MEDIAGRIF

Interim Condensed Consolidated Financial Statements for the three and six months ended September 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 September 30,		Six months ended September 30,	
In thousands of Canadian dollars, except per share amounts	**2019** **$**	**2018** **$**	**2019** **$**	**2018** **$**
Revenues (Note 7)	18,211	20,261	38,439	41,389
Cost of revenues (Note 13)	4,714	4,920	10,011	9,884
Gross margin	13,497	15,341	28,428	31,505
Operating expenses				
General and administrative	2,941	2,673	5,753	5,490
Selling and marketing	3,710	3,777	8,121	8,641
Technology (Note 13)	4,838	4,060	10,032	9,319
	11,489	10,510	23,906	23,450
Operating profit	2,008	4,831	4,522	8,055
Gain (loss) on foreign exchange	280	(256)	(84)	60
Gain (loss) on sale of a subsidiary (Note 5)	174	-	(83)	-
Financial expenses (Note 12b))	(239)	(281)	(593)	(558)
Share in profit of a joint venture	-	-	-	(6)
Profit before income taxes	2,223	4,294	3,762	7,551
Income tax expense	389	1,116	877	1,941
Profit for the period	1,834	3,178	2,885	5,610
Earnings per share				
Basic and diluted	0.12	0.21	0.19	0.38
Weighted average number of shares outstanding				
Basic and diluted	14,848,779	14,848,779	14,848,779	14,848,779
Number of shares outstanding at end of period	14,848,779	14,848,779	14,848,779	14,848,779

Interim Condensed Consolidated Statements of Comprehensive Income

Unaudited and not reviewed by independent auditors

	Three months ended September 30,		Six months ended September 30,	
	2019	**2018**	**2019**	**2018**
In thousands of Canadian dollars	**$**	**$**	**$**	**$**
Profit for the period	1,834	3,178	2,885	5,610
Items that may be reclassified subsequently in profit or loss				
Change in unrealized gains (losses) on foreign currency forward contracts, net of deferred taxes	(129)	160	52	(60)
Reclassification of realized losses (gains) on foreign currency forward contracts, net of deferred taxes	57	79	146	9
	(72)	239	198	(51)
Comprehensive income for the period	1,762	3,417	3,083	5,559

Interim Condensed Consolidated Statements of Financial Position

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	As at Sept. 30, 2019 $	As at March 31, 2019 $
Assets		
Current assets		
Cash and cash equivalents	13,500	13,339
Cash held for the benefit of third parties	795	826
Accounts receivable	5,272	7,282
Income taxes receivable	134	253
Tax credits receivable	5,239	4,964
Prepaid expenses and deposits	2,388	2,417
Balance of sale receivable (Note 5)	1,000	-
Assets held for sale (Note 8)	8,944	28,805
	37,272	57,886
Non-current assets		
Property, plant and equipment	1,732	1,997
Right-of-use assets (Note 4)	9,826	-
Intangible assets	7,001	6,264
Acquired intangible assets	6,142	7,344
Goodwill	90,149	90,149
Deferred taxes	3,359	5,276
	155,481	168,916
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	8,291	10,927
Other accounts payable	1,225	2,114
Income taxes payable	179	646
Deferred revenues	13,752	14,727
Derivative financial instruments	154	424
Current portion of deferred lease inducements (Note 4)	-	136
Lease liability (Note 4)	1,922	-
Liabilities held for sale (Note 8)	2,375	4,132
	27,898	33,106
Non-current liabilities		
Long-term debt (Note 9)	10,755	24,935
Deferred lease inducement (Note 4)	-	475
Deferred taxes	7,452	9,696
Lease liability (Note 4)	8,559	-
	54,664	68,212
Shareholders’ equity		
Share capital (Note 10)	78,051	78,051
Reserves	3,101	2,903
Retained earnings	19,665	19,750
	100,817	100,704
	155,481	168,916

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited and not reviewed by independent auditors

Six months ended September 30, 2019

		Reserves				
In thousands of Canadian dollars	Share capital $	Equity-settled employee benefits $	Cash flow hedging $	Total $	Retained earnings $	Total $
Balance as at March 31, 2019	78,051	3,213	(310)	2,903	19,750	100,704
Profit for the period	-	-	-	-	2,885	2,885
Other comprehensive income for the period, net of income taxes	-	-	198	198	-	198
Comprehensive income for the period	-	-	198	198	2,885	3,083
Dividends declared on common shares	-	-	-	-	(2,970)	(2,970)
Balance as at September 30, 2019	78,051	3,213	(112)	3,101	19,665	100,817

