



# ***FIRST QUARTER REPORT FISCAL 2016***

For the three-month period ended June 30, 2015



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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, 2015 and 2014, and with the most recent audited consolidated financial statements and MD&A included in the prospectus dated May 26, 2015. This MD&A reflects information available to the Corporation as at August 11, 2015. Additional information relating to the Corporation is also available on SEDAR at [www.sedar.com](http://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, 2015 and 2014.

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

## 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 and in determining whether to invest in the Offered Shares. 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.

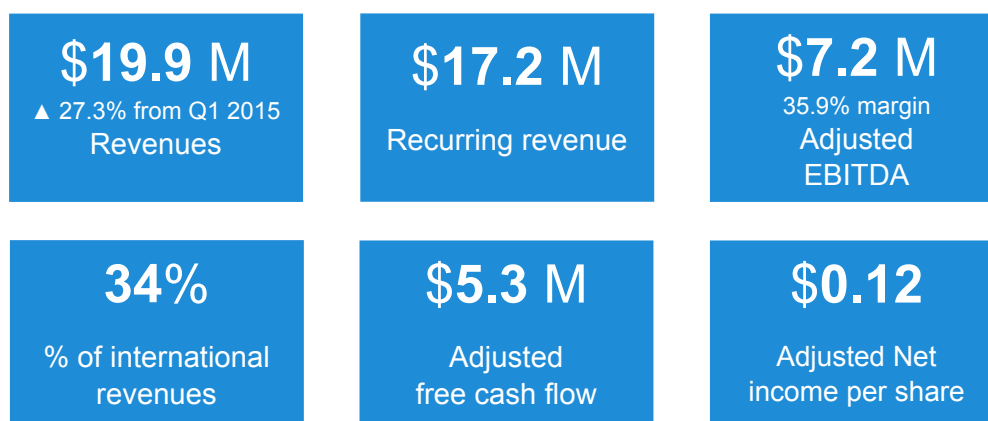
## OVERVIEW

Stingray is a leading B2B multi-platform music and in-store media solutions provider operating on a global basis. The Corporation reaches an estimated 135 million TV subscribers (or households) in 127 countries. We broadcast 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, Canada, and we employ over 235 professional and support staff across the world, including Toronto, Los Angeles, Miami, London, Amsterdam and Tel Aviv.

## KEY PERFORMANCE INDICATORS<sup>(1)</sup>

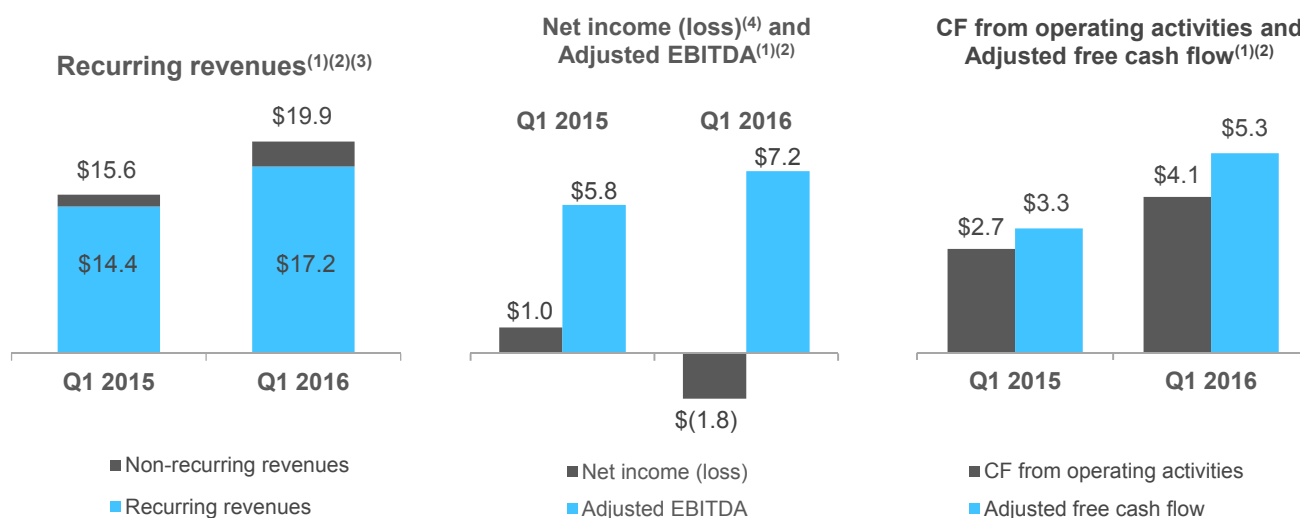
For the three months ended June 30, 2015:



Note:

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

For the three months ended June 30, 2015 and June 30, 2014:



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 quarter ended June 30, 2015

Compared to quarter ended June 30, 2014 ("Q1 2015"):

- Revenues increased 27.3% to a record level of \$19.9 million;
- Record recurring revenues of \$17.2 million, an increase of 20.0%;
- Adjusted EBITDA increased 22.8% to \$7.2 million;
- Adjusted EBITDA margin was 35.9% compared with 37.3% for Q1 2015;
- Cash flow from operating activities was \$4.1 million, an increase of 50.1%;
- Net loss was \$1.8 million compared with a net income of \$1.0 million for Q1 2015;
- Adjusted Net income of \$4.8 million compared to \$3.6 million in Q1 2015; and
- Record Adjusted free cash flow of \$5.3 million, an increase of 60.4%.

### Additional business highlights:

- On July 23, 2015, we have announced the acquisition of all the issued and outstanding shares in the share capital of Brava NL BV, Brava HDTV BV and Djazz TV BV (together "Brava"), distributors of three successful thematic channels dedicated to high-end music and cultural content available to an estimated 35 million TV subscribers on basic or through specialty packages in 50 countries in Europe, Africa, the Middle-East and the Caribbean.
- Important long-term contracts were renewed including with Telus, Sobeys and Cogeco.
- Launch of Stingray Concert in Latin America, our first linear concert channel, of Stingray Mobile in international market in over 9 different languages and of the Stingray Music streaming service on the Sonos Wireless HiFi System.
- We have appointed Stephen Tapp as Senior Vice President, Business Development. Mr. Tapp brings to Stingray over 25 years of experience building and operating profitable subscriber and advertiser supported businesses, creating branded channel partnerships and establishing content licensing deals.
- We were awarded the prestigious Special Jury Prize at the 10th International Interactive TV (ITV) Awards in Paris; recognized as an industry leader.
- Bose Corporation has mandated Stingray Business to manage all product sales of in-room audio for to the hospitality industry, including large hotel and leisure groups worldwide.
- On June 3, 2015, the Corporation successfully completed its Initial Public Offering ("IPO") for the sale to the public of an aggregate of 22,400,000 subordinate voting shares and variable subordinate voting shares (including 9,112,900 shares through a secondary offering) at a price per share of \$6.25. On June 9, 2015, the over-allotment option has been exercised by to the underwriters for an additional purchase of 3,360,000 subordinate voting shares and variable subordinate voting shares. The aggregate amount net of commissions paid to underwriters of \$98.4 million has been used to repay a significant portion of the term loan and bridge loan.
- On June 19, 2015, the Corporation amended and restated its credit agreement and increased the amount of revolving credit facility to \$100.0 million. The bridge loan and term loan has been paid out entirely. The amended revolving credit facility bears interest at the bankers' acceptance rate plus between 1.38% and 3.00% and matures in June 2019.



## SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Three-month period ended June 30, 2015 <b>Q1 2016</b>			Three-month period ended June 30, 2014 <b>Q1 2015</b>			Three-month period ended March 31, 2015 <b>Q4 2015</b>		
(in thousands of Canadian dollars)	\$	% of revenues		\$	% of revenues		\$	% of revenues	
<b>Revenues</b>	19,895	100.0	%	15,633	100.0	%	19,648	100.0	%
Recurring Revenues	17,243	87	%	14,374	92	%	17,127	87	%
<b>Revenues</b>	19,895	100.0	%	15,633	100.0	%	19,648	100.0	%
Music programming, cost of services and content	6,982	35.1	%	4,749	30.4	%	7,101	36.1	%
Selling and marketing	2,147	10.8	%	1,931	12.4	%	2,251	11.5	%
Research and development, support and information technology	1,721	8.7	%	1,418	9.1	%	1,592	8.1	%
General and administrative	2,380	12.0	%	3,138	20.1	%	2,281	11.6	%
IPO expenses and CRTC tangible benefits	5,495	27.6	%	-	-	%	-	-	%
Depreciation and amortization and write-off	3,678	18.5	%	2,731	17.5	%	4,250	21.6	%
Net finance expenses <sup>(4)</sup>	866	4.4	%	1,232	7.9	%	942	4.8	%
Change on fair value of investment	(263)	(1.3)	%	(450)	(2.9)	%	(451)	(2.3)	%
<b>Income (loss) before income taxes</b>	(3,111)	(15.6)	%	884	5.7	%	1,682	8.6	%
Income taxes	(1,334)	(6.7)	%	(134)	(0.9)	%	(241)	(1.2)	%
<b>Net income (loss)</b>	(1,777)	(8.9)	%	1,018	6.5	%	1,923	9.8	%
<b>Adjusted EBITDA<sup>(1)</sup></b>	7,151	35.9	%	5,824	37.3	%	7,731	39.3	%
<b>Adjusted Net income<sup>(1)</sup></b>	4,783	24.0	%	3,591	23.0	%	5,260	26.8	%
<b>Adjusted free cash flow<sup>(1)</sup></b>	5,260	26.4	%	3,279	21.0	%	5,152	26.2	%
<b>Cash flow from operating activities</b>	4,109	20.7	%	2,738	17.5	%	1,337	6.8	%
<b>Net debt<sup>(1)(2)</sup></b>	18,763	-		90,036	-		119,832	-	
<b>Net debt to Adjusted EBITDA<sup>(1)(3)</sup></b>	0.66x	-		3.64x	-		4.39x	-	
Net income (loss) per share basic	(0.05)	-		0.04	-		0.06	-	
Net income (loss) per share diluted	(0.05)	-		0.03	-		0.06	-	
Adjusted Net income per share basic <sup>(1)</sup>	0.12	-		0.11	-		0.15	-	
Adjusted Net income per share diluted <sup>(1)</sup>	0.12	-		0.10	-		0.15	-	
<b>Revenue by category</b>									
Music Broadcasting	14,120	71.0	%	12,464	79.7	%	14,075	71.6	%
Commercial Music	5,775	29.0	%	3,169	20.3	%	5,573	28.4	%
<b>Revenues</b>	19,895	100.0	%	15,633	100.0	%	19,648	100.0	%
<b>Revenues by geography</b>									
Canada	13,183	66.3	%	10,688	68.4	%	13,192	67.1	%
International <sup>(5)</sup>	6,712	33.7	%	4,945	31.6	%	6,456	32.9	%
<b>Revenues</b>	19,895	100.0	%	15,633	100.0	%	19,648	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 consists of the term loan, the bridge loan, the revolving facility, contingent considerations due to past acquisitions, bank overdraft less cash and cash equivalents.
- (3) Net debt to Adjusted EBITDA consists of Net debt divided by Adjusted EBITDA rolling twelve months.
- (4) Interest paid during the Q1 2016 was \$1,278 (Q1 2015; \$936, Q4 2015; \$993).
- (5) 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 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, 2015 <b>Q1 2016</b>	Three-month period ended June 30, 2014 <b>Q1 2015</b>	Three-month period ended March 31, 2015 <b>Q4 2015</b>
<b>Net income (loss)</b>	<b>(1,777)</b>	<b>1,018</b>	<b>1,923</b>
Net finance expenses	866	1,232	942
Change in fair value of investment	(263)	(450)	(451)
Income taxes	(1,334)	(134)	(241)
Depreciation of property and equipment and write-off	455	401	597
Amortization of intangibles	3,223	2,330	3,653
Stock-based compensation	221	232	376
Restricted share unit	175	-	221
IPO expenses and CRTC tangible benefits	5,495	-	-
Acquisition, restructuring and other various costs	90	1,195	711
<b>Adjusted EBITDA</b>	<b>7,151</b>	<b>5,824</b>	<b>7,731</b>
Net finance expenses	(866)	(1,232)	(942)
Income taxes	1,334	134	241
Depreciation of property and equipment and write-off	(455)	(401)	(597)
Income taxes related to change in fair value of investment, share-based compensation, amortization of intangible assets, IPO expenses and CRTC tangible benefits and acquisition, restructuring and other various costs	(2,381)	(734)	(1,173)
<b>Adjusted Net income</b>	<b>4,783</b>	<b>3,591</b>	<b>5,260</b>

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, 2015 <b>Q1 2016</b>	Three-month period ended June 30, 2014 <b>Q1 2015</b>	Three-month period ended March 31, 2015 <b>Q4 2015</b>
<b>Cash flow from operating activities</b>	<b>4,109</b>	<b>2,738</b>	<b>1,337</b>
Add / Less :			
Capital expenditures	(930)	(498)	(528)
Net change in non-cash operating working capital items	(3,479)	266	3,965
Acquisition, restructuring and other various costs <sup>(1)</sup>	65	773	378
IPO expenses and CRTC tangible benefits <sup>(1)</sup>	5,495	-	-
<b>Adjusted free cash flow</b>	<b>5,260</b>	<b>3,279</b>	<b>5,152</b>

(1) Net of income taxes, except for IPO expenses and CRTC tangible benefits as only deferred income tax has been recognized on those items, thus having a non-cash impact.

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

(in thousands of Canadian dollars)	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>March 31, 2015</b>
Term loan, including current portion	-	87,244	80,835
Contingent considerations, including current portion	12,415	3,272	12,409
Bridge loan	-	-	20,000
Revolving facility	7,393	3,310	7,902
(Cash and cash equivalents) bank overdraft	(1,045)	(3,790)	(1,314)
<b>Net debt including contingent considerations ("Net debt")</b>	<b>18,763</b>	<b>90,036</b>	<b>119,832</b>

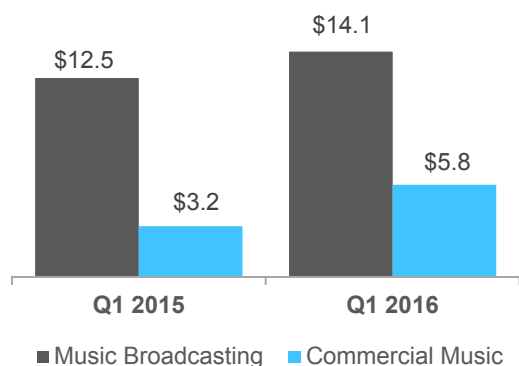
## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Revenues

Revenues in Q1 2016 increased to a record of \$19.9 million or 27.3%, from \$15.6 million for Q1 2015. The increase in revenues was primarily due to the acquisitions combined with significant growth in international markets and the launch of new products. In addition, revenues were favourably impacted by the exchange rate between the Canadian dollar and the U.S. dollar.

*Trends by Revenue Categories were as follow:*

#### Revenues by category<sup>(1)</sup>



Note:

(1) In millions of Canadian dollars.

#### Music Broadcasting

The most significant contributors to the increase of 13.3% or \$1.6 million from Q1 2015 in Music Broadcasting revenues were as follows (arrows reflect the impact):

- ▲ New customer contracts were signed during Fiscal 2015, including AT&T, which are reflected in full in Q1 2016.
- ▲ Acquisitions of Telefonica On the Spot and Archibald Media Group are included in full in Q1 2016.

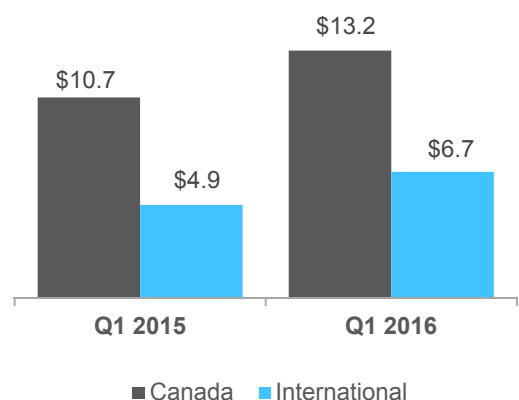
#### Commercial Music

The most significant contributors to the increase of 82.2% or \$2.6 million from Q1 2015 in Commercial Music revenues were as follows (arrows reflect the impact):

- ▲ Acquisitions of DMX Canada and *Les Réseaux Urbains Viva Inc.* are included in full in Q1 2016.
- ▲ Additional installation and equipment sales which are non-recurring revenues.

