# Q1

DATA

## QUARTER ONE

ENDED

MARCH 31, 2016

## OUR VALUES

# AT DATA COMMUNICATIONS MANAGEMENT WE…

…ARE UNITED AS ONE TEAM

We are a unified team bonded by our common purpose and driven by our commitment to openness, collaboration and a desire to win

…AIM FOR GREATNESS

We are obsessed with providing an exceptional customer experience grounded in quality, reliability and accountability

…INNOVATE AND LEAD

We are externally focused, using data and market trends to boldly serve our clients as trusted advisors and problem solvers

…ARE COMMITTED TO EVERY MEMBER OF OUR TEAM

We inspire and encourage our employees to do great things while continually learning and celebrating success, within a diverse environment built on support and belonging

…ARE MINDFUL OF OUR GREATER COMMUNITY AND THE ENVIRONMENT

We share a responsibility for the communities where we live and work and embrace the best environmental, ethical and governance practices

## *Letter to shareholders*

Dear Shareholder,

Our financial results for the first quarter of 2016 continued to demonstrate the benefits of the restructuring initiatives we implemented in fiscal 2015. Despite revenue declining year over year this quarter by approximately 2%, we continued to demonstrate year over year improvements in gross margin percentage, Adjusted EBITDA margin, Adjusted EBITDA and net income. We have now experienced three successive quarters of year over year improvements in margins and profitability.

On April 6th, the company announced that I have decided to resign from DATA. The effective date of my resignation is July 3, 2016, and your board of directors is progressing in its selection of my successor. It is with sadness that I am moving on, but I am comforted by the knowledge that my time at DATA has been productive and that I am leaving the organization better positioned for its future success than when I joined.

Over the past several months, your senior leadership team has implemented many significant changes that have made your company more focused, optimized, united and ultimately more agile to adapt to the dramatic changes being experienced in the printing and communications management industry.

Some of the key initiatives your management team have completed over the past year include:

- Refocusing our print manufacturing facilities into six key “centres of excellence”, providing superior print production and communications execution capabilities across Canada and in the northern U.S.;
- A significant rationalization of our work-force, optimized to our business environment;
- Re-alignment of our sales force into more focused vertical market and client segmented coverage;
- Streamlining of our corporate structure, to become more responsive to the changes in our market-place;
- Reduction of our total debt outstanding by 40%, including the redemption of approximately 75% of the total principal amount of our convertible debentures, which was satisfied by the issuance of DATA common shares;
- Refinancing of our senior credit facility, which was due to mature in August 2016, with two new credit facilities. Those new senior credit facilities, which, together with the redemption of our convertible debentures, provide us with a significantly improved balance sheet and financial flexibility;
- Rebranding of the company as “DATA Communications Management”, which appropriately communicates our value proposition to clients and makes us more relevant to both clients and prospects;
- Launch of a new corporate website focused on better demonstrating our areas of expertise and the value we add to our client relationships, built on top of a modern marketing technology platform that improves our ability to attract and nurture new sales leads;
- Upgrading of our digital production capabilities with industry-leading work-flow and production capabilities; and
- A new product management discipline, which, while in its early days, is helping us better focus on and identify strategic growth opportunities for your company.

While I am moving on, the very capable leadership team that developed and executed these initiatives remains firmly in place and is focused on continuing to enhance shareholder value. For the record, this team knew exactly what needed to be done, meaning I simply had to get out of their way and let them get on with things. Their current efforts are focused on continuing to realize the benefits from our recent initiatives and on stabilizing - and ultimately growing - revenue. Your leadership team is supported by a wonderful employee team whose values, strength, resiliency and commitment to delivering a superior customer experience have continued to impress me since my first day at DATA.

In closing, I would like to sincerely thank the whole DATA team for their incredible support and willingness to change and adapt to our evolving environment. They are a truly special group that I will miss. I wish them much success in the future.

For a full description of our financial results for the first quarter of 2016, please refer to our unaudited consolidated financial statements for the three months ended March 31, 2016 and related management's discussion and analysis, copies of which are available at www.sedar.com.

Sincerely,

Michael G. Sifton
President and Chief Executive Officer

DATA Group Ltd.
May 2016

### *Management's discussion and analysis of financial condition and results of operations*

This Management's Discussion and Analysis ("MD&A") comments on the consolidated operations, performance and financial condition of DATA Group Ltd. ("DATA") for the three months ended March 31, 2016. This MD&A should be read in conjunction with the MD&A of DATA for the year ended December 31, 2015, the unaudited interim consolidated financial statements and accompanying notes of DATA for the three months ended March 31, 2016, and the audited consolidated financial statements and accompanying notes of DATA for the year ended December 31, 2015. These documents are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

All financial information in this MD&A is presented in Canadian dollars and in accordance with generally accepted accounting principles ("GAAP") measured under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") for publicly accountable entities, unless specified otherwise.

The date of this MD&A is May 4, 2016. Additional information relating to DATA, including its most recently filed audited and unaudited consolidated financial statements, Annual Information Form and Management Information Circular, is available on SEDAR at www.sedar.com.

### Forward-looking statements

Certain statements in this MD&A constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of DATA, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward-looking statements. When used in this MD&A, words such as "may", "would", "could", "will", "expect", "anticipate", "estimate", "believe", "intend", "plan", and other similar expressions are intended to identify forward-looking statements. These statements reflect DATA's current views regarding future events and operating performance, are based on information currently available to DATA, and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks, uncertainties and assumptions and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Many factors could cause the actual results, performance, objectives or achievements of DATA to be materially different from any future results, performance, objectives or achievements that may be expressed or implied by such forward-looking statements. The principal factors, assumptions and risks that DATA made or took into account in the preparation of these forward-looking statements include: DATA's ability to identify and hire a replacement to its current Chief Executive Officer on terms acceptable to DATA; the terms of DATA's credit facilities with the Integrated Private Debt division of Integrated Asset Management Corp. ("IAM"), which provide that any such replacement officer must be hired within a specified period of time and must be satisfactory to IAM, acting reasonably; the limited growth in the traditional printing industry and the potential for further declines in sales of DATA's printed business documents relative to historical sales levels for those products; the risk that changes in the mix of products and services sold by DATA which are related to reduced demand for its printed products will adversely affect DATA's financial results; the risk that DATA may not be successful in reducing the size of its legacy print business, reducing costs, reducing its long-term debt, repaying or refinancing its outstanding 6.00% convertible unsecured subordinated debentures, and growing its digital communications business; the risk that DATA may not be successful in managing its organic growth; DATA's ability to invest in, develop and successfully market new digital and other products and services; competition from competitors supplying similar products and services, some of whom have greater economic resources than DATA and are well-established suppliers; DATA's ability to grow its sales or even maintain historical levels of its sales of printed business documents; the impact of economic conditions on DATA's businesses; risks associated with acquisitions by DATA; increases in the costs of paper and other raw materials used by DATA; and DATA's ability to maintain relationships with its customers. Additional factors are discussed elsewhere in this MD&A and under the headings "Risk Factors" and "Risks and Uncertainties" in DATA's publicly available disclosure documents, as filed by DATA on SEDAR (www.sedar.com). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Unless required by applicable securities law, DATA does not intend and does not assume any obligation to update these forward-looking statements.

