



**DATAWIND INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS ("MD&A")**

**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2015**

**DATED: February 16, 2016**

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

The third quarter ("Q3") results for the three months ended December 31, 2015 ("Q3 2016") and December 31, 2014 ("Q3 2015") respectively, reflect the interim results for the year ending March 31, 2016 ("Fiscal 2016" or "2016") and the year ended March 31, 2015 ("Fiscal 2015" or "2015").

Unless otherwise noted, all amounts are reported in ("thousands of Canadian dollars").

This Quarterly MD&A should be read in conjunction with the Consolidated Financial Statements, and Notes to the Consolidated Financial Statements as well as the MD&A for Fiscal 2015. Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated **August 26, 2015** and the Management Proxy Circular dated **August 26, 2015**, can be obtained by contacting DataWind Inc. Corporate Communications department at 905-671-0202. The 2015 Consolidated Financials Statement and MD&A, together with the AIF and Management Proxy Circular, have been filed with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at [www.sedar.com](http://www.sedar.com). Additional information relating to the Company is also available online at [www.sedar.com](http://www.sedar.com). Information contained in, or otherwise accessible through, websites mentioned in this Quarterly Report do not form a part of this document. All references in this Quarterly Report to websites are inactive textual references only.

The Q3 2016 condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Non-IFRS and operating performance measures have been included to better assess the Company's underlying performance. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Loss to Adjusted EBITDA" for additional information.

The condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern. The Company believes it has sufficient funds to satisfy its working capital requirements for at least the next 12 months. If the going concern assumption were not appropriate for these condensed consolidated interim financial statements, adjustments might be necessary in the carrying values of assets and liabilities and the balance sheet classifications.

The effective date of this MD&A is February 16, 2016.

## FORWARD-LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend” and similar expressions to the extent they relate to the Company or its management. The forward- looking statements are not historical facts, but reflect management’s current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Company does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in the Company’s expectations, except as prescribed by applicable securities laws.

Key assumptions made in preparing the forward-looking statements contained in this MD&A include, but are not limited to, the following:

- The Company will continue to successfully increase its sales volumes,
- The Company will have adequate cash to continue to fuel its growth, and
- The Company will be able to maintain its gross margin

## HIGHLIGHTS

The following summarizes the key items of the Company’s three and nine months ended December 31, 2015:

- Revenues of \$41,913 during the nine months ending December 31, 2015 representing an increase of 102.3% over the same period of the prior year.
- Revenues of \$15,501 during the three months ending December 31, 2015 representing an increase of 10.6% over the three months ending September 30, 2015 and an increase of 81.5% over the three months ending December 31, 2014.
- 250,663 units sold in Q3 2016 compared to 235,000 units sold in Q2 2016 and 145,000 units sold during the same period of the prior year.
- Gross margin for the nine-month period ended December 31, 2015 is 27.5% up from 16.2% during the same period of the previous year. Quarterly gross margin in Q3 2016 is 29.4% compared to 28.2% in Q2 2016 and 17.8% in Q3 2015.
- Adjusted EBITDA for the quarter ended December 31, 2015 was \$106 representing an improvement over the EBITDA of \$5 for the quarter ended September 30, 2015.
- Smartphones and most of our tablets are now bundled with our proprietary internet delivery platform throughout India.
- DataWind continues to establish a broader corporate footprint in new emerging markets in parallel with new carrier relationships. We recently announced expansion to Nigeria and we expect to extend our geographic presence to other African countries, Asian countries and/or Latin America. The increase in revenue in Q3 2016 is primarily attributable to new sales in Nigeria. Nigeria is expected to show further sales growth in Q4 2016 and future announcements will be made as other regions obtain adequate sales and distribution channels to allow for the rollout of product in new markets.

## **OVERVIEW**

### ***DATAWIND'S BUSINESS***

We are a global leader in low-cost Internet connectivity for emerging markets. Our mission is to bring the Internet, which has the ability to create tremendous social and economic benefits, to billions of unconnected people in the developing world. Our Internet Delivery Platform offers a low cost Internet connectivity solution by bundling an affordable tablet device or smart phone with an inexpensive one-year pre-paid 2G Internet browsing service plan. Our operations span four countries, including Canada, the United Kingdom, Nigeria and India.

We believe our Internet Delivery Platform represents a significant step forward in low-cost Internet connectivity. By utilizing cloud computing technology, we are able to reduce the amount of data for users. The webpages are compressed on the cloud servers before being uploaded to the user's tablet or smartphone device. This architecture also protects our intellectual property as the majority of our software runs on the cloud-based servers and the system can only work with both the client and server components operating in tandem.

The Internet Delivery Platform's acceleration and data reduction are accomplished through the use of our algorithms resident on the cloud-based servers. These cloud-based servers operate as a gateway between the primary Internet-based content server and the user. Our architecture moves webpage processing from the device to the cloud servers which benefit from high-speed Internet connections. The servers build an image in their internal memory of the page of interest. They then compress the image, prioritizing the section of the image being viewed on the user's device. Our technology does not compress audio and video. The resulting selection and compression can reduce the amount of data being transmitted over the cellular network, with a corresponding increase in speed and reduction in cost of cellular data transmission.

Without this proprietary technology, it would be time consuming and costly to access the Internet using 2G mobile-cellular infrastructure due to the relatively slow download speeds available on these networks combined with the growing size of modern day webpages. Additionally, the cost of data usage in the developing world is high relative to average income levels. However, given the reduction in data usage using our Internet Delivery Platform, the user may use the 2G mobile-cellular infrastructure to achieve a basic internet browsing experience that excludes video streaming.

