MEDIAGRIF

Interim Condensed Consolidated Financial Statements for the three and six months ended September 30, 2018, and 2017

(Unaudited and not reviewed by independent auditors)

MEDIAGRIF

Interim Condensed Consolidated Statements of Income

Unaudited and not reviewed by independent auditors

	Three months ended September 30,		Six months ended September 30,	
In thousands of Canadian dollars, except per share amounts	**2018** **$**	**2017** **$**	**2018** **$**	**2017** **$**
Revenues (Note 6)	20,261	20,031	41,389	40,002
Cost of revenues	4,145	3,963	8,334	7,776
Gross margin	16,116	16,068	33,055	32,226
Operating expenses				
General and administrative	2,673	2,772	5,490	5,470
Selling and marketing	3,777	4,238	8,641	8,819
Technology	4,835	5,530	10,869	10,234
	11,285	12,540	25,000	24,523
Operating profit	4,831	3,528	8,055	7,703
Gain (loss) on foreign exchange	(256)	(686)	60	(1,117)
Financial expenses (Note 11b))	(281)	(274)	(558)	(508)
Share in profit of a joint venture	-	54	(6)	99
Profit before income taxes	4,294	2,622	7,551	6,177
Income tax expense	1,116	912	1,941	2,051
Profit for the period	3,178	1,710	5,610	4,126
Earnings per share				
Basic and diluted	0.21	0.11	0.38	0.28
Weighted average number of shares outstanding				
Basic and diluted	14,848,779	14,885,871	14,848,779	14,890,343
Number of shares outstanding at end of period	14,848,779	14,848,779	14,848,779	14,848,779

Interim Condensed Consolidated Statements of Comprehensive Income

Unaudited and not reviewed by independent auditors

	Three months ended September 30,		Six months ended September 30,	
	2018	**2017**	**2018**	**2017**
In thousands of Canadian dollars	**$**	**$**	**$**	**$**
Profit for the period	3,178	1,710	5,610	4,126
Items that may be reclassified subsequently in profit or loss				
Change in unrealized gains (losses) on foreign currency forward contracts, net of deferred taxes	160	297	(60)	560
Reclassification of realized losses (gains) on foreign currency forward contracts, net of deferred taxes	79	(50)	9	(4)
	239	247	(51)	556
Comprehensive income for the period	3,417	1,957	5,559	4,682

MEDIAGRIF

Interim Condensed Consolidated Statements of Financial Position

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	**As at Sept. 30, 2018 $**	**As at March 31, 2018 $**
Assets		
Current assets		
Cash and cash equivalents	12,399	13,187
Cash held for the benefit of third parties	2,252	1,374
Accounts receivable	7,803	8,676
Income taxes receivable	229	427
Tax credits receivable	4,424	2,331
Prepaid expenses and deposits	2,205	2,293
	29,312	28,288
Non-current assets		
Property, plant and equipment	2,257	2,318
Intangible assets	6,337	5,708
Acquired intangible assets	59,154	61,301
Goodwill	107,203	107,047
Investment in a joint venture	-	598
Deferred taxes	3,122	4,396
	207,385	209,656
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	8,552	10,440
Other accounts payable	3,058	2,385
Income taxes payable	-	1,305
Deferred revenues	16,970	17,958
Derivative financial instruments	128	58
Current portion of deferred lease inducement	135	135
	28,843	32,281
Non-current liabilities		
Long-term debt (Note 8)	27,915	28,096
Deferred lease inducement	542	609
Deferred taxes	14,943	16,117
	72,243	77,103
Shareholders' equity		
Share capital (Note 9)	78,051	78,051
Reserves	3,120	3,171
Retained earnings	53,971	51,331
	135,142	132,553
	207,385	209,656

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited and not reviewed by independent auditors

