

Interim Consolidated Financial Statements of  
**MEDIAGRIF INTERACTIVE TECHNOLOGIES INC.**

**FISCAL YEAR 2010**  
For the three months ended June 30, 2009 and 2008  
(unaudited)

CONSOLIDATED BALANCE SHEETS

(Unaudited) (Canadian dollars in Thousands)	June 30, 2009	March 31, 2009 (Restated) (Note 1)
	\$	\$
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	25,469	27,734
Cash held for the benefit of others	2,067	2,380
Accounts receivable	7,656	6,479
Income taxes receivable	918	758
Tax credits receivable	3,535	3,169
Prepaid expenses	536	838
Future income taxes	102	347
	<b>40,283</b>	<b>41,705</b>
<b>Premises and equipment</b>	<b>1,772</b>	<b>1,826</b>
<b>Intangible assets</b>	<b>1,299</b>	<b>1,376</b>
<b>Acquired intangible assets</b>	<b>3,192</b>	<b>3,365</b>
<b>Goodwill</b>	<b>25,991</b>	<b>25,991</b>
<b>Future income taxes</b>	<b>6,853</b>	<b>7,534</b>
	<b>79,390</b>	<b>81,797</b>
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	8,128	10,830
Deferred revenues	9,554	9,379
Purchase price payable	23	23
Future income taxes	994	999
	<b>18,699</b>	<b>21,231</b>
<b>Future income taxes</b>	<b>76</b>	<b>90</b>
	<b>18,775</b>	<b>21,321</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 5)	48,054	48,079
Share purchase options (note 5(c))	1,660	1,647
Contributed surplus (note 5(d))	2,441	2,393
Retained earnings	9,048	9,241
Accumulated other comprehensive loss	(588)	(884)
	<b>60,615</b>	<b>60,476</b>
	<b>79,390</b>	<b>81,797</b>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Unaudited) (Canadian dollars in Thousands)	Three months ended	
	2009	2008 (Restated) (Note 1)
	June 30,	
	\$	\$
<b>Retained earnings - Beginning of period, as previously reported</b>	<b>9,262</b>	10,719
Change in accounting policy	(21)	(76)
<b>Retained earnings - Beginning of period, restated</b>	<b>9,241</b>	10,643
Net earnings (loss) for the period	(193)	325
Premium on redemption of common shares for cancellation (note 5(b)(i))	-	(75)
<b>Retained earnings - End of period</b>	<b>9,048</b>	10,893

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited) (Canadian dollars in Thousands)	Three months ended	
	2009	June 30, 2008 (Restated) (Note 1)
	\$	\$
Net earnings (loss) for the period	(193)	325
Foreign currency translation adjustment	(252)	(36)
Reclassification of realized gains or losses on foreign currency forward contracts, net of future income taxes	381	(45)
Unrealized gains on foreign currency forward contracts, net of future income taxes	167	38
	<b>296</b>	<b>(43)</b>
<b>Comprehensive income for the period</b>	<b>103</b>	<b>282</b>

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

(Unaudited) (Canadian dollars in Thousands)	June 30,	March 31,
	2009	2009
	\$	\$
<b>Foreign currency translation adjustment</b>		
Cumulative effects of prior years	108	795
Current period	252	(687)
	<b>360</b>	<b>108</b>
<b>Unrealized losses on foreign currency forward contracts</b>		
Cumulative effects of prior years	776	70
Current period, net of realized and unrealized losses and future income taxes	(548)	706
	<b>228</b>	<b>776</b>
<b>Accumulated other comprehensive loss</b>	<b>588</b>	<b>884</b>