*Trends by Revenues by Geographic Region:*

#### Revenues by geography<sup>(1)</sup>



Note:

(1) In millions of Canadian dollars.

#### Canada

The most significant contributors to the increase of 23.3% or \$2.5 million from Q1 2015 in revenues for Canada were as follows (arrows reflect the impact):

- ▲ As described above in Commercial Music, acquisitions are included in full in Q1 2016 and we recognized additional installation and equipment sales.

#### International

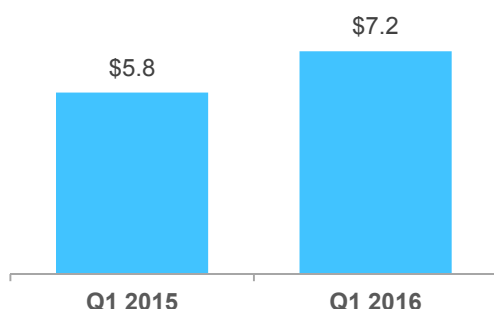
The most significant contributors to the increase of 35.7% or \$1.8 million from Q1 2015 in International revenues were as follows (arrows reflect the impact):

- ▲ New customer contracts were signed during Fiscal 2015, including AT&T and acquisitions mentioned above are included in full in Q1 2016.
- ▲ In addition, revenues were favourably impacted by the exchange rate between the Canadian dollar and the U.S. dollar.

## Operating Expenses

(in thousands of Canadian dollars)	Q1 2016 % of revenues	Q1 2015 % of revenues	Variance	Significant contributions to variance :
Music programming, cost of services and content	\$6,982 35.1%	\$4,749 30.4%	\$2,233 47.0%	▲ Primarily due to acquisitions occurred in Fiscal 2015 and to the hiring of additional staff and content costs to support our growth. Costs related to additional installation and equipment sales also contributed to the increase offset by a favorable impact on the calculation of rights on revenues and royalties.
Selling and marketing	\$2,147 10.8%	\$1,931 12.4%	\$216 11.2%	▲ Primarily due to increased costs for support revenue growth in international market.
Information Technology and Research and development	\$1,721 8.7%	\$1,418 9.1%	\$303 21.4%	▲ Primarily due to development of new applications, such as Stingray Vibes.
General and administrative	\$2,380 12.0%	\$3,138 20.1%	\$(758) (24.2)%	▼ Primarily due to specific costs related to acquisition and restructuring in Q1 2015 that did not occur in Q1 2016.
Depreciation, amortization and write-off	\$3,678 18.5%	\$2,731 17.5%	\$947 34.7%	▲ Primarily due to addition of intangible assets through business acquisitions.

## Adjusted EBITDA<sup>(1)(2)</sup>



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 2016 increased to \$7.2 million or 22.8%, from \$5.8 million for Q1 2015. Adjusted EBITDA margin was 35.9% in Q1 2016 compared to 37.3% in Q1 2015. The increase in Adjusted EBITDA was primarily due to the acquisitions in Fiscal 2015, growth in international market, additional non-recurring revenues related to installation and equipment sales and the favorable impact on the adjustment for the allocation of revenues among the suite of services offered by the Corporation and the introduction of new services for purpose of reporting and paying copyright royalties and related rights. Higher music programming, cost of services and content expenses contributed to the decrease in the Adjusted EBITDA margin, which is in line with the increase in non-recurring revenues that tends to have lower margin and also to additional costs to support our growth.

**Acquisition, restructuring and other various** costs mainly included costs related to consultant fees for the acquisition of Brava and other future acquisitions.



### **Initial public offering expenses and CRTC tangible benefits**

Initial public offering (“IPO”) expenses of \$1.3 million were related to the secondary offering costs. The secondary offering consisted of the sale by Novacap and Télésystème of the aggregate of 9,112,900 shares to the public. IPO expenses for the treasury offering by the Corporation were recognized in the statement of financial position under share capital.

The CRTC approved the change in ownership and effective control of the Corporation on April 22, 2015. Pursuant to the decision, the CRTC requires the Corporation to pay tangible benefits corresponding to an amount of \$5.5 million over a seven-year period in equal annual payments. The Corporation recognized an expense of \$4.2 million, which reflects the fair value of the payment stream using a discount rate of 7.0%, which is the Corporation effective interest rate plus a risk premium.

### **Net Finance Expenses**

Finance expenses decreased to \$0.9 million from \$1.2 million for Q1 2015. The decrease was related to a significantly lower financial debt in Q1 2016 compared to Q1 2015. The Corporation repaid approximately \$101 million of its debt during June 2015 mainly with the proceeds of the IPO.

### **Change in fair value of investment**

In Q1 2016, a gain of \$0.3 million was recorded compared to a gain of \$0.5 million in Q1 2015.

### **Income Taxes**

Income taxes decreased to a recovery of \$1.3 million for Q1 2016 from \$0.1 million for Q1 2015. The decrease in income taxes was mainly related to the decrease in income before income taxes, including the recognition of deferred tax assets related to the treasury portion of IPO expenses and CRTC tangible benefits.

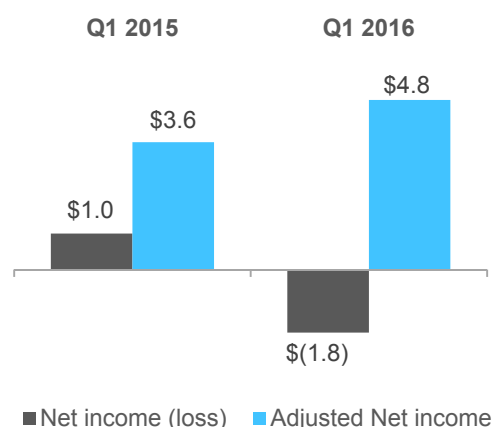
### **Net income (loss) and net income (loss) per share**

Net loss in Q1 2016 was \$1.8 million (\$0.05) per share) compared to a net income of \$1.0 million (\$0.04 per share) in Q1 2015. The net loss was primarily due to the IPO expenses, the CRTC tangible benefits and the related income tax impact.

### **Adjusted Net income and Adjusted Net income per share**

Adjusted Net Income in Q1 2016 increased to \$4.8 million (\$0.12 per share) or 33.2%, from \$3.6 million (\$0.11 per share) in Q1 2015. The increase was primarily due to higher Adjusted EBITDA resulting from the successful integration of Fiscal 2015 acquisitions combined with the signing of new international contracts, additional sales for installation and equipment and lower finance expenses.

### **Net income (loss) and Adjusted Net income<sup>(1)(2)</sup>**



**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 steadily over the last eight quarters from \$13.8 million in the second quarter of Fiscal 2014 to \$19.9 million in the first quarter of Fiscal 2016. The increase was mainly attributable to the successful integration of acquisitions and new contracts in Canada and in international markets. Over the past eight quarters, recurring revenues represented approximately 88% of total revenues, except in the third quarter of Fiscal 2014 where we recorded a higher level of non-recurring revenues than usual in part related to an acquisition.

Adjusted EBITDA increased steadily from \$5.1 million in the second quarter of Fiscal 2014 to \$7.2 million in the first quarter of Fiscal 2016. The increase was mainly attributable to the successful integration of acquisitions and new contracts signed in Canada and in international markets.

