ALL GOOD VIBES

Second quarter report | Fiscal 2018

For the three-month and six-month periods ended September 30, 2017

STINGRAY

TABLE OF CONTENTS

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 interim consolidated financial statements and accompanying notes for the three-month and the six month periods ended September 30, 2017 and 2016, and with the most recent audited consolidated financial statements and MD&A for the year ended March 31, 2017. This MD&A reflects information available to the Corporation as at November 8, 2017. Additional information relating to the Corporation is also available on SEDAR at www.sedar.com.

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 risk factors disclosed in the Annual Information Form for the year ended March 31, 2017 available on SEDAR.

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 and Adjusted EBITDA margin are important measures when analyzing its operating profitability without being influenced by financing decisions, non-cash items and income taxes strategies. Comparison with peers is also easier as companies rarely have the same capital and financing structure. The Corporation believes that Adjusted net income and Adjusted net income per share are important measures as it demonstrates its core bottom-line profitability. The Corporation believes that Adjusted free cash flow is an important measure when assessing the amount of cash generated after accounting for capital expenditures and non-core charges. It demonstrates cash available to make business acquisitions, pay dividends and reduce debt. The Corporation believes that Net debt including and excluding contingent consideration and Net debt to Adjusted EBITDA are important measures when analyzing the significance of debt on the Corporation's statement of financial position. 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 scale. The Corporation reaches an estimated 400 million TV subscribers (or households) in 156 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 350 employees worldwide, including in the United States, the United Kingdom, the Netherlands, France, Israel, Australia, South Korea, and Singapore.

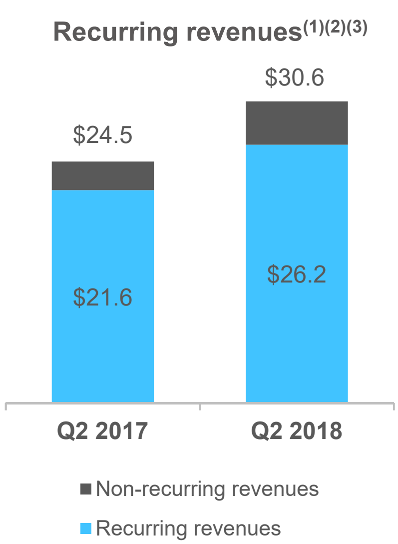
KEY PERFORMANCE INDICATORS(1)

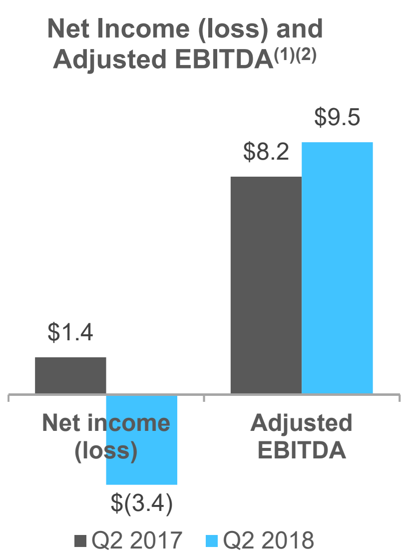
For the three-month period ended September 30, 2017:

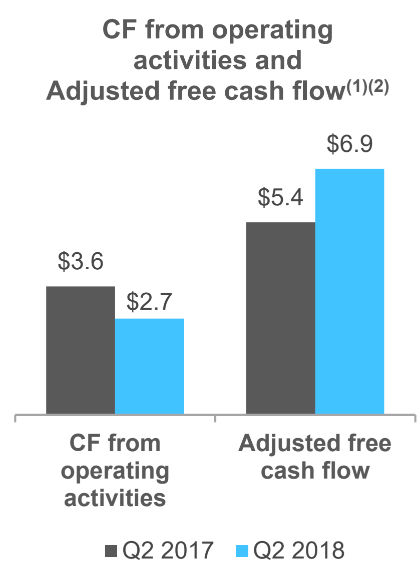
$30.6 M ▲ 24.7% from Q2 2017 Revenues	**$26.2 M** ▲ 21.3% from Q2 2017 Recurring revenues	**$9.5 M** ▲ 15.0% from Q2 2017 30.9% margin(1) Adjusted EBITDA(1)	**$6.9 M** ▲ 26.0% from Q2 2017 Adjusted free cash flow(1)
51.5% % of international revenues(2)	**$0.05** Quarterly dividend per share	**$(3.4) M** Or $(0.07) per share Net loss	**$2.7 M** ▼ 25.1% from Q2 2017 CF from operating activities

Notes:
(1) Refer to “Supplemental information on Non-IFRS measures” on page 2 and 7.
(2) International means all jurisdictions except Canada.

For the three-month periods ended September 30, 2017 and 2016:







Notes:
(1) In millions of Canadian dollars.
(2) Refer to “Supplemental information on Non-IFRS measures” on page 2 and 7.
(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.

FINANCIAL AND BUSINESS HIGHLIGHTS

Highlights of the second quarter ended September 30, 2017

Compared to the quarter ended September 30, 2016 (“Q2 2017”):

- Revenues increased 24.7% to $30.6 million from $24.5 million for Q2 2017;
- Recurring revenues of $26.2 million (85.6% of total revenues), an increase of 21.3%;
- International revenues (including the U.S. and Other Countries) increased to 51.5% from 42.7%;
- Adjusted EBITDA(1) increased 15.0% to $9.5 million from $8.2 million for Q2 2017;
- Adjusted EBITDA(1) margin was 30.9% compared with 33.5% for Q2 2017;
- Net loss was $3.4 million ($(0.07) per share) compared with $1.4 million net income for Q2 2017 ($0.03 per share);
- Adjusted Net income(1) remained stable at $5.4 million ($0.10 per share);
- Cash flow from operating activities was $2.7 million compared to $3.6 million in Q2 2017; and
- Adjusted free cash flow(1) increased 26.0% to $6.9 million compared to $5.4 million in Q2 2017.

Business Highlights:

- On November 8, 2017, the Corporation declared a dividend of $0.05 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend will be payable on or around December 15, 2017 to shareholders on record as of November 30, 2017.
- On October 25, 2017, the Corporation announced that it has concluded a groundbreaking agreement with Farmacias del Ahorro, one of Mexico’s largest drugstore chains, that will bring custom music programming and digital signage technology to over 1,600 pharmacies and clinics across Mexico.
- On October 24, 2017, the Corporation completed a bought deal offering of an aggregate 4,348,000 subordinate voting shares and variable subordinate voting shares of the Corporation at a price of $9.20 per share for gross proceeds of $40.0 million and net proceeds of $38.4 million. On November 7, 2017 the underwriters exercised part of their over-allotment option and bought an additional 552,200 subordinate voting shares at a price of $9.20 for gross proceeds of $5.1 million and net proceeds of $4.9 million.
- Subscription Video On Demand (SVOD) services now exceed 218,000 paying subscribers, which number includes B2C customers. The Corporation’s SVOD offerings are available as a B2C service and through major entertainment service providers which include Amazon, Comcast, AT&T, Telefonica and Free. These services allow users to enjoy unlimited, curated music programming for a monthly fee.
- On October 23, 2017, the Corporation announced that the Patent Trial and Appeal Board (PTAB) of the United States Patent and Trademark Office had granted its requests and initiated inter partes review (IPR) proceedings against U.S. Patent Nos. 8,769,602, 9,357,245, 7,320,025 and 9,351,045 owned by Music Choice. On October 27, 2017, the PTAB granted the Corporation’s request and initiated IPR proceedings against U.S. Patent No. 9,414,121. Thus, IPR proceedings have been initiated against all five (5) of the patents that were originally named in the patent infringement complaint filed by Music Choice. On November 1, 2017, the Magistrate Judge presiding over the patent infringement lawsuit in Texas granted the Corporation’s motion to adjourn the lawsuit and ordered that the current trial date and all remaining scheduled deadlines should be cancelled pending the hearing of the Corporation’s motion to stay.
- On October 4, 2017, the Corporation announced the launch of Stingray Classica, the world’s premium classical music television channel available to Videotron subscribers.
- On September 25, 2017, the Corporation launched advertising on the Stingray Music Mobile App, a service that is offered to the 90% of Canadians with access to Stingray Music as part of their pay TV packages. The Corporation has enabled real-time buying for ad formats to respond to the needs of advertisers. All formats are offered on smartphones and tablets.

- On September 1, 2017, the Corporation signed a long-term agreement with Sony Music Entertainment giving the Corporation preferred access to all of the label's short form (music videos) and long form (concerts) catalogue for distribution throughout North America.
- On July 31, 2017, the Corporation announced that it had acquired an Australian provider of in-store media solutions, SBA Music PTY Ltd. (SBA) for total consideration of AU$4.0 million ($3.9 million).
- On July 31, 2017, the Corporation announced that it had concluded the acquisition of Satellite Music Australia PTY Ltd (SMA), a subsidiary of Macquarie Media Operations PTY Ltd. and an Australian provider of in-store media solutions for total consideration of AU$6.2 million ($6.2 million).

