

Consolidated Financial Statements of

MEDIAGRIF INTERACTIVE TECHNOLOGIES INC.

FISCAL YEAR 2009

For the three months ended June 30, 2008 and 2007

(unaudited)

CONSOLIDATED BALANCE SHEETS

(Canadian dollars in Thousands)	June 30, 2008 (Unaudited)	March 31, 2008 (Note 1)
	\$	\$
ASSETS		
Cash and cash equivalents	25,196	27,798
Cash held for the benefit of others	1,315	551
Accounts receivable	7,420	6,298
Tax credits receivable	2,154	1,677
Prepaid expenses	849	897
Future income taxes	162	222
	37,096	37,443
Premises and equipment	2,600	2,878
Intangible assets	4,471	4,544
Acquired intangible assets	7,589	8,037
Goodwill	25,991	25,991
Other assets	77	99
Future income taxes	4,851	4,433
	82,675	83,425
LIABILITIES		
Accounts payable and accrued liabilities	7,369	8,298
Income taxes payable	1,968	1,615
Deferred revenue	8,654	8,264
Current portion of purchase price payable	25	25
Current portion of long-term debt	90	-
Current portion of deferred gain on licenses	310	479
Future income taxes	428	516
	18,844	19,197
Long-term debt	60	-
Future income taxes	898	969
	19,802	20,166
SHAREHOLDERS' EQUITY		
Capital stock (note 5(b))	49,392	50,111
Share purchase options (note 5(c))	2,256	2,301
Contributed surplus	1,180	993
Retained earnings	10,953	10,719
Accumulated other comprehensive loss	(908)	(865)
	62,873	63,259
	82,675	83,425

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS - UNAUDITED
FOR THE THREE MONTHS ENDED JUNE 30

(Canadian dollars in Thousands)	2008	2007
	\$	\$
Retained earnings - Beginning of period	10,719	25,476
Net earnings for the period	309	811
Premium on redemption of common shares for cancellation (note 5(b)(i))	(75)	(413)
Retained earnings - End of period	10,953	25,874

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – UNAUDITED

(Canadian dollars in Thousands)	Three months ended	
	2008	June 30, 2007
	\$	\$
Net earnings for the period	309	811
Foreign currency translation adjustment	(36)	(384)
Changes in unrealized losses on short term investment, net of future income taxes	-	(77)
Reclassification of realized losses on forward contracts, net of future income taxes	70	244
Unrealized gain (losses) on forward exchange contracts, net of future income taxes	(77)	465
Comprehensive income (loss)	266	1,059

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME -
UNAUDITED

(Canadian dollars in Thousands)	June 30, 2008	March 31, 2008
Foreign currency translation adjustment		
Cumulative effects of prior periods	795	259
Current period	36	536
	831	795
Unrealized losses on forward exchange contracts		
Cumulative effects of prior periods, net of future income taxes	70	245
Current period, net of realized gains and future income taxes	7	(175)
	77	70
Unrealized losses on short-term investments		
Cumulative effects of prior periods, net of future income taxes	-	3
Current period, net of future income taxes	-	(3)
	-	-
Accumulated other comprehensive income	908	865

CONSOLIDATED STATEMENTS OF EARNINGS – UNAUDITED

(Canadian dollars in Thousands, except per share amounts)	Three months ended June 30,	
	2008	2007
	\$	\$
Revenues	11,978	11,272
Cost of Revenues	2,899	2,268
Gross Margin	9,079	9,004
Operating expenses		
General and administrative	3,139	2,753
Sales and marketing	2,630	2,454
Technology	2,242	2,144
Amortization of acquired intangible assets	448	295
Stock-based compensation	142	54
	8,601	7,700
Earnings from operations	478	1,304
Other income, net (note 3(b))	158	381
Earnings before income taxes	636	1,685
Provision for income taxes	327	874
Net earnings for the period	309	811
Earnings per share (note 5(d))		
Basic	0.02	0.05
Diluted	0.02	0.05
Weighted average number of shares outstanding		
Basic	14,534,500	17,732,406
Diluted	14,534,500	17,853,115
Number of shares outstanding - End of period		
Basic	14,355,765	17,726,809

