MEDIAGRIF

# Interim Condensed Consolidated Financial Statements for the three months ended June 30, 2015 and 2014

(Unaudited and not reviewed by independent auditors)

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# Interim Condensed Consolidated Statements of Income

*Unaudited and not reviewed by independent auditors*

| | Three months ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| *In thousands of Canadian dollars, except per share amounts* | $ | $ |
| **Revenues (Note 5)** | 17,709 | 17,731 |
| **Cost of revenues** | 3,543 | 3,480 |
| **Gross margin** | 14,166 | 14,251 |
| **Operating expenses** | | |
| General and administrative | 2,382 | 2,090 |
| Selling and marketing | 3,862 | 3,678 |
| Technology | 2,805 | 3,592 |
| | 9,049 | 9,360 |
| **Operating profit** | 5,117 | 4,891 |
| Other expenses, net amount (Note 10b)) | (146) | (315) |
| Financial expenses (Note 10c)) | (196) | (322) |
| Share of profit of a joint venture | 40 | 41 |
| **Profit before income taxes** | 4,815 | 4,295 |
| Income tax expense | 1,395 | 1,163 |
| **Profit for the period** | 3,420 | 3,132 |
| **Earnings per share** | | |
| Basic and diluted | 0.22 | 0.20 |
| **Weighted average number of shares outstanding** | | |
| Basic and diluted | 15,460,128 | 15,816,977 |
| **Number of shares outstanding at end of period** | 15,124,546 | 15,815,155 |



Refer to the notes to the consolidated financial statements

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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, 2015 $** | **2014 $** |
|---|---|---|
| **Profit for the period** | 3,420 | 3,132 |
| Items that may be reclassified subsequently in profit or loss | | |
| Change in unrealized gains on foreign currency forward contracts designated as hedging items, net of deferred taxes | 78 | 302 |
| Reclassification of realized losses on foreign currency forward contracts, net of deferred taxes | 297 | 171 |
| | 375 | 473 |
| **Comprehensive income for the period** | 3,795 | 3,605 |



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, 2015 $** | **As at March 31, 2015 $** |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 7,270 | 7,546 |
| Cash held for the benefit of third parties | 792 | 666 |
| Accounts receivable | 5,674 | 5,691 |
| Income taxes receivable | 248 | - |
| Tax credits receivable | 4,205 | 3,947 |
| Prepaid expenses and deposits | 2,458 | 1,986 |
| | 20,647 | 19,836 |
| **Non-current assets** | | |
| Property, plant and equipment | 2,050 | 2,084 |
| Intangible assets | 2,456 | 1,719 |
| Acquired intangible assets | 59,810 | 60,704 |
| Goodwill | 100,280 | 100,280 |
| Investment in a joint venture | 127 | 587 |
| Deferred taxes | 5,345 | 5,945 |
| | 190,715 | 191,155 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 6,710 | 6,861 |
| Other accounts payable | 1,528 | 1,229 |
| Income taxes payable | - | 1,084 |
| Deferred revenues | 17,030 | 16,473 |
| Derivative financial instruments | 918 | 1,431 |
| Current portion of deferred lease inducement | 153 | 150 |
| | 26,339 | 27,228 |
| **Non-current liabilities** | | |
| Long-term debt (Note 6) | 31,300 | 26,100 |
| Deferred lease inducement | 622 | 661 |
| Deferred taxes | 15,109 | 15,063 |
| | 73,370 | 69,052 |
| **Shareholders' equity** | | |
| **Share capital (Note 7)** | 79,499 | 81,695 |
| **Reserves** | 2,542 | 2,167 |
| **Retained earnings** | 35,304 | 38,241 |
| | 117,345 | 122,103 |
| | 190,715 | 191,155 |



Refer to the notes to the consolidated financial statements

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# Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
*Unaudited and not reviewed by independent auditors*

## Three months ended June 30, 2015

| | | Reserves | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Equity-settled employee benefits | Cash flow hedging | Total | Retained earnings | Total |
| *In thousands of Canadian dollars* | $ | $ | $ | $ | $ | $ |
| Balance as at March 31, 2015 | 81,695 | 3,213 | (1,046) | 2,167 | 38,241 | 122,103 |
| Profit for the period | - | - | - | - | 3,420 | 3,420 |
| Other comprehensive income for the period, net of income taxes | - | - | 375 | 375 | - | 375 |
| Comprehensive income for the period | - | - | 375 | 375 | 3,420 | 3,795 |
| Repurchase of common shares for cancellation | (2,196) | - | - | - | (4,803) | (6,999) |
| Dividends declared on common shares | - | - | - | - | (1,554) | (1,554) |
| **Balance as at June 30, 2015** | 79,499 | 3,213 | (671) | 2,542 | 35,304 | 117,345 |

