



2020

MANAGEMENT'S
DISCUSSION
AND ANALYSIS

FISCAL 2020

For the six-month period ended September 30, 2019

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BASIS OF PREPARATION AND FORWARD-LOOKING STATEMENTS

The following is Management's Discussion and Analysis ("MD&A") of the results of operations and financial position of Stingray Group Inc., ("Stingray" or "the Corporation"), and should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and accompanying notes for the three-month and six-month periods ended September 30, 2019 and 2018, and with the most recent audited consolidated financial statements and MD&A for the year ended March 31, 2019. This MD&A reflects information available to the Corporation as at November 6, 2019. Additional information relating to the Corporation is also available on SEDAR at www.sedar.com. The auditors of the Corporation have not performed a review of the interim financial report for the three-month and six-month periods ended September 30, 2019.

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

Although management believes the expectations reflected in such forward-looking statements are reasonable, forward-looking statements are based on the opinions, assumptions and estimates of management at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include but are not limited to the risk factors disclosed in the Annual Information Form for the year ended March 31, 2019 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 Canadian Radio-television and Telecommunications Commission ("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, Net debt to Adjusted EBITDA and Pro Forma 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 International Financial Reporting Standards (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 a 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, more than 100 radio stations, 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 140 million times. The Corporation is headquartered in Montreal and currently has over 1,200 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 September 30, 2019 (“Q2 2020”):

\$76.6 M ▲ 120.7% from Q2 2019 Revenues	\$33.5 M ▲ 9.4% from Q2 2019 Recurring Broadcasting and Commercial Music revenues ⁽²⁾	\$27.7 M ▲ 142.1% from Q2 2019 Adjusted EBITDA	\$18.8 M ▲ 226.1% from Q2 2019 Adjusted free cash flow
\$0.07 ▲ 16.7% from Q2 2019 Quarterly dividend per share	61.6 % % of international ⁽³⁾ Broadcasting and Commercial Music revenues	\$5.2 M Or \$0.07 per share ▲ 567.2% from Q2 2019 Net income	\$19.0 M ▲ 237.8% from Q2 2019 Cash flow from operating activities

FINANCIAL AND BUSINESS HIGHLIGHTS

Highlights of the second quarter ended September 30, 2019

Compared to the quarter ended September 30, 2018 (“Q2 2019”):

- Revenues increased 120.7% to \$76.6 million from \$34.7 million;
- Recurring Broadcasting and Commercial Music revenues⁽²⁾ increased 9.4% to \$33.5 million from \$30.7 million;
- Adjusted EBITDA⁽¹⁾ increased 142.1% to \$27.7 million from \$11.4 million. Excluding the impact of IFRS 16, Adjusted EBITDA⁽¹⁾ would have been \$26.0 million. IFRS 16 - Leases accounting standard was adopted on April 1, 2019 resulting in a reduction of \$1.6 million in operating lease expenses for the quarter. Please refer to IFRS 16 - Leases in the section New standard adopted by the Corporation on page 18;
- Adjusted EBITDA⁽¹⁾ by segment was \$15.2 million or 39.3% of revenues for Broadcasting and Commercial Music, \$13.7 million or 36.3% of revenues for Radio and \$(1.2) million for Corporate;
- Adjusted EBITDA⁽¹⁾ margin was 36.1% compared with 32.9%, due in part to efficiencies in operations as a result of scale;
- Net income was \$5.2 million (\$0.07 per share) compared with \$0.8 million (\$0.01 per share);
- Adjusted Net income⁽¹⁾ of \$12.0 million (\$0.16 per share) compared with \$6.7 million (\$0.12 per share);
- Cash flow from operating activities increased 237.8% to \$19.0 million compared to \$5.6 million;
- Adjusted free cash flow⁽¹⁾ increased 226.1% to \$18.8 million, or \$0.25 per share, compared to \$5.8 million or \$0.10 per share;
- Net debt to Pro Forma Adjusted EBITDA⁽¹⁾ ratio of 2.95x, and;
- 254,864 shares repurchased and cancelled for a total of \$1.9 million.

Business Highlights:

- On November 6, 2019, the Corporation declared a dividend of \$0.07 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend will be payable on or around December 13, 2019 to shareholders on record as of November 29, 2019.
- In early October 2019, the Corporation announced that its highly-rated music app is now available to all Canadians and Americans. Previously available exclusively to pay-TV subscribers, the Stingray Music app offers an unparalleled listening experience of local and international content. The app is available for free or with an upgrade to Premium for a monthly subscription fee.
- On September 26, 2019, Stingray Karaoke was launched in Tesla cars worldwide as part of their major operating system release. Today, Tesla drivers and passengers can enjoy thousands of karaoke videos from the seat of their car wherever they travel to.
- On September 26, 2019, the Corporation announced that it had partnered with Bell Media to introduce AUDIO360™, an advanced, multi-platform audio sales solution that brings together brands and consumers through the power of sound. AUDIO360 gives brands access to 22 million weekly Canadian listeners across an unrivaled multi-platform audio offering.
- On August 26, 2019, the Corporation entered into an agreement to acquire the assets of CHOO-FM, a radio station in Drumheller, Alberta.
- On August 6, 2019, the Corporation's Board of Directors approved the implementation of a Normal Course Issuer Bid ("NCIB") authorizing the Corporation to repurchase up to an aggregate of 2,924,220 Subordinate Voting Shares and Variable Subordinate Voting Shares (collectively, the "Shares"), representing approximately 5% of the issued and outstanding shares of such classes as at August 7, 2019. The NCIB was approved by the Toronto Stock Exchange ("TSX") on August 14. Shares may be purchased through the facilities of TSX or alternative Canadian trading systems commencing August 16, 2019 through August 15, 2020. Shareholders may obtain a copy of the Notice of Intention from the Secretary of the Corporation.
- On August 6, 2019, the Corporation declared a dividend of \$0.07 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend was paid on September 13, 2019 to shareholders on record as of August 31, 2019.
- On August 5, 2019, the Corporation announced that it has reached a long term agreement with Rogers Communications that renews their longstanding relationship.
- On July 9, 2019, the Corporation extended the maturity of its revolving facility by one year, with a new maturity date of October 25, 2022. The Corporation reduced the authorized amount under the revolving facility by \$70.0 million bringing it down to \$230.0 million. The term facility remains unchanged with \$150.0 million of availability. The interest pricing grid was also reviewed for both the revolving facility and the term facility, which will reduce future interest expense.