Six months ended September 30, 2018

		Reserves				
In thousands of Canadian dollars	Share capital $	Equity-settled employee benefits $	Cash flow hedging $	Total $	Retained earnings $	Total $
Balance as at March 31, 2018	78,051	3,213	(42)	3,171	51,331	132,553
Profit for the period	-	-	-	-	5,610	5,610
Other comprehensive income for the period, net of income taxes	-	-	(51)	(51)	-	(51)
Comprehensive income for the period	-	-	(51)	(51)	5,610	5,559
Dividends declared on common shares	-	-	-	-	(2,970)	(2,970)
Balance as at September 30, 2018	78,051	3,213	(93)	3,120	53,971	135,142

Interim Condensed Consolidated Statements of Cash Flows

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	Three months ended September 30, 2019 $	Three months ended September 30, 2018 $	Six months ended September 30, 2019 $	Six months ended September 30, 2018 $
Cash flows related to				
Operating activities				
Profit for the period	1,834	3,178	2,885	5,610
Adjustments for the following items:				
Amortization and depreciation (Note 11)	1,732	1,819	3,362	3,890
Amortization of deferred lease inducement	-	(34)	-	(67)
Amortization of deferred financing costs	10	10	19	20
Interest expense	229	271	574	538
Foreign exchange	(274)	200	88	(71)
Share in profit of a joint venture	-	-	-	6
Deferred taxes	85	32	(280)	150
Current income tax expense recognized in profit	304	1,084	1,157	1,791
Loss (gain) on disposal of a subsidiary	(174)	-	83	-
Changes in non-cash working capital items (Note 12a))	(2,314)	(2,356)	(3,775)	(3,328)
Interest paid	(238)	(278)	(530)	(545)
Income taxes paid	(608)	(1,183)	(1,951)	(2,898)
	586	2,743	1,632	5,096
Investing activities				
Disposal of a subsidiary	-	-	17,950	-
Acquisition of property, plant and equipment	(60)	(246)	(187)	(481)
Acquisition of intangible assets	(802)	(1,037)	(1,772)	(1,830)
Receipt of a working capital adjustment	484	-	484	-
Distribution from a joint venture	-	11	-	436
	(378)	(1,272)	16,475	(1,875)
Financing activities				
Increase in long-term debt	-	999	-	999
Repayment of long-term debt	(2,400)	-	(14,199)	(1,200)
Payment of lease liability	(342)	-	(700)	-
Cash dividends paid on common shares	(1,485)	(1,485)	(2,970)	(2,970)
	(4,227)	(486)	(17,869)	(3,171)
Net change in cash and cash equivalents for the period	(4,019)	985	238	50
Impact of exchange rate changes on cash and cash equivalents	142	(174)	(108)	40
Cash and cash equivalents at beginning of period	18,172	13,840	14,165	14,561
Cash and cash equivalents at end of period	14,295	14,651	14,295	14,651
Cash and cash equivalents consist of the following statement of financial position items:				
Cash and cash equivalents	13,500	12,399	13,500	12,399
Cash held for the benefit of third parties	795	2,252	795	2,252

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 November 12, 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 SEDAR at www.sedar.com and on the Corporation's website at www.mediagrif.com.

3 Management's estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the year and 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, they 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 Consolidated 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 Consolidated 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 Consolidated 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 on the Consolidated Statement of Financial Position and is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated over the lease term or the estimated useful life, whichever is shorter.

The lease liability is reported on 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 $19,134,079, net of transaction fees of $300,000 and including a working capital adjustment of $484,079, which was received during the three-month period ended September 30, 2019. As at September 30, 2019, a balance of sale of $1,000,000 was receivable. The carrying value of the net assets disposed of on June 11, 2019 was $19,216,947, resulting in a loss on disposal of $82,868 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 September 30,		**Six months ended September 30,**	
In thousands of Canadian dollars	**2019 $**	**2018 $**	**2019 $**	**2018 $**
Revenues				
Canada	8,915	11,147	19,799	22,827
United States	8,584	8,357	17,069	17,043
Europe	313	319	769	583
Asia and other	399	438	802	936
	18,211	20,261	38,439	41,389

In thousands of Canadian dollars	**As at Sept. 30, 2019** **$**	**As at March 31, 2019** **$**
Non-current assets		
Canada	86,778	81,352
United States	28,072	24,396
Asia and other	-	6
	114,850	105,754

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

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

7 Revenues

Revenues are detailed as follows:

	Three months ended September 30,		**Six months ended September 30,**	
In thousands of Canadian dollars	**2019** **$**	**2018** **$**	**2019** **$**	**2018** **$**
Revenues from rights of use	13,577	14,702	28,292	30,041
Revenues from transaction fees	2,304	2,345	4,618	4,812
Revenues from advertising	119	964	900	2,245
Revenues from professional services	1,795	1,823	3,825	3,449
Revenues from maintenance and hosting	288	321	597	624
Other	128	106	207	218
	18,211	20,261	38,439	41,389

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 in Note 5, LesPac was disposed of 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 Consolidated Statement of Financial Position at the lower of fair value less costs to sell and their carrying amounts.

