STINGRAY

2020

SECOND QUARTER **REPORT**

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 the quarterly financial report and 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.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	3 months				6 months			
	Sept. 30, 2019 **Q2 2020**		Sept. 30, 2018 **Q2 2019**		Sept. 30, 2019 **YTD 2020**		Sept. 30, 2018 **YTD 2019**	
(in thousands of Canadian dollars, except per share amounts)	**$**	**% of revenues**	**$**	**% of revenues**	**$**	**% of revenues**	**$**	**% of revenues**
Revenues	76,573	100.0 %	34,692	100.0 %	157,010	100.0 %	69,148	100.0 %
Recurring Revenues(1)	33,528	43.8 %	30,651	88.4 %	67,510	43.0 %	61,447	88.9 %
Revenues	76,573	100.0 %	34,692	100.0 %	157,010	100.0 %	69,148	100.0 %
Operating expenses	49,953	65.2 %	24,139	69.6 %	100,254	63.8 %	47,958	69.3 %
Depreciation, amortization and write-off	10,343	13.5 %	6,529	18.8 %	20,655	13.1 %	12,285	17.8 %
Net finance expense (income)(2)	6,362	8.3 %	910	2.6 %	13,742	8.8 %	2,831	4.1 %
Change in fair value of investments	(188)	(0.2) %	436	1.3 %	145	0.1 %	(61)	(0.1) %
Acquisition, legal, restructuring and other expenses	2,440	3.2 %	1,334	3.8 %	3,887	2.5 %	2,956	4.3 %
Income before income taxes	7,663	10.0 %	1,344	3.9 %	18,327	11.7 %	3,179	4.6 %
Income taxes	2,479	3.2 %	567	1.6 %	3,960	2.5 %	1,056	1.5 %
Net income	5,184	6.8 %	777	2.3 %	14,367	9.2 %	2,123	3.1 %
Adjusted EBITDA(3)	27,671	36.1 %	11,429	32.9 %	58,836	37.5 %	22,608	32.7 %
Adjusted Net income(3)	11,981	15.6 %	6,708	19.3 %	27,802	17.7 %	12,606	18.2 %
Cash flow from operating activities (restated due to a change in accounting policy - see page 20)	18,952	24.8 %	5,610	16.2 %	45,250	28.8 %	12,822	18.5 %
Adjusted free cash flow(3)	18,756	24.5 %	5,751	16.6 %	39,343	25.1 %	12,006	17.4 %
Net debt(3)	353,746	–	55,156	–	353,746	–	55,156	–
Net debt to Pro Forma Adjusted EBITDA(3)(4)(5)	2.95x	–	1.21x	–	2.95x	–	1.21x	–
Net income per share basic and diluted	0.07	–	0.01	–	0.19	–	0.04	–
Adjusted Net income per share basic and diluted(3)	0.16	–	0.12	–	0.36	–	0.22	–
Revenues by segment								
Broadcasting and Commercial Music	38,742	50.6 %	34,692	100.0 %	76,089	48.5 %	69,148	100.0 %
Radio	37,831	49.4 %	-	- %	80,921	51.5 %	-	- %
Revenues	76,573	100.0 %	34,692	100.0 %	157,010	100.0 %	69,148	100.0 %
Revenues by geography								
Canada	52,723	68.9 %	14,222	41.0 %	108,830	69.3 %	27,863	40.3 %
United States	9,035	11.8 %	8,069	23.3 %	18,176	11.6 %	16,254	23.5 %
Other Countries	14,815	19.3 %	12,401	35.7 %	30,004	19.1 %	25,031	36.2 %
Revenues	76,573	100.0 %	34,692	100.0 %	157,010	100.0 %	69,148	100.0 %

Notes:

(1) 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.

(2) Interest paid during the Q2 2020 was $4.5 million (Q2 2019; $0.4 million)

(3) Refer to "Forward-looking statements" and "Supplemental information on Non-IFRS measures" on page 2 and for reconciliations to the most directly comparable IFRS financial measure, refer to "Supplemental information on Non-IFRS measures" on page 6.

(4) As at September 30, 2018, Net debt to Adjusted EBITDA consists of Net debt divided by Adjusted EBITDA trailing twelve months (TTM).

(5) As at September 30, 2019, Pro Forma Adjusted EBITDA is calculated as the Corporation's last twelve months Adjusted EBITDA ($108.5 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 ($8.2 million including synergies of $2.3 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. 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.

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	
(in thousands of Canadian dollars)	Sept. 30, 2019 **Q2 2020**	Sept. 30, 2018 **Q2 2019**	Sept. 30, 2019 **YTD 2020**	Sept. 30, 2018 **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	
(in thousands of Canadian dollars)	Sept. 30, 2019 **Q2 2020**	Sept. 30, 2018 **Q2 2019**	Sept. 30, 2019 **YTD 2020**	Sept. 30, 2018 **YTD 2019**
Cash flow from operating activities	**18,952**	**5,610**	**45,250**	**12,822**
Add / Less :				
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:

(in thousands of Canadian dollars)	**September 30, 2019**	**March 31, 2019**	**September 30, 2018**
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:

	3 months			6 months		
(in thousands of Canadian dollars)	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 Novramedia, 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

	3 months			6 months		
(in thousands of Canadian dollars)	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

	3 months			6 months		
(in thousands of Canadian dollars)	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 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.

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 Novramedia 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 Novramedia 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 2019	3 months 2018	3 months % Change	6 months 2019	6 months 2018	6 months % 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 2019	3 months 2018	3 months % Change	6 months 2019	6 months 2018	6 months % Change
Operating expenses	2,327	1,973	17.9	4,626	3,744	23.6
Adjust:						
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

	3 months							
(in thousands of Canadian dollars, except per share amounts)	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

	3 months							
(in thousands of Canadian dollars)	**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**

	3 months							
(in thousands of Canadian dollars)	**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

	3 months		6 months	
(in thousands of Canadian dollars)	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.