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(Unaudited) (Canadian dollars in Thousands, except per share amounts)	Three months ended June 30,	
	2009	2008 (Restated) (Note 1)
	\$	\$
<b>Revenues</b>	<b>11,693</b>	11,978
<b>Cost of revenues</b>	<b>2,632</b>	2,899
<b>Gross margin</b>	<b>9,061</b>	9,079
<b>Operating expenses</b>		
General and administrative	2,699	3,117
Sales and marketing	2,316	2,630
Technology	1,929	2,242
Amortization of acquired intangible assets	172	448
Stock-based compensation	67	142
	<b>7,183</b>	8,579
<b>Earnings from operations</b>	<b>1,878</b>	500
Other income, net (note 3(b))	(1,069)	158
<b>Earnings before income taxes</b>	<b>809</b>	658
Provision for income taxes	1,002	333
<b>Net earnings (loss) for the period</b>	<b>(193)</b>	325
<b>Basic net earnings (loss) per share</b>	<b>(0.01)</b>	0.02
<b>Diluted net earnings (loss) per share</b>	<b>(0.01)</b>	0.02
<b>Weighted average number of shares outstanding (note 5(g))</b>		
Basic	13,973,262	14,534,500
Diluted	13,973,262	14,534,500
<b>Number of shares outstanding - End of period</b>	<b>13,966,866</b>	14,355,765

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (Canadian dollars in Thousands)	Three months ended June 30,	
	2009	2008 (Restated) (Note 1)
	\$	\$
<b>CASH FLOWS FROM</b>		
<b>OPERATING ACTIVITIES</b>		
Net earnings (loss) for the period	(193)	325
Adjustments for		
Amortization of premises and equipment	325	432
Amortization of intangible assets	190	758
Amortization of acquired intangible assets	172	448
Amortization of gain on licenses	-	(169)
Stock-based compensation	67	142
Future income taxes	662	(511)
Changes in non-cash working capital items (note 3(a))	(3,400)	(1,799)
	<u>(2,177)</u>	<u>(374)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of premises and equipment, intangible assets and other assets	(383)	(839)
	<u>(383)</u>	<u>(839)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of long-term debt	-	160
Repayment of long-term debt	-	(10)
Purchase of common shares for cancellation (note 5 (b)(i))	(31)	(793)
	<u>(31)</u>	<u>(643)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(2,591)</u>	<u>(1,856)</u>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>13</b>	<b>(43)</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>30,114</b>	<b>30,507</b>
<b>Cash and cash equivalents - End of period</b>	<b>27,536</b>	<b>28,608</b>
Cash and cash equivalents comprise the following balance sheet amounts :		
Cash and cash equivalents	25,469	25,196
Cash held for the benefit of others	2,067	3,412

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**June 30, 2009 and 2008**

**1) Significant accounting policies**

The consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial statements and follow the same accounting policies and methods of their application found in the audited financial statements for the year ended March 31, 2009, with the exceptions for changes mentioned below. The March 31, 2009 balance sheet figures have been derived from the audited financial statements of the Company for the year ended March 31, 2009. These interim financial statements are unaudited and have not been reviewed by the Company's external auditors. The disclosures in these unaudited interim financial statements do not conform in all material respects to the requirements of GAAP for annual financial statements; therefore, these interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for fiscal year 2009.

Changes in accounting policies

Goodwill and Intangible Assets

On April 1, 2009, the Company adopted Section 3064 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, "Goodwill and Intangible Assets". The new Section establishes standards for the recognition, costing, presentation and required information related to goodwill after its initial recognition. It also establishes the standard for when internally developed intangible assets satisfy recognition criteria as an asset. Section 3064 replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs", and, concurrently, EIC-27, "Revenues and Expenditures in the Pre-operating Period" has been withdrawn, while Accounting Guideline 11, "Enterprises in the Development Stage" and Section 1000, "Financial Statements Concepts", have been amended. These new accounting standards were required to be adopted retroactively, with restatement of comparative figures.