## Non-GAAP measures

This MD&A includes certain non-GAAP measures as supplementary information. Except as otherwise noted, when used in this MD&A, EBITDA means earnings before interest and finance costs, taxes, depreciation and amortization and Adjusted net income (loss) means net income (loss) adjusted for the impact of certain non-cash items and certain items of note on an after-tax basis. Adjusted EBITDA for the three months ended March 31, 2016 and 2015 means EBITDA adjusted for restructuring expenses, respectively. Adjusted net income (loss) for the three months ended March 31, 2016 and 2015 means net income (loss) adjusted for restructuring expenses and the tax effects of those items, respectively. Adjusted net income (loss) per share, basic is calculated by dividing Adjusted net income (loss) for the period by the weighted average number of shares (basic and diluted) outstanding during the period. Pro forma Adjusted net income (loss) per share assumes Adjusted net income (loss) per share was calculated on the basis of the total number of shares outstanding at March 31, 2016, rather than the weighted average number of shares outstanding at the period end, given the significant dilution that occurred on December 23, 2015 due to the issuance of 975,262,140 common shares in connection with the redemption of 6.00% convertible unsecured subordinated debentures. DATA believes that, in addition to net income (loss), Adjusted net income (loss), Adjusted net income (loss) per share, Pro forma Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating the performance of DATA. Adjusted net income (loss), Adjusted net income (loss) per share, Pro forma Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA are not earnings measures recognized by IFRS and do not have any standardized meanings prescribed by IFRS. Therefore, Adjusted net income (loss), Adjusted net income (loss) per share, Pro forma Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA are unlikely to be comparable to similar measures presented by other issuers.

Investors are cautioned that Adjusted net income (loss), Adjusted net income (loss) per share, Pro forma Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA should not be construed as alternatives to net income (loss) determined in accordance with IFRS as an indicator of DATA's performance. For a reconciliation of net income (loss) to EBITDA and a reconciliation of net income (loss) to Adjusted EBITDA, see Table 3 below. For a reconciliation of net income (loss) to Adjusted net income (loss) and a presentation of Adjusted net income (loss) per share and Pro forma Adjusted net income (loss) per share, see Table 4 below.

## Business of DATA

### *OVERVIEW*

DATA plans and executes business communications. DATA helps marketers and agencies unify and execute communications campaigns across multiple channels, and it helps operations teams streamline and automate document and communications processes. DATA derives its revenues from the following core capabilities: direct marketing, commercial print services, labels and automated identification solutions, event tickets and gift cards, logistics and fulfilment, content and workflow management, data management and analytics, and regulatory communications. DATA is strategically located across Canada to support clients on a national basis, and serves the U.S. market through its facilities in Chicago, Illinois. DATA generally negotiates sales contracts and service level agreements with its clients and generally does not use standardized contracts. Customer agreements and terms typically include provisions consistent with industry practice, allowing DATA to pass along increases in the cost of paper and other raw materials used to manufacture products.

Certain elements of DATA's gift card and direct mail businesses as well as the buying patterns of certain major customers of DATA have historically generated higher revenues and profit in the fourth quarter than the other three quarters, which results in seasonal fluctuations in sales of those products.

### *REVENUE RECOGNITION POLICY*

DATA recognizes revenue from the sale of products upon shipment to the customer when costs and revenues can be reliably measured, collection is probable, the transfer of title occurs and the risk of loss passes to the buyer. When the customer requests a bill and hold arrangement, revenue is recognized when the goods are ultimately shipped to the customer. Since the majority of DATA's products are customized, product returns are not significant. DATA may provide pre-production services to its customers; however, these services do not have standalone value and there is no objective and reliable evidence of their fair value. Therefore, these pre-production services and the final custom made printed product are considered to be one unit of accounting. DATA recognizes warehousing and marketing service fees when the services are provided, the amount of revenue can be measured reliably, it is probable that economic benefits associated with these services will flow to DATA and the costs associated with these services can be reliably measured. DATA occasionally provides warehousing services that are negotiated as a separate charge based on market rates, even if included in the overall selling price of its products. Warehousing services represent a separate unit of accounting because they can be sold separately, have value to the customer on a stand-alone basis, and there is objective and reliable evidence of the fair value of these services. If warehousing service fees are included in one overall selling price of DATA's custom print products, the consideration is allocated to each component based on relative selling prices.

### *COST OF REVENUES AND EXPENSES*

DATA's cost of revenues consists of raw materials, manufacturing salaries and benefits, occupancy, lease of equipment and depreciation. DATA has incurred restructuring expenses in each of the last three fiscal years, which primarily consisted of severance costs associated with headcount reductions and costs related to facilities closures. DATA's raw material costs consist primarily of paper, carbon and ink. Manufacturing salaries and benefits costs consist of employee salaries and health benefits at DATA's printing and warehousing facilities. Occupancy costs consist primarily of lease payments at DATA's facilities, utilities, insurance and building maintenance. DATA's expenses consist of selling, depreciation and amortization, and general and administration expenses. Selling expenses consist primarily of employee salaries, health benefits and commissions, and include related costs for travel, corporate communications, trade shows, and marketing programs. Depreciation and amortization represent the allocation to income of the cost of property, plant and equipment, and intangible assets over their estimated useful lives. General and administration expenses consist primarily of employee salaries, health benefits, and other personnel related expenses for executive, financial and administrative personnel, as well as facility, telecommunications, pension plan expenses and professional service fees.

### *General information and results of operations*

***TABLE 1*** The following table sets out selected historical consolidated financial information for the periods noted.

| **For the periods ended March 31, 2016 and 2015** *(in thousands of Canadian dollars, except share and per share amounts, unaudited)* | | **January 1 to March 31, 2016** | | January 1 to March 31, 2015 |
|---|---|---|---|---|
| Revenues | **$** | **74,614** | $ | 76,002 |
| Cost of revenues | | **56,241** | | 58,717 |
| Gross profit | | **18,373** | | 17,285 |
| | | | | |
| Selling, general and administrative expenses | | **13,833** | | 14,935 |
| Restructuring expenses | | **324** | | 2,054 |
| Amortization of intangible assets | | **505** | | 479 |
| | | **14,662** | | 17,468 |
| Income (loss) before finance costs and income taxes | | **3,711** | | (183) |
| | | | | |
| Finance costs | | | | |
| Interest expense | | **868** | | 1,284 |
| Interest income | | **(3)** | | (4) |
| Amortization of transaction costs | | **247** | | 36 |
| | | **1,112** | | 1,316 |
| Income (loss) before income taxes | | **2,599** | | (1,499) |
| | | | | |
| Income tax expense (recovery) | | | | |
| Current | | **176** | | 7 |
| Deferred | | **541** | | (375) |
| | | **717** | | (368) |
| Net income (loss) for the period | **$** | **1,882** | $ | (1,131) |
| | | | | |
| Net income (loss) attributable to common shareholders | **$** | **1,882** | $ | (1,131) |
| Basic and diluted earnings (loss) per share | **$** | **0.00** | $ | (0.05) |
| Weighted average number of common shares outstanding | | **998,752,732** | | 23,490,592 |

| **As at March 31, 2016 and December 31, 2015** *(in thousands of Canadian dollars, unaudited)* | | **As at March 31, 2016** | | As at December 31, 2015 |
|---|---|---|---|---|
| Current assets | **$** | **75,389** | $ | 80,125 |
| Current liabilities | | **46,384** | | 90,298 |
| | | | | |
| Total assets | | **127,584** | | 134,067 |
| Total non-current liabilities | | **61,183** | | 24,750 |
| | | | | |
| Shareholders’ equity | **$** | **20,017** | $ | 19,019 |

