

**Mediagrif Interactive Technologies Inc.  
Management's Discussion and Analysis  
For the period ended September 30, 2008**

The following Management's Discussion and Analysis ("MD&A"), which has been prepared as of November 11th 2008, of the financial condition and results of operations of Mediagrif Interactive Technologies Inc. ("Mediagrif" or the "Company") for the period ended September 30, 2008 should be read in conjunction with the unaudited interim consolidated financial statements and related notes for that period as well as the MD&A, the audited consolidated financial statements and related notes contained in the Company's 2008 Annual Report.

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). Unless indicated otherwise, all amounts are in Canadian dollars.

**GENERAL**

Mediagrif is a world-leading operator of e-business networks and provider of complete e-business solutions. Our e-business networks operate as dedicated Web sites within specific business sectors, enabling trade between corporate buyers and suppliers and helping them to find, purchase and sell products, to exchange information and to access business opportunities with greater speed and efficiency. Our business members use our e-business networks and solutions to improve their productivity and enhance their competitiveness in today's rapidly expanding global marketplace. Founded in 1996, Mediagrif (TSX: MDF) is headquartered in the Greater Montréal area and has other offices in North America and Asia.

**ACQUISITIONS AND MAJOR TRANSACTIONS**

**FISCAL 2009**

a) In August 2008, the Board of Polygon DMCC decided to close its offices in Dubai in United Arab Emirates, in India and in Hong Kong. Mediagrif will however, maintain Polygon's operations in China and India. To cover upcoming expenses related to closures, a general provision has been taken in the quarter. Consequently, the Company expects to see a small positive impact resulting from such closures in the third quarter of this fiscal year.

b) On September 2, 2008, the Company acquired the assets of BUS System Inc ("BUS") which offers a range of Web applications to better manage insurance claims in the automotive industry. The purchase price was approximately CA\$520,000 including other acquisition costs. This acquisition was integrated into Carrus Technologies network.

c) On November 4, 2008, Carrus Technologies Inc. (“Carrus”) announced it has signed an agreement with Uni-Select Inc. (TSX: UNS) under which the Carrus jobber management software (“JMS”) will be used in all Canadian corporate stores bearing the Uni-Select banner. Carrus’ JMS will also be promoted as the preferred provider of jobber management software systems and related services for Uni-Select’s network of 700 member stores.

## **FISCAL 2008**

a) On April 17, 2007, we acquired the customer base of Telephone International (“TI”), an advertising and listing publication focused on the telecom industry for a purchase price of approximately US\$168,000 (CA\$190,000) including other acquisition costs. This acquisition was integrated into the Power Source On-Line network.

b) On July 11, 2007, the Company purchased Market Velocity Inc. (“MVI”), a leading service and technology provider for equipment trade-in, recycle, and donation programs in the U.S. MVI is well respected for its expertise in developing compelling solutions for the trade-in market and will strategically complement our Parts Exchange networks. It offers added value to our current customers by giving them access to top-tier manufacturers, and brings the largest pool of aftermarket remarketers to existing MVI clients. The acquisition of MVI solidifies our position as one of the predominant players and accelerates the expansion of our Parts Exchange networks throughout North America. It also extends Mediagrif’s reach in penetrating the end-consumer market segment. The total purchase price including other acquisition costs was approximately US\$5.4 million (CA\$5.7 million).

c) On August 6, 2007, MERX announced the execution of an agreement with McGraw-Hill Construction, the premier provider of construction information and intelligence in North America and part of The McGraw-Hill Companies (NYSE: MHP) to collaborate on expanding information offerings to the construction and building products industry in Canada and the U.S. MERX and McGraw-Hill Construction work together on the publishing of construction project data to provide additional value to both the Building Products Manufacturers and Contractor markets. Technology and expertise is shared by both companies to drive common goals, expanding the reach and the quality of current information services.