Notes:

- (1) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 6. The adoption of IFRS 16 had a material impact on the Corporation's Consolidated Statements of Financial Position and its Consolidated Statements of Comprehensive Income as nearly all leases were capitalized with a corresponding liability, while the rent expense was replaced by the depreciation of the right-of-use assets, and interest accretion expense from the liabilities was recorded.
- (2) Recurring Broadcasting and Commercial Music 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 advertising, support, installation, equipment and one-time fees.
- (3) International means all jurisdictions except Canada.

SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

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

The following tables show the reconciliation of Net income to Adjusted EBITDA and to Adjusted Net income:

	3 months		6 months	
	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018
(in thousands of Canadian dollars)	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Net income	5,184	777	14,367	2,123
Net finance expense (income)	6,362	910	13,742	2,831
Change in fair value of investments	(188)	436	145	(61)
Income taxes	2,479	567	3,960	1,056
Depreciation and write-off of property and equipment	2,989	1,274	5,811	2,443
Depreciation of right-of-use assets	1,419	–	2,790	–
Amortization of intangible assets	5,935	5,255	12,054	9,842
Share-based compensation	257	358	505	533
Performance and deferred share unit expense	794	518	1,575	885
Acquisition, legal, restructuring and other expenses	2,440	1,334	3,887	2,956
Adjusted EBITDA	27,671	11,429	58,836	22,608
Net finance expense (income)	(6,362)	(910)	(13,742)	(2,831)
Income taxes	(2,479)	(567)	(3,960)	(1,056)
Depreciation of property and equipment and write-off	(2,989)	(1,274)	(5,811)	(2,443)
Depreciation of right-of-use assets	(1,419)	–	(2,790)	–
Income taxes related to change in fair value of investments, share-based compensation, performance and deferred share unit expense, amortization of intangible assets, CRTC Tangible benefits and acquisition, legal, restructuring and other expenses	(2,441)	(1,970)	(4,731)	(3,672)
Adjusted Net income	11,981	6,708	27,802	12,606

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

	3 months		6 months	
	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018
(in thousands of Canadian dollars)	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Cash flow from operating activities	18,952	5,610	45,250	12,822
<i>Add / Less :</i>				
Acquisition of property and equipment	(1,459)	(1,488)	(3,072)	(3,716)
Acquisition of intangible assets other than internally developed intangible assets	(292)	(1,383)	(811)	(1,730)
Addition to internally developed intangible assets	(1,559)	(1,390)	(3,082)	(2,595)
Interest paid	(4,493)	(424)	(9,473)	(860)
Repayment of lease liabilities	(1,303)	–	(2,398)	–
Net change in non-cash operating working capital items	6,143	3,189	8,271	4,769
Unrealized loss on foreign exchange	327	303	771	360
Acquisition, legal, restructuring and other expenses	2,440	1,334	3,887	2,956
Adjusted free cash flow	18,756	5,751	39,343	12,006

The following table shows the calculation of Net debt:

	September 30, 2019	March 31, 2019	September 30, 2018
(in thousands of Canadian dollars)			
Credit facilities	312,541	312,955	57,329
Subordinated debt	49,589	49,539	–
Cash and cash equivalents	(8,384)	(4,673)	(2,173)
Net debt	353,746	357,821	55,156

FINANCIAL RESULTS FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

CONSOLIDATED PERFORMANCE

Revenues

Revenues are detailed as follows:

(in thousands of Canadian dollars)	3 months			6 months		
	2019	2018	% Change	2019	2018	% Change
Revenues by geography						
Canada	52,723	14,222	270.7	108,830	27,863	290.6
United States	9,035	8,069	12.0	18,176	16,254	11.8
Other Countries	14,815	12,401	19.5	30,004	25,031	19.9
Revenues	76,573	34,692	120.7	157,010	69,148	127.1

Global

Revenues in Q2 2020 increased \$41.9 million or 120.7% to \$76.6 million, from \$34.7 million for Q2 2019. The increase was primarily due to the acquisition of Newfoundland Capital Corporation Inc. ("NCC") and DJ Matic, combined with organic growth in subscription video-on-demand services ("SVOD").

Cumulative revenues for Fiscal 2020 increased \$87.9 million or 127.1% to \$157.0 million, from \$69.1 million for cumulative Fiscal 2019. The increase was primarily due to the acquisition of NCC, DJ Matic and Novramedia, combined with organic growth in SVOD, partially offset by a delay in estimated time to market to deploy advertising solutions and by the termination of some low margin international contracts.

Canada

Revenues in Canada in Q2 2020 increased \$38.6 million or 270.7% to \$52.8 million, from \$14.2 million for Q2 2019. The increase was primarily due to the acquisition of NCC and Novramedia.

Cumulative revenues in Canada for Fiscal 2020 increased \$80.9 million or 290.6% to \$108.8 million, from \$27.9 million for cumulative Fiscal 2019. The increase was primarily due to the acquisition of NCC and Novramedia, partially offset by a delay in estimated time to market to deploy advertising solutions.

United States

Revenues in United States in Q2 2020 increased \$0.9 million or 12.0% to \$9.0 million, from \$8.1 million for Q2 2019. Cumulative revenues in United States for Fiscal 2020 increased \$2.0 million or 11.8% to \$18.2 million, from \$16.2 million for cumulative Fiscal 2019. Both increases were primarily due to organic growth in SVOD.

Other Countries

Revenues in Other countries in Q2 2020 increased \$2.4 million or 19.5% to \$14.8 million, from \$12.4 million for Q2 2019. Cumulative revenues in Other countries for Fiscal 2020 increased \$5.0 million or 19.9% to \$30.0 million, from \$25.0 million for cumulative Fiscal 2019. Both increases were primarily due to the acquisition of DJ Matic and to organic growth in SVOD, partially offset by the termination of some low margin contracts.

