



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE THIRD QUARTER ENDED DECEMBER 31, 2016



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*The following Management's Discussion and Analysis ("MD&A"), which has been prepared as at February 7, 2017, of the financial position and operating results of Mediagrif Interactive Technologies Inc. ("Mediagrif" or the "Company") should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements and accompanying notes thereto for the quarter ended December 31, 2016, as well as the Company's MD&A, audited Consolidated Financial Statements and accompanying notes thereto for the year ended March 31, 2016. This MD&A compares performance for the quarters ended December 31, 2016, and 2015. The Company prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS"). Unless indicated otherwise, all dollar amounts are expressed in Canadian dollars. This MD&A was approved by the Board of Directors of Mediagrif.*

*In addition to providing profit measures in accordance with IFRS, the Company's statement of income shows operating profit and earnings before interest, taxes, depreciation, amortization, foreign exchange gain (loss) and other revenues (expenses) ("Adjusted EBITDA") as supplementary earnings measures. Operating profit and adjusted EBITDA 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 adjusted EBITDA are provided to assist investors in determining the Company's ability to generate profitability from its operations and to evaluate its financial performance.*

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## **COMPANY PROFILE**

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Mediagrif (TSX: MDF) is a Canadian leader in information technology, owner of several recognized web and mobile platforms including Jobboom, LesPAC, Réseau Contact, MERX, ASC, InterTrade, Carrus and BidNet. Mediagrif's e-commerce solutions are used by millions of consumers and businesses in North America and around the world. The Company has offices in Canada, the United States and China.

## **MISSION STATEMENT**

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Our mission is to provide to our customers innovative and efficient technological solutions. In doing so, we seek to create value for our customers, our employees and our shareholders.

## **FINANCIAL HIGHLIGHTS – THIRD QUARTER ENDED DECEMBER 31, 2016**

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- Revenues increased 4% to reach \$19.3 million for the third quarter of 2017, compared to \$18.5 million for the third quarter of 2016.
- Adjusted EBITDA<sup>1</sup> of \$7.1 million or 37% of revenues for the third quarter of 2017, compared to \$8.0 million or 43% of revenues for the third quarter of 2016.
- Profit of \$4.0 million (\$0.27 per share) for the third quarter of 2017, compared to \$4.9 million (\$0.32 per share) for the third quarter of 2016.
- Cash flows generated by operating activities amounted to \$5.1 million compared to \$7.1 million for the third quarter of 2016.
- Repayment of \$3.8 million on the revolving credit facility during the quarter.

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<sup>1</sup> See reconciliation of Adjusted EBITDA and profit.

## RECENT EVENT

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On May 31, 2016, the Company acquired substantially all of the assets of Advanced Software Concepts Inc., an entity based in Ottawa, Canada, (the "Acquisition") for a cash consideration of \$17.1 million following definitive adjustments for working capital of \$1.4 million. The Acquisition was entirely financed by the Company's revolving credit facility.

With this strategic acquisition, the Company will incorporate a contract management component within its electronic procurement platforms enabling it to expand its service offering in the fast-growing market of e-procurement software. In addition, the expertise and the financial strength of the Company will accelerate the presence of ASC Networks Inc. ("ASC") in the equally promising market for contract management solutions. Solid profitability combined with potential synergies with the development and expertise of the Company's e-commerce were also determining factors for the Acquisition.

ASC offers best-in-class contract lifecycle management (CLM) solutions to a diversified clientele, principally in North America.

The Company accounted this Acquisition in accordance with IFRS 3. Therefore, the interim unaudited financial results for the quarter ended December 31, 2016, include the results of ASC from June 1, 2016, including transaction costs arising from the Acquisition. The Company has allocated the purchase price on a preliminary basis to the assets acquired and liabilities assumed taking into account all relevant information available to date.

Note 6 to the unaudited interim condensed consolidated financial statements for the third quarter of fiscal 2017 contains a summary of the estimated fair value of the assets acquired and liabilities assumed at the Acquisition date as well as the related goodwill.

The Company's net profit for the three months ended December 31, 2016, included \$1.2 million in revenues, contained a negative deferred revenues adjustment of \$0.2 million and additional amortization of acquired intangibles of \$0.5 million. Consequently, ASC additional activities generated a net loss of \$0.3 million. The nine-month period ended December 31, 2016, included revenues of \$2.8 million, contained a negative deferred revenues adjustment of \$0.6 million and additional amortization of acquired intangibles of \$1.2 million. Consequently, ASC additional activities generated a net loss of \$0.6 million.

If this business combination had been completed on April 1, 2016, the Company's consolidated revenues for the nine months ended December 31, 2016, would have totalled \$58.4 million including a negative adjustment on deferred revenues at the acquisition date of \$0.6 million. The consolidated profit for the nine months ended December 31, 2016, would have totalled \$12.0 million, including an additional amortization expense of \$0.3 million and an additional adjustment on interests on long-term debt of \$0.1 million. The Company considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a nine-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.

