



2019

FIRST QUARTER REPORT

FISCAL 2019

For the three-month period ended June 30, 2018



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BASIS OF PREPARATION AND FORWARD-LOOKING STATEMENTS

The following is the quarterly financial report and Management's Discussion and Analysis ("MD&A") of the results of operations and financial position of Stingray Digital Group Inc., ("Stingray" or "the Corporation"), and should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and accompanying notes for the three-month periods ended June 30, 2018 and 2017, and with the most recent audited consolidated financial statements and MD&A for the year ended March 31, 2018. This MD&A reflects information available to the Corporation as at August 7, 2018. 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 ("AIF") for the year ended March 31, 2018 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 dividend and reduce debt. The Corporation believes that Net debt 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.

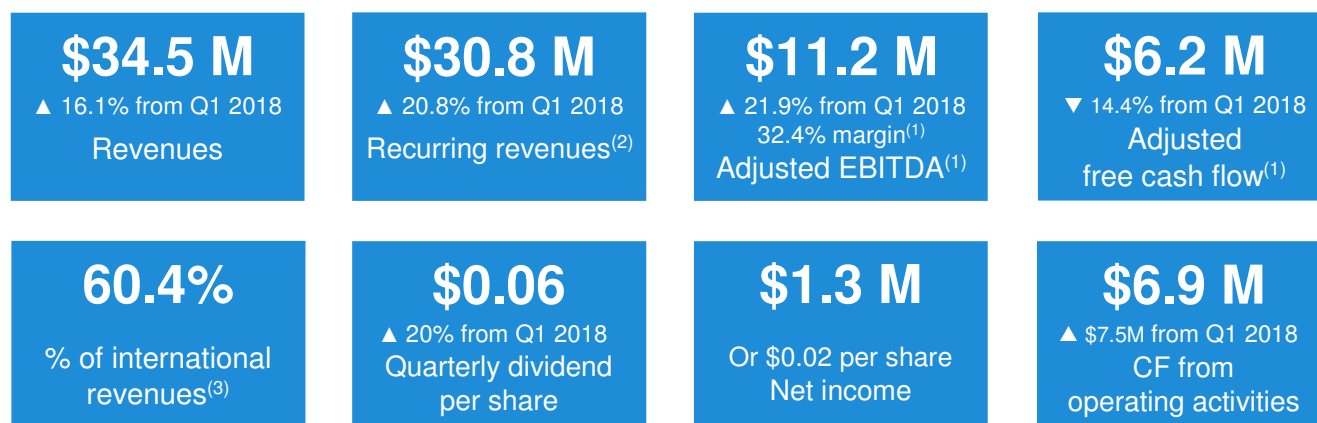
OVERVIEW

Stingray is the world-leading provider of multiplatform music and video services as well as digital experiences for pay TV operators, commercial establishments, OTT providers, mobile operators, consumers, and more. Its services include audio television channels, premium television channels, 4K UHD television channels, karaoke products, digital signage, in-store music, and music apps. Stingray reaches 400 million subscribers (or users) in 156 countries and its mobile apps have been downloaded over 100 million times.

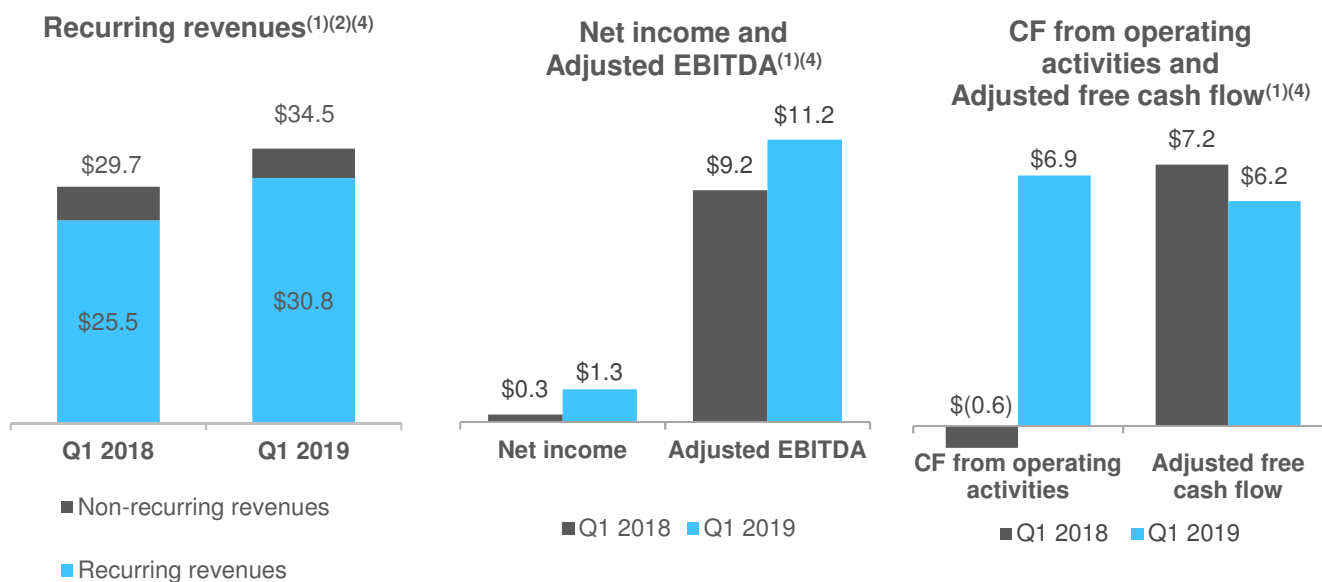
The Corporation is headquartered in Montreal and currently has over 400 employees worldwide, including in the United States, the United Kingdom, the Netherlands, Israel, and Australia.

KEY PERFORMANCE INDICATORS⁽¹⁾

For the three-month period ended June 30, 2018:



For the three-month periods ended June 30, 2018 and 2017:



Notes:

- (1) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 7.
- (2) 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.
- (3) International means all jurisdictions except Canada.
- (4) In millions of Canadian dollars.

FINANCIAL AND BUSINESS HIGHLIGHTS

Highlights of the first quarter ended June 30, 2018 (“Q1 2019”)

Compared to the quarter ended June 30, 2017 (“Q1 2018”):

- Revenues increased 16.1% to \$34.5 million from \$29.7 million;
- Recurring revenues of \$30.8 million (89.4% of total revenues), an increase of 20.8%;
- International revenues (including the U.S. and Other countries) increased to 60.4% from 51.0%;
- Adjusted EBITDA⁽¹⁾ increased 21.9% to \$11.2 million from \$9.2 million;
- Adjusted EBITDA⁽¹⁾ margin was 32.4% compared with 30.9%;
- Net income was \$1.3 million (\$0.02 per share) compared with \$0.3 million (\$0.01 per share);
- Adjusted Net income⁽¹⁾ of \$5.9 million (\$0.10 per share) compared with \$5.7 million (\$0.11 per share);
- Cash flow from operating activities increased to \$6.9 million compared to \$(0.6) million; and
- Adjusted free cash flow⁽¹⁾ decreased 14.4% to \$6.2 million compared to \$7.2 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.

Business Highlights:

