



## MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED MARCH 31, 2009

# Management Discussion and Analysis

FOR THE YEAR ENDED MARCH 31, 2009

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*The following Management Discussion and Analysis (“MD&A”), which has been prepared as of June 9, 2009, of the financial condition and results of operations of Mediagrif Interactive Technologies Inc. (“Mediagrif” or the “Company”) should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto as of March 31, 2009 and 2008. This discussion and analysis compares performance for the fiscal years ended March 31, 2009 and 2008 and discusses risks and uncertainties that can be expected to impact on future operations. 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.*

*In addition to providing an earnings measure in accordance with GAAP, the Company's statement of earnings shows earnings from operations and earnings before interest, taxes, depreciation and amortization (“EBITDA”) as supplementary earnings measures. 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 investing activities. Earnings from operations, EBITDA and free cash flow are not intended to be measures that should be regarded as an alternative to other financial operating performances prepared in accordance with Canadian GAAP. Those measures do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Earnings from operations and EBITDA are provided to assist investors in determining the Company's ability to generate profitability from its operations and to evaluate its financial performance. Free cash flow is provided to investors in determining the Company's ability to generate cash flows to finance its growth.*

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## ■ PROFILE

Mediagrif has been delivering e-commerce solutions for businesses around the globe since 1996. Its e-business networks operate as dedicated Web platforms 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. The international client base of Mediagrif includes small and medium businesses, large companies as well as government agencies. The Company currently provides solutions for businesses involved in electronics components, computer equipment, telecommunication, medical equipment, truck and heavy equipment, aftermarket automotive parts, wine and spirits, jewelry, e-tendering, e-publishing government business intelligence, and construction. Mediagrif's services are now delivered by an experienced team of 350 employees. Mediagrif (TSX: MDF) has its head office in Longueuil and offices in Ottawa (Canada) and in the metropolitan areas of Tampa, Atlanta, Washington, San Diego, Albany (United States), and Shenzhen (China).

## ■ MISSION STATEMENT

Our mission is to provide businesses with innovative e-commerce solutions to help them maximize their reach and effectiveness. In doing so, we seek to create value for clients, employees and shareholders. 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.

## ■ RECENT DEVELOPMENTS

In the third and fourth quarters of fiscal 2009, significant changes were made to the Company's Board of Directors and senior management team. In summary, on December 15, 2008, the Board of Directors appointed Claude Roy as Chief Executive Officer and Chairman of the Board, in replacement of Denis Gadbois and Léon Courville respectively. On that same date, Michel Dubé and Marc P. Brunet were appointed to the Board in replacement of two departing members. On February 6, 2009, Léon Courville resigned from the Board and Gilles Laurin, André Courtemanche and Patrice Commune were appointed as directors.

Following these changes, the newly appointed Board and Chief Executive Officer conducted a strategic and operational review of Mediagrif's business activities in order to address the challenging economic conditions and set a solid foundation for profitability and future growth.

- » Immediate initiatives were taken to reestablish positive operational margins in Mediagrif's business networks through headcount adjustments, office closures, employee relocation and management changes, in order to reduce operating costs, streamline our operation and simplify the reporting structure.
- » Three Mediagrif senior executives, including the Chief Financial Officer, resigned in the fourth quarter following the change of control of the Board. These positions were filled through internal promotions.
- » Our international operations were scaled back with the sale of our Indian operations held through Centerac DMCC (the operator of Yarnsandfibers.com) to our co-shareholder on March 23, 2009 and the start of the liquidation process of our Dubai joint venture held through Polygon DMCC and its subsidiaries on March 16, 2009. The impact, if any, on financial results is shown in the selected financial information section.
- » R&D, business intelligence, Web analytics and hosting related capital expenditures were committed with the aim of improving the quality of our services and the monitoring of our business networks.
- » Innovation and client focus have been placed at the centre of our strategy with the allocation of greater resources to innovative product development meeting targeted customer needs and with a revitalized interest in potential new high growth business opportunities.

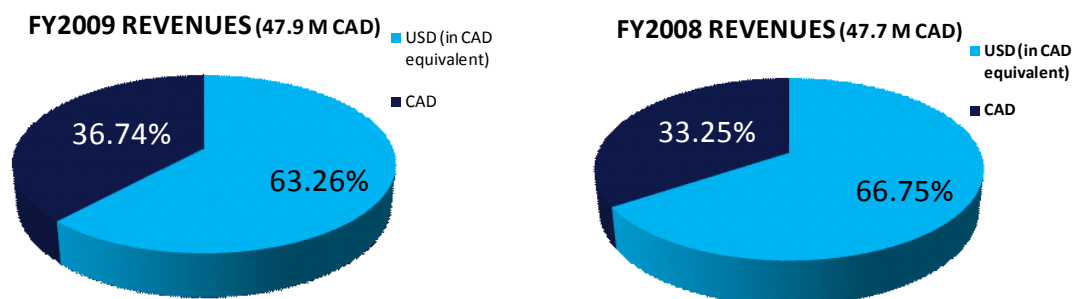
- » Further initiatives will be pursued in our quest to improve operating margins. Our fourth quarter results provided an indication of the impact of our cost cutting measures going forward.