***TABLE 2*** The following table sets out selected historical consolidated financial information for the periods noted. See "Non-GAAP Measures".

| **For the periods ended March 31, 2016 and 2015**<br>*(in thousands of Canadian dollars, except percentage amounts, unaudited)* | | **January 1 to March 31, 2016** | | January 1 to March 31, 2015 |
|---|---|---|---|---|
| **Revenues** | **$** | **74,614** | $ | 76,002 |
| **Gross profit** | **$** | **18,373** | $ | 17,285 |
| **Gross profit, as a percentage of revenues** | | **24.6%** | | 22.7% |
| **Selling, general and administrative expenses** | **$** | **13,833** | $ | 14,935 |
| As a percentage of revenues | | **18.5%** | | 19.7% |
| **Adjusted EBITDA** (see Table 3) | **$** | **5,655** | $ | 3,500 |
| Adjusted EBITDA, as a percentage of revenues | | **7.6%** | | 4.6% |
| **Net income (loss) for the period** | **$** | **1,882** | $ | (1,131) |
| **Adjusted net income (loss)** (see Table 4) | **$** | **2,121** | $ | 391 |
| Adjusted net income (loss), as a percentage of revenues | | **2.8%** | | 0.5% |

***TABLE 3*** The following table provides reconciliations of net income (loss) to EBITDA and of net income (loss) to Adjusted EBITDA for the periods noted. See "Non-GAAP Measures".

**EBITDA and Adjusted EBITDA reconciliation**

| **For the periods ended March 31, 2016 and 2015**<br>*(in thousands of Canadian dollars, unaudited)* | | **January 1 to March 31, 2016** | | January 1 to March 31, 2015 |
|---|---|---|---|---|
| **Net income (loss) for the period** | **$** | **1,882** | $ | (1,131) |
| Interest expense | | **868** | | 1,284 |
| Interest income | | **(3)** | | (4) |
| Amortization of transaction costs | | **247** | | 36 |
| Current income tax expense | | **176** | | 7 |
| Deferred income tax expense (recovery) | | **541** | | (375) |
| Depreciation of property, plant and equipment | | **1,115** | | 1,150 |
| Amortization of intangible assets | | **505** | | 479 |
| **EBITDA** | **$** | **5,331** | $ | 1,446 |
| Restructuring expenses | | **324** | | 2,054 |
| **Adjusted EBITDA** | **$** | **5,655** | $ | 3,500 |

***TABLE 4*** The following table provides reconciliations of net income (loss) to Adjusted net income (loss) and a presentation of Adjusted net income (loss) per share and Pro forma Adjusted net income (loss) per share for the periods noted. See "Non-GAAP Measures".

**Adjusted net income (loss) reconciliation**

| **For the periods ended March 31, 2016 and 2015**<br>*(in thousands of Canadian dollars, except share and per share amounts, unaudited)* | | **January 1 to March 31, 2016** | | January 1 to March 31, 2015 |
|---|---|---|---|---|
| **Net income (loss) for the period** | **$** | **1,882** | $ | (1,131) |
| Restructuring expenses | | **324** | | 2,054 |
| Tax effect of the above adjustments | | **(85)** | | (532) |
| **Adjusted net income (loss)** | **$** | **2,121** | $ | 391 |
| **Adjusted net income (loss) per share, basic and diluted** | **$** | **0.0021** | $ | 0.0200 |
| **Pro forma Adjusted net income (loss) per share, basic and diluted** (1) | **$** | **0.0021** | $ | 0.0004 |
| **Weighted average number of common shares outstanding** | | **998,752,732** | | 23,490,592 |
| **Number of common shares outstanding** | | **998,752,732** | | 23,490,592 |

**Note:**

(1) *On December 23, 2015, DATA issued 975,262,140 common shares in connection with the redemption of approximately 75% of the aggregated principal amount of its outstanding* 6.00% Convertible Unsecured Subordinated Debentures (the "*6.00% Convertible Debentures*"). *Pro forma Adjusted net income (loss) per share, a non-GAAP measure, assumes Adjusted net income (loss) per share for the periods ended March 31, 2016 and 2015 were calculated on the basis of the total number of shares outstanding at March 31, 2016, rather than the weighted average number of shares outstanding at the respective period ends, given the significant dilution that occurred with eight days left in the 2015 fiscal year due to the issuance of 975,262,140 common shares as described above.*

## *Results of operations*

The president and chief executive officer ("CEO") of DATA is the chief operating decision-maker ("CODM"). Management has determined that there is one operating segment based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance. As a result of the organizational and operational changes implemented by DATA in 2015, DATA's operations are increasingly integrated and interdependent and less focused on serving separate distribution channels and, therefore, DATA's former Multiple Pakfold operating segment has been included in one consolidated operating segment commencing in the quarter ended December 31, 2015.

### REVENUES

For the three months ended March 31, 2016, DATA recorded revenues of $74.6 million, a decrease of $1.4 million or 1.8% compared with the same period in 2015. The decrease in revenues for the three months ended March 31, 2016 was primarily due to a greater decline in orders from existing customers for print-related products and services than offsetting growth in revenues from new customers.

### COST OF REVENUES AND GROSS PROFIT

For the three months ended March 31, 2016, cost of revenues decreased to $56.2 million from $58.7 million for the same period in 2015. Gross profit for the three months ended March 31, 2016 was $18.4 million, which represented an increase of $1.1 million or 6.3% from $17.3 million for the same period in 2015. Gross profit as a percentage of revenues increased to 24.6% for the three months ended March 31, 2016 compared to 22.7% for the same period in 2015. The increase in gross profit as a percentage of revenues for the three months ended March 31, 2016 was largely due to the cost reductions realized from prior cost savings initiatives implemented in 2015. Those cost savings initiatives included headcount reductions, which helped reduce direct and indirect labour costs.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative (“SG&A”) expenses, excluding amortization of intangible assets, for the three months ended March 31, 2016 decreased $1.1 million or 7.4% to $13.8 million compared to $14.9 million for the same period of 2015. As a percentage of revenues, these costs were 18.5% and 19.7% of revenues for the three month periods ended March 31, 2016 and 2015, respectively. The decrease in SG&A expenses for the three months ended March 31, 2016 was primarily attributable to cost savings initiatives implemented in 2015, including headcount reductions across sales, general and administration functions.

**RESTRUCTURING EXPENSES**

For the three months ended March 31, 2016, DATA incurred restructuring expenses related to headcount reductions of $0.3 million. For the three months ended March 31, 2015, DATA incurred restructuring expenses of $2.1 million comprised of (i) $1.4 million of restructuring expenses due to headcount reductions across DATA's operations and the closure of certain manufacturing locations, and a (ii) charge to onerous contracts of $0.7 million for a lease exit charge for a closed facility in Calgary, Alberta.

**ADJUSTED EBITDA**

For the three months ended March 31, 2016, Adjusted EBITDA was $5.7 million, or 7.6% of revenues. Adjusted EBITDA for the three months ended March 31, 2016 increased $2.2 million or 61.6% from the same period in the prior year and the Adjusted EBITDA margin for the period, as a percentage of revenues, increased from 4.6% of revenues in 2015 to 7.6% of revenues in 2016. The increase in Adjusted EBITDA for the three months ended March 31, 2016 was attributable to improved gross margins as a result of prior cost savings initiatives which lowered direct and indirect labour costs and improved utilization rates at DATA's key plants, despite lower levels of revenues compared to the prior comparable period.