- On August 7, 2018, the Corporation declared a dividend of \$0.06 per subordinate voting share, variable subordinate voting share and multiple voting share and subscription receipts. The dividend will be payable on or around September 14, 2018 to shareholders on record as of August 31, 2018.
- On August 3, 2018, the Corporation announced that it has made an unsolicited offer to purchase all of the issued and outstanding units of Music Choice, a general partnership which produces music programming and music-related content for digital cable television, mobile phone and cable modem users. The offer at a purchase price of US\$120 million, which remains open for acceptance until August 31, 2018, has not yet been accepted and is currently under review by the unitholders. No assurance can be given that the offer, as presented, will be accepted by all or any of the unitholders.
- On August 1, 2018, the Corporation announced that it has acquired Novrmedia Inc. a Toronto-based leader in the design, development, and implementation of digital media solutions.
- As at June 30, 2018, Subscription Video On Demand (SVOD) services exceeded 322,000 paying subscribers. The Corporation's SVOD offerings are available as a business to customer (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 June 19, 2018, the Corporation announced that it has acquired a minority stake in Nextologies Limited, an Ontario-based provider of technological solutions for broadcasters.
- On May 29, 2018, the Corporation announced that it had reached a long-term agreement with Bell that renews and expands their longstanding relationship. Bell thus becomes the first Canadian operator that can offer its subscribers Stingray's entire music and video services portfolio.
- On May 14, 2018, the Corporation announced that it had been selected by Talpa Media, creator of The Voice, to develop, publish, and market worldwide the juggernaut of singing competitions' new companion singing app. The Voice singing app will be launched worldwide in December 2018.
- On May 2, 2018, the Corporation announced that it had entered into a definitive agreement with Newfoundland Capital Corporation Limited (NCC) pursuant to which the Corporation will acquire all of NCC's issued and outstanding shares (NCC Shares) for \$14.75 per NCC share, representing a total consideration of approximately \$505.3 million. Completion of the acquisition, expected to occur in the coming months but no later than May 2, 2019, is subject to, and conditional upon, the receipt of all necessary approvals, including approval of Canadian Radio-Television and Telecommunications Commission and securing necessary funding. Refer to page 23 for more detail on the transaction.
- On June 27, 2018, NCC announced that its shareholders have approved the plan of arrangement involving NCC, Stingray Digital Group Inc. and 10643432 Canada Inc. as described in NCC's Management Information Circular dated May 23, 2018.
- Following the agreement to purchase NCC, the Corporation completed a subscription receipt offering and issued from treasury 7,981,000 subscription receipts of the Corporation (the "Public Subscription Receipts"), on a bought deal basis, at a price of \$10.40 per Public Subscription Receipts for gross proceeds of \$83.0 million and net proceeds of \$79.7 million. Concurrently with the closing of the public offering, the Corporation has issued from treasury 3,846,100 subscription receipts (the "Private Placement Subscription Receipts") at a price of \$10.40 per Private Placement Subscription Receipts for gross proceeds of \$40.0 million. As a result of the public offering and concurrent private placement, a holder of multiple voting shares of the Corporation has exercised subscription rights attached to the multiple voting shares of the Corporation and consequently the Corporation issued from treasury 1,452,850 subscription receipts at a price of \$10.40 for gross proceeds of \$15.1 million. Refer to page 23 for more detail.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Three-month period ended June 30, 2018 Q1 2019		Three-month period ended June 30, 2017 Q1 2018		Three-month period ended March 31, 2018 Q4 2018	
(in thousands of Canadian dollars, except per share amounts)	\$	% of revenues	\$	% of revenues	\$	% of revenues
Revenues	34,456	100.0 %	29,670	100.0 %	34,223	100.0 %
Recurring revenues	30,796	89.4 %	25,502	86.0 %	30,734	89.8 %
Revenues	34,456	100.0 %	29,670	100.0 %	34,223	100.0 %
Music programming, cost of services and content	13,212	38.3 %	11,094	37.4 %	12,095	35.3 %
Selling and marketing	3,428	10.0 %	3,224	10.9 %	3,473	10.1 %
Research and development, support and information technology	2,461	7.1 %	2,978	10.0 %	2,139	6.3 %
General and administrative	6,340	18.4 %	5,497	18.5 %	7,413	21.6 %
Depreciation, amortization and write-off	5,756	16.7 %	5,162	17.4 %	5,613	16.4 %
Net finance expense (income) ⁽¹⁾	1,921	5.6 %	537	1.8 %	(378)	(1.1) %
Change in fair value of investments	(497)	(1.4) %	434	1.5 %	(421)	(1.2) %
Income before income taxes	1,835	5.3 %	744	2.5 %	4,289	12.6 %
Income tax expense (recovery)	489	1.4 %	464	1.6 %	(385)	(1.1) %
Net income	1,346	3.9 %	280	0.9 %	4,674	13.7 %
Adjusted EBITDA⁽²⁾	11,179	32.4 %	9,169	30.9 %	11,752	34.3 %
Adjusted Net income⁽²⁾	5,898	17.1 %	5,703	19.2 %	9,732	28.4 %
Adjusted free cash flow⁽²⁾	6,198	18.0 %	7,240	24.4 %	11,066	32.3 %
Cash flow from operating activities	6,920	20.1 %	(589)	(2.0) %	10,675	31.2 %
Net debt⁽²⁾	43,557	—	54,968	—	35,265	—
Net debt to Adjusted EBITDA⁽²⁾⁽³⁾	1.00x	—	1.56x	—	0.85x	—
Net income per share basic	0.02	—	0.01	—	0.08	—
Net income per share diluted	0.02	—	0.01	—	0.08	—
Adjusted Net income per share basic ⁽²⁾	0.10	—	0.11	—	0.17	—
Adjusted Net income per share diluted ⁽²⁾	0.10	—	0.11	—	0.17	—
Revenues by category						
Music Broadcasting	26,002	75.5 %	22,316	75.2 %	26,011	76.0 %
Commercial Music	8,454	24.5 %	7,354	24.8 %	8,212	24.0 %
Revenues	34,456	100.0 %	29,670	100.0 %	34,223	100.0 %
Revenues by geography						
Canada	13,641	39.6 %	14,538	49.0 %	13,658	39.9 %
United States	8,185	23.7 %	4,704	15.9 %	8,331	24.3 %
Other countries	12,630	36.7 %	10,428	35.1 %	12,234	35.8 %
Revenues	34,456	100.0 %	29,670	100.0 %	34,223	100.0 %

Notes:

(1) Interest paid during the Q1 2019 was \$436 (Q1 2018; \$296, Q4 2018; \$379).

(2) 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.

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

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 table shows the reconciliation of Net income to Adjusted EBITDA:

(in thousands of Canadian dollars)	Three-month period ended June 30, 2018 Q1 2019	Three-month period ended June 30, 2017 Q1 2018	Three-month period ended March 31, 2018 Q4 2018
Net income	1,346	280	4,674
Net finance expense (income)	1,921	537	(378)
Change in fair value of investments	(497)	434	(421)
Income tax expense (recovery)	489	464	(385)
Depreciation and write-off of property and equipment	1,169	621	1,019
Amortization of intangible assets	4,587	4,541	4,594
Share-based compensation	175	194	473
Restricted, performance and deferred share unit expense	367	313	780
Acquisition, legal, restructuring and other various costs	1,622	1,785	1,396
Adjusted EBITDA	11,179	9,169	11,752
Net finance expense (income)	(1,921)	(537)	378
Income tax expense (recovery)	(489)	(464)	385
Depreciation of property and equipment and write-off	(1,169)	(621)	(1,019)
Income taxes related to change in fair value of investments, share-based compensation, restricted, performance and deferred share unit expense, amortization of intangible assets and acquisition, legal, restructuring and other various costs	(1,702)	(1,844)	(1,764)
Adjusted Net income	5,898	5,703	9,732

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

(in thousands of Canadian dollars)	Three-month period ended June 30, 2018 Q1 2019	Three-month period ended June 30, 2017 Q1 2018	Three-month period ended March 31, 2018 Q4 2018
Cash flow from operating activities	6,920	(589)	10,675
Add / Less :			
Acquisition of property and equipment	(2,228)	(807)	(846)
Acquisition of intangible assets other than internally developed intangible assets	(347)	(404)	(406)
Addition to internally developed intangible assets	(1,205)	-	(1,166)
Net change in non-cash operating working capital items	1,436	7,255	1,413
Acquisition, legal, restructuring and other various costs	1,622	1,785	1,396
Adjusted free cash flow	6,198	7,240	11,066

The following table shows the calculation of Net debt:

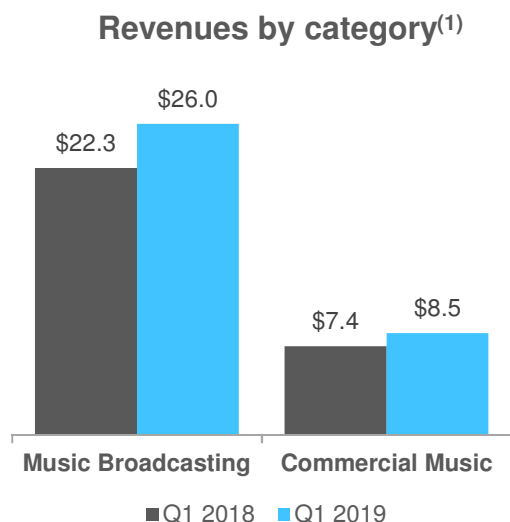
(in thousands of Canadian dollars)	June 30, 2018	March 31, 2018	June 30, 2017
Revolving facility	47,881	38,627	58,120
(Cash and cash equivalents)	(4,324)	(3,362)	(3,152)
Net debt	43,557	35,265	54,968

FINANCIAL RESULTS FOR THE THREE-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017

Revenues

Revenues for Q1 2019 increased or 16.1% to \$34.5 million, from \$29.7 million for Q1 2018. The increase in revenues was primarily due to organic growth of SVOD, combined with the acquisitions of Qello Concerts, Satellite Music Australia PTY Ltd (SMA) and SBA Music PTY Ltd (SBA).

Trends by Revenues Categories were as follow:



Note:

(1) In millions of Canadian dollars.