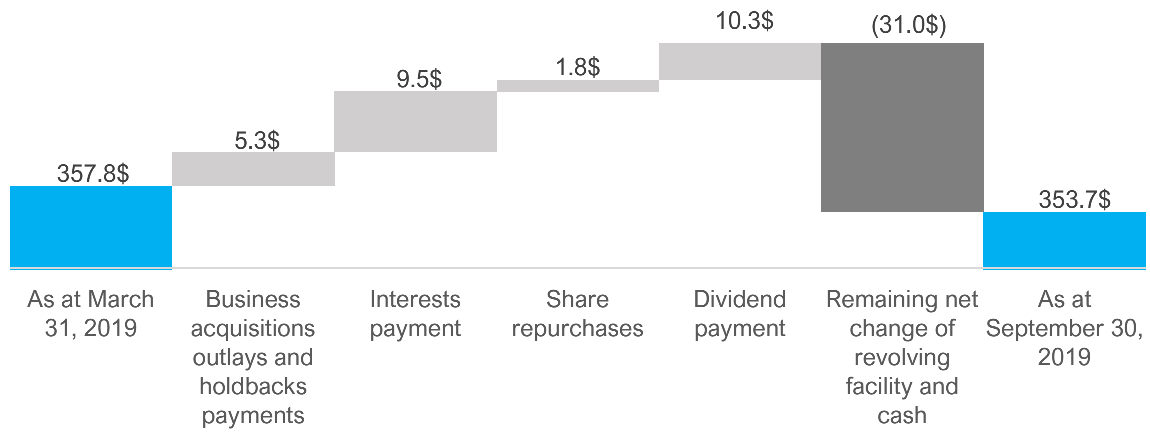
CONSOLIDATED FINANCIAL POSITION

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:

Movement in Net debt(1)(2)



$114.2	Pro Forma Adjusted EBITDA(1)(2)(3)	$120.0
3.13	Net debt to Adjusted EBITDA(1)(2)(3)	2.95

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
Issued and outstanding shares:		
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
	76,045,094	76,205,387
Outstanding stock options:		
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.

Consolidated Statements of Comprehensive Income

Three-month and six-month periods ended September 30, 2019 and 2018

(In thousands of Canadian dollars, except per share amounts)		Three-month periods ended		Six-month periods ended	
(Unaudited)	Note	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenues	6	$ 76,573	$ 34,692	$ 157,010	$ 69,148
Operating expenses		49,953	24,139	100,254	47,958
Depreciation, amortization and write-off		10,343	6,529	20,655	12,285
Net finance expense (income)	7	6,362	910	13,742	2,831
Change in fair value of investments		(188)	436	145	(61)
Acquisition, legal, restructuring and other expenses	8	2,440	1,334	3,887	2,956
Income before income taxes		7,663	1,344	18,327	3,179
Income taxes		2,479	567	3,960	1,056
Net income		$ 5,184	$ 777	$ 14,367	$ 2,123
Net income per share — Basic		0.07	0.01	0.19	0.04
Net income per share — Diluted		0.07	0.01	0.19	0.04
Weighted average number of shares — Basic		76,384,577	56,347,905	76,322,909	56,331,846
Weighted average number of shares — Diluted		76,685,548	56,912,902	76,539,496	56,959,579
Comprehensive income					
Net income		$ 5,184	$ 777	$ 14,367	$ 2,123
Other comprehensive loss					
Items that may be reclassified to profit and loss					
Exchange differences on translation of foreign operations		(266)	(2,308)	(2,069)	(4,287)
Total other comprehensive loss		(266)	(2,308)	(2,069)	(4,287)
Total comprehensive income (loss)		$ 4,918	$ (1,531)	$ 12,298	$ (2,164)

Net income is entirely attributable to Shareholders.

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

Consolidated Statements of Financial Position

September 30, 2019 and March 31, 2019

(In thousands of Canadian dollars) (Unaudited)	Note	September 30, 2019	March 31, 2019 Restated (note 4)
Assets			
Current assets			
Cash and cash equivalents		$ 8,384	$ 4,673
Trade and other receivables		71,814	68,844
Income taxes receivable		1,079	972
Inventories		3,799	2,620
Other current assets		7,298	9,033
		92,374	86,142
Non-current assets			
Property and equipment	9	47,833	50,326
Right-of-use assets on leases	9	31,813	—
Intangible assets, excluding broadcast licences	9	55,505	64,395
Broadcast licences	9	272,910	271,710
Goodwill	9	329,011	331,332
Investments		18,618	18,738
Other non-current assets		3,104	1,367
Deferred tax assets		8,857	10,672
Total assets		$ 860,025	$ 834,682
Liabilities and Equity			
Current liabilities			
Credit facility	10	15,000	14,086
Accounts payable and accrued liabilities		60,952	61,956
Dividend payable		—	4,956
Deferred revenues		1,111	1,634
Current portion of lease liabilities	11	4,935	—
Current portion of other liabilities	12	14,185	16,186
Income taxes payable		4,846	3,889
		101,029	102,707
Non-current liabilities			
Credit facility	10	297,541	298,869
Subordinated debt		49,589	49,539
Lease liabilities	11	27,907	—
Other liabilities	12	37,293	43,999
Deferred tax liabilities		52,810	52,033
Total liabilities		566,169	547,147
Shareholders' equity			
Share capital	13	337,493	337,714
Contributed surplus		4,386	4,344
Deficit		(44,748)	(53,317)
Accumulated other comprehensive loss		(3,275)	(1,206)
Total equity		293,856	287,535
Subsequent events (note 3)			
Total liabilities and equity		$ 860,025	$ 834,682