The technology shifts a significant amount of processing power that would otherwise be executed by tablet or smartphone device to the cloud server. The receiving device has only to decompress the transmitted image, which requires less computing power than a normal web rendering. The device can then operate with a lower specification including a less expensive processor, lower cost memory and longer battery life. As a result, the device can display webpages with a significantly reduced hardware capability requirement resulting in a lower production cost.

Our Internet connectivity solution is a combination of a unique delivery methodology coupled with our data compression technology, the ability to create low-cost devices, and our ability to resell data as a result of our data distribution agreement with Reliance, a leading Indian telecom company. There is no capacity limitation under the agreement with Reliance. Together, these factors allow us to offer what management believes is the world's lowest cost Internet connectivity solution available today. We are currently marketing free internet access to our customers in India for one year with purchase of product but this revenue is bundled into the selling price. Revenues related to the data delivery are deferred and recognized over twelve months commencing from the date the user activates the data plan. The hardware sold typically represents at least 95% of the selling price. We expect to be in a position to sell the internet browser as a stand-alone application in Q4 2016 to anyone with an Android device.

**SELECTED INFORMATION FOR  
NINE MONTH PERIODS ENDED DECEMBER 31**

	<b>December 31, 2015</b>	<b>December 31, 2014</b>	<b>Variance</b>	<b>%</b>
Revenue	<b>\$ 41,913</b>	\$ 20,718	\$ 21,195	102.3%
Cost of goods sold	<b>30,402</b>	17,367	13,035	75.1%
Gross profit	<b>11,511</b>	3,351	8,160	243.5%
Gross margin ratio	27.5%	16.2%	11.3%	69.8%
Operating expenses:				
Research and development	<b>1,138</b>	1,380	(242)	(17.5%)
Administration cost	<b>10,749</b>	7,165	3,584	50.0%
IPO transaction costs	-	1,902	(1,902)	(100.0%)
Foreign exchange translation (gain)/loss	<b>709</b>	(226)	935	(413.7%)
Total operating expenses	<b>12,596</b>	10,221	2,375	23.2%
Operating loss	<b>(1,085)</b>	(6,870)	5,785	(84.2%)
Finance and other income	<b>21</b>	72	(51)	
Finance expense	<b>(2,638)</b>	(124)	(2,514)	2027.4%
Net loss	<b>(3,702)</b>	(6,922)	3,220	(46.5%)
Unrealized foreign exchange translation gain/(loss)	<b>310</b>	66	244	369.7%
Comprehensive loss	<b>\$ (3,392)</b>	\$ (6,856)	\$ 3,464	(50.5%)
Basic and diluted net loss per share	<b>\$ (0.17)</b>	<b>\$ (0.35)</b>		

**RESULTS OF OPERATIONS**

Summary of Nine Months Results

The Company reported revenue of \$41,913 for the nine-month period ended December 31, 2015 as compared to revenue of \$20,718 for the same period ended December 31, 2014.

The Company reported a gross margin of \$11,511 for the nine-month period ended December 31, 2015 as compared to \$3,351 for the same period ended December 31, 2014.

The Company reported a net loss of \$(3,702) for the nine-month period ended December 31, 2015 as compared to a net loss of \$(6,922) for the same period ended December 31, 2014.

Demand continues to be strong for our products. Revenue growth is consistent with management's expectations based on demand for the product and the increased distribution channel which now comprises more than 51 channel partners and 10,000 retail locations. DataWind continues to establish a broader corporate footprint in new emerging markets in parallel with new carrier relationships. We recently announced expansion to Nigeria and we expect to extend our geographic presence to other African countries, Asian countries and/or Latin America. The increase in Q3 2016 revenue is primarily attributable to new sales in Nigeria coupled with an infusion of cash into the working capital cycle consistent with prior quarters. DataWind has deliberately undertaken a managed growth strategy by committing additional working capital to inventory production each quarter. Nigeria is expected to show further sales growth in Q4 2016 and future announcements will be made as other regions obtain adequate sales and distribution channels to allow for the rollout of product in new markets. Operating expenses have shown some increase primarily attributable to increased selling and marketing related costs associated with logistics, distribution,

marketing and customer support. Hardware margins are expected to hold above 25% while the total margin should continue to show growth due to the bundling of our internet service.

#### Summary of Unaudited Quarterly Results

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ending December 31, 2013 and all subsequent quarters has been taken from our unaudited condensed consolidated interim financial statements that, in management's opinion, have been prepared on a basis consistent with the unaudited condensed consolidated interim financial statements for the fiscal period ended December 31, 2015. The unaudited quarterly results of the Company or DataWind UK (the predecessor company) have been restated in CAD\$.

