



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FIRST QUARTER ENDED JUNE 30, 2011



## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FIRST QUARTER ENDED JUNE 30, 2011

---

*The following Management's Discussion and Analysis ("MD&A"), which has been prepared as at September 7, 2011, of the financial position and results of operations of Mediagrif Interactive Technologies Inc. ("Mediagrif" or the "Company") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes thereto for the period ended June 30, 2011 as well as the Company's MD&A, audited consolidated financial statements and accompanying notes thereto for the year ended March 31, 2011. This discussion and analysis compares performance for the quarters ended June 30, 2011 and 2010. Unless indicated otherwise, all dollar amounts are expressed in Canadian dollars. This MD&A was approved by the Board of Directors of Mediagrif.*

*According to the requirements of the Canadian Accounting Standards Board ("AcSB"), Mediagrif has adopted International Financial Reporting Standards ("IFRS") for its first interim financial statements relating to its fiscal year beginning on April 1, 2011. As required under IFRS 1, First-Time Adoption of International Financial Reporting Standards, IFRS accounting policies have also been applied in the preparation of an opening IFRS statement of financial position as at April 1, 2010. For comparison purposes, the 2011 fiscal year financial information has been restated from Canadian generally accepted accounting principles ("GAAP") to IFRS (see "Changes in accounting policies – International Financial Reporting Standards").*

*In addition to providing earnings measures in accordance with IFRS, the Company's statement of income shows operating profit and earnings before interest, taxes, depreciation and amortization ("EBITDA") as supplementary earnings measures. The Company sometimes refers to the free cash flow measure in its documents. Free cash flow is defined as cash flows from operating activities less the acquisition of fixed assets and intangible assets presented in investing activities and less dividends paid that are presented in financing activities. Operating profit, EBITDA and free cash flow are not intended to be measures that should be regarded as an alternative to other financial operating performance measures prepared in accordance with IFRS. Those measures do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Operating profit and EBITDA are provided to assist investors in determining the Company's ability to generate profitability from its operations and to evaluate its financial performance. Free cash flow is provided to investors to help determine the Company's ability to generate cash flows to finance its growth.*

---

## PROFILE

Mediagrif (TSX: MDF) delivers innovative e-commerce solutions to businesses since 1996. Its web platforms enable clients to find, purchase and sell products, exchange information, gain access to business opportunities and manage supply chain collaboration with greater speed and efficiency. The Company provides e-commerce solutions in the fields of electronics components, computer equipment and telecommunications, medical equipment, automotive aftermarket, wine & spirits, diamonds and jewelry, retail markets and government opportunities. Mediagrif has its headquarters in Longueuil and has offices in North America and Asia.

## MISSION STATEMENT

Our mission is to provide businesses with innovative e-commerce solutions to help them maximize their reach and effectiveness. In doing so, we seek to create value for clients, employees and shareholders.

## HIGHLIGHTS OF THE FIRST QUARTER ENDED JUNE 30, 2011

The Company shows an increase in operating results for the first quarter of fiscal 2012 and maintains a solid financial position. The acquisition of InterTrade Systems Inc. ("InterTrade") contributed positively to the improvement of the results of the first quarter of 2012.

The highlights of the first quarter are as follows:

- Increase of 12% in revenues reaching \$12.6 million for the first quarter of 2012, compared to \$11.2 million for the first quarter of 2011;
- EBITDA increased 9% (see reconciliation of EBITDA and net earnings) reaching \$4.0 million for the first quarter of 2012, compared to \$3.7 million for the first quarter of 2011;
- Operating profit were up 8% to \$3.2 million for the first quarter of 2012, compared to \$3.0 million for the first quarter of 2011;
- Net earnings reached \$2.2 million (\$0.16 per share) for the first quarter of 2012, compared to \$2.3 million (\$0.16 per share) for the first quarter of 2011;
- Cash and cash equivalents reached \$29.7 million as at June 30, 2011, compared to \$30.0 million as at March 31, 2011.