Operating Expenses

Operating expenses in Q2 2020 increased \$25.9 million or 106.9% to \$50.0 million, from \$24.1 million for Q2 2019. Cumulative operating expenses for Fiscal 2020 increased \$52.3 million or 109.0% to \$100.3 million, from \$48.0 million for cumulative Fiscal 2019. Both increases were primarily due to the acquisition of NCC and DJ Matic, partially offset by the reduction of operating lease expenses related to the adoption of IFRS 16.

Adjusted EBITDA⁽¹⁾

Adjusted EBITDA in Q2 2020 increased \$16.3 million or 142.1% to \$27.7 million from \$11.4 million for Q2 2019. Adjusted EBITDA margin was 36.1% compared to 32.9% for Q2 2019. The increase in Adjusted EBITDA was primarily due to the acquisition of NCC and DJ Matic, to organic growth in SVOD and to the adoption of IFRS 16. The increase in Adjusted EBITDA margin was mainly related to the adoption of IFRS 16 and to reduced operating expenses in the Broadcasting and Commercial Music segment. Excluding the impact of IFRS 16, the Adjusted EBITDA would have been \$26.0 million with a margin of 34.0%.

Cumulative Adjusted EBITDA for Fiscal 2020 increased \$36.2 million or 160.2% to \$58.8 million from \$22.6 million for cumulative Fiscal 2019. Adjusted EBITDA margin was 37.5% compared to 32.7% for cumulative Fiscal 2019. The increase in Adjusted EBITDA was primarily due to the acquisition of NCC, DJ Matic and Novrmedia, to organic growth in SVOD, and to the adoption of IFRS 16, partially offset by a delay in estimated time to market to deploy advertising solutions. The increase in Adjusted EBITDA margin was mainly related to the new Radio segment, which has a higher Adjusted EBITDA margin in the first quarter due to normal business seasonality, to the adoption of IFRS 16, and to reduced operating expenses in the Broadcasting and Commercial Music segment. Excluding the impact of IFRS 16, the Adjusted EBITDA would have been \$55.7 million with a margin of 35.4%.

Depreciation, amortization and write off

Depreciation, amortization and write off in Q2 2020 increased \$3.8 million or 58.4% to \$10.3 million, from \$6.5 million for Q2 2019. Cumulative depreciation, amortization and write off for Fiscal 2020 increased \$8.4 million or 68.1% to \$20.7 million, from \$12.3 million for cumulative Fiscal 2019. Both increases were primarily due to the acquisition of NCC and DJ Matic and to the adoption of IFRS 16, which resulted in a depreciation charge for the right-of-use assets of \$1.4 million in Q2 2020 and \$2.8 million in cumulative Fiscal 2020 compared to nil for both Q2 2019 and cumulative Fiscal 2019.

Net Finance Expense (Income)

In Q2 2020, net finance expense increased to \$6.4 million from \$0.9 million for Q2 2019. The increase was mainly related to higher interest expense due to the additional debt related to the funding of the acquisition of NCC and to the mark-to-market losses on derivative instruments. The incremental interest accretion on lease liabilities from the adoption of IFRS 16 also contributed to the increase of net finance expense in the amount of \$0.4 million.

Cumulative net finance expense for Fiscal 2020 increased \$10.9 million or 385.4% to \$13.7 million, from \$2.8 million for cumulative Fiscal 2019. The increase was mainly related to higher interest expense due to the additional debt related to the funding of the acquisition of NCC and to the mark-to-market losses on derivative instruments, partially offset by a lower negative change in fair value of contingent considerations. The incremental interest accretion on lease liabilities from the adoption of IFRS 16 also contributed to the increase of net finance expense in the amount of \$0.9 million.

Change in fair value of investments

In Q2 2020, a gain on fair value of \$0.2 million was recorded compared to a loss of \$0.4 million for Q2 2019. A loss on fair value of \$0.1 million was recorded for cumulative Fiscal 2020 compared to a gain of \$0.1 for cumulative Fiscal 2019. Both variances are related to the translation of an investment denominated in U.S. dollars to Canadian dollars.

Acquisition, legal, restructuring and other expenses

(in thousands of Canadian dollars)	3 months			6 months		
	2019	2018	Change \$	2019	2018	Change \$
Acquisition	405	748	(343)	466	1,324	(858)
Legal	1,672	268	1,404	3,026	1,297	1,729
Restructuring and other	363	318	45	395	335	60
Acquisition, legal, restructuring and other expenses	2,440	1,334	1,106	3,887	2,956	931

Note:

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

Income Taxes

The income taxes expense recognized in the comprehensive income was \$2.5 million for Q2 2020 compared to \$0.6 million for Q2 2019. The effective tax rate for Q2 2020 was 32.3% compared to 42.2% for Q2 2019. The decrease in the effective tax rate for Q2 2020 is mainly due to the relative importance of permanent difference compared to net income before income taxes.

Cumulative income taxes expense for Fiscal 2020 was \$4.0 million, compared to \$1.1 million for cumulative Fiscal 2019. The effective tax rate for cumulative Fiscal 2020 was 21.6% compared to 33.2% for cumulative Fiscal 2019. The decrease in the effective tax rate for Fiscal 2020 is mainly due to the relative importance of permanent difference compared to net income before income taxes as well as the impact of a tax rate decrease in Canada.

Net income and net income per share

Net income in Q2 2020 was \$5.2 million (\$0.07 per share) compared to \$0.8 million (\$0.01 per share) for Q2 2019. The increase was mainly attributable to higher operating results, partially offset by higher interest, income taxes, depreciation and amortization, and legal expenses.

Cumulative net income for Fiscal 2020 was \$14.4 million (\$0.19 per share) compared to \$2.1 million (\$0.04 per share) for cumulative Fiscal 2019. The increase was mainly attributable to higher operating results, partially offset by higher interest, depreciation and amortization, income taxes, mark-to-market losses on derivative financial instruments and legal expenses.

Adjusted Net income⁽¹⁾ and Adjusted Net income per share⁽¹⁾

Adjusted Net income in Q2 2020 was \$12.0 million (\$0.16 per share), compared to \$6.7 million (\$0.12 per share) for Q2 2019. Cumulative adjusted net income for Fiscal 2020 was \$27.8 million (\$0.36 per share), compared to \$12.6 million (\$0.22 per share) for cumulative Fiscal 2019. Both increases are related to higher operating results, partially offset by higher interest, income taxes, depreciation and mark-to-market losses on derivative financial instruments.