#### **Three month periods ended**

	<b><u>Dec-31</u></b>	<b><u>Sep-30</u></b>	<b><u>Jun-30</u></b>	<b><u>Mar-31</u></b>	<b><u>Dec-31</u></b>	<b><u>Sep-30</u></b>	<b><u>Jun-30</u></b>	<b><u>Mar-31</u></b>
	<b><u>2015</u></b>	<b><u>2015</u></b>	<b><u>2015</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2014</u></b>	<b><u>2014</u></b>	<b><u>2014</u></b>
Revenues	\$15,501	\$14,015	\$12,397	\$11,047	8,541	\$6,712	\$5,465	\$5,465
Cost of revenues	(10,949)	(10,066)	(9,387)	(8,129)	(7,021)	(5,679)	(4,666)	(4,430)
Gross margin	4,552	3,949	3,010	2,918	1,520	1,033	799	1,034
Operating exp.	(4,202)	(5,141)	(3,253)	(6,916)	(3,469)	(4,265)	(2,262)	(2,313)
Operating (loss)/profit	\$350	\$(1,192)	\$(243)	\$(3,998)	\$(1,949)	\$(3,232)	\$(1,463)	\$(1,279)

**SUMMARY OF RESULTS FOR THE QUARTER ENDED DECEMBER 31, 2015 COMPARED TO QUARTER ENDED DECEMBER 31, 2014 AND QUARTER ENDED SEPTEMBER 30, 2015**

The following table sets forth a summary of key earnings information from our condensed consolidated interim financial statements (in thousands of Canadian dollars) for the quarter ended December 31, 2015 compared to December 31, 2014:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>	<b>Variance</b>	<b>%</b>
Revenue	<b>\$ 15,501</b>	\$ 8,541	\$ 6,960	81.5%
Cost of goods sold	<b>10,949</b>	7,021	3,928	55.9%
Gross margin	<b>4,552</b>	1,520	3,032	199.4%
Gross margin ratio	29.4%	17.8%	11.6%	65.0%
Operating expenses:				
Research and development	<b>385</b>	557	(172)	(30.9%)
Administration cost	<b>4,086</b>	3,169	917	28.9%
IPO transaction costs	-	(156)	156	(100.0%)
Foreign exchange translation (gain)/loss	<b>(269)</b>	(101)	(168)	166.3%
Total operating expenses	<b>4,202</b>	3,469	733	21.1%
Operating profit/ (loss)	<b>350</b>	(1,949)	2,299	(118.0%)
Finance and other income	-	36	(36)	(100.0%)
Finance expense	<b>(859)</b>	(99)	(760)	767.7%
Net loss	<b>(509)</b>	(2,012)	1,503	(74.7%)
Unrealized Foreign exchange translation gain/(loss)	<b>(102)</b>	(19)	(83)	436.8%
Comprehensive loss	<b>\$ (611)</b>	\$(2,031)	\$ 1,420	(69.9%)
Basic and diluted net loss per share	<b>\$ (0.02)</b>	<b>\$ (0.09)</b>		

Summary of Three Months Results

The Company reported revenue of \$15,501 for the three-month period ended December 31, 2015 as compared to revenue of \$8,541 for the same period ended December 31, 2014.

The Company reported a gross margin of \$4,552 for the three-month period ended December 31, 2015 as compared to \$1,520 for the same period ended on December 31, 2014.

Gross margin improved in Q3 2016 by 11.6% compared to Q3 2015. Operating expenses are consistent with Management's expectation. Administrative expenses growth can be attributed to marketing and increased customer and logistical support consistent with the growth in sales during the period. Despite higher operating expenses in Q3 2016 compared to Q3 2015, the Company generated operating profit of \$350 in Q3 2016 compared to a loss of \$(1,949) in Q3 2015.

The Company reported a net loss of \$(509) for the three-month period ended December 31, 2015 as compared to a net loss of \$(2,012) for the same period ended December 31, 2014.

The following table sets forth a summary of key earnings information from our condensed consolidated interim financial statements (in thousands of Canadian dollars) for the quarter ended December 31, 2015 compared to September 30, 2015.

	<b>December 31, 2015</b>	<b>September 30, 2015</b>	<b>Variance</b>	<b>%</b>
Revenue	<b>\$ 15,501</b>	\$ 14,015	\$ 1,486	10.6%
Cost of goods sold	<b>10,949</b>	10,066	883	8.8%
Gross margin	<b>4,552</b>	3,949	603	15.3%
Gross margin ratio	29.4%	28.2%	1.2%	4.2%
Operating expenses:				
Research and development	<b>385</b>	413	(28)	(6.8%)
Administration cost	<b>4,086</b>	3,552	534	15.0%
IPO transaction costs	-	-	-	-
Foreign exchange translation (gain)/loss	<b>(269)</b>	1,176	(1,445)	(122.9%)
Total operating expenses	<b>4,202</b>	5,141	(939)	(18.3%)
Operating profit /(loss)	<b>350</b>	(1,192)	1,542	(129.4%)
Finance and other income	-	1	(1)	(100.0%)
Finance expense	<b>(859)</b>	(814)	(45)	5.5%
Net loss	<b>(509)</b>	(2,005)	1,496	(74.6%)
Unrealized Foreign exchange translation gain/(loss)	<b>(102)</b>	1,290	(1,392)	(107.9%)
Comprehensive loss	<b>\$ (611)</b>	\$ (715)	\$ 104	(14.5%)
Basic and diluted net loss per share	<b>\$ (0.02)</b>	<b>\$ (0.09)</b>		

#### Summary of Three Months Results

The Company reported revenue of \$15,501 for the three-month period ended December 31, 2015 as compared to revenue of \$14,015 for the three-month ended September 30, 2015.

The Company reported a gross margin of \$4,552 for the three-month period ended December 31, 2015 as compared to \$3,948 for the three-month period ended September 30, 2015.