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

Approved by the Board of Directors,

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

Consolidated Statements of Changes in Equity

Six-month periods ended September 30, 2019 and 2018

(In thousands of Canadian dollars, except number of share capital) (Unaudited)	Share Capital										
	Number		Amount		Contributed surplus		Deficit		Accumulated other comprehensive income (loss)		Total shareholders' equity
Balance at March 31, 2018	56,305,753	$	146,354	$	3,825	$	(21,936)	$	1,364	$	129,607
Issuance of shares upon exercise of options	50,000		138		(70)		—		—		68
Dividends	—		—		—		(4,909)		—		(4,909)
Share issuance costs	—		(7)		—		—		—		(7)
Share-based compensation	—		—		472		—		—		472
Employee share purchase plan	(10,010)		(92)		78		—				(14)
Net income	—		—		—		2,123		—		2,123
Other comprehensive loss	—		—		—		—		(4,287)		(4,287)
Balance at September 30, 2018	56,345,743	$	146,393	$	4,305	$	(24,722)	$	(2,923)	$	123,053
Balance at March 31, 2019	76,237,903	$	337,714	$	4,344	$	(53,317)	$	(1,206)	$	287,535
Issuance of shares upon exercise of options (note 13)	250,000		1,419		(555)		—		—		864
Dividends (note 13)	—		—		—		(5,345)		—		(5,345)
Repurchase and cancellation of shares (note 13)	(254,864)		(1,449)		—		(453)		—		(1,902)
Share-based compensation	—		—		368		—		—		368
Employee share purchase plan (note 13)	(27,652)		(191)		229		—		—		38
Net income	—		—		—		14,367		—		14,367
Other comprehensive loss	—		—		—		—		(2,069)		(2,069)
Balance at September 30, 2019	76,205,387	$	337,493	$	4,386	$	(44,748)	$	(3,275)	$	293,856

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

Consolidated Statements of Cash Flows

Three-month and six-month periods ended September 30, 2019 and 2018

(In thousands of Canadian dollars) (Unaudited)	Note	Three-month periods ended September 30, 2019	Three-month periods ended September 30, 2018 Restated (note 18)	Six-month periods ended September 30, 2019	Six-month periods ended September 30, 2018 Restated (note 18)
Operating activities:					
Net income		$ 5,184	$ 777	$ 14,367	$ 2,123
Adjustments for:					
Depreciation, disposal 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, PSU and DSU expenses		1,051	876	2,080	1,418
Interest expense and standby fees	7	4,060	305	8,620	640
Mark-to-market losses on derivative financial instruments	7	595	—	1,780	—
Change in fair value of investments		(188)	436	145	(61)
Share of results of joint venture		2	156	(25)	144
Change in fair value of contingent consideration	7	244	66	268	1,375
Depreciation, accretion expense and amortization of other liabilities	7	698	193	1,407	371
Interest expense on lease liabilities	7,11	433	—	850	—
Income tax expense		2,479	567	3,960	1,056
Income taxes received (paid)		194	(1,106)	(586)	(1,760)
		25,095	8,799	53,521	17,591
Net change in non-cash operating items	14	(6,143)	(3,189)	(8,271)	(4,769)
		18,952	5,610	45,250	12,822
Financing activities:					
Increase (decrease) in the revolving facility		8,161	9,448	(855)	18,702
Payment of dividend		(5,345)	(3,382)	(10,301)	(6,479)
Share issuance costs		—	—	—	(7)
Share repurchases		(1,786)	—	(1,786)	—
Proceeds from the exercise of stock options		469	12	864	68
Shares purchased under the employee share purchase plan		(100)	(50)	(197)	(92)
Interest paid		(4,493)	(424)	(9,473)	(860)
Repayment of lease liabilities		(1,303)	—	(2,398)	—
Repayment of other liabilities		(8,327)	(3,608)	(9,278)	(7,806)
		(12,724)	1,996	(33,424)	3,526
Investing activities:					
Business acquisitions, net of cash acquired		(1,600)	(5,496)	(1,600)	(5,496)
Acquisition of an investment		—	—	—	(900)
Intangible assets acquired through asset acquisition		—	—	—	(3,100)
Disposal of non-core assets		450	—	450	
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)
		(4,460)	(9,757)	(8,115)	(17,537)
Increase (decrease) in cash and cash equivalents		1,768	(2,151)	3,711	(1,189)
Cash and cash equivalents, beginning of period		6,616	4,324	4,673	3,362
Cash and cash equivalents, end of period		$ 8,384	$ 2,173	$ 8,384	$ 2,173

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

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

1. BUSINESS DESCRIPTION AND BASIS OF CONSOLIDATION

Stingray Group Inc. (the "Corporation") is incorporated under the *Canada Business Corporations Act*. The Corporation is domiciled in Canada and its registered office is located at 730 Wellington, Montréal, Québec, H3C 1T4. The Corporation is a provider of multi-platform music services. It broadcasts high quality music and video content on a number of platforms including radio stations, premium television channels, digital TV, satellite TV, IPTV, the Internet, mobile devices and game consoles. A portion of the Corporation's revenue is derived from the sale of advertising airtime, which is subject to seasonal fluctuations. The fourth quarter of the year (January to March) is generally a period of lower retail spending. As a result, revenue and profit are generally lower than the other quarters.

These interim consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Stingray Music USA Inc., Stingray Music Rights Management LLC, 2144286 Ontario Inc., 4445694 Canada Inc., Pay Audio Services Limited Partnership, Music Choice Europe Limited, Stingray Digital International Ltd., Stingray Europe B.V., Transmedia Communications SA, Think inside the box LLC (Nature Vision TV), SBA Music PTY Ltd., Stingray Music, S.A. de C.V., Novramedia Inc., DJ Matic NV and Stingray Radio Inc. (formerly Newfoundland Capital Corporation Limited) and all these entities' wholly-owned subsidiaries.

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.

2. SIGNIFICANT CHANGES AND HIGHLIGHTS

The interim consolidated financial position and performance of the Corporation was particularly affected by the following events and transactions during the three-month and six-month periods ended September 30, 2019:

- On August 26, 2019, the Corporation entered into an agreement to acquire the assets of CHOO-FM, a radio station in Drumheller, Alberta, for total consideration of $1,640. It resulted in the recognition of property and equipment and broadcast licences (notes 4 and 9).
- On August 14, 2019, the Corporation announced that the Toronto Stock Exchange (the "TSX") has approved its share repurchase program, authorizing the Corporation to repurchase up to an aggregate 2,924,220 subordinate voting shares and variable subordinate voting shares (collectively, the "Subordinate Shares"), representing approximately 5% of the 58,484,449 issued and outstanding as at August 7, 2019. For more information, refer to note 13.
- On August 19, 2019, the Corporation renegotiated the fixed interest rates and maturities of some of its existing interest rate swap agreements and entered into new derivative financial instrument agreements. For more information, refer to note 15.
- On July 9, 2019, the Corporation extended the maturity of its credit facility by one year, with a new maturity date of October 25, 2022. The Corporation reduced the authorized amount under the revolving facility by $70,000 bringing it down to $230,000. The interest pricing grid was also reviewed for both the revolving facility and the term facility, which will reduce future interest expense (note 10).
- Effective April 1, 2019, the Corporation adopted IFRS 16 - Leases, which supersedes IAS 17 - Leases and its related interpretations. As at April 1, 2019, the Corporation recorded lease liabilities of $34,048 and right-of-use assets of $33,411, net of the deferred lease inducements and lease payments made on or before the commencement of the lease, with no net impact on deficit. For more information, refer to notes 9 and 11.