## ■ SELECTED FINANCIAL INFORMATION

	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$
<b>CONSOLIDATED STATEMENT OF EARNINGS (LOSS) <sup>(1)</sup></b>						
<b>REVENUES</b>	<b>47,940</b>	47,749	46,044	50,128	46,321	48,678
<b>GROSS MARGIN</b>	<b>36,819</b>	37,706	37,525	42,093	38,785	41,486
<b>OPERATING EXPENSES</b>						
General and administrative	16,301	12,691	12,264	9,674	9,231	9,651
Sales and marketing	11,159	10,717	8,544	8,109	7,427	6,978
Technology	8,342	9,210	8,173	8,091	8,619	10,223
Amortization of acquired intangible assets	1,557	1,663	1,255	1,199	1,456	3,423
Stock-based compensation	465	640	603	977	738	1,413
Restructuring charges	-	-	-	-	1,024	-
Impairment of intangible assets	6,610	-	-	-	-	-
Loss on disposition of an investment	213	-	-	-	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>44,647</b>	34,921	30,839	28,050	28,495	31,688
<b>EARNINGS (LOSS) FROM OPERATIONS</b>	<b>(7,829)</b>	2,785	6,686	14,043	10,290	9,798
<b>EBITDA</b>	<b>5,175</b>	9,694	12,522	19,951	17,116	18,933
<b>NET EARNINGS (LOSS)</b>	<b>(1,349)</b>	1,951	5,057	9,779	7,540	7,295
Basic net earning (loss) per share	(0.09)	0.12	0.29	0.54	0.42	0.41
Diluted net earnings (loss) per share	(0.09)	0.12	0.28	0.53	0.40	0.39
Shares outstanding (basic)	14,262	16,201	17,567	18,043	18,023	17,803
Shares outstanding (diluted)	14,262	16,259	17,873	18,574	18,766	18,757
<b>CONSOLIDATED BALANCE SHEET DATA</b>						
Cash and cash equivalents and short-term investments	27,734	27,798	64,319	60,899	51,593	60,770
Long-term assets	40,113	45,982	36,650	35,911	36,096	13,941
Total assets	81,818	85,583	108,321	104,639	94,855	83,646
Total liabilities	21,321	22,324	19,390	18,465	14,656	11,351
Shareholders' equity	60,497	63,258	88,931	86,174	80,200	72,295
<b>CONSOLIDATED STATEMENT OF CASH FLOW</b>						
Cash flow from operating activities	4,847	5,623	12,633	17,320	13,527	14,916
Cash flow used for capital expenditures	(2,784)	(4310)	(3577)	(4,101)	(3,553)	(4,052)
Cash flow used for business acquisitions	(577)	(8088)	(2468)	(641)	(19,121)	(1,905)
Cash flow used in financing activities	(1,862)	(28359)	(3364)	(5,356)	(400)	(464)

<sup>(1)</sup> Canadian dollars in thousands, except per share amounts.

## ■ OPERATIONAL REVIEW



*Canadian dollar earning companies, MERX and Global Wine & Spirits, showed good growth in fiscal year 2009, which resulted in a higher ratio of Canadian dollar earned revenues.*

*Consequently, revenues in US dollars decreased in fiscal year 2009. Higher US dollar revenues in government e-tendering networks were offset by lower revenues in parts exchange networks.*

### REVENUES

Revenues for the year ended March 31, 2009 increased in comparison to last year, from \$47.7 million to \$47.9 million. Excluding the revenues of the Market Velocity Inc. (“MVI”) and epipeline Inc. (“EPI”) acquisitions which contributed to the consolidated revenues of the Company for the entire 2009 fiscal year but only for a portion of the 2008 fiscal year, total revenues decreased from \$44.8 million to \$43.1 million for the year ended March 31, 2009. As such, the MVI and EPI acquisitions contributed \$4.8 million to revenues for the year ended March 31, 2009 compared to \$2.9 million last year.

In spite of annual organic growth recorded by BidNet, MERX, Carrus and Global Wine & Spirits, revenues were partially offset by a decrease in Power Source On-Line, The Broker Forum and Polygon, which faced a market slowdown due to economic uncertainty, which resulted in lower average revenue per member.

The foreign exchange variation is another factor offsetting the organic growth and the impact of the acquisitions for the year ended March 31, 2009, as 63% of the current year’s reported revenues were earned in US dollars. The foreign exchange fluctuations alone negatively impacted networks revenues by \$0.3 million. On a constant currency basis and including the impact of the MVI and EPI acquisitions, total revenues increased by \$0.5 million.