Music Broadcasting

The most significant contributors to the increase of 16.5% or \$3.7 million from Q1 2018 in Music Broadcasting revenues were as follows (arrows reflect the impact):

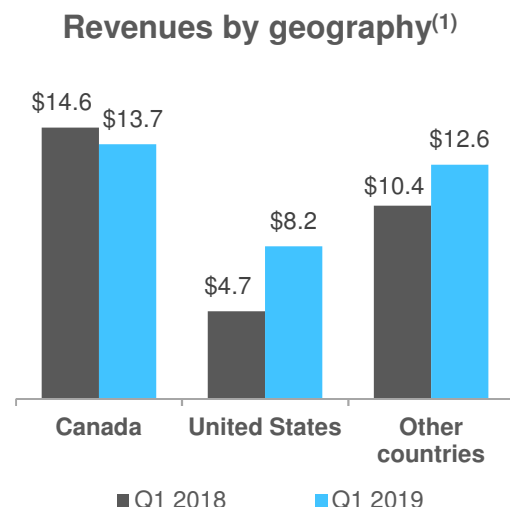
- ▲ Organic growth related to SVOD.
- ▲ Acquisition of Qello Concerts.

Commercial Music

The most significant contributors to the increase of 15.0% or \$1.1 million from Q1 2018 in Commercial Music revenues were as follows (arrows reflect the impact):

- ▲ Acquisitions of SMA and SBA.
- ▼ Decrease in equipment and installation sales related to digital signage.

Trends by Revenues by Geographic Region:



Note:

(1) In millions of Canadian dollars.

Canada

The most significant contributors to the decrease of 6.2% or \$0.9 million from Q1 2018 in revenues for Canada were as follows (arrows reflect the impact):

- ▼ Decrease in equipment and installation sales related to digital signage.

United States

The most significant contributors to the increase of 74.0% or \$3.5 million from Q1 2018 in U.S. revenues were as follows (arrows reflect the impact):

- ▲ Organic growth related to SVOD, as well as acquisition the of Qello Concerts.

Other countries

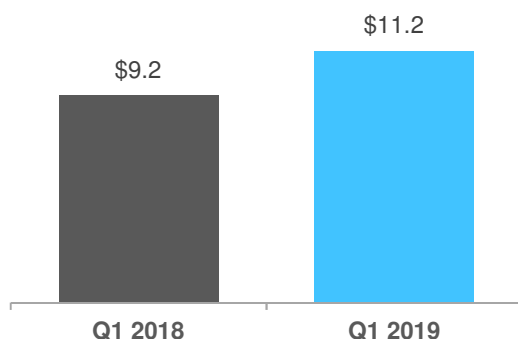
The most significant contributors to the increase of 21.1% or \$2.2 million from Q1 2018 in Other countries revenues were as follows (arrows reflect the impact):

- ▲ Organic growth related to SVOD, as well as the acquisitions of SMA and SBA.

Operating Expenses

(in thousands of Canadian dollars)	Q1 2019 % of revenues	Q1 2018 % of revenues	Variance	Significant contributions to variance :
Music programming, cost of services and content	\$13,212 38.3%	\$11,094 37.4%	\$2,118 19.1% ▲	Primarily due to costs related to increase in revenues and to acquisitions.
Selling and marketing	\$3,428 10.0%	\$3,224 10.9%	\$204 6.3% ▲	Primarily due to additional employees to support growth and incremental selling costs from recent acquisitions.
Research and development, support and information technology	\$2,461 7.1%	\$2,978 10.0%	\$(517) 17.4% ▼	Primarily due to higher capitalised costs related to internally developed intangible assets, partially offset by additional staff to support new technologies and growth.
General and administrative	\$6,340 18.4%	\$5,497 18.5%	\$843 15.3% ▲	Primarily due to administrative costs related to recent acquisitions and growth, partially offset by lower legal fees.
Depreciation, amortization and write-off	\$5,756 16.7%	\$5,162 17.4%	\$594 11.5% ▲	Primarily due to the addition of property and equipment.

Adjusted EBITDA⁽¹⁾⁽²⁾



Notes:

(1) In millions of Canadian dollars.

(2) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 7.

Adjusted EBITDA in Q1 2019 increased to increased 21.9% to \$11.2 million from \$9.2 million in Q1 2018. Adjusted EBITDA margin was 32.4% in Q1 2019 compared to 30.9% in Q1 2018. The increase in Adjusted EBITDA was primarily due to the organic growth of SVOD and to the acquisitions realized in Fiscal 2018, partially offset by higher operating expenses related to international expansion. The increase in Adjusted EBITDA margin was mainly related to the decrease in equipment and installation sales, which presents lower margins, combined with the increase in Adjusted EBITDA margin of Yokee Music Limited (Yokee Music) after the successful integration, which had the effect of reducing royalties expense and other operational costs.

Acquisition, legal, restructuring and other various costs mainly included costs related to litigation (see page 15) and integration costs for our recent acquisitions.

Net Finance Expense (Income)

In Q1 2019, net finance expense increased to \$1.9 million from \$0.5 million in Q1 2018. The increase was mainly related to negative change in fair value of contingent consideration, as well as a foreign exchange loss compared to a gain in Q1 2018.

Change in fair value of investments

In Q1 2019, a gain on change in fair value of \$0.5 million was recorded compared to a loss of \$0.4 million in Q1 2018. The gain is related to the translation of an investment denominated in U.S. dollars to Canadian dollars.

Income Taxes

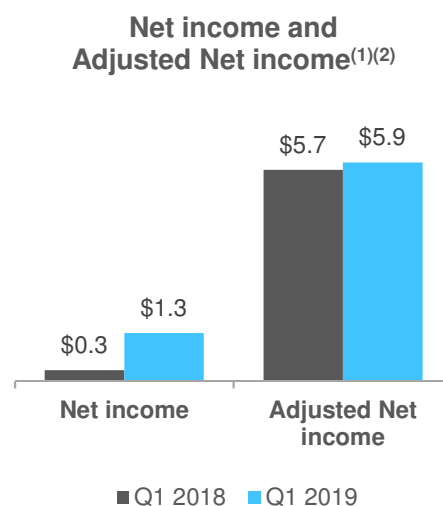
The income taxes expense remained stable at \$0.5 million in Q1 2019 and Q1 2018. The effective tax rate was 26.7% for Q1 2019 compared with 62.4% for Q1 2018. The decrease in the effective tax is mainly due to the variation in the permanent differences.

Net income and Net income per share

Net income increased to \$1.3 million (\$0.02 per share diluted) in Q1 2019 from \$0.3 million (\$0.01 per share diluted) in Q1 2018. The increase was mainly attributable to higher operating results and positive change in fair value of investments, partially offset by negative change in fair value of contingent consideration and higher depreciation of property and equipment. The larger number of shares outstanding following the equity issue in October 2017 impacted the earnings per share calculation.

Adjusted Net income and Adjusted Net income per share

Adjusted Net income in Q1 2019 increased to \$5.9 million (\$0.10 per share) from \$5.7 million (\$0.11 per share) in Q1 2018, as higher operating results were partially offset by negative change in fair value of contingent consideration and higher depreciation of property and equipment. As indicated above, the equity issue in October 2017 impacted earnings per share.



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 \$24.5 million in the second quarter of Fiscal 2017 to \$34.5 million in the first quarter of Fiscal 2019. The increase was mainly attributable to the successful integration of acquisitions and organic growth including new contracts in all geographic locations. The decrease in Q4 2018 revenues compared to Q3 2018 was mainly explained by lower non-recurring revenues related to digital signage in Commercial Music.

Adjusted EBITDA increased over the last eight quarters from \$8.2 million in the second quarter of Fiscal 2017 to \$11.2 million in the first quarter of Fiscal 2019. The increase was mainly attributable to the successful integration of acquisitions and organic growth including new contracts. The decrease in Q1 2019 is explained by hiring in the research and development, support and information technology team to sustain growth, as well increased content offering.

Net income (loss) fluctuated over the last eight quarters from a net income of \$1.4 million in the second quarter of Fiscal 2017 to \$1.3 million in the first quarter of Fiscal 2019. 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 intangible 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. In Q3 2018, the net income was mainly attributable to higher operating results and lower legal fees, partially offset by the negative change in fair value of contingent consideration and higher amortization expense of intangible assets compared to Q2 2018. In Q4 2018, the increase in net income was mainly attributable to higher net finance income and income tax recovery. In Q1 2019, the decrease in net income was mainly attributable to negative change in fair value of contingent consideration and income taxes expense compared to an unusual recovery of income taxes in Q2 2018.