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

3. 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 that will be payable on or around December 13, 2019 to shareholders on record as of November 29, 2019.

4. BUSINESS ACQUISITIONS

SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2019

Drumheller

On August 26, 2019, the Corporation purchased the assets of CHOO-FM, a radio station in Drumheller, Alberta, from Golden West Broadcasting Ltd., for total consideration of $1,640.

		Preliminary
Assets acquired:		
Trade and other receivables		70
Property and equipment		400
Broadcasting licences		1,200
		1,670
Liabilities assumed:		
Accounts payable and accrued liabilities		30
Net assets acquired at fair value	$	1,640
Consideration given:		
Cash		1,600
Working capital payable		40
	$	1,640

As of the reporting date, the Corporation has not completed the purchase price allocation over the identifiable net assets and goodwill as information to confirm the fair value of certain assets and liabilities remains to be obtained.

(In thousands of Canadian dollars, unless otherwise stated)

FISCAL 2019

Newfoundland Capital Corporation

On October 26, 2018, the Corporation acquired all of the issued and outstanding shares for total consideration of $484,252, of which $453,694 was paid in cash and the remaining $30,558 through the issuance of 3,887,826 subordinate voting shares of the Corporation. NCC is a radio broadcaster who operates radio stations across Canada. As a result of the acquisition, goodwill of $218,304 was recognized related to the operating synergies expected to be achieved from integrating the acquired business into the Corporation's existing business. The goodwill will not be deductible for tax purposes.

	As of March 31, 2019	Adjustments	Final
Assets acquired:			
Cash and cash equivalents	$ 909	$ —	$ 909
Trade and other receivables	33,224	—	33,224
Other current assets	1,768	—	1,768
Property and equipment	48,432	—	48,432
Broadcast licences	268,670	1,155	269,825
Goodwill	219,138	(834)	218,304
Other non-current assets	1,325	—	1,325
Deferred tax assets	2,045	—	2,045
	575,511	321	575,832
Liabilities assumed:			
Accounts payable and accrued liabilities	20,328	—	20,328
Income taxes payable	3,264	—	3,264
Other liabilities	10,712	—	10,712
Deferred tax liabilities	56,955	321	57,276
	91,259	321	91,580
Net assets acquired at fair value	$ 484,252	$ —	$ 484,252
Consideration given:			
Cash	453,694	—	453,694
Share capital	30,558	—	30,558
	$ 484,252	$ —	$ 484,252

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

DJ-Matic

On October 12, 2018, the Corporation purchased all of the outstanding shares of DJ-Matic, a European provider of in-store media solutions for businesses for total consideration of EUR$10,163 ($15,775). As a result of the acquisition, goodwill of $12,344 was recognized related to the operating synergies expected to be achieved from integrating the acquired business into the Corporation's existing business. The goodwill will not be deductible for tax purposes.

The fair value of acquired trade receivables was $1,088 which represented the gross contractual amount. The contingent consideration arrangement requires the Corporation to pay, in cash, to the former owners, an amount not exceeding EUR$7,473 ($11,118) over the next three years ending in October 2021, based on an adjusted EBITDA ratio. The fair value of the contingent consideration was determined using an income approach based on the estimated amount and timing of projected cash flows.

	As of March 31, 2019	Adjustments	Preliminary
Assets acquired:			
Cash and cash equivalents	$ 543	$ —	$ 543
Trade and other receivables	1,088	—	1,088
Inventories	312	—	312
Property and equipment	589	—	589
Intangible assets	9,951	(716)	9,235
Goodwill	12,339	5	12,344
	24,822	(711)	24,111
Liabilities assumed:			
Accounts payable and accrued liabilities	5,821	(416)	5,405
Deferred revenues	652	—	652
Other liabilities	—	416	416
Income taxes payable	30	—	30
Deferred tax liabilities	2,544	(711)	1,833
	9,047	(711)	8,336
Net assets acquired at fair value	$ 15,775	$ —	$ 15,775
Consideration given:			
Cash	13,692	—	13,692
Contingent consideration	2,083	—	2,083
	$ 15,775	$ —	$ 15,775

As of the reporting date, the Corporation has not completed the purchase price allocation over the identifiable net assets and goodwill as information to confirm the fair value of certain assets and liabilities remains to be obtained.

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

Novramedia

On August 1, 2018, the Corporation purchased all of the outstanding shares of Novramedia Inc. ("Novramedia") for total consideration of $7,755. Novramedia is a Canadian provider of digital media solution. As a result of the acquisition, goodwill of $3,431 was recognized related to the operating synergies expected to be achieved from integrating the acquired business into the Corporation's existing business. The goodwill will not be deductible for tax purposes.

The fair value of acquired trade receivables was $754 which represented the gross contractual amount. The contingent consideration arrangement requires the Corporation to pay, in cash, to the former owners, an amount not exceeding $2,500 over the next 12 months if certain revenues-based targets are met. The fair value of the contingent consideration was determined using an income approach based on the estimated amount and timing of projected cash flows.

