MEDIAGRIF

Interim Condensed Consolidated Financial Statements for the three months ended June 30, 2019, and 2018

(Unaudited and not reviewed by independent auditors)

MEDIAGRIF

Interim Condensed Consolidated Statements of Income

Unaudited and not reviewed by independent auditors

	Three months ended June 30,	
	2019	**2018**
In thousands of Canadian dollars, except per share amounts	**$**	**$**
Revenues (Note 7)	20,228	21,128
Cost of revenues (Note 13)	5,297	4,964
Gross margin	14,931	16,164
Operating expenses		
General and administrative	2,812	2,817
Selling and marketing	4,411	4,864
Technology (Note 13)	5,194	5,259
	12,417	12,940
Operating profit	2,514	3,224
Gain (loss) on foreign exchange	(364)	316
Loss on sale of a subsidiary (Note 5)	(257)	-
Financial expenses (Note 12b))	(354)	(277)
Share of profit of a joint venture	-	(6)
Profit before income taxes	1,539	3,257
Income tax expense	488	825
Profit for the period	1,051	2,432
Earnings per share		
Basic and diluted	0.07	0.16
Weighted average number of shares outstanding		
Basic and diluted	14,848,779	14,848,779
Number of shares outstanding at end of period	14,848,779	14,848,779

Refer to the notes to the consolidated financial statements

MEDIAGRIF

Interim Condensed Consolidated Statements of Comprehensive Income

Unaudited and not reviewed by independent auditors

	Three months ended June 30,	
	2019	**2018**
In thousands of Canadian dollars	**$**	**$**
Profit for the period	1,051	2,432
Items that may be reclassified subsequently in profit or loss		
Change in unrealized gains (losses) on foreign currency forward contracts designated as hedging items, net of deferred taxes	181	(220)
Reclassification of realized losses (gains) on foreign currency forward contracts, net of deferred taxes	89	(70)
	270	(290)
Comprehensive income for the period	1,321	2,142

Refer to the notes to the consolidated financial statements

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Interim Condensed Consolidated Statements of Financial Position

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	As at June 30, 2019 $	As at March 31, 2019 $
Assets		
Current assets		
Cash and cash equivalents	17,045	13,339
Cash held for the benefit of third parties	1,127	826
Accounts receivable	7,646	7,282
Income taxes receivable	-	253
Tax credits receivable	4,290	4,964
Prepaid expenses and deposits	2,234	2,417
Balance of sale receivable (Note 5)	1,000	-
Assets held for sale (Note 8)	8,610	28,805
	41,952	57,886
Non-current assets		
Property, plant and equipment	1,883	1,997
Right-of-use asset (Note 4)	9,425	-
Intangible assets	6,722	6,264
Acquired intangible assets	6,743	7,344
Goodwill	90,149	90,149
Deferred taxes	3,265	5,276
	160,139	168,916
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	8,607	10,927
Other accounts payable	2,374	2,114
Income taxes payable	225	646
Deferred revenues	15,174	14,727
Derivative financial instruments	57	424
Current portion of deferred lease inducements (Note 4)	-	136
Lease liability (Note 4)	1,231	-
Liabilities held for sale (Note 8)	2,562	4,132
	30,230	33,106
Non-current liabilities		
Long-term debt (Note 9)	13,145	24,935
Deferred lease inducement (Note 4)	-	475
Deferred taxes	7,430	9,696
Lease liability (Note 4)	8,794	-
	59,599	68,212
Shareholders' equity		
Share capital (Note 10)	78,051	78,051
Reserves	3,173	2,903
Retained earnings	19,316	19,750
	100,540	100,704
	160,139	168,916

Refer to the notes to the consolidated financial statements

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited and not reviewed by independent auditors

Three months ended June 30, 2019

		Reserves				
	Share capital	Equity-settled employee benefits	Cash flow hedging	Total	Retained earnings	Total
In thousands of Canadian dollars	$	$	$	$	$	$
Balance as at March 31, 2019	78,051	3,213	(310)	2,903	19,750	100,704
Profit for the period	-	-	-	-	1,051	1,051
Other comprehensive income for the period, net of income taxes	-	-	270	270	-	270
Comprehensive income for the period	-	-	270	270	1,051	1,321
Dividends declared on common shares (note 10)	-	-	-	-	(1,485)	(1,485)
Balance as at June 30, 2019	78,051	3,213	(40)	3,173	19,316	100,540