## Three months ended June 30, 2014

| | | Reserves | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Equity-settled employee benefits | Cash flow hedging | Total | Retained earnings | Total |
| *In thousands of Canadian dollars* | $ | $ | $ | $ | $ | $ |
| Balance as at March 31, 2014 | 83,141 | 3,213 | (489) | 2,724 | 32,393 | 118,258 |
| Profit for the period | - | - | - | - | 3,132 | 3,132 |
| Other comprehensive income for the period, net of income taxes | - | - | 473 | 473 | - | 473 |
| Comprehensive income for the period | - | - | 473 | 473 | 3,132 | 3,605 |
| Repurchase of common shares for cancellation | (12) | - | - | - | (30) | (42) |
| Dividends declared on common shares | - | - | - | - | (1,582) | (1,582) |
| Balance as at June 30, 2014 | 83,129 | 3,213 | (16) | 3,197 | 33,913 | 120,239 |



Refer to the notes to the consolidated financial statements

# Interim Condensed Consolidated Statements of Cash Flows

*Unaudited and not reviewed by independent auditors*

| *In thousands of Canadian dollars* | Three months ended June 30, 2015 $ | 2014 $ |
|---|---|---|
| **CASH FLOWS RELATED TO** | | |
| **Operating activities** | | |
| Profit for the period | 3,420 | 3,132 |
| Adjustments for the following items: | | |
| Amortization and depreciation (Note 19) | 1,357 | 1,717 |
| Amortization of deferred lease inducement | (36) | (30) |
| Amortization of deferred financing costs | - | 48 |
| Interest expense | 196 | 274 |
| Foreign exchange | 159 | 225 |
| Share of profit of a joint venture | (40) | (41) |
| Deferred taxes | 444 | (214) |
| Gain on disposal of property, plant and equipment | (4) | - |
| Income tax expense recognized in profit | 951 | 1,377 |
| Changes in non-cash working capital items (Note 10a)) | (7) | (65) |
| Interest paid | (197) | (254) |
| Income taxes paid | (2,283) | (2,136) |
| | 3,960 | 4,033 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | (223) | (186) |
| Acquisition of intangible assets | (943) | (556) |
| Distribution from a joint venture | 500 | - |
| Proceeds on disposal of property, plant and equipment | 4 | - |
| | (662) | (742) |
| **Financing activities** | | |
| Increase of long-term debt | 6,999 | - |
| Repayment of long-term debt | (1,799) | (3,240) |
| Repurchase of share capital for cancellation (Note 7) | (6,999) | (42) |
| Lease inducement received | - | 8 |
| Cash dividends paid on common shares | (1,554) | (1,583) |
| | (3,353) | (4,857) |
| **Net change in cash and cash equivalents for the period** | (55) | (1,566) |
| **Impact of exchange rate changes on cash and cash equivalents** | (95) | (225) |
| **Cash and cash equivalents at beginning of period** | 8,212 | 7,842 |
| **Cash and cash equivalents at end of period** | 8,062 | 6,051 |
| Cash and cash equivalents consist of the following statement of financial position items: | | |
| Cash and cash equivalents | 7,270 | 5,435 |
| Cash held for the benefit of third parties | 792 | 616 |



Refer to the notes to the consolidated financial statements

## 1 Incorporation and nature of operations

Mediagrif Interactive Technologies Inc. (the "Company") provides e-business solutions to consumers and businesses. It operates its activities through its wholly-owned subsidiaries. The Company also owns interests in a joint venture.

The Company, 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 4, 2015. Amounts are expressed in Canadian dollars, unless indicated otherwise.

## 2 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34, *Interim Financial Reporting*, through the application of accounting principles that are compliant with International Financial Reporting Standards ("IFRS").

These interim condensed consolidated financial statements do not include all of the information required for complete financial statements under IFRS, including the notes, and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended March 31, 2015. The annual financial statements of the Company are available on the SEDAR website at the following address: www.sedar.com and on the Company website at the following address: www.mediagrif.com.