Summary of Consolidated Quarterly Results

(in thousands of Canadian dollars, except per share amounts)	Three-month periods ended							
	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017	Dec. 31, 2016	Sept. 30, 2016
	Fiscal 2019	Fiscal 2018	Fiscal 2018	Fiscal 2018	Fiscal 2018	Fiscal 2017	Fiscal 2017	Fiscal 2017
Revenues by category								
Music Broadcasting	26,002	26,011	24,722	22,394	22,316	19,708	19,295	18,009
Commercial Music	8,454	8,212	10,377	8,828	7,354	6,794	6,630	6,518
Total revenues	34,456	34,223	35,099	31,222	29,670	26,502	25,925	24,527
Revenues by geography								
Canada	13,641	13,658	16,219	14,833	14,538	14,000	14,004	14,045
United States	8,185	8,331	7,037	5,222	4,704	3,838	4,097	2,930
Other countries	12,630	12,234	11,843	11,167	10,428	8,664	7,824	7,552
Total revenues	34,456	34,223	35,099	31,222	29,670	26,502	25,925	24,527
Recurring revenues	30,796	30,734	28,788	26,766	25,502	22,683	21,944	21,584
Recurring revenues as a percentage of total revenues	89.4%	89.8%	82.0%	85.7%	86.0%	85.6%	84.6%	88.0%
Adjusted EBITDA⁽¹⁾	11,179	11,752	11,151	9,452	9,169	9,046	8,717	8,220
Net income (loss)	1,346	4,674	737	(3,395)	280	4,608	2,660	1,405
Net income (loss) per share basic	0.02	0.08	0.01	(0.07)	0.01	0.09	0.05	0.03
Net income (loss) per share diluted	0.02	0.08	0.01	(0.07)	0.01	0.09	0.05	0.03
Adjusted Net income⁽¹⁾	5,898	9,732	6,016	5,407	5,703	10,534	6,164	5,405
Adjusted Net income ⁽¹⁾ per share basic	0.10	0.17	0.11	0.10	0.11	0.21	0.12	0.11
Adjusted Net income ⁽¹⁾ per share diluted	0.10	0.17	0.11	0.10	0.11	0.20	0.12	0.10

Note:

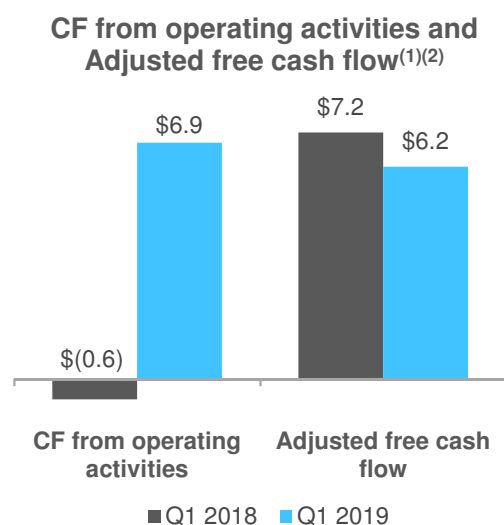
(1) Refer to "Forward-looking statements" and "Supplemental information on Non-IFRS measures" on page 2 and for reconciliations to the most directly comparable IFRS financial measure, refer to "Reconciliation of Quarterly Non-IFRS Measures" on page 7.

Reconciliation of Quarterly Non-IFRS Measures

(in thousands of Canadian dollars)	Three-month periods ended							
	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017	Dec. 31, 2016	Sept. 30, 2016
	Fiscal 2019	Fiscal 2018	Fiscal 2018	Fiscal 2018	Fiscal 2018	Fiscal 2017	Fiscal 2017	Fiscal 2017
Net income (loss)	1,346	4,674	737	(3,395)	280	4,608	2,660	1,405
Net finance expense (income)	1,921	(378)	1,746	1,269	537	1,006	9	373
Change in fair value of investments	(497)	(421)	(110)	697	434	334	(583)	(250)
Income tax expense (recovery)	489	(385)	849	(941)	464	(5,201)	706	487
Depreciation and write-off of property and equipment	1,169	1,019	704	718	621	724	574	546
Amortization of intangible assets	4,587	4,594	4,582	4,508	4,541	3,895	3,686	3,982
Share-based compensation	175	473	346	312	194	372	372	298
Restricted, performance and deferred share unit expense	367	780	422	709	313	688	550	444
Acquisition, legal, restructuring and other various costs	1,622	1,396	1,875	5,575	1,785	2,620	743	935
Adjusted EBITDA	11,179	11,752	11,151	9,452	9,169	9,046	8,717	8,220
Net finance expense (income)	(1,921)	378	(1,746)	(1,269)	(537)	(1,006)	(9)	(373)
Income tax expense (recovery)	(489)	385	(849)	941	(464)	5,201	(706)	(487)
Depreciation and write-off of property and equipment	(1,169)	(1,019)	(704)	(718)	(621)	(724)	(574)	(546)
Income taxes related to change in fair value of investments, share-based compensation, restricted, performance and deferred share unit expense, amortization of intangible assets and acquisition, legal, restructuring and other various costs	(1,702)	(1,764)	(1,836)	(2,999)	(1,844)	(1,983)	(1,264)	(1,409)
Adjusted Net income	5,898	9,732	6,016	5,407	5,703	10,534	6,164	5,405

LIQUIDITY AND CAPITAL RESOURCES

FOR THE THREE-MONTH PERIODS ENDED June 30, 2018 AND 2017



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 increased to \$6.9 million in Q1 2019 from \$0.6 million of cash used for operating activities in Q1 2018 due to the positive net change in non-cash operating item, as well as higher operating results.

Adjusted free cash flow

Adjusted free cash flow decreased 14.4% to \$6.2 million in Q1 2019 from \$7.2 million in Q1 2018. The decrease was mainly related to higher capital expenditures due to non-recurring leasehold improvements and foreign exchange loss, partially offset by higher Adjusted EBITDA.

Financing Activities

Net cash flow generated by financing activities amounted to \$2.0 million for Q1 2019 compared to \$10.1 million for Q1 2018. The decrease of \$8.1 million in cash flow was mainly attributable to the decrease of the revolving facility, partially offset by higher dividend payment.

Investing Activities

Net cash flow used in investing activities amounted to \$7.9 million for Q1 2019 compared to \$12.2 million for Q1 2018. The decrease of \$4.3 million was primarily related to lower business acquisitions, partially offset by the acquisition of an investment and higher capital expenditures.

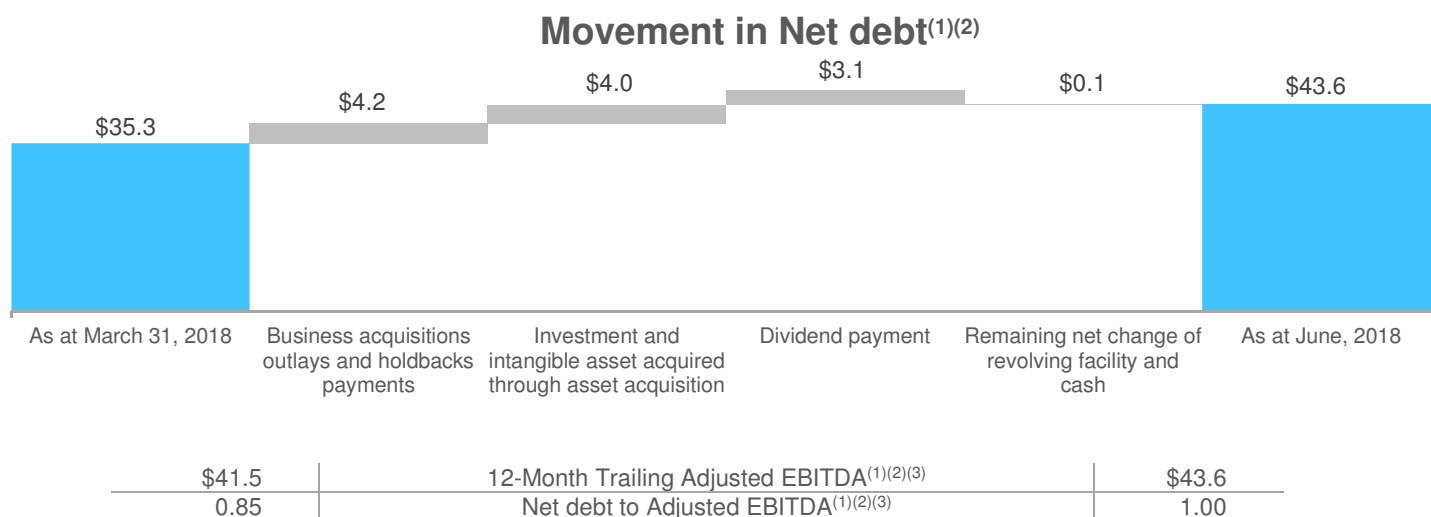
Contractual Obligations

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, 2018.

Operating lease

On October 27, 2016, the Corporation signed a lease agreement for the renewal of its lease and to add additional space in the new building located at 99 Prince, Montreal. The termination date is June 30, 2022, with a possibility of extension. As at June 30, 2018, the estimated remaining commitment under the terms of the operating lease for the premises amounts to \$6.0 million.

The following table summarizes the impact on the Net debt that occurred in the three-month period ended June 30, 2018 including related ratios:



Notes:

(1) In millions of Canadian dollars.