Gross margin improved in Q3 2016 by 1.2% compared to Q2 2016. Operating expenses are consistent with Management's expectation. Administrative expenses growth can be attributed to marketing and increased customer and logistical support consistent with the growth in sales during the period. Despite higher operating expenses in Q3 2016 compared to Q2 2016, the Company generated operating profit of \$350 in Q3 2016 compared to loss of \$(1,192) in Q2 2016.

The Company reported a net loss of \$(509) for the three-month period ended December 31, 2015 as compared to a net loss of \$(2,005) for the three-month period ended September 30, 2015.



## **Revenues**

Revenue for Q3 ended on December 31, 2015 was \$15,501 compared to \$8,541 for Q3 of the prior year ended on December 31, 2014, an increase of 81.5% or \$6,960.

One of the key uses of funds from the 2014 IPO was for working capital used to increase production volume and offer terms to our expanding distribution channel. DataWind continues to sell tablets and introduced smartphones in March 2015. Management believes this sales growth is an affirmation of the Company's strategy that our core product offering is addressing the affordability challenge facing our target market and, assuming a competitive offering, we expect sales to continue to rise at the current growth rate for the next quarter.

During the nine months ended December 31, 2015, the Company has continued to expand its sales channels with more than 51 channel partners with approximately 10,000 retail locations.

The geographic split of revenue based on customer location is as follows:

	Three months Ended Dec 31,		Nine months Ended Dec 31,	
	2015	2014	2015	2014
India	<b>\$14,014</b>	\$6,932	<b>\$39,804</b>	\$16,245
Outside of India	<b>1,487</b>	1,609	<b>2,109</b>	4,473
Total revenues	<b>\$15,501</b>	\$8,541	<b>\$41,913</b>	\$20,718

  

	Three months Ended Dec 31,		Nine months Ended Dec 31,	
	2015	2014	2015	2014
India	<b>90.4%</b>	81.2%	<b>95.0%</b>	78.4%
Outside of India	<b>9.6%</b>	18.8%	<b>5.0%</b>	21.6%
Total revenues	<b>100.0%</b>	100.0%	<b>100.0%</b>	100.0%

## **Gross Margin**

The Company's cost of revenues is comprised of a number of elements which vary directly with the level of revenues such as the cost of products manufactured by third parties, product assembly in India, shipping charges, and some charges which do not vary significantly with the level of revenues.

Gross margin for the third quarter ended December 31, 2015 was 29.4% as compared to 17.8% for the third quarter of the prior year, an increase of 11.6%. Gross margin for the nine months ended December 31, 2015 was 27.5% as compared to 16.2% for the same period of the prior year, an increase of 11.3%. Hardware margins are expected to stabilize at this level while increased internet service sales should allow the overall margin to continue to rise.

The Company finalized restructuring of its historic third party financing vehicles, Tablet Investments Ltd. which was acquired during the quarter ended December 31, 2014 and Tablet (Guernsey) Investments Ltd. which was acquired during the quarter ended March 31, 2015. These entities were previously independent of DataWind with their own independent Boards. The acquisition of these syndicated debt holding companies finalized the integration of these charges into the Company's condensed consolidated interim financial statements.

The improvement in margin is primarily attributable to several factors:

1. Management improving its ability to assess product mix and ensuring that it has the right product in inventory to meet channel requirements thus minimizing the occurrence of filling orders with product that exceeds the ordered specifications,
2. Improved cost control with sub-contract manufacturers,
3. Assembly of tablets and smartphones in India reducing import duties, and:
4. Integration of Tablet Investments.

### **Operating Expenses**

**Research and development** expenses for the nine-month ended December 31, 2015 decreased by \$242 or 17.5% to \$1,138 as compared to \$1,380 for the nine-month ended December 31, 2014.

Research and development expenses for the three-month period ended December 31, 2015 was \$385 which was lower by \$172 or 30.9% as compared to same period of the prior year (December 31, 2014- \$557).

The decrease in R&D spending can be attributed to controlling non-recurring engineering costs. The R&D expenditures are not expected to increase significantly. The benefits of R&D tax incentives and grant programs are expected to start being recognized in Q4 2016.

**Administration cost** for the nine-month ended December 31, 2015 increased by \$3,584 or 50.0%, as compared to the same period of the previous year 2014. Increases in salary by \$1,408 and selling and marketing by \$1,385 account for most of the higher expenses.

Administration cost for the three-month period ended December 31, 2015 was \$4,086 compared to \$3,169 for the three-month period ended December 31, 2014. The increase is due primarily to increased salaries related to the significant growth in sales channels, logistics and customer support.

	Three month period ended		Nine month period ended	
	<b>December 31, 2015</b>	December 31, 2014	<b>December 31, 2015</b>	December 31, 2014
Salaries	<b>\$ 1,517</b>	\$ 1,020	<b>\$ 4,062</b>	\$2,654
Selling and marketing	<b>1,134</b>	928	<b>2,889</b>	1,504
Legal and professional	<b>424</b>	74	<b>932</b>	218
Travel	<b>390</b>	263	<b>913</b>	916
Depreciation of property and equipment	<b>25</b>	13	<b>62</b>	34
Rent	<b>42</b>	32	<b>243</b>	106
Share based compensation	<b>59</b>	63	<b>124</b>	422
Insurance	<b>22</b>	38	<b>138</b>	124
Other	<b>473</b>	738	<b>1,386</b>	1,187
	<b>\$4,086</b>	\$3,169	<b>\$10,749</b>	\$7,165

### **Foreign Exchange Gain (Loss)**

Foreign exchange gains and losses include realized and unrealized gains and losses on foreign exchange, including those that arise as a result of converting assets and liabilities denominated in currencies other than the functional currency of the entity at the balance sheet date and realized gains or losses arising from the settlement of these balances during the period.

