2021

First Quarter Report

Fiscal 2021

For the three-month period ended June 30, 2020

STINGRAY

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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 period ended June 30, 2020 and 2019, and with the most recent audited consolidated financial statements and MD&A for the year ended March 31, 2020. This MD&A reflects information available to the Corporation as at August 4, 2020. 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 period ended June 30, 2020 and 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, 2020 available on SEDAR.

In addition, if any of the assumptions or estimates made by management prove to be incorrect, actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such assumptions include, but are not limited to, the following: our ability to generate sufficient revenue while controlling our costs and expenses; our ability to manage our growth effectively; the absence of material adverse changes in our industry or the global economy; trends in our industry and markets; the absence of any changes in law, administrative policy or regulatory requirements applicable to our business, including any change to our licences with the CRTC; minimal changes to the distribution of the pay audio services by Pay-TV providers in light of recent CRTC policy decisions; our ability to manage risks related to international expansion; our ability to maintain good business relationships with our clients, agents and partners; our ability to expand our sales and distribution infrastructure and our marketing; our ability to develop products and technologies that keep pace with the continuing changes in technology, evolving industry standards, new product introductions by competitors and changing client preferences and requirements; our ability to protect our technology and intellectual property rights; our ability to manage and integrate acquisitions; our ability to retain key personnel; and our ability to raise sufficient debt or equity financing to support our business growth. Accordingly, prospective purchasers are cautioned not to place undue reliance on such statements. All of the forward-looking information in this MD&A is qualified by these cautionary statements. Statements containing forward-looking information contained herein are made only as of the date of this MD&A. The Corporation expressly disclaims any obligation to update or alter statements containing any forward-looking information, or the factors or assumption underlying them, whether as a result of new information, future events or otherwise, except as required by law.

SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

The Corporation believes that Adjusted EBITDA and Adjusted EBITDA margin are important measures when analyzing its operating profitability without being influenced by financing decisions, non-cash items and income taxes strategies. Comparison with peers is also easier as companies rarely have the same capital and financing structure. The Corporation believes that Adjusted Net income and Adjusted Net income per share are important measures as it demonstrates its core bottom-line profitability. The Corporation believes that Adjusted free cash flow and Adjusted free cash flow per share are important measures when assessing the amount of cash generated after accounting for capital expenditures and non-core charges. It demonstrates cash available to make business acquisitions, pay dividend and reduce debt. The Corporation believes that Net debt and Net debt to 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

Montreal-based Stingray Group Inc. (TSX: RAY.A; RAY.B) is a leading music, media, and technology company with over 1,200 employees worldwide. Stingray is a premium provider of curated direct-to-consumer and B2B services, including audio television channels, more than 100 radio stations, SVOD content, 4K UHD television channels, karaoke products, digital signage, in-store music, and music apps, which have been downloaded over 150 million times. Stingray reaches 400 million subscribers (or users) in 156 countries.

KEY PERFORMANCE INDICATORS[1]

For the three-month period ended June 30, 2020 ("Q1 2021"):

$52.3 M ▼ 35.0% from Q1 2020 Revenues	**$13.5 M** Or $0.18 per share Adjusted Net income	**$18.0 M** ▼ 12.3% from Q1 2020 Adjusted free cash flow Or $0.25 per share
$25.5 M ▼18.2% from Q1 2020 Adjusted EBITDA	**$7.0 M** Or $0.10 per share Net income	**$38.0 M** ▲ 44.5% from Q1 2020 Cash flow from operating activities Or $0.52 per share

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

FINANCIAL AND BUSINESS HIGHLIGHTS

Highlights of the first quarter ended June 30, 2020:

Compared to the quarter ended June 30, 2019 ("Q1 2020"):

- Revenues decreased 35.0% to $52.3 million from $80.4 million;
- Adjusted EBITDA[(1)] decreased 18.2% to $25.5 million from $31.2 million. Adjusted EBITDA[(1)] by segment was $20.3 million or 56.7% of revenues for Broadcasting and Commercial Music, $5.7 million or 35.2% of revenues for Radio and $(0.6) million for Corporate;
- Net income was $7.0 million ($0.10 per share) compared with $9.2 million ($0.12 per share);
- Adjusted Net income[(1)] of $13.5 million ($0.18 per share) compared with $16.7 million ($0.21 per share);
- Cash flow from operating activities increased 44.5% to $38.0 million compared to $26.3 million;
- Adjusted free cash flow[(1)] decreased 12.3% to $18.0 million, or $0.25 per share, compared to $20.6 million or $0.27 per share, and;
- Net debt to Pro Forma Adjusted EBITDA[(1)] ratio of 2.91x.

Business Highlights:

- During Q1 2021, global economies and financial markets were impacted by the coronavirus ("COVID-19") outbreak as it quickly spread around the world and on March 11, 2020, the World Health Organization declared it a global pandemic. Government authorities around the world have taken actions to slowdown the spread of COVID-19, including measures such as the closure of non-essential businesses and social distancing. The tangible impact on the Corporation started in the Radio segment towards the end Q4 2020, as many non-essential local businesses were forced to temporarily close leading to a decrease in advertising and related revenues. In the early days of the crisis, the decision was made by the Corporation's management to implement significant cost saving measures, which, combined with the Canadian Emergency Wage Subsidy (CEWS), helped to maintain a solid financial position. The Corporation's Radio segment, and Broadcast and Commercial Music segment, but to a lesser extent, have been impacted during the first quarter of 2021. Management expects the situation to gradually improve as local businesses resume their normal operations. The extent to which COVID-19 continues to impact the Corporation's business will depend on future developments, which are uncertain and cannot be predicted at this time. The Corporation's focus will be to continue to closely monitor its cash position and control its operating expenses while capitalizing on its growth opportunities.
- On August 4, 2020, the Corporation declared a dividend of $0.075 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend will be payable on or around September 15, 2020 to shareholders on record as of August 31, 2020.
- On June 26, 2020, the Corporation announced that the establishment of the economic stimulus plan via its 104 radio stations helped 5,000 local businesses to obtain grants in the form of radio advertising during this unprecedented crisis. A total of $20 million is awarded in markets across Canada, where Stingray operates local radio stations. This amount represents $5 million more than initially planned. Stimulant grants will range from a minimum of $1,000 up to a maximum of $100,000 in radio advertising per business. The recipient business will have twelve months to utilize the radio advertising grant provided towards booking and airing a radio advertising campaign and will not be required to invest additional sums with Stingray radio stations to receive the grant.
- On June 4, 2020, the Corporation announced that it had reached an agreement with Shaw Communications Inc. to renew a longstanding relationship. As part of the agreement, Shaw Cable and Shaw Direct customers will have access to Stingray Music Audio Channels and can enjoy the Stingray Music Mobile App and web player for free. Music video TV channels Stingray Retro, Stingray Loud, Stingray Vibe and Stingray Country will also be available to residential and commercial subscribers.
- On May 29, 2020, the Corporation secured an additional term loan of $20.0 million, with a maturity date of May 29, 2021.
- On May 20, 2020, the Corporation declared a dividend of $0.075 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend was paid on June 15, 2020, to shareholders on record as of May 29, 2020.

- On May 6, 2020 (the "Effective Date"), the Corporation announced that it had acquired its trusted affiliate Marketing Sensorial México ("MSM"), the Mexican leader in point-of-sale marketing solutions. The agreement furthers Stingray Business' foothold in Mexico. As the current partner of Stingray Business for the 1,500 pharmacy locations and additional 1,500 medical clinics operated by Farmacias del Ahorro in Mexico, MSM specializes in digital signage content production, in-store music and the sale and/or lease of audio and visual equipment. The company serves customers in a range of industries (more than 5,800 locations) including banking, retail pharmacy and automotive dealership sectors with clients such as Grupo Financiero Santander México, Scotiabank México and BMW. Total consideration consists of an initial amount of MXN 45.0 million ($2.7 million) to be paid upon the latest of a) 30 days following the Effective Date and b) 2 business days following the delivery by MSM of the closing deliverables, and contingent consideration.