## Summary of Consolidated Quarterly Results

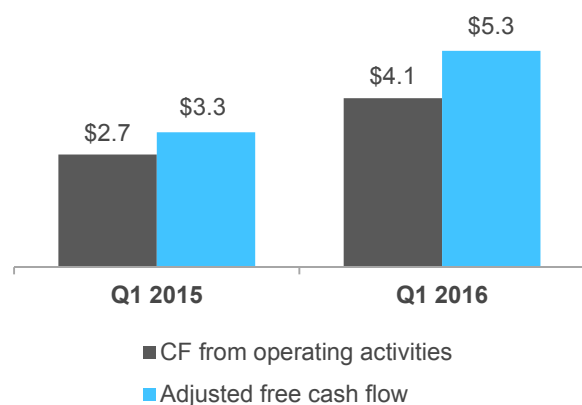
(in thousands of Canadian dollars)	Three-month period ended							
	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013
	Fiscal 2016	Fiscal 2015	Fiscal 2015	Fiscal 2015	Fiscal 2015	Fiscal 2014	Fiscal 2014	Fiscal 2014
<b>Revenue by category</b>								
Music Broadcasting	14,120	14,075	13,896	13,064	12,464	12,896	11,405	11,167
Commercial Music	5,775	5,573	4,633	4,115	3,169	3,286	4,875	2,663
<b>Total revenues</b>	<b>19,895</b>	<b>19,648</b>	<b>18,529</b>	<b>17,179</b>	<b>15,633</b>	<b>16,182</b>	<b>16,280</b>	<b>13,830</b>
<b>Revenues by geography</b>								
Canada	13,183	13,192	12,144	11,714	10,688	10,992	12,651	10,392
International	6,712	6,456	6,385	5,465	4,945	5,190	3,629	3,438
<b>Total revenues</b>	<b>19,895</b>	<b>19,648</b>	<b>18,529</b>	<b>17,179</b>	<b>15,633</b>	<b>16,182</b>	<b>16,280</b>	<b>13,830</b>
Recurring revenues	17,243	17,127	16,416	15,618	14,374	14,529	12,959	12,330
Recurring revenues as a percentage of total revenues	87%	87%	89%	91%	92%	90%	80%	89%
<b>Adjusted EBITDA</b>	<b>7,151</b>	<b>7,731</b>	<b>6,986</b>	<b>6,734</b>	<b>5,824</b>	<b>6,511</b>	<b>7,254</b>	<b>5,139</b>
<b>Net income (loss)</b>	<b>(1,777)</b>	<b>1,923</b>	<b>1,499</b>	<b>2,167</b>	<b>1,018</b>	<b>2,228</b>	<b>2,384</b>	<b>1,974</b>
Net income (loss) per share basic	(0.05)	0.06	0.04	0.06	0.04	0.07	0.08	0.06
Net income (loss) per share diluted	(0.05)	0.06	0.04	0.06	0.03	0.07	0.07	0.06
<b>Adjusted Net income</b>	<b>4,783</b>	<b>5,260</b>	<b>4,376</b>	<b>4,607</b>	<b>3,591</b>	<b>4,020</b>	<b>4,410</b>	<b>2,935</b>
Adjusted Net income per share basic	0.12	0.15	0.13	0.14	0.11	0.12	0.13	0.09
Adjusted Net income per share diluted	0.12	0.15	0.13	0.13	0.10	0.12	0.13	0.09

## Reconciliation of Quarterly Non-IFRS Measures

(in thousands of Canadian dollars)	Three-month period ended							
	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013
	Fiscal 2016	Fiscal 2015	Fiscal 2015	Fiscal 2015	Fiscal 2015	Fiscal 2014	Fiscal 2014	Fiscal 2014
<b>Net income (loss)</b>	<b>(1,777)</b>	<b>1,923</b>	<b>1,499</b>	<b>2,167</b>	<b>1,018</b>	<b>2,228</b>	<b>2,384</b>	<b>1,974</b>
Net finance expenses	866	942	1,310	1,202	1,232	696	1,120	846
Change in fair value of investment	(263)	(451)	(450)	(450)	(450)	(985)	(984)	(984)
Income taxes	(1,334)	(241)	(114)	(348)	(134)	1,017	1,094	892
Depreciation of property and equipment and write-off	455	597	586	541	401	300	238	198
Amortization of intangibles	3,223	3,653	3,583	3,288	2,330	2,678	2,312	1,903
Stock-based compensation	221	376	112	80	232	150	208	163
Restricted share unit	175	221	-	-	-	-	-	-
IPO expenses and CRTC tangible benefits	5,495	-	-	-	-	-	-	-
Acquisition, restructuring and other various costs	90	711	460	254	1,195	427	882	147
<b>Adjusted EBITDA</b>	<b>7,151</b>	<b>7,731</b>	<b>6,986</b>	<b>6,734</b>	<b>5,824</b>	<b>6,511</b>	<b>7,254</b>	<b>5,139</b>
Net finance expenses	(866)	(942)	(1,310)	(1,202)	(1,232)	(696)	(1,120)	(846)
Income taxes	1,334	241	114	348	134	(1,017)	(1,094)	(892)
Depreciation of property and equipment and write-off	(455)	(597)	(586)	(541)	(401)	(300)	(238)	(198)
Income taxes related to change in fair value of investment, share-based compensation, amortization of intangible assets, IPO expenses and CRTC tangible benefits and acquisition, restructuring and other various costs	(2,381)	(1,173)	(828)	(732)	(734)	(478)	(392)	(268)
<b>Adjusted Net income</b>	<b>4,783</b>	<b>5,260</b>	<b>4,376</b>	<b>4,607</b>	<b>3,591</b>	<b>4,020</b>	<b>4,410</b>	<b>2,935</b>

## LIQUIDITY AND CAPITAL RESOURCES

### CF from operating activities and Adjusted free cash flow<sup>(1)(2)</sup>



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 \$4.1 million for Q1 2016 compared to \$2.7 million for Q1 2015. The increase was mainly due to acquisitions, the signing of new contracts and the favorable impact on the allocation of revenues among the suite of services offered by the Corporation and the introduction of new services for purpose of reporting and paying copyright royalties and related rights, which was offset by higher music programming, cost of services and content expenses related to our growth and increase in installation and equipment sales. IPO expenses and CRTC tangible benefits have not yet been paid and are included in the net change in non-cash working capital items.

### Adjusted free cash flow

Adjusted free Cash Flow in Fiscal 2015 increased to \$5.3 million or 60.4%, from \$3.3 million in Q1 2015. The increase was primarily explained by higher operating results adjusted with IPO expenses and CRTC tangible benefits, partially offset by higher capital expenditures.

Increase in capital expenditures compared to Q1 2015 was mainly due to leasehold improvement for additional space in our Montreal office.

### Investing Activities

Net cash flow used in investing activities amounted to \$0.9 million for Q1 2016 compared to \$16.6 million for Q1 2015. The decrease of \$15.7 million was primarily a result of the acquisition of DMX Canada and Archibald Media Group in Q1 2015.

### Financing Activities

Net cash flow used in financing activities amounted to \$3.5 million for Q1 2016 compared to net cash flow generated from financing activities of \$18.0 million for Q1 2015. The decrease of \$21.5 million was mainly attributable to the acquisition of DMX Canada and Archibald Media Group that were financed through the term loan. Also, the net proceeds from the IPO has been used to repay the term loan and bridge loan.

### 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 our credit agreement, broadcast licence and commitments for copyright royalties. There have been no material changes to these obligations since March 31, 2015 except for broadcast licence and financial obligations which are described below.

#### Broadcast licence

The CRTC approved the change in ownership and effective control of the Corporation on April 22, 2015. Pursuant to the decision, the CRTC requires the Corporation to pay tangible benefits corresponding to an amount of \$5.5 million over a seven-year period in equal annual payments. The Corporation recognized an expense of \$4.2 million, which reflects the fair value of the payment stream using a discount rate of 7.0%, which is the Corporation effective interest rate plus a risk premium.