	As of March 31, 2019	Adjustments	Final
Assets acquired:			
Cash and cash equivalents	$ 4	$ —	$ 4
Trade and other receivables	754	(17)	737
Inventories	863	(4)	859
Other current assets	142	—	142
Property and equipment	50	—	50
Intangible assets	5,827	—	5,827
Goodwill	3,431	29	3,460
	11,071	8	11,079
Liabilities assumed:			
Accounts payable and accrued liabilities	942	(10)	932
Deferred revenues	842	—	842
Deferred tax liabilities	1,550	—	1,550
	3,334	(10)	3,324
Net assets acquired at fair value	$ 7,737	$ 18	$ 7,755
Consideration given:			
Cash	5,500	—	5,500
Working capital receivable	(171)	18	(153)
Contingent consideration	2,408	—	2,408
	$ 7,737	$ 18	$ 7,755

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

5. SEGMENT INFORMATION

OPERATING SEGMENTS

The Corporation's operating segments are aggregated in two segments: *Broadcasting and commercial music* and *Radio*. The operating segments reflect how the Corporation manages its operations, resources and assets and how it measures its performance. Both operating segment's financial results are reviewed by the Chief operating decision maker ("CDOM") to make decisions about resources to be allocated to the segment and asses its performance based on adjusted EBITDA, and for which distinct financial information is available.

Adjusted EBITDA excludes from income before income taxes the following expenses: share based compensation, PSU and DSU expenses, CRTC tangible benefits, depreciation, amortization and write-off, net finance expense (income), change in fair value of investments and acquisition, legal, restructuring and other expenses. There are no inter-segment revenues for the periods.

The Broadcasting and commercial music segment specializes in the broadcast of music and videos on multiple platforms and digital signage experiences and generates revenues from subscriptions or contracts.

The Radio segment operates several radio stations across Canada and generates revenues from advertising.

Corporate and eliminations is a non-operating segment comprising corporate and administrative functions that provide support and governance to the Corporation's operating business units.

The following tables present financial information by segment for the three-month and six-month periods ended September 30, 2019 and 2018.

	Broadcasting and commercial music		Radio		Corporate and eliminations		**Consolidated**	
	2019	2018	2019	2018	2019	2018	**2019**	**2018**
Three-month period								
Revenues	$ 38,742	$ 34,692	$ 37,831	$ —	$ —	$ —	**$ 76,573**	**$ 34,692**
Operating expenses (excluding Share based compensation and PSU and DSU expenses)	23,510	22,166	24,116	—	1,276	1,097	**48,902**	**23,263**
Adjusted EBITDA	$ 15,232	$ 12,526	$ 13,715	$ —	(1,276)	(1,097)	**27,671**	**11,429**
Share based compensation					257	358	**257**	**358**
PSU and DSU expenses					794	518	**794**	**518**
Depreciation, amortization and write-off					10,343	6,529	**10,343**	**6,529**
Net finance expense (income)					6,362	910	**6,362**	**910**
Change in fair value of investments					(188)	436	**(188)**	**436**
Acquisition, legal, restructuring and other expenses					$ 2,440	$ 1,334	**2,440**	**1,334**
Income before income taxes							**7,663**	**1,344**
Income taxes							**2,479**	**567**
Net income							**$ 5,184**	**$ 777**

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

	Broadcasting and commercial music		Radio		Corporate and eliminations		**Consolidated**	
	2019	2018	2019	2018	2019	2018	**2019**	**2018**
Six-month period								
Revenues	$ 76,089	$ 69,148	$ 80,921	$ —	$ —	$ —	**$ 157,010**	**$ 69,148**
Operating expenses (excluding Share based compensation and PSU and DSU expenses)	46,249	44,214	49,379	—	2,546	2,326	**98,174**	**46,540**
Adjusted EBITDA	$ 29,840	$ 24,934	$ 31,542	$ —	(2,546)	(2,326)	**58,836**	**22,608**
Share based compensation					505	533	**505**	**533**
PSU and DSU expenses					1,575	885	**1,575**	**885**
Depreciation, amortization and write-off					20,655	12,285	**20,655**	**12,285**
Net finance expense (income)					13,742	2,831	**13,742**	**2,831**
Change in fair value of investments					145	(61)	**145**	**(61)**
Acquisition, legal, restructuring and other expenses					$ 3,887	$ 2,956	**3,887**	**2,956**
Income before income taxes							**18,327**	**3,179**
Income taxes							**3,960**	**1,056**
Net income							**$ 14,367**	**$ 2,123**

	Broadcasting and commercial music		Radio		Corporate and eliminations		**Consolidated**	
	Sept. 30, 2019	March 31, 2019	Sept. 30, 2019	March 31, 2019	Sept. 30, 2019	March 31, 2019	Sept. 30, 2019	March 31, 2019
Total assets	$ 246,194	$ 262,010	$ 613,831	$ 572,672	$ —	$ —	**$ 860,025**	**$ 834,682**
Total liabilities[(1)]	$ 76,292	$ 72,255	$ 122,968	$ 104,444	$ 366,909	$ 370,448	**$ 566,169**	**$ 547,147**

(1) Total liabilities include operating liabilities, the Credit facility and the Subordinated debt

	Broadcasting and commercial music		Radio		Corporate and eliminations		**Consolidated**	
Six-month period	2019	2018	2019	2018	2019	2018	**2019**	**2018**
Acquisition of property and equipment	$ 1,703	$ 4,503	$ 2,132	$ —	$ —	$ —	**$ 3,835**	**$ 4,503**
Addition to right-of-use assets on leases	$ 886	$ —	$ 383	$ —	$ —	$ —	**$ 1,269**	**$ —**
Acquisition of intangible assets	$ 3,939	$ 19,483	$ —	$ —	$ —	$ —	**$ 3,939**	**$ 19,483**
Acquisition of broadcast licences	$ —	$ —	$ 1,200	$ —	$ —	$ —	**$ 1,200**	**$ —**
Goodwill recorded on business acquisitions	$ —	$ 3,431	$ —	$ —	$ —	$ —	**$ —**	**$ 3,431**

Acquisition of property and equipment, intangible assets, broadcast licences and goodwill, includes those acquired through business acquisitions, whether they were paid or not.

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

Approximately 79% of the Corporation's non-current assets are located in Canada.

6. REVENUES

DISAGGREGATION OF REVENUES

The following table presents the Corporation's revenues disaggregated by reportable segment, primary geographical market and product.