Six months ended September 30, 2018

		Reserves				
	Share capital	Equity-settled employee benefits	Cash flow hedging	Total	Retained earnings	Total
In thousands of Canadian dollars	$	$	$	$	$	$
Balance as at March 31, 2018	78,051	3,213	(42)	3,171	51,331	132,553
Profit for the period	-	-	-	-	5,610	5,610
Other comprehensive income for the period, net of income taxes	-	-	(51)	(51)	-	(51)
Comprehensive income for the period						
Dividends declared on common shares	-	-	-	-	(2,970)	(2,970)
Balance as at September 30, 2018	78,051	3,213	(93)	3,120	53,971	135,142

Six months ended September 30, 2017

		Reserves				
	Share capital	Equity-settled employee benefits	Cash flow hedging	Total	Retained earnings	Total
In thousands of Canadian dollars	$	$	$	$	$	$
Balance as at March 31, 2017	78,293	3,213	(106)	3,107	50,476	131,876
Profit for the period	-	-	-	-	4,126	4,126
Other comprehensive income for the period, net of income taxes	-	-	556	556	-	556
Comprehensive income for the period	-	-	556	556	4,126	4,682
Repurchase of common shares for cancellation (Note 9)	(242)	-	-	-	(383)	(625)
Dividends declared on common shares	-	-	-	-	(2,969)	(2,969)
Balance as at September 30, 2017	78,051	3,213	450	3,663	51,250	132,964

Interim Condensed Consolidated Statements of Cash Flows

Unaudited and not reviewed by independent auditors

In thousands of Canadian dollars	Three months ended September 30, 2018 $	2017 $	Six months ended September 30, 2018 $	2017 $
Cash flows related to				
Operating activities				
Profit for the period	3,178	1,710	5,610	4,126
Adjustments for the following items:				
Amortization and depreciation (Note 10)	1,819	1,977	3,890	3,937
Amortization of deferred lease inducement	(34)	(36)	(67)	(71)
Amortization of deferred financing costs	10	10	20	20
Interest expense	271	264	538	488
Foreign exchange	200	543	(71)	968
Share in profit of a joint venture	-	(54)	6	(99)
Deferred taxes	32	289	150	163
Income tax expense recognized in profit	1,084	623	1,791	1,888
Changes in non-cash working capital items (Note 11a))	(2,356)	(2,233)	(3,328)	(5,101)
Interest paid	(278)	(282)	(545)	(517)
Income taxes paid	(1,183)	(732)	(2,898)	(1,569)
	2,743	2,079	5,096	4,233
Investing activities				
Business acquisition net of acquired cash (Note 7)	-	-	-	(1,534)
Acquisition of property, plant and equipment	(246)	(318)	(481)	(482)
Acquisition of intangible assets	(1,037)	(741)	(1,830)	(1.339)
Distribution from a joint venture	11	-	436	-
	(1,272)	(1,059)	(1,875)	(3,355)
Financing activities				
Increase in long-term debt	999	799	999	3,404
Repayment of long-term debt	-	-	(1,200)	-
Repurchase of share capital for cancellation (Note 9)	-	(594)	-	(625)
Cash dividends paid on common shares	(1,485)	(1,489)	(2,970)	(2,988)
	(486)	(1,284)	(3,171)	(209)
Net change in cash and cash equivalents for the period	985	(264)	50	669
Impact of exchange rate changes on cash and cash equivalents	(174)	(367)	40	(674)
Cash and cash equivalents at beginning of period	13,840	12,786	14,561	12,160
Cash and cash equivalents at end of period	14,651	12,155	14,651	12,155
Cash and cash equivalents consist of the following statement of financial position items:				
Cash and cash equivalents	12,399	11,528	12,399	11,528
Cash held for the benefit of third parties	2,252	627	2,252	627

1 Incorporation and nature of operations

Mediagrif Interactive Technologies Inc. (the "Corporation") provides e-business solutions to consumers and businesses. It operates its activities through its wholly-owned subsidiaries. The Corporation also owned interests in a joint venture until July 27, 2018 (Note 12).

