MEDIAGRIF

Interim Condensed Consolidated Financial Statements for the three months ended June 30, 2016 and 2015

(Unaudited and not reviewed by independent auditors)

MEDIAGRIF

Interim Condensed Consolidated Statements of Income

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars, except per share amounts	**Three months ended June 30,** **2016** **$**	**2015** **$**
Revenues (Note 5)	18,966	17,709
Cost of revenues	3,786	3,543
Gross margin	15,180	14,166
Operating expenses		
General and administrative	2,296	2,382
Selling and marketing	3,966	3,862
Technology	3,387	2,805
	9,649	9,049
Operating profit	5,531	5,117
Other expenses, net amount (Note 11b))	(162)	(146)
Financial expenses (Note 11c))	(202)	(196)
Share of profit of a joint venture	(6)	40
Profit before income taxes	5,161	4,815
Income tax expense	1,427	1,395
Profit for the period	3,734	3,420
Earnings per share		
Basic and diluted	0.25	0.22
Weighted average number of shares outstanding		
Basic and diluted	14,998,979	15,460,128
Number of shares outstanding at end of period	14,998,979	15,124,546

Refer to the notes to the consolidated financial statements

MEDIAGRIF

Interim Condensed Consolidated Statements of Comprehensive Income

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	Three months ended June 30, 2016 $	Three months ended June 30, 2015 $
Profit for the period	3,734	3,420
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	20	78
Reclassification of realized losses on foreign currency forward contracts, net of deferred taxes	186	297
	206	375
Comprehensive income for the period	3,940	3,795

Refer to the notes to the consolidated financial statements

MEDIAGRIF

Interim Condensed Consolidated Statements of Financial Position

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	As at June 30, 2016 $	As at March 31, 2016 $
Assets		
Current assets		
Cash and cash equivalents	10,204	10,901
Cash held for the benefit of third parties	1,112	1,011
Accounts receivable	6,921	5,927
Income taxes receivable	251	996
Tax credits receivable	3,978	5,128
Prepaid expenses and deposits	1,575	1,145
Derivative financial instruments	213	-
	24,254	25,108
Non-current assets		
Property, plant and equipment	2,750	2,545
Intangible assets	3,906	3,617
Acquired intangible assets	67,604	57,238
Goodwill	107,047	100,280
Investment in a joint venture	244	250
Deferred taxes	4,890	5,091
	210,695	194,129
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	7,083	8,220
Other accounts payable	1,751	1,706
Income taxes payable	-	716
Deferred revenues	17,730	16,774
Derivative financial instruments	-	69
Current portion of deferred lease inducement	115	143
	26,679	27,628
Non-current liabilities		
Long-term debt (Note 7)	41,021	26,311
Deferred lease inducement	868	781
Deferred taxes	15,882	15,604
	84,450	70,324
Shareholders' equity		
Share capital (Note 8)	78,840	78,840
Reserves	3,370	3,164
Retained earnings	44,035	41,801
	126,245	123,805
	210,695	194,129

Refer to the notes to the consolidated financial statements

MEDIAGRIF

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited and not reviewed by independent auditors

Three months ended June 30, 2016

		Reserves				
In thousands of Canadian dollars	Share capital $	Equity-settled employee benefits $	Cash flow hedging $	Total $	Retained earnings $	Total $
Balance as at March 31, 2016	78,840	3,213	(49)	3,164	41,801	123,805
Profit for the period	-	-	-	-	3,734	3,734
Other comprehensive income for the period, net of income taxes	-	-	206	206	-	206
Comprehensive income for the period	-	-	206	206	3,734	3,940
Dividends declared on common shares	-	-	-	-	(1,500)	(1,500)
Balance as at June 30, 2016	78,840	3,213	157	3,370	44,035	126,245

Three months ended June 30, 2015

		Reserves				
In thousands of Canadian dollars	Share capital $	Equity-settled employee benefits $	Cash flow hedging $	Total $	Retained earnings $	Total $
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