- On April 14, 2020, the Corporation announced the launch of free, ad supported TV channels and premium SVOD services with eight major over-the-top providers: Huawei (world), izzi (Mexico), XUMO (U.S.), LG (U.S.), Vizio (U.S.), Samsung (U.S.), TiVo Plus (U.S.) and Cliq Digital (U.S.). These distribution agreements grow Stingray's potential reach by over 300 million viewers.

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(in thousands of Canadian dollars, except per share amounts)	3 months June 30, 2020 Q1 2021 $	% of revenues	June 30, 2019 Q1 2020 $	% of revenues	March 31, 2020 Q4 2020 $	% of revenues
Revenues	52,293	100.0 %	80,437	100.0 %	68,398	100.0 %
Operating expenses	28,294	54.2 %	50,301	62.5 %	38,932	56.9 %
Depreciation, amortization and write off	9,523	18.2 %	10,312	12.8 %	9,875	14.4 %
Net finance expense (income)[1]	4,601	8.8 %	7,380	9.2 %	33,463	49.0 %
Change in fair value of investments	892	1.7 %	333	0.4 %	(1,914)	(2.8) %
Acquisition, legal, restructuring and other expenses (income)	(397)	(0.8) %	1,447	1.8 %	693	1.0 %
Income (loss) before income taxes	9,380	17.9 %	10,664	13.3 %	(12,651)	(18.5) %
Income taxes	2,359	4.5 %	1,481	1.9 %	(4,165)	(6.1) %
Net income (loss)	7,021	13.4 %	9,183	11.4 %	(8,486)	(12.4) %
Adjusted EBITDA[2]	25,481	48.7 %	31,165	38.7 %	28,217	41.3 %
Adjusted Net income[2]	13,509	25.8 %	16,687	20.7 %	10,095	14.8 %
Cash flow from operating activities	37,993	72.7 %	26,298	32.7 %	14,062	20.6 %
Adjusted free cash flow[2]	18,045	34.5 %	20,587	25.6 %	17,974	26.3 %
Net debt[2]	336,776	–	347,107	–	361,251	–
Net debt to Pro Forma Adjusted EBITDA[2][3]	2.91x	–	2.89x	–	3.01x	–
Net income (loss) per share basic and diluted	0.10	–	0.12	–	(0.11)	–
Adjusted Net income per share basic and diluted[2]	0.18	–	0.21	–	0.13	–
Cash flow from operating activities per share basic and diluted	0.52	–	0.34	–	0.19	–
Adjusted free cashflow per share basic and diluted[2]	0.25	–	0.27	–	0.24	–
Revenues by segment						
Broadcasting and Commercial Music	35,947	68.7 %	37,347	46.4 %	38,483	56.3 %
Radio	16,346	31.3 %	43,090	53.6 %	29,915	43.7 %
Revenues	52,293	100.0 %	80,437	100.0 %	68,398	100.0 %
Revenues by geography						
Canada	28,057	53.7 %	56,107	69.7 %	43,498	63.6 %
United States	10,302	19.7 %	9,141	11.4 %	10,236	15.0 %
Other Countries	13,934	26.6 %	15,189	18.9 %	14,664	21.4 %
Revenues	52,293	100.0 %	80,437	100.0 %	68,398	100.0 %

Notes:

(1) Interest paid during the Q1 2021 was $3.7 million (Q1 2020; $5.0 million and Q4 2020; $3.8 million)

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

(3) Pro Forma Adjusted EBITDA for 2021 and 2020 is calculated as the Corporation's last twelve months Adjusted EBITDA ($112.4 million, Q1-2020; $92.2 million, Q4-2020; $118.1 million), plus synergies and pro forma Adjusted EBITDA for the months prior to the acquisitions which are not already reflected in the results ($3.5 million, Q1-2020; $27.8 million, Q4-2020; $2.0 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 7.

SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Net income, Adjusted Net income per share, Adjusted free cash flow, Adjusted free cash flow per share, Net debt and Net debt to Proforma 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		
(in thousands of Canadian dollars)	June 30, 2020 **Q1 2021**	June 30, 2019 **Q1 2020**	March 31, 2020 **Q4 2020**
Net income (loss)	**7,021**	**9,183**	**(8,486)**
Net finance expense (income)	4,601	7,380	33,463
Change in fair value of investments	892	333	(1,914)
Income taxes	2,359	1,481	(4,165)
Depreciation and write-off of property and equipment	2,701	2,822	2,790
Depreciation of right-of-use assets	1,412	1,371	1,426
Amortization of intangible assets	5,410	6,119	5,659
Share-based compensation	166	248	258
Performance and deferred share unit expense	1,316	781	(1,507)
Acquisition, legal, restructuring and other expenses (income)	(397)	1,447	693
Adjusted EBITDA	**25,481**	**31,165**	**28,217**
Net finance expense (income), excluding mark-to-market losses (gains) on derivative financial instruments	(3,338)	(6,195)	(10,976)
Income taxes	(2,359)	(1,481)	4,165
Depreciation of property and equipment and write-off	(2,701)	(2,822)	(2,790)
Depreciation of right-of-use assets	(1,412)	(1,371)	(1,426)
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, mark-to-market losses (gains) on derivative financial instruments and acquisition, legal, restructuring and other expenses (income)	(2,162)	(2,609)	(7,095)
Adjusted Net income	**13,509**	**16,687**	**10,095**

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

	3 months		
(in thousands of Canadian dollars)	June 30, 2020 **Q1 2021**	June 30, 2019 **Q1 2020**	March 31, 2020 **Q4 2020**
Cash flow from operating activities	**37,993**	**26,298**	**14,062**
Add / Less :			
Acquisition of property and equipment	(703)	(1,613)	(2,153)
Acquisition of intangible assets other than internally developed intangible assets	(258)	(519)	(463)
Addition to internally developed intangible assets	(1,552)	(1,523)	(1,534)
Interest paid	(3,687)	(4,980)	(3,819)
Repayment of lease liabilities	(1,214)	(1,095)	(1,180)
Net change in non-cash operating working capital items	(11,412)	2,127	7,262
Unrealized loss (gain) on foreign exchange	(725)	445	5,106
Acquisition, legal, restructuring and other expenses (income)	(397)	1,447	693
Adjusted free cash flow	**18,045**	**20,587**	**17,974**

The following table shows the calculation of Net debt:

(in thousands of Canadian dollars)	**June 30, 2020**	**March 31, 2020**	**June 30, 2019**
Credit facilities	303,504	324,123	304,159
Subordinated debt	39,665	39,640	49,564
Cash and cash equivalents	(6,393)	(2,512)	(6,616)
Net debt	**336,776**	**361,251**	**347,107**

FINANCIAL RESULTS FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019

CONSOLIDATED PERFORMANCE

Revenues

Revenues are detailed as follows:

(in thousands of Canadian dollars)	3 months		
	Q1 2021	Q1 2020	% Change
Revenues by geography			
Canada	28,057	56,107	(50.0)
United States	10,302	9,141	12.7
Other Countries	13,934	15,189	(8.3)
Revenues	52,293	80,437	(35.0)

Global

Revenues in Q1 2021 decreased $28.1 million or 35.0% to $52.3 million, from $80.4 million for Q1 2020. The decrease was primarily due to the impact of the COVID-19 pandemic on Radio revenues and, to a lesser extent, on Broadcast and Commercial Music revenues.

Canada

Revenues in Canada in Q1 2021 decreased $28.0 million or 50.0% to $28.1 million, from $56.1 million for Q1 2020. The decrease was primarily due to the impact of the COVID-19 pandemic on Radio revenues and, to a lesser extent, on the Broadcast and Commercial Music revenues.

United States

Revenues in the United States in Q1 2021 increased $1.2 million or 12.7% to $10.3 million, from $9.1 million for Q1 2020. The increase was primarily due to organic growth in subscriptions.

Other Countries

Revenues in Other countries in Q1 2021 decreased $1.3 million or 8.3% to $13.9 million, from $15.2 million for Q1 2020. The decrease was primarily due to the impact of the COVID-19 pandemic on revenues.