## CONSOLIDATED STATEMENTS OF INCOME AND SELECTED FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF INCOME <sup>(1)</sup> (unaudited)	Three months ended June 30	
	2011	2010
	\$	\$
<b>REVENUES</b>	<b>12,637</b>	<b>11,245</b>
<b>GROSS MARGIN</b>	<b>9,988</b>	<b>8,652</b>
<b>OPERATING EXPENSES</b>		
General and administrative	2,210	1,682
Sales and marketing	2,417	2,144
Technology	2,136	1,845
<b>TOTAL OPERATING EXPENSES</b>	<b>6,763</b>	<b>5,671</b>
<b>OPERATING PROFIT</b>	<b>3,225</b>	<b>2,981</b>
<b>OTHER REVENUES (EXPENSES)</b>	<b>(102)</b>	<b>310</b>
<b>INCOME TAX EXPENSE</b>	<b>965</b>	<b>1,020</b>
<b>NET EARNINGS</b>	<b>2,158</b>	<b>2,271</b>
<b>EBITDA (see reconciliation of EBITDA and net earnings)</b>	<b>3,992</b>	<b>3,664</b>
Basic earnings per share	0.16	0.16
Diluted earnings per share	0.16	0.16
Weighted average number of shares outstanding (basic)	13,682,201	13,899,300
Weighted average number of shares outstanding (diluted)	13,725,138	13,921,222
Number of ordinary shares outstanding as of September 7, 2011	13,704,275	
Number of stock options outstanding as of September 7, 2011	129,500	
<b>CONSOLIDATED STATEMENTS OF FINANCIAL POSITION <sup>(1)</sup> (unaudited)</b>		
	June 30, 2011	March 31, 2011
	\$	\$
Cash and cash equivalents	29,729	30,026
Non-current assets	43,172	43,960
Total assets	86,647	86,863
Total liabilities	21,543	22,927
Shareholders' equity	65,104	63,936
<sup>(1)</sup> in thousands of Canadian dollars, except for numbers related to shares		

RECONCILIATION OF EBITDA AND NET EARNINGS <sup>(1)</sup>	Three months ended June 30	
	2011	2010
	\$	\$
<b>NET EARNINGS</b>	<b>2,158</b>	<b>2,271</b>
Income tax expense recognized in profit or loss	965	1,020
Depreciation of fixed assets	265	295
Amortization of intangible assets	91	184
Amortization of acquired intangible assets	436	172
Amortization of deferred lease inducement	(30)	-
Stock-based compensation	5	32
Exchange loss (gain)	159	(309)
Interest income	(56)	(43)
Loss (gain) on disposal of fixed assets	(2)	-
Other expenses	1	42
<b>EBITDA</b>	<b>3,992</b>	<b>3,664</b>

<sup>(1)</sup> in thousands of Canadian dollars

## EARNINGS ANALYSIS

The earnings analysis takes into consideration the impact of the acquisition of InterTrade completed in December 2010.

## REVENUES

For the first quarter of 2012, revenues increased by \$1.4 million, compared to the first quarter of 2011, to reach \$12.6 million.

- Excluding revenues of InterTrade amounting to \$1.4 million, revenues in original currencies increased by \$0.3 million for the first quarter of 2012, compared to the first quarter of 2011. However, the changes in the value of the Canadian dollar compared to the U.S. dollar, combined with hedge coverage, generated a negative impact on revenues of \$0.3 million during the first quarter of 2012.
- Revenues earned in U.S. dollars represented 58% of total revenues for the first quarter of 2012, compared to 56% for the first quarter of 2011.

## GROSS MARGIN

Gross margin of the first quarter of 2012 reached 79.0%, compared to 76.9% for the first quarter of 2011. This increase is mainly due to a decrease in the use of outsourced activities.

## OPERATING EXPENSES

Operating expenses of the first quarter of 2012 reached \$6.8 million, compared to \$5.7 million for the first quarter of 2011. The increase in operating expenses is mainly due to the addition of InterTrade expenses for an amount of \$0.8 million. Changes in operating expenses are explained in more detail as follows:

- General and administrative expenses reached \$2.2 million during the first quarter of 2012, compared to \$1.7 million during the first quarter of 2011. This increase is due to the addition of InterTrade expenses for an amount of \$0.3 million and to a penalty reversal of \$0.2 million during the first quarter of 2011, related to a tax assessment.

- Sales and marketing expenses increased to \$2.4 million during the first quarter of 2012, compared to \$2.1 million for the first quarter of 2011, mainly due to the addition of InterTrade expenses.
- Technology expenses increased to \$2.1 million during the first quarter of 2012, compared to \$1.8 million for the first quarter of 2011, mainly due to the fact that InterTrade expenses reached \$0.2 million and to a decrease of tax credits.

## **OPERATING PROFIT**

For the first quarter of 2012, operating profit reached \$3.2 million, compared to \$3.0 million for the first quarter of 2011, mainly due to the addition of the operating profit of InterTrade.

## **OTHER REVENUES (EXPENSES)**

Other expenses reached \$0.1 million during the first quarter of 2012, compared to other revenues of \$0.3 million for the same quarter last year. This decrease of \$0.4 million is mainly due to a negative foreign exchange rate change during the first quarter of 2012, compared to the first quarter of 2011.