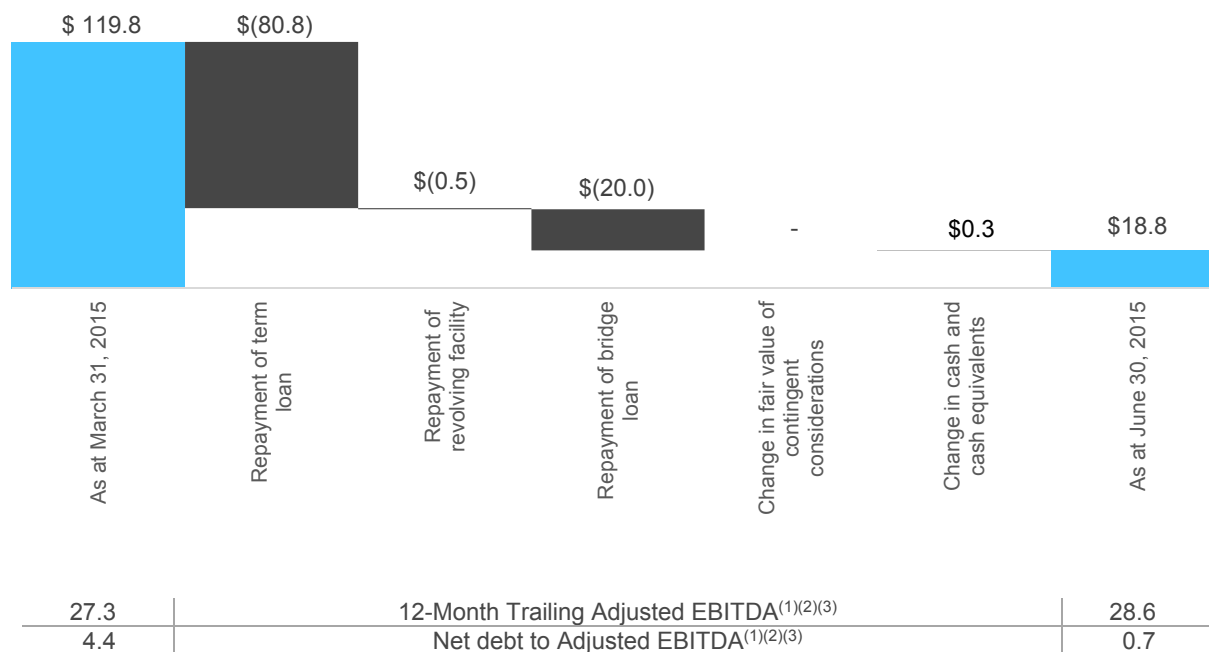
#### Financial obligations

On June 11, 2015, the Corporation renegotiated its credit agreement in order to merge the outstanding balance of the term loan into the amended revolving credit facility ("revolving facility"), to provide for the repayment of the bridge loan, to increase its borrowing capacity to \$100.0 million and to make modifications in relation to interest, maturity, security and covenants. The revolving facility matures in June 2019, bears interest at an annual rate equal to the banker's acceptance rate plus between 1.38% and 3.00% and is secured by guarantees from subsidiaries and first ranking lien on universality of all its assets, tangible and intangible, present and future. In addition, the Corporation incurs standby fees between 0.28% and 0.60% on the unused portion of the revolving facility. The Corporation is required to comply with financial covenants.



The following table summarizes the impact on the Net debt including contingent considerations that occurred in the period ended June 30, 2015 including related ratios:

### Movement in Net debt<sup>(1)(2)(3)</sup>



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, 2015 and March 31, 2015:

(in thousands of Canadian dollars)	June 30, 2015	March 31, 2015	Variance	Significant contributions
<i>Trade and other receivables</i>	\$18,792	\$17,370	\$1,422	▲ Attributable to the increase in revenues for installation and equipment, international sales that tends to have longer payment terms and favorable impact on exchange rate between the Canadian dollar and the U.S. dollar.
<i>Intangibles assets</i>	\$42,531	\$45,441	\$(2,910)	▼ Mainly attributable to amortization of the current period.
<i>Goodwill</i>	\$42,064	\$42,064	\$ —	- No change.
<i>Revolving Facility</i>	\$7,393	\$7,902	\$(509)	▼ Attributable to repayment of debt following the receipt of the net proceeds from the initial public offering.
<i>Accounts payable and accrued liabilities</i>	\$19,586	\$16,696	\$2,890	▲ Mainly attributable to the additional payables related to the cost of the offering (treasury and secondary).
<i>CRTC Tangible Benefits</i>	\$4,448	\$340	\$4,108	▲ Attributable to the change in ownership and effective controls following the initial public offering.
<i>Bridge Loan</i>	\$ —	\$20,000	\$(20,000)	▼ Attributable to repayment of debt following the receipt of the net proceeds from the initial public offering.
<i>Term loan, including current portion</i>	\$ —	\$80,835	\$(80,835)	▼ Attributable to repayment of debt following the receipt of the net proceeds from the initial public offering.

## Transactions Between Related Parties

### Transactions with Key Management Personnel and Directors

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 includes the following:

(in thousands of Canadian dollars)	Three-month period ended June 30, 2015 <b>Q1 2016</b>	Three-month period ended June 30, 2014 <b>Q1 2015</b>
Short-term employee benefits	666	494
Management fees	-	87
Share-based compensation	165	60
Restricted share unit	54	-
	<b>885</b>	<b>641</b>

### 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 11, 2015	June 30, 2015
<i>Issued and outstanding shares:</i>		
Subordinate voting shares	33,773,884	33,795,184
Variable Subordinate voting shares	700,019	678,719
Multiple voting shares	16,294,285	16,294,285
	<b>50,768,188</b>	<b>50,768,188</b>
<i>Outstanding stock options:</i>		
Stock options	1,517,579	1,517,579

Furthermore, as part of the Offering, the Corporation has established a new 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 2016, 140,000 options were exercised and 387,880 options were granted to eligible employee, subject to service vesting criteria which range from 3 to 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, 2015 included in the prospectus dated May 26, 2015. 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 prospectus dated May 26, 2015. 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 22 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.

At June 30, 2015, it is the first reporting quarter ending after the completion of the IPO resulting in the Corporation's Subordinate Voting Shares and Variable Subordinate Voting Shares being listed on the Toronto Stock Exchange. Consequently, the Corporation has elected to use the alternative form of certification provided by National Instrument 52-109 by filing an interim certificate in Form 52-109F2 – IPO/RTO with respect to such quarter. The CEO and the CFO have reviewed the interim filings and, based on their knowledge, after exercising reasonable diligence, have concluded that the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated and that the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation.

## **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 11, 2015, the Corporation has declared dividend of \$0.03 per subordinate voting share, variable subordinate voting share and multiple voting share that will be payable on or around September 15, 2015 to holders of subordinate voting share, variable subordinate voting share and multiple voting share on record as of August 31, 2015.

### **Business acquisitions**

On July 1, 2015, the Corporation entered into an agreement in connection with the acquisition of all of the issued and outstanding shares of Brava HDTV B.V., Brava NL B.V. and DjazzTV B.V., a group of companies that operates pan-European television channels dedicated to jazz, cultural and classical music based in Netherlands. The all-cash transaction includes an initial payment of approximately \$8 million (EUR6.1 million) plus potential earnout and performance based milestone payments totalling approximately \$3 million (EUR2.2 million). Under the proposed terms of the agreement, Stingray will fully own and operate Brava NL, Brava HD and DJAZZ.tv. The acquisition was closed on July 31, 2015.

These three strategic acquisitions are anticipated to be accretive to Stingray's earnings in the first year and will accelerate the Corporation's presence in the global market while further diversifying its already comprehensive portfolio of products.

## **Additional information**

Additional information about the Corporation, including our prospectus, is available on our website at [www.stingray.com](http://www.stingray.com) and on the SEDAR website at [www.sedar.com](http://www.sedar.com).