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

In thousands of Canadian dollars	**September 30, 2019** **$**
Type of assets	
Accounts receivable	800
Income taxes receivable	639
Prepaid expenses and deposits	21
Tax credits	208
Intangible assets	55
Acquired intangible assets	7,221
Total assets held for sale	8,944

In thousands of Canadian dollars	**September 30, 2019** **$**
Type of liabilities	
Accounts payable and accrued liabilities	195
Deferred revenues	2,180
Total liabilities held for sale	2,375

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 “Credit Facility”) and an accordion loan of $40,000,000 ($40,000,000 as at March 31, 2019) subject to lenders’ acceptance.

The Credit 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 September 30, 2019, the Corporation’s Credit Facility stood at $10,804,763 ($25,004,359 as at March 31, 2019) and the amount is due in full during the fiscal year ending March 31, 2021.

The Credit Facility bears interest at a rate based either on the Canadian prime rate, LIBOR or the 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 September 30, 2019, the actual rate was 1.95% (1.97% as at March 31, 2019) and the applicable margin was 1.20% (1.45% as at March 31, 2019). In addition, the unused portion of the Credit Facility bears interest at 0.24% (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 September 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 charges, 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 Sept. 30, 2019** **$**	**As at March 31, 2019** **$**
Revolving credit facility, bearing interest at the bankers' acceptance rate, plus a margin of 1.20% (1.45% as at March 31, 2019), maturing in December 2020	10,805	25,004
Deferred financing costs i)	(50)	(69)
	10,755	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.

b) Dividends declared

Six months ended September 30, 2019

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.

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.

Six months ended September 30, 2018

On August 7, 2018, the Corporation announced the payment of a cash dividend of $0.10 per share, payable on October 15, 2018, to shareholders of record on October 1, 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 September 30,		Six months ended September 30,	
In thousands of Canadian dollars	2019 $	2018 $	2019 $	2018 $
Amortization and depreciation				
Property, plant and equipment	211	271	452	542
Intangible assets	523	590	961	1,201
Acquired intangible assets	601	958	1,202	2,147
Right-of-use assets	397	-	747	-
Total	1,732	1,819	3,362	3,890
Employee benefit expenses				
Salaries and employee benefits	10,814	9,947	22,595	21,261
Termination benefits	145	113	146	178
	10,959	10,060	22,741	21,439
Tax credits	(985)	(1,224)	(2,018)	(2,093)
Total	9,974	8,836	20,723	19,346

12 Supplementary statements of cash flow and statements of income information

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

	Three months ended September 30,		Six months ended September 30,	
In thousands of Canadian dollars	2019 $	2018 $	2019 $	2018 $
Decrease (increase) in				
Accounts receivable	1,897	653	1,869	873
Tax credits receivable	(985)	(1,224)	(343)	(2,093)
Prepaid expenses and deposits	(152)	(325)	3	95
Increase (decrease) in				
Accounts payable and accrued liabilities	(397)	(551)	(3,238)	(1,888)
Other accounts payable	(1,149)	593	(889)	673
Deferred revenues	(1,528)	(1,502)	(1,177)	(988)
Total	(2,314)	(2,356)	(3,775)	(3,328)

During the six months ended September 30, 2019, the Corporation has reclassified an amount of $773,046 ($2,162,392 in 2018) from Tax credits receivable to Income taxes payable because the Corporation expects to use these tax attributes against income taxes payable during the current fiscal year.

b) Financial expenses consist of the following:

	Three months ended September 30,		**Six months ended September 30,**	
	2019	**2018**	**2019**	**2018**
In thousands of Canadian dollars	**$**	**$**	**$**	**$**
Amortization of deferred financing costs	10	10	19	20
Interest on lease liability	93	-	184	-
Interest on long-term debt	136	271	390	538
Total	239	281	593	558

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 second quarter of 2019 ended September 30, 2019 amounted to $775,106. Consequently, an amount of $1,550,212 initially presented as Technology expenses as at September 30, 2018 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 completed on July 27, 2018. During the six-month period ended September 30, 2018, the Corporation received an amount of $435,577 as a distribution from GWS.

During the six-month period ended September 30, 2019, the Corporation recharged to GWS operating expenses in the amount of nil ($2,743 in 2018). These recharges were presented against 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.