## 3 New and revised IFRS, issued but not yet effective

| Standard and interpretation | Effective date for the Company | Presentation and impact on the Company |
|---|---|---|
| IFRS 9 *Financial Instruments* | Annual period beginning on April 1, 2018 | On July 24, 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9"), which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 does not address the specific accounting for open portfolios or macro hedging, as these items are part of a separate IASB project that is currently ongoing. This final Standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9. This Standard introduces an amended hedging model which aligns hedge accounting more closely with an entity's risk management activities and also includes a new financial asset impairment model which has an expanded scope, is based on expected credit losses rather than incurred credit losses and generally will result in earlier recognition of losses. This new Standard supersedes all prior versions of IFRS 9. The Company has not yet examined the impacts of this new standard. |
| IFRS 15 *Revenue from Contracts with Customers* | Tentatively for the annual period beginning on April 1, 2018 | IFRS 15 *Revenue from Contracts with Customers* establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The Company has not yet examined the impacts of this new standard. |

## 4 Segment information

The Company has only one reportable segment.

Geographical information is as follows:

| *In thousands of Canadian dollars* | Three months ended June 30, 2015 $ | 2014 $ |
|---|---|---|
| **Revenues** | | |
| Canada | 11,379 | 11,718 |
| United States | 5,723 | 5,275 |
| Europe | 155 | 181 |
| Asia and other | 452 | 557 |
| | 17,709 | 17,731 |

| *In thousands of Canadian dollars* | As at June 30, 2015 $ | As at March 31, 2015 $ |
|---|---|---|
| **Non-current assets** | | |
| Canada | 139,943 | 140,100 |
| United States | 24,648 | 24,681 |
| Asia and other | 5 | 6 |
| | 164,596 | 164,787 |

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

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

## 5 Revenues

Revenues are detailed as follows:

| | Three months ended June 30, | |
|---|---|---|
| *In thousands of Canadian dollars* | **2015** **$** | **2014** **$** |
| Revenues from rights of use | 13,206 | 13,296 |
| Revenues from transaction fees | 1,982 | 1,561 |
| Revenues from advertising | 1,315 | 1,625 |
| Revenues from software development | 542 | 708 |
| Revenues from integration, maintenance and hosting | 393 | 315 |
| Other | 271 | 226 |
| | 17,709 | 17,731 |

## 6 Long-term debt

On November 10, 2011, the Company entered into a credit agreement, which was amended on November 13, 2012 (the "Credit Agreement") with two Canadian financial institutions pursuant to which lenders made available to the Company a $60,000,000 secured revolving five-year credit facility (The "Revolving Facility") and an accordion loan of $40,000,000 subject to lenders' acceptance.

The Revolving Facility expires on November 9, 2016, and any outstanding amounts are due in full at maturity. Amounts under the Credit Agreement are repayable before maturity without penalty. As at June 30, 2015, the Company's Revolving Facility stood at $31,300,000 ($26,100,000 as at March 31, 2015) and the amount is due in full during the fiscal year ended March 31, 2017.

The Revolving Facility bears interest at a rate based either on Canadian prime rate, LIBOR 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, 2015, the actual rate was 1.00% (1.00% as at March 31, 2015) and the margin was 1.25% (1.50% as at March 31, 2015). In addition, the unused portion of the Revolving Facility bears interest at 0.25% (0.30% as at March 31, 2015) as standby fees.

All obligations under the Credit Agreement are secured by a first-rank security (hypothec) on substantially all of the Company's assets, tangible and intangible, present and future.

The Credit Agreement contains certain covenants and certain events of default customary for loans of this nature, including some limitations to the levels of investments and acquisitions, capital expenditures and distributions. The Credit Agreement is also subject to restrictive covenants requiring certain financial ratios to be maintained. As at June 30, 2015, the Company was in compliance with the financial ratios prescribed under these covenants:

1. a fixed charge coverage ratio of not less than 1.20:1.00 at all times.
2. a total debt to EBITDA ratio of not more than 2.5.

Fixed charge, total debt and EBITDA, which are used in the calculation of the covenants mentioned above are defined precisely in the Credit Agreement.

