MEDIAGRIF

Interim condensed consolidated financial statements
for the three months ended
June 30, 2020, and 2019

(Unaudited and not reviewed by independent auditors)

MEDIAGRIF

Interim Condensed Consolidated Statements of Income

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars except earnings per share amounts	Three months ended June 30, 2020 $	2019 $
Revenues (Note 6)	20,534	20,228
Cost of revenues	6,564	5,297
Gross margin	13,970	14,931
Operating expenses		
General and administrative	3,707	2,812
Selling and marketing	5,022	4,411
Technology	5,939	5,194
	14,668	12,417
Operating profit (loss)	(698)	2,514
Foreign exchange gain (loss)	(430)	(364)
Loss on sale of a subsidiary	-	(257)
Financial expenses (Note 11b))	(364)	(354)
Profit (loss) before income taxes	(1,492)	1,539
Income tax expense (recovery)	(255)	488
Profit (loss) for the period	(1,237)	1,051
Profit (loss) per share		
Basic and diluted	(0.08)	0.07
Weighted average number of shares outstanding		
Basic and diluted	16,394,436	14,848,779
Number of shares outstanding at end of period	17,960,870	14,848,779

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Interim Condensed Consolidated Statements of Comprehensive Income

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	**Three months ended June 30, 2020 $**	**2019 $**
Profit (loss) for the period	(1,237)	1,051
Items that may be reclassified subsequently in profit or loss		
Change in unrealized losses on foreign currency forward contracts, net of deferred taxes	123	181
Reclassification of realized losses on foreign currency forward contracts, net of deferred taxes	354	89
	477	270
Comprehensive income for the period	(760)	1,321

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, 2020 $	As at March 31, 2020 $
Assets		
Current assets		
Cash and cash equivalents	19,365	14,319
Cash held for the benefit of third parties	429	857
Accounts receivable	9,365	6,103
Income taxes receivable	1,402	1,491
Tax credits receivable	7,394	8,040
Prepaid expenses and deposits	3,135	3,725
	41,090	34,535
Non-current assets		
Property, plant and equipment	2,415	2,495
Right-of-use assets	10,476	10,924
Intangible assets	6,974	6,907
Acquired intangible assets	12,153	13,158
Goodwill	96,852	96,852
Deferred taxes	5,812	6,214
	175,772	171,085
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	10,987	10,660
Other accounts payable	429	857
Income taxes payable	728	568
Deferred revenues	19,090	17,796
Derivative financial instruments	240	891
Current portion of long-term debt (Note 7)	17,980	26,975
Current portion of lease liability	1,915	1,618
	51,369	59,365
Non-current liabilities		
Long-term debt (Note 7)	-	-
Deferred taxes	7,732	8,702
Lease liability	9,352	10,179
	68,453	78,246
Shareholders' equity		
Share capital (Note 8)	94,384	79,251
Reserves	3,144	2,560
Retained earnings	9,791	11,028
	107,319	92,839
	175,772	171,085

Refer to the Notes to the consolidated financial statements

Approved by the Board of Directors,

______________________________, Director
Gilles Laurin

______________________________, Director
Luc Filiatreault

MEDIAGRIF

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited and not reviewed by independent auditors

Three months ended June 30, 2020

		Reserves				
In thousands of Canadian dollars	**Share capital** $	**Equity-settled employee benefits** $	**Cash flow hedging** $	**Total** $	**Retained earnings** $	**Total** $
Balance as at March 31, 2020	79,251	3,213	(653)	2,560	11,028	92,839
Profit (loss) for the period	-	-	-	-	(1,237)	(1,237)
Other comprehensive income for the period, net of income taxes	-	-	477	477	-	477
Comprehensive income for the period	-	-	477	477	(1,237)	(760)
Issuance of common shares as part of a bought deal offering – net of issuance costs (Note 8)	14,820	-	-	-	-	14,820
Deferred taxes on share issuance costs (Note 8)	313	-	-	-	-	313
Compensation under the stock option plan (Note 9)	-	107	-	107	-	107
Balance as at June 30, 2020	**94,384**	**3,320**	**(176)**	**3,144**	**9,791**	**107,319**

Three months ended June 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	-	-	-	-	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 8)	-	-	-	-	(1,485)	(1,485)
Balance as at June 30, 2019	78,051	3,213	(40)	3,173	19,316	100,540

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Interim Condensed Consolidated Statements of Cash Flows