The adoption of the new accounting standards resulted, in these interim financial statements, in a cumulative charge of \$76,437 to retained earnings on April 1, 2008 and \$20,937 on April 1, 2009. The transitional adjustment also resulted in the following changes to the Company's consolidated balance sheet: i) a decrease of \$98,653 in other assets on April 1, 2008, and of \$27,028 on April 1, 2009; ii) a decrease of \$22,216 in long-term future income tax liability on April 1, 2008, and an increase of \$6,091 in long-term future income tax asset on April 1, 2009. In addition, the Company was impacted by a \$21,627 decrease to the amortization of other assets for the quarter ended June 30, 2008, and a \$6,020 increase of the provision for income taxes for the same period. These changes relate to pre-operating expenditures that were incurred and capitalized during previous business acquisitions, that are no longer capitalized under the new accounting standards. These standards have no impact on the basic and diluted earnings per share for the quarters ended June 30, 2009 and 2008.

## 2) Related party transactions

Details of related party transactions not otherwise disclosed in the consolidated financial statements are

(Canadian dollars in Thousands)	Three months ended	
	June 30,	
	2009	2008
	\$	\$
<b>Revenues</b>		
Joint ventures	246	345
<b>Accounts receivable from</b>		
Joint ventures	407	835
<b>Accounts payable to</b>		
Joint ventures	12	13
as follows:		

Balances and transactions with the joint ventures represent the amounts corresponding to the Company's interest therein.

All related party transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration agreed upon by the parties.

During the three-month period ended June 30, 2009, the Company paid a management fee of \$130,000 to a corporate shareholder having a significant influence over the Company. The transaction was in the normal course of business and was measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

During the three-month period ended June 30, 2008, revenues from joint ventures include amortization of gains on licenses which derive from the creation of Polygon DMCC.

**3) Changes in non-cash working capital items and Other income**

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

(Canadian dollars in Thousands)	Three months ended	
	2009	2008 (Restated) (Note 1)
	\$	\$
Decrease (increase) in		
Accounts receivable	(1,177)	(1,122)
Income taxes receivable	(160)	-
Tax credits receivable	(366)	(477)
Prepaid expenses	302	48
Increase (decrease) in		
Accounts payable and accrued liabilities	(2,174)	(991)
Income taxes payable	-	353
Deferred revenues	175	390
	<b>(3,400)</b>	<b>(1,799)</b>

b) Other income consists of the following:

(Canadian dollars in Thousands)	Three months ended	
	2009	2008
	\$	\$
Interest income	14	160
Financial expense	(47)	(45)
Foreign exchange gain (loss)	(985)	82
Other expense	(51)	(39)
	<b>(1,069)</b>	<b>158</b>

#### 4) Segment information

The Company has only one reportable segment.

Geographical information is as follows:

For the three-month periods ended June 30,

(Canadian dollars in Thousands)	2009		2008 (Restated) (Note 1)	
	Revenues \$	Premises and equipment intangible assets, acquired intangible assets and goodwill \$	Revenues \$	Premises and equipment intangible assets, acquired intangible assets and goodwill \$
Canada	4,799	4,614	4,246	8,214
United States	5,245	27,567	5,470	32,259
Europe	590	-	693	-
Asia and other	1,059	73	1,569	101
	<b>11,693</b>	<b>32,254</b>	11,978	40,574

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

#### 5) Capital stock, share purchase options and contributed surplus

(Number in Thousands, Canadian dollars in Thousands, except per share amounts)

a) Authorized, unlimited as to 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 three-month periods ended June 30:

	2009		2008	
	Number of shares	Amount \$	Number of shares	Amount \$
<b>Balance - Beginning of period</b>	<b>13,974</b>	<b>48,079</b>	14,565	50,111
Purchased for cancellation (note 5(b)(i))	(7)	(25)	(209)	(719)
Exercise of stock options (note 5 (b)(ii))	-	-	-	-
<b>Balance - End of period</b>	<b>13,967</b>	<b>48,054</b>	14,356	49,392

i) During the three-month period ending June 30, 2009, the Company purchased 7,192 of its own shares (2009 - 208,874) for cancellation for a cash consideration totalling \$31,306 (2009 - \$793,315) in connection with its normal course issuer bid. Capital stock has been reduced by the average issue price per share before buy-back of \$3.44 (2009 - \$3.44) totalling \$24,745 (2009 - \$718,647), with the resulting premium or discount on redemption having been charged to retained earnings or contributed surplus.