**CONSOLIDATED STATEMENTS OF INCOME AND SELECTED FINANCIAL INFORMATION**

<i>In thousands of Canadian dollars, except per share amounts</i> <i>Unaudited and not reviewed by independent auditors</i>	<b>Three months ended</b> <b>December 31,</b>		<b>Nine months ended</b> <b>December 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>REVENUES</b>	<b>19,267</b>	18,541	<b>57,742</b>	54,203
<b>GROSS MARGIN</b>	<b>15,536</b>	15,145	<b>46,604</b>	43,766
<b>OPERATING EXPENSES</b>				
General and administrative	<b>2,453</b>	2,186	<b>7,037</b>	6,636
Selling and marketing	<b>4,312</b>	3,814	<b>12,204</b>	11,332
Technology	<b>3,593</b>	2,526	<b>10,495</b>	7,945
<b>TOTAL OPERATING EXPENSES</b>	<b>10,358</b>	8,526	<b>29,736</b>	25,913
<b>OPERATING PROFIT</b>	<b>5,178</b>	6,619	<b>16,868</b>	17,853
Other revenues, net amount	<b>236</b>	392	<b>348</b>	1,008
Financial expenses	<b>(293)</b>	(223)	<b>(759)</b>	(617)
Share of profit of a joint venture	<b>32</b>	29	<b>90</b>	141
Income tax expense	<b>(1,168)</b>	(1,966)	<b>(4,284)</b>	(5,025)
<b>PROFIT</b>	<b>3,985</b>	4,851	<b>12,263</b>	13,360
<b>ADJUSTED EBITDA</b> (see reconciliation of adjusted EBITDA and profit)	<b>7,090</b>	8,003	<b>22,170</b>	22,020
<b>CASH FLOWS GENERATED BY OPERATING ACTIVITIES</b>	<b>5,111</b>	7,140	<b>15,452</b>	16,290
<b>EARNINGS PER SHARE – BASIC AND DILUTED</b>	<b>0.27</b>	0.32	<b>0.82</b>	0.88
Declared dividends per share	<b>0.10</b>	0.10	<b>0.30</b>	0.30
Weighted average number of shares outstanding (in thousands):				
Basic and diluted	<b>14,999</b>	15,011	<b>14,999</b>	15,187

<i>In thousands of Canadian dollars</i> <i>Unaudited and not reviewed by independent auditors</i>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
	<b>\$</b>	<b>\$</b>
<b>TOTAL ASSETS</b>	<b>210,365</b>	194,129
<b>LONG-TERM DEBT</b>	<b>35,041</b>	26,311

RECONCILIATION OF ADJUSTED EBITDA AND PROFIT	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
<i>In thousands of Canadian dollars.</i>				
<i>Unaudited and not reviewed by independent auditors.</i>	\$	\$	\$	\$
<b>PROFIT</b>	<b>3,985</b>	4,851	<b>12,263</b>	13,360
Income tax expense	<b>1,168</b>	1,966	<b>4,284</b>	5,025
Depreciation of property, plant and equipment and amortization of intangible assets	<b>644</b>	517	<b>1,891</b>	1,489
Amortization of acquired intangible assets	<b>1,268</b>	875	<b>3,573</b>	2,650
Amortization of deferred financing costs	<b>10</b>	-	<b>30</b>	-
Amortization of deferred lease inducement	<b>(32)</b>	(37)	<b>(252)</b>	(113)
Foreign exchange gain	<b>(236)</b>	(453)	<b>(519)</b>	(1,065)
Interest on long-term debt	<b>283</b>	223	<b>729</b>	617
Loss (gain) on disposal of intangible assets	-	-	<b>171</b>	(4)
Loss on disposal of property, plant and equipment	-	61	-	61
<b>ADJUSTED EBITDA</b>	<b>7,090</b>	8,003	<b>22,170</b>	22,020

Adjusted EBITDA represents earnings before interest, taxes, depreciation, amortization, foreign exchange gain (loss) and other revenues (expenses) as historically calculated by the Company.

### **THREE-MONTH PERIOD ENDED DECEMBER 31, 2016, "THIRD QUARTER OF FISCAL 2017" COMPARED TO THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2015, "THIRD QUARTER OF FISCAL 2016"**

#### **REVENUES**

For the third quarter of fiscal 2017, revenues totaled \$19.3 million, an increase of 4% or \$0.7 million compared to the third quarter of fiscal 2016. This revenue increase is mainly explained as follows:

- Increase of revenues from InterTrade, MERX and BidNet totalling \$0.6 million before foreign exchange impact.

Increase in revenues from InterTrade is mainly due to an increased number of clients using the platform and to a higher transaction volume. Increases at BidNet & Merx are mainly due to a growth of client base. Moreover, MERX revenues have also benefited from a price increase.

- The addition of revenues from ASC for \$1.2 million including \$0.3 million in setup and implementation fees. The ASC revenues also reflect an adjustment made to recognize the fair value of deferred revenues at the acquisition date which reduced revenues arising from sales made prior to the Acquisition by \$0.2 million.
- Increase of \$0.4 million in revenues attributable to higher average of hedged contracts exchange rates and market exchange rates when comparing the U.S. dollar against the Canadian dollar.
- In the third quarter of fiscal 2017, Jobboom revenues decreased \$0.6 million mainly due to price adjustments reflecting market conditions, and to lower advertising revenue. However, during that same

period, Jobboom recorded an increase in sales of recruitment packages and introduced a series of new tools in order to broaden its offering.