Refer to the notes to the consolidated financial statements

MEDIAGRIF

Interim Condensed Consolidated Statements of Cash Flows

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	**Three months ended June 30, 2016 $**	**2015 $**
CASH FLOWS RELATED TO		
Operating activities		
Profit for the period	3,734	3,420
Adjustments for the following items:		
Amortization and depreciation (Note 10)	1,609	1,357
Amortization of deferred lease inducement	(182)	(36)
Amortization of deferred financing costs	10	-
Interest expense	192	196
Foreign exchange	(16)	159
Share of profit of a joint venture	6	(40)
Deferred taxes	(119)	444
Loss (gain) on disposal of property, plant and equipment	171	(4)
Income tax expense recognized in profit	1,546	951
Changes in non-cash working capital items (Note 11a))	(759)	(7)
Interest paid	(216)	(197)
Income taxes paid	(1,517)	(2,283)
	4,459	3,960
Investing activities		
Consideration transferred on business acquisition	(17,238)	-
Acquisition of property, plant and equipment	(413)	(223)
Acquisition of intangible assets	(636)	(943)
Distribution from a joint venture	-	500
Proceeds on disposal of property, plant and equipment	-	4
	(18,287)	(662)
Financing activities		
Increase of long-term debt	14,700	6,999
Repayment of long-term debt	-	(1,799)
Repurchase of share capital for cancellation (Note 8)	-	(6,999)
Cash dividends paid on common shares	(1,500)	(1,554)
	13,200	(3,353)
Net change in cash and cash equivalents for the period	(628)	(55)
Impact of exchange rate changes on cash and cash equivalents	32	(95)
Cash and cash equivalents at beginning of period	11,912	8,212
Cash and cash equivalents at end of period	11,316	8,062
Cash and cash equivalents consist of the following statement of financial position items:		
Cash and cash equivalents	10,204	7,270
Cash held for the benefit of third parties	1,112	792

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 3, 2016. 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, 2016. 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*, 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.

Standard and interpretation	Effective date for the Company	Presentation and impact on the Company
IFRS 16 *Leases*	Annual period beginning on April 1, 2019	On January 13, 2016, the IASB issued IFRS 16, *Leases*, which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 *Leases* and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 will be effective as of January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15, *Revenue from Contracts with Customers.* 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, 2016 $	Three months ended June 30, 2015 $
Revenues		
Canada	11,850	11,379
United States	6,562	5,723
Europe	142	155
Asia and other	412	452
	18,966	17,709

In thousands of Canadian dollars	As at June 30, 2016 $	As at March 31, 2016 $
Non-current assets		
Canada	156,697	139,090
United States	24,563	24,586
Asia and other	47	4
	181,307	163,680

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,	
	2016	**2015**
In thousands of Canadian dollars	**$**	**$**
Revenues from rights of use	14,049	13,206
Revenues from transaction fees	2,118	1,982
Revenues from advertising	1,506	1,315
Revenues from software development	686	542
Revenues from integration, maintenance and hosting	425	393
Other	182	271
	18,966	17,709

6 Business combination

Description of the business combination

On May 31, 2016, the Company acquired substantially all of the assets of Advanced Software Concepts, Inc. (the “Acquisition”) for a cash consideration of $17,237,811 including a preliminary working capital adjustment of $1,262,189 and also subject to certain additional working capital adjustments. The Acquisition was financed in its entirety by the Company’s Revolving facility.

With this strategic Acquisition, the Company will be integrating contract management capabilities to its e-procurement platforms. This will allow the Company to participate in the fast growing e-procurement space. Moreover, the Company’s expertise and financial strength will contribute to accelerate ASC Networks Inc. (“ASC”) presence in the equally fast-growing contract lifecycle management segment. A solid profitability combined with high-potential synergies with the Company’s e-commerce development and expertise were also determinant in this Acquisition.

Assets acquired and liabilities assumed at the acquisition date

In thousands of Canadian dollars	**May 31, 2016** **$**
Assets	
Current assets	
Accounts receivable	487
Prepaid expenses and deposits	96
	583
Non-current assets	
Acquired intangible assets	
Client base	5,130
Technology	6,220
Total	11,933
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	126
Deferred revenues	830
	956
Non-current liabilities	
Deferred taxes	506
Total	1,462
Identifiable net assets acquired	10,471

The purchase price allocation shown above is preliminary and based on management best estimates as at June 30, 2016. The final purchase price allocation is expected to be completed as soon as management has gathered all of the significant information available and considered necessary in order to finalize this allocation.