# Consolidated Statements of Financial Position

June 30, 2015 and March 31, 2015

(in thousands of Canadian dollars) (Unaudited)	June 30, 2015	March 31, 2015 (recasted, see note 4)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,045	\$ 1,314
Trade and other receivables	18,792	17,370
Research and development tax credits	236	334
Inventories	1,718	1,159
Prepaid expenses and other current assets	1,891	2,667
	23,682	22,844
<b>Non-current assets</b>		
Property and equipment (note 5)	4,590	4,330
Intangible assets (note 5)	42,531	45,441
Goodwill (note 5)	42,064	42,064
Long-term investment	8,196	7,933
Investment in joint venture	905	858
Other assets	1,208	919
Deferred tax assets	5,096	3,875
<b>Total assets</b>	<b>\$ 128,272</b>	<b>\$ 128,264</b>
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Revolving facility (note 6)	—	7,902
Accounts payable and accrued liabilities	19,586	16,696
Deferred revenues	1,558	714
Current portion of other payables (note 7)	8,440	8,463
Income taxes payable	611	213
Bridge loan (note 6)	—	20,000
Current portion of term loan (note 6)	—	9,830
	30,195	63,818
<b>Non-current liabilities</b>		
Revolving facility (note 6)	7,393	—
Term loan (note 6)	—	71,005
Derivative financial instruments	50	110
Other payables (note 7)	8,423	4,286
Employee benefit obligations	128	148
Deferred tax liabilities	3,151	6,739
<b>Total liabilities</b>	<b>49,340</b>	<b>146,106</b>
<b>Shareholders' equity</b>		
Share capital (note 8)	100,837	2,240
Contributed surplus	1,713	1,759
Deficit	(23,618)	(21,841)
<b>Total equity</b>	<b>78,932</b>	<b>(17,842)</b>
Subsequent events (note 16)		
<b>Total liabilities and equity</b>	<b>\$ 128,272</b>	<b>\$ 128,264</b>

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 Comprehensive Income

Three-month periods ended June 30, 2015 and 2014

(in thousands of Canadian dollars, except per share amounts) (Unaudited)	Three-month period ended	
	June 30, 2015	June 30, 2014
<b>Revenues</b>	\$ 19,895	\$ 15,633
Music programming, cost of services and content	6,982	4,749
Selling and marketing	2,147	1,931
Research and development, support and information technology	1,721	1,418
General and administrative	2,380	3,138
Initial public offering expenses and CRTC tangible benefits (notes 7 and 8)	5,495	–
Depreciation, amortization and write-off	3,678	2,731
Net finance expenses (note 11)	866	1,232
Change in fair value of investment	(263)	(450)
<b>Income (loss) before income taxes</b>	(3,111)	884
Income taxes	(1,334)	(134)
<b>Net income (loss) and comprehensive income (loss)</b>	\$ (1,777)	\$ 1,018
Net income (loss) per share - Basic	(0.05)	0.04
Net income (loss) per share - Diluted	(0.05)	0.03
Weighted average number of shares - Basic	38,734,953	33,235,254
Weighted average number of shares - Diluted	38,734,953	34,243,161

Net income (loss) is entirely attributable to Shareholders.

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

## Consolidated Statements of Changes in Equity

Three-month periods ended June 30, 2015 and 2014

(in thousands of Canadian dollar, except number of share capital) (Unaudited)					
	Share Capital		Contributed surplus	Deficit	Total shareholders' equity
	Number	Amount			
<b>Balance at March 31, 2014</b>	32,670,254	\$ 1,006	\$ 2,500	\$ (8,721)	\$ (5,215)
Issuance of shares upon exercise of options	565,000	623	(583)	—	40
Share-based compensation	—	—	232	—	232
Net income and comprehensive income	—	—	—	1,018	1,018
<b>Balance at June 30, 2014</b>	33,235,254	\$ 1,629	\$ 2,149	\$ (7,703)	\$ (3,925)
<b>Balance at March 31, 2015</b>	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 (note 8)	16,647,100	104,044	—	—	104,044
Share issuance costs – net of income taxes of \$2,093 (note 8)	—	(5,824)	—	—	(5,824)
Share-based compensation	—	—	221	—	221
Net loss and comprehensive loss	—	—	—	(1,777)	(1,777)
<b>Balance at June 30, 2015</b>	50,768,188	\$ 100,837	\$ 1,713	\$ (23,618)	\$ 78,932

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, 2015 and 2014

(in thousands of Canadian dollars) (Unaudited)	Three-month period ended	
	June 30, 2015	June 30, 2014
<b>Operating activities:</b>		
Net income (loss)	\$ (1,777)	\$ 1,018
Adjustments for:		
Share-based compensation	221	232
Restricted share unit expense	175	—
Depreciation of property and equipment	455	401
Amortization of intangible assets	3,223	2,330
Amortization and write-off of financing fees	190	335
Other finance expense	1,003	965
Change in fair value of derivative financial instruments	(60)	(44)
Change in fair value of long-term investment	(263)	(450)
Change in fair value of contingent considerations	6	(62)
Accretion expense of CRTC tangible benefits	24	—
Share of results of joint venture	(47)	—
Income taxes expense	(1,334)	(134)
Interest paid	(1,278)	(936)
Income taxes received (paid)	92	(651)
	630	3,004
Net change in non-cash operating items (note 12)	3,479	(266)
	4,109	2,738
<b>Financing activities:</b>		
Increase (decrease) in the revolving facility	(509)	(1,888)
Issuance of bridge loan	—	20,000
Repayment of term loan and bridge loan	(100,960)	—
Proceeds from the exercise of stock options	110	40
Issuance of shares	104,044	—
Share capital issuance costs	(5,682)	—
Deferred financing costs	(431)	(132)
Repayment of other payable	—	(36)
Other	(20)	—
	(3,448)	17,984
<b>Investing activities:</b>		
Business acquisitions, net of cash and cash equivalents	—	(16,089)
Acquisition of property and equipment	(617)	(295)
Acquisition of intangible assets	(313)	(203)
	(930)	(16,587)
Increase (decrease) in cash and cash equivalents	(269)	4,135
Cash and cash equivalents (bank overdraft), beginning of year	1,314	(345)
Cash and cash equivalents, end of period	\$ 1,045	\$ 3,790

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



# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

(in thousands of Canadian dollars, unless otherwise stated)

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## 1. Business description:

Stingray Digital Group Inc. (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 delivers music and video content on a number of platforms including digital TV, satellite TV, IPTV, the Internet, mobile devices and gaming consoles.

These 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 Limited Partnership, Stingray 360 Commercial Solutions Inc., Music Choice Europe Limited, Stage One Innovations Ltd., Stingray Digital International Ltd., Music Choice India Private Ltd., Music Choice Europe Deutschland GmbH, Xtra Music Ltd., 2Connect Media BV, Alexander Medien Gruppe BV and *Les Réseaux Urbains Viva Inc.*

## 2. Basis of preparation:

### (a) Statement of compliance:

The unaudited condensed interim consolidated financial statements as at June 30, 2015 have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with IAS 34 "Interim Financial Reporting". These interim financial statements have been prepared on a condensed form in accordance with IAS 34. The condensed consolidated interim financial statements as at June 30, 2015 follow the same accounting policies than the consolidated financial statements as at March 31, 2015, except for the adoption of new standards and amendments as described below.

These condensed interim consolidated financial statements should be read in conjunction with the consolidated annual financial statements as at March 31, 2015 included in the prospectus dated May 26, 2015.

The auditors of the Corporation have not performed a review of the condensed interim consolidated financial statements for the three-month periods ended June 30, 2015 and 2014.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 11, 2015.

### (b) Use of estimates and judgements:

The preparation of these 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 unaudited condensed 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, 2015.

### (c) Functional and presentation currency:

These condensed 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.

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

(in thousands of Canadian dollars, unless otherwise stated)

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

### IFRS 9 - *Financial instruments*

In July 2014, the International Accounting Standards Board ("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 (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 the 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, 2017 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.

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

(in thousands of Canadian dollars, unless otherwise stated)

## 4. Business acquisitions:

### *DMX Canada*

On June 27, 2014, the Corporation purchased the Canadian assets from the Commercial division of Mood Media Entertainment LTD ("DMX Canada") for a total consideration of \$11,770. The Corporation finalized the assessment of the fair values of the assets acquired and liabilities assumed related to this acquisition and no significant adjustments were required to the preliminary assessment. The contingent consideration is expected to be settle during the second quarter of fiscal 2016.

### *Archibald Media Group*

On June 12, 2014, the Corporation purchased all of the outstanding shares of Archibald Media Group B.V. for a total consideration of EUR5,319 (CA\$7,824). The Corporation finalized the assessment of the fair values of the assets acquired and liabilities assumed related to this acquisition and some adjustments to the preliminary assessment has been recorded in the Statement of Financial Position as show below. The comparative figures have been adjusted to reflect these changes. The contingent consideration is expected to be settle during the second quarter of fiscal 2017.