(2) Refer to "Supplemental information on Non-IFRS measures" on pages 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 three-month period ended June 30, 2018:

(in thousands of Canadian dollars)	June 30, 2018	March 31, 2018	Variance	Significant contributions
Trade and other receivables	\$35,306	\$34,834	\$472	▲ Receivables from acquisitions and additional revenues.
Intangible assets	\$59,943	\$54,355	\$5,588	▲ Recognition of intangibles through asset acquisition offset by amortization in the current period.
Goodwill	\$97,914	\$98,467	\$(553)	▼ Foreign exchange differences.
Accounts payable and accrued liabilities	\$36,836	\$35,199	\$1,637	▲ Payables from acquisitions and timing of payments to suppliers.
Revolving facility	\$47,881	\$38,627	\$9,254	▲ Payments of contingent consideration and balance payable on business acquisitions, acquisition of an investment, as well as dividend payment.
Contingent consideration and balance payable on business and asset acquisitions, including current portion	\$27,876	\$24,917	\$2,959	▲ Balance payable on asset acquisition and contingent consideration re-evaluation, partially offset by payments made for Yokee Music and Qello Concerts.

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 Patent Trial and Appeal Board (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. On December 12, 2017, the Court granted the Corporation's motion to stay, staying the litigation pending resolution of the IPRs, and dismissed without prejudice Stingray's motion for judgment on the pleadings. On June 19, 2018 and July 16, 2018, the PTAB held hearings for the instituted inter partes reviews. The PTAB will issue final written decisions for the instituted inter partes reviews by October 27, 2018.

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. In view of the Court's adjournment of the trial date and stay in *Music Choice v. Stingray*, this case is stayed as well.

SOCAN and Re:Sound legal proceedings

From May 2, 2017 until May 10, 2017, the Corporation, together with its Canadian Broadcast Distribution Undertaking customers (together, 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 (together, 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. While the Objectors and the Collectives await the final determination of the Board on the proper quantum of the Tariff, in early 2018 the Board released a tentative ruling proposing that allocation of affiliation payments across the suite of Stingray services is reasonable and appropriate and asking the parties to propose favoured approaches to allocation. The parties have responded to the Board's request, with the Objectors proposing an allocation based on a "cost approach", as supported by independent, expert advice. The Copyright Board of Canada continues its consideration of the matter, and the Corporation anticipates a decision in about 6 to 18 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 certain other key employees of the Corporation.

Key management personnel compensation and director's fees include the following:

(in thousands of Canadian dollars)	Three-month period ended June 30, 2018 Q1 2019	Three-month period ended June 30, 2017 Q1 2018
Short-term employee benefits	\$ 815	\$ 935
Share-based compensation	154	159
Restricted and performance share units	190	81
Deferred share units	55	124
	\$ 1,214	\$ 1,299

Off-Balance Sheet Arrangements

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

Disclosure of Outstanding Share Data

Issued and outstanding shares and outstanding stock options consisted of:

	August 7, 2018	June 30, 2018
<i>Issued and outstanding shares:</i>		
Subordinate voting shares	39,605,640	39,610,740
Subordinate voting shares held in trust through employee share purchase plan	(11,822)	(10,325)
Variable subordinate voting shares	436,839	431,739
Multiple voting shares	16,294,285	16,294,285
	56,324,942	56,326,439
<i>Outstanding stock options and subscription receipts:</i>		
Stock options	2,468,179	2,468,179
Subscription receipts	13,279,950	13,279,950

The Corporation has 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, which was amended on June 7, 2017, 10% of all multiple voting shares, subordinate voting shares and variable subordinate voting shares issued and outstanding on a non-diluted basis is reserve for issuance. In the first quarter of 2018, 25,000 options were exercised, no options were forfeited, and 527,952 options were granted to eligible employees, subject to service vesting periods of 4 years.

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, 2018. 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 7, 2018. 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 37 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.

Subsequent Events

Dividend

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

On August 7, 2018, the Corporation declared a dividend of \$0.06 per subordinate voting share, variable subordinate voting share, multiple voting share and subscription receipts that will be payable on or around September 14, 2018 to shareholders on record as of August 31, 2018.

Acquisition

On August 1, 2018, the Corporation announced that it has acquired Novrmedia Inc. a Toronto-based leader in the design, development, and implementation of digital media solutions.

Unsolicited offer

On August 3, 2018, the Corporation announced that it has made an unsolicited offer to purchase all of the issued and outstanding units of Music Choice, a general partnership which produces music programming and music-related content for digital cable television, mobile phone and cable modem users. The offer at a purchase price of US\$120 million, which remains open for acceptance until August 31, 2018, has not yet been accepted and is currently under review by the unitholders. No assurance can be given that the offer, as presented, will be accepted by all or any of the unitholders.

Additional Information

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

Consolidated Statements of Comprehensive Income

Three-month period ended June 30, 2018 and 2017

(In thousands of Canadian dollars, except per share amounts)		Three-month periods ended	
(Unaudited)		June 30,	June 30,
	Note	2018	2017
			(Restated, see note 16)
Revenues		\$ 34,456	\$ 29,670
Music programming, cost of services and content		13,212	11,094
Selling and marketing		3,428	3,224
Research and development, support and information technology net of tax credits of \$239 (2017 - \$201)		2,461	2,978
General and administrative		6,340	5,497
Depreciation, amortization and write-off	5, 7	5,756	5,162
Net finance expense (income)	6	1,921	537
Change in fair value of investments	13	(497)	434
Income before income taxes		1,835	744
Income taxes		489	464
Net income		\$ 1,346	\$ 280
Net income per share – Basic		0.02	0.01
Net income per share – Diluted		0.02	0.01
Weighted average number of shares – Basic		56,315,610	51,326,366
Weighted average number of shares – Diluted		56,977,663	51,858,330
Comprehensive income			
Net income		\$ 1,346	\$ 280
Other comprehensive income (loss), net of tax			
<i>Items that may be reclassified to profit and loss</i>			
Exchange differences on translation of foreign operations		(1,979)	256
Total other comprehensive income (loss)		(1,979)	256
Total comprehensive income (loss)		\$ (633)	\$ 536

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

June 30, 2018 and March 31, 2018

(In thousands of Canadian dollars) (Unaudited)	Note	June 30, 2018	March 31, 2018
Assets			
Current assets			
Cash and cash equivalents		\$ 4,324	\$ 3,362
Restricted cash	3	134,994	—
Trade and other receivables		35,306	34,834
Research and development tax credits		849	610
Income taxes receivable		1,511	989
Inventories		2,164	1,784
Other current assets		8,736	6,793
		187,884	48,372
Non-current assets			
Property and equipment	7	12,564	11,135
Intangible assets	7	59,943	54,355
Goodwill	7	97,914	98,467
Investments	13	16,930	15,533
Investment in an associate		1,250	1,106
Investment in joint venture		846	834
Other non-current assets		925	954
Deferred tax assets		11,380	12,950
Total assets		\$ 389,636	\$ 243,706
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		36,836	35,199
Liabilities for subscription receipts	3	138,111	—
Dividend payable		—	3,097
Deferred revenues		1,362	1,530
Current portion of other payables	9	18,957	13,212
Income taxes payable		2,422	2,403
		197,688	55,441
Non-current liabilities			
Revolving facility		47,881	38,627
Other payables	9	11,570	14,875
Deferred tax liabilities		4,012	5,156
Total liabilities		261,151	114,099
Shareholders' equity			
Share capital	10	146,402	146,354
Contributed surplus		4,018	3,825
Deficit		(21,320)	(21,936)
Accumulated other comprehensive income (loss)		(615)	1,364
Total equity		128,485	129,607
Subsequent events (note 2)			
Total liabilities and equity		\$ 389,636	\$ 243,706

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

Three-month periods ended June 30, 2018 and 2017

(In thousands of Canadian dollars, except number of share capital) (Unaudited)	Share Capital		Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Number	Amount				
Balance at March 31, 2017	51,326,366	\$ 102,700	\$ 2,872	\$ (10,299)	\$ (325)	\$ 94,948
Dividends	—	—	—	(2,310)	—	(2,310)
Share-based compensation	—	—	194	—	—	194
Net income	—	—	—	280	—	280
Other comprehensive income (loss)	—	—	—	(37)	256	219
Balance at June 30, 2017	51,326,366	\$ 102,700	\$ 3,066	\$ (12,366)	\$ (69)	\$ 93,331
Balance at March 31, 2018	56,305,753	\$ 146,354	\$ 3,825	\$ (21,936)	\$ 1,364	\$ 129,607
Issuance of shares upon exercise of stock options (note 10)	25,000	97	(41)	—	—	56
Dividends (note 3)	—	—	—	(730)	—	(730)
Share issuance costs (note 10)	—	(7)	—	—	—	(7)
Share-based compensation	—	—	198	—	—	198
Employee share purchase plan (notes 10 and 12)	(4,314)	(42)	36	—	—	(6)
Net income	—	—	—	1,346	—	1,346
Other comprehensive loss	—	—	—	—	(1,979)	(1,979)
Balance at June 30, 2018	56,326,439	\$ 146,402	\$ 4,018	\$ (21,320)	\$ (615)	\$ 128,485