- A decrease in the revenues at LesPAC of \$0.6 million mainly due to lower advertising revenues of \$0.4 million mainly explained by an ad campaign of \$0.3 million carried out for a customer, that occurred during the third quarter of 2016 which did not repeat during the third quarter of 2017.

The remaining decrease of \$0.2 million in revenues at LesPAC is mainly due to a decrease in classified ads usage and to lower price of classified ads. This reduction in ad prices is an initiative which began in the first quarter of 2017 as part of LesPAC's strategy to evolve its business model.

This strategy continued during the third quarter of fiscal 2017 with the introduction of LesPAC Pro, a recurring offer to businesses and with the testing of the impact of free postings in certain ad categories.

- Decrease in the revenues of \$0.2 million at Market Velocity mainly due to the non-renewal in 2017 of a contract signed in 2016 and to a decrease of \$0.1 million in the revenues of The Broker Forum due to a lower number of clients using this platform.

During the third quarter of fiscal 2017, revenues earned in Canadian dollars represented 57% of total revenues, compared to 62% for the third quarter of fiscal 2016.

## **COSTS OF REVENUES**

Cost of revenues totaled \$3.7 million during the third quarter of fiscal 2017 compared to \$3.4 million during the third quarter of fiscal 2016. The increase is mainly due to the addition of ASC activities for \$0.2 million which are essentially composed of labor costs.

## **GROSS MARGIN**

Based on the information above, gross margin for the third quarter of fiscal 2017 slightly decreased to 80.6% compared to 81.7% during the third quarter of fiscal 2016.

## **OPERATING EXPENSES**

Operating expenses for the third quarter of fiscal 2017 totaled \$10.4 million, compared to \$8.5 million for the third quarter of fiscal 2016. Changes in operating expenses are explained as follows:

- General and administrative expenses totaled \$2.5 million during the third quarter of fiscal 2017 compared to \$2.2 million during the third quarter of fiscal 2016. The increase is mainly due to the addition of ASC activities of \$0.2 million.
- Selling and marketing expenses totalled \$4.3 million during the third quarter of fiscal 2017, compared to \$3.8 million for the third quarter of fiscal 2016. The increase is mainly attributable to the addition of ASC activities for \$0.4 million (including \$0.2 million additional amortization of acquired intangible assets) and to higher labor costs of \$0.1 million.
- Technology expenses totalled \$3.6 million during the third quarter of fiscal 2017, compared to \$2.5 million during the corresponding quarter of 2016. This increase is primarily due to the addition of ASC activities for \$0.8 million (including \$0.3 million additional amortization of acquired intangible assets), to the increase in the technology workforce of \$0.3 million and to an increase in software

maintenance costs of \$0.1 million. These increases were partly offset by higher tax credits and internally developed software for an amount of \$0.1 million.

### **OPERATING PROFIT**

Based on the information above, operating profit reached \$5.2 million during the third quarter of fiscal 2017, compared to \$6.6 million during the third quarter of fiscal 2016.

### **FOREIGN EXCHANGE GAIN**

During the third quarter of fiscal 2017, the Company realized a foreign exchange gain on assets denominated in U.S. dollars of \$0.2 million, compared to a gain of \$0.5 million realized during the third quarter of fiscal 2016.

### **FINANCIAL EXPENSES**

Financial expenses totalled \$0.3 million during the third quarter of fiscal 2017 compared to \$0.2 million during the corresponding period of fiscal 2016. These costs consist primarily of interest expenses and standby fees on the long-term debt and of amortization of deferred financing costs. The increase in financial expenses is mainly attributable to a higher long-term debt amount related to the acquisition of ASC on June 1, 2016.

### **INCOME TAX EXPENSE**

For the third quarter of fiscal 2017, income tax expense totalled \$1.2 million, representing an effective tax rate of 22.7%, compared to the statutory rate of 26.9%. During the third quarter of fiscal 2016, the effective tax rate stood at 28.8% compared to a statutory rate of 26.9%.

During the third quarter of fiscal 2017, the decrease in the effective tax rate compared to the statutory tax rate is mainly due to the fact that certain foreign exchange gains realized by the Company are non-taxable.

During the third quarter of fiscal 2016, the increase in the effective tax rate compared to the statutory tax rate was mainly due to the fact that a portion of revenue is taxable in the United States, a jurisdiction where the statutory tax rate is higher.

### **PROFIT**

Profit for the third quarter of fiscal 2017 totalled \$4.0 million (\$0.27 per share), compared to \$4.9 million (\$0.32 per share) during the third quarter of fiscal 2016.



**NINE-MONTH PERIOD ENDED DECEMBER 31, 2016 “FIRST NINE MONTHS OF FISCAL 2017”  
COMPARED TO THE NINE-MONTH PERIOD ENDED DECEMBER 31, 2015 “FIRST NINE MONTHS  
OF FISCAL 2016”**

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## **REVENUES**

For the first nine months of fiscal 2017, revenues reached \$57.7 million, an increase of 7% or \$3.5 million when compared to the first nine months of fiscal 2016. This increase in revenues was mainly due to the following items:

- Increase of revenues from InterTrade, MERX and BidNet totalling \$1.8 million before foreign exchange impact.