d) On September 10, 2007, the Company purchased epipeline Inc. (“EPI”), a leading online source of research for U.S. government contractors. EPI is also recognized for providing the most advanced research services in the industry, which is a solid asset for our e-Publishing networks as it enables us to offer increased value and continues to consolidate our leading position as the provider of complete and efficient source of government business opportunities in North America. The total purchase price including other acquisition costs was approximately US\$3.8 million (CA\$4.0 million), which included the reimbursement of long-term notes and other liabilities for approximately US\$1.8 million (CA\$1.9 million).

e) On September 25, 2007, the Company announced the purchase for cancellation of 2,873,563 common shares at a price of \$8.70 per share, for a total cost of approximately \$25.3 million, including related costs, as part of a substantial issuer bid. The Board of

Directors of Mediagrif had determined that the purchase of common shares pursuant to this issuer bid represented an effective use of Mediagrif's financial resources and was in the best interests of its shareholders.

f) On March 17, 2008, the Company announced that it significantly reduced its operating expenses through the reduction of headcount by approximately 15%, the implementation of increased cost controls and the transfer of resources in lower cost environments. These decisions address the challenges of the changing competitive and economic environments and the steady rise of the Canadian dollar. The reorganization touches most of Mediagrif's line of business and corporate departments. As a result, the fourth quarter of fiscal 2008 was negatively impacted by approximately \$0.5 million in severance costs. However, the Company expects these measures to positively impact its profitability in fiscal 2009.

## **SUPPLEMENTARY EARNINGS MEASURES**

In addition to providing an earnings measure in accordance with GAAP, the Company's statement of earnings show earnings from operations as a supplementary earnings measure. Earnings from operations are not intended to be a measure that should be regarded as an alternative to other financial operating performance measures prepared in accordance with Canadian GAAP. This measure does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Earnings from operations are provided to assist investors in determining the Company's ability in generating profitability from its operations.

The Company sometimes refers to the free cash flow measure in its documents. Free cash flow is defined as cash flows from operating activities less the acquisition of premises and equipment, intangible assets and other assets presented in the investing activities. This measure does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. It is provided to assist investors in determining the Company's ability in generating cash flows to finance its growth.

## **CHANGES IN ACCOUNTING POLICIES**

### **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.

### **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 of 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. Section 3862 and 3863 supersede Section 3861. The adoption of Section 3862 required additional disclosures found in note 7 of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF EARNINGS

(Canadian dollars in Thousands,  
except per share amounts)

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Revenues</b>	<b>11,886</b>	12,102	<b>23,864</b>	23,374
<b>Cost of Revenues</b>	<b>2,616</b>	2,326	<b>5,515</b>	4,595
<b>Gross Margin</b>	<b>9,270</b>	9,776	<b>18,349</b>	18,779
<b>Operating expenses</b>				
General and administrative	3,171	3,203	6,310	5,955
Sales and marketing	2,577	2,541	5,207	4,995
Technology	2,113	2,263	4,355	4,407
Amortization of acquired intangible assets	449	391	897	686
Stock-based compensation	86	195	228	249
	<b>8,396</b>	8,593	<b>16,997</b>	16,292
<b>Earnings from operations</b>	<b>874</b>	1,183	<b>1,352</b>	2,487
Other income, net	424	461	582	842
<b>Earnings before income taxes</b>	<b>1,298</b>	1,644	<b>1,934</b>	3,329
Provision for income taxes	503	776	830	1,650
<b>Net earnings for the period</b>	<b>795</b>	868	<b>1,104</b>	1,679
<b>Earnings per share</b>				
Basic	<u>0.06</u>	<u>0.05</u>	<u>0.08</u>	<u>0.09</u>
Diluted	<u>0.06</u>	<u>0.05</u>	<u>0.08</u>	<u>0.09</u>
<b>Weighted average number of shares outstanding</b>				
Basic	<u>14,340,768</u>	17,643,912	<u>14,436,652</u>	17,688,134
Diluted	<u>14,340,768</u>	17,729,608	<u>14,436,652</u>	17,790,273
<b>Number of shares outstanding - End of period</b>				
Basic	<u>14,305,456</u>	14,881,246	<u>14,305,456</u>	14,881,246