Three months ended June 30, 2018

		Reserves				
	Share capital	Equity-settled employee benefits	Cash flow hedging	Total	Retained earnings	Total
In thousands of Canadian dollars	$	$	$	$	$	$
Balance as at March 31, 2018	78,051	3,213	(42)	3,171	51,331	132,553
Profit for the period	-	-	-	-	2,432	2,432
Other comprehensive income for the period, net of income taxes	-	-	(290)	(290)	-	(290)
Comprehensive income for the period	-	-	(290)	(290)	2,432	2,142
Dividends declared on common shares (Note 10)	-	-	-	-	(1,485)	(1,485)
Balance as at June 30, 2018	78,051	3,213	(332)	2,881	52,278	133,210

Refer to the notes to the consolidated financial statements

MEDIAGRIF

Interim Condensed Consolidated Statements of Cash Flows

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	Three months ended June 30, 2019 $	2018 $
CASH FLOWS RELATED TO		
Operating activities		
Profit for the period	1,051	2,432
Adjustments for the following items:		
Amortization and depreciation (Note 11)	1,630	2,071
Amortization of deferred lease inducement	-	(33)
Amortization of deferred financing costs	9	10
Interest expense	345	267
Foreign exchange	362	(271)
Share in profit of a joint venture	-	6
Deferred taxes	(365)	118
Current income tax expense recognized in profit	853	707
Loss on disposal of a subsidiary	257	-
Changes in non-cash working capital items (Note 12 a))	(1,461)	(972)
Interest paid	(292)	(267)
Income taxes paid	(1,343)	(1,715)
	1,046	2,353
Investing activities		
Disposal of a subsidiary	17,950	-
Acquisition of property, plant and equipment	(127)	(235)
Acquisition of intangible assets	(970)	(793)
Distribution from a joint venture	-	425
	16,853	(603)
Financing activities		
Repayment of long-term debt	(11,799)	(1,200)
Payment of lease liability	(358)	-
Cash dividends paid on common shares	(1,485)	(1,485)
	(13,642)	(2,685)
Net change in cash and cash equivalents for the period	4,257	(935)
Impact of exchange rate changes on cash and cash equivalents	(250)	214
Cash and cash equivalents at beginning of period	14,165	14,561
Cash and cash equivalents at end of period	18,172	13,840
Cash and cash equivalents consist of the following statement of financial position items:		
Cash and cash equivalents	17,045	12,073
Cash held for the benefit of third parties	1,127	1,767

Refer to the notes to the consolidated financial statements

1 Incorporation and nature of operations

Mediagrif Interactive Technologies Inc. (the "Corporation") provides e-business solutions to consumers and businesses. It operates its activities through its wholly-owned subsidiaries. The Corporation also owned interests in a joint venture until July 27, 2018 (Note 14).

The Corporation, incorporated on February 16, 1996, under the *Canada Business Corporations Act,* is listed on the Toronto Stock Exchange. Its head office is located at 1111 St-Charles West, East Tower, Suite 255, Longueuil, Quebec, Canada.

The Board of Directors approved the interim condensed consolidated financial statements on August 6, 2019. Amounts are expressed in Canadian dollars, unless indicated otherwise.

2 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34, *Interim Financial Reporting*, through the application of accounting principles that are compliant with International Financial Reporting Standards ("IFRS").

These interim condensed consolidated financial statements do not include all of the information required for complete financial statements under IFRS, including the notes, and should be read in conjunction with the annual consolidated financial statements of the Corporation for the year ended March 31, 2019. The annual financial statements of the Corporation are available on the SEDAR website at the following address: www.sedar.com and on the Corporation website at the following address: www.mediagrif.com.

3 Estimates and judgments of the management

In preparing consolidated financial statements in accordance with IFRS, management must make estimates and assumptions that affect the reported amounts of revenues and expenses during the year, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the reporting date. For information on the main assumptions and estimates used in these interim condensed consolidated financial statements, see Note 5 to the annual consolidated financial statements for the year ended March 31, 2019. In addition, these interim condensed consolidated financial statements include the following main assumptions and estimates:

Measurements of right-of-use assets and lease liabilities

Future lease payments used to calculate the value of the right-of-use asset and lease liability include payments for extension, termination or purchase options that are reasonably certain to be exercised. Determining the economic benefit of exercising these options requires the use of assumptions and estimates such as the expected use of the leased asset and future market conditions. Whether or not payments relating to the extension, termination or purchase options are taken into account can have a significant impact on the value of the right-of-use asset and the lease liability.