The increase in revenues from InterTrade is mainly due to an increased number of clients using the platform and to a higher transaction volume. Increases at BidNet & Merx are mainly due to a growth of their client base as well as price increases.

- The addition of revenues of ASC of \$2.8 million for a period of seven months. This amount includes \$0.9 million in setup and implementation fees. The ASC revenues also reflect an adjustment made to recognize the fair value of deferred revenues at the acquisition date which reduced revenues arising from sales made prior to the Acquisition by \$0.6 million.
- Increase of \$1.4 million in revenues attributable to higher average of hedged contracts exchange rates and market exchange rates when comparing the U.S. dollar against the Canadian dollar.
- Revenues decreased at Jobboom \$0.8 million in the first nine months of fiscal 2017 mainly due to price adjustments reflecting market conditions and to lower advertising revenues. However, during that same period, Jobboom recorded an increase in sales of recruitment packages and introduced a series of new tools in order to broaden its offering.
- Lower revenues at LesPAC of \$0.6 million mainly due to a decrease in price of classified ads in the amount of \$0.3 million which initiative began in the first quarter of 2017 as part of LesPAC's strategy to evolve its business model and to lower advertising revenues of \$0.2 million.
- Decrease in the revenues of Market Velocity of \$0.6 million mainly due to the non-renewal in 2017 of a contract signed in 2016. The Broker Forum has also suffered from client base erosion which resulted in lower revenues of \$0.3 million.

During the first nine months of fiscal 2017, revenues earned in Canadian dollars represented 59% of total revenues, compared to 63% for the first nine months of fiscal 2016.

## **COSTS OF REVENUES**

Cost of revenues totaled \$11.1 million during the first nine months of fiscal 2017 compared to \$10.4 million during the first nine months of fiscal 2016. The increase is mainly due to the addition of ASC activities for \$0.4 million and to higher labor costs of \$ 0.3 million.

## GROSS MARGIN

Based on the information above, gross margin for the first nine months of fiscal 2017 and 2016 remained stable at 80.7 %.

## OPERATING EXPENSES

Operating expenses for the first nine months of fiscal 2017 totaled \$29.7 million, compared to \$25.9 million for the first nine months of fiscal 2016. Changes in operating expenses are explained as follows:

- General and administrative expenses totalled \$7.0 million during the first nine months of fiscal 2017 compared to \$6.6 million for the first nine months of fiscal 2016. This increase is primarily due to the addition of ASC activities for \$0.4 million and to higher labor costs of \$0.2 million. These increases were partly offset by a decrease of \$0.2 million for professional fees related to due diligence expenses incurred during the first nine months of 2016.
- Selling and marketing expenses totalled \$12.2 million during the first nine months of fiscal 2017, compared to \$11.3 million for the first nine months of fiscal 2016. The increase in selling and marketing expenses is mainly due to the addition of ASC activities for \$0.8 million (including \$0.5 million for additional amortization of acquired intangible assets) and to higher advertising and promotion costs of \$0.1 million.
- Technology expenses totalled \$10.5 million during the first nine months of fiscal 2017, compared to \$7.9 million during the first nine months of fiscal 2016. The increase is mainly due to the addition of ASC activities for \$1.8 million (including \$0.7 million for additional amortization of acquired intangible assets), to higher labor costs of \$0.8 million, to higher amortization expense and software maintenance costs of both \$0.1 million. These increases were partly offset by higher tax credits and internally developed software for an amount of \$0.2 million.

## OPERATING PROFIT

Based on the information above, operating profit reached \$16.9 million during the first nine months of fiscal 2017, compared to \$17.9 million during the first nine months of fiscal 2016.

## FOREIGN EXCHANGE GAIN

During the first nine months of fiscal 2017, the Company realized a foreign exchange gain on assets denominated in U.S. dollars of \$0.5 million, compared to \$1.1 gain million during the first nine months of fiscal 2016.

## FINANCIAL EXPENSES

Financial expenses reached \$0.8 million in the first nine months of fiscal 2017 compared to \$0.6 million during the first nine months of fiscal 2016. These costs consist primarily of interest expenses and standby fees on the long-term debt and of amortization of deferred financing costs. The increase in financial expenses is mainly attributable to higher long-term debt amount related to the acquisition of ASC on June 1 2016.

## INCOME TAX EXPENSE

For the first nine months of fiscal 2017, income tax expense totalled \$4.3 million, representing an effective tax rate of 25.9%, compared to the statutory rate of 26.9%.

The decrease in the effective tax rate compared to the statutory tax rate is mainly due to the fact that certain foreign exchange gains realized by the Company are non-taxable

During the first nine months of fiscal 2016, the effective tax rate stood at 27.3% compared to a statutory rate of 26.9%. The increase in the effective tax rate compared to the statutory tax rate is mainly due to the fact that a portion of revenue is taxable in the United States, a jurisdiction where the statutory tax rate is higher.

## PROFIT

Profit for the first nine months of fiscal 2017 totalled \$12.3 million (\$0.82 per share), compared to \$13.4 million (\$0.88 per share) during the first nine months of fiscal 2016.