Sources and uses of funds at the transaction closing date

In thousands of Canadian dollars	**May 31, 2016** **$**
Sources	
Revolving facility (Note 7)	17,238
Uses	
Cash consideration transfered	18,500
Preliminary favorable working capital adjustment	(1,262)
	17,238

Costs related to the Acquisition

The total Acquisition-related costs amounted to $219,524, including $110,000 recorded during the year ended March 31, 2016, and are included in General and administrative expenses in the Interim Condensed Consolidated Statements of Income.

Determination of fair value

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at the acquisition-date fair value.

Accounts receivable, prepaid expenses and deposits and accounts payable and accrued liabilities arising from a business combination are recognized at their fair value, which is not substantially different from their gross contractual value and expected receipts and disbursements.

Deferred revenues from business combinations are recognized at fair value. This corresponds to the future costs to perform the services, the collection of which took place before the Acquisition, plus a profit margin. This profit margin is the average margin the Company realized for the delivery of the same kind of service.

The fair value of acquired intangible assets is determined as follows:

Acquired technology is evaluated using the replacement cost method. It estimates the cost to rebuild a platform by adding the estimated loss of profits during the reconstruction. The multiperiod excess earnings method is used to calculate the value of client base. The replacement cost method and the multiperiod excess earnings method are all primarily based upon expected discounted cash flows according to currently available information, such as historical and projected revenues, the probability of renewal of each contract and certain other relevant assumptions.

Goodwill is measured as the excess of the total consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net balance of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after remeasurement, the net balance of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the total consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously-held interest in the acquiree (if any), the excess amount is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill arising from the business combination

In thousands of Canadian dollars	**May 31, 2016** **$**
Cash consideration transferred	17,238
Less:	
Fair value of net identifiable acquired assets	10,471
Goodwill	6,767

The goodwill recognized from this business combination is deductible for tax purposes. Goodwill of $6,766,902 stems essentially from the synergies with other activities of the Company, the economic value of the expertise of the workforce acquired as well as intangible assets that do not meet the criteria for separate recognition.

Impact of the business combinations on the Company's financial performance

The Company's profit for the three months ended June 30, 2016 includes $180,507 in revenues, including a negative adjustment on deferred revenues at closing of $133,390 and a net loss of $227,101, generated from ASC additional business.

If this business combination had been completed on April 1, 2016, the Company's consolidated revenues for the three months ended June 30, 2016 would have totaled $19,750,354, including a negative adjustment on deferred revenues at the acquisition date of $275,272. The consolidated profit for the three months ended June 30, 2016, would have totaled $3,431,181, including an additional amortization expense of $337,000 and an additional adjustment on interests on long term debt of $59,758. The Company considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a three-month period. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of the profit of the Company if the Acquisition actually occurred on April 1, 2016, nor of the profit that may be achieved in the future.

To determine the Company's pro forma consolidated revenues and profit if ASC had been acquired on April 1, 2016, the Company:

- calculated amortization of other acquired intangible assets based on the fair value arising from initial recognition of the business combination rather than the carrying amounts recognized in the pre-Acquisition financial statements;

- calculated revenues according to the fair value of deferred revenues at the acquisition date;

- calculated the borrowing costs on the Company's net indebtedness after the business combination;

- calculated an additional income tax recovery to reflect the pro forma adjustments described above.

7 Long-term debt

On December 18, 2015, the Company renewed its credit agreement, which was entered into on November 10, 2011, (the "Credit Agreement") with three Canadian financial institutions pursuant to which lenders made available to the Company a $80,000,000 ($80,000,000 as at March 31, 2016) secured revolving five-year credit facility (the "Revolving Facility") and an accordion loan of $40,000,000 ($40,000,000 as at March 31, 2016) subject to lenders' acceptance.

The Revolving Facility expires on December 18, 2020, 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, 2016, the Company's Revolving Facility stood at $41,200,000 ($26,500,000 as at March 31, 2016) and the amount is due in full during the fiscal year ending March 31, 2021.

