revenues	512	844
Other payables (CRTC tangible benefits)	(53)	4,134
	$ (3,544)	$ 3,479

11. Share-based compensation:

Stock options plan

During the three-month period ended June 30, 2016, 344,215 options were granted at a weighted average exercise price of $7.27 to eligible employees. The weighted average fair value of the stock options granted during the three-month period ended June 30, 2016 was $2.08. This fair value was estimated at the date on which the options were granted by using the Black-Scholes option pricing model with the following assumptions:

	2016
Volatility	35%
Risk-free interest rate	0.59%
Expected life of options	7 years
Value of the subordinate voting share at grant date	$7.27
Expected dividend rate	1.93%

During the three-month period ended June 30, 2016, 75,000 options were exercised at the weighted average exercise price of $1.06 and at a weighted average share price of $7.22.

Total share-based compensation costs recognized under this stock option plan amount to $191 for the three-month period ended June 30, 2016 (2015 – $221).

(In thousands of Canadian dollars, unless otherwise stated)
(Unaudited)

Restricted share unit plan

During the three-month period ended June 30, 2016, the total share-based compensation expense related to RSU plans amounted to $210 (2015 – $175). As at June 30, 2016, the fair value per unit was $6.99 (2015 – $7.25) for a total amount of $927 (2015 – $380) and was presented in accrued liabilities on the consolidated statements of financial position.

Deferred share unit plan

During the three-month period ended June 30, 2016, 17,126 DSU (2015 – nil) were granted at $6.98 to directors. The total expense related to DSU plans amounted to $116 (2015 – nil). As at June 30, 2016, the fair value per unit was $6.99 for a total amount of $487 and was presented in accrued liabilities on the consolidated statements of financial position.

12. Financial instruments:

Financial risk factors:

The Corporation is exposed to a variety of financial risk: credit risk, liquidity risk and market risk (including currency risk and interest risk). The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the annual financial statements as at March 31, 2016. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

Fair values

The Corporation has determined that the carrying amount of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and current other payables excluding the contingent considerations is a reasonable approximation of their fair value due to the short-term maturity of those instruments. As such, information on their fair values is not presented below. The fair value of the revolving facility, bridge loan and term loan bearing interest at variable rates approximate their carrying value as they bear interest at prime or banker's acceptance rate plus a credit spread, which approximate current rates that could be obtained for debts with similar terms and credit risk.

The carrying and fair value of financial assets and liabilities, including their level in the fair value hierarchy, consist of the following:

As at June 30, 2016	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 3,227				
Trade and other receivables	29,543				
Financial assets measured at fair value					
Investments	$ 16,852	$ 16,852	$ –	$ –	$ 16,852
Financial liabilities measured at amortized cost					
Revolving facility	$ 40,513				
Account payable and accrued liabilities	23,314				
Other payables other than contingent considerations	4,334	4,334	–	–	4,334
Financial liabilities measured at fair value					
Contingent considerations	$ 12,154	$ 12,154	$ –	$ –	$ 12,154

(In thousands of Canadian dollars, unless otherwise stated)
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As at March 31, 2016	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 3,201				
Trade and other receivables	27,456				
Financial assets measured at fair value					
Investments	$ 16,943	$ 16,943	$ –	$ –	$ 16,943
Financial liabilities measured at amortized cost					
Revolving facility	$ 35,035				
Account payable and accrued liabilities	24,963				
Other payables other than contingent considerations	4,354	4,354	–	–	4,354
Financial liabilities measured at fair value					
Contingent considerations	$ 12,347	$ 12,347	$ –	$ –	$ 12,347

Fair value measurement (Level 2 and 3):

	Investments	Derivative instrument	Contingent considerations
Three-month period June 30, 2015			
Opening amount as at March 31, 2015	$ 7,933	$ 110	$ 12,409
Change in fair value	263	(60)	6
Closing amount as at June 30, 2015	$ 8,196	$ 50	$ 12,415

	Investments	Derivative instrument	Contingent considerations
Period ended June 30, 2016			
Opening amount as at March 31, 2016	$ 16,943	$ –	$ 12,347
Additions through business acquisitions	–	–	1,122
Change in fair value	(91)	–	(68)
Payments	–	–	(1,247)
Closing amount as at June 30, 2016	$ 16,852	$ –	$ 12,154

There were no changes in the valuation techniques for the derivative instrument and contingent considerations during the periods ended June 30, 2016 and 2015.

Investments

Equity instrument in a private entity

The fair value of the equity instrument in a private entity, AppDirect, was estimated using the market approach.

For the three-month period ended June 30, 2016, the fair value has been measured by using the latest market transaction stock issue price, minus a liquidity discount of 25%. The liquidity discount was used to reflect the marketability of the asset. In measuring fair value, management used the best information available in the circumstances and also an approach that it believes market participants would use. There were no change in the fair value of this instrument during the three-month

period as there were no market stock transaction or no other indicator of significant changes that could affect the fair value of the investment.

For the three-month period ended June 30, 2015, the fair value has been measured by calculating the ratio of prior fair value measurements to annual revenues and applying that multiple to the more recent forecasted revenues of the underlying investment.

