mdf commerce

Interim Condensed Consolidated Financial Statements
For the three-month periods ended June 30, 2021 and 2020

(Unaudited)

Interim Condensed Consolidated Statements of Loss

Unaudited

For the three-month periods ended June 30, 2021 and 2020

In thousands of Canadian dollars except number of shares and loss per share amounts	2021 $	2020 $
Revenues (Note 6)	22,573	20,534
Cost of revenues	9,332	6,564
Gross margin	13,241	13,970
Operating expenses		
General and administrative	4,981	3,707
Selling and marketing	6,112	5,022
Technology	6,437	5,939
	17,530	14,668
Operating loss	(4,289)	(698)
Foreign exchange loss	(827)	(430)
Finance income (expense) (Note 12b))	5	(364)
Loss before income taxes	(5,111)	(1,492)
Income tax recovery	(826)	(255)
Loss for the periods	(4,285)	(1,237)
Loss per share		
Basic and diluted	(0.15)	(0.08)
Weighted average number of shares outstanding		
Basic and diluted	28,404,116	16,394,436
Number of shares outstanding at end of periods (Note 8b))	28,404,116	17,960,870

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

Interim Condensed Consolidated Statements of Comprehensive loss
Unaudited
For the three-month periods ended June 30, 2021 and 2020

In thousands of Canadian dollars	2021 $	2020 $
Loss for the periods	(4,285)	(1,237)
Other comprehensive loss items:		
Items that may be reclassified subsequently to loss		
Change in unrealized gains on foreign currency forward contracts, net of deferred taxes of $25 ($128 in 2020)	70	354
Reclassification of realized (gains) losses on foreign currency forward contracts, net of deferred taxes of $53 ($45 in 2020)	(148)	123
	(78)	477
Comprehensive loss for the periods	(4,363)	(760)

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

Interim Condensed Consolidated Statements of Financial Position
Unaudited

In thousands of Canadian dollars	As at June 30, 2021 $	As at March 31, 2021 $
Assets		
Current assets		
Cash and cash equivalents	107,700	109,637
Cash held for the benefit of third parties	2,523	1,145
Trade and other receivables	9,935	10,602
Income taxes receivable	2,792	1,989
Tax credits receivable	9,919	9,653
Prepaid expenses and deposits	2,899	3,483
Derivative financial instruments	540	645
	136,308	137,154
Non-current assets		
Deferred financing costs	523	580
Property and equipment	1,992	2,097
Right-of-use assets	9,969	9,765
Intangible assets	7,210	7,172
Acquired intangible assets	11,453	12,335
Goodwill	101,029	101,029
Deferred tax assets	7,686	6,268
	276,170	276,400
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	11,381	12,212
Other accounts payable	2,523	1,145
Income taxes payable	332	224
Deferred revenues	22,494	20,310
Current portion of long-term debt (Note 7)	150	94
Current portion of lease liabilities	1,846	1,882
	38,726	35,867
Non-current liabilities		
Long-term debt (Note 7)	1,350	1,406
Deferred tax liabilities	6,813	5,920
Lease liabilities	8,878	8,640
	55,767	51,833
Shareholders' equity		
Share capital (Note 8)	216,975	216,975
Reserves	4,276	4,155
Retained earnings (Deficit)	(848)	3,437
	220,403	224,567
	276,170	276,400

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

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
Unaudited
For the three-month periods ended June 30, 2021 and 2020

In thousands of Canadian dollars	Share capital $	Reserves: Stock option plan $	Reserves: Cash flow hedging $	Reserves: Total $	Retained earnings (Deficit) $	Total $
Balance as at March 31, 2021	216,975	3,680	475	4,155	3,437	224,567
Loss for the period	-	-	-	-	(4,285)	(4,285)
Other comprehensive loss items for the period, net of income taxes	-	-	(78)	(78)	-	(78)
Comprehensive loss for the period	-	-	(78)	(78)	(4,285)	(4,363)
Share-based compensation (Note 9)	-	199	-	199	-	199
Balance as at June 30, 2021	**216,975**	**3,879**	**397**	**4,276**	**(848)**	**220,403**