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	**Three months ended June 30, 2020 $**	**2019 $**
CASH FLOWS RELATED TO		
Operating activities		
Profit (loss) for the period	(1,237)	1,051
Adjustments for the following items:		
Amortization and depreciation (Note 11)	2,392	1,630
Amortization of deferred financing costs	10	9
Interest expense	364	345
Stock-based compensation (Note 9)	107	-
Foreign exchange	657	362
Deferred taxes	(544)	(365)
Current income tax expense recognized in profit	289	853
Loss on sale of a subsidiary	-	257
Changes in non-cash working capital items (Note 11a))	(908)	(1,461)
Interest paid	(334)	(292)
Income taxes paid, net of amounts received	5	(1,343)
	801	1,046
Investing activities		
Proceeds from sale of a subsidiary	-	17,950
Acquisition of property, plant and equipment	(188)	(127)
Acquisition of intangible assets	(737)	(970)
	(925)	16,853
Financing activities		
Repayment of long-term debt	(9,005)	(11,799)
Payment of lease liability	(447)	(358)
Bought deal offering – net of issuance costs (Note 8)	14,820	-
Cash dividends paid on common shares (Note 8)	-	(1,485)
	5,368	(13,642)
Net change in cash and cash equivalents for the period	5,244	4,257
Impact of exchange rate changes on cash and cash equivalents	(626)	(250)
Cash and cash equivalents at beginning of period	15,176	14,165
Cash and cash equivalents at end of period	19,794	18,172
Cash and cash equivalents consist of the following statement of financial position items:		
Cash and cash equivalents	19,365	17,045
Cash held for the benefit of third parties	429	1,127

1 INCORPORATION, NATURE OF OPERATIONS AND LIQUIDITY

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, 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 12, 2020. Amounts are expressed in Canadian dollars, unless indicated otherwise.

The interim condensed consolidated financial statements were prepared on a going concern basis.

The Corporation's Credit Facility expires on December 18, 2020 with all unpaid amounts due in full at maturity. The Corporation expects to be able to fulfill this obligation using available cash as at June 30, 2020 and the operating cash flows expected to be generated by maturity. Furthermore, subsequent to the year ended March 31, 2020, the Corporation initiated the measures required to refinance the Credit Facility. In achieve this, the Corporation has contracted financial advisors to facilitate the refinancing process, these measures are underway and expected to be completed in the coming months.

The Credit Agreement was amended as of June 25, 2020 (Note 7). As at June 30, 2020, the Corporation was in compliance with the restrictive covenants of the Amended Credit Agreement.

After examining the factors that are causing the liquidity risk facing the Corporation, the judgment applied to these factors, and the various initiatives that the Corporation has and will undertake to strengthen its financial position, the Corporation believes it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months. Management has therefore concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern.

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, 2020. 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 IFRS ADOPTED DURING THE CURRENT FISCAL YEAR

IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* were amended to clarify the definition of "material" and how it should be applied to ensure that it is consistent across all IFRS standards. The amendments apply to the Corporation for fiscal years beginning on or after April 1, 2020. The changes did not have a significant impact on the Corporation's financial statements.

IFRS 3, Business Combinations

In October 2018, IFRS 3, *Business Combinations* was amended to clarify the definition of a "business," with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments apply to the Corporation for fiscal years beginning on or after April 1, 2020. The changes had no impact on the Corporation's financial statements.

4 MANAGEMENT'S ESTIMATES AND JUDGMENTS

COVID-19

The current global economic situation is highly unstable due to the coronavirus pandemic ("COVID-19") declared on March 11, 2020 by the World Health Organization. The duration and impact of the COVID-19 pandemic are still unknown. The Corporation continues to review the potential impact of the pandemic on its financial position and profitability should the duration, spread or intensity of the pandemic develop further. It is impossible to predict with certainty the duration and full extent of the economic impact of COVID-19 in the short and long term. A prolonged period of economic downturn could affect the estimates and judgments used in preparing the interim condensed consolidated financial statements, including, but not limited to, the following items: revenue recognition, goodwill, impairment of intangible assets and expected credit losses.

5 SEGMENT INFORMATION

The Corporation has only one reportable segment.

Geographical information is as follows:

In thousands of Canadian dollars	**Three months ended June 30, 2020 $**	**Three months ended June 30, 2019 $**
Revenues		
Canada	10,534	10,884
United States	8,867	8,485
Europe	820	456
Asia and other	313	403
	20,534	20,228

In thousands of Canadian dollars	**As at June 30, 2020 $**	**As at March 31, 2020 $**
Non-current assets		
Canada	102,591	104,010
United States	26,279	26,326
Asia and other	-	-
	128,870	130,336

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.

6 REVENUES

Revenues are detailed as follows:

	Three months ended June 30,	
	2020	**2019**
In thousands of Canadian dollars	**$**	**$**
Revenues from rights of use	15,332	14,715
Revenues from transaction fees	2,124	2,314
Revenues from advertising	49	781
Revenues from professional services	2,633	2,030
Revenues from maintenance and hosting services	303	309
Other	93	79
	20,534	20,228

7 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 a $80,000,000 secured revolving five-year credit facility (the “Credit Facility”) and an accordion loan of $40,000,000 subject to lenders’ acceptance. The amount available for borrowing under the Credit Facility was reduced at the request of the Corporation on May 25, 2020 to a total amount of $40,000,000. In addition, on June 25, 2020, the Credit Agreement was amended (the “Amended Credit Agreement”) in order to temporarily suspend the application of a restrictive covenant in the Credit Agreement requiring that a certain financial ratio be maintained for the reference periods applicable to the quarters ending March 31, 2020 and June 30, 2020.