4 IFRS adopted during the current fiscal year

On April 1, 2019, the Corporation adopted IFRS 16, which applies to fiscal years beginning on or after April 1, 2019. The Corporation has retrospectively applied IFRS 16, recognizing the cumulative effect of initial application at the date of initial application without restatement of comparative figures as at March 31, 2019.

IFRS 16 replaces the following standards: IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lease accounting model for lessees whereby all lease agreements are recognized in the Statement of Financial Position through a right-of-use asset and a lease liability. Exemptions are permitted for short-term leases and leases for which the underlying asset is of low value.

For leases previously classified as operating leases, the Corporation recognized a lease liability measured at the present value of the remaining lease payments, discounted using the Corporation's incremental borrowing rate as at April 1, 2019, as well as a right-of-use asset for a corresponding value less the deferred lease inducement. In the Consolidated Statement of Income, rent expense is replaced by depreciation of the right-of-use asset and by interest on the lease liability calculated using the effective interest rate method.

As part of the transition to IFRS 16, the Corporation applied the following practical expedients:

- The Corporation applied a single discount rate to a portfolio of leases with similar characteristics; and

- The Corporation accounted for leases with a term of 12 months or less at the date of initial application as short-term leases by recognizing the rent payments in profit or loss on a straight-line basis over the lease term.

The retrospective application of IFRS 16 had the following impact on the comparative information presented in these interim condensed consolidated financial statements of the Corporation:

In thousands of Canadian dollars	**As at March 31, 2019 $**	**Restatement**	**As at April 1, 2019 $**
Consolidated Statement of Financial Position			
Right-of-use asset	-	9,775	9,775
Deferred lease inducement (current liabilities)	136	(136)	-
Deferred lease inducement (non-current liabilities)	475	(475)	-
Lease liability [i)] (current liabilities)	-	1,261	1,261
Lease liability [i)] (non-current liabilities)	-	9,122	9,122

[i)] The weighted average incremental borrowing rate applied to the lease liabilities recognized in the Statement of Financial Position as at April 1, 2019 is 3.55%.

The reconciliation of the operating lease commitments disclosed in accordance with IAS 17 as at March 31, 2019 and the lease liability recognized as at April 1, 2019 in accordance with IFRS 16 is as follows:

In thousands of Canadian dollars	**As at April 1, 2019 $**
Future minimum operating lease payments as at March 31, 2019	5,841
Practical expedient for leases with a term of 12 months or less as at April 1, 2019	(186)
Impact of discounting at the incremental borrowing rate	(1,307)
Options to extend the leases that are reasonably certain to be exercised	6,035
	10,383

The accounting methods applied since April 1, 2019 are as follows:

Leases – The Corporation as lessee

At inception of a contract, the Corporation assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset.

All leases are recognized in the Statement of Financial Position through the recognition of a right-of-use asset and a lease liability, except for leases with a term of 12 months or less and leases for which the underlying asset is of low value, which are recognized in profit or loss on a straight-line basis over the lease term.

The right-of-use asset is reported at the Consolidated Statement of Financial Position and is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated over either the lease term or the estimated useful life, whichever is shorter.

The lease liability is reported at the Consolidated Statement of Financial Position and is measured at the amortized cost using the effective rate method. It is initially measured at the present value of future lease payments using the implicit rate of the lease, if it can be readily determined, or the Corporation's incremental borrowing rate. Future lease payments include fixed payments, variable payments that depend on an index or rate, and payments for extension, termination or purchase options that are reasonably certain to be exercised. When lease payments include amounts relating to non-rental components, they are included in the calculation of the lease liability.

5 Disposal of a subsidiary

On June 11, 2019, the Corporation announced the sale of its subsidiary Réseau LesPac Inc. to Trader Corporation for a total cash consideration of $18,960,206 net of transaction fees in the amount of $300,000 and working capital adjustments. As at June 30, a balance of sale of $1,000,000 and a working capital adjustment of $310,206 were receivable. The carrying value of the net assets disposed on June 11, 2019 was of $19,216,947 resulting with a loss on disposal of $256,741 recorded in the Interim Condensed Consolidated Statement of Income.