The equity instrument in a private entity is classified as a financial asset at fair value through profit and loss.

Convertible note

The convertible note has two components of value – a conventional note and an option on the equity of Multi Channels Asia PTE Ltd. ("MCA") through conversion. Based on its terms, the conversion option and the convertible note, together the hybrid contract, have been assessed as a whole for classification. The hybrid contract has been recognized at fair value on initial recognition and was classified as at fair value through profit or loss. The fair value of the option component has been measured using the Black-Scholes model with the latest market transaction stock issue price.

The fair value of the option component was estimated by using the Black-Scholes model with the following assumptions:

	2016
Volatility	40.0%
Risk-free interest rate	1.69%
Period	5 years
Dividend yield	–

The fair value was calculated as the present value of the future cash flows based on risk-adjusted discount rate. This has resulted in a loss of $ 91 for the three-month period ended June 30, 2016.

Contingent considerations

The contingent considerations related to business combinations are payable based on the achievement of targets for growth in revenues for a period from the date of the acquisition and upon renewal of client contract. The fair value measurement of the contingent consideration is determined using unobservable (Level 3) inputs. These inputs include (i) the estimated amount and timing of projected cash flows; and (ii) the risk-adjusted discount rate used to present the value of the cash flows, which is based on the risk associated with the revenue targets being met. The contingent consideration is classified as a financial liability and is included in other payables (note 8). The change in fair value is recognized in net finance expenses (note 6).

Derivative

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The derivative is classified as a financial liability at fair value through profit and loss. The change in fair value is recognized in net finance expenses (note 6).

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13. Related parties:

The key management personnel of the Corporation are the Chief Executive Officer, Chief Financial Officer and other key employees of the Corporation.

Key management personnel compensation, and director's fees are as follows:

	Three-month periods ended	
	June 30, 2016	June 30, 2015
Short-term employee benefits	$ 781	$ 666
Share-based compensation	160	165
Restricted share unit	47	54
Deferred share unit	116	–
	$ 1,104	$ 885

14. Basis of preparation:

a) Statement of compliance:

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a basis consistent with those accounting policies followed by the Corporation in the most recent audited consolidated annual financial statements. These interim consolidated financial statements have been prepared on a condensed form in accordance with IAS 34 "Interim Financial Reporting". Accordingly, certain information, in particular the accompanying notes, normally included in the consolidated annual financial statements prepared in accordance with IFRS, has been omitted or condensed. Income taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss. These interim consolidated financial statements should be read in conjunction with the consolidated annual financial statements and the note thereto for the year ended March 31, 2016.

The auditors of the Corporation have not performed a review of the interim consolidated financial statements for the three-month periods ended June 30, 2016 and 2015.

The interim consolidated financial statements were authorized for issue by the Board of Directors on August 2, 2016.

b) Use of estimates and judgements:

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of information were the same as the ones applied to the audited consolidated financial statements for the year ended March 31, 2016.

c) Functional and presentation currency:

These interim consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(In thousands of Canadian dollars, unless otherwise stated)
(Unaudited)

15. New and amended standard adopted by the Corporation:

IAS 1 - *Presentation of financial statements*

On December 18, 2014, the IASB issued amendments to IAS 1 - *Presentation of financial statements* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments did not result in any changes on the consolidated financial statements.

IAS 16 – *Property, Plant and Equipment*

On May 12, 2014, the IASB issued amendments to IAS 16 - *Property, Plant and Equipment* and IAS 38 - *Intangible Assets*. The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset. The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. These amendments did not result in any changes on the consolidated financial statements.

16. New and amended standards not yet adopted by the Corporation:

IFRS 9 - *Financial instruments*

In July 2014, the IASB released the final version of IFRS 9 - *Financial Instruments* (IFRS 2014). (“IFRS 9 (2014)”) presents a few differences with IFRS 9 (2009) and IFRS 9 (2010), early adopted by the Corporation on April 1, 2012, with respect to the classification and measurement of financial assets and accounting of financial liabilities. IFRS 9 (2014) also includes a new expected credit loss model for calculating impairment on financial assets and a new general hedge accounting requirements. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation does not intend to early adopt IFRS 9 (2014). The Corporation is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 15 - *Revenue recognition*

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers*. IFRS 15 replaces all previous revenue recognition standards, including IAS 18 - *Revenue* and related interpretations such as IFRIC 13 - *Customer Loyalty Programs*. The standard sets out the requirements for recognizing revenue. Specifically, the new standard introduces a comprehensive framework with the general principle being that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces more prescriptive guidance than was included in previous standards and may result in changes in classification and disclosure in addition to changes in the timing of recognition for certain types of revenues. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation is currently evaluating the impact that this standard will have on its consolidated financial statements. The Corporation does not intend to early adopt the standard.

IAS 7 – *Disclosure Initiative*

On January 7, 2016, the IASB issued amendments to IAS 7– *Disclosure Initiative.* 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 flows 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 Corporation intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning on April 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 16 – *Leases*

On January 13, 2016, the IASB issued IFRS 16 - *Leases*. This new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 - *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 - *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Corporation intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on April 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

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 Corporation intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on April 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; 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. The Corporation intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on April 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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