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

## 7 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:

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| *In thousands* | **Shares** | **$** | **Shares** | **$** |
| **Balance at beginning of period** | 15,542 | 81,695 | 15,817 | 83,141 |
| Repurchased for cancellation i) | (418) | (2,196) | (2) | (12) |
| **Balance at end of period** | 15,124 | 79,499 | 15,815 | 83,129 |

i) During the three months ended June 30, 2015, the Company repurchased for cancellation 417,719 (2,200 in 2014) of its common shares for a cash consideration of $6,998,549 ($41,690 in 2014) in connection with its Normal Course Issuer Bid. An average issue price of $5.26 ($5.26 in 2014) per share before repurchase was recorded as a deduction from Share capital in a total amount of $2,195,597 ($11,564 in 2014), and the balance was charged to Retained earnings.

c) Dividends declared

**Three months ended June 30, 2015**
Subsequent to the three months ended June 30, 2015, i.e., on August 4, 2015, the Company announced the payment of a cash dividend of $0.10 per share, payable on October 15, 2015, to shareholders of record on October 1, 2015.

On June 9, 2015, the Company announced the payment of a cash dividend of $0.10 per share, payable on July 15, 2015, to shareholders of record on July 2, 2015.

**Three months ended June 30, 2014**
On June 10, 2014, the Company announced the payment of a cash dividend of $0.10 per share, payable on July 15, 2014, to shareholders of record on July 1, 2014.

## 8 Stock-based compensation

In July 2004, the Company established a stock purchase plan. Certain amendments to the plan have subsequently been adopted and are in effect on the date hereof for all regular full-time and part-time employees who are Canadian residents. Directors are not eligible to participate in this plan. Under the terms of the plan, employees may elect to contribute, through payroll deductions, up to 10% of their annual income up to a maximum of $20,000 annually to purchase common shares in the Company on the open market. Under the plan, the Company matches employee contributions to the plan up to a maximum contribution of $1,400 per employee ($1,300 in 2014). Employees must hold the portion of shares purchased with the Company's contribution for a period of 12 months. 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.

## 9 Expenses by type

Operating profit includes the following items:

| | Three months ended June 30, | |
|---|---|---|
| *In thousands of Canadian dollars* | **2015** **$** | **2014** **$** |
| **Amortization and depreciation** | | |
| Depreciation of property, plant and equipment | 257 | 242 |
| Amortization of intangible assets | 206 | 111 |
| Amortization of acquired intangible assets | 894 | 1,364 |
| **Total** | 1,357 | 1,717 |
| **Employee benefits expense** | | |
| Salaries and employee benefits | 7,631 | 7,303 |
| Termination benefits | 38 | 3 |
| **Total** | 7,669 | 7,306 |

## 10 Supplementary statements of cash flows and statements of income information

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

| | Three months ended June 30, | |
|---|---|---|
| *In thousands of Canadian dollars* | 2015<br>$ | 2014<br>$ |
| Decrease (increase) in | | |
| Accounts receivable | 17 | (426) |
| Tax credits receivable | (258) | 376 |
| Prepaid expenses and deposits | (471) | 350 |
| Increase (decrease) in | | |
| Accounts payable and accrued liabilities | (151) | (90) |
| Other accounts payable | 299 | (564) |
| Deferred revenues | 557 | 289 |
| **Total** | (7) | (65) |

b) Other revenues (expenses) consist of the following:

| | Three month ended June 30, | |
|---|---|---|
| *In thousands of Canadian dollars* | 2015<br>$ | 2014<br>$ |
| Foreign exchange loss | (150) | (315) |
| Gain on disposal of property, plant and equipment | 4 | - |
| **Total** | (146) | (315) |

c) Financial expenses consist of the following:

| | Three month ended June 30, | |
|---|---|---|
| *In thousands of Canadian dollars* | 2015<br>$ | 2014<br>$ |
| Amortization of deferred financing costs | - | 48 |
| Interest on long-term debt | 196 | 274 |
| **Total** | 196 | 322 |

## 11 Related party transactions

During the three months ended June 30, 2015, the Company recorded revenues of $409,995 ($440,234 in 2014) from transactions with Société d'investissement M-S S.E.C. "GWS", a 50%-joint venture owned by the Company. In addition, the Company recharged to GWS operating expenses in the amount of $38,917 ($48,452 in 2014). These recharges were presented against operating expenses in the interim condensed consolidated statement of income. As at June 30, 2015, the Company has $72,751 of accounts receivable from GWS ($120,980 as at March 31, 2015).

In addition, during the three months ended June 30, 2015 the Company received a capital distribution of $500,000 from GWS.

These transactions occurred in the normal course of business and were measured at the amount of consideration agreed to by the parties.