## QUARTERLY PERFORMANCE

Selected quarterly financial information for the eight most recently completed quarters on or before December 31, 2016, is as follows:

	Fiscal 2017			Fiscal 2016				Fiscal 2015
	Q3 Dec. 31, 2016	Q2 Sept. 30, 2016	Q1 June 30, 2016	Q4 Mar. 31, 2016	Q3 Dec. 31, 2015	Q2 Sept. 30, 2015	Q1 June 30, 2015	Q4 Mar. 31, 2015
<i>Unaudited and not reviewed by independent auditors</i>	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	19,267	19,509	18,966	18,817	18,541	17,953	17,709	17,467
Adjusted EBITDA	7,090	8,118	6,962	6,556	8,003	7,539	6,478	6,750
Operating profit	5,178	6,159	5,531	5,182	6,619	6,117	5,117	5,373
Profit	3,985	4,544	3,734	2,472	4,851	5,089	3,420	4,583
Basic and diluted earnings per share	0.27	0.30	0.25	0.16	0.32	0.34	0.22	0.30
Shares outstanding	14,999	14,999	14,999	14,999	15,011	15,093	15,460	15,542

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

## 2017 QUARTERS

- Third quarter ended December 31, 2016: Compared to the second quarter ended September 30, 2016, the revenues decreased slightly mainly due to lower setup and implementation revenues of \$0.2 million attributable to ASC and to a decrease in LesPAC and Jobboom revenues for an amount of \$0.3 million partially offset by an increase in revenues of \$0.2 million at InterTrade.

The adjusted EBITDA and operating profit also decreased mainly due to higher labor costs for an amount of \$0.4 million and to higher advertising and promotion activities of \$0.5 million.

Profit also decreased but to a lesser extent due to a lower income tax expense during the third quarter of fiscal 2017.

- Second quarter ended September 30, 2016: Compared to the first quarter ended June 30, 2016, the increase in revenues is attributable to the addition of ASC revenues for a full three-month period, compared to one month in the first quarter, of \$1.3 million which was partially offset by a decrease in revenues from LesPAC, of which a portion is due to seasonal variation and Jobboom and Merx for an amount of \$0.8 million.

Adjusted EBITDA increased during the second quarter mainly due to the addition of ASC activities as mentioned above, to lower salaries and benefits of \$0.5 million, lower advertising and promotion activities of \$0.2 million and to higher tax credits and internally developed software amount of \$0.2 million.

Considering the above mentioned factors, operating profit also increased during the second quarter ended September 30, 2016, however, to a lesser extent, as a result of additional amortization of acquired intangible assets of \$0.5 million related to the ASC acquisition.

Profit in the quarter ended September 30, 2016 also increased due to a favorable foreign exchange rate fluctuation on assets denominated in US dollars of \$0.3 million compared to the quarter ended June 30, 2016.

- First quarter ended June 30, 2016: Compared to the fourth quarter ended March 31, 2016, revenues increased primarily due to the addition of ASC's revenues of \$0.2 million for a period of one month, to the increase of Jobboom and InterTrade for an amount of \$0.3 million partly offset by lower revenues in LesPAC and Market Velocity also for an amount of \$ 0.3 million.

Operating profit and Adjusted EBITDA increased mainly due to lower advertising costs of \$0.2 million and also to lower sales commissions of \$0.2 million associated with lower advertising revenues. In addition, during the fourth quarter of fiscal 2016, the Company recorded a provision for a legislative contingency of \$0.2 million compared to nil in the first quarter of fiscal 2017. These decreases were partly offset by a \$0.3 million increase in labor costs in the first quarter of fiscal 2017.

Profit for the first quarter of 2017 also increased mainly due to a \$1.0 million favorable foreign exchange fluctuation on assets denominated in US dollars compared to the fourth quarter of 2016.

## 2016 QUARTERS

- Fourth quarter ended March 31, 2016: Compared to the third quarter ended December 31, 2015, the higher revenues are mainly due to an increase in the revenues from MERX, LesPAC and InterTrade and to software development revenues for a total amount of \$0.7 million as well as to a favorable exchange rate impact (\$CA/\$US) on revenues of \$0.2 million. These increases were partially reduced by a decrease in revenues from Jobboom and Market Velocity.

Still compared to the third quarter, adjusted EBITDA and operating profit decreased, mainly due to additional labor costs of \$0.6 million, to a \$0.2 million increase in advertising costs and to a \$0.3 million increase in sales commissions associated with higher advertising revenues. In addition, during the fourth quarter, the Company posted a \$0.4 million decrease in tax credits, a \$0.2 million increase in professional fees related primarily to the acquisition of ASC and an additional amount of \$0.1 million for a provision for a legislative contingency. These items were partially offset by a \$0.2 million increase in internally developed software.

Profit also decreased, mainly due to a \$1.0 million foreign exchange loss during the fourth quarter compared to a \$0.5 million foreign exchange gain during the third quarter of fiscal 2016 as well as to interest for a tax settlement of \$0.4 million recorded during the fourth quarter of fiscal year 2016.

- Third quarter ended December 31, 2015: Compared to the second quarter ended September 30, 2015, the increase in revenues is mainly attributable to a \$0.6 million increase in revenues from LesPAC, Jobboom and Réseau Contact and to a \$0.1 million favorable exchange rate impact (\$CA/\$US) on revenues. These increases were partially offset by a decrease in revenues from Market Velocity.