## **INCOME TAX EXPENSE**

For the first quarters of 2012 and 2011, the income tax expense amounted to \$1.0 million, representing a 30.9% and 31.0% effective tax rate, respectively. The weighted statutory tax rate is 28.0% in 2012, compared to 29.5% in 2011, a decrease related to a lower Canadian federal income tax rate.

For the first quarter of 2012, the effective tax rate is higher than the weighted statutory tax rate due to the geographical distribution of operating profits and to the foreign exchange effect after the revaluation of deferred tax denominated in U.S. dollars. For the first quarter of 2011, the effective tax rate was higher than the weighted statutory tax rate due to an increase in the valuation allowance on the net operating losses of our U.S. subsidiaries, non-deductible expenses, and geographical distribution, partially offset by the revaluation of future income tax assets denominated in U.S. dollars and non-deductible exchange gains.

## **EARNINGS PER SHARE**

The basic and diluted earnings per share for the first quarter of 2012 remained stable at \$0.16, compared to the first quarter of 2011. The basic and diluted weighted average number of ordinary shares outstanding for the first quarter of 2012 and 2011 were 13.7 million and 13.9 million, respectively.

## QUARTERLY PERFORMANCE

Selected quarterly financial information for the eight most recently completed quarters as at June 30, 2011 is as follows:

	IFRS					Canadian GAAP		
	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Revenues</b>	12,637	12,747	11,664	11,420	11,245	11,147	11,417	11,468
<b>Operating profit</b>	3,225	2,766	3,364	3,234	2,981	2,311	2,537	2,751
<b>EBITDA</b>	3,992	3,672	3,958	3,818	3,664	3,016	3,334	3,453
<b>Net earnings</b>	2,158	1,900	1,923	1,901	2,271	916	1,121	683
<b>Basic earnings per share</b>	0.16	0.14	0.14	0.14	0.16	0.06	0.08	0.05
<b>Diluted earnings per share</b>	0.16	0.14	0.14	0.14	0.16	0.06	0.08	0.05

*In thousands of Canadian dollars, except per share amounts.*

### 2012 QUARTER

- » The increases in revenues, operating profit, EBITDA and net earnings compared to previous quarters, are mainly due to the contribution of InterTrade. The Company generated higher results despite a negative foreign exchange rate change, which lead to a slightly negative impact on net earnings.

### 2011 QUARTERS

- » Fourth quarter: In spite of an increase in revenues from InterTrade, the expenses related to the acquisition of InterTrade, namely professional fees and restructuring fees, have decreased the Company's consolidated EBITDA, while net earnings stayed at the same level as the previous quarter.
- » Third quarter: The acquisition of InterTrade on December 22, 2010 generated \$0.1 million in additional revenues as well as \$0.1 million in additional expenses, but better cost control helped generate an increase in operating profit and EBITDA in the third quarter of 2011.
- » Second quarter: Effective cost control combined with a slight increase in revenues, due to the improvement of economic conditions in some of our business networks' markets helped generate an increase in EBITDA in the second quarter of 2011. However, the Company incurred a foreign exchange loss on assets denominated in U.S. dollars during the quarter.
- » First quarter: The general headcount reduction throughout the Company, the reversal of a penalty related to a tax assessment and better cost control helped generate an increase in operating income and EBITDA in the first quarter of 2011. A foreign exchange gain on assets denominated in U.S. dollars realized during the quarter helped generate growth in net earnings.

### 2010 QUARTERS

- Results remained stable during the last three quarters of 2011, even with better cost control and headcount reduction,.

## LIQUIDITY AND FINANCIAL RESOURCES

Since its inception, the Company has financed its operations, business acquisitions, capital expenditures, buy-back of ordinary shares for cancellation and dividend payment through its liquidity. Over the coming years, the Company expects to maintain its policy and hold its excess cash in order to fund new business opportunities.

As at June 30, 2011, cash and cash equivalents amounted to \$29.7 million, compared to \$30.0 million as at March 31, 2011 and to \$35.6 million as at June 30, 2010.

As at June 30, 2011, long-term debt remained stable at \$0.3 million, compared to March 31, 2011. This debt consists of obligations under capital leases and a loan, which are assumed by the Company since the acquisition of InterTrade.

CONSOLIDATED CASH FLOWS <sup>(1)</sup> (unaudited)	Three months ended June 30	
	2011	2010
Cash flows related to operating activities	\$ 146	\$ 360
Cash flows related to investing activities	(140)	(47)
Cash flows related to financing activities	(792)	118

<sup>(1)</sup> in thousands of Canadian dollars

## OPERATING ACTIVITIES

Net cash generated by operating activities amounted to \$0.1 million for the first quarter of 2012, compared to \$0.4 million for the first quarter of 2011. This decrease is mainly due to higher income taxes paid, partially offset by lower negative changes in non-cash working capital items.