Note:

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

BUSINESS SEGMENT PERFORMANCE

BROADCASTING AND COMMERCIAL MUSIC

(in thousands of Canadian dollars)	3 months			6 months		
	2019	2018	% Change	2019	2018	% Change
Revenues	38,742	34,692	11.7	76,089	69,148	10.0
Operating expenses	23,510	22,166	6.1	46,249	44,214	4.6
Adjusted EBITDA ⁽¹⁾	15,232	12,526	21.6	29,840	24,934	19.7
Adjusted EBITDA margin ⁽¹⁾	39.3%	36.1%	8.9	39.2%	36.1%	8.8

Revenues

In Q2 2020, Broadcasting and Commercial Music revenues increased \$4.1 million or 11.7% to \$38.8 million from \$34.7 million for Q2 2019. Cumulative Broadcasting and Commercial Music revenues for Fiscal 2020 increased \$7.0 million or 10.0% to \$76.1 million from \$69.1 million for cumulative Fiscal 2019. Both increases were primarily due to the acquisition of DJ Matic and Novrmedia, combined with organic growth in SVOD, partially offset by a delay in estimated time to market to deploy advertising solutions and by the termination of some low margin international contracts.

Adjusted EBITDA⁽¹⁾

In Q2 2020, Broadcasting and Commercial Music Adjusted EBITDA increased by \$2.7 million or 21.6% to \$15.2 million from \$12.5 million for Q2 2019. The increase was primarily due to organic growth in SVOD, to the acquisition of DJ Matic and Novrmedia and to the adoption of IFRS 16.

Cumulative Broadcasting and Commercial Music Adjusted EBITDA for Fiscal 2020 increased \$4.9 million or 19.7 % to \$29.8 million from \$24.9 million for cumulative Fiscal 2019. The increase was primarily due to organic growth in SVOD, to the acquisition of DJ Matic and Novrmedia and to the adoption of IFRS 16, partially offset by a delay in estimated time to market to deploy advertising solutions.

Note:

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

RADIO

(in thousands of Canadian dollars)	3 months			6 months		
	2019	2018	% Change	2019	2018	% Change
Revenues	37,831	-	-	80,921	-	-
Operating expenses	24,116	-	-	49,379	-	-
Adjusted EBITDA ⁽¹⁾	13,715	-	-	31,542	-	-
Adjusted EBITDA margin ⁽¹⁾	36.3%	-%	-%	39.0%	-%	-%

Revenues

Radio revenues represented \$37.8 million for Q2 2020 and \$80.9 million for cumulative Fiscal 2020 reflecting the contribution from the acquisition of NCC.

Radio revenues are derived from the sale of advertising airtime, which is subject to the seasonal fluctuations of the Canadian radio industry. Accordingly, the first and third quarter results tend to be the strongest and second and fourth quarter results tend to be the weakest in a fiscal year.

Adjusted EBITDA⁽¹⁾

Radio Adjusted EBITDA represented \$13.7 million for Q2 2020 and \$31.5 million for cumulative Fiscal 2020 reflecting the contribution from the acquisition of NCC.

CORPORATE

(in thousands of Canadian dollars)	3 months			6 months		
	2019	2018	% Change	2019	2018	% Change
Operating expenses	2,327	1,973	17.9	4,626	3,744	23.6
<i>Adjust:</i>						
Share-based compensation	(257)	(358)	(28.2)	(505)	(533)	(5.3)
Performance and deferred share unit expense	(794)	(518)	53.3	(1,575)	(885)	78.0
Adjusted EBITDA ⁽¹⁾	(1,276)	(1,097)	16.3	(2,546)	(2,326)	9.5

Adjusted EBITDA⁽¹⁾

Corporate Adjusted EBITDA represented the head office operating expenses less the share-based compensation and performance and deferred share unit expense.

Note:

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

Quarterly results

Revenues increased over the last eight quarters from \$35.1 million in the third quarter of Fiscal 2018 to \$76.6 million in the second quarter of Fiscal 2020. 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. The increases in Q3 2019 and Q4 2019 were mainly explained by the acquisition of NCC on October 26, 2018. In Q3 2019, revenues in the Corporate segment derived from hotel operations, which was acquired through the NCC acquisition, but disposed of in the same quarter. The increase in Q1 2020 and decrease in Q2 2020 are mainly due to normal business seasonality in the Radio segment.

Adjusted EBITDA⁽¹⁾ increased over the last eight quarters from \$11.2 million in the third quarter of Fiscal 2018 to \$27.7 million in the second quarter of Fiscal 2020. The increase was mainly attributable to the successful integration of acquisitions and organic growth including new contracts. The increase in Q3 2019 was primarily due to the acquisition of NCC and other acquisitions realized in Fiscal 2019 and 2018, and to the organic growth of B2C apps and SVOD. The decrease in Q4 2019 was mainly due to normal business seasonality in the Radio segment and to the reversal of certain accrued liabilities, which positively contributed to the Adjusted EBITDA⁽¹⁾ of the Radio segment in Q3 2019. The increase in Q1 2020 and decrease in Q2 2020 were mainly due to normal business seasonality in the Radio segment.

Net income (loss) fluctuated over the last eight quarters from a net income of \$0.7 million in the third quarter of Fiscal 2018 to a net income of \$5.2 million in the second quarter of Fiscal 2020. In Q4 2018, the increase in net income was mainly attributable to higher net finance income and income tax recovery. In Q3 2019, the decrease was mainly attributable to the CRTC Tangible benefits expense related to the NCC acquisition, higher interest and acquisition expenses, partially offset by higher operating results. In Q4 2019, the increase was mainly explained by the absence of CRTC Tangible benefits expense, lower acquisition expenses and write-off of balance payable on acquisition, partially offset by higher income taxes and lower operating results. In Q1 2020, the increase was mainly explained by higher operating results, lower acquisition expenses and lower mark-to-market losses on derivative financial instruments, partially offset by the absence of write-off of balance payable on acquisition and positive change in fair value of contingent considerations. In Q2 2020, the decrease was mainly explained by lower operating results, higher income taxes and acquisition, legal, restructuring and other expenses, partially offset by lower mark-to-market losses on derivative financial instruments, positive change in fair value of contingent considerations and lower interest expense.