**INTEREST EXPENSE**

Interest expense, including interest on debt outstanding under DATA’s credit facilities, on its outstanding 6.00% Convertible Debentures, on certain unfavourable lease obligations related to closed facilities and on DATA’s employee benefit plans, was $0.9 million for the three months ended March 31, 2016 compared to $1.3 million for the same period in 2015. Interest expense for the three months ended March 31, 2016 was lower than the same period in the prior year primarily as a result of reductions in the aggregate principal amount of outstanding 6.00% Convertible Debentures and debt outstanding under DATA's credit facilities.

### INCOME TAXES

DATA reported income before income taxes of $2.6 million, a current income tax expense of $0.2 million and a deferred income tax expense of $0.5 million for the three months ended March 31, 2016 compared to a loss before income taxes of $1.5 million, and a deferred income tax recovery of $0.4 million for the three months ended March 31, 2015. The current income tax expense was due to the taxes payable on DATA's estimated taxable income for the three months ended March 31, 2016. The deferred income tax expense and deferred income tax recovery were due to changes in estimates of future reversals of temporary differences and new temporary differences that arose during for the three months ended March 31, 2016 and 2015, respectively.

### NET INCOME (LOSS)

Net income for the three months ended March 31, 2016 was $1.9 million compared to a net loss of $1.1 million for the three months ended March 31, 2015. The increase in comparable profitability for the three months ended March 31, 2016 was substantially due to higher gross profit as a result of lower direct and indirect costs, cost savings realized as a result of the restructuring initiatives in 2015 that led to a decline in SG&A expenses and lower interest expense during the three months ended March 31, 2016. The increase in comparable profitability was partially offset by larger current income tax expense, deferred income tax expense and restructuring expenses, respectively, during the three months ended March 31, 2016.

### ADJUSTED NET INCOME

Adjusted net income for the three months ended March 31, 2016 was $2.1 million compared to Adjusted net income $0.4 million for the same periods in 2015. The increase in comparable profitability for the three months ended March 31, 2016 was attributable to higher gross profit as a result of lower direct and indirect labour costs and SG&A expenses attributable to cost savings realized as a result of the restructuring initiatives in 2015.

## Liquidity and capital resources

### LIQUIDITY

In March 2016, DATA refinanced its credit facilities by establishing a revolving credit facility (the “Bank Credit Facility”) with a Canadian chartered bank (the “Bank”) and an amortizing term loan facility (the “IAM Credit Facility”) with the Integrated Private Debt division of Integrated Asset Management Corp. ("IAM") pursuant to separate credit agreements, each dated March 10, 2016, between DATA and the Bank (the “Bank Credit Agreement”) and IAM (the “IAM Credit Agreement”), respectively. Approximately $43.3 million of the total principal amount available to DATA under the IAM Credit Agreement and the Bank Credit Agreement has been used to fully repay DATA’s outstanding indebtedness under its former credit facilities, which would have matured in August 2016. As at March 31, 2016, DATA had outstanding borrowings of $15.4 million and letters of credit granted of $3.3 million under the Bank Credit Facility, and outstanding borrowings of $28.0 million under the IAM Credit Facility. Under the Bank Credit Facility, DATA had access to $7.8 million of available credit at March 31, 2016.

DATA has capitalized transaction costs of $0.6 million related to the Bank Credit Facility and the amortization of these costs is recognized over the term of this facility. As at March 31, 2016, the unamortized transaction costs related to this facility were $0.6 million. As at March 31, 2016, all of DATA's indebtedness outstanding under the Bank Credit Facility was subject to a floating interest rate of 3.45% per annum.

DATA has capitalized transaction costs of $0.7 million related to the IAM Credit Facility and the amortization of these costs is recognized over the term of this facility. As at March 31, 2016, the unamortized transaction costs related to this facility were $0.7 million.

Both the Bank Credit Agreement and the IAM Credit Agreement contain customary representations and warranties, as well as restrictive covenants which limit the discretion of the Board of Directors and management with respect to certain business matters including the declaration or payment of dividends on the common shares of DATA without the consent of the Bank or IAM, as applicable.

Under the terms of the IAM Credit Agreement, DATA must ensure that the aggregate of the principal amount outstanding under the IAM Credit Facility and the principal amount outstanding under the Bank Credit Facility, calculated on a consolidated basis in accordance with generally accepted accounting principles ("Senior Funded Debt"), does not exceed $50.0 million; and DATA must maintain (i) a ratio of Senior Funded Debt to EBITDA for its four most recently completed fiscal quarters of not greater than the following levels: from the date of the advance up to March 31, 2017 - 3.25 to 1; from April 1, 2017 up to March 31, 2018 - 3.00 to 1; and on and after April 1, 2018 - 2.75 to 1; (ii) a debt service coverage ratio of not less than 1.50 to 1; and (iii) a working capital current ratio of not less than 1.25:1. As at March 31, 2016, the ratio of Senior Funded Debt to EBITDA was 1.86, the debt service coverage ratio was 2.55 and the working capital current ratio was 1.63.

Under the terms of the Bank Credit Agreement, DATA must maintain a fixed charge coverage ratio of not less than 1.1:1.0 at all times, calculated on a consolidated basis, in respect of any particular trailing 12 month period, as EBITDA for such period less cash taxes, cash distributions (including dividends paid) and non-financed capital expenditures paid in such period, divided by the total amount required by DATA to service its outstanding debt for such period. As at March 31, 2016, the fixed charge coverage ratio was 3.09.

A failure by DATA to comply with its obligations under either of the Bank Credit Agreement or the IAM Credit Agreement, together with certain other events, including a change of control of DATA and in relation to a change in DATA's chief executive officer (unless a replacement officer acceptable to IAM, acting reasonably, is appointed within 60 days of the effective date of such officer's resignation), could result in an event of default which, if not cured or waived, could permit acceleration of the indebtedness outstanding under each of those agreements. On April 6, 2015, DATA announced that its Chief Executive Officer, Michael G. Sifton, had tendered his resignation as an officer of DATA for personal reasons, with an effective date of July 3, 2016. DATA's Board of Directors has commenced a search for Mr. Sifton's replacement.

Each of the Bank Credit Facility and the IAM Credit Facility is secured by conventional security charging all of the property and assets of DATA and its affiliates. The payment of the principal of, and interest on, DATA's outstanding 6.00% Convertible Debentures is subordinated in right of payment to the prior payment in full of DATA's indebtedness under the Bank Credit Agreement and the IAM Credit Agreement.

The terms of the Bank Credit Facility and the IAM Credit Facility are described in greater detail in DATA's annual MD&A for the year ended December 31, 2015.

As at March 31, 2016, 6.00% Convertible Debentures in an aggregate principal amount of $11.2 million were outstanding. The 6.00% Convertible Debentures mature on June 30, 2017, bear interest at a rate of 6.00% per annum payable semi-annually and are convertible into Common Shares at the option of the holder at any time prior to June 30, 2017 (or, if called for redemption prior to that date, on the business day immediately preceding the dated specified by DATA for redemption of the 6.00% Convertible Debentures) at a conversion price of $12.20 per share, being a conversion rate of approximately 81.967 shares per $1,000 principal amount of 6.00% Convertible Debentures, subject to adjustment in certain events. The terms of the 6.00% Convertible Debentures are described in greater detail in DATA's Annual Information Form for the year ended December 31, 2015, which is available on SEDAR at www.sedar.com.