### GROSS MARGIN

Gross margin as a percentage of revenue decreased to 76.8% during the year ended March 31, 2009, compared to 79.0% for the previous year. The decrease is partly explained by the impact of EPI and Carrus, which have lower gross margins, and by severance expenses of \$0.2 million.

### OPERATING EXPENSES

For the year ended March 31, 2009, total operating expenses increased to \$44.6 million compared to \$34.9 million for the previous year. This increase is mainly due to severance expenses of \$4.1 million, impairment of intangible assets of \$3.6 million, write-off of capitalized software of \$3.0 million, write-off of capitalized acquisition costs for an unrealized acquisition of \$0.4 million and loss on disposition of an investment of \$0.2 million. Excluding those items, operating expenses would have reached \$33.3 million. Over the year, operating expenses were impacted by the following items:

- » General and administrative expenses increased to \$16.3 million, compared to \$12.7 million in the previous year. This increase is mainly due to severance expenses of \$3.2 million and the write-off of capitalized acquisition costs for an unrealized acquisition of \$0.4 million.
- » Sales and marketing expenses increased from \$10.7 million last year to \$11.2 million this year mainly due to severance expenses of \$0.4 million and to higher bad debts due to the economic environment.
- » Technology expenses decreased from \$9.2 million last year to \$8.3 million this year. Severance expenses of \$0.5 million were offset by lower salaries and lower amortization of capitalized software.
- » The amortization of acquired intangible assets decreased slightly from \$1.7 million last year to \$1.6 million this year due to the impairment.
- » Certain projects related to internally developed software were abandoned, resulting in a \$3.0 million write-off. An impairment test was conducted on acquired intangible assets, resulting in a \$3.6 million write-off.
- » Centerac DMCC was sold to our co-shareholder as of March 23, 2009 and a loss of \$0.2 million was recognized.
- » The weakening of the Canadian dollar relative to the US dollar did not have a significant impact on operating expenses since most costs are incurred in Canadian dollars.
- » Stock-based compensation expense decreased slightly to \$0.5 million this year, compared to \$0.6 million last year, mainly due to a lower number of stock options related to departures and forfeitures.

## **EARNINGS FROM OPERATIONS**

For the year ended March 31, 2009, loss from operations reached \$7.8 million compared to earnings of \$2.8 million last year. This decrease is mainly due to the same reasons explained above.

## **OTHER INCOME**

For the year ended March 31, 2009, other income amounted to \$2.3 million compared to \$1.3 million last year. This increase is mainly due to foreign exchange gains of \$2.3 million compared to losses of \$0.1 million last year, partly offset by a lower interest income of \$0.5 million this year compared to \$1.8 million last year.

## **PROVISION FOR INCOME TAXES**

For the year ended March 31, 2009, the provision for income taxes amounted to a net tax recovery of \$4.2 million, representing a 75.6% effective tax rate, compared to an expense of \$2.1 million last year, representing a 51.8% effective tax rate. The weighted statutory tax rates for fiscal 2009 and 2008 were 30.9% and 31.74% respectively, a decrease due to the reduction of the federal Canadian rate.

For the year ended March 31, 2009, the main factors explaining the difference between the statutory and effective tax rates are the reversal of a tax provision of \$2.1 million, prior years' tax adjustments and assessments, statutory tax change affecting future incomes taxes and non-deductible expenses from foreign entities and stock-based compensation.

For the year ended March 31, 2008, non-deductible expenses from foreign entities, unrecognized US losses and the prior year's tax adjustment partially offset by a change in the geographic distribution of profits were the main factors accounting for the difference between effective and statutory tax rates.

## EARNINGS (LOSS) PER SHARE

The basic loss per share for the year was \$0.09 compared to earnings of \$0.12 last year. This is explained mainly by severance expenses and an impairment test performed on intangible assets. The basic weighted average number of common shares outstanding for the years ended March 31, 2009 and 2008 were \$14.3 million and \$16.2 million respectively.

## ■ SUMMARY OF FOURTH QUARTER RESULTS

	Q4 2009	Adjustments	After adjustments
	\$	\$	\$
<b>CONSOLIDATED STATEMENT OF EARNINGS (LOSS) <sup>(1)</sup></b>			
<b>REVENUES</b>	11,840	-	11,840
<b>GROSS MARGIN <sup>(2)</sup></b>	9,152	129	9,281
<b>OPERATING EXPENSES</b>			
General and administrative <sup>(2)</sup>	5,226	(1,495)	3,731
Sales and marketing <sup>(2)</sup>	2,772	(341)	2,431
Technology <sup>(2)</sup>	1,882	(474)	1,408
Amortization of acquired intangible assets	225	-	225
Stock-based compensation	31	-	31
Impairment of intangible assets	6,610	(6,610)	-
Loss on disposition of an investment	213	(213)	-
<b>TOTAL OPERATING EXPENSES</b>	16,959	(9,133)	7,826
<b>EARNINGS (LOSS) FROM OPERATIONS</b>	(7,807)	9,262	1,455
<b>EBITDA (excluding impairment of intangible assets and loss on disposition of an investment)</b>	(192)	2,439	2,247

<sup>(1)</sup> Canadian dollars in thousands.