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

Consolidated Statements of Cash Flows

Three-month periods ended June 30, 2018 and 2017

(In thousands of Canadian dollars) (Unaudited)		Three-month periods	
	Note	June 30, 2018	June 30, 2017
Operating activities:			
Net income		\$ 1,346	\$ 280
Adjustments for:			
Share-based compensation	12	175	194
Restricted and performance share unit expense	12	312	189
Deferred share unit expense	12, 14	55	124
Depreciation and write-off of property and equipment	7	1,169	621
Amortization of intangible assets	7	4,587	4,541
Amortization of financing fees	6	25	17
Interest expense and standby fees	6	335	332
Change in fair value of investments	13	(497)	434
Change in fair value of contingent consideration	6	1,309	383
Accretion expense on balance payable on business acquisitions	6	97	214
Accretion expense of CRTC tangible benefits	6	56	65
Share of results of joint venture		(12)	(23)
Income tax expense		489	464
Interest paid		(436)	(296)
Income taxes paid		(654)	(873)
		8,356	6,666
Net change in non-cash operating items	11	(1,436)	(7,255)
		6,920	(589)
Financing activities:			
Increase in the revolving facility		9,254	17,080
Payment of dividend	10	(3,097)	(2,310)
Share issuance costs	10	(7)	—
Proceeds from the exercise of stock options	10	56	—
Shares purchased under the employee share purchase plan	12	(42)	—
Repayment of other payables		(4,198)	(4,680)
		1,966	10,090
Investing activities:			
Business acquisitions, net of cash acquired		—	(11,000)
Investment in an associate		(144)	—
Acquisition of an investment	1	(900)	—
Intangible assets acquired through asset acquisition	1	(3,100)	—
Acquisition of property and equipment		(2,228)	(807)
Acquisition of intangible assets other than internally developed intangible assets		(347)	(404)
Addition to internally developed intangible assets		(1,205)	—
		(7,924)	(12,211)
Increase (decrease) in cash and cash equivalents		962	(2,710)
Cash and cash equivalents, beginning of period		3,362	5,862
Cash and cash equivalents, end of period		\$ 4,324	\$ 3,152

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

Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2018 and 2017

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

1. Significant changes and highlights:

The condensed interim consolidated financial position and performance of Stingray Digital Group Inc. (the "Corporation") was particularly affected by the following events and transactions during the three-month period ended June 30, 2018:

- On June 19, 2018, the Corporation announced that it has acquired a minority stake in Nextologies Limited resulting in the recognition of an investment for an amount of \$900 (note 13), intangible asset for an amount of \$9,100, of which \$3,100 has been paid in closing date (note 7) and balance payable on asset acquisition for an amount of \$6,000 (note 9).
- On May 2, 2018, the Corporation announced that it had entered into a definitive agreement with Newfoundland Capital Corporation Limited (NCC) pursuant to which the Corporation will acquire all of NCC's issued and outstanding shares (NCC Shares) for \$14.75 per NCC share, representing a total consideration of approximately \$505,324. Refer to note 3 for more detail on the transaction.
- On May 23, 2018, following the agreement to purchase NCC, the Corporation completed a subscription receipt offering for gross proceeds of \$83,002 and net proceeds of \$79,682 and closed a private placement deal of \$39,999. Refer to note 3 for more detail on the transaction.

2. Subsequent events:

Dividend

On August 7, 2018, the Corporation declared a dividend of \$0.06 per subordinate voting share, variable subordinate voting share, multiple voting share and subscription receipts that will be payable on or around September 14, 2018, to holders of subordinate voting share, variable subordinate voting share, multiple voting share and subscription receipts (see note 3) on record as of August 31, 2018.

Acquisition

On August 1, 2018, the Corporation announced that it has acquired Novrmedia Inc., a Toronto-based leader in the design, development, and implementation of digital media solutions.

Unsolicited offer

On August 3, 2018, the Corporation announced that it has made an unsolicited offer to purchase all of the issued and outstanding units of Music Choice, a general partnership which produces music programming and music-related content for digital cable television, mobile phone and cable modem users. The offer at a purchase price of US\$120,000, which remains open for acceptance until August 31, 2018, has not yet been accepted and is currently under review by the unitholders. No assurance can be given that the offer, as presented, will be accepted by all or any of the unitholders.

Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2018 and 2017

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

3. Business acquisition:

Period ended June 30, 2018

Newfoundland Capital Corporation

On May 2, 2018, the Corporation announced that it had entered into a definitive agreement with Newfoundland Capital Corporation Limited ("NCC") pursuant to which the Corporation will acquire all of NCC's issued and outstanding shares (the "NCC Shares") for \$14.75 per NCC share (the "Purchase Price"), representing a total consideration of approximately \$505,324. Under the terms of the agreement, NCC shareholders will receive shares of the Corporation equivalent to \$40,007, representing approximately 8% of the total consideration.

Completion of the acquisition, expected to occur in the coming months but no later than May 2, 2019, is subject to, and conditional upon, the receipt of all necessary approvals, including approval of the Canadian Radio-Television and Telecommunications Commission (CRTC) and securing necessary funding.

The cash element of the Purchase Price will be funded through a combination of the following: \$450,000 of new committed credit facilities, \$83,002 bought deal public offering of subscription receipts of the Corporation (the "Public Subscription Receipts") at a price of \$10.40 per Public Subscription Receipt, \$39,999 private placement of subscription receipts of the Corporation (the "Private Placement Subscription Receipts") at a price of \$10.40 per Private Placement Subscription Receipt and \$15,110 in subscription receipts through the exercise by some shareholders of their multiple voting shares of the Corporation. The terms and conditions of new committed credit facilities are under negotiation.

Following the agreement to purchase NCC, on May 23, 2018, the Corporation completed a subscription receipt offering and issued from treasury 7,981,000 Public Subscription Receipts of the Corporation, on a bought deal basis, at a price of \$10.40 per Public Subscription Receipts for gross proceeds of \$83,002 and net proceeds of \$79,682.

Concurrently with the closing of the public offering, the Corporation has issued from treasury 3,846,100 Private Placement Subscription Receipts at a price of \$10.40 per Private Placement Subscription Receipts for gross proceeds of \$39,999.

As a result of the public offering and concurrent private placement, a holder of multiple voting shares of the Corporation has exercised subscription rights attached to the multiple voting shares of the Corporation and consequently the Corporation issued from treasury 1,452,850 subscription receipts at a price of \$10.40 for gross proceeds of \$15,110.

The holders of the Public Subscription Receipts, Private Placement Subscription Receipts and of the Subscription Receipts (together referred as the "Receipt") received a dividend of \$0.055 per Receipt on June 15, 2018 totaling \$730. This dividend was not accrued as at March 31, 2018, as it followed the subscription receipts offering.

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As at June 30, 2018, net proceeds from the issuance of Receipts were held in escrow by a subscription receipt agent pending the fulfilment or waiver of all other outstanding conditions precedent to closing the acquisition. As the funds were not directly received by the Corporation, they are not presented in the consolidated statement of cash flows. The funds are presented as “Restricted cash” and disclosed in the Corporation’s consolidated statement of financial position with a corresponding “Liabilities for subscription receipts”. Restricted cash and Liabilities for subscription receipts can be reconciled as follows:

	As at June 30, 2018
Outstanding Receipts (number)	13,279,950
Price per Receipts (in \$)	\$ 10.40
Liabilities for subscription receipts	\$ 138,111
Less: issuance costs	(2,460)
Less: dividends paid on June 15, 2018	(730)
Plus: interests earned	73
Restricted cash	\$ 134,994

Issuance costs of \$2,460, representing 50% of amount to be paid to underwriters are presented in Other current assets as at June 30, 2018 and will be recorded as a reduction of share capital upon issuance of subordinate voting shares. Remaining amount due to underwriters, excluding other issuance costs, will be paid at the conversion of the Receipts upon closing of the acquisition and will be presented as a reduction of share capital.

During the three-month period ended June 30, 2018, acquisition costs of \$279 were recorded in general and administrative expense.

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, 445694 Canada 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, Transmedia Communications SA and its wholly-owned subsidiaries, Digital Music Distribution Pty Ltd, 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..

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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, goodwill and investment in an associate.

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

	Three-month periods ended	
	June 30, 2018	June 30, 2017
	<i>(Restated, see note 16)</i>	
Revenues		
Canada	\$ 13,641	\$ 14,538
United States	8,185	4,704
Other countries	12,630	10,428
	\$ 34,456	\$ 29,670

Non-current assets are derived from the following geographic areas based on subsidiaries locations.