Adjusted EBITDA and operating profit also increased, mainly due to \$0.3 million increase in tax credits (including \$0.2 million related to a prior year) recorded during the third quarter when compared to the previous quarter and to a \$0.2 million favorable retroactive adjustment on an advertising agreement. These items were partially offset by additional labor costs of \$0.2 million, by a \$0.2 million increase in advertising and promotion costs and by the recording of a provision for a legislative contingency of \$0.2 million.

Profit for the quarter ended December 31, 2015, decreased slightly, mainly due to a \$0.4 million lower foreign exchange gain during the third quarter compared to the second quarter of fiscal year 2016.

- Second quarter ended September 30, 2015: Compared to the first quarter ended June 30, 2015, the increase in revenues is mainly attributable to higher revenues from InterTrade, Market Velocity and Réseau Contact as well as to a favorable exchange rate impact (\$CA/\$US) on revenues. These increases were partially offset by a decrease in revenues from Jobboom and by a decrease in revenues from LesPAC, some of it due to seasonal variation.

Adjusted EBITDA and operating profit also increased, mainly due to lower professional fees (due diligence costs of \$0.3 million incurred during the first quarter of fiscal 2016), lower advertising and promotion costs as well as a decrease in salaries and benefits, for a total amount of \$0.5 million.

Profit in the quarter ended September 30, 2015, also increased due to a \$0.8 million foreign exchange gain on assets denominated in U.S. dollars compared to a foreign exchange loss of \$0.2 million in the quarter ended June 30, 2015.

- First quarter June 30, 2015, Compared to the fourth quarter ended March 31, 2015, the increase in revenues is mainly due to higher revenues from LesPAC, MERX and Carrus, partially offset by a decrease in revenues from Jobboom.

Adjusted EBITDA and operating profit decreased mainly due to non-recurring due diligence costs of \$0.3 million, to higher commissions paid in connection with higher revenue and to lower tax credits.

Profit in the quarter ended June 30, 2015 was also reduced by the recording of a foreign exchange loss of \$0.2 million while a foreign exchange gain of \$0.9 million was recorded during the quarter ended March 31, 2015.

## 2015 QUARTERS

- Fourth quarter ended March 31, 2015: Compared to the third quarter ended December 31, 2014, the Company's revenues and operating profit remained stable.

Adjusted EBITDA decreased slightly, mainly due to a \$0.2 million in termination benefits. On the other hand, operating profit remained stable due to a \$0.2 million lower amortization expense.

Profit increased, primarily due to a \$0.6 million higher foreign exchange gain and to lower financial expenses during the fourth quarter compared to the preceding quarter.

## LIQUIDITY AND FINANCIAL RESOURCES

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In general, the Company finances its operations, capital expenditures, dividends and business acquisitions using funds generated by its operations and cash on hand.

When necessary, the Company may also use funds on the unused portion of its credit facility (see section "Financing Activities - Credit Agreement") or issue new shares to fund its operations including business acquisitions.

As at December 31, 2016, the Company had cash and cash equivalents of \$11.5 million and \$44.8 million available on its revolving facility of \$80.0 million, subject to compliance with financial ratios and other customary restrictions contained in the agreement.

## OPERATING ACTIVITIES

<i>In thousands of Canadian dollars</i> <i>Unaudited and not reviewed by independent auditors</i>	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cash flows related to operating activities before changes in non-cash working capital items	6,396	7,051	18,510	17,309
Changes in non-cash working capital items	(1,285)	89	(3,058)	(1,019)
<b>Cash flows related to operating activities</b>	<b>5,111</b>	<b>7,140</b>	<b>15,452</b>	<b>16,290</b>

For the third quarter of fiscal 2017, cash flows generated by operating activities reached \$5.1 million, compared to \$7.1 million for the third quarter of fiscal 2016. The variation in cash flows is mainly due to lower profit during the period and to the variations in non-cash working capital items compared to the third quarter of fiscal 2016.

For the first nine months of fiscal 2017, cash flows generated by operating activities reached \$15.5 million, compared to \$16.3 million in the first nine months of fiscal 2016.

## INVESTING ACTIVITIES

<i>In thousands of Canadian dollars</i> <i>Unaudited and not reviewed by independent auditors</i>	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Business acquisition	-	-	(17,238)	-
Working capital adjustment related to a business acquisition	-	-	93	-
Acquisition of property, plant and equipment	(313)	(503)	(877)	(854)
Acquisition of intangible assets	(517)	(419)	(1,714)	(1,770)
Distribution from a joint venture	-	-	-	500
Proceeds on disposal of property, plant and equipment	-	-	-	4
<b>Cash flows related to investing activities</b>	<b>(830)</b>	<b>(922)</b>	<b>(19,736)</b>	<b>(2,120)</b>

Cash flows used by investing activities amounted to \$0.8 million for the third quarter of fiscal 2017 compared to \$0.9 million during the third quarter of fiscal 2016.

During the third quarter of fiscal 2017, the Company made acquisitions of property, plant and equipment for an amount of \$0.3 million compared to \$0.5 million during the corresponding quarter of fiscal 2016. Acquisitions of intangible assets for the third quarter of fiscal 2017 include an amount of \$0.5 million for internally developed software compared to \$0.4 million for the third quarter of fiscal 2016.