<sup>(2)</sup> Adjusted amounts represent severance expenses.

## REVENUES

Revenues for the quarter reached \$11.8 million compared to \$12.1 million in the corresponding quarter of last year. This decrease is attributable mainly to lower revenues coming from The Broker Forum due to economic and industry conditions.

## GROSS MARGIN

Gross margin included severance expenses of \$0.1 million but remained stable at 77.3% compared to the corresponding quarter of last year.

## OPERATING EXPENSES

For the quarter ended March 31, 2009, total operating expenses amounted to \$17.0 million compared to \$9.7 million for the previous year. This increase is mainly due to severance expenses of \$2.3 million,

impairment of intangible assets of \$3.6 million, write-off of capitalized software of \$3.0 million, and loss on disposition of an investment of \$0.2 million.

## EARNINGS (LOSS) FROM OPERATIONS

Loss from operations during the quarter ended March 31, 2009 amounted to \$7.8 million compared to a loss of \$0.3 million in the corresponding quarter of last year. This loss is directly attributable to the same reasons explained above.

## OTHER INCOME

Other income during the current quarter amounted to \$0.3 million compared to \$0.2 million in the corresponding quarter of last year. This increase is mainly due to foreign exchange gains.

## PROVISION FOR INCOME TAXES

For the quarter ended March 31, 2009, the provision for income taxes amounted to a net tax recovery of \$2.5 million, representing a 31.0% effective tax rate, compared to an expense of \$0.2 million for the corresponding quarter of last year, representing a (147.4%) effective tax rate.

For the quarter ended March 31, 2009, the main factors explaining the difference between statutory and effective tax rates are non-taxable foreign exchange gains and non-deductible expenses from foreign entities and stock-based compensation.

For the quarter ended March 31, 2008, the main factors accounting for the effective tax rate were an increase in the valuation allowance on net operating losses in the US, a decrease in the Canadian future tax rate on future tax liabilities and a change in the mix of income from various jurisdictions for tax purposes.

## EARNINGS (LOSS) PER SHARE

The basic loss per share for the quarter was \$0.35 compared to \$0.02 in last year's corresponding quarter. The basic weighted average number of common shares outstanding for the quarters ended March 31, 2009 and 2008 was respectively \$14.3 million and \$14.6 million.

## QUARTERLY PERFORMANCE

Selected quarterly financial information for the eight most recently completed quarters as of March 31, 2009 is disclosed below:

	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Revenues</b>	11,272	12,102	12,242	12,133	11,978	11,886	12,236	11,840
<b>Earnings (loss) from operations</b>	1,304	1,183	629	(329)	478	874	(1,374)	(7,807)
<b>EBITDA</b>	2,726	2,916	2,550	1,502	2,280	2,635	452	(192)
<b>Net earnings (loss)</b>	811	868	590	(318)	309	795	2,605	(5,058)
<b>Basic EPS (LPS)</b>	0.05	0.05	0.04	(0.02)	0.02	0.06	0.18	(0.35)
<b>Diluted EPS (LPS)</b>	0.05	0.05	0.04	(0.02)	0.02	0.06	0.18	(0.35)

## 2009 QUARTERS

- » Earnings from operations decreased in the first and second quarters of the year mainly due to the MVI and EPI acquisitions realized in the second quarter of 2008.

- » During the third quarter, \$1.7 million was recorded as severance expenses and \$0.4 million as the write-off of capitalized acquisition costs for an unrealized acquisition. Net earnings were positively impacted by a reversal of a tax income reserve of \$2.1 million.
- » The net earnings of the fourth quarter were negatively impacted by severance expenses of \$2.4 million, the impairment of long-lived assets of \$6.6 million and the loss on the disposition of Centerac DMCC of \$0.2 million.

## 2008 QUARTERS

- » The main difference between the first and the second quarters represents the revenues relating to the MVI acquisition in the second quarter.
- » Operating expenses increased in the third quarter of the year mainly due to the MVI and EPI acquisitions.
- » Due to the announced reorganization in March 2008, severance expenses were recorded and had negative impacts on financial results.

## ■ 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. Our free cash flow has been used to fund business acquisitions and to purchase common shares for cancellation.

In the last quarter, the reorganization of the overall headcount and management of the Company had a negative impact on the free cash flow. However, we expect these changes to have a positive impact in the coming quarters due to related savings.

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 generating capabilities.

As at March 31, 2009, our cash and cash equivalents reached \$27.7 million, a decrease from \$27.8 million as at March 31, 2008. Last year, 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.