The Corporation, 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 November 13, 2018. 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 Corporation for the year ended March 31, 2018. The annual financial statements of the Corporation are available on the SEDAR website at the following address: www.sedar.com and on the Corporation website at the following address: www.mediagrif.com

3 IFRS adopted during the current fiscal year

IFRS 9, ***Financial Instruments***

IFRS 9, *Financial Instruments*, replaces IAS 39, *Financial Instruments*: *Recognition and Measurement*. This new 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.

The Corporation adopted IFRS 9 with an initial adoption date of April 1, 2018 and the impacts of this standard are not significant.

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 Corporation expects to be entitled in exchange for those goods or services.

The new standard also results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improves guidance for multiple-element arrangements.

The Corporation has adopted IFRS 15 with an initial adoption date of April 1, 2018. The adoption of the new standard has no significant impact on the Corporation's revenue recognition since the conclusions of the thorough analysis performed during the last fiscal year on the accounting treatment of revenues are the same as the previous IAS 18 standard.

Concerning the contract costs, which consist of commissions paid to sales representatives, the Corporation must now record as an asset certain costs that were previously recorded in the statement of income. Under the previous standard, sales commissions were expensed as incurred. Under IFRS 15, commissions paid for contracts over a one-year term are amortized over the term of the contract or in some cases over the expected life of the client relationship.

The Corporation adopted this new Standard on a prospective basis and the conclusions of the analysis on the opening retained earnings as at April 1, 2018 demonstrate that the impact is not significant. Consequently, no restatement was made in these financial statements.

4 New and revised IFRS, issued but not yet effective

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*. IFRS 16 will apply to the Corporation for the annual period beginning on April 1, 2019. The Corporation is currently evaluating the impacts of this new standard.

5 Segment information

The Corporation has only one reportable segment.

Geographical information is as follows:

	Three months ended September 30,		Six months ended September 30,	
In thousands of Canadian dollars	**2018** **$**	**2017** **$**	**2018** **$**	**2017** **$**
Revenues				
Canada	11,147	11,194	22,827	22,473
United States	8,357	8,196	17,043	16,361
Europe	319	242	583	358
Asia and other	438	399	936	810
	20,261	20,031	41,389	40,002

In thousands of Canadian dollars	**As at Sept. 30, 2018** **$**	**As at March 31, 2018** **$**
Non-current assets		
Canada	150,547	151,948
United States	24,392	24,406
Asia and other	12	20
	174,951	176,374

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

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

6 Revenues

Revenues are detailed as follows:

	Three months ended September 30,		Six months ended September 30,	
	2018	**2017**	**2018**	**2017**
In thousands of Canadian dollars	**$**	**$**	**$**	**$**
Revenues from rights of use	14,702	15,286	30,041	30,270
Revenues from transaction fees	2,345	2,046	4,812	4,135
Revenues from advertising	964	1,070	2,245	2,343
Revenues from professional services	1,823	1,147	3,449	2,260
Revenues from maintenance and hosting	321	352	624	708
Other	106	130	218	286
	20,261	20,031	41,389	40,002

7 Business combination

Six-month period ended September 30, 2017

On June 23, 2017, the Corporation acquired substantially all of the assets of Orckestra Inc. ("Orckestra") for a cash consideration of $1,534,210 net of acquired cash. Certain liabilities were also assumed at the acquisition date. The acquisition was financed in its entirety by the Corporation's revolving facility.

Orckestra is a leading provider of digital unified commerce and omnichannel retail solutions. With this acquisition, the Corporation will be integrating the fast-growing unified retail commerce. The unique and innovative technological platform combined with potential synergies with the Corporation's e-commerce development and expertise were also determining factors in this acquisition.