ii) During the three-month period ended June 30, 2009, no common shares were issued pursuant to the exercise of stock options (2009 – nil).

c) The following table summarizes the share purchase option activity for the three-month periods ended June 30:

	2009	2008
	\$	\$
<b>Balance - Beginning of period</b>	<b>1,647</b>	2,301
Stock-based compensation expense	67	142
Transfer of accumulated compensation cost upon exercise of stock options (note 5(b)(ii))	-	-
Transfer of accumulated compensation cost related to stock options vested but not exercised	(54)	(187)
<b>Balance - End of period</b>	<b>1,660</b>	2,256

d) The following table summarizes contributed surplus activity for the three-month periods ended June 30:

	2009	2008
	\$	\$
<b>Balance - Beginning of period</b>	<b>2,394</b>	993
Transfer of accumulated compensation cost related to stock options vested but not exercised	54	201
Discount on redemption of common shares for cancellation (note 5(b)(i))	(7)	-
<b>Balance - End of period</b>	<b>2,441</b>	1,194

e) Stock purchase plan

The Company has established a new stock purchase plan effective April 1, 2009 for the benefit of all regular full-time and part-time employees who are Canadian residents. Directors are not eligible to participate in the plan. Under the terms of the plan, employees may elect to contribute through payroll deductions up to 5% of their annual income, up to a maximum of \$5,000 annually, for the purchase of common shares of the Company on the open market. Under the plan, the Company has committed to match employee contributions to the plan for a maximum contribution of \$1,000 per employee. After July 27, 2009, the employees must hold, for a period of 12 months, the portion of shares bought with the contribution of the Company. The purchase price of shares under the plan shall be equal to the market price of the Company's common shares on the purchase date.

f) Stock option plan

The Company has a stock option plan as described in note 8 to the consolidated financial statements in the 2009 Annual Report.

During the three-month period ended June 30, 2009, no stock options were granted by the Company.

g) Weighted average number of shares outstanding

The following table outlines the weighted average number of shares used in the calculation of the basic and diluted net earnings per share for the three-month periods ended June 30:

	2009	2008
<b>Weighted average number of shares outstanding</b>		
Basic	13,973	14,535
Dilutive effect of stock options	-	-
<b>Diluted</b>	<b>13,973</b>	<b>14,535</b>

Options to purchase 668,400 shares (2009 - 1,109,100) at a weighted average exercise price of \$9.01 per share (2009 - \$9.22) were outstanding at the end of the three-month period ending June 30, 2009 but were not included in the calculation of diluted earnings per share because the options' exercise price was greater than the average price of the shares.

## 6) Capital Disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth, to undertake selective acquisitions and to provide an appropriate return on investment to its shareholders. The Company's capital consists of long-term debt, shareholder's equity and deferred revenues, net of cash and cash equivalents and short-term investments. The Company's primary uses of capital are to finance non-cash working capital requirements, capital expenditures and business acquisitions. The Company has historically funded its needs from cash and short-term investments on hand, internally generated cash flows and share issuances. In order to adjust its capital structure, the Company may from time to time issue shares for cash or in connection with business acquisitions, repurchase shares or secure bank debt to fund capital expenditures or business acquisitions. There were no changes in the Company's objectives for managing capital or the definition thereof as compared to the previous year.

The Company is not subject to any externally imposed capital requirements and does not presently use any quantitative measures to monitor its capital.

## 7) Financial risk management

The Company's financial assets and financial liabilities expose it to the following risks: market risk, including foreign currency risk and interest rate risk, credit risk and liquidity risk. The main objective of the Company's risk management process is to ensure that risks are properly identified and addressed to minimize potential adverse effects on financial performance.