## OPERATING ACTIVITIES

For the year ended March 31, 2009, net cash provided by operating activities amounted to \$4.2 million compared to \$5.6 million for the same period of last year, mainly because of lower profitability due to severance expenses.

## INVESTING ACTIVITIES

For the year ended March 31, 2009, net cash used from investing activities amounted to \$3.4 million. This amount is comprised of the \$0.6 million disbursement for the acquisition of the assets of BUS System Inc. and \$2.8 million for the purchase of premises and equipment and intangible assets.

For the year ended March 31, 2008, net cash from investing activities amounted to \$40.7 million. This amount is comprised of the \$8.1 million disbursement for the acquisitions of MVI and EPI, \$4.3 million for the purchase of premises and equipment and intangible assets offset by the transfer of \$53.1 million from short-term investments to cash and cash equivalents.

## **FINANCING ACTIVITIES**

For the year ended March 31, 2009, net cash used by financing activities amounted to \$1.9 million due to the cancellation of 590,581 common shares for a cash consideration of \$1.9 million under a normal course issuer bid.

For the year ended March 31, 2008, net cash used by financing activities amounted to \$28.4 million due to the cancellation of 444,143 common shares for a cash consideration of \$2.9 million under a normal course issuer bid and a substantial issuer bid of \$25.3 million, the proceeds of \$0.4 million from the issuance of 80,250 common shares as part of the stock option plan, the reimbursement from employees of share purchase financing agreements for \$0.1 million and the repayment of certain purchase price payable items for \$0.7 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 16 of the consolidated financial statements.

The Company generates approximately 63% of its revenues in US dollars while approximately 34% of its operating expenses and cost of revenues are in US dollars. As a result, any decrease in the value of the US dollar relative to the Canadian dollar reduces the amount of Canadian dollar revenues the Company realizes on sales, without a corresponding decrease in expenses. The Company uses foreign currency forward contracts to hedge a portion of this net exposure. The effectiveness of the hedge is assessed both when the hedge is put into place and on an ongoing basis. Management considers the hedges to be effective and thus accounts for the contracts in accordance with the requirements of hedge accounting. Since the Company is hedging a monetary item, any exchange gain or loss on the hedge is offset against the corresponding exchange loss or gain on the hedged item.

## **■ 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. Revenues with joint ventures include amortization of gains on licenses, which derive from the creation of Polygon DMCC, as well as revenues coming from our partnership between Global Wine & Spirits and the SAQ. For the year ended March 31, 2009, revenues earned from joint ventures amounted to \$1.2 million compared to \$1.4 million last year.

During the fiscal year, the Company paid an amount of \$65,000 to a corporate shareholder having a significant influence over the Company. The corporate shareholder provides management services to the Company, namely the services of Claude Roy, President and Chief Executive Officer of the Company. The transaction was in the normal course of business and is measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

## ■ OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Company finances certain of its activities off-balance sheet through leases. These arrangements and their impact on our results of operations and financial position for the year ended March 31, 2009 are described in note 10 to the consolidated financial statements and have not changed significantly since March 31, 2008.

## ■ RISKS AND UNCERTAINTIES

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.

### RETENTION OF CUSTOMERS

We depend on our customer base for a significant portion of our revenues. If our customers fail to renew their contracts, or fail to purchase additional services, then our revenues could decrease and our operating results could be adversely affected. Factors influencing such contract terminations could include changes in the financial circumstances of our customers, dissatisfaction with our products or services, our retirement of or lack of support for our legacy products and services, our customers selecting or building alternate technologies to replace us, and changes in our customers' business that may no longer necessitate the use of our services, or other reasons. Furthermore, our customers could delay or terminate implementations or use of our services or be reluctant to migrate to new services. Such customers will not generate the revenues anticipated within the timelines anticipated, if at all, and may be less likely to invest in additional services or products from us in the future. For instance, the Company's MERX network generates most of its revenues from its contractual arrangements with the Government of Canada, the Government of Ontario, the Government of Manitoba and certain other provinces whereby MERX acts as the service provider for their e-publishing system. In March 2009, the Government of Canada informed the Company that it was exercising the first of four one-year extension periods to its contract with MERX, thus extending it to May 2010. In addition, the Company's Global Wine & Spirits network generates most of its revenues from its contractual arrangement with the Société des Alcools du Québec, which contract has an initial term of three years, expiring in April 2010. However, the Société des Alcools du Québec has the option to renew the contract for unlimited additional one-year periods. The loss of these contracts could have a material adverse effect on the results of the Company's MERX and Global Wine & Spirits networks. The Company has undertaken and will continue to undertake other business development initiatives, such as international expansion, private e-publishing and information services, in order to expand its revenues beyond these contracts, but there is no guarantee that any such initiative will be successful or could offset the impact of the loss of certain contracts.