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(Canadian dollars in Thousands)	Three months ended June 30,	
	2008	2007
	\$	\$
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Net earnings for the period	309	811
Adjustments for		
Amortization of premises and equipment	432	359
Amortization of intangible assets	758	695
Amortization of acquired intangible assets	448	295
Amortization of other assets	22	19
Amortization of gains on licenses	(169)	(169)
Stock-based compensation	142	54
Future income taxes	(514)	(348)
Changes in non-cash working capital items (note 3(a))	(1,741)	(1,936)
	(313)	(220)
INVESTING ACTIVITIES		
Acquisition of premises and equipment, intangible assets and other assets	(839)	(1,164)
Decrease (increase) in short-term investments, net	-	35,214
	(839)	34,050
FINANCING ACTIVITIES		
Issuance of long-term debt	160	-
Repayment of long-term debt	(10)	-
Purchase of common shares for cancellation (note 5 (b)(i))	(793)	(645)
Issuance of common shares (note 5 (b)(ii) and iii))	-	237
	(643)	(408)
Net increase (decrease) in cash and cash equivalents	(1,795)	33,422
Effect of exchange rate changes on cash and cash equivalents	(43)	(383)
Cash and cash equivalents - Beginning of period	28,349	11,221
Cash and cash equivalents - End of period	26,511	44,260

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

June 30, 2008 and 2007

1) Accounting Policies

The consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial statements and follow the same accounting policies and methods of their application found in the audited financial statements for the year ended March 31, 2008, with the exceptions for changes mentioned below. The March 31, 2008 balance sheet figures have been derived from the audited financial statements of the Company for the year ended March 31, 2008. These interim financial statements are unaudited and have not been reviewed by the Company's external auditors. The disclosures in these unaudited interim financial statements do not conform in all material respects to the requirements of GAAP for annual financial statements; therefore, these interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for fiscal year 2008.

Changes in accounting policies

a) Capital Disclosures

On April 1, 2008, the Company adopted Section 1535 of the Canadian Institute of Chartered Accountants (CICA) Handbook, "Capital Disclosures" which requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. Disclosure requirements pertaining to Section 1535 are contained in note 6 of the consolidated financial statements.

b) Financial Instruments Disclosures and Presentation

On April 1, 2008, the Company adopted Sections 3862 and 3863 of the CICA Handbook, "Financial Instruments – Disclosures" and "Financial Instruments – Presentation". This new section discloses risks associated with financial instruments, including fair value as well as credit, liquidity and market risks. It also establishes standards for presentation of financial instruments and non-financial derivatives. Sections 3862 and 3863 supersede Section 3861. The adoption of Section 3862 required additional disclosures found in note 7 of the consolidated financial statements.

2) Related Party Transactions

Details of related party transactions not otherwise disclosed in the financial statements are as follows:

(Canadian dollars in Thousands)

	Three months ended June 30,	
	2008	2007
	\$	\$
Revenues		
Joint ventures	345	386
Accounts receivable		
Joint ventures	835	394
Accounts payable		
Joint ventures	13	-

Balances and transactions with the joint ventures represent the amounts corresponding to the joint venturers' interest therein. All related party transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration agreed upon by the parties. Revenues from joint ventures include amortization of gains on licenses which derive from the creation of Polygon DMCC.

3) Changes in Non-Cash Working Capital Items and Other Income

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

(Canadian dollars in Thousands)

	Three months ended June 30,	
	2008	2007
	\$	\$
Decrease (increase) in		
Accounts receivable	(1,122)	423
Tax credits receivable	(477)	(273)
Prepaid expenses	48	35
Future income taxes	(3)	-
Increase (decrease) in		
Accounts payable and accrued liabilities	(930)	(1,425)
Income taxes	353	(325)
Deferred revenues	390	(371)
	(1,741)	(1,936)

b) Other income consists of the following:

(Canadian dollars in Thousands)

	Three months ended June 30,	
	2008	2007
	\$	\$
Interest income	159	683
Interest expense	(45)	(87)
Foreign exchange gain (loss)	82	(150)
Other	(39)	(65)
	158	381

4) Segmented Information

Geographical information is as follows:

For the three months ended June 30,

(Canadian dollars in Thousands)	2008		2007	
	Revenues \$	Premises and equipment intangible assets, and goodwill \$	Revenues \$	Premises and equipment intangible assets, and goodwill \$
Canada	4,246	8,289	3,786	8,638
United States	5,470	32,259	4,719	25,724
Europe	693	-	715	-
Asia and other	1,569	103	2,052	147
	11,978	40,651	11,272	34,509

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

5) Capital Stock and Share Purchase Options

(Number in Thousands, Canadian dollars in Thousands, except per share amounts)

a) Authorized, unlimited as to 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 the common shares activity for the periods ended June 30:

	Three months ended June 30,			2007 Amount \$
	Number of shares	2008 Amount \$	Number of shares	
Balance before share purchase financing agreements - Beginning of period	14,565	50,111	17,802	61,036
Purchased for cancellation (note 5(b)(i))	(209)	(719)	(69)	(232)
Exercise of stock options (note 5 (b)(ii))	-	-	53	342
Balance before share purchase financing agreements	14,356	49,392	17,786	61,146
Share purchase financing agreements (note 5 (b)(iii))	-	-	(59)	(124)
Balance - End of period	14,356	49,392	17,727	61,022

i) During the three-month period ending June 30, 2008, the Company purchased 208,874 (2008 - 68,600) of its own shares for cancellation for a cash consideration totalling \$793,315 (2008 - \$645,224). Capital stock has been reduced by the average issue price per share before the buy-back of \$3.44 (2008 - \$3.38) totalling \$718,647 (2008 - \$231,732), with the resulting premium on redemption having been charged to retained earnings.

ii) During the three-month period ended June 30, 2008, no common share was issued pursuant to the exercise of stock options as compared to 53,250 in 2008 for a cash consideration of \$237,275 or \$4.46 per share.

In fiscal year 2008, an amount of \$104,968 representing the stock-based compensation previously recognized for these options in Share purchase options was reclassified to capital stock (note 5 (c)).

iii) As at June 30, 2007, the Company had a receivable from its employees of \$123,839 related to share purchase loans to them under the employee stock purchase plan. As at June 30, 2007, there were 58,936 shares outstanding with respect to employee loans, for which the market value was \$529,834. The related shares are considered to be issued as the loan is repaid by the holder. The decrease in the loans

has therefore been presented in the consolidated statement of cash flows as an issuance of common share of \$0 for the three months ended June 30, 2007, in addition to the exercise price of stock options. There were no such loans outstanding as at June 30, 2008.

c) The following table summarizes the share purchase option activity for the periods ended June 30:

	2008	2007
	\$	\$
Balance - Beginning of year	2,301	2,802
Compensation expense related to stock options	142	54
Transfer of accumulated compensation cost upon exercise of stock options (note 5(b)(ii))	-	(105)
Transfer of accumulated compensation cost related to stock options vested but not exercised	(187)	(735)
Balance - End of year	2,256	2,016

Stock-based compensation plan

The Company has a stock option plan as described in note 9 to the consolidated financial statements in the 2008 Annual Report.

During the three-month period ended June 30, 2008, the Company granted 175,000 stock options to certain directors and employees at a weighted average exercise price of \$5.89. The estimated fair value of the stock options issued under this grant amounts to \$279,769, and will be expensed over their vesting period which does not exceed three years.

For stock options granted to employees and directors, the fair value of share purchase options was estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>Fiscal 2009</u>	<u>Fiscal 2008</u>
Risk-free interest rate	3.1%	4.2% to 4.7%
Expected life of options	3.0 to 5.0 years	3.0 to 5.0 years
Volatility	32.9%	33.6% to 33.9%
Dividend rate	Nil	Nil
Weighted average fair value of options granted per unit	\$1.60	\$3.27

d) Weighted average number of shares outstanding

The following table outlines the weighted average number of shares used in the calculations of the basic and diluted net earnings per share:

	Three months ended	
	June 30,	
	2008	2007
Weighted average number of shares outstanding		
Basic	14,535	17,732
Dilutive effect of stock options	-	76
Dilutive effect of share purchase financing agreements	-	45
Diluted	14,535	17,853

Options to purchase 1,109,100 shares (2008 - 1,070,200) at a weighted average price of \$9.22 per share (2008 - \$9.92) were outstanding during the three-month period ending June 30, 2008, but were not included in the calculation of diluted earnings per share because the options' exercise price was greater than the average price of the shares.

6) Capital Disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth, to undertake selective acquisitions and to provide an appropriate return on investment to its shareholders. The Company's capital consists of long-term debt, shareholder's equity and deferred revenues, net of cash and cash equivalents and short-term investments. The Company's primary uses of capital are to finance non-cash working capital requirements, capital expenditures and business acquisitions. The Company has historically funded its needs from cash and short-term investments on hand and internally generated cash flows. In order to adjust its capital structure, the company may from time to time issue shares for cash or in connection with business acquisitions, repurchase shares or secure bank debt to fund capital expenditures or business acquisitions. There have been no changes in the company's objectives for managing capital or the definition thereof as compared to the previous year.