During the nine-month period ended December 31, 2015, the Company recorded a foreign exchange loss of (\$709), as compared to a gain of \$226 for the nine months of the previous period ended December 31, 2014. The foreign exchange gain for three month ended December 31, 2015 was \$269 compared to \$101 for the same period ended December 31, 2014. This was primarily due to the relative fluctuation of the Canadian dollar, US dollar, British pound and the Indian Rupee.

### Loss per Common Share

The table below presents the basic and diluted loss per common share for each of the comparative fiscal periods.

	Three month period Ended Dec 31,		Nine month period ended Dec 31,	
	2015	2014	2015	2014
Net loss for the period	(\$509)	(\$2,012)	(\$3,702)	(\$6,922)
<b>Net loss per share</b>				
Basic	(\$0.02)	(\$0.09)	(\$0.17)	(\$0.35)
Weighted average number of shares outstanding	22,089	21,990	22,068	19,651

Fully diluted Earnings per share (EPS) have been excluded due to their anti-dilutive nature.

The Company is authorized to issue an unlimited number of common shares with no stated par value.

The following is a continuity of the common shares since year end:

	<u>Number of Shares</u>	<u>Share Capital</u>
<i>Issued</i>		
<b>Shares outstanding at April 1, 2015</b>	22,057,623	\$ 52,168
Shares issued during the year	53,625	108
<b>Shares outstanding at December 31, 2015</b>	<b>22,111,248</b>	<b>\$ 52,276</b>

  

	<u>Number of Shares</u>	<u>Share Capital</u>
<i>Issued</i>		
<b>Shares outstanding at April 1, 2014</b>	15,431,734	\$ 25,294
Share issuance	6,316,000	25,837
Conversion of Special warrants	234,889	896
Warrants exercised	75,000	141
<b>Shares outstanding at December 31, 2014</b>	<b>22,057,623</b>	<b>\$ 52,168</b>

On July 8, 2014, DataWind UK completed a reverse takeover of the Canadian entity DataWind Inc. and concurrently consolidated its share capital on a 10:1 basis and issued 6,316,000 new shares. In addition, 234,889 existing special warrants were exchanged for common shares of the Company on a 1:1 basis.

### Warrants

Each warrant entitles the holder to purchase one common share of the Company. The Company's outstanding warrants as at December 31, 2015 are 3,111,276 (December 31, 2014- 3,662,102). 53,625 warrants were exercised during the nine-month period ended December 31, 2015 (December 31, 2014- 309,889) and 53,625 warrants were exercised during the three-month period ended December 31, 2015

(December 31, 2014- 75,000). 497,201 warrants expired during the nine-month period ended December 31, 2015 (December 31, 2014- Nil) and 246,770 warrants expired for the three-month period ended December 31, 2015 (December 31, 2014- Nil).

#### Option Plan

The Company's share option plan (the "Plan") was approved on July 8th, 2014 in conjunction with the IPO by the board of directors. Options are granted with a fixed exercise price and have a contractual life of 10 years and vesting period of 3 years. Options were valued using the Black-Scholes option pricing model. Options will be settled by issuing equity shares of the Company.

As at December 31, 2015, there are 22,111,248 (December 31, 2014- 22,057,623) common shares, 3,290,180 (December 31, 2014- 2,890,612) options and 3,111,276 (December 31, 2014- 3,662,102) warrants outstanding.

	<u>Share</u>	<u>Options</u>	<u>Warrants</u>
Before IPO April 1, 2014 (10:1) consolidation	15,431,734	2,189,190	3,228,664
Special warrants issued Q1 2015	-	-	234,889
Strategic advisory warrants	-	-	508,438
Special warrants converted to common shares July 7, 2014	234,889	-	(234,889)
Issued in IPO July 7, 2014	6,316,000	-	-
Granted during the year 2014-15	-	823,389	-
Expired during the year 2014-15	75,000	(67,467)	(75,000)
<b>Total as at March 31, 2015</b>	<b>22,057,623</b>	<b>2,945,112</b>	<b>3,662,102</b>
Correction/ Granted 2015-2016	-	363,467	-
Expired during the period December 31, 2015	-	(18,399)	(497,201)
Exercised during the period December 31, 2015	53,625	-	(53,625)
<b>Total as at December 31, 2015</b>	<b>22,111,248</b>	<b>3,290,180</b>	<b>3,111,276</b>

#### **ADJUSTED EBITDA**

Adjusted net loss before interest, taxes, depreciation, amortization and foreign exchange ("Adjusted EBITDA") is a non-IFRS measure and excludes finance costs, interest income, foreign exchange, income tax expense or recovery, depreciation and amortization and income and expenses of a non-recurring, unusual or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's result of operations.

These measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA should not be considered in isolation or as an alternative to measures prepared in accordance with IFRS.