### ACQUISITIONS

Our growth strategy includes making strategic acquisitions. There is no assurance that we will find suitable companies to acquire or that we will have enough resources to complete any acquisition. Acquisitions involve a number of risks, including: diversion of management's attention from current operations; disruption of our ongoing business; difficulties in integrating and retaining all or part of the acquired business, its customers and its personnel; assumption of disclosed and undisclosed liabilities; dealing with unfamiliar laws, customs and practices in foreign jurisdictions; and the effectiveness of the acquired company's internal controls and procedures. The individual or combined effect of these risks could have a material adverse effect on our business. As well, in paying for an acquisition, we may deplete our cash resources. Furthermore, there is the risk that our valuation assumptions, customer retention expectations and models for an acquired product or business may be erroneous or inappropriate due to foreseen or unforeseen

circumstances, and thereby cause us to overvalue an acquisition target. There is also the risk that the contemplated benefits of an acquisition may not materialize as planned or may not materialize within the time period or to the extent anticipated.

## **MARKET ACCEPTANCE OF OUR PRODUCTS AND SERVICES**

Our success depends on widespread use of the Internet as well as other electronic networks as a way to conduct business. Broad market acceptance of the types of services and products we offer is critical to our future success. The demand for and market acceptance of our services and products are subject to a high level of uncertainty. Some of our services and products may involve a new approach to the conduct of business by our customers. Our failure to reach broad market acceptance of our products and services could have a material adverse effect on our business, results of operations and financial condition.

## **RESPONSE TO INDUSTRY'S RAPID PACE OF CHANGE**

We operate in markets that are experiencing constant technological change, evolving industry standards, changing customer needs, frequent new product and service introductions, and short product life cycles. Our success will depend in large part on how well we can anticipate and respond to changes in industry standards, introduce and upgrade new technologies, products and services, and upgrade existing products and services. We may face additional financial risks as we develop new products, services and technologies and update them to stay competitive. Newer technologies, for example, may quickly become obsolete or may need more capital than expected. Development could be delayed for reasons beyond our control. Furthermore, substantial investment is usually required before new technologies become commercially viable. There is no assurance that we will be successful in developing, implementing and marketing new technologies, products, services or enhancements within a reasonable time, or that there will be a market for them. New products or services that use new or evolving technologies could make our existing ones unmarketable, or cause their prices to fall.

## **ECONOMIC CONDITIONS**

The current economic downturn may cause our revenue to decline. The level of business activity of our clients, which is affected by economic conditions, has a bearing on the results of our operations. We can neither predict the impact that current economic conditions will have on our future revenue, nor when economic conditions will show meaningful improvement. During an economic downturn, our clients and potential clients often cancel, reduce, defer or delay entering into new engagements. This may cause our pricing, revenue and profitability to be negatively impacted.

## **COMPETITION**

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. Competition could affect our pricing strategies, and lower our revenues and net earnings. It could also affect our ability to retain existing customers and attract new ones.

## **DEFECTS IN SOFTWARE OR FAILURES IN PROCESSING OF TRANSACTIONS**

Defects in our owned or licensed software products, delays in delivery, and failures or mistakes in our processing of electronic transactions could materially harm our business, including our customer relationships and operating results. Our operations are dependent on our ability to protect our computer equipment and the information stored in our data centres against damage that may be caused by fire, power loss, telecommunication failures, unauthorized intrusion, computer viruses and disabling devices, and other similar events. Although we have redundant and back-up systems for some of our services and products, these systems may be insufficient or may fail and result in a disruption of availability of our products or services to our customers. Any disruption to our services could impair our reputation and cause us to lose

customers or revenue, or face litigation, necessitate customer service or repair work that would involve substantial costs and distract management from operating our business.

## **POTENTIAL RISKS OF USING “OPEN SOURCE” SOFTWARE**

Like many other e-commerce companies, we use “open source” software in order to add functionality to our products and services quickly and inexpensively. We face certain risks relating to our use of open source code. Open source license terms may be ambiguous and may result in unanticipated or uncertain obligations regarding our products and services. Our use of open source software could subject certain portions of our proprietary technology to the requirements of such open source software. That may have an adverse impact on our sale of the products or services incorporating the open source software. Other forms of open source software licensing present license compliance risks for us. If we fail to comply with the license obligations, we could be sued and/or lose the right to use the open source code. Our use of open source code could also result in us developing and selling products that infringe third-party intellectual property rights. It may be difficult for us to accurately determine the developers of the open source code and whether the code incorporates proprietary software.