Operating Expenses

Operating expenses in Q1 2021 decreased $22.0 million or 43.8% to $28.3 million, from $50.3 million for Q1 2020. The decrease was primarily related to the CEWS of $9.9 million, of which $0.9 million relates to Q4 2020 (March 15 to March 31, 2020), to reduced operating costs and to reduced variable expenses due to the impact of the COVID-19 pandemic on Radio revenues.

Adjusted EBITDA[1]

Adjusted EBITDA in Q1 2021 decreased $5.7 million or 18.2% to $25.5 million from $31.2 million for Q1 2020. Adjusted EBITDA margin was 48.7% compared to 38.7% for Q1 2020. The decrease in Adjusted EBITDA was primarily due to the impact of the COVID-19 pandemic on revenues, partially offset by the CEWS and by reduced operating costs.

Depreciation, amortization and write off

Depreciation, amortization and write off in Q1 2021 decreased $0.8 million or 7.7% to $9.5 million, from $10.3 million for Q1 2020. The decrease was primarily due to less intangible assets to amortize compared to Q1 2020.

Net finance expense (income)

In Q1 2021, the net finance expense was $4.6 million compared to $7.4 million for Q1 2020. The decrease was mainly related to a foreign exchange gain and to lower interest expense.

Change in fair value of investments

In Q1 2021, a loss on fair value of $0.9 million was recorded compared to $0.3 million for Q1 2020. The variance is related to the translation of an investment denominated in U.S. dollars to Canadian dollars.

Acquisition, legal, restructuring and other expenses (income)

	3 months		
(in thousands of Canadian dollars)	Q1 2021	Q1 2020	% Change
Acquisition	282	61	362.3
Legal	(780)	1,354	(157.6)
Restructuring and other	101	32	215.6
Acquisition, legal, restructuring and other expenses (income)	(397)	1,447	(127.4)

In Q1 2021, acquisition expenses increased to $0.3 million from $0.1 million for Q1 2020. The increase was mainly related to the acquisition of Marketing Sensorial Mexico.

In Q1 2021, a gain on legal expenses was recorded due to the reversal of a provision for professional fees due to a change in estimates in the current quarter.

Income Taxes

The income taxes expense recognized in comprehensive income was $2.4 million for Q1 2021 compared to $1.5 million for Q1 2020. The effective tax rate for Q1 2021 was 25.2% compared to 13.9% for Q1 2020. The variance in the effective tax rate is mainly due to the decrease in the Alberta corporate income tax rate enacted in Q1 2020, which reduced deferred tax liabilities.

Net income and net income per share

Net income in Q1 2021 was $7.0 million ($0.10 per share) compared to $9.2 million ($0.12 per share) for Q1 2020. The decrease was mainly related to lower operating results due to the COVID-19 pandemic, partially offset by lower legal expenses and by a foreign exchange gain.

Adjusted Net income[1] and Adjusted Net income per share[1]

Adjusted Net income in Q1 2021 was $13.5 million ($0.18 per share), compared to $16.7 million ($0.21 per share) for Q1 2020. The decrease was mainly related to lower operating results due to the COVID-19 pandemic, partially offset by a foreign exchange gain and lower interest expense.

Note:
(1) Refer to “Supplemental information on Non-IFRS measures” on page 2 and 7.

BUSINESS SEGMENT PERFORMANCE

BROADCASTING AND COMMERCIAL MUSIC

(in thousands of Canadian dollars)	3 months Q1 2021	Q1 2020	% Change
Revenues	35,947	37,347	(3.7)
Operating expenses	15,580	22,739	(31.5)
Adjusted EBITDA[(1)]	**20,367**	**14,608**	**39.4**
Adjusted EBITDA margin[(1)]	**56.7%**	**39.1%**	**44.9**

Revenues

In Q1 2021, Broadcasting and Commercial Music revenues decreased 1.4 million or 3.7% to $35.9 million, from $37.3 million for Q1 2020. The decrease was primarily due to the impact of the COVID-19 pandemic on revenues, partially offset by organic growth in subscriptions.

Adjusted EBITDA[(1)]

In Q1 2021, Broadcasting and Commercial Music Adjusted EBITDA increased $5.7 million or 39.4% to $20.3 million from $14.6 million for Q1 2020. The increase in Adjusted EBITDA was primarily due to the CEWS and to reduced operating costs, partially offset by the impact of the COVID-19 pandemic on revenues.

RADIO

(in thousands of Canadian dollars)	3 months Q1 2021	Q1 2020	% Change
Revenues	16,346	43,090	(62.1)
Operating expenses	10,585	25,263	(58.1)
Adjusted EBITDA[(1)]	**5,761**	**17,827**	**(67.7)**
Adjusted EBITDA margin[(1)]	**35.2%**	**41.4%**	**(14.8)**

Revenues

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 the second and fourth quarter results tend to be the weakest in a fiscal year. However, for Fiscal 2021 Radio revenues are not expected to follow historical patterns due to the ongoing impact of the COVID-19 pandemic.

In Q1 2021, Radio revenues decreased $26.8 million or 62.1% to $16.3 million from $43.1 million for Q1 2020. The decrease is due to the impact of the COVID-19 pandemic on revenues.

Adjusted EBITDA[(1)]

In Q1 2021, Radio Adjusted EBITDA decreased $12.1 million or 67.7% to $5.7 million from $17.8 million for Q1 2020. The decrease in Adjusted EBITDA was primarily due to the impact of the COVID-19 pandemic on revenues, partially offset by the CEWS and by reduced operating costs.

Note:

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

CORPORATE

(in thousands of Canadian dollars)	3 months Q1 2021	Q1 2020	% Change
Operating expenses	2,129	2,299	(7.4)
Adjust:			
Share-based compensation	(166)	(248)	(33.1)
Performance and deferred share unit expense	(1,316)	(781)	68.5
Adjusted EBITDA[1]	**(647)**	**(1,270)**	**(49.1)**

Adjusted EBITDA[1]

Corporate Adjusted EBITDA represented the head office operating expenses less the share-based compensation and performance and deferred share unit expense. The decrease in operating expenses is related to reduced operating costs. The increase in Performance and deferred share unit expense is due to the increase in the share price.

Note:

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

Quarterly results

Revenues increased over the last eight quarters from $34.7 million in Q2 2019 to $52.3 million in the Q1 2021. The increase was mainly attributable to the successful integration of acquisitions and organic growth including new contracts in all geographic locations. 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, decrease in Q2 2020 and increase in Q3 2020 are mainly due to normal business seasonality in the Radio segment. The decrease in Q4 2020 and Q1 2021 were due to the impact of the COVID-19 pandemic.

Adjusted EBITDA[(1)] increased over the last eight quarters from $11.4 million in Q2 2019 to $25.5 million in Q1 2021. 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. 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, decrease in Q2 2020 and increase in Q3 2020 were mainly due to normal business seasonality in the Radio segment. The decrease in Q4 2020 and Q1 2021 were mainly due to the impact of the COVID-19 pandemic on Radio revenues, which was partially offset by the CEWS and reduced operating costs in Q1 2021.

Net income (loss) fluctuated over the last eight quarters from a Net income of $0.8 million in Q2 2019 to $7.0 million in Q1 2021. 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. In Q3 2020, the increase was mainly explained by mark-to-market gains on derivative financial instruments, positive change in fair value of investments, higher operating results and gain in foreign exchange, partially offset by higher legal expenses due to the settlement with Music Choice. In Q4 2020, the decrease was mainly explained by mark-to-market losses on derivative financial instruments, foreign exchange loss, lower positive change in fair value of investments and lower operating results, partially offset by lower income taxes expense. In Q1 2021, the increase was mainly explained by lower mark-to-market losses on derivative financial instruments and a foreign exchange gain, partially offset by the impact of the COVID-19 pandemic on revenues, higher income taxes expense and negative change in fair value of investments.