Assets acquired and liabilities assumed at the acquisition date

In thousands of Canadian dollars	**June 23, 2017** **$**
Assets	
Current assets	
Cash and cash equivalents	47
Accounts receivable	929
Prepaid expenses and deposits	23
	999
Non-current assets	
Acquired intangible assets	
Technology	1,200
Customer relationship	1,285
Total	3,484
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	1,641
Deferred revenues	262
Total	1,903
Identifiable net assets acquired	1,581

Costs related to the acquisition

The total acquisition-related costs amounted to $226,740 and is included in General and administrative expenses in the 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 Corporation realized for the delivery of the same kind of service.

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

The acquired technology is evaluated using the avoided royalties' method. The multi-period excess earnings method was used to calculate the value of customer relationship. These methods are primarily based on expected discounted cash flows according to currently available information, such as historical and projected revenues, the probability of renewing each contract and certain other relevant assumptions.

No Goodwill has been recognized as a result of this transaction, the value of the identifiable net assets acquired being equal to the cash consideration transferred.

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

The Corporation's profit for the three months ended September 30, 2017, includes $1,161,467 in revenues and a net loss of $734,242, generated from Orckestra's additional business. The Corporation's profit for the six months ended September 30, 2017, includes $1,290,063 in revenues and a net loss of $695,834, generated from Orckestra's additional business.

If this business combination had been completed on April 1, 2017, the Corporation's consolidated revenues for the six months ended September 30, 2017, would have totalled $41,373,758. The consolidated profit for the six months ended September 30, 2017, would have totalled $3,746,214 including an additional amortization expense of $114,820. The Corporation considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a six-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 Corporation if the acquisition actually occurred on April 1, 2017, nor of the profit that may be achieved in the future.

To determine the Corporation's pro forma consolidated revenues and profit if Orckestra had been acquired on April 1, 2017, the Corporation calculated:

• the 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;

• the borrowing costs on the Corporation's net indebtedness after the business combination;

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

8 Long-term debt

On December 18, 2015, the Corporation 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 Corporation an $80,000,000 ($80,000,000 as at March 31, 2018) secured revolving five-year credit facility (the "Revolving Facility") and an accordion loan of $40,000,000 ($40,000,000 as at March 31, 2018) 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 September 30, 2018, the Corporation's Revolving Facility stood at $28,004,445 ($28,205,020 as at March 31, 2018) 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 the Canadian prime rate, LIBOR or the 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 September 30, 2018, the actual rate was 1.83% (1.63% as at March 31, 2018) and the applicable margin was 1.45% (1.45% as at March 31, 2018). In addition, the unused portion of the Revolving Facility bears interest at 0.29% (0.29% as at March 31, 2018) as standby fees.

All obligations under the Credit Agreement are secured by a first-rank security (hypothec) on substantially all of the Corporation'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 September 30, 2018, the Corporation 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, 2018) at all times; and
2. a total debt to EBITDA ratio of not more than 3.0 (3.0 as at March 31, 2018).

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 Sept. 30, 2018 $**	**As at March 31, 2018 $**
Revolving credit facility, bearing interest at the bankers' acceptance rate, plus a margin of 1.45% (1.45% as at March 31, 2018), maturing in December 2020	28,004	28,205
Deferred financing costs i)	(89)	(109)
	27,915	28,096

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

9 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:

	Six months ended September 30,			
	2018		**2017**	
In thousands	**Shares**	**$**	**Shares**	**$**
Balance at beginning of period	14,849	78,051	14,895	78,293
Repurchased for cancellation i)	-	-	(46)	(242)
Balance at end of period	14,849	78,051	14,849	78,051

i) During the six months ended September 30, 2018, there was no transaction related to common shares in connection with the Corporation Normal Course Issuer Bid. During the six months ended September 30, 2017, the Corporation repurchased 46,100 of its common shares for a cash consideration of $625,449 in connection with its Normal Course Issuer Bid. An average issue price of $5.26 per share before repurchase was recorded as a deduction from share capital in a total amount of $242,315 and the balance was charged to retained earnings.

c) Dividends declared

Six months ended September 30, 2018

Subsequent to the period ended September 30, 2018, i.e. on November 13, 2018, the Corporation announced the payment of a cash dividend of $0.10 per share, payable on January 15, 2019, to shareholders of record on January 2, 2019.