Market conditions and DATA's financial condition and capital structure could affect the availability and terms of any replacement credit facilities or other funding sought by DATA from time to time or upon the maturity of the Bank Credit Facility, IAM Credit Facility, the 6.00% Convertible Debentures or other indebtedness of DATA.

As at March 31, 2016, DATA had cash and cash equivalents of $0.8 million compared to cash and cash equivalents of $0.9 million at March 31, 2015. The cash equivalents consisted mainly of short-term investments, such as money market deposits. DATA has deposited the cash equivalents with Canadian Schedule 1 banks, from which DATA believes the risk of loss to be remote. Under the terms of the IAM Credit Agreement, DATA is required to deposit and hold cash in a blocked account to be used for repayments of principal and interest of indebtedness outstanding under the IAM Credit Facility. As at March 31, 2016, there was a balance of $0.5 million in the blocked account which is recognized as restricted cash in DATA's consolidated statement of financial position.

In assessing DATA's liquidity requirements, DATA takes into account its level of cash and cash equivalents, together with currently projected cash to be provided by operating activities, cash available from its unused credit facilities, cash from investing activities such as sales of redundant assets, access to the capital markets and anticipated reductions in operating costs projected to result from existing and planned restructuring activities, as well as its ongoing cash needs for its existing operations, including expenditures related to its growth strategy, payments associated with various restructuring and productivity improvement initiatives, contributions to its pension plans, payment of income tax liabilities and cash required to finance currently planned expenditures. Cash flows from operations have been, and could continue to be, negatively impacted by decreased demand for DATA's products and services and pricing pressures from its existing and new customers, which could result from factors such as reduced demand for traditional business forms and other print-related products, adverse economic conditions and competition from competitors supplying similar products and services, increases in DATA's operating costs (including interest expense on its outstanding indebtedness and restructuring expenses) and increased costs associated with the manufacturing and distribution of products or the provision of services. DATA's ability to conduct its operations could be negatively impacted in the future should these or other adverse conditions affect its primary sources of liquidity.

**PENSION FUNDING OBLIGATIONS**

DATA maintains a defined benefit and defined contribution pension plan (the “DATA Group Pension Plan”) for some of its employees. DATA’s funding obligation for the defined benefit provision of the DATA Group Pension Plan for 2016 is $1.3 million.

DATA makes contributions to the Québec Graphics Communications Supplemental Retirement and Disability Fund of Canada (the "SRDF") based on a percentage of the wages of its unionized employees covered by the respective collective bargaining agreements, all of whom are employed at DATA facilities located in the Province of Québec. The SRDF is a negotiated contribution defined benefit, multi-employer pension plan which provides retirement benefits to unionized employees in the printing industry. The SRDF is jointly-trusteed by representatives of the employers of SRDF members and the unions which represent SRDF members in collective bargaining. Based upon the terms of those applicable collective bargaining agreements, DATA’s estimated annual funding obligation for the SRDF for 2016 is $0.5 million. The most recent funding actuarial report (as at December 31, 2013) in respect of the Québec members of the plan disclosed a solvency deficiency and a gap between the minimum total contributions required under applicable Québec pension legislation and total employer contributions determined pursuant to collective agreements.

Under Québec pension legislation applicable prior to December 31, 2014, DATA would have been required to fund any outstanding solvency deficiency in respect of its employees, pensioners and vested deferred members if DATA had withdrawn from the plan or if the plan had been terminated. On February 18, 2015, Bill 34 (An Act to amend the Supplemental Pension Plans Act with respect to the funding and restructuring of certain multi-employer pension plans) was tabled in the Québec legislature. Bill 34, which was adopted on April 2, 2015 with effect from December 31, 2014, amends and clarifies the Québec pension legislation for the SRDF to, among other things:

- limit required employer contributions only to those amounts specified in the applicable collective agreements negotiated with the relevant unions;
- eliminate the employer's obligation to fund solvency deficiencies;
- allow for the reduction of accrued benefits; and
- remove the responsibility of participating employers to fund their share of the solvency deficit upon withdrawal from the plan or termination of the plan, except in certain circumstances when withdrawal from the plan or termination of the plan occurs within five years of Bill 34 being adopted.

In addition, it appears that another consequence of Bill 34 will be to require the administrator of the SRDF to propose and seek consensus on a “Recovery Plan”. However, it is unclear as to what form any such plan will take and any related implications for DATA cannot be determined at this time.

DATA has accounted for this plan on a defined contribution basis.

**CASH FLOW FROM OPERATIONS**

Changes in working capital used $0.4 million in cash flow during the three months ended March 31, 2016. The trade receivables balance decreased by $5.7 million as a result of lower revenues during the first quarter of 2016 and as result of timing of collections from customers. Inventory levels increased by $1.4 million as a result of the timing of shipments of products to customers. The trade payables balance decreased by $3.2 million as a result of the timing of payments to suppliers for purchases and lower production levels because of lower revenues. Deferred revenues decreased by $1.8 million due to the timing of shipments during the first quarter of 2016.

**INVESTING ACTIVITIES**

Capital expenditures for the three months ended March 31, 2016 were $0.7 million. These capital expenditures, which were financed by cash flow from operations, were related primarily to maintenance capital expenditures.

**FINANCING ACTIVITIES**

During the three months ended March 31, 2016, DATA received $43.9 million in cash from advances under its new credit facilities and repaid $43.3 million and $0.6 million of the principal amount outstanding under its old and new credit facilities, respectively. During the three months ended March 31, 2016, DATA incurred $1.3 million of transaction costs related to the establishment of its new credit facilities.

## Normal course issuer bid

In May 2015, DATA renewed its NCIB for another 12 months. Under the NCIB, DATA may purchase up to a maximum of $4.4 million aggregate principal amount of its outstanding 6.00% Convertible Debentures, representing 10% of the "public float" of the 6.00% Convertible Debentures outstanding and daily purchases are limited to $14,250 principal amount of 6.00% Convertible Debentures, other than block purchase exemptions. As at the date of this report, none of the 6.00% Convertible Debentures have been purchased under the renewed NCIB. Under the previous NCIB, which expired in May 2015, DATA purchased an aggregate of $0.3 million aggregate principal amount of the 6.00% Convertible Debentures.

## Outstanding share data

At May 4, 2016, March 31, 2016 and December 31, 2015, there were 998,752,732 Common Shares outstanding. On December 23, 2015, DATA redeemed $33.5 million aggregate principal amount of its $44.7 million outstanding 6.00% Convertible Debentures and satisfied the redemption price by issuing 975,262,140 Common Shares. At May 4, 2016, March 31, 2016 and December 31, 2015, $11.2 million aggregate principal amount of 6.00% Convertible Debentures were outstanding. The 6.00% Convertible Debentures are convertible into Common Shares at the option of the holder at any time prior to June 30, 2017. See "Liquidity and capital resources – Liquidity" above for a description of the 6.00% Convertible Debentures. The Board of Directors has approved the award of options to purchase up to 1,174,500 Common Shares to the president and chief executive officer of DATA. The options were granted on April 16, 2015, have an exercise period of seven years from the grant date once vested, and have an exercise price of $0.75 per share, representing the fair value of the Common Shares on date of the grant.

### Contractual obligations

During the three months ended March 31, 2016, DATA entered into a seven year and 10 month property lease extension agreement for its head office that will increase its lease commitments by $1.4 in 2018, by $1.7 million in 2019, by $1.8 million in 2020 and by $1.9 million in 2021 and thereafter.