## **INFRINGING ON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS**

We cannot be sure that our services and offerings do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us. These claims may be costly, harm our reputation, and prevent us from providing some services and offerings. We enter into licensing agreements with our clients for the right to use intellectual property that includes a commitment to indemnify the licensee against liability and damages arising from any third-party claims of patent, copyright, trademark or trade secret infringement. In some instances, the amount of these indemnity claims could be greater than the revenue we receive from the client. Any claims or litigation in this area, whether we ultimately win or lose, could be time-consuming and costly, harm our reputation, or require us to enter into royalty or licensing arrangements. Any limitation on our ability to sell or use products or services that incorporate challenged software or technologies could cause us to lose revenue-generating opportunities or require us to incur additional expenses to modify solutions for future projects.

## **PROTECTING OUR INTELLECTUAL PROPERTY RIGHTS**

Our success depends, in part, on our ability to protect our proprietary methodologies, processes, know-how, tools, techniques and other intellectual property that we use to provide our services. Our general practice is to pursue patent, copyright, trademark, trade secret or other appropriate intellectual property protection that is reasonable and necessary to protect and leverage our intellectual assets. We also assert trademark rights in and to our name, product names, logos and other markings used to identify our goods and services in the marketplace. We routinely file for and have been granted trademark registrations from trademark offices worldwide. All of these actions taken allow us to enforce our intellectual property rights should the need arise. However, the laws of some countries in which we conduct business may offer only limited protection of our intellectual property rights; and despite our efforts, the steps taken to protect our intellectual property may not be adequate to prevent or deter infringement or other misappropriation of intellectual property, and we may not be able to detect unauthorized use of our intellectual property, or take appropriate steps to enforce our intellectual property rights.

## **RETENTION OF KEY PERSONNEL**

Our performance is substantially dependent on the performance of our key technical and senior management personnel. Our success is highly dependent on our continuing ability to identify, hire, train, motivate, promote and retain highly qualified management, directors, technical, and sales and marketing personnel, including key technical and senior management personnel. Competition for such personnel is always strong. Our inability to attract or retain the necessary management, directors, technical, and sales

and marketing personnel, or to attract such personnel on a timely basis could have a material adverse effect on our business, results of operations, financial condition and the price of our securities.

## **DOING BUSINESS IN EMERGING MARKETS**

We currently operate in certain emerging markets. We anticipate that our international operations will continue to require significant management attention and financial resources to localize our services and products for delivery in these markets, to develop compliance expertise relating to international regulatory agencies, and to develop direct and indirect sales and support channels in those markets. We face a number of risks associated with conducting our business internationally that could negatively impact our operating results, which include, but are not limited to:

- » Language barriers, conflicting international business practices, and other difficulties related to the management and administration of a global business;
- » Difficulties and costs of staffing and managing geographically disparate direct and indirect operations;
- » Currency fluctuations and exchange and tariff rates;
- » Multiple, and possibly overlapping, tax structures and the burden of complying with a wide variety of foreign laws;
- » Trade restrictions;
- » The need to consider characteristics unique to technology systems used internationally;
- » Economic or political instability in some markets;
- » Other risk factors set out in this report.

For instance, in the People’s Republic of China (the “PRC”), the Internet sector is strictly regulated in terms of foreign ownership and content restrictions. While many aspects of these regulations remain unclear, they purport to limit and require licensing of various aspects of the provision of Internet information services. These regulations have created substantial uncertainties regarding the legality of foreign investments and business operations in the PRC for companies that have consulting activities related to the Internet.

In these emerging markets where we operate, changes in laws, regulations or governmental policy, or the uncertainty associated with the interpretation of these laws and regulations affecting our business activities, may increase our costs, restrict our ability to operate our business or may make it difficult for us to enforce any rights we may have or to know if we are in compliance with all applicable laws, rules and regulations. Political, economic, social or other developments in the countries where we operate may cause us to change the way we conduct our business, suspend the launch of new or expanded services or force us to discontinue our operations altogether.

## **FOREIGN EXCHANGE**

Our revenues are affected by fluctuations in the exchange rate between the Canadian dollar and the US dollar. The Company generates approximately 63% of its revenues in US dollars while approximately 34% of its operating expenses and cost of revenues are in US dollars. As a result, any decrease in the value of the US dollar relative to the Canadian dollar reduces the amount of Canadian dollar revenues the Company realizes on sales, without a corresponding decrease in expenses. Exchange rate fluctuations are beyond our control, and the US dollar may depreciate against the Canadian dollar in the future, which would result in lower revenues and margins. In order to reduce the potential negative effect of a weakening US dollar, we have entered into agreements to hedge the value of a portion of our future US dollar net cash inflows for

periods of up to one year. Our hedging program will yield an average Canadian/US exchange rate of 1.12 in fiscal 2010 as compared to 1.02 in fiscal 2009.

## ■ CRITICAL ACCOUNTING ESTIMATES

Some of the Company's accounting policies require significant estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of management's judgment. Actual results could differ from those estimates, and any such differences may be material to the Company's financial statements.