	Reportable segments							
Three months	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	Broadcasting and commercial music		Radio		Corporate		**Total revenues**	
Geography								
Canada	$ 14,892	14,222	$ 37,831	—	$ —	—	$ **52,723**	**14,222**
United States	9,035	8,069	—	—	—	—	**9,035**	**8,069**
Other countries	14,815	12,401	—	—	—	—	**14,815**	**12,401**
	38,742	34,692	37,831	—	—	—	**76,573**	**34,692**
Products								
Subscriptions [(1)]	32,178	30,356	—	—	—	—	**32,178**	**30,356**
Media solutions [(2)]	6,369	4,325	—	—	—	—	**6,369**	**4,325**
Advertising [(3)]	195	11	37,831	—	—	—	**38,026**	**11**
	$ 38,742	34,692	$ 37,831	—	$ —	—	$ **76,573**	**34,692**

(1) Generally recognized over time
(2) Approximately 50% of revenues are recognized over time and 50% at a point in time
(3) Generally recognized at a point in time

	Reportable segments							
Six months	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	Broadcasting and commercial music		Radio		Corporate		**Total revenues**	
Geography								
Canada	$ 27,909	27,863	$ 80,921	—	$ —	—	$ **108,830**	**27,863**
United States	18,176	16,254	—	—	—	—	**18,176**	**16,254**
Other countries	30,004	25,031	—	—	—	—	**30,004**	**25,031**
	76,089	69,148	80,921	—	—	—	**157,010**	**69,148**
Products								
Subscriptions [(1)]	64,953	61,336	—	—	—	—	**64,953**	**61,336**
Media solutions [(2)]	10,671	7,801	—	—	—	—	**10,671**	**7,801**
Advertising [(3)]	465	11	80,921	—	—	—	**81,386**	**11**
	$ 76,089	69,148	$ 80,921	—	$ —	—	$ **157,010**	**69,148**

(1) Generally recognized over time
(2) Approximately 50% of revenues are recognized over time and 50% at a point in time
(3) Generally recognized at a point in time

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

7. NET FINANCE EXPENSE (INCOME)

	3 months		6 months	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Interest expense and standby fees	$ 4,060	$ 305	$ 8,620	$ 640
Mark-to-market losses on derivative financial instruments	595	—	1,780	—
Change in fair value of contingent consideration	244	66	268	1,375
Depreciation, amortization and accretion of other liabilities	698	193	1,407	371
Interest expense on lease liabilities	433	—	850	—
Foreign exchange loss	332	346	817	445
	$ 6,362	$ 910	$ 13,742	$ 2,831

8. ACQUISITION, LEGAL, RESTRUCTURING AND OTHER EXPENSES

	3 months		6 months	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Acquisition	$ 405	$ 748	$ 466	$ 1,324
Legal	1,672	268	3,026	1,297
Restructuring and other	363	318	395	335
	$ 2,440	$ 1,334	$ 3,887	$ 2,956

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

9. PROPERTY AND EQUIPMENT, RIGHT-OF-USE ASSETS ON LEASES, INTANGIBLE ASSETS, BROADCAST LICENCES AND GOODWILL

	Property and equipment	Right-of-use assets on leases	Intangible assets	Broadcast licences	Goodwill
Year ended March 31, 2019					
Net book amount as at March 31, 2018	$ 11,135	$ —	$ 54,355	$ —	$ 98,467
Additions	9,217	—	10,216	—	—
Additions through business acquisitions	49,747	—	15,062	271,710	234,208
Additions through asset acquisition	—	—	9,100	—	—
Disposals and write-off	(12,097)	—	—	—	—
Depreciation of property and equipment	(7,455)	—	—	—	—
Amortization of intangible assets	—	—	(23,430)	—	—
Foreign exchange differences	(221)	—	(908)	—	(1,343)
Net book amount as at March 31, 2019	$ 50,326	$ —	$ 64,395	$ 271,710	$ 331,332
Six-month period ended September 30, 2019					
Net book amount as at March 31, 2019	$ 50,326	$ —	$ 64,395	$ 271,710	$ 331,332
Additions resulting from adoption of IFRS 16	—	33,411	—	—	—
Additions	3,435	1,269	3,939	—	—
Additions through business acquisitions	400	—	—	1,200	—
Disposals and write-off	(828)	—	—	—	—
Depreciation of property and equipment	(5,427)	—	—	—	—
Depreciation of right-of-use assets on leases	—	(2,790)	—	—	—
Amortization of intangible assets	—	—	(12,054)	—	—
Foreign exchange differences	(73)	(77)	(775)	—	(2,321)
Net book amount as at September 30, 2019	$ 47,833	$ 31,813	$ 55,505	$ 272,910	$ 329,011

10. CREDIT FACILITY

The table below is a summary of the credit facility at September 30, 2019:

	Total available	Drawn	Letters of credit	Net available
Committed credit facilities				
Revolving facility	$ 230,000	$ 175,778	$ 750	$ 53,472
Term facility	150,000	138,750	—	—
Total committed credit facilities	$ 380,000	$ 314,528	$ 750	$ 53,472
Less: unamortized deferred financing fees		(1,987)		
Balance, end of period		312,541		
Current portion		$ 15,000		
Non-current portion		$ 297,541		

(In thousands of Canadian dollars, unless otherwise stated)

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 $70,000 bringing it down to $230,000. The interest pricing grid was also reviewed for both the revolving facility and the term facility, which will reduce future interest expense.