A reconciliation of the Company's quarterly net loss to Adjusted EBITDA is outlined in the following table:

(in CAD "000" except per share amounts)	Three-month periods ended		
	Dec, 2015	Sep, 2015	Dec, 2014
Net loss	\$ (509)	\$ (2,005)	\$ (2,012)
Depreciation/amortization expenses	25	21	13
Extended payment finance (i)	344	370	-
Finance costs	515	444	99
Finance and other income	-	(1)	(36)
Foreign exchange translation (gain)/loss	(269)	1,176	(101)
<b>Adjusted EBITDA (ii)</b>	<b>\$ 106</b>	<b>\$ 5</b>	<b>\$ (2,037)</b>
<b>Adjusted EBITDA loss per share</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ (0.09)</b>
(i)	Extended Payment Finance represents finance cost paid to third parties for financing of Chinese manufacturers for the extended payment terms for material.		
(ii)	Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's performance, ability to incur and service debt and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.		

Adjusted EBITDA in Q3 2016 was \$106, as compared to \$5 in Q2 2016 and (\$2,037) in Q3 2015, an improvement of \$101 and \$2,143 respectively. The Adjusted EBITDA in Q3 2016 improved by 2024% due to a relatively minor increase in operating expenses coupled with an increase in sales by 10.6% and in gross margin by 1.2% as compared to Q2 2016. Net loss decreased in Q3 2016 by \$1,496 compared to Q2 2016 and \$1,503 compared to Q3 2015. Finance costs increased by \$71 in Q3 2016 compared to Q2 2016 and by \$416 in Q3 2016 compared to Q3 2015.

## LIQUIDITY, FINANCING ACTIVITY AND CAPITAL RESOURCES

Since the launch of the Aakash tablet in 2012, we have generated significant media attention, positive public relations, and ultimately over four million Sales Leads for our devices. However, we have historically been operating on a capital constrained basis, which has limited our ability to finance the working capital required to increase our manufacturing volumes to meet market demand. As a result, we have reported a net loss in each of our reported periods.

In order to finance our operations, we have historically relied on a number of equity and debt financings both from third parties and related parties. Based on the sales leads received, we were able to secure production financing from Tablet Investments, a related party which has recently been integrated into the consolidated operations of DataWind. In addition, we continue to leverage our strengthened balance sheet to negotiate improved credit terms from our contract manufacturers.

### Summary of Cash Flows

The following table sets forth a summary of the statement of cash flows derived from our condensed consolidated interim financial statements for the three and nine-month periods ended December 31, 2015 and December 31, 2014.

	Three-month period ended December 31		Nine-month period ended December 31	
	2015	2014	2015	2014
<b>Cash flows from operating activities</b>				
Net loss for the period	\$ (509)	\$ (2,012)	\$ (3,702)	\$ (6,922)
Non-cash items:				
Depreciation of property and equipment	25	13	62	34
Finance expenses	859	99	2,638	124
Stock based compensation	59	63	124	422
<b>Changes in non-cash working capital items</b>	<b>434</b>	<b>(1,837)</b>	<b>(878)</b>	<b>(6,342)</b>
Trade and other receivables	(6,169)	(2,178)	(13,620)	(6,505)
Inventories	(2,765)	(3,771)	(3,169)	(5,939)
Accounts payable and accrued liabilities	5,582	(3,393)	7,604	1,006
Net cash used in operating activities	(2,918)	(11,179)	(10,063)	(17,780)
<b>Cash flows from investing activities</b>				
Addition of property and equipment during the period	(16)	(6)	(138)	(67)
Net cash used in investing activities	(16)	(6)	(138)	(67)
<b>Cash flows from financing activities</b>				
Issuance of common shares	108	-	108	30,001
Share issue cost	-	-	-	(3,490)
Issuance of special warrants	-	141	-	1,037
Loan received during the period	618	5,892	6,941	5,767
Loan repaid during the period	-	-	(1,007)	-
Interest paid during the period	(905)	-	(1,146)	-
Net cash (used in)/provided by financing activities	(179)	6,033	4,896	33,315
Net change in cash and cash equivalents	(3,113)	(5,152)	(5,305)	15,468
Cash and cash equivalents – beginning of period	7,337	21,443	10,698	747
Exchange (gains)/losses	(31)	(301)	(1,200)	(225)
Cash and cash equivalents – end of period	\$ 4,193	\$ 15,990	\$ 4,193	\$ 15,990

During the three-month period ended December 31, 2015, operating activities consumed (\$2,918) due to a moderate increase in inventory coupled with offsetting activity between payables and receivables. During the nine-month period ended December 31, 2015, operating activities of (\$10,063) were financed through loans and cash on-hand; however, we improved our net loss quarter on quarter and management expects to reach break-even soon through continued increases in sales and savings in production costs on products assembled in India. We cannot assure you that we will achieve profitability in the near future, or, if we do become profitable, that we will sustain profitability. Consequently, we cannot assure that we will generate positive cash flows from operating activities in the future or, if we do generate positive cash flows from

operating activities, that they will be sustained; however, based on our current growth rate we believe it is likely. The Company is actively pursuing several strategies to increase cash and working capital to fuel continued growth.

#### *Financial Instruments*

For carrying amounts of cash and cash equivalents, trade accounts receivable, accounts payable and accrued liabilities, and loans and borrowings, it is the opinion of DataWind's management that DataWind is not exposed to significant interest or credit risk arising from these financial instruments. DataWind does experience currency risk between the Canadian Dollar, the UK Pound and the United States Dollar. Hedging the Indian Rupee is relatively expensive and so management has decided not to hedge this currency. Management has negotiated a hedging facility with a third party to provide a hedge on these fluctuations should management believe that the likelihood of such fluctuations are material and imminent. The Company monitors the fluctuation between the Rupee and US Dollar and has established hedging procedures that can be implemented quickly in the event that currency fluctuation increases under a predictable scenario. For now, management has taken the position that the Rupee will remain relatively stable against the US\$. Anticipated interest rate fluctuations over the coming year are not expected to create any material change in interest expenses. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity for prompt liquidation.