## REVENUES

Revenues for the quarter reached \$11.9 million as compared to \$12.1 million in the corresponding quarter of last year. Revenues during the quarter, as compared to last year, were impacted by the following factors:

- The foreign exchange variation remains the main factor offsetting the organic growth. 63.6% of this quarter's reported revenues were earned in US dollars. The foreign exchange fluctuations alone negatively impacted quarterly revenues by \$0.5 million. On a constant currency basis and including the impact of EPI acquisition, total revenues increased by \$0.3 million compared to last year.
- During the current quarter, networks such as MERX, BidNet, MVI, CBI and Global Wine & Spirits showed particularly healthy growth as compared to the corresponding quarter of last year. Such growth was offset by a decrease in The Broker Forum due to lower membership revenues as well as a decrease in Power Source On-Line, caused by net additional members generating lower average revenue.
- Excluding the impact on revenues of EPI acquisition, total revenues decreased to \$11.5 million as compared to \$12.0 million. As such, EPI contributed \$0.4 million to revenues in the quarter ended September 30, 2008.

Revenues for the six-month period reached \$23.9 million as compared to \$23.4 million in the corresponding period of last year. Revenues during the period, as compared to last year, were impacted by the following factors:

- The foreign exchange variation remains the main factor offsetting the organic growth. Approximately 63.8% of this period's reported revenues were earned in US dollars. The foreign exchange fluctuations alone negatively impacted revenues by \$1.1 million. On a constant currency basis and including the impact of MVI and EPI acquisitions, total revenues increased by \$1.6 million compared to last year.
- During the six-month period, networks such as MERX, Carrus Technologies, BidNet, CBI and Global Wine & Spirits showed particularly healthy growth as compared to the corresponding period of last year. Such growth was offset by a decrease in The Broker Forum due to lower membership revenues as well as a decrease in Power Source On-Line, caused by net additional members generating lower average revenue

## **GROSS MARGIN**

Gross margin as a percentage of revenue decreased to 78.0% during the quarter as compared to 80.8% for the previous year. A decrease is explained by a reallocation of headcount, and by the impact of EPI and Carrus, which have a lower gross margin.

For the six-month period, gross margin as a percentage of revenue decreased to 76.9% during the current period from 80.3% for the previous year. A decrease is explained by the same elements above.

## **OPERATING EXPENSES**

For the quarter ended September 30, 2008, total operating expenses decreased to \$8.4 million as compared to \$8.6 million for the previous year. Moreover excluding EPI acquisition, total operating expenses decreased from \$8.5 to \$8.0 million.

Over the period, operating expenses were impacted by the following elements:

- General and administrative charges remained stable at \$3.2 million.
- Sales and marketing expenses increased from \$2.5 million last year to \$2.6 million for the quarter ended September 30, 2008. This is attributable to the EPI acquisition which is causing an increase of \$0.2 million partly offset by lower salaries and advertising expenses.
- Technology expenses decreased from \$2.3 million to \$2.1 million, mainly due to the lower salaries expenses and higher capitalized internally developed software.
- The amortization of acquired intangible assets increased from \$0.3 million to \$0.4 million in comparison to the same period last year mainly because of the MVI and EPI acquisitions.
- Lastly, the Stock-based compensation expense decreased by \$0.1 million mainly due to an individual cancellation of stock options.