Note:

(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 7.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Three-month periods ended				Six-month periods ended			
	Sept. 30, 2017 **Q2 2018**		Sept. 30, 2016 **Q2 2017**		Sept. 30, 2017 **YTD 2018**		Sept. 30, 2016 **YTD 2017**	
(in thousands of Canadian dollars)	**$**	**% of revenues**	**$**	**% of revenues**	**$**	**% of revenues**	**$**	**% of revenues**
Revenues	30,579	100.0 %	24,527	100.0 %	59,757	100.0 %	49,074	100.0 %
Recurring Revenues	26,175	85.6 %	21,584	88.0 %	51,185	85.7 %	42,985	87.6 %
Revenues	30,579	100.0 %	24,527	100.0 %	59,757	100.0 %	49,074	100.0 %
Music programming, cost of services and content	10,786	35.3 %	8,399	34.2 %	21,047	35.2 %	17,140	34.9 %
Selling and marketing	3,600	11.8 %	2,894	11.8 %	7,165	12.0 %	5,913	12.0 %
Research and development, support and information technology	3,079	10.1 %	2,190	8.9 %	6,057	10.1 %	4,539	9.2 %
General and administrative	10,258	33.5 %	4,501	18.4 %	15,755	26.4 %	7,983	16.3 %
Depreciation, amortization and write-off	5,226	17.1 %	4,528	18.5 %	10,388	17.4 %	8,289	16.9 %
Net finance expense (income)(3)	1,269	4.1 %	373	1.5 %	1,806	3.0 %	1,021	2.1 %
Change in fair value of investments	697	2.3 %	(250)	(1.0) %	1,131	1.9 %	(159)	(0.3) %
Income (loss) before income taxes	(4,336)	(14.2) %	1,892	7.7 %	(3,592)	(6.0) %	4,348	8.9 %
Income taxes (recovery)	(941)	(3.1) %	487	2.0 %	(477)	(0.8) %	899	1.8 %
Net income (loss)	(3,395)	(11.1) %	1,405	5.7 %	(3,115)	(5.2) %	3,449	7.0 %
Adjusted EBITDA(1)	9,452	30.9 %	8,220	33.5 %	18,621	31.2 %	16,101	32.8 %
Adjusted Net income(1)	5,407	17.7 %	5,405	22.0 %	11,110	18.6 %	10,612	21.6 %
Adjusted free cash flow(1)	6,853	22.4 %	5,439	22.2 %	14,093	23.6 %	11,382	23.2 %
Cash flow from operating activities	2,710	8.9 %	3,620	14.8 %	2,121	3.5 %	6,342	12.9 %
Net debt	65,245	–	38,514	–	65,245	–	38,514	–
Net debt to TTM Adjusted EBITDA(1)(2)	1.79x	–	1.19x	–	1.79x	–	1.19x	–
Net income (loss) per share basic	(0.07)	–	0.03	–	(0.06)	–	0.07	–
Net income (loss) per share diluted	(0.07)	–	0.03	–	(0.06)	–	0.07	–
Adjusted Net income per share basic(1)	0.10	–	0.11	–	0.21	–	0.21	–
Adjusted Net income per share diluted(1)	0.10	–	0.10	–	0.21	–	0.21	–
Revenue by category								
Music Broadcasting	21,751	71.1 %	18,009	73.4 %	43,575	72.9 %	35,897	73.1 %
Commercial Music	8,828	28.9 %	6,518	26.6 %	16,182	27.1 %	13,177	26.9 %
Revenues	30,579	100.0 %	24,527	100.0 %	59,757	100.0 %	49,074	100.0 %
Revenues by geography								
Canada	14,819	48.5 %	14,045	57.3 %	29,346	49.1 %	28,122	57.3 %
United States	4,969	16.2 %	2,930	11.9 %	9,499	15.9 %	5,674	11.6 %
Other Countries	10,791	35.3 %	7,552	30.8 %	20,912	35.0 %	15,278	31.1 %
Revenues	30,579	100.0 %	24,527	100.0 %	59,757	100.0 %	49,074	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 7.

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

(3) Interest paid during the Q2 2018 was $549 (Q2 2017; $310) and $845 for the YTD 2018 (YTD 2017; $570)

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 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 to Adjusted EBITDA:

	Three-month periods ended		Six-month periods ended	
(in thousands of Canadian dollars)	Sept. 30, 2017 **Q2 2018**	Sept. 30, 2016 **Q2 2017**	Sept. 30, 2017 **YTD 2018**	Sept. 30, 2016 **YTD 2017**
Net income (loss)	**(3,395)**	**1,405**	**(3,115)**	**3,449**
Net finance expense (income)	1,269	373	1,806	1,021
Change in fair value of investments	697	(250)	1,131	(159)
Income taxes (recovery)	(941)	487	(477)	899
Depreciation of property and equipment and write-off	718	546	1,339	1,120
Amortization of intangibles	4,508	3,982	9,049	7,169
Share-based compensation	312	298	506	588
Restricted, performance and deferred share unit	709	444	1,022	770
Acquisition, legal fees, restructuring and other various costs	5,575	935	7,360	1,244
Adjusted EBITDA	**9,452**	**8,220**	**18,621**	**16,101**
Net finance expense	(1,269)	(373)	(1,806)	(1,021)
Income taxes	941	(487)	477	(899)
Depreciation of property and equipment and write-off	(718)	(546)	(1,339)	(1,120)
Income taxes related to change in fair value of investments, share-based compensation, restricted, performance and deferred share unit expenses, amortization of intangible assets and acquisition, legal fees, restructuring and other various costs	(2,999)	(1,409)	(4,843)	(2,449)
Adjusted Net income	**5,407**	**5,405**	**11,110**	**10,612**

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

	Three-month periods ended		Six-month periods ended	
(in thousands of Canadian dollars)	Sept. 30, 2017 **Q2 2018**	Sept. 30, 2016 **Q2 2017**	Sept. 30, 2017 **YTD 2018**	Sept. 30, 2016 **YTD 2017**
Cash flow from operating activities	**2,710**	**3,620**	**2,121**	**6,342**
Add / Less :				
Capital expenditures	(1,705)	(871)	(2,916)	(1,503)
Net change in non-cash operating working capital items	273	1,755	7,528	5,299
Acquisition, legal fees, restructuring and other various costs	5,575	935	7,360	1,244
Adjusted free cash flow	**6,853**	**5,439**	**14,093**	**11,382**

The following table shows the calculation of Net debt:

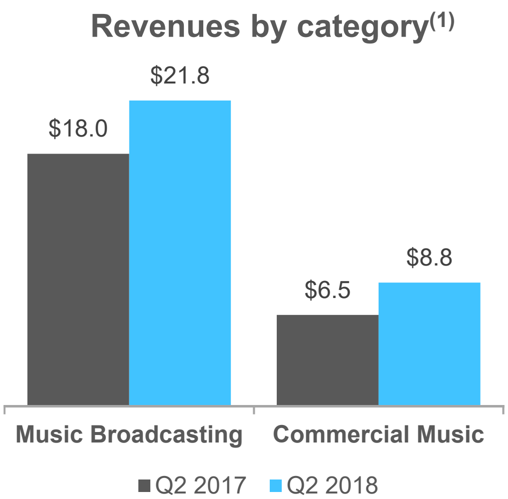
(in thousands of Canadian dollars)	**September 30, 2017**	**March 31, 2017**	**September 30, 2016**
Revolving facility	67,433	41,040	41,131
(Cash and cash equivalents)	(2,188)	(5,862)	(2,617)
Net debt	**65,245**	**35,178**	**38,514**

FINANCIAL RESULTS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

Revenues

Revenues in Q2 2018 increased to $30.6 million or 24.7%, from $24.5 million for Q2 2017. The increase in revenues was primarily due to the acquisition of Yokee Music and Classica, combined with organic growth of subscription video on demand (SVOD) in the U.S. as well as additional music and equipment sales in Commercial Music.

Trends by Revenue Categories were as follows:



Note:
(1) In millions of Canadian dollars.

Music Broadcasting

The most significant contributors to the increase of 20.8% or $3.8 million from Q2 2017 in Music Broadcasting revenues were as follows (arrows reflect the impact):

▲ Acquisition of Classica in Fiscal 2017, as well as Yokee Music and C Music in May 2017.

▲ Organic growth in the U.S. market, primarily related to SVOD.

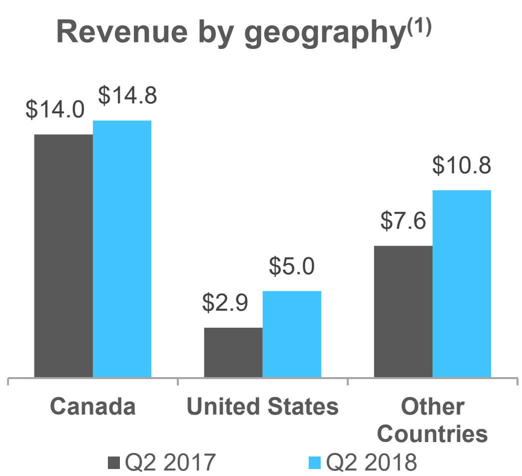
Commercial Music

The most significant contributors to the increase of 35.4% or $2.3 million from Q2 2017 in Commercial Music revenues were as follows (arrows reflect the impact):

▲ Acquisition of SBA and SMA in July 2017.

▲ Organic growth in sales of equipment and installation related to digital signage.

Trends by Revenues by Geographic Region:



Note:
(1) In millions of Canadian dollars.

Canada

The most significant contributors to the increase of 5.5% or $0.8 million from Q2 2017 in revenues for Canada were as follows (arrows reflect the impact):

▲ Organic growth in digital signage.

United States

The most significant contributors to the increase of 69.6% or $2.1 million from Q2 2017 in U.S. revenues were as follows (arrows reflect the impact):

▲ Contribution of Yokee Music acquisition and organic growth related to SVOD.

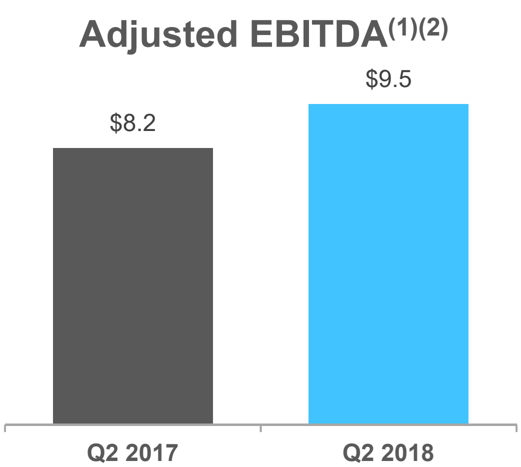
Other Countries

The most significant contributors to the increase of 42.9% or $3.2 million from Q2 2017 in revenues generated in Other Countries were as follows (arrows reflect the impact):

▲ Acquisition of Classica, Yokee, SBA, SMA, and C Music.

Operating Expenses

(in thousands of Canadian dollars)	Q2 2018 % of revenues	Q2 2017 % of revenues	Variance			Significant contributions to variance :
Music programming, cost of services and content	**$10,786** 35.3%	**$8,399** 34.2%	**$2,387**	**28.4%**	▲	Primarily due to acquisitions and costs related to equipment and installation sales.
Selling and marketing	**$3,600** 11.8%	**$2,894** 11.8%	**$706**	**24.4%**	▲	Primarily due to incremental selling costs from recent acquisitions and additional employees to support growth.
Information technology and research and development	**$3,079** 10.1%	**$2,190** 8.9%	**$889**	**40.6%**	▲	Primarily due to IT costs related to Yokee Music and additional staff to support new technologies and growth.
General and administrative	**$10,258** 33.5%	**$4,501** 18.4%	**$5,757**	**127.9%**	▲	Primarily due to higher legal fees, additional staff to support our international expansion and administrative costs related to recent acquisitions.
Depreciation, amortization and write-off	**$5,226** 17.1%	**$4,528** 18.5%	**$698**	**15.4%**	▲	Primarily due to the addition of intangible assets related to acquisitions.