The carrying value of assets and liabilities disposed are summarized as follows:

In thousands of Canadian dollars	**As at June 11, 2019 $**
Current assets	1,287
Intangible assets	439
Acquired intangible assets	13,819
Deferred taxes	4,364
Current liabilities	(692)
	19,217

6 Segment information

The Corporation has only one reportable segment.

Geographical information is as follows:

	Three months ended June 30,	
In thousands of Canadian dollars	**2019 $**	**2018 $**
Revenues		
Canada	10,884	11,680
United States	8,485	8,686
Europe	456	264
Asia and other	403	498
	20,228	21,128

In thousands of Canadian dollars	**As at June 30, 2019 $**	**As at March 31, 2019 $**
Non-current assets		
Canada	86,694	81,352
United States	28,228	24,396
Asia and other	-	6
	114,922	105,754

Revenues are attributed to geographic areas based on the location of the customers.

Non-current assets include property, plant and equipment, intangible assets, acquired intangible assets, right-of-use assets and goodwill.

7 Revenues

Revenues are detailed as follows:

	Three months ended June 30,	
	2019	2018
In thousands of Canadian dollars	$	$
Revenues from rights of use	14,715	15,339
Revenues from transaction fees	2,314	2,467
Revenues from advertising	781	1,281
Revenues from professional services	2,030	1,626
Revenues from maintenance and hosting	309	303
Other	79	112
	20,228	21,128

8 Assets held for sale

On March 26, 2019, the Corporation's Board of Directors decided to dispose of the LesPAC, Jobboom, and Réseau Contact cash-generating units and subsequently entered into negotiations with interested parties. The disposal of these assets is consistent with the Corporation's long-term strategy of focusing on commercial clients. As described at Note 6, LesPac was disposed on June 11, 2019. The operations of Jobboom and Réseau Contact, which are expected to be sold within 12 months, have been designated as a "disposal group held for sale" and are presented separately in the Statement of Financial Position at the lower of fair value less costs to sell and their carrying amounts.

The following tables summarize the carrying amount of the assets and liabilities classified as held for sale:

In thousands of Canadian dollars	June 30, 2019 $
Type of assets	
Accounts receivable	633
Income taxes receivable	515
Prepaid expenses and deposits	14
Tax credits	172
Intangible assets	55
Acquired intangible assets	7,221
Total assets held for sale	8,610

In thousands of Canadian dollars	June 30, 2019 $
Type of liabilities	
Accounts payable and accrued liabilities	276
Deferred revenues	2,286
Total liabilities held for sale	2,562

9 Long-term debt

On December 18, 2015, the Corporation renewed its credit agreement, which was entered into on November 10, 2011, (the "Credit Agreement") with three Canadian financial institutions pursuant to which lenders made available to the Corporation an $80,000,000 ($80,000,000 as at March 31, 2019) secured revolving five-year credit facility (the "Revolving Facility") and an accordion loan of $40,000,000 ($40,000,000 as at March 31, 2019) subject to lenders' acceptance.

The Revolving Facility expires on December 18, 2020, and any outstanding amounts are due in full at maturity. Amounts under the Credit Agreement are repayable before maturity without penalty. As at June 30, 2019, the Corporation's Revolving Facility stood at $13,204,769 ($25,004,359 as at March 31, 2019) and the amount is due in full during the fiscal year ending March 31, 2021.

The Revolving Facility bears interest at a rate based either on Canadian prime rate, CDOR or bankers' acceptance rate plus a margin in each case. This margin varies according to the ratio of total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), as described below. As at June 30, 2019, the actual rate was 1.96% (1.97% as at March 31, 2019) and the margin was 1.45% (1.45% as at March 31, 2019). In addition, the unused portion of the Revolving Facility bears interest at 0.29% (0.29% as at March 31, 2019) as standby fees.

All obligations under the Credit Agreement are secured by a first-rank security (hypothec) on substantially all of the Corporation's assets, tangible and intangible, present and future.

The Credit Agreement contains certain covenants and certain events of default customary for loans of this nature, including some limitations to the levels of investments and acquisitions, capital expenditures and distributions. The Credit Agreement is also subject to restrictive covenants requiring certain financial ratios to be maintained. As at June 30, 2019, the Corporation was in compliance with the financial ratios prescribed under these covenants:

1. a fixed charge coverage ratio of not less than 1.20:1.00 (1.20:1.00 as at March 31, 2019) at all times; and
2. a total debt to EBITDA ratio of not more than 3.0 (3.0 as at March 31, 2019).