	Preliminary	Adjustments	Final
<b>Assets acquired:</b>			
Cash and cash equivalents	\$ 207	\$ —	\$ 207
Accounts receivable	511	—	511
Property and equipment	111	—	111
Intangible assets	4,070	(303)	3,767
Investment in joint venture	—	730	730
Goodwill	4,255	(337)	3,918
	9,154	90	9,244
<b>Liabilities assumed:</b>			
Accounts payable and accrued liabilities	486	—	486
Deferred income tax liabilities	844	90	934
	1,330	90	1,420
<b>Net assets acquired at fair value</b>	<b>\$ 7,824</b>	<b>\$ —</b>	<b>\$ 7,824</b>
<b>Considerations given:</b>			
Cash	6,079	—	6,079
Contingent consideration	1,745	—	1,745
	<b>\$ 7,824</b>	<b>\$ —</b>	<b>\$ 7,824</b>

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

(in thousands of Canadian dollars, unless otherwise stated)

## 5. Property and equipment, intangible assets and goodwill:

	Property and equipment	Intangible assets	Goodwill
<b>Year ended March 31, 2015</b>			
Opening net book amount as at March 31, 2014	\$ 2,634	\$ 40,065	\$ 31,651
Additions through business acquisitions	730	17,640	10,750
Adjustments to Business acquisition (note 4)	—	(303)	(337)
Additions	3,023	893	—
Disposals and write-offs	(74)	—	—
Depreciation of property and equipment	(1,983)	—	—
Amortization of intangible assets	—	(12,854)	—
<b>Closing net book amount as at March 31, 2015</b>	<b>\$ 4,330</b>	<b>\$ 45,441</b>	<b>\$ 42,064</b>
<b>Three-month period ended June 30, 2015</b>			
Opening net book amount as at March 31, 2015	\$ 4,330	\$ 45,441	\$ 42,064
Additions	715	313	—
Depreciation of property and equipment	(455)	—	—
Amortization of intangible assets	—	(3,223)	—
<b>Closing net book amount as at June 30, 2015</b>	<b>\$ 4,590</b>	<b>\$ 42,531</b>	<b>\$ 42,064</b>

## 6. Loans and borrowing:

Movements in loans and borrowings are as follows:

	Revolving facility	Bridge loan	Term loan
<b>Year ended March 31, 2015</b>			
Opening net book amount as at March 31, 2014	\$ 5,198	\$ —	\$ 67,041
Increase of revolving facility (net)	2,704	—	—
New debt	—	20,000	20,150
Repayments of borrowings	—	—	(6,564)
New financing fees	—	—	(161)
Amortization of financing fees	—	—	369
<b>Closing net book amount as at March 31, 2015</b>	<b>\$ 7,902</b>	<b>\$ 20,000</b>	<b>\$ 80,835</b>
Current portion	\$ 7,902	\$ 20,000	\$ 9,830
Non-current portion	—	—	71,005

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

(in thousands of Canadian dollars, unless otherwise stated)

	Revolving facility	Bridge loan	Term loan
<b>Three-month period ended June 30, 2015</b>			
Opening net book amount as at March 31, 2015	\$ 7,902	\$ 20,000	\$ 80,835
Decrease of revolving facility (net)	(509)	—	—
Repayments of borrowings	—	(20,000)	(80,960)
Amortization and write-off of financing fees	—	—	125
<b>Closing net book amount as at June 30, 2015</b>	<b>\$ 7,393</b>	<b>\$ —</b>	<b>\$ —</b>
Current portion	\$ —	\$ —	\$ —
Non-current portion	7,393	—	—

On June 11, 2015, the Corporation renegotiated its credit agreement in order to merge the outstanding balance of the term loan into the amended revolving credit facility ("revolving facility"), to provide for the repayment of the bridge loan, to increase its borrowing capacity to \$100,000 and to make modifications in relation to interest, maturity, security and covenants. The revolving facility matures in June 2019, bears interest at an annual rate equal to the banker's acceptance rate plus between 1.38% and 3.00% and is secured by guarantees from subsidiaries and first ranking lien on universality of all its assets, tangible and intangible, present and future. In addition, the Corporation incurs standby fees between 0.28% and 0.60% on the unused portion of the revolving facility. The Corporation is required to comply with financial covenants.

The Corporation incurred amendment fees of \$374 related to this transaction which have been recognized in other assets in the statement of financial position.

## 7. Other payables:

Other payables consists of the following:

	June 30, 2015	March 31, 2015
Contingent considerations	\$ 12,415	\$ 12,409
CRTC tangible benefits	4,448	340
	16,863	12,749
Current portion	(8,440)	(8,463)
	\$ 8,423	\$ 4,286

### CRTC tangible benefits

The CRTC approved the change in ownership and effective control of the Corporation on April 22, 2015. Pursuant to the decision, the CRTC requires the Corporation to pay tangible benefits corresponding to an amount of \$5,508 over a seven-year period in equal annual payments. The Corporation recognized an expense of \$4,158, which reflects the fair value of the payment stream using a discount rate of 7.0%, which is the Corporation effective interest rate plus a risk premium.

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

(in thousands of Canadian dollars, unless otherwise stated)

## 8. Share capital:

Authorized:

Prior to the closing of the initial public offering (the "Offering"), the Corporation's authorized share capital was comprised of an unlimited number of class A, B, and C common shares, voting and participating, without par value and an unlimited number of class A, B and C preferred shares, voting and non-participating, without par value.

The Corporation's authorized share capital was amended immediately prior to the closing of the Offering and all the classes of shares included in the authorized share capital of the Corporation prior to the amendment were repealed and replaced by:

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
<b>Year ended March 31, 2015</b>		
As at March 31, 2014		
Class A common shares	16,440,535	\$ 562
Class B common shares	6,229,719	12
Class C common shares	10,000,000	432
	32,670,254	1,006
<b>Issued upon exercise of stock options</b>		
Class A common shares	1,310,834	1,682
<b>Dividend and reduction of stated capital</b>		
Class A common shares	—	(16)
Class C common shares	—	(432)
	—	(448)
<b>As at March 31, 2015</b>		
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

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

(in thousands of Canadian dollars, unless otherwise stated)

	Number of shares	Carrying amount
<b>Three-month period ended June 30, 2015</b>		
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
<b>Issued upon exercise of stock options</b>		
Class A common shares	80,000	192
<b>Converted</b>		
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	1,116
Multiple voting shares	16,294,285	1,316
	—	—
<b>Issued upon initial public offering and exercise of over-allotment option</b>		
Subordinate voting shares and variable subordinate voting shares	16,647,100	104,044
Share issuance costs, net of income taxes of \$2,093	—	(5,824)
<b>Issued upon exercise of stock options</b>		
Subordinate voting shares	60,000	185
<b>As at June 30, 2015</b>		
Subordinate voting shares and variable subordinate voting shares	34,473,903	99,521
Multiple voting shares	16,294,285	1,316
	50,768,188	\$ 100,837

On June 3, 2015, the Corporation completed the Offering of its subordinate voting shares and variable subordinate voting shares with the securities regulatory authorities in each of the provinces and territories of Canada. The Corporation issued 13,287,100 Subordinate Voting shares and Variable Subordinate voting shares and received gross proceeds of \$83,044 from the issuance. On June 9, 2015, the Corporation issued 3,360,000 subordinate voting shares and variable subordinate voting shares following the exercise of the over-allotment option granted to the underwriters in connection with the Offering. The Corporation received gross proceeds of \$21,000 from the issuance.

Share issuance costs for both issuances amounted to \$9,254 which have been recognized as an expense in the Statement of Comprehensive Income for an amount of \$1,337 and as a reduction of share capital for an amount of \$7,917.

## 9. Share-based compensation:

As part of the Offering, the Corporation has established a new 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.



# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

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

During the three-month period ended June 30, 2015, 387,880 options were granted at an exercise price of \$6.25 to eligible employees. The weighted average fair value of the stock options granted during the period ended June 30, 2015 was \$3.29. 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:

Weighted average volatility	65.0% - 70.0%
Weighted average risk-free interest rate	0.73% - 1.01%
Weighted average expected life of options	5 – 6.25 years
Weighted average value of the subordinate voting share at grant date	\$6.25
Weighted average expected dividend rate	0.0% - 2.0 %

Under the former and new stock option plan, 1,517,579 stock options were outstanding as at June 30, 2015. Outstanding options are subject to employee service vesting criteria which range from nil to 4 years of service.