#### *Long-term contractual obligations*

We do not have any long-term contractual obligations. Aside from funding our operations, turning over and maintaining adequate inventory levels, we have no minimum working capital restrictions that are externally imposed.

#### *Related Party Transactions*

Prior to the IPO of July 8, 2014, the Company had a number of related party balances. With the exception of Tablet Investments (below), these related party balances have been eliminated and no further related party transactions took place during the nine-month period ended December 31, 2015.

In December 2014 and January 2015, DataWind acquired Tablet Investments and renegotiated the interest rate to a flat 17%. Prior to these dates, Tablet Investments held a syndicated debt facility used to purchase inventory on our behalf in exchange for 5% of inventory costs, which we remitted to Tablet Investments after cash payment was received in full for our devices. Ownership of purchased inventory was maintained within Tablet Investments. We had one director in common with Tablet Investments, being Viscount Nicholas Bearsted, who was also a shareholder in both entities prior to its acquisition.

#### DataWind Research Inc.

External transactions with DataWind Research Inc., a company which is 100% owned by a director of the Company, were performed in the normal course of business and relate to the purchase of product development services prior to initial public offering. \$2.5M was incurred during the three-month period ended June 30, 2014 and was paid subsequent to initial public offering. There was no activity with this entity during the nine-month period ended December 31, 2015.

#### 1003161 Ontario Inc.

External transactions with 1003161 Ontario Inc., a company under common ownership, are performed in the normal course of business and relate to managerial services provided to the Company by Raja, Suneet, and Lakhbir Tuli prior to the initial public offering. \$283,000 was incurred during the three-month period ended June 30, 2014 and was paid on July 8<sup>th</sup> 2014. No further amounts are due and there was no activity

with this entity during the nine-month period December 31, 2015.

### *Capital Resources*

DataWind is authorized to issue an unlimited number of common shares. There are 22,111,248 common shares issued and outstanding as at December 31, 2015. The common shares of DataWind Inc. trade on the Toronto Stock Exchange under the symbol “DW”.

### **OUTLOOK**

Since May 2013, sales have been primarily composed of Internet-enabled tablet devices and mobile phones sold in India through our call center and online distribution channels. In recent quarters, we have sought to diversify our distribution network to include third-party e-commerce websites, various television home- shopping networks, and traditional “brick and mortar” retail locations which now number in excess of 10,000 locations. We expect continued growth in sales of our tablet devices, with a growing portion of sales coming from smartphone sales through these new distribution channels.

In early fiscal 2014, we launched a low-cost 2G Internet service plan in India, offering our new devices with bundled, one-year prepaid Internet browsing in regions of India covered by our data distribution partner’s networks (20% coverage). We have recently announced a national carrier partnership that provides full national coverage in India, allowing the Company to significantly increase its bundling of devices and internet data plans to nearly 100%. Prior to the end of fiscal 2016 we expect to roll out a no-contract, pre-paid, non-bundled services plan to our existing Indian user base and consider expanding our growth by offering our software delivery platform to third party hardware providers. As our Internet subscriber base grows, we expect to begin generating advertising revenues. This decoupling of hardware and software sales should allow this segment of the business to grow independently of working capital availability.

Demand for Internet connectivity in third world countries continues to increase. We have proven our concept in India and resolved logistical issues related to sales in developing countries. We recently announced expansion to Nigeria and we expect to extend our geographic presence to other African countries, Asian countries and/or Latin America, where similar socioeconomic drivers exist to suggest an acceptance of our products and Internet delivery model as working capital permits.

The Company continues to partner with educational providers and believes that its unique solution can provide significant support to that sector.

More recently we have seen growth in the demand for smart phones and we have accommodated our product mix to ensure that we offer an appropriate product in each form factor and price point.

Soon we expect to be able to sell our low cost proprietary internet delivery tool to all Android smartphone and tablet owners. This will allow the Company to penetrate the market faster without the financial burden of larger working capital needs when producing and selling hardware as part of the solution.

### Corporate Social Responsibility

The following is a summary of the results of the Company and its employees’ corporate social responsibility efforts during fiscal 2016;

- We have partnered with several Canadian Universities and accepted funding to jointly develop a teacher-less educational aid for emerging markets that will be delivered via our proprietary technology.



- We have launched a “flipped classroom” initiative with several schoolboards.
- The Company has partnered with SKILLSdox Inc., a provider of quality online education resources, we have partnered to offer SKILLSdox's online education marketplace, School of Skill, on select DataWind low cost, Internet-enabled tablets launching March 2016. DataWind's tablets, which are sold bundled with one year of unlimited Internet access, will feature SKILLSdox's online education marketplace, School of Skill, which provides access to high quality resources from the world's top educators.

## **MANAGEMENT AND BOARD OF DIRECTORS**

As a result of the corporate reorganization and concurrent financing completed on July 8, 2014, John Gillberry replaced Lakhbir Tuli on the Board of Directors. On January 13, 2015 the Company announced the appointment of Chander Dhawan to the Board of Directors. The Board of Directors is now comprised of six (6) directors, four (4) of whom are independent. Pursuant to NI 52-110, an independent director is one who is free from any direct or indirect relationship which could, in the view of the Board of Directors, be reasonably expected to interfere with a director's exercise of independent judgment. Mr. Raja Singh Tuli and Mr. Suneet Singh Tuli are not independent as they are executive officers of the Company. Messrs. Brockhouse, Gillberry, Dhawan, and Bearsted are considered to be independent in accordance with the requirements set out under NI 52-110.