Summary of Consolidated Quarterly Results

	3 months							
(in thousands of Canadian dollars, except per share amounts)	**June 30, 2020**	**March 31, 2020**	**Dec. 31, 2019**	**Sept. 30, 2019**	**June 30, 2019**	**March 31, 2019**	**Dec. 31, 2018**	**Sept. 30, 2018**
	FY2021	**FY2020**	**FY2020**	**FY2020**	**FY2020**	**FY2019**	**FY2019**	**FY2019**
Revenues by segment								
Broadcasting and Commercial Music	35,947	38,483	39,894	38,742	37,347	38,718	38,875	34,692
Radio	16,346	29,915	41,419	37,831	43,090	34,012	31,215	-
Corporate	-	-	-	-	-	-	682	-
Total revenues	**52,293**	**68,398**	**81,313**	**76,573**	**80,437**	**72,730**	**70,772**	**34,692**
Revenues by geography								
Canada	28,057	43,498	57,515	52,723	56,107	47,318	46,738	14,222
United States	10,302	10,236	9,575	9,035	9,141	9,351	8,834	8,069
Other countries	13,934	14,664	14,223	14,815	15,189	16,061	15,200	12,401
Total revenues	**52,293**	**68,398**	**81,313**	**76,573**	**80,437**	**72,730**	**70,772**	**34,692**
Adjusted EBITDA[(1)]	**25,481**	**28,217**	**31,033**	**27,671**	**31,165**	**22,407**	**27,219**	**11,429**
Net income (loss)	**7,021**	**(8,486)**	**8,089**	**5,184**	**9,183**	**3,942**	**(18,053)**	**777**
Net income (loss) per share basic and diluted	0.10	(0.11)	0.11	0.07	0.12	0.06	(0.26)	0.01
Adjusted Net income[(1)]	**13,509**	**10,095**	**16,710**	**12,416**	**16,687**	**14,725**	**12,396**	**6,708**
Adjusted Net income per share basic and diluted[(1)]	0.18	0.13	0.22	0.16	0.22	0.21	0.18	0.12
Cash flow from operations	**37,993**	**14,062**	**28,833**	**18,952**	**26,298**	**18,072**	**13,809**	**5,610**
Adjusted free Cash Flow[(1)]	**18,045**	**17,974**	**21,033**	**18,756**	**20,587**	**9,845**	**16,983**	**5,751**
Quarterly dividend	**0.075**	**0.075**	**0.075**	**0.070**	**0.070**	**0.065**	**0.065**	**0.060**

Note:

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

Reconciliation of Quarterly Non-IFRS Measures

(in thousands of Canadian dollars)	3 months							
	June 30, 2020	March 31, 2020	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018
	Fiscal 2021	Fiscal 2020	Fiscal 2020	Fiscal 2020	Fiscal 2020	Fiscal 2019	Fiscal 2019	Fiscal 2019
Net income (loss)	**7,021**	**(8,486)**	**8,089**	**5,184**	**9,183**	**3,942**	**(18,053)**	**777**
Net finance expense (income)	4,601	33,463	(4,383)	6,362	7,380	2,259	7,208	910
Change in fair value of investments	892	(1,914)	(4,781)	(188)	333	336	(840)	436
Income taxes	2,359	(4,165)	1,897	2,479	1,481	1,833	(6,117)	567
Depreciation and write-off of property and equipment	2,701	2,790	2,876	2,989	2,822	2,791	2,469	1,274
Depreciation of right-of-use assets	1,412	1,426	1,402	1,419	1,371	-	-	-
Amortization of intangible assets	5,410	5,659	5,494	5,935	6,119	7,187	6,401	5,255
Share-based compensation	166	258	238	257	248	297	263	358
Performance and deferred share unit expense	1,316	(1,507)	677	794	781	630	(147)	518
CRTC Tangible benefits	-	-	-	-	-	-	25,306	-
Acquisition, legal, restructuring and other expenses (income)	(397)	693	19,524	2,440	1,447	3,132	10,729	1,334
Adjusted EBITDA	**25,481**	**28,217**	**31,033**	**27,671**	**31,165**	**22,407**	**27,219**	**11,429**
Net finance expense (income), excluding mark-to-market losses (gains) on derivative financial instruments	(3,338)	(10,976)	(4,184)	(5,767)	(6,195)	739	(7,208)	(910)
Income taxes	(2,359)	4,165	(1,897)	(2,479)	(1,481)	(1,833)	6,117	(567)
Depreciation and write-off of property and equipment	(2,701)	(2,790)	(2,876)	(2,989)	(2,822)	(2,791)	(2,469)	(1,274)
Depreciation of right-of-use assets	(1,412)	(1,426)	(1,402)	(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, mark-to-market losses (gains) on derivative financial instruments and acquisition, legal, restructuring and other expenses (income)	(2,162)	(7,095)	(3,964)	(2,601)	(2,609)	(3,797)	(11,263)	(1,970)
Adjusted Net income	**13,509**	**10,095**	**16,710**	**12,416**	**16,687**	**14,725**	**12,396**	**6,708**

(in thousands of Canadian dollars)	3 months							
	June 30, 2020	March 31, 2020	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018
	Fiscal 2021	Fiscal 2020	Fiscal 2020	Fiscal 2020	Fiscal 2020	Fiscal 2019	Fiscal 2019	Fiscal 2019
Cash flow from operating activities	**37,993**	**14,062**	**28,833**	**18,952**	**26,298**	**18,072**	**13,809**	**5,610**
Acquisition of property and equipment	(703)	(2,153)	(1,479)	(1,459)	(1,613)	(1,935)	(1,972)	(1,488)
Acquisition of intangible assets other than internally developed intangible assets	(258)	(463)	(495)	(292)	(519)	(669)	(1,272)	(1,383)
Addition to internally developed intangible assets	(1,552)	(1,534)	(1,286)	(1,559)	(1,523)	(1,742)	(1,827)	(1,390)
Interest paid	(3,687)	(3,819)	(4,150)	(4,493)	(4,980)	(4,441)	(4,649)	(424)
Repayment of lease liabilities	(1,214)	(1,180)	(1,295)	(1,303)	(1,095)	-	-	-
Net change in non-cash operating working capital items	(11,412)	7,262	(17,702)	6,143	2,127	(1,890)	1,180	3,189
Unrealized loss (gain) on foreign exchange	(725)	5,106	(917)	327	445	(682)	985	303
Acquisition, legal, restructuring and other expenses (income)	(397)	693	19,524	2,440	1,447	3,132	10,729	1,334
Adjusted free cash flow	**18,045**	**17,974**	**21,033**	**18,756**	**20,587**	**9,845**	**16,983**	**5,751**

LIQUIDITY AND CAPITAL RESOURCES
FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019

	3 months	
(in thousands of Canadian dollars)	Q1 2021	Q1 2020
Operating activities	37,993	26,298
Financing activities	(31,599)	(20,700)
Investing activities	(2,513)	(3,655)
Net change in cash	3,881	1,943
Cash – beginning of period	2,512	4,673
Cash – end of period	6,393	6,616
Adjusted free cash flow[1]	**18,045**	**20,587**

Operating activities

Cash flow generated from operating activities amounted to $38.0 million for Q1 2021 compared to $26.3 million for Q1 2020. The increase was mainly due to the positive change in non-cash operating items, partially offset by lower operating results

Financing activities

Net cash flow used in financing activities amounted to $31.6 million for Q1 2021 compared to $20.7 million for Q1 2020. The increase was mainly attributable to higher repayment of the credit facilities, partially offset by lower interest paid.

Investing activities

Net cash flow used in investing activities amounted to $2.5 million for Q1 2021 compared to $3.7 million for Q1 2020. The decrease was primarily due to lower acquisition of property and equipment.

Adjusted free cash flow[1]

Adjusted free cash flow generated in Q1 2021 amounted to $18.0 million compared to $20.6 million for Q1 2020. The decrease was mainly related to lower operating results, partially offset by lower interest paid and acquisition of property and equipment.