For the six-month period ended September 30, 2008, total operating expenses increased to \$17.0 million as compared to \$16.3 million for the previous year. Excluding MVI and EPI acquisition, operating expenses decreased from \$15.7 million to \$14.9 million. Over the period, operating expenses were impacted by the following elements:

- General and administrative charges increased from \$6.0 million to \$6.3 million, which is mainly due to the MVI and EPI acquisitions, which are causing an increase of \$0.3 million.
- Sales and marketing expenses increased from \$5.0 million last year to \$5.2 million for the six months ended September 30, 2008. This increase is attributable to the impact of the MVI and EPI acquisitions partly offset by lower salaries and advertising expenses.
- Technology expenses remained stable at \$4.4 million compared to last year. Higher costs generated by the MVI and EPI acquisition and lower New Economy and R&D credits were offset by lower salaries expenses and higher capitalized internally developed software.
- The amortization of acquired intangible assets increased slightly from \$0.7 million to \$0.9 million due to the acquisitions of MVI and EPI over the last year.

- Lastly, the Stock-based compensation expense remained stable at \$0.2 million compared to last year.

## **EARNINGS FROM OPERATIONS**

Earnings from operations during the quarter ended September 30, 2008 amounted to \$0.9 million as compared to \$1.2 million in the corresponding quarter of last year. This decrease is mainly due to lower gross margin in the current quarter, higher expenses due to the acquisitions and foreign exchange variations.

Earnings from operations for the six months period ended September 30, 2008 amounted to \$1.4 million as compared to \$2.5 million last year. This decrease is mainly due to the same elements explained above.

## **OTHER INCOME**

For the quarter ended September 30, 2008, other income remained stable at \$0.4 million compared to the corresponding quarter of last year.

During the six-month period ended September 30, 2008, other income decrease to \$0.6 million compared to \$0.8 million last year mainly due to lower interest income stemming from lower cash balance.

## **PROVISION FOR INCOME TAXES**

For the quarter ended September 30, 2008, the provision for income taxes amounted to \$0.5 million, representing a 38.7% effective tax rate, as compared to \$0.8 million or 47.2% for the corresponding quarter of the previous year.

For the six-month period ended September 30, 2008, the provision for income taxes amounted to \$0.8 million, representing a 42.9% effective tax rate, as compared to \$1.6 million or 49.6% for the corresponding period of last year. The weighted statutory tax rates for fiscal 2009 and fiscal 2008 were 30.9% and 32.0% respectively, a decrease due to the reduction of the federal Canadian rate.

For the quarter and the six-month period ended September 30, 2008, non deductible expenses from foreign entities and from stock based compensation offset by non taxable foreign exchange gain were the main factors accounting for the difference between effective and statutory tax rates.

For the quarter and the six-month period ended September 30, 2007, non deductible expenses from foreign entities, from stock based compensation and from foreign

exchange loss and interest income taxed at higher rate were the main factors accounting for the difference between effective and statutory rates.

## EARNINGS PER SHARE

Basic earnings per share for the quarter were \$0.06 as compared to earnings of \$0.05 in last year's corresponding quarter. The basic weighted average number of common shares outstanding for the quarters ended September 30, 2008 and 2007 amounted to 14.3 million and 17.6 million respectively. This decrease is mainly due to a substantial issuer bid for which the Company purchased 2,873,563 shares for cancellation in the second quarter of last year.

For the six-month period ended September 30, 2008, basic earnings per share was \$0.08 as compared to \$0.09 in last year's corresponding period. The basic weighted average number of common shares outstanding for the periods ended September 30, 2008 and 2007 amounted to 14.4 million and 17.7 million. This decrease is mainly due to a substantial issuer bid for which the Company purchased 2,873,563 shares for cancellation in the second quarter of last year.

## QUARTERLY PERFORMANCE

Selected quarterly financial information for the eight most recently completed quarters as of September 30, 2008 is disclosed below:

	2007		2008				2009	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenues	11,859	11,202	11,272	12,102	12,242	12,133	11,978	11,886
Earnings (loss) from operations	2,014	(162)	1,304	1,183	629	(329)	478	874
Net earnings (loss)	1,625	79	811	868	590	(318)	309	795
Basic EPS (LPS)	0.09	0.00	0.05	0.05	0.04	(0.02)	0.02	0.06
Diluted EPS (LPS)	0.09	0.00	0.05	0.05	0.04	(0.02)	0.02	0.06

## RELATED PARTY TRANSACTIONS

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.