The Amended Credit Agreement expires on December 18, 2020, and any outstanding amounts are due in full at maturity. Amounts under the Amended Credit Agreement are repayable before maturity without penalty. As at June 30, 2020, the Corporation’s Credit Facility stood at $18,000,000 ($26,975,116 as at March 31, 2020) 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 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, 2020, the actual rate was 0.52% (1.25% as at March 31, 2020) and the margin was 2.00% (2.00% as at March 31, 2020). In addition, the unused portion of the Credit Facility bears interest at 0.40% (0.40% as at March 31, 2020) as standby fees.

All obligations under the Amended 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 Amended Credit Agreement contains certain restrictive covenants and events of default customary for loans of this nature, including some limitations to the levels of investments and acquisitions, capital expenditures and distributions. The Amended Credit Agreement is also subject to restrictive covenants requiring certain financial ratios to be maintained. As at June 30, 2020, the Corporation was in compliance with the financial ratios prescribed under the restrictive covenants of the Amended Credit Agreement.

Fixed charges, total debt and EBITDA, which are used in the calculation of the financial ratios of the Amended Credit Agreement, are defined precisely therein.

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

As at June 30, 2020, considering that the Amended Credit Agreement will expire within the next 12 months, the outstanding amount is presented in current liabilities in the consolidated statement of financial position.

The following table provides the long-term debt information:

In thousands of Canadian dollars	**As at June 30, 2020 $**	**As at March 31, 2020 $**
Credit Facility, bearing interest at the bankers' acceptance rate, plus 2.00% (2.00% as at March 31, 2020), maturing in December 2020	18,000	27,005
Deferred financing costs i)	(20)	(30)
	17,980	26,975
Current portion	17,890	26,975
Long-term portion	-	-

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

8 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) The following table summarizes common share activity for the last two fiscal years:

	Three months ended June 30,			
	2020		**2019**	
In thousands	**Shares**	**$**	**Shares**	**$**
Balance at beginning of period	15,052	79,251	14,849	78,051
Issuance of common shares	2,909	16,000	-	-
Issuance costs	-	(1,180)	-	-
Deferred taxes on share issuance costs	-	313	-	-
Balance at end of period	17,961	94,384	14,849	78,051

On May 19, 2020, the Corporation completed a bought deal offering under which a total of 2,909,091 common shares of the Corporation were sold at a price of $5.50 per common share for aggregate gross proceeds of $16,000,000, including common shares issued following the partial exercise of the underwriters' option granted to the underwriters (the "Investment"). The net proceeds of the Investment amounted to $14,820,163, net of fees of $1,179,838.

c) Dividends declared

Three months ended June 30, 2020

No dividend was paid.

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.

9 STOCK OPTION PLAN

For the three months ended June 30, 2020, the stock-based compensation expense was $106,608 (nil for the three months ended June 30, 2019). No stock options were granted, exercised, renounced or expired during the three months ended June 30, 2020 (nil for the three months ended June 30, 2019). As at June 30, 2020, the remaining contractual life of the 700,000 options granted was 6.6 years and no options are currently exercisable.

10 EXPENSES BY TYPE

Operating profit includes the following items:

	Three months ended June 30,	
In thousands of Canadian dollars	**2020** **$**	**2019** **$**
Amortization and depreciation		
Property, plant and equipment	252	241
Intangible assets	670	438
Acquired intangible assets	1,006	601
Right-of-use assets	464	350
Total	2,392	1,630
Employee benefit expenses		
Salaries and employee benefits	13,818	11,781
Stock-based compensation	107	-
Termination benefits	84	1
	14,009	11,782
Tax credits	(1,363)	(1,033)
Total	12,646	10,749

11 SUPPLEMENTARY STATEMENTS OF INCOME AND CASH FLOW INFORMATION

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

In thousands of Canadian dollars	**Three months ended June 30, 2020 $**	**2019 $**
Decrease (increase) in:		
Accounts receivable	(3,262)	(28)
Tax credits receivable	601	642
Prepaid expenses and deposits	560	155
Increase (decrease) in:		
Accounts payable and accrued liabilities	327	(2,841)
Other accounts payable	(428)	260
Deferred revenues	1,294	351
	(908)	(1,461)

During the three months ended June 30, 2020, the Corporation has reclassified an amount of $45,000 ($773,046 as at June 30, 2019) from Tax credits receivable to Income taxes payable because the Corporation expects to use these tax attributes against income taxes payable during the next fiscal year.

b) Financial expenses consist of the following:

In thousands of Canadian dollars	**Three months ended June 30, 2020 $**	**2019 $**
Amortization of deferred financing costs	10	9
Interest on lease liability	99	91
Interest on long-term debt	255	254
	364	354