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

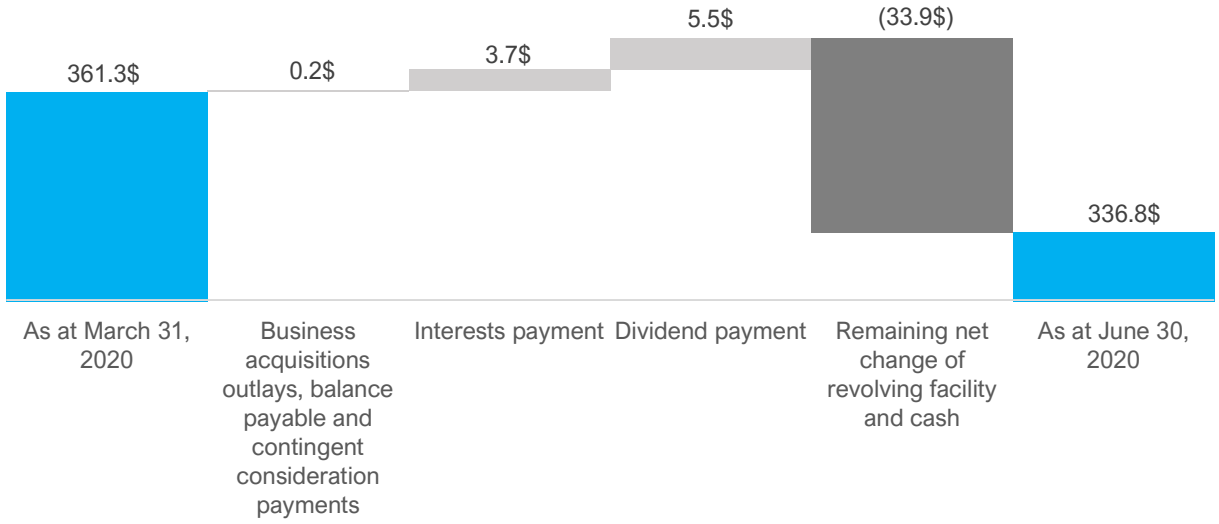
CONSOLIDATED FINANCIAL POSITION

The following table shows the main variances that have occurred in the consolidated financial position of the Corporation for the three-month period ended June 30, 2020:

(in thousands of Canadian dollars)	June 30, 2020	March 31, 2020	Variance		Significant contributions
Trade and other receivables	64,450	73,216	(8,766)	▼	Timing of payments by clients and decrease in revenues due to the COVID-19 pandemic
Right-of-use assets on leases	28,229	29,460	(1,231)	▼	Depreciation
Intangible assets	53,270	54,490	(1,220)	▼	Amortization of intangible assets, offset by additions through business acquisition and internally developed intangible assets additions
Goodwill	340,635	338,064	2,571	▲	Acquisition of Marketing Sensorial Mexico, partially offset by foreign exchange differences
Accounts payables and accrued liabilities	65,994	62,101	3,893	▲	Timing of payments to suppliers
Lease liabilities	29,820	30,853	(1,033)	▼	Payment of lease liabilities
Other liabilities	88,944	81,281	7,663	▲	Balance payable and contingent consideration payable on Marketing Sensorial México acquisition and increase in liabilities on derivative instruments
Credit facility	303,504	324,123	(20,619)	▼	Refer to the graph on next page
Subordinated debt	39,665	39,640	25	▲	Amortization of deferred financing fees

The following graph summarizes the impact on the Net debt that occurred in the three-month period ended June 30, 2020 including related ratios:

Movement in Net debt[1][2]



$120.1	Pro Forma Adjusted EBITDA[1][2][3]	$115.9
3.01	Net debt to Pro Forma Adjusted EBITDA[1][2]	2.91

Notes:

(1) In millions of Canadian dollars.

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

(3) Pro Forma Adjusted EBITDA for 2021 and 2020 is calculated as the Corporation's last twelve months Adjusted EBITDA ($112.4 million, Q4-2020; $118.1 million), plus synergies and pro forma Adjusted EBITDA for the months prior to the acquisitions which are not already reflected in the results ($3.5 million, Q4-2020; $2.0 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 7.

Music Choice Litigation

On February 3, 2020, the Corporation and Music Choice executed and exchanged a Settlement Agreement which puts definitive end to the parties' patent litigation in the United States and fully and finally settles all claims, counterclaims and defenses asserted in connection with that litigation. The settlement amount of US$13.3 million ($17.2 million at the date of the settlement), will be paid in two equal instalments; the first payment was made on the date of settlement and the second payment is to be made on or before February 15, 2021. The terms of the settlement do not impact the services currently offered by Stingray in the United States, which shall continue uninterrupted.

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.

CIXL-FM and CKYY-FM acquisition

On May 9, 2019, the Corporation announced that its wholly-owned subsidiary, Stingray Radio Inc., had entered into an agreement to acquire the assets of CIXL-FM and CKYY-FM in Welland, Ontario, from Wellport Broadcasting Limited/RB Communications Ltd, subject to approval from the CRTC. Notwithstanding receipt of CRTC approval on February 7, 2020, the COVID-19 pandemic has mutually compelled the parties to postpone the consummation of the transaction.

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, 2020.

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, 2020.

Off-Balance Sheet Arrangements

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:

	July 31, 2020	June 30, 2020
Issued and outstanding shares:		
Subordinate voting shares	55,083,645	55,094,945
Subordinate voting shares held in trust through employee share purchase plan	(36,410)	(33,949)
Variable subordinate voting shares	557,040	545,740
Multiple voting shares	17,941,498	17,941,498
	73,545,773	73,548,234
Outstanding stock options:		
Stock options	3,240,454	3,240,454

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 reserved for issuance. In Q1 2021, 14,035 options were exercised, 10,504 options were forfeited, and 833,174 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, 2020. 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 Annual Information Form dated June 3, 2020. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

Future Accounting Changes

For information on future accounting changes, please refer to 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 first quarter ended June 30, 2020, 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.

Subsequent Events

Dividend

On August 4, 2020, the Corporation declared a dividend of $0.075 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend will be payable on or around September 15, 2020 to shareholders on record as of August 31, 2020.

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 periods ended June 30, 2020 and 2019

(In thousands of Canadian dollars, except per share amounts)		3 months	
(Unaudited)	Note	June 30, 2020	June 30, 2019
Revenues	6	$ 52,293	$ 80,437
Operating expenses		28,294	50,301
Depreciation, amortization and write-off		9,523	10,312
Net finance expense (income)	7	4,601	7,380
Change in fair value of investments	15	892	333
Acquisition, legal, restructuring and other expenses (income)	8	(397)	1,447
Income before income taxes		9,380	10,664
Income taxes		2,359	1,481
Net income		$ 7,021	$ 9,183
Net income per share — Basic and Diluted		0.10	0.12
Weighted average number of shares – Basic		73,575,016	76,260,562
Weighted average number of shares – Diluted		73,650,598	76,399,016
Comprehensive income			
Net income		$ 7,021	$ 9,183
Other comprehensive loss			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		(708)	(1,803)
Total other comprehensive loss		(708)	(1,803)
Total comprehensive income		$ 6,313	$ 7,380

Net income is entirely attributable to Shareholders of the Corporation.

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

Consolidated Statements of Financial Position

June 30, 2020 and March 31, 2020

(In thousands of Canadian dollars) (Unaudited)	Note	June 30, 2020	March 31, 2020 Restated (note 4)
Assets			
Current assets			
Cash and cash equivalents		$ 6,393	$ 2,512
Trade and other receivables		64,450	73,216
Income taxes receivable		169	549
Inventories		4,130	3,336
Other current assets		8,482	10,110
		83,624	89,723
Non-current assets			
Property and equipment	9	46,034	45,732
Right-of-use assets on leases	9	28,229	29,460
Intangible assets, excluding broadcast licences	9	53,270	54,490
Broadcast licences	9	272,910	272,910
Goodwill	9	340,635	338,064
Investments		24,849	25,732
Other non-current assets		1,013	1,095
Deferred tax assets		6,677	10,682
Total assets		$ 857,241	$ 867,888
Liabilities and Equity			
Current liabilities			
Credit facility	10	34,657	15,000
Accounts payable and accrued liabilities		65,994	62,101
Deferred revenues		1,863	1,747
Current portion of lease liabilities	11	4,237	4,517
Current portion of other liabilities	12	32,861	16,672
Income taxes payable		4,645	4,850
		144,257	104,887
Non-current liabilities			
Credit facility	10	268,847	309,123
Subordinated debt		39,665	39,640
Lease liabilities	11	25,583	26,336
Other liabilities	12	56,083	64,609
Deferred tax liabilities		47,945	49,397
Total liabilities		582,380	593,992
Shareholders' equity			
Share capital	13	322,340	322,366
Contributed surplus		4,816	4,620
Deficit		(54,904)	(56,407)
Accumulated other comprehensive income		2,609	3,317
Total equity		274,861	273,896
Subsequent event (note 3)			
Total liabilities and equity		$ 857,241	$ 867,888