On August 7, 2018, the Corporation announced the payment of a cash dividend of $0.10 per share, payable on October 15, 2018, to shareholders of record on October 1, 2018.

On June 12, 2018, the Corporation announced the payment of a cash dividend of $0.10 per share, payable on July 16, 2018, to shareholders of record on July 3, 2018.

Six months ended September 30, 2017

On August 8, 2017, the Corporation announced the payment of a cash dividend of $0.10 per share, payable on October 16, 2017, to shareholders of record on October 2, 2017.

On June 6, 2017, the Corporation announced the payment of a cash dividend of $0.10 per share, payable on July 17, 2017, to shareholders of record on July 3, 2017.

10 Expenses by type

Operating profit includes the following items:

In thousands of Canadian dollars	Three months ended September 30, 2018 $	Three months ended September 30, 2017 $	Six months ended September 30, 2018 $	Six months ended September 30, 2017 $
Amortization and depreciation				
Depreciation of property, plant and equipment	271	245	542	509
Amortization of intangible assets	590	550	1,201	1,063
Amortization of acquired intangible assets	958	1,182	2,147	2,365
Total	1,819	1,977	3,890	3,937
Employee benefits expense				
Salaries and employee benefits	9,947	9,831	21,261	19,481
Termination benefits	113	799	178	829
	10,060	10,630	21,439	20,310
Tax credits	(1,224)	(751)	(2,093)	(1,441)
Total	8,836	9,879	19,346	18,869

11 Supplementary statements of cash flow and statements of income information

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

In thousands of Canadian dollars	Three months ended September 30, 2018 $	Three months ended September 30, 2017 $	Six months ended September 30, 2018 $	Six months ended September 30, 2017 $
Decrease (increase) in				
Accounts receivable	653	52	873	(1,693)
Tax credits receivable	(1,224)	(751)	(2,093)	34
Prepaid expenses and deposits	(325)	(514)	95	(612)
Increase (decrease) in				
Accounts payable and accrued liabilities	(551)	147	(1,888)	(1,814)
Other accounts payable	593	(176)	673	104
Deferred revenues	(1,502)	(991)	(988)	(1,120)
Total	(2,356)	(2,233)	(3,328)	(5,101)

During the six months ended September 30, 2018, the Corporation has reclassified an amount of $2,162,392 ($755,329 in 2017) from Tax credits receivable to Income taxes payable because the Corporation expects to use these tax attributes against income taxes payable during the current fiscal year.

b) Financial expenses consist of the following:

	Three months ended September 30,		Six months ended September 30,	
	2018	**2017**	**2018**	**2017**
In thousands of Canadian dollars	**$**	**$**	**$**	**$**
Amortization of deferred financing costs	10	10	20	20
Interest on long-term debt	271	264	538	488
Total	281	274	558	508

12 Related party transactions

On May 29, 2018, the Board of Directors of Société d'investissement M-S S.E.C. ''GWS'', the Corporation's 50% ownership joint venture, voted a unanimous resolution to dissolve and liquidate GWS. The dissolution and the distribution of the residual cash balances to the co-venturers were done on July 27, 2018. During the six months ended September 30, 2018, the Corporation received an amount of $435,577 as a distribution from GWS.

During the three-month period ended September 30, 2018, the revenues from transactions with GWS recorded by the Corporation were nil ($424,600 in 2017). During the six-month period ended September 30, 2018, these revenues were also nil ($842,378 in 2017).

In addition, during the three-month period ended September 30, 2018, the Corporation recharged to GWS operating expenses in the amount of nil ($34,079 in 2017) whereas this recharge was $2,743 ($76,381 in 2017) for the six months ended on September 30, 2018. These recharges were presented against operating expenses in the Interim Condensed Consolidated Statement of Income. As at September 30, 2018, the Corporation's accounts receivable from GWS were nil ($69,627 as at March 31, 2018).

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