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, 2016, the actual rate was 0.88% (0.88% as at March 31, 2016) and the margin was 1.20% (1.20% as at March 31, 2016). In addition, the unused portion of the Revolving Facility bears interest at 0.24% (0.24% as at March 31, 2016) 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 March 31, 2016 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 (1.20:1.00 as at March 31, 2016) at all times; and
2. a total debt to EBITDA ratio of not more than 3.5 (3.0 as at March 31, 2016).

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 the ratio is calculated.

The following table provides the long-term debt information:

In thousands of Canadian dollars	**As at June 30, 2016 $**	**As at March 31, 2016 $**
Revolving credit facility, bearing interest at the bankers' acceptance rate, plus 1.20% (1.20% as at March 31, 2016), maturing in December 2020	41,200	26,500
Deferred financing costs i)	(179)	(189)
	41,021	26,311

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

8 Share capital

a) Authorized and paid, unlimited number
- Common shares;
- Preferred shares, issuable in series with terms, conditions and dividends to be determined by the Board of Directors upon issuance.

b) The following table summarizes common share activity:

	Three months ended June 30,			
	2016		**2015**	
In thousands	**Shares**	**$**	**Shares**	**$**
Balance at beginning of period	14,999	78,840	15,542	81,695
Repurchased for cancellation i)	-	-	(418)	(2,196)
Balance at end of period	14,999	78,840	15,124	79,499

i) During the three months ended June 30, 2016, there was no transaction related to common shares. During the three months ended June 30, 2015, the Company repurchased for cancellation 417,719 of its common shares for a cash consideration of $6,998,549 in connection with its Normal Course Issuer Bid. A total amount of $2,195,597 was recorded as a deduction from Share capital, corresponding to an average issue price of $5.26 per share before repurchase and the balance was charged to Retained earnings

c) Dividends declared

Three months ended June 30, 2016
Subsequent to the three months ended June 30, 2016, i.e., on August 3, 2016, the Company announced the payment of a cash dividend of $0.10 per share, payable on October 17, 2016, to shareholders of record on October 3, 2016.

On June 7, 2016, the Company announced the payment of a cash dividend of $0.10 per share, payable on July 15, 2016, to shareholders of record on July 4, 2016.

Three months ended June 30, 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.

9 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 ($1,400 in 2015). 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.

10 Expenses by type

Operating profit includes the following items:

In thousands of Canadian dollars	Three months ended June 30, 2016 $	2015 $
Amortization and depreciation		
Depreciation of property, plant and equipment	278	257
Amortization of intangible assets	347	206
Amortization of acquired intangible assets	984	894
Total	1,609	1,357
Employee benefits expense		
Salaries and employee benefits	8,486	7,631
Termination benefits	13	38
	8,499	7,669
Tax credits	(655)	(562)
Total	7,844	7,107

During the three months ended June, 30, 2016, the Company changed the comparative figures in employee benefits expense in order to conform to the current year's presentation.

11 Supplementary statements of cash flows and statements of income information

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

In thousands of Canadian dollars	Three months ended June 30, 2016 $	2015 $
Decrease (increase) in		
Accounts receivable	(507)	17
Tax credits receivable	1,150	(258)
Prepaid expenses and deposits	(310)	(471)
Increase (decrease) in		
Accounts payable and accrued liabilities	(1,263)	(151)
Other accounts payable	45	299
Deferred revenues	126	557
Total	(759)	(7)

During the three months ended June 30, 2016, the Company made non-cash acquisitions of property, plant and equipment for an amount of $240,824.

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

In thousands of Canadian dollars	**Three month ended June 30,** **2016** **$**	**2015** **$**
Foreign exchange gain (loss)	9	(150)
Gain (loss) on disposal of property, plant and equipment	(171)	4
Total	(162)	(146)

c) Financial expenses consist of the following:

In thousands of Canadian dollars	**Three month ended June 30,** **2016** **$**	**2015** **$**
Amortization of deferred financing costs	10	-
Interest on long-term debt	192	196
Total	202	196

12 Related party transactions

During the three months ended June 30, 2016, the Company recorded revenues of $471,279 ($409,995 in 2015) 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 $182,024 ($38,917 in 2015). These recharges were presented against operating expenses in the interim condensed consolidated statement of income. As at June 30, 2016, the Company has $171,358 of accounts receivable from GWS ($143,816 as at March 31, 2016).

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.