The acquisition of ASC which closed on May 31, 2016, mainly explains the cash flow utilization during the first nine months of fiscal 2017.

**FINANCING ACTIVITIES**

<i>In thousands of Canadian dollars</i> <i>Unaudited and not reviewed by independent auditors</i>	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Increase of long-term debt	-	283	14,700	9,112
Repayment of long-term debt	(3,800)	(2,333)	(6,000)	(6,212)
Repurchase of common shares for cancellation	-	(283)	-	(9,112)
Financing fees	-	(199)	-	(199)
Cash dividends paid on common shares	(1,500)	(1,502)	(4,500)	(4,569)
<b>Cash flows related to financing activities</b>	<b>(5,300)</b>	<b>(4,034)</b>	<b>4,200</b>	<b>(10,980)</b>

For the third quarter of fiscal 2017, cash flows used for financing activities amounted to \$5.3 million compared to \$4.0 million during the third quarter of 2016.

During the third quarter of fiscal 2017, the Company did not repurchase any shares under the normal course issuer bid in place while during the three months ended December 31, 2015, the Company used \$0.3 million of its revolving credit facility in order to repurchase a total of 17,267 shares.

The amount paid in dividends by the Company of \$0.10 per share per quarter, remained unchanged for each period ended December 31, 2016, and 2015.

The increase in long-term debt for the nine months ended December 31, 2016 is related to the acquisition of ASC which closed on May 31, 2016. While for the nine-month period ended December 31, 2015, the Company used a portion of its credit facility to repurchase of 543,276 shares for an amount of \$9.1 million.

**CREDIT AGREEMENT**

On December 18, 2015, the Company renewed its credit agreement, which had previously been concluded on November 10, 2011 (the "Credit Agreement"), with three Canadian financial institutions and under which the lenders made available to the Company an \$80.0 million (\$80.0 million as at March 31, 2016) secured revolving five-year credit facility (the "Revolving Facility") and an accordion loan of \$40.0 million (\$40.0 million 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 December 31, 2016, the Company's Revolving Facility stood at \$35.2 million.

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 EBITDA as described in the Credit Agreement. As at December 31, 2016, the actual rate was 0.94% and the margin was 1.45%. In addition, the unused portion of the Revolving Facility bears interest at 0.29% 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 December 31, 2016, the Company was in compliance with the financial ratios prescribed under these covenants.

## FINANCIAL POSITION

As a whole, the Company has a sound financial position and is able to meet its financial obligations. As at December 31, 2016, the Company had cash and cash equivalents of \$11.5 million and \$44.8 million available on its credit facility of \$80.0 million. At that same date, total assets of the Company amounted to \$210.4 million compared to \$194.1 million as at March 31, 2016.

### INFORMATION FROM STATEMENTS OF FINANCIAL POSITION

	December 31,	March 31,
	2016	2016
<i>In thousands of Canadian dollars</i>	\$	\$
Cash and cash equivalents	11,504	10,901
Accounts receivable	7,017	5,927
Tax credits receivable	5,252	5,128
Prepaid expenses and deposits	1,449	1,145
Intangible assets	4,254	3,617
Acquired intangible assets	65,015	57,238
Goodwill	107,047	100,280
Accounts payable and accrued liabilities	7,296	8,220
Deferred revenues	16,773	16,774
Long-term debt	35,041	26,311
Shareholders' equity	131,487	123,805

The main changes in the Company's statement of financial position between December 31, 2016, and March 31, 2016, are explained as follows:

- Accounts receivable totalled \$7.0 million as at December 31, 2016, an increase of \$1.1 million compared to March 31, 2016. This increase is mainly attributable to the addition ASC's receivables.
- Intangible assets increase totalled \$4.3 million as at December 31, 2016, an increase of \$0.6 million when compared to March 31, 2016. This increase is explained by the recording of internally developed software during the first nine months of fiscal 2017.
- Acquired intangible assets reached \$65.0 million, up \$7.8 million from March 31, 2016. This increase is mainly due to the addition of acquired intangible assets of ASC for \$11.4 million less the amortization expenses of \$3.6 million recorded during the first nine months of fiscal 2017.
- Goodwill increased \$6.8 million to \$107.0 million as at December 31, 2016, with all of the increase attributable to the acquisition of ASC;
- Accounts payable and accrued liabilities reached \$7.3 million as at December 31, 2016, compared to \$8.2 million as at March 31, 2016. This decrease is explained by the payments in the first nine months of fiscal 2017 of amounts related to incentive compensation and certain professional fees that were accrued as at March 31, 2016.
- Long-term debt totaled \$35.0 million as at December 31, 2016, compared to \$26.3 million as at March 31, 2016. This increase in long-term debt mainly represents the amounts used in order to proceed with the acquisition of ASC less reimbursements made since.
- Shareholders' equity stood at \$131.5 million as at December 31, 2016, compared to \$123.8 million as at March 31, 2016. This increase is explained by the \$12.2 million profit earned by the Company during the nine-month period ended December 31, 2016 less the dividends declared of \$4.5 million.



## **DERIVATIVE FINANCIAL INSTRUMENTS**

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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 the Company's audited consolidated financial statements as at March 31, 2016.