During the quarter ended September 30, 2008, revenues earned from joint ventures increased to \$0.4 million compared to \$0.3 million in the corresponding quarter of last year.

During the six-month period ended September 30, 2008, revenues earned from joint ventures remained stable at \$0.7 million as compared to the corresponding period of last year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

Since our inception, we have financed our operations and met our capital expenditure requirements primarily through cash flows from operating activities. Before fiscal 2008, our cash flows from operating activities have increased considerably mainly due to higher profitability. These higher cash flows from operating activities have been used to meet capital expenditures and have resulted in significant free cash flow. Such free cash flow has been used to fund business acquisitions and to purchase common shares for cancellation, including last year substantial issuer bid for which the Company purchased for cancellation 2,873,563 common shares at a price of \$8.70 per share, for a total cost of approximately \$25.3 million. The Board of Directors of Mediagrif had determined that the purchase of common shares pursuant to this issuer bid represented an effective use of Mediagrif's financial resources and was in the best interests of its shareholders.

In the last few quarters, the restructuring of the management, the additional investments in the marketing and international activities, the reorganization of the overall headcount of the company and the decrease in the interest income had a temporary negative impact on the free cash flow.

However, we believe that these investments will give positive results in the coming quarters.

Over the coming years, we expect to maintain our policy of using free cash flow in order to fund acquisitions and, if desirable, the purchase of additional common shares for cancellation. We also expect to maintain our policy of holding cash resources in order to pursue acquisitions whose funding requirements are potentially in excess of our free cash flow generation capabilities.

As of September 30, 2008, our cash and cash equivalents reached \$26.4 million, a decrease from \$27.8 million as of March 31, 2008 and a decrease from \$28.7 million as

of September 30, 2007. As of September 30, 2008, our short-term investments amounted to nil as well as for the period ended March 31, 2008 and to \$0.1 million as of September 30, 2007.

### **Operating activities**

For the quarter ended September 30, 2008, net cash provided by operating activities increased at \$1.9 million as compared to a negative contribution of \$0.5 million for the

corresponding quarter of last year. The variation is explained by the decrease in the changes in non-cash working capital items.

For the six-month period ended September 30, 2008, net cash provided by operating activities amounted to \$1.6 million as compared to a negative contribution of \$0.7 million in the corresponding period of last year. The variation is explained by the decrease in the changes in non-cash working capital items.

### **Investing activities**

For the quarter ended September 30, 2008, net cash used by investing activities amounted to \$1.4 million. This amount was used for the purchase of BUS Systems Inc. assets (\$0.5 million) as well as for premises and equipment, intangible and other assets.

For the quarter ended September 30, 2007, net cash provided by investing activities amounted to \$10.6 million. This amount is mainly comprised of \$6.2 million for the acquisition of MVI and EPI in July and September respectively, \$0.9 million for the purchase of premises and equipment and intangible assets, offset by the transfer of \$17.8 million from short-term investments to cash and cash equivalents.

For the six-month period ended September 30, 2008, net cash used by investing activities amounted to \$2.3 million. This amount was used for the purchase of BUS Systems Inc. assets (\$0.5 million) as well as for premises and equipment, intangible and other assets.

For the six-month period ended September 30, 2007, net cash provided by investing activities amounted to \$44.7 million. This amount is mainly comprised of \$6.4 million for the acquisition of Telephone International, MVI and EPI in April, July and September respectively, \$1.9 million for the purchase of premises and equipment and intangible assets, offset by the transfer of \$53.0 million from short-term investments to cash and cash equivalents.