Fixed charge, total debt and EBITDA, which are used in the calculation of the covenants mentioned above, are defined precisely in the Credit Agreement.

Financial ratios are calculated using the financial information of the twelve-month period ending on the date the ratio is calculated.

The following table provides the long-term debt information:

In thousands of Canadian dollars	**As at June 30, 2019 $**	**As at March 31, 2019 $**
Revolving credit facility, bearing interest at the bankers' acceptance rate, plus 1.45% (1.45% as at March 31, 2019), maturing in December 2020	13,205	25,004
Deferred financing costs i)	(60)	(69)
	13,145	24,935

i) The deferred financing costs are amortized using the effective interest rate method.

10 Share capital

a) Authorized and paid, unlimited number
- Common shares;
- Preferred shares, issuable in series with terms, conditions and dividends to be determined by the Board of Directors upon issuance.

c) Dividends declared

Subsequent to the three-month period ended June 30, 2019, i.e., on August 6, 2019, the Corporation announced the payment of a cash dividend of $0.10 per share, payable on October 15, 2019, to shareholders of record on October 1, 2019.

Three months ended June 30, 2019

On June 11, 2019, the Corporation announced the payment of a cash dividend of $0.10 per share, payable on July 15, 2019, to shareholders of record on July 2, 2019.

Three months ended June 30, 2018

On June 12, 2018, the Corporation announced the payment of a cash dividend of $0.10 per share, payable on July 16, 2018, to shareholders of record on July 3, 2018.

11 Expenses by type

Operating profit includes the following items:

	Three months ended June 30,	
In thousands of Canadian dollars	**2019 $**	**2018 $**
Amortization and depreciation		
Property, plant and equipment	241	271
Intangible assets	438	611
Acquired intangible assets	601	1,189
Right-of-use asset	350	-
Total	1,630	2,071
Employee benefits expense		
Salaries and employee benefits	11,781	11,314
Termination benefits	1	65
	11,782	11,379
Tax credits	(1,033)	(869)
Total	10,749	10,510

12 Supplementary statements of cash flows and statements of income information

a) Changes in non-cash working capital items are as follows:

	Three months ended June 30,	
In thousands of Canadian dollars	**2019** **$**	**2018** **$**
Decrease (increase) in		
Accounts receivable	(28)	220
Tax credits receivable	642	(869)
Prepaid expenses and deposits	155	420
Increase (decrease) in		
Accounts payable and accrued liabilities	(2,841)	(1,337)
Other accounts payable	260	80
Deferred revenues	351	514
Total	(1,461)	(972)

b) Financial expenses consist of the following:

	Three months ended June 30,	
In thousands of Canadian dollars	**2019** **$**	**2018** **$**
Amortization of deferred financing costs	9	10
Interest on lease liability	91	-
Interest on long-term debt	254	267
Total	354	277

13 Reclassification of technology expenses and cost of revenues

During the year ended March 31, 2019, the Corporation reclassified certain Technology expenses to present them as Cost of revenues in the Consolidated Statement of Income. This reclassification was made during the fourth quarter of fiscal 2019, consequently the first three quarters of 2019 did not include this adjustment. The Corporation estimated that the reclassification for the first quarter of 2019 ended June 30, 2018 amounted to $775,106. Consequently, an amount of $775,106 initially presented as Technology expenses was reclassified as Cost of revenues in the Interim Condensed Consolidated Statement of Income.

14 Joint venture

On May 29, 2018, the Board of Directors of Société d'investissement M-S S.E.C. "GWS", the Corporation's 50% ownership joint venture, voted a unanimous resolution to dissolve and liquidate GWS. The dissolution and the distribution of the residual cash balances to the co-venturers were done on July 27, 2018. During the quarter ended June 30, 2018, the Corporation received an amount of $425,000 as a distribution from GWS.

During the three-month period ended June 30, 2019, the Corporation recharged nil ($2,743 in 2018). Those recharges were presented against the operating expenses in the Interim Condensed Consolidated Statement of Income.

These transactions occurred in the normal course of business and were measured at the amount of consideration agreed to by the parties.