During the three-month period ended June 30, 2015, 140,000 options were exercised at the weighted average exercise price of \$0.78 and at a weighted average share price of \$6.90.

For the period ended June 30, 2015, the Corporation recognized a stock-based compensation expense of \$221 (2014 - \$232).

## 10. Other information:

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

	For the three-month periods ended	
	June 30, 2015	June 30, 2014
<i>Depreciation and amortization:</i>		
Music programming, cost of services and content	\$ 3,223	\$ 2,139
General and administrative	455	592
	3,678	2,731
<i>IPO expenses and CRTC tangible benefits:</i>		
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 \$14,363 (2014 - \$6,688) and \$4,172 (2014 - \$3,730), respectively if the presentation by function of the depreciation and amortization expense and IPO expenses and CRTC tangible benefits would have been adopted in the Statements of Comprehensive Income.

Transaction costs related to business acquisitions amounting to \$90 for the three-month period ended June 30, 2015 (2014 - \$101) have been recognized in general and administrative in the Statement of Comprehensive Income.

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

(in thousands of Canadian dollars, unless otherwise stated)

## 11. Net finance expenses:

	For the three-month periods ended	
	June 30, 2015	June 30, 2014
Interest expense and standby fees	\$ 1,003	\$ 965
Change in fair value of contingent considerations	6	(62)
Change in fair value of derivatives	(60)	(44)
Accretion expenses for CRTC tangible benefits payable	24	—
Amortization of financing fees	190	335
Foreign exchange (gain) loss	(297)	39
	\$ 866	\$ 1,233

## 12. Net change in non-cash operating items:

	For the three-month periods ended	
	June 30, 2015	June 30, 2014
Trade and other receivables	\$ (1,603)	\$ 227
Research and development tax credit	(214)	(124)
Inventories	(559)	(98)
Prepaid expenses and other current assets	776	(78)
Other assets	77	—
Trade and accrued liabilities	119	474
Income tax payable	(95)	(713)
Deferred revenues	844	46
Other payable (CRTC tangible benefits)	4,134	—
	\$ 3,479	\$ (266)

## 13. 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, 2015. 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 fair values of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and current other payables excluding the contingent considerations approximate their respective carrying amounts as at the balance sheet date, due to the short-term maturity of those instruments. The fair value of the revolving facility, bridge loan and term loan bearing interest at variable rates

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

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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, 2015	Carrying value	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
<b>measured at amortized cost</b>					
Cash and cash equivalents	\$ 1,045				
Trade and other receivables	18,792				
<b>Financial assets</b>					
<b>measured at fair value</b>					
Long-term investment	\$ 8,196	\$ 8,196	\$ —	\$ —	\$ 8,196
<b>Financial liabilities</b>					
<b>measured at amortized cost</b>					
Revolving facility	\$ 7,393				
Account payable					
and accrued liabilities	19,435				
Other payables	4,448				
<b>Financial liabilities</b>					
<b>measured at fair value</b>					
Contingent considerations	\$ 12,415	\$ 12,415	\$ —	\$ —	\$ 12,415
Derivative financial instruments	50	50	—	50	—
<b>As at March 31, 2015</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>					
<b>measured at amortized cost</b>					
Cash and cash equivalents	\$ 1,314				
Trade and other receivables	17,370				
<b>Financial assets</b>					
<b>measured at fair value</b>					
Long-term investment	\$ 7,933	\$ 7,933	\$ —	\$ —	\$ 7,933
<b>Financial liabilities</b>					
<b>measured at amortized cost</b>					
Revolving facility	\$ 7,902				
Account payable					
and accrued liabilities	16,598				
Bridge loan	20,000				
Other payables	340				
Term loan	80,835				
<b>Financial liabilities</b>					
<b>measured at fair value</b>					
Contingent considerations	\$ 12,409	\$ 12,409	\$ —	\$ —	\$ 12,409
Derivative financial instruments	110	110	—	110	—

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

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

Fair value measurement (Level 2 and 3):

	Long-term investment	Derivative instrument	Contingent considerations
<b>Three-month period ended June 30, 2014</b>			
Opening amount as at March 31, 2014	\$ 6,132	\$ 182	\$ 6,234
Additions through business acquisitions	—	—	3,298
Change in fair value	450	(44)	(98)
<b>Closing amount as at June 30, 2014</b>	<b>\$ 6,582</b>	<b>\$ 138</b>	<b>\$ 9,434</b>
<b>Three-month period ended June 30, 2015</b>			
Opening amount as at March 31, 2015	\$ 7,933	\$ 110	\$ 12,409
Change in fair value	263	(60)	6
<b>Closing amount as at June 30, 2015</b>	<b>\$ 8,196</b>	<b>\$ 50</b>	<b>\$ 12,415</b>

There was no changes in the valuation techniques for the derivative instrument and contingent considerations during the periods ended June 30, 2015 and 2014.

Long term investment

The fair value of the long-term investment was estimated using the market approach.

For the 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.

For the year ended March 31, 2015, the valuation technique included an allocation of the value of the underlying categories of shares, which involved calibrating the Black-Scholes option pricing model to the latest market transaction stock issue price.

This fair value was estimated by using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2015
Volatility	60.0%
Risk-free interest rate	0.5%
Period	2 years
Dividend yield	nil

The long-term investment is classified as a financial asset at fair value through profit and loss. An increase of 5.0% in the value per convertible preferred share would have increased the fair value of the long-term investment by approximately \$410 during the period ended June 30, 2015 (2014 - \$307).

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 11).

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)  
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## Contingent considerations

The contingent consideration 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. 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 value the cash flows which is based on the risk associated with the revenue targets being met. A discount rate ranging from 12% to 15% has been applied and considers time value of money. A change in unobservable inputs in isolation would not result in a significantly lower (higher) fair value measurement. The contingent consideration is classified as a financial liability and is included in other payables (note 7). The change in fair value is recognized in net finance expenses (note 11).

## 14. Related parties:

### Transaction with key management personnel and directors

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, prior shareholders management fees and directors fees are as follows:

	For the three-month periods ended	
	June 30, 2015	June 30, 2014
Short-term employee benefits	\$ 666	\$ 494
Management fees	—	87
Share-based compensation	165	60
Restricted share unit	54	—
	<u>\$ 885</u>	<u>\$ 641</u>

# Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2015 and 2014

(Unaudited)

(in thousands of Canadian dollars, unless otherwise stated)

## 15. Segment information:

Under IFRS 8 “*Operating Segments*”, the Corporation determined that it operated in a single operating segment for the three-month periods ended June 30, 2015 and 2014 since operations, resources and assets are mainly centralized, optimized and managed in Canada. International operations are leveraged from Canadian expertise.

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

	For the three-month periods ended	
	June 30, 2015	June 30, 2014
<b>Revenues</b>		
Canada	\$ 13,183	\$ 10,688
Other countries	6,712	4,945
	<b>\$ 19,895</b>	<b>\$ 15,633</b>

## 16. Subsequent events:

### Business acquisitions

On July 1, 2015, the Corporation entered into an agreement in connection with the acquisition of all of the issued and outstanding shares of Brava HDTV B.V., Brava NL B.V. and DjazzTV B.V., a group of companies that operates pan-European television channels dedicated to jazz, cultural and classical music based in Netherlands. The all-cash transaction includes an initial payment of approximately \$8,000 (EUR6,100) plus potential earnout and performance based milestone payments totalling approximately \$3,000 (EUR2,200). Under the proposed terms of the agreement, Stingray will fully own and operate Brava NL, Brava HD and DJAZZ.tv. The acquisition was closed on July 31, 2015.

### Dividend

As announced, the Corporation has declared dividend of \$0.03 per subordinate voting share, variable subordinate voting share and multiple voting share on August 11, 2015 that will be payable on or around September 15, 2015 to holders of subordinate voting share, variable subordinate voting share and multiple voting share on record as of August 31, 2015.



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