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

Approved by the Board of Directors,

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

Consolidated Statements of Changes in Equity

Three-month periods ended June 30, 2020 and 2019

(In thousands of Canadian dollars, except number of share capital)	Share Capital				Accumulated other comprehensive income (loss)		
	Number	Amount	Contributed surplus	Deficit	Cumulative Translation Account	Defined Benefit Plans	Total shareholder's equity
Balance at March 31, 2019	76,237,903	$ 337,714	$ 4,344	$ (53,317)	$ (1,024)	$ (182)	$ 287,535
Issuance of shares upon exercise of options	175,000	681	(286)	—	—	—	395
Share-based compensation	—	—	157	—	—	—	157
Employee share purchase plan	(13,661)	(91)	122	—	—	—	31
Net income	—	—	—	9,183	—	—	9,183
Other comprehensive loss	—	—	—	—	(1,803)	—	(1,803)
Balance at June 30, 2019	76,399,242	$ 338,304	$ 4,337	$ (44,134)	$ (2,827)	$ (182)	$ 295,498
Balance at March 31, 2020	73,549,454	$ 322,366	$ 4,620	$ (56,407)	$ 3,891	$ (574)	$ 273,896
Issuance of shares upon exercise of options (note 13)	14,035	55	(23)	—	—	—	32
Dividends	—	—	—	(5,518)	—	—	(5,518)
Share-based compensation	—	—	138	—	—	—	138
Employee share purchase plan (note 13)	(15,255)	(81)	81	—	—	—	—
Net income	—	—	—	7,021	—	—	7,021
Other comprehensive loss	—	—	—	—	(708)	—	(708)
Balance at June 30, 2020	73,548,234	$ 322,340	$ 4,816	$ (54,904)	$ 3,183	$ (574)	$ 274,861

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

Consolidated Statements of Cash Flows

Three-month periods ended June 30, 2020 and 2019

(In thousands of Canadian dollars) (Unaudited)	Note	3 months June 30, 2020	June 30, 2019
Operating activities:			
Net income		$ 7,021	$ 9,183
Adjustments for:			
Depreciation, amortization and write-off		9,523	10,312
Share-based compensation, PSU and DSU expenses		1,482	1,028
Interest expense and standby fees	7	3,639	4,560
Mark-to-market losses on derivative financial instruments	7	1,263	1,185
Change in fair value of investments		892	333
Share of results of joint venture		(10)	(27)
Change in fair value of contingent considerations	7	(516)	24
Depreciation, amortization and accretion of other liabilities	7	793	709
Interest expense on lease liabilities	7, 11	389	417
Income tax expense		2,359	1,481
Income taxes paid		(254)	(780)
		26,581	28,425
Net change in non-cash operating items	14	11,412	(2,127)
		37,993	26,298
Financing activities:			
Decrease of credit facility		(20,915)	(9,016)
Payment of dividend		(5,518)	(4,956)
Proceeds from the exercise of stock options		32	395
Shares purchased under the employee share purchase plan		(81)	(97)
Interest paid		(3,687)	(4,980)
Payment of lease liabilities		(1,214)	(1,095)
Repayment of other liabilities		(216)	(951)
		(31,599)	(20,700)
Investing activities:			
Acquisition of property and equipment		(703)	(1,613)
Acquisition of intangible assets other than internally developed intangible assets		(258)	(519)
Addition to internally developed intangible assets		(1,552)	(1,523)
		(2,513)	(3,655)
Increase in cash and cash equivalents		3,881	1,943
Cash and cash equivalents, beginning of period		2,512	4,673
Cash and cash equivalents, end of period		$ 6,393	$ 6,616

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 the seasonal fluctuations of the Canadian radio industry. Accordingly, the first and third quarter results tend to be the strongest and the second and fourth quarter results tend to be the weakest in a fiscal year. However, for Fiscal 2021 Radio revenues are not expected to follow historical patterns due to the ongoing impact of the COVID-19 pandemic.

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, SBA Music PTY Ltd., Stingray Music, S.A. de C.V., Novramedia Inc., DJ Matic NV and Stingray Radio Inc. 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 periods ended June 30, 2020 and 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 period ended June 30, 2020:

- During Q1 2021, global economies and financial markets were impacted by the coronavirus ("COVID-19") outbreak as it quickly spread around the world and on March 11, 2020, the World Health Organization declared it a global pandemic. Government authorities around the world have taken actions to slowdown the spread of COVID-19, including measures such as the closure of non-essential businesses and social distancing. The tangible impact on the Corporation started in the Radio segment towards the end Q4 2020, as many non-essential local businesses were forced to temporarily close leading to a decrease in advertising and related revenues. In the early days of the crisis, the decision was made by the Corporation's management to implement significant cost saving measures, which, combined with the Canadian Emergency Wage Subsidy (CEWS), helped to maintain a solid financial position. The Corporation's Radio segment, and Broadcast and Commercial Music segment, but to a lesser extent, have been impacted during the first quarter of 2021. Management expects the situation to gradually improve as local businesses resume their normal operations. The extent to which COVID-19 continues to impact the Corporation's business will depend on future developments, which are uncertain and cannot be predicted at this time. The Corporation's focus will be to continue to closely monitor its cash position and control its operating expenses while capitalizing on its growth opportunities.

3. SUBSEQUENT EVENT

Dividend

On August 4, 2020, the Corporation declared a dividend of $0.075 per subordinate voting share, variable subordinate voting share and multiple voting share. The dividend will be payable on or around September 15, 2020 to shareholders on record as of August 31, 2020.

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

4. BUSINESS ACQUISITIONS

FISCAL 2021

Marketing Sensorial México

On May 6, 2020, the Corporation purchased all assets of Marketing Sensorial México, ("MSM") for total consideration of MXN 127,759 ($7,433). MSM is a Mexican leader in point-of-sale marketing solutions. As a result of the acquisition, goodwill of $2,947 was recognized related to the operating synergies expected to be achieved from integrating the acquired business into the Corporation's existing business. The intangible assets and goodwill will be deductible for tax purposes.

The contingent consideration arrangement requires the Corporation to pay, in cash, to the former owners, an amount not exceeding MXN 44,164 ($2,570) over the next two years ending in June 2022, based on the recurring monthly revenues targets. The fair value of the contingent consideration was determined using an income approach based on the estimated amount and timing of projected cash flows. Total consideration consists of an initial amount of MXN 45,000 ($2,617) to be paid upon the latest of a) 30 days following the Effective Date and b) 2 business days following the delivery by MSM of the closing deliverables, and contingent consideration.

The results of the business acquisition of MSM for the period ended June 30, 2020 are included in results since the date of the acquisition. Revenues recorded from the acquisition date to June 30, 2020 were $296 and net income was $88. Had the acquisition occurred at the beginning of the fiscal year, revenues related to this acquired business would have been approximately $405 and net income would have been $129.

		Preliminary
Assets acquired :		
Property and equipment		1,765
Intangible assets		2,721
Goodwill		2,947
Net assets acquired at fair value	$	7,433
Consideration given :		
Balance payable on business acquisition		5,236
Contingent consideration		2,197
	$	7,433

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)

FISCAL 2020

Chatter Research Inc.