	June 30, 2018	March 31, 2018
Property and equipment, intangible assets, goodwill, investment in an associate and investment in joint venture		
Canada	\$ 61,888	\$ 51,657
Netherlands	22,450	23,634
Australia	20,173	20,726
United Kingdom	19,286	20,608
United States	16,635	16,414
Israel	12,230	12,470
Switzerland	8,898	9,249
Germany	7,188	7,628
Other countries	3,769	3,511
	\$ 172,517	\$ 165,897

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Three-month periods ended June 30, 2018 and 2017

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5. Other information:

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

	Three-month periods ended	
	June 30, 2018	June 30, 2017
<i>Depreciation, amortization and write-off:</i>		
Music programming, cost of services and content	\$ 4,964	\$ 4,729
General and administrative	792	433
	<u>\$ 5,756</u>	<u>\$ 5,162</u>

The music programming, cost of services and content and the general and administrative expense would have been respectively \$18,176 (2017 – \$15,823) and \$7,132 (2017 – \$5,930), 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 period ended June 30, 2018, transaction costs related to business acquisitions amounting to \$227 (2017 – \$120) have been recognized in general and administrative in the statements of comprehensive income.

6. Net finance expense (income):

	Three-month periods ended	
	June 30, 2018	June 30, 2017
Interest expense and standby fees	\$ 335	\$ 332
Change in fair value of contingent consideration	1,309	383
Accretion expense on balance payable on business acquisitions	97	214
Accretion expense of CRTC tangible benefits	56	65
Amortization of financing fees	25	17
Foreign exchange loss (gain)	99	(474)
	<u>\$ 1,921</u>	<u>\$ 537</u>

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7. Property and equipment, intangible assets and goodwill:

	Property and equipment	Intangible assets	Goodwill
Year ended March 31, 2018			
Opening net book amount as at March 31, 2017	\$ 5,336	\$ 49,519	\$ 68,725
Additions	8,654	4,038	—
Additions through business acquisitions	184	17,903	27,577
Disposals and write-off	(97)	—	—
Depreciation of property and equipment	(2,965)	—	—
Amortization of intangible assets	—	(18,225)	—
Foreign exchange differences	23	1,120	2,165
Closing net book amount as at March 31, 2018	\$ 11,135	\$ 54,355	\$ 98,467
Three-month period ended June 30, 2018			
Opening net book amount as at March 31, 2018	\$ 11,135	\$ 54,355	\$ 98,467
Additions	2,823	1,626	—
Addition through asset acquisition	—	9,100	—
Disposals and write-off	(40)	—	—
Depreciation of property and equipment	(1,129)	—	—
Amortization of intangible assets	—	(4,587)	—
Foreign exchange differences	(225)	(551)	(553)
Closing net book amount as at June 30, 2018	\$ 12,564	\$ 59,943	\$ 97,914

8. Investment in an associate:

On November 24, 2017, the Corporation acquired a 40% interest in Business Transportation Services Limited Partnership (the "Partnership"), formed to own and operate one or more airplanes for the benefit of the limited partners and third parties. The acquisition of the 40% interest in the Partnership was completed for cash consideration of \$ \$1,106. The Corporation's interest in the Partnership is accounted for using the equity method in the interim consolidated financial statements.

The following table summarized financial information of the Partnership as at June 30, 2018 and March 31, 2018:

	June 30, 2018	March 31, 2018
Non-current asset	\$ 3,125	\$ 2,765
Net asset	3,125	2,765
Carrying amount of the Corporation's interest in the Partnership	\$ 1,250	\$ 1,106

During the three-month period ended June 30, 2018, the Corporation made a capital contribution of \$144 and therefore increased its interest in the Partnership.

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9. Other payables:

	June 30, 2018	March 31, 2018
Contingent consideration	\$ 14,078	\$ 15,596
Balance payable on business acquisitions	7,798	9,321
Balance payable on asset acquisition	6,000	—
CRTC tangible benefits	2,651	3,170
	30,527	28,087
Current position	(18,957)	(13,212)
	\$ 11,570	\$ 14,875

10. 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, 2018		
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
Issuance upon bought deal and exercise of over-allotment option		
Subordinate voting shares and variable subordinate voting shares	4,900,200	45,082
Share issuance costs, net of income taxes of \$604	—	(1,669)
Issued upon exercise of stock options		
Subordinate voting shares	85,198	301
Purchased and held in trust through employee share purchase plan		
Subordinate voting shares	(6,011)	(60)
As at March 31, 2018		
Subordinate voting shares and variable subordinate voting shares	40,011,468	145,238
Multiple voting shares	16,294,285	1,116
	56,305,753	\$ 146,354

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	Number of shares	Carrying amount
Three-month period ended June 30, 2018		
As at March 31, 2018		
Subordinate voting shares and variable subordinate voting shares	40,011,468	\$ 145,238
Multiple voting shares	16,294,285	1,116
	56,305,753	146,354
Bought deal		
Share issuance costs	—	(7)
Issued upon exercise of stock options		
Subordinate voting shares (note 12)	25,000	97
Purchased and held in trust through employee share purchase plan		
Subordinate voting shares (note 12)	(4,314)	(42)
As at June 30, 2018		
Subordinate voting shares and variable subordinate voting shares	40,032,154	145,286
Multiple voting shares	16,294,285	1,116
	56,326,439	\$ 146,402

Transactions for the period ended June 30, 2018

During the three-month period, 25,000 stock options were exercised and consequently, the Corporation issued 25,000 subordinate voting shares. The proceeds amounted to \$56. An amount of \$41 of contributed surplus related to those stock options was transferred to the subordinate voting shares' account balance.

On June 15, 2018, the Corporation paid a dividend of \$3,097. The dividend was declared on March 29, 2018 and therefore accrued in the consolidated statement of financial position as at March 31, 2018.

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Three-month periods ended June 30, 2018 and 2017

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11. Supplemental cash flow information:

	Three-month periods ended	
	June 30, 2018	June 30, 2017
Trade and other receivables	\$ (719)	\$ (1,257)
Research and development tax credits	(239)	(201)
Inventories	(380)	201
Other current assets	(161)	(1,004)
Other non-current assets	29	(31)
Accounts payable and accrued liabilities	1,183	(3,898)
Deferred revenues	(178)	(440)
Income taxes payable	(147)	(74)
Other payables	(824)	(551)
	\$ (1,436)	\$ (7,255)

12. Share-based compensation:

Stock options plan

The following summarizes the changes in the plan's position for the three-month periods ended June 30, 2018 and 2017:

	June 30, 2018		June 30, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	1,965,227	\$ 5.99	1,397,185	\$ 4.93
Granted	527,952	8.61	661,421	7.62
Exercised (note 10)	(25,000)	2.26	—	—
Options outstanding, end of period	2,468,179	\$ 6.59	2,058,606	\$ 5.79

The weighted average fair value of the stock options granted during the three-month period ended June 30, 2018 was \$1.93 (2017 – \$1.63). 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:

	2018
Volatility	30%
Risk-free interest rate	2.14%
Expected life of options	5 years
Value of the subordinate voting share at grant date	\$8.61
Expected dividend rate	2.56%

Total share-based compensation costs recognized under this stock option plan amount to \$229 for the three-month period ended June 30, 2018 (2017 – \$194).

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Employee share purchase plan ("ESPP")

The following table summarizes the status of unvested employer's contributions in the ESPP as at June 30, 2018.

	June 30, 2018	
	Number of units	Amount
Unvested contributions, beginning of period	6,011	\$ 60
Contributions	4,253	42
Dividends credited	61	1
Unvested contributions, end of period	10,325	\$ 103

The weighted average fair value of the shares contributed was \$9.65 for the three-month period ended June 30, 2018 (2017 – nil).

Total share-based compensation costs recognized under the ESPP amount to \$31 for the three-month period ended June 30, 2018 (2017 – nil).

Restricted share unit plan ("RSU")

The following summarizes the changes in the RSU plan's position for the three-month periods ended June 30, 2018 and 2017:

	June 30, 2018		June 30, 2017	
	Number of units	Amount	Number of units	Amount
Balance, beginning of period	59,712	\$ 680	197,448	\$ 1,468
Granted	–	–	375	–
Revision of estimates	–	–	–	52
Liabilities settled	(57,383)	(654)	(136,581)	(1,218)
Balance, end of period	2,329	\$ 26	61,242	\$ 302
Balance, vested	2,329	\$ 26	–	\$ –

During the three-month period ended June 30, 2018, no RSU were granted to employees (2017 – 375 at \$7.50). During the three-month period ended June 30, 2018, the total expense related to RSU plan was nil (2017 – \$52).

As at June 30, 2018, the fair value per unit was at \$10.36 (2017 – \$7.88) for a total amount of \$26 (2017 – \$302) and was presented in accounts payable and accrued liabilities on the consolidated statements of financial position.

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Performance share unit plan ("PSU")

The following summarizes the changes in the PSU plan's position for the three-month periods ended June 30, 2018 and 2017:

	June 30, 2018		June 30, 2017	
	Number of units	Amount	Number of units	Amount
Balance, beginning of period	284,480	\$ 1,244	131,781	\$ 361
Granted	168,962	—	145,177	—
Revision of estimates	—	312	—	137
Balance, end of period	453,442	\$ 1,556	276,958	\$ 498
Balance, vested	—	\$ —	—	\$ —

During the three-month period ended June 30, 2018, 168,962 PSU (2017 – 145,177) were granted at a range from \$8.65 to \$8.66 to employees (2017 – \$7.60). During the three-month period ended June 30, 2018, the total expense related to PSU plan amounted to \$312 (2017 – \$137).