## EVALUATION OF GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Business acquisitions are accounted for under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These types of determinations involve considerable judgment and often involve the use of estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These determinations affect the amount of amortization expense recognized in future periods. The Company reviews the carrying values of all identifiable acquired intangible assets and goodwill when certain conditions arise to determine whether any impairment has occurred. Because the valuation of identifiable acquired intangible assets and goodwill requires significant estimates and judgment about future performance and fair value, our future results could be affected if our current estimates of future performance and fair value change.

## INCOME TAXES

The Company is required to estimate the income taxes in each of the jurisdictions in which it operates. This includes estimating a value for existing net operating losses based on the Company's assessment of its ability to utilize them against future taxable income before they expire. If the Company's assessment of its ability to use the net operating losses proves not to be accurate in the future, more or less of the net operating losses might be recognized as assets, which would impact the income tax expense, and consequently affect the Company's net earnings in the relevant year.

We are subject to examination by taxation authorities in various jurisdictions. Because the determination of tax liabilities involves certain uncertainties in interpreting complex tax regulations, we use management's best estimates to determine potential tax liabilities. Differences between the estimates and the actual amount of taxes are recorded in net earnings at the time they can be determined.

## STOCK-BASED PAYMENTS

Stock options granted to employees after April 1, 2002 are accounted for under the fair value method, which consists of recording expenses to earnings when stock options are issued. The fair value of stock options is calculated with a financial model involving the use of various assumptions such as the risk-free interest rate, the expected volatility of the underlying stock, the expected life of the stock options and the expected dividend yield. The Company uses the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company uses expected volatility rates, which are based on historical volatility rates trended into future years. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the stock options. A change in the assumptions used by the Company could have an impact on net earnings.

## ■ CHANGES TO 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 15 to the consolidated financial statements.

### FINANCIAL INSTRUMENT 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". These new sections require disclosure of risks associated with financial instruments, including fair value as well as credit, liquidity and market risks. They also establish standards for presentation of financial instruments and non-financial derivatives. Sections 3862 and 3863 supersede Section 3861, "Financial Instruments – Disclosure and Presentation". The adoption of Section 3862 required additional disclosures found in note 16 to the consolidated financial statements.

### CREDIT RISK AND FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

On January 20, 2009, the Emerging Issues Committee (EIC) issued EIC Abstract 173, "Credit Risk and Fair Value of Financial Assets and Financial Liabilities", which requires that the fair value of financial instruments, including derivative financial instruments, takes into account the counterparties' credit risks for assets and the Company's credit risk for liabilities. The effective date of application for the Company is April 1, 2008, and must be applied retrospectively without restatement of prior years. The adoption of EIC Abstract 173 did not have an impact on the Company's financial position, earnings and cash flows.

## ■ FUTURE ACCOUNTING CHANGES

### GOODWILL AND INTANGIBLE ASSETS

Effective for fiscal years starting October 1, 2008, Section 3064 of the CICA Handbook, "Goodwill and Intangible Assets" replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Charges". The Company adopted the new standards starting April 1, 2009. The new Section establishes standards for the recognition, costing, presentation and required information related to goodwill after its initial recognition. It also explains when internally developed intangible assets satisfy the recognition criteria as an asset. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

### INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) IMPLEMENTATION

The Company is currently evaluating the impact and potential effect that could result from preparing the Company's consolidated financial statements in accordance with IFRS given that the Canadian Accounting Standards Board confirmed that IFRS will replace current Canadian standards and interpretations for publicly accountable companies. The adoption of IFRS will have an impact on the Company's reported consolidated financial statements for fiscal year 2012. The Company is currently performing a high-level accounting diagnostic by identifying differences between IFRS and accounting policies and procedures currently adopted by the Company. Next steps will be to evaluate the impact of adopting IFRS 1, "First Time Adoption of International Financial Reporting Standards", to design and plan for the implementation, to identify possible accounting, information system and business solutions, and to provide appropriate training to finance personnel and senior executives.

## ■ 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 the 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.

## ■ CONTROLS AND PROCEDURES

Effective April 1, 2008, the Company adopted the Canadian Securities Administrators' National Instrument 52-109. This new instrument stipulated disclosures and filing requirements, effective December 15, 2008, for financial years ending on or after this date.

### DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Chief Financial Officer, have designed disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) 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. They have also evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and have concluded that such disclosures controls and procedures are effective for the fiscal year ended March 31, 2009.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, with the participation of the Chief Financial Officer, have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. They have also evaluated the effectiveness of the Company's internal control over financial reporting and have concluded that such controls are effective. As of March 31, 2009, there has been no change in the Company's internal control over financial reporting that occurred during its most recent fiscal period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

## ■ ADDITIONAL INFORMATION

This report has been prepared as of June 9, 2009.

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

The common shares of Mediagrif trade on the Toronto Stock Exchange under the ticker symbol MDF.

The number of common shares outstanding as of June 9, 2009 was 13,974,058.

The number of stock options outstanding as of June 9, 2009 was 668,400.