On January 27, 2020, the Corporation purchased all of the outstanding shares of Chatter Research Inc. (thereafter "Chatter"), a Toronto-based leader in the design, development, and implementation of artificial intelligence driven real-time customer feedback solutions for retail and hospitality businesses, for total consideration of $9,493. As a result of the acquisition, goodwill of $4,948 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 $303, 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 $14,000 over the next three years ending in January 2023, based on the recurring monthly revenues targets. 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, 2020	Adjustments	Preliminary
Assets acquired:			
Cash and cash equivalents	$ 168	$ —	$ 168
Trade and other receivables	303	—	303
Intangible assets	5,446	(400)	5,046
Goodwill	4,654	294	4,948
Deferred tax assets	587	—	587
	11,158	(106)	11,052
Liabilities assumed:			
Accounts payable and accrued liabilities	208	—	208
Deferred revenues	14	—	14
Deferred tax liabilities	1,443	(106)	1,337
	1,665	(106)	1,559
Net assets acquired at fair value	$ 9,493	$ —	$ 9,493
Consideration given:			
Cash	2,140	—	2,140
Contingent consideration	7,344	—	7,344
Working capital payable	9	—	9
	$ 9,493	$ —	$ 9,493

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)

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.

The Corporation finalized the assessment of the fair values of the assets acquired and liabilities assumed related to this acquisition and no adjustments to the preliminary assessment have been recorded in the statement of financial position.

		Preliminary and Final
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

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 (loss) before income taxes the following expenses: share-based compensation, performance and deferred share unit expense, depreciation, amortization and write-off, net finance expense (income), change in fair value of investments and acquisition, legal, restructuring and other expenses (income). 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.

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

The following tables present financial information by segment for the three-month periods ended June 30, 2020 and 2019.

	Broadcasting and commercial music		Radio		Corporate and eliminations		**Consolidated**	
	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	**Q1 2021**	**Q1 2020**
Revenues	$ 35,947	$ 37,347	$ 16,346	$ 43,090	$ —	$ —	**$ 52,293**	**$ 80,437**
Operating expenses (excluding Share based compensation and PSU and DSU expenses)	15,580	22,739	10,585	25,263	647	1,270	**26,812**	**49,272**
Adjusted EBITDA	20,367	14,608	5,761	17,827	(647)	(1,270)	**25,481**	**31,165**
Share based compensation					166	248	**166**	**248**
PSU and DSU expenses					1,316	781	**1,316**	**781**
Depreciation, amortization and write-off					9,523	10,312	**9,523**	**10,312**
Net finance expense (income)					4,601	7,380	**4,601**	**7,380**
Change in fair value of investments					892	333	**892**	**333**
Acquisition, legal, restructuring and integration expenses (income)					(397)	1,447	**(397)**	**1,447**
Income before income taxes							**9,380**	**10,664**
Income taxes							**2,359**	**1,481**
Net income							**$ 7,021**	**$ 9,183**

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

	Broadcasting and commercial music		Radio		Corporate and eliminations		**Consolidated**	
	June 30, 2020	March 31, 2020	June 30, 2020	March 31, 2020	June 30, 2020	March 31, 2020	June 30, 2020	March 31, 2020
Total assets	$ 256,980	$ 268,542	$ 600,261	$ 599,346	$ —	$ —	**$ 857,241**	**$ 867,888**
Total liabilities[1]	$ 96,854	$ 87,906	$ 122,708	$ 123,625	$ 362,818	$ 382,461	**$ 582,380**	**$ 593,992**

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

	Broadcasting and commercial music		Radio		Corporate and eliminations		**Consolidated**	
	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	**Q1 2021**	**Q1 2020**
Acquisition of property and equipment	$ 3,082	$ 905	$ 145	$ 760	$ —	$ —	**$ 3,227**	**$ 1,665**
Addition to right-of-use assets on leases	$ 394	$ 886	$ 12	$ 48	$ —	$ —	**$ 406**	**$ 934**
Acquisition of intangible assets	$ 4,432	$ 2,042	$ —	$ —	$ —	$ —	**$ 4,432**	**$ 2,042**
Goodwill recorded on business acquisitions	$ 2,947	$ —	$ —	$ —	$ —	$ —	**$ 2,947**	**$ —**

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

Approximately 76% of the Corporation's non-current assets are located in Canada.

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

6. REVENUES

DISAGGREGATION OF REVENUES

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

For the three-month period ended June 30, 2020	Reportable segments [4] Broadcasting and commercial music	Radio	Total revenues
Geography			
Canada	$ 11,711	$ 16,346	**$ 28,057**
United States	10,302	—	**10,302**
Other countries	13,934	—	**13,934**
	35,947	16,346	**52,293**
Products			
Subscriptions [1]	31,307	—	**31,307**
Media solutions [2]	3,815	—	**3,815**
Advertising [3]	825	16,346	**17,171**
	$ 35,947	$ 16,346	**$ 52,293**

[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
[4] No revenues are generated from the Corporate segment

For the three-month period ended June 30, 2019	Reportable segments [4] Broadcasting and commercial music	Radio	Total revenues
Geography			
Canada	$ 13,017	$ 43,090	**$ 56,107**
United States	9,141	—	**9,141**
Other countries	15,189	—	**15,189**
	37,347	43,090	**80,437**
Products			
Subscriptions [1]	32,775	—	**32,775**
Media solutions [2]	4,302	—	**4,302**
Advertising [3]	270	43,090	**43,360**
	$ 37,347	$ 43,090	**$ 80,437**

[1] Generally recognized over time
[2] Approximately 50% of revenues are recognized overtime and 50% at a point in time
[3] Generally recognized at a point in time
[4] No revenues are generated from the Corporate segment

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

7. NET FINANCE EXPENSE (INCOME)

	3 months	
	June 30, 2020	June 30, 2019
Interest expense and standby fees	$ 3,639	$ 4,560
Mark-to-market losses on derivative financial instruments	1,263	1,185
Change in fair value of contingent considerations	(516)	24
Depreciation, amortization and accretion of other liabilities	793	709
Interest expense on lease liabilities	389	417
Foreign exchange (gain) loss	(967)	485
	$ 4,601	$ 7,380

8. ACQUISITION, LEGAL, RESTRUCTURING AND OTHER EXPENSES (INCOME)

	3 months	
	June 30, 2020	June 30, 2019
Acquisition	$ 282	$ 61
Legal	(780)	1,354
Restructuring and other	101	32
	$ (397)	$ 1,447

During the three-month period ended June 30, 2020, acquisition expenses related to completed business acquisitions amounting to $282 (2019 – $61) are included in acquisition expenses.

(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, 2020					
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	7,158	1,708	7,694	—	—
Additions through business acquisitions	400	—	5,046	1,200	4,948
Disposals and write-off	(1,030)	—	—	—	—
Depreciation of property and equipment	(10,866)	—	—	—	—
Depreciation of right-of-use assets on leases	—	(5,618)	—	—	—
Amortization of intangible assets	—	—	(23,207)	—	—
Foreign exchange differences	(256)	(41)	562	—	1,784
Net book amount as at March 31, 2020	$ 45,732	$ 29,460	$ 54,490	$ 272,910	$ 338,064
Three-month period ended June 30, 2020					
Net book amount as at March 31, 2020	$ 45,732	$ 29,460	$ 54,490	$ 272,910	$ 338,064
Additions	1,462	406	1,711	—	—
Additions through business acquisition	1,765	—	2,721	—	2,947
Disposals and write-off	(329)	(217)	—	—	—
Depreciation of property and equipment	(2,611)	—	—	—	—
Depreciation of right-of-use assets on leases	—	(1,443)	—	—	—
Amortization of intangible assets	—	—	(5,410)	—	—
Foreign exchange differences	15	23	(242)	—	(376)
Net book amount as at June 30, 2020	$ 46,034	$ 28,229	$ 53,270	$ 272,910	$ 340,635

10. CREDIT FACILITY

The table below is a summary of the Credit facility at June 30, 2020:

	Total available	Drawn	Letters of credit	Net available
Committed credit facilities				
Revolving facility	$ 230,000	$ 157,614	$ 10,012	$ 62,374
Term facility	147,500	147,500	—	—
Total committed credit facilities	$ 377,500	$ 305,114	$ 10,012	$ 62,374
Less: unamortized deferred financing fees		(1,610)		
Balance, end of period		303,504		
Current portion		$ 34,657		
Non-current portion		$ 268,847		

As at June 30, 2020, letters of credit amounting to $10,012 (2019 – $1,050) reduced the availability on the revolving facility.

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

On May 29, 2020, the Corporation secured an additional term loan of $20,000, with a maturity date of May 29, 2021.