We have taken steps to ensure that adequate structures and processes will be in place to permit the Board of Directors to function independently of management of the Company. It is contemplated that independent directors will, after each meeting of the Board of Directors, meet without the non-independent directors. In addition, separate, regularly scheduled meetings of the independent directors of the Board of Directors will be held at which members of management will not be present. We will also permit shareholders to have direct contact with the independent directors in order to provide shareholders with feedback on material issues. DataWind completed its first annual general meeting (AGM) on September 24, 2015 and the composition of the Board remains the same. Some changes were made to various committee compositions.

### **Lead Director**

Viscount Nicholas Bearsted, an independent director, is the lead director of our Company and ensures that the Board of Directors discharges its responsibilities, that the Board of Directors evaluates performance of management objectively and that the Board of Directors understands the boundaries between the responsibilities of the Board of Directors and management.

Viscount Nicholas, in this capacity, oversees all meetings of the Board of Directors and has the overall responsibility to oversee governance matters in accordance with the duties and responsibilities attributed to the Chair of the Board pursuant to the Mandate of the Board of Directors.

### **Committees of the Board**

Our Board of Directors ensures that the composition of its committees shall meet applicable statutory independence requirements as well as any other applicable legal and regulatory requirements.

#### **Audit Committee**

The audit committee is composed of three directors being John Kendall Gillberry, Viscount Nicholas Bearsted, and Chander Dhawan all of whom are independent. Mr. Gillberry acts as chair of the Audit Committee. Each member of the Audit Committee is “financially literate” within the meaning of NI 52-110 and “independent” within the meaning of NI 52-110.

## Compensation Committee

The compensation committee is responsible for: (i) the establishment of compensation policies, including all incentive and equity based compensation plans; (ii) evaluating our executive and senior management; (iii) succession planning, including the appointment, training and evaluation of our senior management; and (iv) overseeing the compensation of directors.

The Compensation Committee is composed of three John Brockhouse, Chander Dhawan and Suneet Tuli. John Brockhouse and Chander Dhawan are independent directors. John Brockhouse acts as chair of the Compensation Committee.

## Corporate Governance and Nominating Committee

The corporate governance and nominating committee is responsible for: (i) developing corporate governance guidelines and principles for the Company; (ii) identifying individuals qualified for nomination to the Board of Directors; (iii) considering the structure and composition of the Board of Directors and its committees; and (iv) evaluating the performance and effectiveness of the Board of Directors and its members.

The Corporate Governance and Nominating Committee is composed of Chander Dhawan, John Kendall Gillberry, and Raja Singh Tuli. Chander Dhawan acts as chair of the Committees.

## RISKS AND UNCERTAINTIES

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties and as a result management expectation may not be realized for a number of reasons. An investment in DataWind common shares is speculative and involves a high degree of risk and uncertainty.

On January 8<sup>th</sup>, 2016, the Indian Telecom Regulatory Authority of India announced new legislation covering Net Neutrality, requiring that operators provide equal access to all websites. DataWind believes it is well positioned under this legislation as we do not distinguish between websites and our proxy servers deliver an unaltered and unrestricted static view of every web page available on the internet. Our proprietary solution does not deliver streaming audio or video due to infrastructure limitations and network speeds over which we deliver internet to the rural regions of emerging markets; however, the Authority Chair has confirmed that limitations related to speed are not bound by this legislation. This legislation will certainly be challenged and undergo practical review as it is implemented. In the meantime, DataWind affirms its position as the only cost effective solution to deliver internet to the masses in emerging economies.

Any investor should also consider carefully these risks and the risks and uncertainties that are detailed in our Prospectus available at [www.sedar.com](http://www.sedar.com). Continued growth will require additional working capital.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of condensed consolidated interim financial statements in compliance with IFRS requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements, and the reported amounts of revenues and expenses during the reporting period.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## Warranty claims

The Company generally offers one-year warranties on most of its products. The Company has not provided any future warranty claims as any claims will be reverted back to the contract manufacturer.

## Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. The Company has provided against all old stock of devices and components which do not relate to the new Tablet devices. The total provision amounts to \$170 for nine-month period ended December 31, 2015 (December 31, 2014- nil).

## Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

## Estimation uncertainty

Critical accounting policies and estimates utilized in the normal course of preparing the Company's condensed consolidated interim financial statements require the determination of future cash flows utilized in assessing net recoverable amounts of account receivable and net realizable values of inventory; allowance for bad debts; useful lives of property and equipment; provision for inventory at the lower of cost and net realizable value, stock-based compensation and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

These estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

## *Future changes in accounting policies*

### IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 issued in July 2014, replaces IAS 39 Financial Instruments: recognition and measurement ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities and introduces a new hedge accounting model. This

IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

#### IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)

Issued in May 2014, IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The main principle of this standard is that an entity shall recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Adoption of this IFRS is mandatory for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

#### IFRS 16 Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance.

Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors.

IFRS 16 is effective January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15, Revenue from Contracts with Customers. The Company is currently evaluating the impact of IFRS 16 on its financial statements.

#### **ADDITIONAL INFORMATION**

Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com)