Notes:
(1) In millions of Canadian dollars.
(2) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 7.

Adjusted EBITDA in Q2 2018 increased to $9.5 million or 15.0%, from $8.2 million for Q2 2017. Adjusted EBITDA margin was 30.9% in Q2 2018 compared to 33.5% in Q2 2017. The increase in Adjusted EBITDA was primarily due to the acquisitions realized in Fiscal 2017 and Fiscal 2018 partially offset by higher operating expenses related to international expansion. The decrease in adjusted EBITDA margin was mainly related to the recent acquisitions of Yokee Music, SBA and SMA, equipment and installation sales and the overall change in the product mix, which presents lower margins.

Acquisition, legal fees, restructuring and other various costs mainly included litigation fees (refer to page 19) and costs related to the integration of our recent acquisitions.

Net Finance Expense (Income)

Net finance expense (income) increased to $1.3 million from $0.4 million in Q2 2017. The increase was mainly related to the change in fair value of contingent consideration, as well as the foreign exchange loss.

Change in fair value of investments

In Q2 2018, a loss on fair value of $0.7 million was recorded compared to a gain of $0.3 million in Q2 2017 which is explained by the translation in US$ considering a lower exchange rate.

Income Taxes

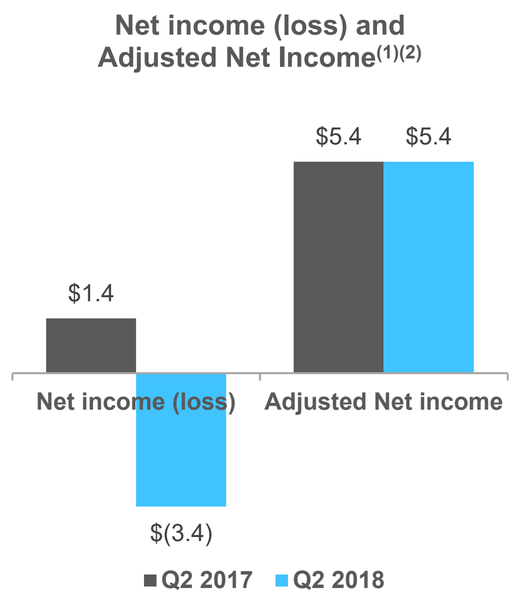
The income taxes recovery was $0.9 million for Q2 2018 compared with income tax expense of $0.5 million for Q2 2017. The effective tax rate was 21.7% for Q2 2018 compared with 25.7% for Q2 2017. The decrease in the effective tax is mainly due to the variation in the permanent differences.

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

Net loss in Q2 2018 was $3.4 million ($(0.07) per share) compared to a net income of $1.4 million ($0.03 per share) in Q2 2017. The decrease was mainly attributable to higher legal fees, higher amortization expense of intangible assets as well as negative change in fair value of investments and contingent consideration partially offset by higher operating results and income taxes recovery. The legal fees are largely non-recurring and were incurred principally to institute IPR proceedings to invalidate the claims of the Music Choice patents in suit (refer to page 19).

Adjusted Net income and Adjusted Net income per share

Adjusted Net Income in Q2 2018 remained stable at $5.4 million ($0.10 per share) compared to Q2 2017, as higher finance expense and income net tax expense were offset by the higher Adjusted EBITDA.



Notes:
(1) In millions of Canadian dollars.
(2) Refer to “Supplemental information on Non-IFRS measures” on page 2 and 7.

Quarterly results

Revenues increased over the last eight quarters from $23.1 million in the third quarter of Fiscal 2016 to $30.6 million in the second quarter of Fiscal 2018. The increase was mainly attributable to the successful integration of acquisitions and new contracts in the U.S., in Canada, and in Other Countries. The sequential decrease in Q1 2017 and Q2 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.

Adjusted EBITDA increased from $8.0 million in the third quarter of Fiscal 2016 to $9.5 million in the second quarter of Fiscal 2018. The increase was mainly attributable to the successful integration of acquisitions and new contracts. The decrease in Q1 2017 Adjusted EBITDA compared to Q4 2016 was mainly related to the decrease in non-recurring revenues in Music Broadcasting and incremental costs related to acquisitions 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 a net income of $3.2 million in the third quarter of Fiscal 2016 to a net loss of $3.4 million in the second quarter of Fiscal 2018. In Q4 2016, the Corporation recorded an income tax recovery on the recognition of deferred tax assets related to tax losses of foreign subsidiaries of $3.4 million, offset by the loss on fair value of investments of $1.1 million, which was related to unfavorable foreign exchange between the Canadian dollar and the U.S. dollar. In Q4 2017, the Corporation recorded an income tax recovery on the recognition of deferred tax assets related to tax losses of foreign subsidiaries of $5.1 million. In Q1 2018, the decrease in net income was mainly related to higher legal expenses and higher amortization expense on intangibles assets related to acquisitions. In Q2 2018, the net loss was mainly related to higher legal fees and finance expenses, offset partially by an income tax recovery.

Summary of Consolidated Quarterly Results

	Three-month period ended							
(in thousands of Canadian dollars, except per share amounts)	**Sept. 30, 2017**	**June 30, 2017**	**March 31, 2017**	**Dec. 31, 2016**	**Sept. 30, 2016**	**June 30, 2016**	**March 31, 2016**	**Dec. 31, 2015**
	Fiscal 2018	**Fiscal 2018**	**Fiscal 2017**	**Fiscal 2017**	**Fiscal 2017**	**Fiscal 2017**	**Fiscal 2016**	**Fiscal 2016**
Revenues by category								
Music Broadcasting	21,751	21,824	19,708	19,295	18,009	17,888	19,425	17,013
Commercial Music	8,828	7,354	6,794	6,630	6,518	6,659	6,233	6,076
Total revenues	**30,579**	**29,178**	**26,502**	**25,925**	**24,527**	**24,547**	**25,658**	**23,089**
Revenues by geography								
Canada	14,819	14,527	14,000	14,004	14,045	14,077	13,500	13,759
International[1]	15,760	14,651	12,502	11,921	10,482	10,470	12,158	9,330
Total revenues	**30,579**	**29,178**	**26,502**	**25,925**	**24,527**	**24,547**	**25,658**	**23,089**
Recurring revenues	26,175	25,010	22,683	21,944	21,584	21,401	21,860	19,699
Recurring revenues as a percentage of total revenues	85.6%	85.7%	85.6%	84.6%	88.0%	87.2%	83.7%	85.3%
Adjusted EBITDA	**9,452**	**9,169**	**9,046**	**8,717**	**8,220**	**7,881**	**8,219**	**8,009**
Net income (loss)	**(3,395)**	**280**	**4,608**	**2,660**	**1,405**	**2,044**	**3,247**	**3,169**
Net income (loss) per share basic	(0.07)	0.01	0.09	0.05	0.03	0.04	0.06	0.06
Net income (loss) per share diluted	(0.07)	0.01	0.09	0.05	0.03	0.04	0.06	0.06
Adjusted Net income	**5,407**	**5,703**	**10,534**	**6,164**	**5,405**	**5,207**	**7,135**	**6,194**
Adjusted Net income per share basic	0.10	0.11	0.21	0.12	0.11	0.10	0.14	0.12
Adjusted Net income per share diluted	0.10	0.11	0.20	0.12	0.10	0.10	0.14	0.12

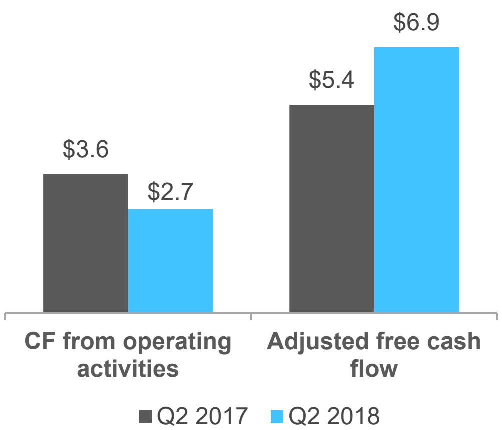
Note:
(1) International means all jurisdictions except Canada.

Reconciliation of Quarterly Non-IFRS Measures

(in thousands of Canadian dollars, except per share amounts)	Three-month period ended							
	Sept. 30, 2017	**June 30, 2017**	**March 31, 2017**	**Dec. 31, 2016**	**Sept. 30, 2016**	**June 30, 2016**	**March 31, 2016**	**Dec. 31, 2015**
	Fiscal 2018	**Fiscal 2018**	**Fiscal 2017**	**Fiscal 2017**	**Fiscal 2017**	**Fiscal 2017**	**Fiscal 2016**	**Fiscal 2016**
Net income (loss)	**(3,395)**	**280**	**4,608**	**2,660**	**1,405**	**2,044**	**3,247**	**3,169**
Net finance expense (income)	1,269	537	1,006	9	373	648	836	(810)
Change in fair value of investments	697	434	334	(583)	(250)	91	1,113	(646)
Income taxes (recovery)	(941)	464	(5,201)	706	487	412	(1,428)	920
Depreciation of property and equipment and write-off	718	621	724	574	546	574	594	609
Amortization of intangibles	4,508	4,541	3,895	3,686	3,982	3,187	2,624	3,443
Share-based compensation	312	194	372	372	298	290	390	369
Restricted, performance and deferred share unit expenses	709	313	688	550	444	326	319	227
IPO expenses and CRTC tangible benefits	–	–	–	–	–	–	21	–
Acquisition, legal fees, restructuring and other various costs	5,575	1,785	2,620	743	935	309	503	728
Adjusted EBITDA	**9,452**	**9,169**	**9,046**	**8,717**	**8,220**	**7,881**	**8,219**	**8,009**
Net finance expense (income)	(1,269)	(537)	(1,006)	(9)	(373)	(648)	(836)	810
Income taxes (recovery)	941	(464)	5,201	(706)	(487)	(412)	1,428	(920)
Depreciation of property and equipment and write-off	(718)	(621)	(724)	(574)	(546)	(574)	(594)	(609)
Income taxes related to change in fair value of investments, share-based compensation, restricted, performance and deferred share unit expenses, amortization of intangible assets, IPO expenses and CRTC tangible benefits and acquisition, legal fees, restructuring and other various costs	(2,999)	(1,844)	(1,983)	(1,264)	(1,409)	(1,040)	(1,082)	(1,096)
Adjusted Net income	**5,407**	**5,703**	**10,534**	**6,164**	**5,405**	**5,207**	**7,135**	**6,194**

LIQUIDITY AND CAPITAL RESOURCES
FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

CF from operating activities and Adjusted free cash flow(1)(2)



Notes:
(1) In millions of Canadian dollars.
(2) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 7.