Summary of Consolidated Quarterly Results

(in thousands of Canadian dollars, except per share amounts)	3 months							
	Sept. 30, 2019	June 30, 2019	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017
	Fiscal 2020	Fiscal 2020	Fiscal 2019	Fiscal 2019	Fiscal 2019	Fiscal 2019	Fiscal 2018	Fiscal 2018
Revenues by segment								
Broadcasting and Commercial								
Music	38,742	37,347	38,718	38,875	34,692	34,456	34,223	35,099
Radio	37,831	43,090	34,012	31,215	-	-	-	-
Corporate	-	-	-	682	-	-	-	-
Total revenues	76,573	80,437	72,730	70,772	34,692	34,456	34,223	35,099
Revenues by geography								
Canada	52,723	56,107	47,318	46,738	14,222	13,641	13,658	16,219
United States	9,035	9,141	9,351	8,834	8,069	8,185	8,331	7,037
Other countries	14,815	15,189	16,061	15,200	12,401	12,630	12,234	11,843
Total revenues	76,573	80,437	72,730	70,772	34,692	34,456	34,223	35,099
Adjusted EBITDA⁽¹⁾	27,671	31,165	22,407	27,219	11,429	11,179	11,752	11,151
Net income (loss)	5,184	9,183	3,942	(18,053)	777	1,346	4,674	737
Net income (loss) per share basic and diluted	0.07	0.12	0.06	(0.26)	0.01	0.02	0.08	0.01
Adjusted Net income⁽¹⁾	11,981	15,821	12,534	12,396	6,708	5,898	9,732	6,016
Adjusted Net income per share basic and diluted ⁽¹⁾	0.16	0.21	0.18	0.18	0.12	0.10	0.17	0.11
Cash flow from operations (restated - see page 20)	18,952	26,298	18,072	13,809	5,610	7,212	11,054	6,739
Adjusted free Cash Flow⁽¹⁾	18,756	20,587	9,845	16,983	5,751	6,255	9,235	7,720
Quarterly dividend	0.070	0.070	0.065	0.065	0.060	0.060	0.055	0.055

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 6.

Reconciliation of Quarterly Non-IFRS Measures

(in thousands of Canadian dollars)	3 months							
	Sept. 30, 2019	June 30, 2019	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017
	Fiscal 2020	Fiscal 2020	Fiscal 2019	Fiscal 2019	Fiscal 2019	Fiscal 2019	Fiscal 2018	Fiscal 2018
Net income (loss)	5,184	9,183	3,942	(18,053)	777	1,346	4,674	737
Net finance expense (income)	6,362	7,380	2,259	7,208	910	1,921	(378)	1,746
Change in fair value of investments	(188)	333	336	(840)	436	(497)	(421)	(110)
Income taxes	2,479	1,481	1,833	(6,117)	567	489	(385)	849
Depreciation and write-off of property and equipment	2,989	2,822	2,791	2,469	1,274	1,169	1,019	704
Depreciation of right-of-use assets	1,419	1,371	-	-	-	-	-	-
Amortization of intangible assets	5,935	6,119	7,187	6,401	5,255	4,587	4,594	4,582
Share-based compensation	257	248	297	263	358	175	473	346
Performance and deferred share unit expense	794	781	630	(147)	518	367	780	422
CRTC Tangible benefits	-	-	-	25,306	-	-	-	-
Acquisition, legal, restructuring and other expenses	2,440	1,447	3,132	10,729	1,334	1,622	1,396	1,875
Adjusted EBITDA	27,671	31,165	22,407	27,219	11,429	11,179	11,752	11,151
Net finance expense (income)	(6,362)	(7,380)	(2,259)	(7,208)	(910)	(1,921)	378	(1,746)
Income taxes	(2,479)	(1,481)	(1,833)	6,117	(567)	(489)	385	(849)
Depreciation and write-off of property and equipment	(2,989)	(2,822)	(2,791)	(2,469)	(1,274)	(1,169)	(1,019)	(704)
Depreciation of right-of-use assets	(1,419)	(1,371)	-	-	-	-	-	-
Income taxes related to change in fair value of investments, share-based compensation, performance and deferred share unit expense, amortization of intangible assets, CRTC Tangible benefits and acquisition, legal, restructuring and other expenses	(2,441)	(2,290)	(2,990)	(11,263)	(1,970)	(1,702)	(1,764)	(1,836)
Adjusted Net income	11,981	15,821	12,534	12,396	6,708	5,898	9,732	6,016

(in thousands of Canadian dollars)	3 months							
	Sept. 30, 2019	June 30, 2019	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017
	Fiscal 2020	Fiscal 2020	Fiscal 2019	Fiscal 2019	Fiscal 2019	Fiscal 2019	Fiscal 2018	Fiscal 2018
Cash flow from operating activities (restated - see page 19)	18,952	26,298	18,072	13,809	5,610	7,212	11,054	6,739
Acquisition of property and equipment	(1,459)	(1,613)	(1,935)	(1,972)	(1,488)	(2,228)	(846)	(2,188)
Acquisition of intangible assets other than internally developed intangible assets	(292)	(519)	(669)	(1,272)	(1,383)	(347)	(406)	(593)
Addition to internally developed intangible assets	(1,559)	(1,523)	(1,742)	(1,827)	(1,390)	(1,205)	(1,166)	(847)
Interest paid	(4,493)	(4,980)	(4,441)	(4,649)	(424)	(436)	(379)	(150)
Repayment of lease liabilities	(1,303)	(1,095)	-	-	-	-	-	-
Net change in non-cash operating working capital items	6,143	2,127	(1,890)	1,180	3,189	1,580	1,413	3,186
Unrealized loss (gain) on foreign exchange	327	445	(682)	985	303	57	(1,831)	(302)
Acquisition, legal, restructuring and other expenses	2,440	1,447	3,132	10,729	1,334	1,622	1,396	1,875
Adjusted free cash flow	18,756	20,587	9,845	16,983	5,751	6,255	9,235	7,720