### **Financing activities**

For the quarter ended September 30, 2008 net cash used by financing activities amounted to \$0.2 million mainly due to the purchase for cancellation of 50 309 common shares for a cash consideration of \$0.2 million.

For the quarter ended September 30, 2007 net cash used by financing activities amounted to \$25.4 million due to the Substantial Issuer Bid for an amount of \$25.3 million, the proceeds of \$0.1 million from the issuance of 27,000 common shares pursuant to the stock option plan and the reimbursement of \$0.3 million of certain purchase price payable items.

For the six-month period ended September 30, 2008, net cash used by financing activities amounted to \$0.8 million due to the purchase for cancellation of 259 183 common shares for a cash consideration of \$1.0 million partly offset by an issuance of long term debt of \$0.2 million.

For the six-month period ended September 30, 2007, net cash used by financing activities amounted to \$25.8 million due to the cancellation of 68,600 common shares for a cash consideration of \$0.6 million, the Substantial Issuer Bid for \$25.3 million, the proceeds of \$0.3 million from the issuance of 80,250 common shares as part of the stock option plan and the repayment of certain purchase price payable items for \$0.3 million.

## **FINANCIAL INSTRUMENTS**

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. More information on financial instruments is presented in note 12 of the consolidated financial statements in the Company's 2008 Annual Report.

## **CRITICAL ACCOUNTING POLICIES**

The Company's critical accounting policies have not changed from those described in the Company's 2008 Annual Report.

## **RISKS AND UNCERTAINTIES**

The Company's risk and uncertainties have not changed from those described in the Company's 2008 Annual Report.

## **OFF-BALANCE SHEET ARRANGEMENTS**

In the normal course of business, the Company finances certain of its activities off balance sheet through operating leases. The description of these arrangements and their impact on our results of operations and financial position for the year ended March 31, 2008 can be found in note 11 of the consolidated financial statements in the Company's 2008 Annual Report and have not materially changed since then.

## **OUTLOOK**

The Company's outlook for fiscal 2009 has changed from what was disclosed in the MD&A of the fiscal 2008 annual report, due to economic uncertainties, possible future recession and the recent increase in the US dollar.

Revenues, on a constant currency basis, because of the slowing down of the economy, are expected to remain stable in fiscal 2009 as compared to fiscal 2008 but revenues could be impacted positively if the recent increase in the US dollar as compared to the Canadian dollar is sustained. The Company will keep looking for strategic acquisitions, which would be complementary to its existing revenue model, but using a more prudent approach considering the economic and financing environments.

In fiscal 2008, the Company implemented its restructuring plan announced in February 2007 and further initiated cost reductions in the fourth quarter. The Company starts to see these initiatives giving positive results. Operating expenses are therefore expected to decrease as compared to fiscal 2008, even with the full year impact of acquisitions made in fiscal 2008.

The Company also expects a high income tax expense in fiscal 2009 due to the geographical distribution of taxable profits, and due to the depletion of certain tax assets, such as deferred losses and tax credits.

The Company has renewed its share buyback program allowing it to purchase, for the twelve-month period starting March 5, 2008, up to 598,465 common shares, of which 259,183 have been repurchased to date.

Excluding the effect of possible acquisitions and the share buyback program, the Company expects its cash and short-term investments to increase in fiscal 2009 due to its positive free cash flow. Fiscal 2009 capital expenditures are expected to be similar to those of the previous year.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company, including the annual report and AIF, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Mediagrif Interactive Technologies Inc.'s shares trade on the Toronto Stock Exchange under the ticker symbol MDF.

The number of common shares outstanding as of November 11, 2008 was 14,305,456.

The number of stock options outstanding as of November 11, 2008 was 990,300, which remained stable as previous quarters.

## **FORWARD-LOOKING STATEMENTS**

*This MD&A contains certain forward-looking statements with respect to the Company. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. We disclaim 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.*