## INVESTING ACTIVITIES

Net cash used for investing activities amounted to \$0.1 million for the first quarter of 2012, compared to less than \$0.1 million during the first quarter of 2011. This slight increase is due to the acquisition of intangible assets such as software, for an amount of \$0.1 million during the current quarter.

## FINANCING ACTIVITIES

Net cash used for financing activities amounted to \$0.8 million for the first quarter of 2012, due to dividend payment on ordinary shares for a cash consideration of \$1.0 million, partially offset by the issuance of 28,000 ordinary shares pursuant to the exercise of stock options for a cash consideration of \$0.3 million.

Net cash generated from financing activities amounted to \$0.1 million for first quarter of 2011 due to the exercise of stock options.

## FREE CASH FLOW

FREE CASH FLOW <sup>(1)</sup> (unaudited)	Three months ended June 30	
	2011	2010
	\$	\$
Cash flows related to operating activities	146	360
Acquisition of fixed assets	(70)	(51)
Acquisition of intangible assets	(72)	-
Dividends paid	(958)	-
<b>FREE CASH FLOW</b>	<b>(954)</b>	<b>309</b>

<sup>(1)</sup> in thousands of Canadian dollars

Free cash flow reached a negative \$1.0 million during the first quarter of 2012, compared to generating \$0.3 million during the first quarter of 2011. This decrease is mainly due to the increase in the acquisitions of capital assets, and to the payment of a cash dividend during the first quarter of 2012. The Company has recently modified its dividend payment frequency, from semi-annually to quarterly.

## FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to certain financial risks. The Company does not hold financial instruments for speculative purposes but only to reduce the volatility of its results from its exposure to these risks. The nature and the extent of the risks arising from the financial instruments and their related risk management are described in Note 18 of the Company's audited consolidated financial statements as at March 31, 2011.

The Company's hedging program will yield an average (CA\$/US\$) exchange rate of 1.0153 on foreign currency forward contracts of US\$16.3 million held on June 30, 2011, which will mature over the forthcoming quarters of fiscal years 2012 and 2013, compared to 1.0524 on foreign currency forward contracts of US\$14.6 million held on June 30, 2010.

During the first quarter of 2012, there has been no material change to the nature of risks arising from financial instruments, related risk management and classification of financial instruments. Furthermore, there was no change in the methodology used in determining the fair value of the financial instruments that are measured at fair value in the Company's consolidated statements of financial position.

## RELATED PARTY TRANSACTIONS

During the first quarter of 2012, the Company paid management fees of \$100,298 to a corporate shareholder who has a significant influence over the Company, compared to \$65,604 during the first quarter of 2011. The corporate shareholder provides management services to the Company, namely the services of Mr. Claude Roy, President and Chief Executive Officer. The operations occurred in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed upon by the parties.

## OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Company finances certain of its activities off-balance sheet through leases. These arrangements and their impact on results of operations and financial position are described in Note 12 of the consolidated financial statements as at March 31, 2011 and have not changed significantly since that date.

## RISKS AND UNCERTAINTIES

The Company is confident of its long-term prospects. However, in order to ensure that its strategy and growth objectives are met, the Company seeks to diminish the risks and uncertainties created by potentially unfavourable situations in its industry sector or its liquidity. The risks that the Company faces are technological, operational or financial in nature or are inherent to its business activities or its acquisition strategies. The description of these risks and uncertainties has not changed compared to the description in the MD&A of the year ended March 31, 2011.

## CHANGES TO ACCOUNTING POLICIES

In October 2009, the Canadian Accounting Standards Board ("AcSB") reconfirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to IFRS. Accordingly, starting from the first quarter of the fiscal year ending March 31, 2012, the Company's financial statements are prepared in accordance with IFRS in effect as of this date, with comparative figures of the fiscal year ending March 31, 2011, and April 1, 2010 ("date of transition") opening balance sheet restated to conform with such IFRS, along with reconciliations from Canadian GAAP to IFRS, as per the guidance provided in IFRS 1, "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1"). See Note 11 to the Company's unaudited interim condensed consolidated financial statements for the first quarter ended June 30, 2011 for quantitative reconciliations between Canadian GAAP and IFRS.

The Company established its accounting policies and methods used in the preparation of its unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2011, in accordance with IFRS. See Note 2 to the Company's unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2011 for more information about the significant accounting principles used to prepare the financial statements.