Cash flow from operating activities

Cash flow generated from operating activities amounted to $2.7 million for Q2 2018 compared to $3.6 million for Q2 2017. The decrease was mainly due to the higher general and administrative expenses. This decrease was partially offset by lower income taxes paid and higher operating results.

Adjusted free cash flow

Adjusted free cash flow generated in Q2 2018 amounted to $6.9 million compared to $5.4 million in Q2 2017. The increase was mainly related to higher Adjusted EBITDA and lower income taxes paid offset partially by higher foreign exchange losses and capital expenditures.

Financing Activities

Net cash flow generated from financing activities amounted to $6.8 million for Q2 2018 compared to net cash flow used by financing activities of $2.4 million for Q2 2017. The net change of $9.2 million in cash flow was mainly attributable to the increase of the revolving facility for the SBA and SMA acquisitions offset by lower repayment of other payables.

Investing Activities

Net cash flow used in investing activities amounted to $10.4 million for Q2 2018 compared to $1.9 million for Q2 2017. The net change of $8.5 million was primarily related to the acquisitions of SBA and SMA in Q2 2018.

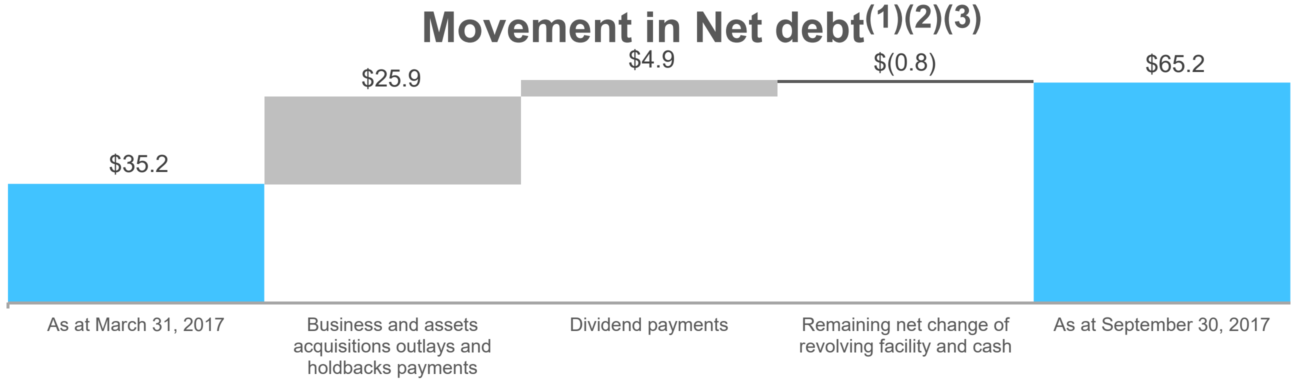
Contractual Obligations

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, 2017 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, Montreal, 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. As at September 30, 2017, the estimated remaining commitment under the terms of the operating lease for the premises amounts to $6.8 million.

The following table summarizes the impact on the Net debt that occurred in the six-month period ended September 30, 2017 including related ratios:



33.9	12-Month Trailing Adjusted EBITDA(1)(2)(3)	36.4
1.04	Net debt to Adjusted EBITDA(1)(2)(3)	1.79

Notes:
(1) In millions of Canadian dollars.
(2) Refer to “Supplemental information on Non-IFRS measures” on page 2 and 7.
(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 for the six-month period ending September 30, 2017:

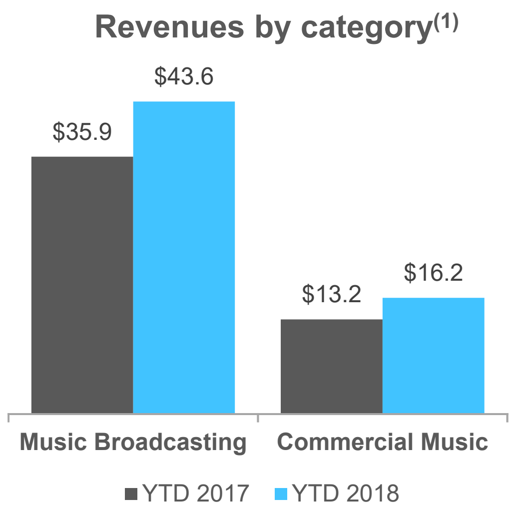
(in thousands of Canadian dollars)	**Sept. 30, 2017**	**March 31, 2017**	**Variance**		**Significant contributions**
Trade and other receivables	**$32,685**	**$27,020**	**$5,665**	▲	Attributable to receivables from acquisitions and additional sales in Broadcast Music in the U.S. and Commercial Music in Canada.
Intangible assets	**$57,191**	**$49,519**	**$7,672**	▲	Mainly attributable to the recognition of intangibles via acquisitions offset by amortization in the current period.
Goodwill	**$82,206**	**$68,788**	**$13,418**	▲	Attributable to goodwill related to the acquisitions of SMA, Yokee Music, SBA and C Music.
Accounts payable and accrued liabilities	**$33,541**	**$29,783**	**$3,758**	▲	Mainly attributable to payables from acquisitions and to the timing of payments to suppliers.
Revolving facility	**$67,433**	**$41,040**	**$26,393**	▲	Mainly attributable to acquisitions, quarterly dividend and payments of contingent consideration and balance payable on business acquisitions.
Contingent consideration and balance payable on business acquisitions, including current portion	**$22,243**	**$18,801**	**$3,442**	▲	Mainly attributable to the recognition of Yokee Music, SMA, and C Music contingent consideration offset by the payments of Digital Music Distribution Pty Ltd. (DMD) and Telefonica-On the spot (Telefonica) contingent consideration.

FINANCIAL RESULTS
FOR THE SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

Revenues

Revenues in the first half of Fiscal 2018 ("YTD 2018") increased to $59.8 million or 21.8%, from $49.1 million in the first half of Fiscal 2017 ("YTD 2017"). The increase in revenues was primarily due to the acquisitions of Yokee Music and Classica, combined with growth from SVOD in the U.S. as well as additional music and equipment sales in Commercial Music.

Trends by Revenue Categories were as follows:



Note:
(1) In millions of Canadian dollars.

Music Broadcasting

The most significant contributors to the increase of 21.4% or $7.7 million from YTD 2017 in Music Broadcasting revenues were as follows (arrows reflect the impact):

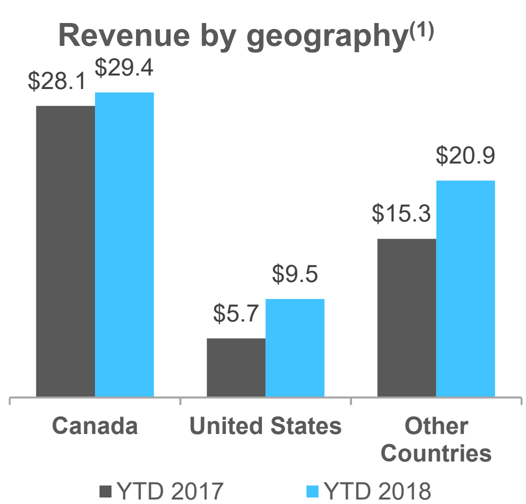
- ▲ Acquisitions of Classica in Fiscal 2017, as well as Yokee Music and C Music in May 2017.
- ▲ Organic growth in the U.S. market, primarily related to SVOD.

Commercial Music

The most significant contributors to the increase of 22.8% or $3.0 million from YTD 2017 in Commercial Music revenues were as follows (arrows reflect the impact):

- ▲ Acquisition of SBA and SMA.
- ▲ Organic growth in sales of equipment and installation related to digital signage.

Trends by Revenues by Geographic Region:



Note:
(1) In millions of Canadian dollars.

Canada

The most significant contributors to the increase of 4.4% or $1.3 million from YTD 2017 in revenues for Canada were as follows (arrows reflect the impact):

- ▲ Organic growth in digital signage revenues.

United States

The most significant contributors to the increase of 67.4% or $3.8 million from Q2 2017 in the U.S. revenues were as follows (arrows reflect the impact):

- ▲ Contribution of Yokee Music acquisition and organic growth related to SVOD.

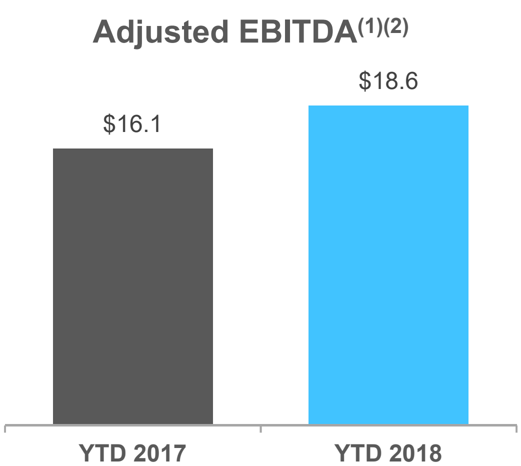
Other Countries

The most significant contributors to the increase of 36.9% or $5.6 million from Q2 2017 in Other Countries revenues were as follows (arrows reflect the impact):

- ▲ Acquisition of Classica, Yokee, SBA, SMA, and C Music.

Operating Expenses

(in thousands of Canadian dollars)	Q2 2018 YTD % of revenues	Q2 2017 YTD % of revenues	Variance YTD			Significant contributions to variance :
Music programming, cost of services and content	$21,047 35.2%	$17,140 34.9%	$3,907	22.8%	▲	Primarily due to acquisitions and costs related to equipment and installation sales.
Selling and marketing	$7,165 12.0%	$5,913 12.0%	$1,252	21.2%	▲	Primarily due to incremental selling costs from recent acquisitions and additional employees to support growth.
Information Technology and research and development	$6,057 10.1%	$4,539 9.2%	$1,518	33.4%	▲	Primarily due to IT costs related to Yokee Music and additional staff to support new technologies and growth.
General and administrative	$15,755 26.4%	$7,983 16.3%	$7,772	97.4%	▲	Primarily due to higher legal fees, additional staff to support our international expansion and administrative costs related to recent acquisitions.
Depreciation, amortization and write-off	$10,388 17.4%	$8,289 16.9%	$2,099	25.3%	▲	Primarily due to the addition of intangible assets related to acquisitions.



Notes:
(1) In millions of Canadian dollars.
(2) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 7.