As at June 30, 2018, the fair value per unit was at \$8.64 (2017 – \$7.88) for a total amount of \$1,556 (2017 – \$498) and was presented in accounts payable and accrued liabilities on the consolidated statements of financial position.

Deferred share unit plan ("DSU")

The following summarizes the changes in the DSU plan's position for the three-months periods ended June 30, 2018 and 2017:

	June 30, 2018		June 30, 2017	
	Number of units	Amount	Number of units	Amount
Balance, beginning of year	182,369	\$ 2,004	138,072	\$ 1,267
Granted	40,683	—	21,843	—
Revision of estimates	—	55	—	130
Balance, end of period	223,052	\$ 2,059	159,915	\$ 1,397

During the three-month period ended June 30, 2018, 40,683 DSU (2017 – 21,843) were granted at a range from \$8.50 to \$8.77 to directors (2017 – \$7.56 to \$7.62). During the three-month period ended June 30, 2018, the total expense related to DSU plan amounted to \$55 (2017 – \$124).

As at June 30, 2018, the fair value per unit was at a range of \$8.48 to \$8.70 (2017 – \$7.83 to \$7.88) for a total amount of \$2,059 (2017 – \$1,397) and was presented in accounts payable and accrued liabilities on the consolidated statements of financial position.

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13. Financial instruments:

Financial risk factors:

The Corporation is exposed to a variety of financial risk: credit risk, liquidity risk and market risk (including currency risk and interest risk). The 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, 2018. 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, restricted cash, 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.

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

As at June 30, 2018	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 4,324				
Restricted cash	134,994				
Trade and other receivables	33,420				
Financial assets measured at fair value					
Investments	\$ 16,930	\$ 16,930	\$ —	\$ —	\$ 16,930
Financial liabilities measured at amortized cost					
Revolving facility	\$ 47,881				
Accounts payable and accrued liabilities	35,839				
Liabilities for subscription receipts	138,111				
CRTC tangible benefits	2,651				
Balance payable on business acquisitions	7,798				
Balance payable on asset acquisition	6,000				
Financial liabilities measured at fair value					
Contingent consideration	\$ 14,078	\$ 14,078	\$ —	\$ —	\$ 14,078

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As at March 31, 2018	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 3,362				
Trade and other receivables	33,264				
Financial assets measured at fair value					
Investment	\$ 15,533	\$ 15,533	\$ —	\$ —	\$ 15,533
Financial liabilities measured at amortized cost					
Revolving facility	\$ 38,627				
Accounts payable and accrued liabilities	34,205				
CRTC tangible benefits	3,170				
Balance payable on business acquisitions	9,321				
Financial liabilities measured at fair value					
Contingent consideration	\$ 15,596	\$ 15,596	\$ —	\$ —	\$ 15,596

Fair value measurement (Level 3):

	Investments	Contingent consideration
Three-month period ended June 30, 2017		
Opening amount as at March 31, 2017	\$ 17,351	\$ 12,956
Additions through business acquisitions	—	6,525
Change in fair value	(434)	345
Settlements	—	(4,380)
Closing amount as at June 30, 2017	\$ 16,917	\$ 15,446

	Investments	Contingent consideration
Three-month period ended June 30, 2018		
Opening amount as at March 31, 2018	\$ 15,533	\$ 15,596
Additions through asset acquisition	900	—
Change in fair value	497	1,309
Settlements	—	(2,827)
Closing amount as at June 30, 2018	\$ 16,930	\$ 14,078

There were no changes in the valuation techniques for the contingent consideration and investments during the three-month periods ended June 30, 2018 and 2017.

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Investments

The Corporation has two equity instruments in private entities:

AppDirect

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

For the three-month period ended June 30, 2018 and 2017, 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.

The fair value of the investment as at June 30, 2018 was \$16,030.

Nextologies

The fair value of the equity instrument in a private entity, Nextologies, was estimated using a market comparison technique. The valuation model is based on market multiples derived from quoted price of companies comparable to the investment and the expected EBITDA on the investment.

For the three-month period ended June 30, 2018, the fair value of the investment was measured using a multiple of EBITDA.

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

The fair value of the investment as at June 30, 2018 was \$900.

Contingent consideration

The contingent consideration related to business combinations is 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 contracts. The fair value measurement of the contingent consideration is determined using unobservable (Level 3) inputs. These inputs include (i) the estimated amount and timing of projected cash flows; and (ii) the risk-adjusted discount rate used to present value the cash flows, which is based on the risk associated with the revenue targets being met. The contingent consideration is classified as a financial liability and is included in other payables (note 9). The change in fair value is recognized in net finance expense (income) (note 6).

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14. Related parties:

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

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

	Three-month periods ended	
	June 30, 2018	June 30, 2017
Short-term employee benefits	\$ 815	\$ 935
Share-based compensation	154	159
Restricted and performance share units	190	81
Deferred share units	55	124
	<u>\$ 1,214</u>	<u>\$ 1,299</u>

15. 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, 2018.

The interim consolidated financial statements were authorized for issue by the Board of Directors on August 7, 2018.

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, 2018.

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.

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16. New and amended standard adopted by the Corporation:

Adoption of IFRS 15: *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It has replaced *IAS 18 Revenue*, *IAS 11 Construction Contracts* and related interpretations. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Corporation has adopted IFRS 15 using the modified retrospective approach with the effect of initially applying this standard recognized at the date of initial application – April 1, 2018. Upon adoption of this standard, the Corporation did not have a cumulative adjustment, with the previous revenue recognition policy being applied consistently under the new standard. However, the standard has a material impact on the gross or net presentation of certain B2C applications revenues streams, such as mobile applications. Under IAS 18 – Revenue, the Corporation accounted for its applications revenues on a net basis presentation. Under IFRS 15, revenue recognition is based on the core “transfer of control” principle that is used to determine the primary obligator of the service rendered. In this context, the Corporation is considered as the principal and therefore recognize these revenues on a gross basis presentation.

The impact on revenues and music programming, cost of services and content as follows:

(in thousands of Canadian dollars)	Reported figures as at		Restated figures as at	
	June 30, 2017	Adjustments	June 30, 2017	
Revenues	\$ 29,178	\$ 492	\$ 29,670	
Music programming, cost of services and content	\$ 10,261	\$ 492	\$ 10,753	

The Corporation derives revenue primarily from rendering of services, sales of on-demand products and media solutions projects. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control over a product or a service to a customer.

Rendering of services

Rendering of services primarily relates to continuous music and video distribution in a form of subscription fees on a monthly, quarterly or annual basis. These revenues generally meet the criteria to satisfy the performance obligation over time because the customer receives and consumes the benefits of the music supply at the same time it is broadcasted. The Corporation records deferred revenues when customers pay their subscription fees in advance.

On-demand products

On-demand products relate primarily to music and concert services through subscriptions. These revenues generally meet the criteria to satisfy the performance obligation over time because the customer receives and consumes the benefits of the on-demand product at the same time it is broadcasted. The Corporation records deferred revenues when customers pay their fees in advance.

Notes to Interim Consolidated Financial Statements

Three-month periods ended June 30, 2018 and 2017

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

Media solutions projects

Revenue for media solutions projects relates to long term media projects. Revenues are recognized using the percentage of completion method, which is calculated on the ratio of contract costs incurred to anticipated costs. The effect of revisions of estimated revenues and costs is recorded when the amounts are known and can be reasonably estimated. Where contract costs exceed total contract revenues, the expected loss is recognized as an expense immediately via a provision for losses to completion, irrespective of the stage of completion.

Having completed the five-step analysis, the Corporation identified contracts with customers and performance obligations therein, determined transaction price and its allocation to performance obligations and confirmed the appropriateness of its revenue recognition policy being over time as the media solution services are rendered, based on costs incurred as described above.

Adoption of 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 ("ECLs") model for calculating impairment on financial assets. The standard is effective for annual periods beginning on or after January 1, 2018. For trade and other receivables, the Corporation has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Corporation has established a provision matrix that is based on the Corporation's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment.

The adoption of IFRS 9 did not have an impact on the Corporation's interim consolidated financial statements.

Adoption of IFRIC 22: *Foreign Currency Transactions and Advance Consideration*

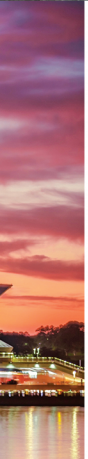
On December 8, 2016, the IASB issued IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt.

The Corporation adopted the Interpretation prospectively effective April 1, 2018 with no material impact on the interim consolidated financial statements.

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

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.



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