LIQUIDITY AND CAPITAL RESOURCES FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

(in thousands of Canadian dollars)	3 months		6 months	
	2019	2018	2019	2018
Operating activities (restated – see page 20)	18,952	5,610	45,250	12,822
Financing activities (restated – see page 20)	(12,724)	1,996	(33,424)	3,526
Investing activities	(4,460)	(9,757)	(8,115)	(17,537)
Net change in cash	1,768	(2,151)	3,711	(1,189)
Cash – beginning of period	6,616	4,324	4,673	3,362
Cash – end of period	8,384	2,173	8,384	2,173
Adjusted free cash flow⁽¹⁾	18,756	5,751	39,343	12,006

Operating activities

Cash flow generated from operating activities amounted to \$19.0 million for Q2 2020 compared to \$5.6 million for Q2 2019. Cash flow generated from operating activities amounted to \$45.3 million for cumulative Fiscal 2020 compared to \$12.8 million for cumulative Fiscal 2019. Both increases were mainly due to the acquisition of NCC, to higher operating results and to lower income taxes paid. During the period, the Corporation changed its accounting policy with respect to the disclosure of interest paid in the Consolidated Statements of Cash Flows. The Corporation now disclose interest paid in financing activities. Prior to this change of policy, the Corporation disclosed interest paid in operating activities. Refer to page 20 for more information.

Financing Activities

Net cash flow used in financing activities amounted to \$12.7 million for Q2 2020 compared to net cash flow generated by financing activities of \$2.0 million for Q2 2019. The net change was mainly attributable to higher repayments of other liabilities, interest paid, dividend payment and to the shares repurchased in the course of the NCIB.

Net cash flow used in financing activities amounted to \$33.4 million for cumulative Fiscal 2020 compared to net cash flow generated by financing activities of \$3.5 million for cumulative Fiscal 2019. The net change was mainly attributable to lower increase in borrowing, higher interest paid, dividend payments, repayments of other liabilities and to the shares repurchased in the course of the NCIB.

Investing Activities

Net cash flow used in investing activities amounted to \$4.5 million for Q2 2020 compared to \$9.8 million for Q2 2019. Net cash flow used in investing activities amounted to \$8.1 million for cumulative Fiscal 2020 compared to \$17.5 million for cumulative Fiscal 2019. The net changes were primarily due to lower business and asset acquisitions compared to Q2 2019 and cumulative Fiscal 2019.

Adjusted free cash flow⁽¹⁾

Adjusted free cash flow generated in Q2 2020 amounted to \$18.8 million compared to \$5.8 million for Q2 2019. Adjusted free cash flow generated in cumulative Fiscal 2020 amounted to \$39.3 million compared to \$12.0 million for cumulative Fiscal 2019. Both increases were mainly related to the acquisition of NCC, higher operating results, lower capital expenditures and lower income taxes paid, partially offset by higher interest paid.

Note:

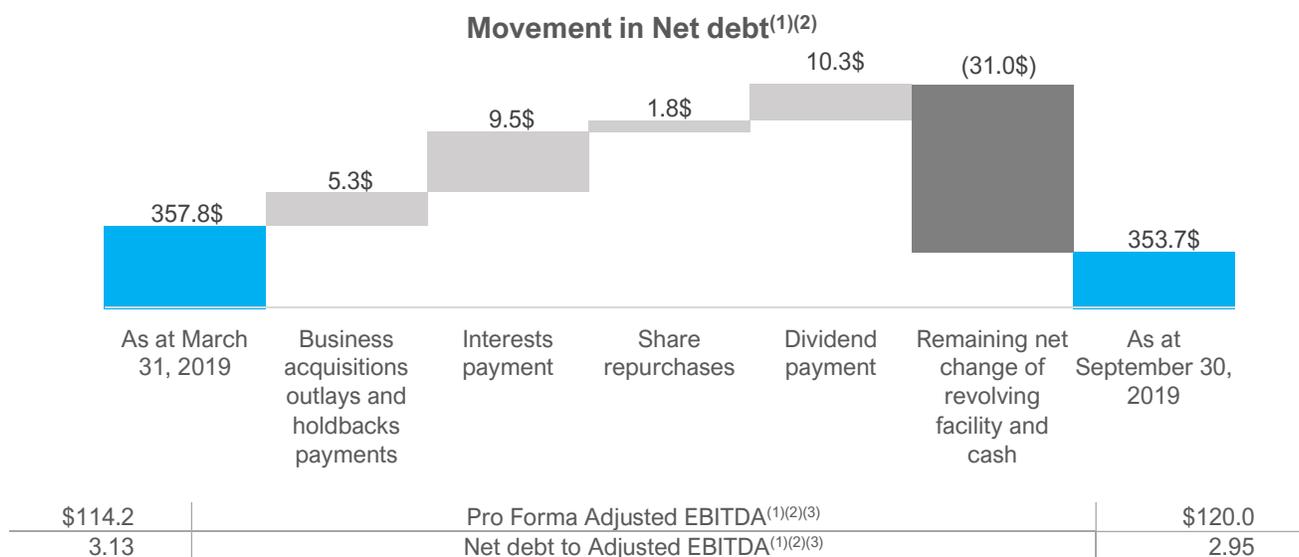
(1) Refer to "Supplemental information on Non-IFRS measures" on page 2 and 6.