Adjusted EBITDA for YTD 2018 increased to $18.6 million or 15.7%, from $16.1 million for YTD 2017. Adjusted EBITDA margin was 31.2% for YTD 2018 compared to 32.8% for YTD 2017. The increase in Adjusted EBITDA was primarily due to the acquisitions realized in Fiscal 2017 and Fiscal 2018 partially offset by higher operating expenses related to international expansion. The decrease in adjusted EBITDA margin was mainly related to the recent acquisitions of Yokee Music, SBA and SMA, additional equipment and installation sales and the overall change in the product mix, which presents lower margins.

Acquisition, legal fees, restructuring and other various costs mainly included litigation fees (refer to page 19) and costs related to the integration of our recent acquisitions.

Net Finance Expense (Income)

Net finance expense (income) increased to $1.8 million from $1.0 million for YTD 2017. The increase was related to negative change in fair value of contingent consideration offset by the foreign exchange gain.

Change in fair value of investments

For YTD 2018, a loss of $1.1 million was recorded compared to a gain of $0.2 million for YTD 2017 which is explained by the translation from US$ considering a lower exchange rate.

Income Taxes

The income taxes recovery was $0.5 million for YTD 2018 compared with income tax expense of $0.9 million for YTD 2017. The effective tax rate was 13.3% for YTD 2018 compared with 20.7% for YTD 2017. The decrease in the effective tax is mainly due to the variation in the permanent differences.

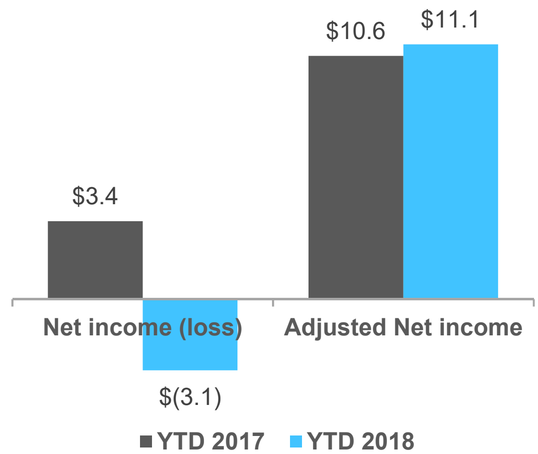
Net income (loss) and net income (loss) per share

Net loss was $3.1 million ($(0.06) per share) for YTD 2018 compared to a net income of $3.4 million ($0.07 per share) for YTD 2017. The decrease was mainly attributable to higher legal fees, higher amortization expense of intangible assets as well as negative change in fair value of investments and contingent consideration partially offset by higher operating results and income taxes recovery. The legal fees are largely non-recurring and were incurred principally to institute IPR proceedings to invalidate the claims of the Music Choice patents in suit (refer to page 19).

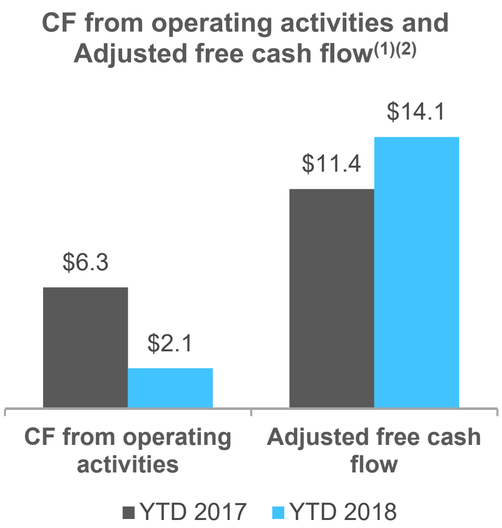
Adjusted Net income and Adjusted Net income per share

Adjusted net income for YTD 2018 increased to $11.1 million ($0.21 per share) from $10.6 million ($0.21 per share) for YTD 2017. The increase was primarily due to higher Adjusted EBITDA and income taxes recovery partially offset by higher net finance expense.

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 7.



Notes:
(1) In millions of Canadian dollars.
(2) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 7.

Cash flow from operating activities

Cash flow generated from operating activities amounted to $2.1 million for YTD 2018 compared to $6.3 million for YTD 2017. The decrease was mainly due to the negative net change in working cash capital items associated with higher trade receivables, trade payables paid and other current assets as well as the increase in general and administrative expenses. This decrease was partially offset by lower income taxes paid and higher operating results.

Adjusted free cash flow

Adjusted free cash flow generated in YTD 2018 amounted to $14.1 million compared to $11.4 million for YTD 2017. The increase was mainly related to higher Adjusted EBITDA, foreign exchange gain and income taxes recovery offset partially by higher capital expenditures.

Financing Activities

Net cash flow generated from financing activities amounted to $16.8 million for YTD 2018 compared to $0.1 million for YTD 2017. The net change of $16.7 million was mainly attributable to higher use of the revolving facility for the Yokee Music, C Music, SBA, and SMA acquisitions offset by the dividend payment and contingent consideration paid for Digital Music Distribution Pty Ltd. and Telefonica – On the spot and the balance payable on the acquisition of NüMedia.

Investing Activities

Net cash flow used in investing activities amounted to $22.6 million for YTD 2018 compared to $7.0 million for YTD 2017. The net change of $15.6 million was primarily related to the acquisition of Yokee Music, C Music, SBA and SMA.

Music Choice Litigation

Music Choice v. Stingray

Music Choice filed its original Complaint against the Corporation on June 6, 2016, asserting infringement of four U.S. patents, namely, U.S. Patent Nos. 8,769,602, 9,357,245, 7,320,025 and 9,351,045. On August 12, 2016, Music Choice filed its First Amended Complaint, which added a fifth U.S. patent, namely, U.S. Patent No. 9,414,121. The Corporation filed its Answer to the Original Complaint (including counterclaims) on August 30, 2016, asserting, among other things, defenses and counterclaims of non-infringement and invalidity. On September 2, 2016, Music Choice filed its Second Amended complaint, adding Stingray Music USA, Inc. (SMU) as a defendant, and the Corporation and SMU filed their answers and counterclaims on September 23 and October 4, 2016, respectively. Since the commencement of the case, the parties have jointly prepared and filed with the Court a docket control order, a protective order and an ESI order. Music Choice also served its infringement contentions on September 12, 2016, the parties exchanged Initial Disclosures, and the Corporation served its invalidity contentions on November 28, 2016. On March 27, 2017, the Corporation filed a motion for judgment on the pleadings on the basis that the Asserted Patents are invalid under 35 U.S.C. 101 for claiming unpatentable subject matter. The parties exchanged amended infringement and invalidity contentions on April 28, 2017. In addition, on November 14, 2016, the Corporation filed an amended answer and counterclaims which included inequitable conduct counterclaims based on David Del Beccaro's (and the other inventors') failure to disclose a product offered by Music Choice Europe in or about 2001 to the patent office and their misrepresentations to the patent office that they are the true inventors of the patents-in-suit. Music Choice moved to dismiss and strike the Corporation's inequitable conduct counterclaims, which the Corporation opposed on January 4, 2017. On May 3, 2017, the magistrate judge handling the case issued a Report and Recommendation that the motion be dismissed, and on September 6, 2017, the Court adopted the report and denied Music Choice's motion. On July 6, 2017, the Court issued a Markman Order construing certain claim terms of the Asserted Patents. On September 14, 2017, Music Choice dropped one of the five patents-in-suit (U.S. Patent No. 8,769,602). On October 17, 2017, the Corporation filed a motion to adjourn the trial date and remaining case deadlines, in part because the PTAB instituted inter partes review for three of the four patents-in-suit. On October 27, 2017, the PTAB instituted inter partes review on the fourth patent-in-suit, and on October 30, 2017, the Corporation filed a motion to stay the litigation pending the inter partes reviews. The hearing for the motion to stay is scheduled for November 21, 2017. On November 2, 2017, the Court granted the Corporation's motion to adjourn and cancelled the current trial date (February 5, 2018) and all of the remaining scheduled deadlines pending the hearing on the motion to stay. Fact discovery has closed, and expert discovery has commenced. No trial date is assigned presently.

Stingray v. Music Choice

SMU filed its Complaint on August 30, 2016, asserting claims of unfair competition under the Federal Lanham Act, defamation, trade libel, tortious interference, and common law unfair competition, stemming from false misrepresentations of fact made by Music Choice regarding the nature, characteristics and qualities of Stingray Music and its products and services, to SMU's existing and potential customers, with the goal of damaging SMU's relationships with those customers and its business generally. On October 17, 2016, Music Choice filed a Motion to Dismiss on the grounds that all of SMU's claims are time-barred. In response, on November 3, 2016, SMU filed an Amended Complaint, after which (on December 7, 2016), Music Choice moved to dismiss only the state law claims. Music Choice also filed a motion to transfer the case to the Eastern District of Pennsylvania. On January 4, 2017, SMU opposed both motions. In addition, SMU filed a motion to consolidate the action with the Music Choice patent infringement action.

On March 16, 2017, the Court denied Music Choice's motion to change venue, and granted SMU's motion to consolidate, ordering that this action be consolidated for all pretrial issues with the Music Choice v. Stingray action. Music Choice's motion to dismiss the state law claims remains pending. On March 30, 2017, Music Choice answered SMU's complaint (except for the state law claims that remain subject to its pending motion to dismiss) and asserted a counterclaim against SMU and the Corporation. Music Choice's counterclaim alleges that the Stingray entities misused Music Choice confidential data in violation of various non-disclosure agreements (the "NDAs"). These non-disclosure agreements arose from discussions between the parties concerning a possible acquisition of Music Choice by the Corporation. The Corporation's entities answered the counterclaim on April 28, 2017, denying the allegations and asserting various affirmative defenses, including that Music Choice acted fraudulently and in bad faith with regard to the NDAs. Fact discovery has closed, and expert discovery has commenced. Trial is currently set for February 5, 2018.

SOCAN and Re:Sound legal proceedings

From May 2, 2017 until May 10, 2017, the Corporation, together with its Canadian Broadcast Distribution Undertaking customers (collectively, the "Objectors"), presented an affirmative case before the Copyright Board of Canada to seek a reduction in the prescribed rates and terms for the Pay Audio Services Tariff for the 2007-2016 period. SOCAN and Re:Sound (collectively, the "Collectives") opposed that case, but in the opinion of the Objectors failed to offer compelling alternatives other than a request to maintain the status quo. The Copyright Board of Canada will now begin its deliberations, and the Corporation expects a decision in about 18-36 months, based on past experience and the complexity of this proceeding.