## CRITICAL ACCOUNTING ESTIMATES

Some of the Company's accounting policies require significant estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of management's judgment. Actual results could differ from those estimates, and any such differences may be material to the Company's consolidated financial statements.

The key assumptions and basis for estimates that management has made under IFRS and their impact on the amounts reported in the unaudited interim condensed consolidated financial statements have been defined in the Company's unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2011.

## FUTURE CHANGES IN ACCOUNTING POLICIES

The Company monitors the standard-setting process for new standards issued by the International Accounting Standards Board ("IASB"), which the Company may be required to adopt in the future.

### IFRS 9 FINANCIAL INSTRUMENTS

This is the first of the three phases of IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments – Recognition and Measurement. This first phase addresses the classification and measurement of financial assets. The Company has not yet examined the impacts of this first phase. IFRS 9 is effective for the Company for its annual period beginning on April 1, 2013.

### IFRS 11 JOINT ARRANGEMENTS

IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. It introduces new requirements for joint arrangements. The option to apply proportionate consolidation to companies under joint control (which allows the parent company to record its share in the entity under joint control in its consolidated statement of financial position and income statement) has been removed. The impacts of this standard will be significant because of the elimination of this proportionate consolidation method. IFRS 11 is effective for the Company for its annual period beginning on April 1, 2013.

Other standards have been published but have no impact on the Company.

## FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Company. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those expected by these forward-looking statements. The Company considers the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond the control of the Company, may ultimately prove to be incorrect since they are subject to the risks and uncertainties that affect the Company. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

## CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators' National Instrument 52-109, certificates signed by the President and Chief Executive Officer and the Chief Financial Officer have been filed. These documents confirm the adequacy of controls and procedures for disclosure of the Company and the design and effectiveness of its internal controls regarding financial reporting.

## DISCLOSURE CONTROLS AND PROCEDURES

The disclosure controls and procedures of the Company have been designed in accordance with the rules of the Canadian Securities Administrators in order to provide reasonable assurance that material information related to the Company is made known to the Audit Committee and the Board of Directors and information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the time period specified in securities legislation.

Under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, management has evaluated the effectiveness of the Company's disclosure controls and procedures in accordance with the rules of the Canadian Securities Administrators and has concluded that such disclosure controls and procedures are efficient for the fiscal year ended March 31, 2011. As at June 30, 2011, there has been no change in the Company's disclosure controls and procedures and those controls and procedures are therefore considered to be effective.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

The internal control over financial reporting has been designed in order to provide reasonable insurance that the financial information reported is reliable and that the financial statements were prepared in accordance with the Company's IFRS.

Under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, management has evaluated the effectiveness of the Company's internal control over financial reporting and has concluded that such controls were efficient for the fiscal year ended March 31, 2011. As at June 30, 2011, there has been no change in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

In light of the actual differences identified following the conversion to IFRS, no significant changes to the Company's controls have been noted.

## ADDITIONAL INFORMATION

This report has been prepared as at September 7, 2011.

At that date, the number of ordinary shares outstanding was 13,704,275 and the number of stock options outstanding was 129,500.

Additional information relating to the Company, including the annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## MARKET AND TICKER SYMBOL

The ordinary shares of Mediagrif trade on the Toronto Stock Exchange under the ticker symbol MDF.

## HEAD OFFICE

1111 St-Charles Street West, Suite 255, Longueuil, Quebec, Canada J4K 5G4

Tel.: 450-449-0102 Fax: 450-449-8725

[www.mediagrif.com](http://www.mediagrif.com)

## BOARD OF DIRECTORS

### **Claude Roy**

Quebec, Canada

President, Chief Executive Officer and Chairman  
of the Board of the Company

### **André Gauthier**

Quebec, Canada

President  
Holding André Gauthier Inc.

### **André Courtemanche**

Quebec, Canada

President and Chief Executive Officer  
VIAVAR Capital Inc.

### **Gilles Laurin**

Quebec, Canada

Chartered Accountant  
Director of Corporations

### **Michel Dubé**

Quebec, Canada

Consultant

### **Jean-François Sabourin**

Quebec, Canada

President and Chief Executive Officer  
FinlogiK Inc.

Chief of Business Development and  
Chairman of the Board  
JitneyTrade Inc.

## TRANSFER AGENT

Computershare Investor Services Inc.

1500 University Street, Suite 700, Montreal, Quebec, Canada H3A 3S8

Tel.: 514-982-7888 Fax: 514-982-7580

[www.computershare.com](http://www.computershare.com)

## AUDITORS

Deloitte & Touche LLP