### Eight quarter results of operations – Summary

*(in thousands of Canadian dollars, except per share amounts, unaudited)*

| | **2016** | 2015 | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenues | **$ 74,614** | $ 81,010 | $ 74,116 | $ 73,447 | $ 76,002 | $ 80,371 | $ 78,128 | $ 76,773 |
| Net income (loss) attributable to shareholders | **1,882** | 13,405 | (1,763) | (29,683) | (1,131) | 1,576 | 1,850 | 264 |
| Basic earnings (loss) per share | **0.00** | 0.11 | (0.08) | (1.26) | (0.05) | 0.07 | 0.08 | 0.01 |
| Diluted earnings (loss) per share | **0.00** | 0.11 | (0.08) | (1.26) | (0.05) | 0.07 | 0.08 | 0.01 |

The variations in DATA's quarterly revenues and net income (loss) over the eight quarters ended March 31, 2016 can be attributed to several principal factors: revenue declines in DATA's traditional print business due to production volume declines largely related to technological change, price concessions and competitive activity, seasonal variations in customer spending, restructuring expenses related to DATA's ongoing productivity improvement and cost reduction initiatives, profitability improvements resulting from cost savings initiatives which lowered direct and indirect labour costs and improved utilization rates at DATA's key plants, gain on redemption of convertible debentures and a goodwill impairment charge.

DATA's net income for the first quarter of 2016 included restructuring expenses of $0.3 million related to its cost reduction initiatives. DATA's net loss for the first quarter of 2015 included restructuring expenses of $2.1 million related to its cost reduction initiatives.

DATA's net income for the fourth quarter of 2015 included restructuring expenses of $1.5 million related to its cost reduction initiatives and a gain on redemption of convertible debenture of $12.8 million. DATA's net income for the fourth quarter of 2014 included restructuring expenses of $0.8 million related to its cost reduction initiatives.

DATA's net loss for the third quarter of 2015 included restructuring expenses of $5.8 million related to its cost reduction initiatives. DATA's net income for the third quarter of 2014 included restructuring expenses of $0.3 million related to its cost reduction initiatives.

DATA's net loss for the second quarter of 2015 included restructuring expenses of $4.2 million related to its cost reduction initiatives and an impairment of goodwill of $26.0 million related to its DATA CM CGU. DATA's net income for the second quarter of 2014 included restructuring expenses of $0.9 million related to its cost reduction initiatives.

## New accounting policies

*(a) New and amended standards adopted*

DATA has not adopted any new accounting policies since the year ended December 31, 2015.

*(b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016 and not early adopted.*

IFRS 9 *Financial Instruments* was issued in July 2014. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard establishes a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. It also provides guidance on an entity's own credit risk relating to financial liabilities and has modified the hedge accounting model to better link the economics of risk management with its accounting treatment. Additional disclosures will also be required under the new standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 to establish principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 *Leases* or other IFRSs. Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain non-financial assets such as property and equipment. Additional disclosures will also be required under the new standard. In September 2015, the IASB deferred the effective date of the standard to annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 Leases was issued in January 2016. IFRS 16 requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with early application permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

There are no other IFRS or International Financial Reporting Interpretations Committee (‘IFRIC’) interpretations that are not yet effective that would be expected to have a material impact on DATA.

## Disclosure controls and procedures and Internal controls over financial reporting

DATA’s management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements of DATA for external purposes in accordance with IFRS.

DATA’s management has determined that there have been no changes in the internal controls over financial reporting of DATA during the period beginning on January 1, 2016 and ending on March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting of DATA.

## Outlook

DATA's financial results for the first quarter of 2016 continued to demonstrate the benefits of the restructuring initiatives it implemented in fiscal 2015. Despite revenue declining year over year this quarter by approximately 2%, DATA continued to demonstrate year over year improvements in gross margin percentage, Adjusted EBITDA margin, Adjusted EBITDA and net income. DATA has now experienced three successive quarters of year over year improvements in margins and profitability.

Over the past several months, DATA's senior leadership team has implemented significant changes that have made DATA more focused, optimized, united and ultimately more agile to adapt to the dramatic changes being experienced in the printing and communications management industry. DATA's senior leadership team has developed and executed a number of key initiatives over the past year with the objective of enhancing long-term shareholder value. DATA's senior leadership team is focused on continuing to realize the benefits from those recent initiatives and on stabilizing - and ultimately growing - revenues.

## Risks and uncertainties

An investment in DATA’s securities involves risks. In addition to the other information contained in this report, investors should carefully consider the risks described in DATA’s most recent Annual Information Form and other continuous disclosure filings with Canadian securities regulatory authorities before investing in securities of DATA. The risks described in this report, the Annual Information Form and those other filings are not the only ones facing DATA. Additional risks not currently known to DATA, or that DATA currently believes are immaterial, may also impair the business, results of operations, financial condition and liquidity of DATA.

## Consolidated statements of financial position

| *(in thousands of Canadian dollars, unaudited)* | | **March 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | **$** | **815** | $ | 871 |
| Trade receivables (note 4) | | **32,281** | | 38,051 |
| Inventories (note 5) | | **38,449** | | 37,053 |
| Prepaid expenses and other current assets | | **3,844** | | 4,150 |
| | | **75,389** | | 80,125 |
| NON-CURRENT ASSETS | | | | |
| Deferred income tax assets (note 9) | | **1,761** | | 2,070 |
| Restricted cash (note 7) | | **450** | | — |
| Property, plant and equipment | | **13,638** | | 14,422 |
| Pension asset | | **147** | | 770 |
| Intangible assets | | **5,133** | | 5,614 |
| Goodwill | | **31,066** | | 31,066 |
| | **$** | **127,584** | $ | 134,067 |
| **LIABILITIES** | | | | |
| CURRENT LIABILITIES | | | | |
| Current portion of Credit facilities (note 7) | **$** | **5,711** | $ | 43,095 |
| Trade payables | | **26,496** | | 29,766 |
| Provisions (note 6) | | **4,103** | | 5,723 |
| Income taxes payable | | **1,072** | | 903 |
| Deferred revenue | | **9,002** | | 10,811 |
| | | **46,384** | | 90,298 |
| NON-CURRENT LIABILITIES | | | | |
| Provisions (note 6) | | **988** | | 1,483 |
| Credit facilities (note 7) | | **36,390** | | — |
| Convertible debentures (note 8) | | **10,956** | | 10,912 |
| Deferred income tax liabilities (note 9) | | **32** | | 76 |
| Other non-current liabilities (note 10) | | **1,721** | | 1,362 |
| Pension obligations | | **8,469** | | 8,354 |
| Other post-employment benefit plans | | **2,627** | | 2,563 |
| | **$** | **107,567** | $ | 115,048 |
| **EQUITY** | | | | |
| SHAREHOLDERS' EQUITY | | | | |
| Shares (note 11) | **$** | **234,782** | $ | 234,782 |
| Conversion options (note 8) | | **128** | | 128 |
| Contributed surplus | | **385** | | 385 |
| Accumulated other comprehensive income | | **197** | | 306 |
| Deficit | | **(215,475)** | | (216,582) |
| | **$** | **20,017** | $ | 19,019 |
| | **$** | **127,584** | $ | 134,067 |