In thousands of Canadian dollars	Share capital $	Reserves: Stock option plan $	Reserves: Cash flow hedging $	Reserves: Total $	Retained earnings $	Total $
Balance as at March 31, 2020	79,251	3,213	(653)	2,560	11,028	92,839
Loss for the period	-	-	-	-	(1,237)	(1,237)
Other comprehensive loss items for the period, net of income taxes	-	-	477	477	-	477
Comprehensive loss for the period	-	-	477	477	(1,237)	(760)
Issuance of common shares (Note 8b))	14,820	-	-	-	-	14,820
Deferred taxes on share issuance costs (Note 8b))	313	-	-	-	-	313
Share-based compensation (Note 9)	-	107	-	107	-	107
Balance as at June 30, 2020	**94,384**	**3,320**	**(176)**	**3,144**	**9,791**	**107,319**

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

Interim Condensed Consolidated Statements of Cash Flows

For the three-month periods ended June 30, 2021 and 2020

In thousands of Canadian dollars	2021 $	2020 $
CASH FLOWS RELATED TO		
Operating activities		
Loss for the periods	(4,285)	(1,237)
Adjustments for the following items:		
Amortization and depreciation (Note 11)	2,271	2,392
Amortization of deferred financing costs (Note 12b))	57	10
Interest (revenue) expense (Note 12b))	(62)	364
Share-based compensation (Note 11)	199	107
Foreign exchange	136	657
Deferred income tax recovery	(531)	(544)
Current income tax (recovery) expense recognized in loss	(296)	289
Changes in non-cash working capital items (Note 12a))	3,672	(908)
Interest received (paid)	76	(334)
Net income taxes (received) paid	(353)	5
Net cash inflow from operating activities	884	801
Investing activities		
Purchase of property and equipment	(100)	(188)
Additions of intangible assets	(734)	(737)
Net cash outflow from investing activities	(834)	(925)
Financing activities		
Repayment of long-term debt	-	(9,005)
Interest paid on long-term debt	(14)	-
Lease payments	(468)	(447)
Issuance of common shares for bought deal offerings – net of issuance costs (Note 8b))	-	14,820
Net cash inflow (outflow) from financing activities	(482)	5,368
Net increase (decrease) in cash and cash equivalents for the periods	(432)	5,244
Effect of foreign exchange rate changes on cash and cash equivalents	(127)	(626)
Cash and cash equivalents at beginning of periods	110,782	15,176
Cash and cash equivalents at end of periods	110,223	19,794

Cash and cash equivalents consist of the following statements of financial position items:

Cash and cash equivalents	107,700	19,365
Cash held for the benefit of third parties	2,523	429

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

1 Incorporation and nature of operations

mdf commerce inc. (formerly "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's shareholders approved the name change from Mediagrif Interactive Technologies to mdf commerce on September 23, 2020.

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

The Corporation's Board of Directors approved the interim condensed consolidated financial statements for the three-month periods ended June 30, 2021 and 2020 on August 11, 2021.

2 Basis of presentation

The accounting policies applied in these interim condensed consolidated financial statements are based on IFRS issued and effective as at June 30, 2021.

The Corporation has prepared and presented these interim condensed consolidated financial statements in Canadian dollars.

Basis of preparation

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 years ended March 31, 2021 and 2020. The annual financial statements of the Corporation are available on SEDAR at www.sedar.com.

3 New and revised IFRS, issued but not yet effective

IAS 1, Presentation of Financial Statements

On January 23, 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements regarding the classification of liabilities as current or non-current. These amendments clarify that the classification of liabilities as either current or non-current should be based on the entity's rights at the end of the reporting period and make clear the link between the settlement of the liability and the outflow of the entity's resources. These amendments are effective for fiscal years beginning on or after January 1, 2023 and should be applied retrospectively. The Corporation does not intend to early adopt these amendments and is assessing their impact on its consolidated financial statements.

IFRS 3, Business Combinations

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. The amendments apply to the Corporation for fiscal years beginning on or after January 1, 2022. While early application is permitted, the Corporation has not early adopted these amendments and is currently assessing the impact of these changes on its consolidated financial statements.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The amendments apply to the Corporation for fiscal years beginning on or after January 1, 2022. While early application is permitted, the Corporation has not early adopted these amendments and is currently assessing the impact of these changes on its consolidated financial statements.