The Corporation is required to make consecutive quarterly capital repayments of 2.50% of the initial drawdown amount of $150,000 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. The remaining capital balance will be payable on maturity date, on October 25, 2021.

Minimum capital repayments to be made by the Corporation on the term facility in the forthcoming years are as follows:

	Capital repayments
2021	35,000
2022	112,500
	$ 147,500

11. LEASE LIABILITIES

The following table presents a summary of the activity related to the lease liabilities of the Corporation for the three-month periods ended June 30, 2020 and June 30, 2019:

		3 months		
		June 30, 2020		June 30, 2019
Lease liabilities, beginning of period	$	**30,853**	**$**	**34,048**
Additions		406		934
Payment of lease liabilities, including related interest		(1,603)		(1,512)
Reassessment of the lease term		(248)		—
Interest expense on lease liabilities		389		417
Foreign exchange differences		23		(35)
Lease liabilities, end of period	**$**	**29,820**	**$**	**33,852**

Lease liabilities included in the Interim Consolidated Statements of Financial Position as at June 30, 2020 and March 31, 2020		**June 30, 2020**		**March 31, 2020**
Current portion	$	4,237	$	4,517
Non-current portion	$	25,583	$	26,336
	$	**29,820**	**$**	**30,853**

The following table presents the maturity analysis of contractual undiscounted cashflows related to the lease liabilities of the Corporation as of June 30, 2020:

Less than one year	$	3,494
One to five years		19,581
More than five years		15,286
Total undiscounted lease liabilities as at June 30, 2020	**$**	**38,361**

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

12. OTHER LIABILITIES

	June 30, 2020	March 31, 2020
CRTC tangible benefits	$ 27,060	$ 26,694
Settlement payable	9,037	9,316
Contingent consideration	19,374	17,831
Balance payable on business acquisitions	5,914	784
Accrued pension benefit liability	6,011	6,139
Derivative financial instruments	19,961	18,698
Other	1,587	1,819
	88,944	81,281
Current portion	(32,861)	(16,672)
	$ 56,083	$ 64,609

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, 2020		
Subordinate voting shares and variable subordinate voting shares		
As at March 31, 2019	58,296,405	$ 319,488
Exercise of stock options	275,000	1,517
Repurchased and cancelled	(2,957,799)	(16,823)
Purchased and held in trust through employee share purchase plan	(5,650)	(42)
As at March 31, 2020	55,607,956	$ 304,140
Multiple voting shares		
As at March 31, 2019 and 2020	17,941,498	18,226
	73,549,454	$ 322,366
Three-month period ended June 30, 2020		
Subordinate voting shares and variable subordinate voting shares		
As at March 31, 2020	55,607,956	$ 304,140
Exercise of stock options	14,035	55
Purchased and held in trust through employee share purchase plan	(15,255)	(81)
As at June 30, 2020	55,606,736	$ 304,114
Multiple voting shares		
As at March 31, 2020 and June 30, 2020	17,941,498	18,226
	73,548,234	$ 322,340

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

Transactions for the three-month period ended June 30, 2020

During the period, 14,035 stock options were exercised and consequently, the Corporation issued 14,035 subordinate voting shares. The proceeds amounted to $32. An amount of $23 of contributed surplus related to those stock options was transferred to the subordinate voting shares' account balance.

On May 20, 2020, the Corporation declared a dividend of $0.075 per subordinate voting share, variable subordinate voting share, multiple voting share and subscription receipts. The dividend of $5,518 was paid on June 15, 2020.

14. SUPPLEMENTAL CASH FLOW INFORMATION

	3 months	
	June 30, 2020	June 30, 2019
Trade and other receivables	$ 8,709	$ (5,646)
Inventories	(799)	290
Other current assets	1,618	254
Other non-current assets	82	(204)
Accounts payable and accrued liabilities	2,243	4,878
Deferred revenues	114	(73)
Income taxes payable	218	(277)
Other liabilities	(773)	(1,349)
	$ 11,412	$ (2,127)

15. FINANCIAL INSTRUMENTS:

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 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, 2020. 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 June 30, 2020	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 6,393				
Trade and other receivables	63,368				
Financial assets measured at fair value					
Investments	$ 22,656	$ 22,656	$ —	$ —	$ 22,656
Financial liabilities measured at amortized cost					
Credit facility	$ 303,504				
Subordinated debt	39,665				
Accounts payable and accrued liabilities	63,559				
CRTC tangible benefits and post-employment benefit obligations	33,071				
Balance payable on business acquisitions	5,914				
Financial liabilities measured at fair value					
Contingent consideration	$ 19,374	$ 19,374	$ —	$ —	$ 19,374
Derivative financial instruments	19,961	19,961	—	19,961	—

As at March 31, 2020	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 2,512				
Trade and other receivables	68,620				
Financial assets measured at fair value					
Investments	$ 23,548	$ 23,548	$ —	$ —	$ 23,548
Financial liabilities measured at amortized cost					
Credit facility	$ 324,123				
Subordinated debt	39,640				
Accounts payable and accrued liabilities	58,085				
CRTC tangible benefits and post-employment benefit obligations	32,833				
Balance payable on business acquisitions	784				
Financial liabilities measured at fair value					
Contingent consideration	$ 17,831	$ 17,831	$ —	$ —	$ 17,831
Derivative financial instruments	18,698	18,698	—	18,698	—

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

Fair value measurement (Level 3):

	Investments	Contingent consideration
Three-month period ended June 30, 2019		
Opening amount as at March 31, 2019	$ 16,998	$ 12,430
Change in fair value	(333)	(27)
Balance as at June 30, 2019	$ 16,665	$ 12,403
Three-month period ended June 30, 2020		
Opening amount as at March 31, 2020	23,548	17,831
Additions through business acquisition	—	2,197
Change in fair value	(892)	(516)
Settlements	—	(138)
Balance as at June 30, 2020	$ 22,656	$ 19,374

There were no changes in the valuation techniques for the contingent consideration and investments during the three-month periods ended June 30, 2020 and 2019.

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.

The table below summarize the interest rate contracts effective as at June 30, 2020:

Maturity	Currency	Fixed interest rate (when applicable)	Initial nominal value	Mark-to-market liabilities as at June 30, 2020
Swaps				
October 25, 2024	CAD	0.81%	$ 50,000	$ 2,126
October 25, 2024	CAD	1.33%	50,000	1,262
October 25, 2024	CAD	2.19%	50,000	1,075
October 25, 2024	CAD	2.29%	50,000	3,169
August 29, 2029	CAD	1.73%	40,000	2,464
August 31, 2029	CAD	1.73%	60,000	3,515
			300,000	13,611
Swaptions				
October 25, 2024	CAD	—	100,000	3,050
October 25, 2024	CAD	—	100,000	3,907
			$ 200,000	$ 6,957
				$ 20,568

The Corporation also use derivative financial instruments to manage its currency risk. The table below summarize the foreign exchange forward contracts effective as at June 30, 2020:

Maturity	Type	Contract exchange rate	Contractual amount	Mark-to-market liabilities (assets) as at June 30, 2020
0 to 12 months	USD Sale	1.3909	$ 18,000	$ (607)

(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 periods ended June 30, 2020 and 2019, the fair value has been measured by using the equity price from the latest external significant equity financing transaction, minus a liquidity discount of 15% (2019 – 25%). During the the three-month period ended December 31, 2019 (Q3 2020), the Corporation revaluated the fair value of its investment. The fair value was measured by using the latest external equity transaction, minus a liquidity discount of 15%. The liquidity discount was used to reflect the marketability of the asset. The discount remains the same for Q1 2021. In measuring fair value, management used the best information available in the circumstances and also an approach that it believes market participants would use. There was no change in the fair value of this instrument during the three-month period as there were no external equity financing transactions or no other indicators of significant changes that could affect the fair value of the investment.

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

The fair value of the investment as at June 30, 2020 was $21,756 (2019 – $22,648).

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.

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

The fair value of the investment as at June 30, 2020 and 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).

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

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, 2020.

The interim consolidated financial statements were authorized for issue by the Board of Directors on August 4, 2020.

b) Use of estimates and judgments:

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, 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 judgments 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, 2020.

c) Functional and presentation currency:

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

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