CONSOLIDATED FINANCIAL POSITION

The following table shows the main variances that have occurred in the consolidated financial position of the Corporation for the six-month period ending September 30, 2019:

(in thousands of Canadian dollars)	Sept. 30, 2019	March 31, 2019	Variance	Significant contributions
Trade and other receivables	71,814	68,844	2,970 ▲	Timing of payments by clients
Right-of-use assets on leases	31,813	-	31,813 ▲	Recognition of right-of-use assets on leases following the adoption of IFRS16
Intangible assets	55,505	64,395	(8,890) ▼	Amortization of intangible assets
Broadcast licenses	272,910	271,710	1,200 ▲	Acquisition of CHOO-FM
Goodwill	329,011	331,332	(2,321) ▼	Foreign exchange differences
Accounts payables and accrued liabilities	60,952	61,956	(1,004) ▼	Timing of payments to suppliers
Lease liabilities	32,842	-	32,842 ▲	Recognition of lease liabilities following the adoption of IFRS16
Other liabilities	51,478	60,185	(8,707) ▼	Payments for CRTC tangible benefits and contingent consideration payment
Credit facility	312,541	312,955	(414) ▼	Refer to the graph below

The following table summarizes the impact on the Net debt that occurred in the six-month period ended September 30, 2019 including related ratios:



Notes:

- (1) In millions of Canadian dollars.
- (2) Refer to "Supplemental information on Non-IFRS measures" on pages 2 and 6.
- (3) Pro Forma Adjusted EBITDA is calculated as the Corporation's last twelve months Adjusted EBITDA (Q2 2020; \$108.5 million, Q4 2019; \$72.2 million), plus pro rated Adjusted EBITDA for the acquisitions made in Fiscal 2019 for the months prior to the acquisitions which are not already reflected in the results (Q1 2020; \$8.2 million including synergies of \$2.3 million, Q4 2019; \$42.0 million including synergies of \$5.8 million). The impact of IFRS 16 on Adjusted EBITDA is also reflected in the Pro Forma Adjusted EBITDA in the amount of \$3.3 million for Q2 2020 (nil for Q4 2019). Refer to "Forward-looking statements" and "Supplemental information on Non-IFRS measures" on page 2 and for reconciliations of Adjusted EBITDA to the most directly comparable IFRS financial measure, refer to "Supplemental information on Non-IFRS measures" on page 6.

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 (the '602 Patent), 9,357,245 (the '245 Patent), 7,320,025 (the '025 Patent) and 9,351,045 (the '045 Patent). 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 '121 Patent). 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 (the '602 Patent). 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 (i.e., the '025, '045 and '245 Patents). On October 23, 2017, the Corporation filed a petition for inter partes review for claims 10 and 15 of the '245 Patent. On October 24, 2017, Music Choice requested adverse judgment against itself from the PTAB with respect to 1-9, 12-14, and 16-17 of the '245 Patent. On October 27, 2017, the PTAB instituted inter partes review on the fourth patent-in-suit (i.e., the '121 Patent), 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 inter partes reviews, and dismissed without prejudice Stingray's motion for judgment on the pleadings. On March 26, 2018, the PTAB declined to institute an inter partes review for claims 10 and 15 of the '245 Patent. On April 26, 2018, the PTAB entered adverse judgment against Music Choice as to claims 1-9, 12-14, and 16-17 of the '245 Patent and terminated the proceeding. On June 19, 2018 and July 16, 2018, the PTAB held hearings for the instituted inter partes reviews. On September 20, 2018, the PTAB invalidated claims 1, 3 and 4 of the '025 Patent and stated that claim 8 was not shown to be unpatentable as anticipated by U.S. Patent Application Publication No. 2002/0078456 A1 (Hudson). On October 11, 2018, the PTAB invalidated claims 1-4 and 6-9 of the '045 Patent and stated that claims 5 and 10-20 were not shown to be unpatentable as obvious in view of Hudson and U.S. Patent No. 6,248,946 (Dwek). On October 17, 2018, the PTAB invalidated all of the claims of the '602 Patent. On October 24, 2018, the PTAB invalidated claims 1, 6, and 10-12 of the '121 Patent and stated the claim 14 was not shown to be unpatentable as anticipated by U.S. Patent No. 5,752,160. Since claim 14 of the '121 Patent is not asserted in the litigation, the '121 Patent is no longer at issue in the district court litigation. On November 21, 2018, Stingray filed a Notice of Appeal regarding the PTAB's decision that claim 8 of the '025 Patent was not shown to be unpatentable as anticipated by Hudson. On November 23, 2018, the parties filed a joint status report advising the district court as to the outcome of the proceedings and a joint motion proposing a docket control order. On November 26, 2018, the Court lifted the stay and entered an Amended Docket Control Order. On December 12, 2018, Stingray filed a Notice of Appeal regarding the PTAB's decision that claims 5 and 10-20 of the '045 Patent were not shown to be unpatentable as obvious in view of Hudson and Dwek. Briefing for the '025 Patent appeal was completed on June 25, 2019 and briefing for the '045 Patent appeal was completed on July 15, 2019. The hearing for both IPR appeals is scheduled for December 2, 2019. Supplemental fact and expert discovery in the district court litigation has closed and briefing for dispositive and Daubert motions was completed on August 15, 2019. The pre-trial conference is scheduled for November 12, 2019, and trial is scheduled for December 9, 2019.

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. Supplemental fact discovery and expert discovery have closed and briefing for dispositive and *Daubert* motions was completed on August 15, 2019. The pre-trial conference is scheduled for November 12, 2019, and trial is scheduled for December 9, 2019.

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 within approximately 12 months, based on past experience and the complexity of this proceeding.

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, 2019.

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. There have been no material changes to the nature or importance of the transactions between related parties since March 31, 2019.

Off-Balance Sheet Arrangements

Upon adoption of IFRS 16 on April 1, 2019, commitments under operating leases previously disclosed in note 25 of the audited consolidated financial statements of the Corporation for the year ended March 31, 2019 are now largely recorded on balance sheet as right-of-use assets and lease liabilities. As of September 30, 2019, the balance of lease liabilities for the related operating leases was \$32.8 million.

The Corporation therefore has no off-balance sheet arrangements, except for the operating leases with terms of twelve months or less, leases of low-value assets or leases that are not in scope of IFRS 16, that have, or are reasonably likely to have, a current or future material effect on its consolidated financial position, financial performance, liquidity, capital expenditures or capital resources.