IAS 16, Property, Plant and Equipment

In September 2020, IAS 16, *Property, Plant and Equipment* was amended to prohibit the deduction from the cost of an item of property and equipment of any proceeds from selling items produced before the asset is available for use. The proceeds from selling this property and equipment, as well as the related costs, will instead be recognized in profit or loss. The amendments apply to the Corporation for fiscal years beginning on or after January 1, 2022. While early application is permitted, the Corporation has not early adopted these amendments and is currently assessing the impact of these changes on its consolidated financial statements.

4 Management's significant estimates and judgments

In preparing interim condensed consolidated financial statements in accordance with IFRS, management must make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the reporting date. Management reviews its estimates regularly, and revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the period being reviewed and future periods. Actual results may differ from these estimates.

Estimates

In preparing interim condensed consolidated financial statements in accordance with IFRS, management must exercise judgment when applying accounting policies and rely on assumptions and estimates that affect the amounts of the assets, liabilities, revenues, and expenses reported in these consolidated financial statements and on the contingent liability and contingent asset information provided. The actual results of items subject to assumptions and estimates may differ from these assumptions and estimates.

Risk and uncertainty related to 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. COVID-19 uncertainty had no significant impact for the three-month period ended June 30, 2021 other than the Canada Emergency Wage Subsidy (refer to Note 11). 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 consolidated financial statements, including, but not limited to, the following items: impairment of goodwill, impairment of intangible assets, expected losses from revenue contracts and expected credit losses.

5 Segment information

The Corporation has determined that there is only one reportable segment, e-commerce services.

Geographical information for the Corporation for the three-month periods ended June 30, is as follows:

In thousands of Canadian dollars	2021 $	2020 $
Revenues		
Canada	10,778	10,534
United States	9,701	8,867
Europe	1,776	820
Asia and other	318	313
	22,573	20,534

In thousands of Canadian dollars	As at June 30, 2021 $	As at March 31, 2021 $
Non-current assets		
Canada	98,818	99,376
United States	32,835	33,022
	131,653	132,398

Revenues are attributed to countries based on the location of customers.

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

As at June 30, 2021, non-current assets presented above exclude deferred financing cost of $523,164 ($580,237 as at March 31, 2021), and deferred tax assets of $7,686,000 ($6,268,000 as at March 31, 2021).

6 Revenues

Revenues for the three-month periods ended June 30 are detailed as follows:

In thousands of Canadian dollars	2021 $	2020 $
Revenues from rights of use	16,435	15,332
Revenues from professional services	3,540	2,633
Revenues from transaction fees	2,262	2,124
Revenues from maintenance and hosting services	42	303
Other	294	142
	22,573	20,534

7 Long-term debt

Long-term debt is detailed as follows:

In thousands of Canadian dollars	As at June 30, 2021 $	As at March 31, 2021 $
Term Facility, bearing interest at the bankers' acceptance rate, plus 3.0%, maturing in October 2023	1,500	1,500
	1,500	1,500
Current portion	150	94
Long-term portion	1,350	1,406

On October 14, 2020, the Corporation entered into a new credit agreement (the "Credit Agreement") with two Canadian financial institutions under which the lenders have provided a three-year secured revolving facility of up to $35,000,000 (the "Revolving Facility") as well as a $25,000,000 accordion feature of the Revolving Facility subject to lenders' approval, and a term facility of up to $15,000,000 (the "Term Facility").

The Credit Agreement matures on October 15, 2023, and any unpaid amounts are due in full at maturity. As at June 30, 2021, no amounts were drawn on the Revolving Facility and the amount drawn on the Term Facility was $1,500,000. This amount is repayable in equal consecutive monthly payments based on an amortization rate of 15% per annum starting on November 15, 2021.

Revolving Facility

The maximum amount available under the Revolving Facility is calculated monthly using a percentage of the balance of less than 90-day trade receivables, and on a multiple of the Corporation's recurring monthly revenue, up to a maximum amount of $35,000,000. As at

June 30, 2021, the maximum borrowing capacity available under the Revolving Facility was $33,100,000.