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

7) Financial Risk Management

The Company, through its financial assets and liabilities is exposed to risks by virtue of its activities: market risk, including foreign currency risk and interest rate risk, credit risk and liquidity risk. The main objective of the Company's risk management process is to ensure that risks are properly identified and addressed to minimize potential adverse effects on financial performance.

Risk management is carried out by the finance department, which identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments, which potentially subject the Company to credit risk, consist principally of cash and cash equivalents, short-term investments and accounts receivable. The Company's cash is maintained at major financial institutions and its short-term investments consist mainly of commercial paper and corporate bonds issued by high-quality credit issuers; therefore, the Company considers the risk of non-performance on these instruments to be remote.

The Company believes that its credit risk with respect to account receivable is limited based on past experience. The Company generally does not require collateral in connection with accounts receivable. Furthermore, the Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible.

The carrying value of the Company's trade accounts receivable is net of allowance for doubtful accounts. The changes in the allowance during the period are as follows:

	For the three months ended		FY2008
	June 30, 2008	June 30, 2007	
Allowance for doubtful accounts			
Beginning of period	(360,228)	(422,510)	(422,510)
Charge for the period	(37,889)	62,386	62,282
End of period	(398,118)	(360,124)	(360,228)

The aging analysis of trade accounts receivables is as follows:

	<u>Current</u>	<u>31 - 60</u>	<u>61-90</u>	<u>Over 90</u>	<u>Total</u>
Accounts receivable	4,239,128	1,704,699	336,894	1,138,839	7,419,560

There are no impairments or amounts past due other than those relating to the trade accounts receivable.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rate expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents earn interest at market rate.

As at June 30, 2008, the Company's exposure to interest rate risk is on cash and cash equivalents for which the interest rates vary from 3.00% to 4.20%. For the quarter ended June 30, 2008, if interest rates at that date had been 0.5% higher or 0.5% lower, the impact on net earnings would have been insignificant.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company is currently not exposed to interest rate risk, as the Company has no short-term investments and its long-term debt is not significant.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations as they fall due. The Company is actually not exposed to liquidity risk, as the Company has sufficient cash and cash-equivalents to sustain its operations and anticipated investing and financing activities. The Company's financial liabilities, which consist of accounts payable, accrued liabilities and the current portion of the long-term debt are due within twelve months or less. The long-term debt is due within sixteen months.

Foreign exchange risk

Foreign exchange risk is related to the Company's business transactions denominated in currencies other than Canadian dollars, primary US dollars. Foreign exchange risk arises from future sales and purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company's main objective in managing its foreign exchange risk is to reduce variations in performance. In order to reduce the potentially negative effects of a fluctuating Canadian dollar, the Company has entered into foreign currency forward contracts to stabilize anticipated future revenues and purchase price payable denominated in US dollars. Foreign exchange contracts may only be entered into for purposes of managing foreign exchange risk and not for speculative purposes.

The balances in foreign currencies at June 30, 2008 are as follows:

	U.S dollar <u>USD</u>	European <u>Euro</u>	dirham <u>AED</u>	rupee <u>INR</u>	yuan renminbi <u>CNY</u>
Cash and cash equivalents	9,208,204	2,612	12,859,598	724,762	10,362
Cash held for the benefit of others	1,294,816	-	-	-	-
Accounts receivable	3,783,639	82,126	926,929	649,957	5,000
Accounts payable and accrued liabilities	(4,310,753)	-	(1,737,019)	(2,584,789)	(31,212)
Purchase price payable	(23,649)	-	-	-	-
	9,952,256	84,738	12,049,508	(1,210,070)	(15,850)

Based on the above net exposures as at June 30, 2008, and taking into account the foreign currency forward contract and assuming that all other variables remains constant, a 5% depreciation of the Canadian dollar or a 5% appreciation of the Canadian dollar against the various currencies would result in increase/(decrease) in net earnings as follows:

	U.S dollar <u>USD</u>	European <u>Euro</u>	U.A.E. dirham <u>AED</u>	Indian rupee <u>INR</u>	China yuan renminbi <u>CNY</u>
Canadian dollar appreciates 5%	(272,381)	(6,796)	(167,066)	1,435	118
Canadian dollar depreciates 5%	272,381	6,796	167,066	(1,435)	(118)

Financial instruments

Cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities and purchase price payable are financial instruments whose fair values approximate their carrying values because of their short term to maturity.

8) Comparative Figures

Certain figures for fiscal 2008 have been reclassified in order to comply with the basis of presentation adopted in the current year.