Disclosure of Outstanding Share Data

Issued and outstanding shares and outstanding stock options consisted of:

	November 5, 2019	September 30, 2019
<i>Issued and outstanding shares:</i>		
Subordinate voting shares	57,511,347	57,670,095
Subordinate voting shares held in trust through employee share purchase plan	(43,841)	(40,696)
Variable subordinate voting shares	636,090	634,490
Multiple voting shares	17,941,498	17,941,498
	<u>76,045,094</u>	<u>76,205,387</u>
<i>Outstanding stock options:</i>		
Stock options	2,183,795	2,509,890

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, 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. During the six-month period ended September 30, 2019, 250,000 options were exercised, 16,584 options were forfeited, and 672,374 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, 2019. 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 27, 2019. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

New standard adopted by the Corporation

IFRS 16 - Leases

Effective April 1, 2019, the Corporation adopted IFRS 16 - Leases, which supersedes IAS 17 - Leases and its related interpretations. IFRS 16 introduces a single lease accounting model under which most of the lease-related assets and liabilities are recognized in the statement of financial position. The Corporation has recognized an asset related to the right of use and a liability at the present value of future lease payments. Depreciation of the right-of-use asset and interest expense on the lease obligation have replaced rent expense related to operating leases. This applies to the lease contracts that convey the right to control the use of an identified asset in exchange for consideration, unless the Corporation elects to exclude short term leases (lease term of twelve months or less) and leases of low-value assets. The standard also specifies how to recognize, measure, present, and disclose leases.

Under IAS 17- Leases and IFRIC 4 - Determining whether an arrangement contains a lease, the Corporation's accounting policy is to record all leases, as either operating or finance, based on the substance of the transaction at the inception of the lease. The Corporation classified all leases as operating leases prior to April 1, 2019. Payments made under operating leases (net of any incentives received from the lessor) are charged to net earnings on a straight-line basis over the lease term.

The Corporation adopted IFRS 16 using the modified retrospective method with the date of initial application of April 1, 2019. Under this method, the standard is applied retrospectively and the comparatives figures from Fiscal 2019 are not restated. Upon transition, for leases classified as operating leases under IAS 17, lease liabilities have been measured at the present value of the remaining lease payments, discounted using the Corporation's incremental borrowing rate as at April 1, 2019. Right-of-use assets have been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

At transition, the Corporation has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Corporation applied the

definition of a lease under IFRS 16 to contracts entered into or modified on or after April 1, 2019. The Corporation has also elected to apply the following practical expedients to leases previously classified as operating leases under IAS17:

- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Exclusion of initial direct costs from measuring the right-of-use asset as at April 1, 2019;
- Use of hindsight in determining the lease term where the contract contains purchase, extension, or termination options; and
- Exclusion of leases for which the lease term ends within twelve months of the date of the initial application.

The following describes the Corporation's accounting policy under IFRS 16 - Leases:

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties for which it is a lessee, the Corporation has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component. The right-of-use asset and a lease liability are recognized at the lease commencement date.

Right-of-use asset

The right-of-use asset is measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred, less any lease incentives received, if any.

The cost of right-of-use asset is periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Right-of-use asset is amortized to reflect the expected pattern of consumption of the future economic benefits which is based on the lesser of the useful life of the asset or the lease term using the straight-line method. The lease term includes the renewal option only if it is reasonably certain to be exercised. The lease terms range from 1 to 19 years for buildings and towers, from 6 to 57 years for lands and from 1 to 5 years for vehicles.

The Corporation elected not to recognize a right-of-use asset and liability for the leases where the total lease term is less than or equal to twelve months and for the leases of low valued assets in nature; such as but not limited to, office equipment. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Lease liabilities

At the commencement date of the lease, the Corporation recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Corporation and payments of penalties for terminating a lease, if the lease term reflects the Corporation exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggered the payment has occurred.

In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate as at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of the lease liability is increased to reflect the accretion of interest and reduced to reflect the lease payments made. In addition, the carrying amount of the lease liability is remeasured if there has been a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Corporation reassesses the lease term for whether significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy) has occurred.

Impact on transition to IFRS 16 - Leases

As at April 1, 2019, the Corporation recorded lease liabilities of \$34.0 million and right-of-use assets of \$33.4 million, net of the deferred lease inducements and lease payments made on or before the commencement of the lease, with no net impact on deficit.

When measuring lease liabilities for those leases previously classified as operating leases under IAS 17, the Corporation has discounted future lease payments using its incremental borrowing rate as at April 1, 2019. The weighted-average rate applied is 5.03%.

The following table presents the reconciliation of the Corporation's commitments as of March 31, 2019 to the lease liabilities recognized on initial application of IFRS 16 as at April 1, 2019:

(in thousands of Canadian dollars)

Commitments as at March 31, 2019	39,162
Non-lease commitments	(17,248)
Renewal options reasonably certain to be exercised	23,613
Variable commitments excluded from the lease liabilities	(1,866)
Commitments relating to short-term and low-value assets	(767)
Discounting impact	(8,846)
Lease liabilities as at April 1, 2019	34,048

Change in accounting policy

In Q1 2020, the Corporation changed its accounting policy with respect to the disclosure of interest paid in the Consolidated Statements of Cash Flows. The Corporation now disclose interest paid in financing activities. Prior to this change of policy, the Corporation disclosed interest paid in operating activities.

The Corporation believes the new policy is preferable as it more closely aligns the interest payments with the use of the proceeds from financing, such as business acquisitions. Also, interest payments increased as a result of the NCC acquisition financing and the adoption of IFRS 16, and both items are not related to operating activities.

This change did not result in a material impact on the current period or any periods included within these consolidated financial statements and only affected the presentation of interest paid in the Consolidated Statements of Cash Flows.

Future Accounting Changes

For information on future accounting changes, please refer to 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.

During the second quarter ended September 30, 2019, there have been no changes in the Corporation's internal control over financial reporting that have materially affected, or are likely to materially affect, the Corporation's ICFR.

Management's assessment of and conclusion on the design and the effectiveness of the Corporation's ICFR as at November 6, 2019, did not include the controls or procedures of the operations of Newfoundland Capital Corporation Limited and DJ Matic. The Corporation has accordingly availed itself of provision 3.3(1)(b) of Regulation 52-109 which permits

exclusion of these acquisitions in the design and operating effectiveness assessment of its ICFR for a maximum period of 365 days from the date of acquisition.

Subsequent Events

Dividend

On November 6, 2019, the Corporation declared a dividend of \$0.07 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend will be payable on or around December 13, 2019 to shareholders on record as of November 29, 2019.

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.

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