Borrowings under the Revolving Facility can be made by way of the following options: i) prime rate loans; ii) bankers' acceptances; iii) U.S. prime rate loans; iv) LIBOR loans; and v) letters of credit for a maximum amount of $5,000,000 and for terms not exceeding one year.

Borrowings under the Revolving Facility bear interest at rates varying according to the chosen option, plus a margin that varies after the first anniversary of the Credit Agreement based on the rate of use of the Revolving Facility. Moreover, the unused portion of the Revolving Facility bears interest at rates from 0.35% to 0.45% starting on October 15, 2021 as standby fees.

Term Facility

The Credit Agreement includes a Term Facility of up to $15,000,000. At each drawdown, the maximum amount available of the Term Facility is calculated using a multiple of earnings before interest, taxes and amortization ("EBITDA"), as defined in the Credit Agreement, for the last 12 months. The multiple differs depending on whether the drawdown is intended either to finance working capital or to finance business acquisitions. According to this calculation, the maximum amount available was $6,600,000, of which $1,500,000 was drawn by the Corporation as at June 30, 2021.

Loans under the Term Facility can be in the form of variable rate loans in Canadian or U.S. dollars.

The loans under the Term Facility bear interest at a rate based either on the bankers' acceptance rate or LIBOR, plus a margin of 3.0%. In addition, the unused portion of the Term Facility bears interest at 0.4% as standby fees.

All obligations under the Credit Agreement are secured by a first-ranking lien on substantially all of the Corporation's consolidated 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 certain 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, 2021, the Corporation was in compliance with the financial ratios prescribed under the restrictive covenants set out in the Amended Credit Agreement.

Deferred financing costs

Deferred financing costs in the amount of $685,000 include legal and consulting fees, regulatory filing fees and other financing costs incurred in connection with the Credit Agreement expiring on October 15, 2023. These costs are amortized over the term of the Credit Agreement.

8 Share capital and accumulated other comprehensive loss

a) Authorized and paid, unlimited number of:

- 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 three-month periods ended June 30:

	2021		2020	
In thousands	Shares	$	Shares	$
Balance at beginning of periods	**28,404**	**216,975**	15,052	79,251
Issuance of common shares	-	-	2,909	16,000
Issuance costs	-	-	-	(1,180)
Deferred taxes on share issuance costs	-	-	-	313
Balance at end of periods	**28,404**	**216,975**	17,961	94,384

On May 21, 2020, the Corporation completed a bought deal offering on a private placement basis, 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. The net proceeds of the offering amounted to $14,820,163, net of fees of $1,179,838.

c) Dividends declared

No dividends were declared or paid during the three-month periods ended June 30, 2021 and 2020.

d) Accumulated other comprehensive loss

The components of accumulated other comprehensive loss included as at June 30:

	2021	2020
	$	$
Cash flow hedges	397	(176)

9 Share-based payment

For the three-month periods ended June 30, 2021 and June 30, 2020, the compensation expense under the stock option plan amounted to $199,358 and $106,608 respectively.

Issued and outstanding stock options changed as follows during the three-month periods ended June 30:

	2021		2020	
	Number of options *(in thousands)*	Weighted-average exercise price	Number of options *(in thousands)*	Weighted-average exercise price
Outstanding at beginning of periods	1,027	7.46	700	5.81
Options forfeited	(18)	7.43	-	-
Outstanding at end of periods	1,009	7.46	700	5.81

None of the options outstanding were exercisable as at June 30, 2021 and 2020.

As at June 30, 2021, issued and outstanding stock options were detailed as follows:

Exercise price ($)	Number of options (in thousands)	Remaining weighted average contractual life (in years)	Weighted-average exercise price ($)
5.81 – 5.85	600	5.68	5.81
7.43 - 9.89	281	6.51	7.62
12.29 - 15.15	128	6.73	14.81
Total	1,009	6.04	7.46

10 Loss per share

Basic loss per share is calculated by dividing the net loss attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated by adjusting the net loss attributable to shareholders of the Corporation by the weighted average number of common shares that would have been outstanding for the period assuming the conversion of all dilutive instruments. The Corporation's potentially dilutive instruments include stock options, which are excluded from the calculation in periods during which they are anti-dilutive.