**Approved by Board of Directors**

Director

Director

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

## Consolidated statements of income (loss)

| *(in thousands of Canadian dollars, except per share amounts, unaudited)* | | **For the three months ended March 31, 2016** | | For the three months ended March 31, 2015 |
|---|---|---|---|---|
| **REVENUES** | **$** | **74,614** | $ | 76,002 |
| **COST OF REVENUES** | | **56,241** | | 58,717 |
| **GROSS PROFIT** | | **18,373** | | 17,285 |
| **EXPENSES (INCOME)** | | | | |
| Selling, commissions and expenses | | **8,515** | | 9,112 |
| General and administration expenses excluding amortization of intangible assets | | **5,318** | | 5,823 |
| Restructuring expenses (note 6) | | **324** | | 2,054 |
| Amortization of intangible assets | | **505** | | 479 |
| | | **14,662** | | 17,468 |
| **INCOME (LOSS) BEFORE FINANCE COSTS AND INCOME TAXES** | | **3,711** | | (183) |
| **FINANCE COSTS** | | | | |
| Interest expense | | **868** | | 1,284 |
| Interest income | | **(3)** | | (4) |
| Amortization of transaction costs | | **247** | | 36 |
| | | **1,112** | | 1,316 |
| **INCOME (LOSS) BEFORE INCOME TAXES** | | **2,599** | | (1,499) |
| **INCOME TAX EXPENSE (RECOVERY)** | | | | |
| Current | | **176** | | 7 |
| Deferred | | **541** | | (375) |
| | | **717** | | (368) |
| **NET INCOME (LOSS) FOR THE PERIOD** | **$** | **1,882** | $ | (1,131) |
| **BASIC EARNINGS (LOSS) PER SHARE (note 12)** | **$** | **0.00** | $ | (0.05) |
| **DILUTED EARNINGS (LOSS) PER SHARE (note 12)** | **$** | **0.00** | $ | (0.05) |

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

## Consolidated statements of comprehensive income (loss)

| *(in thousands of Canadian dollars, unaudited)* | | **For the three months ended March 31, 2016** | | For the three months ended March 31, 2015 |
|---|---|---|---|---|
| **NET INCOME (LOSS) FOR THE PERIOD** | **$** | **1,882** | $ | (1,131) |
| **OTHER COMPREHENSIVE INCOME (LOSS):** | | | | |
| **ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME (LOSS)** | | | | |
| Foreign currency translation | | **(109)** | | 86 |
| | | **(109)** | | 86 |
| **ITEMS THAT WILL NOT BE RECLASSIFIED TO NET INCOME (LOSS)** | | | | |
| Re-measurements of post-employment benefit obligations | | **(1,049)** | | 165 |
| Taxes related to post-employment adjustment above | | **274** | | (42) |
| | | **(775)** | | 123 |
| **OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD, NET OF TAX** | **$** | **(884)** | $ | 209 |
| **COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD** | **$** | **998** | $ | (922) |

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

## Consolidated statements of changes in equity

| *(in thousands of Canadian dollars, unaudited)* | Shares | Conversion options | Contributed surplus | Accumulated other comprehensive income | Deficit | Total equity |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2014 | $ 215,336 | $ 513 | $ — | $ 92 | $ (197,528) | $ 18,413 |
| Net loss for the period | — | — | — | — | (1,131) | (1,131) |
| Other comprehensive income for the period | — | — | — | 86 | 123 | 209 |
| Total comprehensive income (loss) for the period | — | — | — | 86 | (1,008) | (922) |
| Balance as at March 31, 2015 | $ 215,336 | $ 513 | $ — | $ 178 | $ (198,536) | $ 17,491 |
| **BALANCE AS AT DECEMBER 31, 2015** | **$ 234,782** | **$ 128** | **$ 385** | **$ 306** | **$ (216,582)** | **$ 19,019** |
| Net income for the period | **—** | **—** | **—** | **—** | **1,882** | **1,882** |
| Other comprehensive loss for the period | **—** | **—** | **—** | **(109)** | **(775)** | **(884)** |
| Total comprehensive (loss) income for the period | **—** | **—** | **—** | **(109)** | **1,107** | **998** |
| **BALANCE AS AT MARCH 31, 2016** | **$ 234,782** | **$ 128** | **$ 385** | **$ 197** | **$ (215,475)** | **$ 20,017** |

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

## Consolidated statements of cash flows

| *(in thousands of Canadian dollars, unaudited)* | | **For the three months ended March 31, 2016** | | For the three months ended March 31, 2015 |
|---|---|---|---|---|
| **CASH PROVIDED BY (USED IN)** | | | | |
| **OPERATING ACTIVITIES** | | | | |
| Net income (loss) for the period | **$** | **1,882** | $ | (1,131) |
| Adjustments to net income (loss) | | | | |
| Depreciation of property, plant and equipment | | **1,115** | | 1,150 |
| Amortization of intangible assets | | **505** | | 479 |
| Pension expense | | **148** | | 152 |
| Loss on disposal of property, plant and equipment | | **182** | | 167 |
| Provisions (note 6) | | **324** | | 2,054 |
| Amortization of transaction costs | | **247** | | 36 |
| Accretion of convertible debentures | | **22** | | (18) |
| Other non-current liabilities | | **404** | | 49 |
| Other post-employment benefit plans, net | | **64** | | 67 |
| Income tax expense (recovery) | | **717** | | (368) |
| | | **5,610** | | 2,637 |
| Changes in working capital (note 13) | | **(442)** | | 3,663 |
| Contributions made to pension plans | | **(459)** | | (459) |
| Provisions paid (note 6) | | **(2,439)** | | (1,070) |
| Income taxes paid | | **(5)** | | (71) |
| | | **2,265** | | 4,700 |
| **INVESTING ACTIVITIES** | | | | |
| Purchase of property, plant and equipment | | **(652)** | | (2,590) |
| Purchase of intangible assets | | **(24)** | | — |
| Proceeds on disposal of property, plant and equipment | | **118** | | 28 |
| | | **(558)** | | (2,562) |
| **FINANCING ACTIVITIES** | | | | |
| Proceeds from Credit Facilities (note 7) | | **43,931** | | — |
| Repayment of Credit Facilities (note 7) | | **(43,824)** | | (1,000) |
| Repayment of loan payable | | **(24)** | | — |
| Increase in restricted cash | | **(450)** | | — |
| Finance and transaction costs (note 7) | | **(1,326)** | | — |
| Finance lease payments | | **(11)** | | (9) |
| | | **(1,704)** | | (1,009) |
| **INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD** | | **3** | | 1,129 |
| **CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD** | **$** | **871** | $ | 812 |
| **EFFECTS OF FOREIGN EXCHANGE ON CASH BALANCES** | | **(59)** | | 52 |
| **CASH AND CASH EQUIVALENTS – END OF PERIOD** | **$** | **815** | $ | 1,993 |

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

**Notes to The Condensed Interim Consolidated Financial Statements**

For the periods ended March 31, 2016 and 2015

*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

## 1 General Information

DATA Group Ltd. ("DATA") plans and executes business communications. DATA helps marketers and agencies unify and execute communications campaigns across multiple channels, and it helps operations teams streamline and automate document and communications processes. DATA derives its revenues from the following core capabilities: direct marketing, commercial print services, labels and automated identification solutions, event tickets and gift cards, logistics and fulfilment, content and workflow management, data management and analytics, and regulatory communications. DATA is strategically located across Canada to support clients on a national basis, and serves the U.S. market through its facilities in Chicago, Illinois.