Transactions Between 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 include the follows:

(in thousands of Canadian dollars)	Three-month period ended September 30, 2017 **Q2 2018**	Three-month period ended September 30, 2016 **Q2 2017**	Six-month period ended September 30, 2017 **YTD 2018**	Six-month period ended September 30, 2016 **YTD 2017**
Short-term employee benefits	1,213	890	2,148	1,671
Share-based compensation	233	207	392	367
Restricted and performance share unit	148	45	229	92
Deferred share unit	427	223	551	339
	2,021	1,365	3.320	2,469

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:

	November 8, 2017	September 30, 2017
Issued and outstanding shares:		
Subordinate voting shares	39,565,888	34,730,488
Variable Subordinate voting shares	400,539	335,739
Multiple voting shares	16,294,285	16,294,285
	56,260,712	51,360,512
Outstanding stock options:		
Stock options	2,016,280	2,016,280

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, a number equal to 10% of all issued and outstanding subordinate voting shares and variable subordinate voting shares have been reserved for issuance. In the second quarter of 2018, 21,008 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 risks: credit risk, liquidity risk and market risk (including currency risk and interest risk). The 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, 2017. 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 8, 2017. 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 40 of the unaudited 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 November 9, 2017, did not include the controls or procedures of the operations of Classica GmbH, Think Inside the Box (Nature Vision), C Music Entertainment Ltd, Yokee Music LTD., Satellite Music Australia PTY Ltd., and SBA Music PTY Ltd., which were acquired in Fiscal 2017 and 2018. 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

Bought deal financing

On October 10, 2017, the Corporation entered into an agreement with a syndicate of underwriters who agreed to purchase on a bought deal basis 4,348,000 subordinate voting shares of the Corporation at a price of $9.20 per share for gross proceeds of $40,002 and net proceeds of $38,402. On November 7, 2017 the underwriters exercised part of their over-allotment option and bought an additional 552,200 subordinate voting shares at a price of $9.20 for gross proceeds of $5,080 and net proceeds of $4,877.

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 November 8, 2017, the Corporation declared a dividend of $0.05 per subordinate voting share, variable subordinate voting share and multiple voting share that will be payable on or around December 15, 2017 to shareholders on record as of November 30, 2017.

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 and six-month periods ended September 30, 2017 and 2016

(In thousands of Canadian dollars, except per share amounts) (Unaudited)	Note	Three-month periods ended September 30, 2017	Three-month periods ended September 30, 2016	Six-month periods ended September 30, 2017	Six-month periods ended September 30, 2016
Revenues		$ 30,579	$ 24,527	$ 59,757	$ 49,074
Music programming, cost of services and content		10,786	8,399	21,047	17,140
Selling and marketing		3,600	2,894	7,165	5,913
Research and development, support and information technology		3,079	2,190	6,057	4,539
General and administrative		10,258	4,501	15,755	7,983
Depreciation, amortization and write-off	5, 7	5,226	4,528	10,388	8,289
Net finance expense (income)	6	1,269	373	1,806	1,021
Change in fair value of investments	12	697	(250)	1,131	(159)
Income (loss) before income taxes		(4,336)	1,892	(3,592)	4,348
Income taxes (recovery)		(941)	487	(477)	899
Net income (loss)		$ (3,395)	$ 1,405	$ (3,115)	$ 3,449
Net income (loss) per share – Basic		(0.07)	0.03	(0.06)	0.07
Net income (loss) per share – Diluted		(0.07)	0.03	(0.06)	0.07
Weighted average number of shares – Basic		51,335,589	51,225,061	51,331,003	51,173,350
Weighted average number of shares – Diluted		51,889,726	51,609,310	51,874,114	51,320,504
Comprehensive income (loss)					
Net income (loss)		$ (3,395)	$ 1,405	(3,115)	3,449
Other comprehensive income (loss), net of tax					
Items that may be reclassified to profit and loss					
Exchange differences on translation of foreign operations		(1,840)	1,140	(1,584)	321
Total other comprehensive income (loss)		(1,840)	1,140	(1,584)	321
Total comprehensive income (loss)		$ (5,235)	$ 2,545	(4,699)	3,770

Net income is entirely attributable to Shareholders.

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

Consolidated Statements of Financial Position

September 30, 2017 and March 31, 2017

(In thousands of Canadian dollars) (Unaudited)	Note		September 30, 2017		March 31, 2017
Assets					
Current assets					
Cash and cash equivalents		$	2,188	$	5,862
Trade and other receivables			32,685		27,020
Research and development tax credits			896		486
Income taxes receivable			2,582		1,212
Inventories			1,401		1,233
Other current assets			6,199		4,780
			45,951		40,593
Non-current assets					
Property and equipment	7		6,822		5,336
Intangible assets	7		57,191		49,519
Goodwill	7		82,206		68,788
Investments	12		16,220		17,351
Investment in joint venture			776		738
Other non-current assets			979		954
Deferred tax assets			10,881		12,225
Total assets		$	221,026	$	195,504
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities		$	33,541		29,783
Deferred revenues			468		1,094
Current portion of other payables	8		8,655		9,498
Income taxes payable			1,599		1,396
			44,263		41,771
Non-current liabilities					
Revolving facility			67,433		41,040
Other payables	8		16,827		13,040
Deferred tax liabilities			6,590		4,705
Total liabilities			135,113		100,556
Shareholders' equity					
Share capital	9		102,858		102,700
Contributed surplus			3,286		2,872
Deficit			(18,322)		(10,299)
Accumulated other comprehensive income (loss)			(1,909)		(325)
Total equity			85,913		94,948
Total liabilities and equity		$	221,026	$	195,504

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

Approved by the Board of Directors,

(Signed) Eric Boyko, Director   (Signed) Pascal Tremblay, Director

Consolidated Statements of Changes in Equity

Six-month periods ended September 30, 2017 and 2016

(In thousands of Canadian dollars, except number of share capital) (Unaudited)	Share Capital										
	Number		Amount		Contributed surplus		Deficit		Accumulated other comprehensive income (loss)		Total shareholders' equity
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)	201,791		621		(365)		–		–		256
Dividends	–		–		–		(2,052)		–		(2,052)
Share-based compensation (note 11)	–		–		461		–		–		461
Net income	–		–		–		3,449		–		3,449
Other comprehensive income	–		–		–		–		321		321
Balance at September 30, 2016	51,309,766	$	102,661	$	2,292	$	(13,249)	$	1,125	$	92,829
Balance at March 31, 2017	51,326,366	$	102,700	$	2,872	$	(10,299)	$	(325)	$	94,948
Issuance of shares upon exercise of options (note 9)	34,146		158		(60)		–		–		98
Dividends	–		–		–		(4,877)		–		(4,877)
Share-based compensation (note 11)	–		–		474		–		–		474
Net loss	–		–		–		(3,115)		–		(3,115)
Other comprehensive loss	–		–		–		(31)		(1,584)		(1,615)
Balance at September 30, 2017	51,360,512	$	102,858	$	3,286	$	(18,322)	$	(1,909)	$	85,913

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

Consolidated Statements of Cash Flows

Three-month and six-month periods ended September 30, 2017 and 2016

(In thousands of Canadian dollars) (Unaudited)	Note	Three-month periods ended September 30, 2017	Three-month periods ended September 30, 2016	Six-month periods ended September 30, 2017	Six-month periods ended September 30, 2016
Operating activities:					
Net income (loss)		$ (3,395)	$ 1,405	$ (3,115)	$ 3,449
Adjustments for:					
Share-based compensation		312	397	506	588
Restricted and performance share unit expense	11	282	221	471	431
Deferred share unit expense	11,13	427	223	551	339
Depreciation and disposal of property and equipment	7	718	546	1,339	1,120
Amortization of intangible assets	7	4,508	3,982	9,049	7,169
Amortization and write-off of financing fees	6	50	25	67	50
Other interest expense	6	522	316	854	592
Change in fair value of investments	12	697	(250)	1,131	(159)
Change in fair value of contingent consideration and balance payable on business acquisitions	6,12	240	(32)	747	(100)
Accretion expense on balance payable on business acquisitions	6,12	90	–	180	–
Accretion expense of CRTC tangible benefits	6	66	78	131	155
Share of results of joint venture		(15)	(15)	(38)	(45)
Income taxes expense		(941)	487	(477)	899
Interest paid		(549)	(310)	(845)	(570)
Income taxes paid		(29)	(1,698)	(902)	(2,277)
		2,983	5,375	9,649	11,641
Net change in non-cash operating items	10	(273)	(1,755)	(7,528)	(5,299)
		2,710	3,620	2,121	6,342
Financing activities:					
Increase in the revolving facility		9,313	618	26,393	6,096
Payment of dividend		(2,567)	(2,052)	(4,877)	(3,841)
Proceeds from the exercise of stock options		98	178	98	256
Repayment of other payables	12	(91)	(1,102)	(4,771)	(2,349)
Other		–	(1)	–	(45)
		6,753	(2,359)	16,843	117
Investing activities:					
Business acquisitions, net of cash acquired	3	(8,722)	–	(19,722)	(1,540)
Acquisition of property and equipment		(705)	(526)	(1,512)	(1,106)
Acquisition of intangible assets		(1,000)	(1,345)	(1,404)	(4,397)
		(10,427)	(1,871)	(22,638)	(7,043)
Decrease in cash and cash equivalents		(964)	(610)	(3,674)	(584)
Cash and cash equivalents, beginning of period		3,152	3,227	5,862	3,201
Cash and cash equivalents, end of period		$ 2,188	$ 2,617	$ 2,188	$ 2,617

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

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

1. Significant changes and highlights:

The interim consolidated financial position and performance of Stingray Digital Group Inc. (the "Corporation") was particularly affected by the following events and transactions during the three-month and six-month periods ended September 30, 2017:

- On July 31, 2017, the Corporation signed an agreement to acquire and operate Satellite Music Australia PTY Ltd., a subsidiary of Macquarie Media Operations PTY Limited and a leading Australian provider of in-store media solutions servicing more than 2,200 locations for total consideration of AU$6,167 (CA$6,154). It resulted in the recognition of goodwill (notes 3 and 7), intangible assets (notes 3 and 7) and contingent consideration (notes 3 and 8).
- On July 31, 2017, the Corporation signed an agreement to acquire and operate SBA Music PTY Ltd., a leading Australian provider of in-store media solutions carrying over 20 years of expertise as a background music provider for total consideration of AU$4,000 (CA$3,948). It resulted in the recognition of goodwill (notes 3 and 7) and intangible assets (notes 3 and 7).
- On May 26, 2017, the Corporation signed an agreement to acquire and operate C Music TV, a classical and cinematic music video television channel for total consideration of GBP3,820 (CA$6,612). It resulted in the recognition of goodwill (notes 3 and 7), intangible assets (notes 3 and 7) and contingent consideration (notes 3 and 8).
- On May 8, 2017, the Corporation signed an agreement to acquire Yokee Music LTD., an Israel-based provider of three social music apps regularly: Yokee, Yokee Guitar, and Yokee Piano for total consideration of US$9,436 (CA$12,533). It resulted in the recognition of goodwill (notes 3 and 7), intangible assets (notes 3 and 7) and contingent consideration (notes 3 and 8).