For the period ended June 30, 2021, 1,009,417 stock options were excluded from the calculation of the diluted loss per share since the impact would have been anti-dilutive (700,000 stock options for the period ended June 30, 2020). As a result, diluted loss per share is equal to basic loss per share.

11 Expenses by type

Operating loss for the three-month periods ended June 30 includes the following items:

In thousands of Canadian dollars	2021 $	2020 $
Amortization and depreciation		
Property and equipment	**204**	252
Intangible assets	**696**	670
Acquired intangible assets	**882**	1,006
Right-of-use assets	**489**	464
Total	**2,271**	2,392
Employee benefit expenses		
Salaries and employee benefits [i)]	**16,477**	13,818
Share-based compensation	**199**	107
Termination benefits	**117**	84
	16,793	14,009
Tax credits	**(1,168)**	(1,363)
Total	**15,625**	12,646

[i)] Due to the COVID-19 pandemic, the Corporation and some of its subsidiaries qualified for the Canada Emergency Wage Subsidy ("CEWS"). For the three-month period ended June 30, 2021, salaries and benefits were presented net of the CEWS in the amount of $808,683 ($514,554 for the three-month period ended June 30, 2020).

12 Supplementary statements of Loss and cash flow information

a) Changes in non-cash operating working capital items for the three-month periods ended June 30, are as follows:

In thousands of Canadian dollars	2021 $	2020 $
Decrease (increase) in:		
Trade and other receivables	**667**	(3,262)
Tax credits receivable	**(310)**	601
Prepaid expenses and deposits	**584**	560
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(831)**	327
Other accounts payable	**1,378**	(428)
Deferred revenues	**2,184**	1,294
	3,672	(908)

During the three-month periods ended June 30, 2021 and 2020, the Corporation reclassified an amount of $44,000 and $45,000 respectively from Tax credits receivable to Income taxes payable because the Corporation expects to use these tax attributes against income taxes payable during the upcoming fiscal year.

b) Finance income (expense) for the three-month periods ended June 30 consist of the following:

In thousands of Canadian dollars	2021 $	2020 $
Amortization of deferred financing costs	(57)	(10)
Interest on lease liabilities	(91)	(99)
Interest on long-term debt	(14)	(255)
Interest revenue	167	-
	5	(364)

13 Subsequent events

On August 11, 2021, the Corporation has entered into a definitive agreement with Periscope Holdings, Inc. to acquire all of issued and outstanding common shares of Periscope Intermediate Corp. ("Periscope") (the "Acquisition"), a portfolio company of Parthenon Capital Partners ("Parthenon Capital"). Periscope operates from its two offices in Austin, Texas, and American Fork, Utah, in United States of America. Periscope is an eProcurement solution provider with over 20 years of industry experience that offers a fully integrated, end-to-end procurement solution to both state and local government agencies and suppliers in the U.S. Periscope's end-to-end eProcurement solution is built specifically for U.S. government agencies, allowing them to more efficiently purchase goods and services, source contracts, analyze spend, post bids and transact on a public procurement platform that offers a consumer-like shopping experience.

This acquisition will allow the Corporation to strengthen its leading position in the North American public eProcurement market.

The purchase price is US$207.3 million (approximately $259.9 million), on a cash-free debt-free basis, subject to customary closing adjustments.

The Acquisition Purchase Price will be financed through a combination of i) $92.0 million of available cash on hand, ii) $50.2 million in debt through an amended and upsized revolving and term credit facilities, iii) $67.8 million through a bought deal public offering of subscription receipts of mdf commerce which will be launched concurrently with the announcement of the Acquisition, iv) $52.6 million private placement of subscription receipts of mdf commerce with *Fonds de solidarité FTQ* and *Investissement Québec*, and v) the issuance of $4.1 million in rollover shares, as well as the creation of a $4.1 million retention bonus.

The Acquisition, which remains subject to certain customary closing conditions and receipt of applicable antitrust approvals, is expected to be completed in the second quarter of the Corporation's fiscal year 2022.