The Company's hedging program will yield an average (\$CAD/\$US) exchange rate of 1.3323 on foreign currency forward contracts of US\$11.0 million held as at December 31, 2016, which will mature over fiscal years 2017 and 2018. As at December 31, 2015, the Company had foreign currency forward contracts of US\$11.6 million held at a rate of 1.2537.

During the third quarter of fiscal 2017, 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**

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The Company holds a 50% ownership in the joint venture Société d'investissement M-S S.E.C. (a limited partnership), which operates under the brand Global Wine & Spirits ("GWS"), in which it shares joint control with its co-venturers. GWS operates a virtual business-to-business electronic network offering an integrated solution for the purchase and sale of wine and spirits.

During third quarter of fiscal 2017, revenues recorded by the Company from transactions with GWS remained stable at \$0.4 million compared to the corresponding period of fiscal 2016. In addition, the Company recharged to GWS operating expenses in the amount of \$0.1 million during the third quarter of fiscal 2017 as well as for the third quarter of fiscal 2016. As at December 31, 2016, and March 31, 2016, the Company's accounts receivable from GWS stood at \$0.1 million.

During the first nine months of fiscal 2017, recorded revenues by the Company from transactions with GWS remained stable at \$1.2 million compared to the corresponding period in fiscal 2016. In addition, the Company recharged to GWS operating expenses in the amount of \$0.3 million during the first nine months of 2017 compared to \$0.1 million for the corresponding period of last year.

During the first nine months of fiscal 2016, the Company received a capital distribution from GWS of an amount of \$0.5 million while there was no distribution in the corresponding period of fiscal 2017.

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

## **RISKS AND UNCERTAINTIES**

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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 unfavorable 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 for the year ended March 31, 2016, except for the risks associated with the competitors.

The e-business market is intensely competitive, and we have many competitors with substantial financial, marketing, personnel and technological resources. New competitors may also appear as new technologies, products and services are developed. For example, the market for online classified ads in which we operate is a very competitive market. Some of our competitors have financial resources far superior to our own and operate under a business model different from ours. These competitors could affect our pricing strategies or cause us to modify our business model, which could result in lower revenues and net income. It could also affect our ability to retain existing customers and attract new ones.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

### **IFRS 9, *FINANCIAL INSTRUMENTS***

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 is currently evaluating the impacts of this new standard. IFRS 9 will apply to the Company for the annual period beginning on April 1, 2018.

### **IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS***

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 is currently evaluating the impacts of this new standard. IFRS 15 will apply for the Company for its annual period beginning April 1, 2018.

### **IFRS 16, *LEASES***

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. IFRS 16 will apply to the Company for the annual period beginning on April 1, 2019.

## **FORWARD-LOOKING STATEMENTS**

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This MD&A contains certain forward-looking statements with respect to the Company. These 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 cautions 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**

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In accordance with the Canadian Securities Administrators' Regulation 52-109 respecting *Certification of Disclosure in Issuers' Annual and Interim Filings*, 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**

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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, 2016. As at December 31, 2016, there were no changes in disclosure controls and procedures of the Company and these controls and procedures are still considered efficient.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

Under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, management has evaluated the design and 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, 2016.

The management evaluation of the design and the effectiveness of the Company's internal control over financial reporting exclude controls, conventions and procedures regarding ASC acquired on May 31<sup>st</sup> 2016. The Company has a period of one year from the acquisition date to conduct this analysis and to implement internal controls deemed necessary.

As at December 31, 2016, there were no changes in internal control over financial reporting of the Company which has had, or is reasonably likely to materially affect, the Company's internal control over the financial information.

## **ADDITIONAL INFORMATION**

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This report has been prepared as at February 7, 2017.

As of that date, the number of common shares outstanding was 14,998,979.

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**

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The Company's common shares trade on the Toronto Stock Exchange under the ticker symbol "MDF".

## **HEAD OFFICE**

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1111 St-Charles Street West, Suite 255  
Longueuil, Québec, Canada J4K 5G4  
Tel.: 450 449-0102 Fax: 450 449-8725  
[www.mediagrif.com](http://www.mediagrif.com)

## **BOARD OF DIRECTORS**

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**Claude Roy**

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

**Michel Dubé**

Québec, Canada  
Consultant

**André Gauthier**

Québec, Canada  
President  
Holding André Gauthier Inc.

**Gilles Laporte**

Québec, Canada  
Director of corporations

**Gilles Laurin**

Québec, Canada  
CPA, CA  
Director of corporations

**Catherine Roy**

Québec, Canada  
Senior Consultant, Executive Search  
Décarie Recherche

**Jean-François Sabourin**

Quebec, Canada  
President and Chief Executive Officer  
FinlogiK Inc.  
President and Chief Executive Officer  
JitneyTrade Inc.

## **TRANSFER AGENT AND AUDITOR**

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Computershare Investor Services Inc.  
1500 Robert-Bourassa Blvd, Suite 700  
Montréal, Québec, Canada H3A 3S8  
Tel.: 514 982-7888 Fax: 514 982-7580  
[www.computershare.com](http://www.computershare.com)

Deloitte LLP  
1190 Avenue des Canadiens de Montréal  
Montréal, Québec, Canada H3B 0M7  
Tel.: 514 393-7115 Fax: 514 390-4100  
[www.deloitte.ca](http://www.deloitte.ca)