2. Subsequent events:

Bought deal financing

On October 24, 2017, the Corporation completed a bought deal offering of an aggregate 4,348,000 subordinate voting shares and variable subordinate voting shares of the Corporation at a price of $9.20 per share for gross proceeds of $40,002 and net proceeds of $38,402. On November 7, 2017 the underwriters exercised part of their over-allotment option and bought an additional 552,200 subordinate voting shares at a price of $9.20 for gross proceeds of $5,080 and net proceeds of $4,877.

Dividend

On November 8, 2017, the Corporation declared a dividend of $0.05 per subordinate voting share, variable subordinate voting share and multiple voting share that will be payable on or around December 15, 2017 to shareholders on record as of November 30, 2017.

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

3. Business acquisitions:

Six-month period ended September 30, 2017

Satellite Music Australia PTY Ltd.

On July 31, 2017, the Corporation purchased all of the outstanding shares of Satellite Music Australia Ltd. ("SMA") for total consideration of AU$6,167 (CA$6,154). SMA is an Australian provider of in-store media solutions. As a result of the acquisition, goodwill of $4,941 was recognized related to the operating synergies expected to be achieved from integrating the acquired business into the Corporation's existing business. The goodwill will not be deductible for tax purposes.

The fair value of acquired trade receivables was $555 which represented the gross contractual amount. The contingent consideration arrangement requires the Corporation to pay, in cash, to the former owners, a fixed amount of AU$900 (CA$898) upon achievement of certain revenue targets over the next 12 and 18 months periods ending July 2018 and January 2019, respectively. The fair value of the contingent consideration was determined using an income approach based on the estimated amount and timing of projected cash flows.

The results of the business acquisition of SMA for the period ended September 30, 2017 are included in results since the date of the acquisition. Revenues recorded from the acquisition date to September 30, 2017 were $539 and net income was $1. Had the acquisition occurred at the beginning of the fiscal year, revenues related to this acquired business would have been approximately $1,590 and net income would have been $4.

		Preliminary
Assets acquired :		
Cash and cash equivalents	$	20
Trade receivables		555
Other current assets		43
Property and equipment		9
Intangible assets		1,115
Goodwill		4,941
Deferred tax assets		46
		6,729
Liabilities assumed :		
Accounts payable and accrued liabilities		240
Deferred tax liabilities		335
		575
Net assets acquired at fair value	$	6,154
Consideration given :		
Cash		4,989
Working capital adjustment payable		404
Contingent consideration		761
	$	6,154

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 remains to be obtained.

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

SBA Music PTY Ltd.

On July 31, 2017, the Corporation purchased all of the outstanding shares of SBA Music PTY Ltd. ("SBA") for a total consideration of AU$4,000 (CA$3,948). SBA is an Australian provider of in-store media solutions. As a result of the acquisition, goodwill of $2,974 was recognized related to the operating synergies expected to be achieved from integrating the acquired business into the Corporation's existing business. The goodwill will not be deductible for tax purposes.

The fair value of acquired trade receivables was $25 which represented the gross contractual amount.

The results of the business acquisition of SBA for the period ended September 30, 2017 are included in results since the date of the acquisition. Revenues recorded from the acquisition date to September 30, 2017 were $392 and net loss was $1. Had the acquisition occurred at the beginning of the fiscal year, revenues related to this acquired business would have been approximately $1,155 and net loss would have been $4.

		Preliminary
Assets acquired :		
Cash and cash equivalents	$	195
Trade receivables		25
Other current assets		90
Property and equipment		38
Intangible assets		1,155
Goodwill		2,974
		4,477
Liabilities assumed :		
Accounts payable and accrued liabilities		183
Deferred tax liabilities		346
		529
Net assets acquired at fair value	$	3,948
Consideration given :		
Cash		3,948
	$	3,948

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 remains to be obtained.

C Music Entertainment Limited

On May 26, 2017, the Corporation purchased all of the outstanding shares of C Music Entertainment Limited ("C Music TV"), for total consideration of GBP3,820 (CA$6,612). C Music TV is a London-based satellite and cable television channel dedicated to classical, crossover, and cinematic music videos. As a result of the acquisition, goodwill of $2,553 was recognized related to the operating synergies expected to be achieved from integrating the acquired business into the Corporation's existing business. The goodwill will not be deductible for tax purposes.

The fair value of acquired trade receivables was $742 which represented the gross contractual amount. The contingent consideration arrangement requires the Corporation to pay, in cash, to the former owners, a fixed amount of GBP1,440 (CA$2,492) upon achievement of certain revenues targets over the next 2 years ending in April 2019. In addition, in the event that the Corporation exceeds the revenues targets, the Corporation must pay the excess revenues

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

to the former owners. The fair value of the contingent consideration was determined using an income approach based on the estimated amount and timing of projected cash flows.

The results of the business acquisition of C Music TV for the period ended September 30, 2017 are included in results since the date of the acquisition. Revenues recorded from the acquisition date to September 30, 2017 were $454 and net loss was $126. Had the acquisition occurred at the beginning of the fiscal year, revenues related to this acquired business would have been approximately $643 and net loss would have been $178.

		Preliminary
Assets acquired :		
Cash and cash equivalents	$	8
Trade receivables		742
Property and equipment		41
Intangible assets		4,516
Goodwill		2,553
		7,860
Liabilities assumed :		
Accounts payable and accrued liabilities		429
Deferred tax liabilities		819
		1,248
Net assets acquired at fair value	$	6,612
Consideration given :		
Cash		3,739
Working capital adjustment payable		270
Contingent consideration		2,603
	$	6,612

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 remains to be obtained.

Yokee Music Limited

On May 8, 2017, the Corporation purchased all of the outstanding shares of Yokee Music LTD. (“Yokee”) for total consideration of US$9,346 (CA$12,533). Yokee is an Israel-based provider of three social music apps: Yokee, Yokee Guitar, and Yokee Piano. As a result of the acquisition, goodwill of $3,561 was recognized related to the operating synergies expected to be achieved from integrating the acquired business into the Corporation existing business. The goodwill will not be deductible for tax purposes.

The fair value of acquired trade receivables was $926 which represented the gross contractual amount. The contingent consideration arrangement requires the Corporation to pay, in cash, to the former owners, a fixed amount of US$3,000 (CA$4,023) over the next 3 years ending in April 2020. In addition, the Corporation must pay an additional amount of $US3,500 (CA$4,695) over the same period of time if certain conditions are met. The fair value of the contingent consideration was determined using an income approach based on the estimated amount and timing of projected cash flows.

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

The results of the business acquisition of Yokee for the period ended September 30, 2017 are included in results since the date of the acquisition. Revenues recorded from the acquisition date to September 30, 2017 were $2,517 and net loss was $175. Had the acquisition occurred at the beginning of the fiscal year, revenues related to this acquired business would have been approximately $3,125 and net loss would have been $217.

		Preliminary
Assets acquired :		
Cash and cash equivalents	$	1,342
Trade receivables		926
Other current assets		34
Property and equipment		114
Intangible assets		9,642
Goodwill		3,561
		15,619
Liabilities assumed :		
Accounts payable and accrued liabilities		676
Deferred tax liabilities		2,410
		3,086
Net assets acquired at fair value	$	12,533
Consideration given :		
Cash		8,611
Contingent consideration		3,922
	$	12,533

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 remains 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., Xtra Music Ltd., Stingray Europe B.V., Alexander Medien Gruppe GmbH., 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), Festival 4K B.V., Classica GmbH and its wholly-owned subsidiary, Think inside the box LLC (Nature Vision TV), Yokee Music Limited, C Music Entertainment Limited, SBA Music PTY Ltd. and its wholly-owned subsidiary, Satellite Music Australia PTY Ltd. and Stingray Music, S.A. de C.V..

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

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.

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

	Three-month periods ended		Six-month periods ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenues				
Canada	$ 14,819	$ 14,045	$ 29,346	$ 28,122
United States	4,969	2,930	9,499	5,674
Other countries	10,791	7,552	20,912	15,278
	$ 30,579	$ 24,527	$ 59,757	$ 49,074

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

	September 30, 2017	March 31, 2017
Property and equipment, intangible assets and goodwill		
Canada	$ 50,968	$ 52,172
Netherlands	22,722	23,057
United Kingdom	19,688	14,954
Israel	11,137	–
Australia	20,661	11,600
Germany	7,471	7,679
Other countries	13,572	14,181
	$ 146,219	$ 123,643

5. Other information:

The following table shows the depreciation, amortization and write-off distributed by function:

	Three-month periods ended		Six-month periods ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Depreciation, amortization and write-off :				
Music programming, cost of services and content	$ 4,700	$ 4,255	$ 9,429	$ 7,643
General and administrative	526	273	959	646
	$ 5,226	$ 4,528	$ 10,388	$ 8,289

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

The music programming, cost of services and content and the general and administrative expense for the three-month period ended September 30, 2017 would have been respectively $15,486 (2016 – $12,654) and $10,784 (2016 – $4,774) and for the six-month period ended September 30, 2017 would have been respectively, $30,476 (2016 – $24,783) and $16,714 (2016 – $8,629) if the presentation by function of the depreciation, amortization and write-off expense would have been adopted in the statements of comprehensive income.

During the three-month and the six-month periods ended September 30, 2017, transaction costs related to business acquisitions amounting to $253 (2016 – $99) and $373 (2016 – $106), respectively, were recognized in general and administrative in the statements of comprehensive income.