Risk management is carried out by the finance department, which identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

### Foreign currency risk

Foreign currency risk is related to the Company's business transactions denominated in a currency other than the Canadian dollar, primary US dollars. Foreign currency risk arises from future sales and purchase transactions as well as recognized financial assets and financial liabilities denominated in foreign currencies.

The Company's main objective in managing its foreign currency risk is to reduce fluctuations in performance. In order to reduce the potentially negative effects of a fluctuating Canadian dollar, the Company has entered into foreign currency forward contracts to stabilize anticipated future revenues and purchase prices payable denominated in US dollars. Foreign currency forward contracts may only be entered into for purposes of managing foreign currency risk and not for speculative purposes.

The balances in foreign currencies as at June 30, 2009 are as follows:

	US\$	€
Cash and cash equivalents	9,545,484	691
Cash held for the benefit of others	1,778,065	-
Accounts receivable	3,754,088	19,054
Accounts payable and accrued liabilities	(4,330,698)	-
Purchase price payable	(21,463)	-
	<hr/>	<hr/>
Net position in foreign currency	10,725,476	19,745
	<hr/>	<hr/>
Net position in Canadian dollars	\$ 12,468,366	\$ 32,178

Based on the above net exposures as at June 30, 2009, and taking into account the foreign currency forward contracts and assuming that all other variables remain constant, a 5% appreciation or depreciation of the Canadian dollar against the various currencies would result in a decrease (increase) in net loss (in Canadian dollars) as follows:

	US\$	€
Canadian dollar appreciates 5%	(346,003)	(1,609)
Canadian dollar depreciates 5%	346,003	1,609

## Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents earn interest at market rates.

As at June 30, 2009, the Company's exposure to interest rate risk is on its cash and cash equivalents whose interest rates vary from 0% to 0.25%. If interest rates as at June 30, 2009 had been 0.5% higher or 0.25% lower, the impact on net loss would have been insignificant.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company is not subject to significant interest rate risk with respect to financial assets and financial liabilities due to their short-term maturity.

## Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments, which potentially subject the Company to credit risk, consist principally of cash and cash equivalents, cash held for the benefit of others and accounts receivable. The Company's cash and cash held for the benefit of others are maintained at major financial institutions; therefore, the Company considers the risk of non-performance on these instruments to be remote.

The Company believes that its credit risk with respect to accounts receivable is limited based on past experience. The Company generally does not require collateral in connection with accounts receivable. Furthermore, its trade accounts receivable are not concentrated on any specific customers but rather are from a wide range of organizations. In addition, the Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. The allowance for doubtful accounts is determined based on past experience of what is considered uncertain to be collectible after 60 days and 90 days, and inactive and restricted accounts are fully provided for.

The carrying value of the Company's trade accounts receivable is net of an allowance for doubtful accounts. Changes in the allowance during the period are as follows:

(Canadian dollars in Thousands)	Three months ended		Fiscal year
	2009	2008	2009
	\$	\$	\$
Beginning of period	(519)	(360)	(360)
Credit (charge) for the period	22	(38)	(159)
End of period	(497)	(398)	(519)

The aging analysis of trade accounts receivables, all of which are overdue, is as follows:

(Canadian dollars in Thousands)	<b>1-30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>Over 90 Days</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts receivable	4,468	2,229	404	555	7,656

There is no impairment or amounts past due related to assets other than accounts receivable.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company is currently not exposed to liquidity risk as it has sufficient cash and cash equivalents to sustain its operations and anticipated investing and financing activities. The Company's financial liabilities, which consist of accounts payable and accrued liabilities, are due within 12 months or less.

### **Fair value**

Cash and cash equivalents and cash held for the benefit of others are carried at fair value. Accounts receivable, accounts payable and accrued liabilities, and purchase price payable are financial instruments whose fair values approximate their carrying values because of their short term to maturity.

### **8) Comparative figures**

Certain figures for fiscal 2009 have been reclassified in order to conform to the basis of presentation adopted in the current year.