The Corporation is required to make consecutive quarterly capital repayments of 2.50% of the amount of its term facility. Additionally, the Corporation must make an annual capital repayment, equivalent to 50% of the excess cash flow, defined in the credit facility agreement, if a certain financial covenant target is not met. This financial covenant was met as at September 30, 2019. The remaining capital balance will be payable on maturity date. Minimum capital repayments to be made by the Corporation on the term facility are as follows:

	Capital repayments
2020	$ 15,000
2021	15,000
2022	108,250
	$ 138,750

11. LEASE LIABILITIES

The following table presents a summary of the activity related to the lease liabilities of the Corporation for the three-month and six-month periods ended September 30, 2019:

		3 months	6 months
Lease liabilities, beginning of period	$	**33,852**	**—**
Additions resulting from adoption of IFRS 16		—	34,048
Additions		110	1,044
Payment of lease liabilities, including related interest		(1,511)	(3,024)
Interest expense on lease liabilities		433	850
Foreign exchange differences		(42)	(76)
Lease liabilities, end of period	**$**	**32,842**	**32,842**

The following table presents the maturity analysis of contractual undiscounted cashflows related to the lease liabilities of the Corporation as of September 30, 2019:

Less than one year	6,218
One to five years	18,989
More than five years	16,100
Total undiscounted lease liabilities as at September 30, 2019	**41,307**
Lease liabilities included in the Interim Consolidated Statements of Financial Position as at September 30, 2019	**32,842**
Current portion	4,935
Non-current portion	27,907

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

12. OTHER LIABILITIES

	Note	September 30, 2019	March 31, 2019
CRTC tangible benefits		$ 26,377	$ 31,797
Contingent consideration		9,071	12,430
Balance payable on business acquisitions		2,944	3,359
Accrued pension benefit liability		6,378	6,673
Derivative financial instruments	15	4,778	2,998
Other		1,930	2,928
		51,478	60,185
Current portion		(14,185)	(16,186)
		$ 37,293	$ 43,999

13. SHARE CAPITAL:

Authorized:

Unlimited number of subordinate voting shares, participating, without par value

Unlimited number of variable subordinate voting shares, participating, without par value

Unlimited number of multiple voting shares (10 votes per share), participating, without par value

Unlimited number of special shares, participating, without par value

Unlimited number of preferred shares issuable in one or more series, non-participating, without par value

Issued and outstanding:

The movements in share capital were as follows:

	Number of shares	**Carrying amount**
Year ended March 31, 2019		
Subordinate voting shares and variable subordinate voting shares		
As at March 31, 2018	40,011,468	$ 145,238
Conversion of subscription receipts issued through a bought deal offering	7,981,000	83,002
Conversion of subscription receipts issued through a private placement	3,846,100	39,999
Equity element of NCC purchase price	3,887,826	30,558
Private placement	2,429,544	25,000
Exercise of stock options	147,500	618
Purchased and held in trust through employee share purchase plan	(7,033)	(28)
Share issuance costs, net of income taxes of $1,780	—	(4,899)
As at March 31, 2019	58,296,405	$ 319,488
Multiple voting shares		
As at March 31, 2018	16,294,285	1,116
Conversion of subscription receipts issued upon exercise of subscription rights	1,452,850	15,110
Issuance	194,363	2,000
As at March 31, 2019	17,941,498	18,226
	76,237,903	$ 337,714

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

	Number of shares		Carrying amount
Six-month period ended September 30, 2019			
Subordinate voting shares and variable subordinate voting shares			
As at March 31, 2019	58,296,405	$	319,488
Exercise of stock options	250,000		1,419
Repurchased through share repurchase program and cancelled	(254,864)		(1,449)
Purchased and held in trust through employee share purchase plan	(27,652)		(191)
As at September 30, 2019	58,263,889		319,267
Multiple voting shares			
As at March 31, 2019 and September 30, 2019	17,941,498		18,226
	76,205,387	$	337,493

Transactions for the six-month period ended September 30, 2019

During the period, 250,000 stock options were exercised and consequently, the Corporation issued 250,000 subordinate voting shares. The proceeds amounted to $864. An amount of $555 of contributed surplus related to those stock options was transferred to the subordinate voting shares' account balance.

On August 6, 2019, the Corporation declared a dividend of $0.07 per subordinate voting share, variable subordinate voting share, multiple voting share and subscription receipts. The dividend of $5,345 was paid on September 13, 2019.

On June 15, 2019, the Corporation paid a dividend of $4,956. The dividend was declared on March 29, 2019 and therefore accrued in the consolidated statement of financial position as at March 31, 2019.

Share repurchase program

On August 14, 2019, the Toronto Stock Exchange (the "TSX") approved the implementation of a share repurchase program, which took effect on August 16, 2019. This program allows the Corporation to repurchase up to an aggregate 2,924,220 subordinate voting shares and variable subordinate voting shares (collectively, the "Subordinate Shares"), representing approximately 5% of the 58,484,449 Subordinate Shares issued and outstanding as at August 7, 2019. In accordance with TSX requirements, the Corporation is entitled to purchase, on any trading day, up to a total of 16,004 Subordinate Shares, representing 25% of the net average daily trading volume of the Subordinate Shares for the six-month period preceding August 1, 2019. When making such repurchases, the number of Subordinate Shares in circulation is reduced and the proportionate interest of all remaining shareholders in the Corporation's share capital is increased on a pro rata basis. All shares repurchased under the share repurchase program will be cancelled upon repurchase. The share repurchase period will end no later than August 15, 2020.

The following table summarizes the Corporation's share repurchase activities during the of six-month period ended September 30, 2019:

Subordinate voting shares repurchased for cancellation *(unit)*		254,864
Average price per share	$	7.4629
Total cost	$	1,902
Repurchase resulting in a reduction of:		
Share capital	$	1,449
Retained earnings [(1)]	$	453

[(1)] The excess of net repurchase price over the average book value of the Subordinate voting shares.

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

14. SUPPLEMENTAL CASH FLOW INFORMATION:

	Three-month periods ended		Six-month periods ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Trade and other receivables	$ 3,265	$ 2,899	$ (2,381)	$ 1,797
Inventories	(1,428)	65	(1,138)	(315)
Other current assets	1,615	(1,733)	1,869	(1,894)
Other non-current assets	(1,533)	25	(1,737)	54
Accounts payable and accrued liabilities	(6,866)	(3,918)	(1,988)	(2,735)
Deferred revenues	(479)	(293)	(552)	(471)
Income taxes payable	(310)	(100)	(587)	(247)
Other liabilities	(408)	(134)	(1,757)	(958)
	$ (6,144)	$ (3,189)	$ (8,271)	$ (4,769)

15. FINANCIAL INSTRUMENTS

FINANCIAL RISK FACTORS

The Corporation is exposed to a variety of financial risk: credit risk, liquidity risk and market risk (including currency risk and interest risk). The interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the annual financial statements as at March 31, 2019. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

FAIR VALUES

The Corporation has determined that the carrying amount of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and current portion of other liabilities excluding the contingent consideration is a reasonable approximation of their fair value due to the short-term maturity of those instruments. As such, information on their fair values is not presented below. The fair value of the revolving facility approximates its carrying value as it bears interest at prime or banker's acceptance rates plus a credit spread, which approximate current rates that could be obtained for debts with similar terms and credit risk. The carrying amount of CRTC tangible benefits and balance payable on business acquisitions is a reasonable approximation of their fair value as they are discounted using the effective interest rate, which approximate current rates that could be obtained with similar terms and credit risk.