6. Net finance expense (income):

	Three-month periods ended		Six-month periods ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Interest expense and standby fees	$ 522	$ 316	$ 854	$ 592
Change in fair value of contingent consideration and balance payable on business acquisitions	240	(32)	747	(100)
Accretion expenses on balance payable on business acquisitions	90	–	180	–
Accretion expenses of CRTC tangible benefits	66	78	131	155
Amortization and write-off of financing fees	50	25	67	50
Foreign exchange loss (gain)	301	(14)	(173)	324
	$ 1,269	$ 373	$ 1,806	$ 1,021

7. Property and equipment, intangible assets and goodwill:

	Property and equipment	Intangible assets	Goodwill
Year ended March 31, 2017			
Opening net book amount as at March 31, 2016	$ 4,628	$ 47,901	$ 61,805
Additions	3,035	1,142	–
Additions through business acquisition (note 3)	90	9,197	6,736
Additions through asset acquisitions	–	5,904	–
Disposal and write-offs	(97)	–	–
Depreciation of property and equipment	(2,321)	–	–
Amortization of intangible assets	–	(14,750)	–
Foreign exchange differences	1	125	247
Closing net book amount as at March 31, 2017	$ 5,336	$ 49,519	$ 68,788
Six-month period ended September 30, 2017			
Opening net book amount as at March 31, 2017	$ 5,336	$ 49,519	$ 68,788
Additions	2,631	1,093	–
Additions through business acquisition (note 3)	202	16,428	14,029
Disposals and write-offs	(25)	–	–
Depreciation of property and equipment	(1,314)	–	–
Amortization of intangible assets	–	(9,049)	–
Foreign exchange differences	(8)	(800)	(611)
Closing net book amount as at September 30, 2017	$ 6,822	$ 57,191	$ 82,206

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

8. Other payables:

	September 30, 2017	March 31, 2017
Contingent consideration	$ 16,454	$ 12,956
Balance payable on business acquisitions	5,789	5,845
CRTC tangible benefits	3,226	3,724
Post-employment benefit obligations	13	13
	25,482	22,538
Current position	(8,655)	(9,498)
	$ 16,827	$ 13,040

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, 2017		
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	218,391	660
As at March 31, 2017		
Subordinate voting shares and variable subordinate voting shares	35,032,081	101,584
Multiple voting shares	16,294,285	1,116
	51,326,366	$ 102,700

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

	Number of shares	Carrying amount
Six-month period ended September 30, 2017		
As at March 31, 2017		
Subordinate voting shares and variable subordinate voting shares	35,032,081	$ 101,584
Multiple voting shares	16,294,285	1,116
	51,326,366	102,700
Issued upon exercise of stock options		
Subordinate voting shares	34,146	158
As at September 30, 2017		
Subordinate voting shares and variable subordinate voting shares	35,066,227	101,742
Multiple voting shares	16,294,285	1,116
	51,360,512	$ 102,858

Transactions for the period ended September 30, 2017

On August 1, 2017, the Corporation declared a dividend of $0.05 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend of $2,567 was paid on September 15, 2017.

10. Supplemental cash flow information:

	Three-month periods ended		Six-month periods ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Trade and other receivables	$ (2,228)	$ 697	$ (3,485)	$ (1,473)
Research and development tax credit	(209)	(216)	(410)	(406)
Inventories	(369)	(199)	(168)	(10)
Other current assets	(215)	77	(1,219)	51
Other non-current assets	6	24	(25)	19
Accounts payable and accrued liabilities	3,151	(1,187)	(747)	(2,980)
Deferred revenues	(188)	(19)	(628)	(27)
Income taxes payable	(143)	(325)	(217)	187
Other payables (CRTC tangible benefits)	(78)	(607)	(629)	(660)
	$ (273)	$ (1,755)	$ (7,528)	$ (5,299)

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

11. Share-based compensation:

Stock options plan

During the three and six-month periods ended September 30, 2017, respectively 21,008 options and 682,429 options (2016 – 344,215 options for both three-month and six-month period) were granted at a weighted average exercise price of $7.66 (2016 – $7.27) to eligible employees. The weighted average fair value of the stock options granted during the three-month and six-month period ended September 30, 2017 were $1.98 and $1.64 (2016 – $2.08 for both three and six-month periods), respectively. 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:

	2017
Volatility	30%
Risk-free interest rate	1.12% – 1.51%
Expected life of options	5 years
Value of the subordinate voting share at grant date	$7.62 – $8.89
Expected dividend rate	2.25% – 2.37%

During the three and six-month periods ended September 30, 2017, 34,146 options were exercised at the weighted average exercise price of $2.87 and at a weighted average share price of $8.91.

Total share-based compensation costs recognized under this stock option plan amount to $280 and $474 for the three and six-month periods ended September 30, 2017 (2016 – $270 and $461), respectively.

Restricted share unit plan ("RSU")

During the three and six-month periods ended September 30, 2017, respectively 375 RSU and 686 RSU (2016 – nil and 1,095 RSU) were granted at a range of $7.50 to $9.46 (2016 – nil and $7.27) to employees. During the three and six-month periods ended September 30, 2017, 136,581 RSU (2016 – nil and 11,624 RSU) were vested and settled in cash at $8.44 (2016 – $4.58) per unit to employees for a total amount of $1,218 (2016 – $53), including employees benefits. During the three and six-month periods ended September 30, 2017, the total share-based compensation expense related to RSU plans amounted to $52 and $108 (2016 – $167 and $343), respectively. As at September 30, 2017, the fair value per unit was $9.63 (2016 – $7.67) for a total amount of $358 (2016 – $1,060) and was presented in accrued liabilities on the consolidated statements of financial position.

Performance share unit plan ("PSU")

During the three and six-month periods ended September 30, 2017, respectively 145,177 PSU and 157,006 PSU (2016 – 27,454 PSU and 69,439 PSU) were granted at a range of $7.60 to $9.46 (2016 – $6.98 to $7.27) to employees. During the three and six-month periods ended September 30, 2017, the total share-based compensation expense related to PSU plans amounted to $137 and $367 (2016 – $43 and $88), respectively. As at September 30, 2017, the fair value per unit was $9.63 (2016 – $7.67) for a total amount of $724 (2016 – $88) and was presented in accrued liabilities on the consolidated statements of financial position.

Deferred share unit plan ("DSU")

During the three and six-month periods ended September 30, 2017, respectively 15,241 DSU and 37,084 DSU (2016 – 17,126 and 35,851) were granted at a range from $7.56 to $9.66 to directors (2016 – $6.96 to $7.26). During the three and six-month periods ended September 30, 2017, the total expense related to DSU plan amounted to $427 and $551 (2016 – $223 and $339). As at September 30, 2017, the fair value per unit was at a range of $9.41 to $9.63 (2016 – $7.50 to $7.67) for a total amount of $1,825 (2016 – $678) and was presented in accrued liabilities on the consolidated statements of financial position.

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

12. Financial instruments:

Financial risk factors:

The Corporation is exposed to a variety of financial risk: credit risks, liquidity risk and market risk (including currency risk and interest risk). The 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, 2017. 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 consideration 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, approximates its carrying value as it bears interest at prime or banker's acceptance rates plus a credit spread, which approximate current rates that could be obtained for debts with similar terms and credit risk. The carrying amount of CRTC tangible benefits and balance payable on business acquisitions is a reasonable approximation of their fair value as they are discounted using the effective interest rate, which approximate current rates that could be obtained with similar terms and credit risk.

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

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

As at September 30, 2017	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 2,188				
Trade and other receivables	31,917				
Financial assets measured at fair value					
Investments	$ 16,220	$ 16,220	$ –	$ –	$ 16,220
Financial liabilities measured at amortized cost					
Revolving facility	$ 67,433				
Accounts payable and accrued liabilities	32,902				
CRTC tangible benefits	3,226				
Balance payable on business acquisitions	5,789				
Financial liabilities measured at fair value					
Contingent consideration	$ 16,454	$ 16,454	$ –	$ –	$ 16,454

As at March 31, 2017	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 5,862				
Trade and other receivables	25,998				
Financial assets measured at fair value					
Investments	$ 17,351	$ 17,351	$ –	$ –	$ 17,351
Financial liabilities measured at amortized cost					
Revolving facility	$ 41,040				
Accounts payable and accrued liabilities	28,959				
CRTC tangible benefits	3,724				
Balance payable on business acquisitions	5,845				
Financial liabilities measured at fair value					
Contingent consideration	$ 12,956	$ 12,956	$ –	$ –	$ 12,956

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

Fair value measurement (Level 3):

	Investments	Contingent consideration
Six-month period September 30, 2016		
Opening amount as at March 31, 2016	$ 16,943	$ 12,347
Additions through business acquisitions	–	1,122
Change in fair value	159	(100)
Settlements	–	(2,349)
Closing amount as at September 30, 2016	$ 17,102	11,020

	Investments	Contingent consideration
Six-month period ended September 30, 2017		
Opening amount as at March 31, 2017	$ 17,351	$ 12,956
Additions through business acquisitions	–	7,286
Change in fair value	(1,131)	592
Settlements	–	(4,380)
Closing amount as at September 30, 2017	$ 16,220	$ 16,454

There were no changes in the valuation techniques for the contingent consideration and investmentsduring the periods ended September 30, 2017 and 2016.

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 and six-month periods ended September 30, 2017 and 2016, the fair value has been measured by using the equity price from the latest external equity financing transaction, 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 was no change in the fair value of this instrument during the three-month period as there were no external equity financing transactions or no other indicators of significant changes that could affect the fair value of the 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. For the period ended September 30, 2016, the convertible note was evaluated at its recoverable amount as the Corporation requested the repayment of the debenture in its entirety and is expecting a repayment of the total amount of US$1,000. For the period ended September 30, 2017, the fair value of the option component has been measured using the Black-Scholes model based on the price share resulting from the most recent financing round.

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

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

	2017
Volatility	40.0%
Risk-free interest rate	1.69%
Period	5 years
Dividend yield	–

Contingent consideration

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 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).

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		Six-month periods ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Short-term employee benefits	$ 1,213	$ 890	$ 2,148	$ 1,671
Share-based compensation	233	207	392	367
Restricted and performance share unit	148	45	229	92
Deferred share unit	427	223	551	339
	$ 2,021	$ 1,365	$ 3,320	$ 2,469

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

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 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, 2017.

The interim consolidated financial statements were authorized for issue by the Board of Directors on November 8, 2017.

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, 2017.

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.

15. New and amended standard adopted by the Corporation:

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 annual consolidated financial statements for the annual period beginning on April 1, 2017. These amendments did not result in any changes on the interim consolidated financial statements.

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

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 adopted the amendments to IAS 12 in its financial statements for the annual period beginning on April 1, 2017. These amendments did not result in any significant changes on the interim 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.

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.

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

IFRS 2 –*Share-based Payment*

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.

IFRIC 22 – *Foreign Currency Transactions*

On December 8, 2016, the IASB issued IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on April 1, 2018. The extent of the impact of adoption of the Interpretation has not yet been determined.

stingray.com