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

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

As at September 30, 2019	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 8,384				
Trade and other receivables	70,407				
Financial assets measured at fair value					
Investments	$ 16,853	$ 16,853	$ —	$ —	$ 16,853
Financial liabilities measured at amortized cost					
Credit facility	$ 312,541				
Subordinated debt	49,589				
Accounts payable and accrued liabilities	59,613				
CRTC tangible benefits and accrued pension benefit liability	32,755				
Balance payable on business acquisitions	2,944				
Financial liabilities measured at fair value					
Contingent consideration	$ 9,071	$ 9,071	$ —	$ —	$ 9,071
Derivative financial instruments	4,779	4,779	—	4,779	—

As at March 31, 2019	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 4,673				
Trade and other receivables	66,674				
Financial assets measured at fair value					
Investments	$ 16,998	$ 16,998	$ —	$ —	$ 16,998
Financial liabilities measured at amortized cost					
Credit facility	$ 312,955				
Subordinated debt	49,539				
Accounts payable and accrued liabilities	59,674				
CRTC tangible benefits and accrued pension benefit liability	38,470				
Balance payable on business acquisitions	3,359				
Financial liabilities measured at fair value					
Contingent consideration	$ 12,430	$ 12,430	$ —	$ —	$ 12,430
Derivative financial instruments	2,998	2,998	—	2,998	—

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

Fair value measurement (Level 3):

	Investments	Contingent consideration
Six-month period ended September 30, 2018		
Opening amount as at March 31, 2018	$ 15,533	$ 15,596
Additions through business acquisitions	—	2,408
Additions through asset acquisitions	900	—
Change in fair value	61	948
Settlements	—	(5,005)
Closing amount as at September 30, 2018	$ 16,494	$ 13,947
Six-month period September 30, 2019		
Opening amount as at March 31, 2019	$ 16,998	$ 12,430
Change in fair value	(145)	100
Settlements	—	(3,459)
Closing amount as at September 30, 2019	$ 16,853	$ 9,071

There were no changes in the valuation techniques for the contingent consideration and investments during the six-month periods ended September 30, 2019 and 2018.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation use derivative financial instruments to manage its interest rate risk on its credit facility. These include interest rate swaps and swaptions. During the three-month and six-month periods ended September 30, 2019, the Corporation renegotiated some of its existing interest rate swap agreements which results in lower fixed interests' rates and extended maturities. The Corporation also entered into new interest rate swap agreements and swaptions.

The table below summarize the interest rate contracts effective as at September 30, 2019:

Maturity	Currency	Fixed interest rate (when applicable)	Initial nominal value	Mark-to-market liabilities (assets) as at September 30, 2019
Swaps				
October 25, 2024	CAD	0.81%	$ 50,000	$ (1,336)
October 25, 2024	CAD	1.33%	50,000	(893)
October 25, 2024	CAD	2.19%	50,000	388
October 25, 2024	CAD	2.29%	50,000	1,445
August 29, 2029	CAD	1.73%	40,000	34
August 31, 2029	CAD	1.73%	60,000	76
			300,000	(286)
Swaptions				
October 25, 2024	CAD	—	100,000	2,210
October 25, 2024	CAD	—	100,000	2,854
			$ 200,000	$ 5,064
				$ 4,778

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

INVESTMENTS

The Corporation has two equity instruments in private entities:

AppDirect

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

For the three-month and six-month periods ended September 30, 2019 and 2018, the fair value has been measured by using the equity price from the latest external equity financing transaction, minus a liquidity discount of 25%. The liquidity discount was used to reflect the marketability of the asset. In measuring fair value, management used the best information available in the circumstances and also an approach that it believes market participants would use. There was no change in the fair value of this instrument during the three-month and six-month periods as there were no external equity financing transactions or no other indicators of significant changes that could affect the fair value of the investment.

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

The fair value of the investment as at September 30, 2019 was $15,953.

Nextologies

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

For the three-month and six-month periods ended September 30, 2019, the fair value of the investment was measured using a multiple of EBITDA.

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

The fair value of the investment as at September 30, 2019 was $900.

CONTINGENT CONSIDERATION

The contingent consideration related to business combinations is payable based on the achievement of targets for growth in revenues for a period from the date of the acquisition and upon renewal of client contracts. The fair value measurement of the contingent consideration is determined using unobservable (Level 3) inputs. These inputs include (i) the estimated amount and timing of projected cash flows; and (ii) the risk-adjusted discount rate used to present value the cash flows, which is based on the risk associated with the revenue targets being met. The contingent consideration is classified as a financial liability and is included in other liabilities (note 12). The change in fair value is recognized in net finance expense (income) (note 7).

16. BASIS OF PREPARATION

a) Statement of compliance:

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a basis consistent with those accounting policies followed by the Corporation in the most recent audited consolidated annual financial statements. These interim consolidated financial statements have been prepared on a form in accordance with IAS 34 "Interim Financial Reporting". Accordingly, certain information, in particular the accompanying notes, normally included in the consolidated annual financial statements prepared in accordance with IFRS, has been omitted or condensed. Income taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss. These interim consolidated financial statements should be read in conjunction with the consolidated annual financial statements and the note thereto for the year ended March 31, 2019.

The interim consolidated financial statements were authorized for issue by the Board of Directors on November 6, 2019.

b) Use of estimates and judgements:

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of information were the same as the ones applied to the audited consolidated financial statements for the year ended March 31, 2019.

c) Functional and presentation currency:

These interim consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

17. NEW AND AMENDED 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.

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

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.

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

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:

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

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

18. CHANGE IN ACCOUNTING POLICY

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.

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.

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