Certain elements of DATA's gift card and direct mail businesses as well as the buying patterns of certain major customers of DATA have historically generated higher revenues and profit in the fourth quarter than the other three quarters, which results in seasonal fluctuations in sales of those products.

The common shares of DATA are listed on the Toronto Stock Exchange ("TSX") under the symbol "DGI". DATA's outstanding 6.00% Convertible Unsecured Subordinated Debentures (the "6.00% Convertible Debentures") are listed on the TSX under the symbol "DGI.DB.A". The address of the registered office of DATA is 9195 Torbram Road, Brampton, Ontario.

## 2 Basis of presentation and significant accounting policies

DATA prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial reports, including International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in DATA's consolidated financial statements for the year ended December 31, 2015, except for any new accounting pronouncements which have been adopted. Where applicable, DATA has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ending December 31, 2016, as issued and outstanding as of May 4, 2016, the date the Board of Directors approved these financial statements. Any subsequent changes to IFRS that are given effect in DATA's annual consolidated financial statements for the year ending December 31, 2016 could result in restatement of these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements should be read in conjunction with DATA's consolidated annual financial statements for the year ended December 31, 2015 which have been prepared in accordance with IFRS, as issued by the IASB.

**Notes to The Condensed Interim Consolidated Financial Statements**

For the periods ended March 31, 2016 and 2015

*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

## 3 Change in accounting policies

*(a) New and amended standards adopted*

DATA has not adopted any new accounting policies since the year ended December 31, 2015.

*(b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016 and not early adopted.*

IFRS 9 *Financial Instruments* was issued in July 2014. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard establishes a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. It also provides guidance on an entity's own credit risk relating to financial liabilities and has modified the hedge accounting model to better link the economics of risk management with its accounting treatment. Additional disclosures will also be required under the new standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 to establish principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 *Leases* or other IFRSs. Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain non-financial assets such as property and equipment. Additional disclosures will also be required under the new standard. In September 2015, the IASB deferred the effective date of the standard to annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 *Leases* was issued in January 2016. IFRS 16 requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with early application permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

There are no other IFRS or International Financial Reporting Interpretations Committee ('IFRIC') interpretations that are not yet effective that would be expected to have a material impact on DATA.

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended March 31, 2016 and 2015

*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

## 4 Trade receivables

| | | **March 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Trade receivables | **$** | **32,735** | $ | 38,577 |
| Provision for doubtful accounts | | **(454)** | | (526) |
| | **$** | **32,281** | $ | 38,051 |

Trade receivables are non-interest bearing with settlement terms from 0 to 90 days.

## 5 Inventories

| | | **March 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Raw materials | **$** | **6,009** | $ | 5,923 |
| Work-in-progress | | **3,323** | | 2,850 |
| Finished goods | | **29,117** | | 28,280 |
| | **$** | **38,449** | $ | 37,053 |

Raw materials and finished goods inventory amounts are net of obsolescence reserves of $646 (2015 – $657). The cost of inventories recognized as an expense within cost of revenues for the three months ended March 31, 2016 was $53,178 (2015 – $55,920).

## 6 Provisions

| | | **Restructuring** | | **Onerous contracts** | | **Total** |
|---|---|---|---|---|---|---|
| Balance – Beginning of period | **$** | **4,614** | **$** | **2,592** | **$** | **7,206** |
| Additional charge during the period | | **324** | | **—** | | **324** |
| Utilized during the period | | **(1,753)** | | **(686)** | | **(2,439)** |
| Balance – End of period | **$** | **3,185** | **$** | **1,906** | **$** | **5,091** |
| Less: Current portion of provisions | | **(2,896)** | | **(1,207)** | | **(4,103)** |
| As at March 31, 2016 | **$** | **289** | **$** | **699** | **$** | **988** |

| | | Restructuring | | Onerous contracts | | Total |
|---|---|---|---|---|---|---|
| Balance – Beginning of year | $ | 1,300 | $ | 2,103 | $ | 3,403 |
| Additional charge during the year | | 11,231 | | 2,329 | | 13,560 |
| Utilized during the year | | (7,917) | | (1,840) | | (9,757) |
| Balance – End of year | $ | 4,614 | $ | 2,592 | $ | 7,206 |
| Less: Current portion of provisions | | (3,981) | | (1,742) | | (5,723) |
| As at December 31, 2015 | $ | 633 | $ | 850 | $ | 1,483 |

*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

**RESTRUCTURING**

During the three months ended March 31, 2016, DATA continued its restructuring and ongoing productivity improvement initiatives to reduce its cost of operations. During the three months ended March 31, 2016, these initiatives resulted in $324 of additional restructuring expenses in the consolidated statement of income (loss) due to headcount reductions across DATA's operations. During the three months ended March 31, 2015, these initiatives resulted in $2,054 of restructuring expenses in the consolidated statement of income (loss) due to headcount reductions across DATA's operations and the closure of certain manufacturing locations.

For the three months ended March 31, 2016, cash payments of $1,753 (2015 - $828) were made to former employees for severance and other restructuring costs. The remaining severance and restructuring accruals of $3,185 at March 31, 2016 are expected to be paid in the balance of 2016 and in 2017.

## 7 Credit facilities

| | | **March 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Term loans | | | | |
| - 4.86% bankers' acceptances, matured January 16, 2016 | **$** | **—** | $ | 35,750 |
| - floating rate debt, maturing March 10, 2018 | | **4,792** | | — |
| - 6.95% term debt, maturing March 10, 2023 | | **28,000** | | — |
| Revolving facilities | | | | |
| - 4.86% bankers' acceptances, matured January 16, 2016 | | **—** | | 7,500 |
| - floating rate debt, maturing March 10, 2019 | | **10,565** | | — |
| Credit facilities | | **43,357** | | 43,250 |
| Unamortized transaction costs | | **(1,256)** | | (155) |
| | **$** | **42,101** | $ | 43,095 |
| Less: Current portion of Credit facilities | | **(5,711)** | | (43,095) |
| Credit facilities | **$** | **36,390** | $ | — |

As at December 31, 2015, DATA maintained credit facilities (the "Former Credit Facilities") with a syndicate of Canadian chartered banks pursuant to a Third Amended and Restated Credit Agreement dated December 19, 2014. The Former Credit Facilities, which had a maximum available principal amount of $55.0 million (comprised of a $10.0 million revolving facility, a $5.0 million swing line facility, and a $40.0 million amortizing term loan), were to have matured on August 31, 2016 without the option for renewal or extension.

In March 2016, DATA established a revolving credit facility (the “Bank Credit Facility”) with a Canadian chartered bank (the “Bank”) and an amortizing term loan facility (the “IAM Credit Facility”) with the Integrated Private Debt division of Integrated Asset Management Corp. ("IAM") pursuant to separate credit agreements, each dated March 10, 2016, between DATA and the Bank (the “Bank Credit Agreement”) and IAM (the “IAM Credit Agreement”), respectively. Approximately $43,250 of the total principal amount available to DATA under the IAM Credit Agreement and the Bank Credit Agreement was used to fully repay DATA’s outstanding indebtedness under its former senior credit facilities. As at March 11, 2016, DATA had outstanding borrowings of $15,931 and letters of credit granted of $2,159 under the Bank Credit Facility, and outstanding borrowings of $28,000 under the IAM Credit Facility. Under the Bank Credit Facility, DATA had access to $7,798 of available credit at March 31, 2016.

The Bank Credit Facility has a maximum available principal amount of $25,000. A portion of the Bank Credit Facility consists of a non-revolving term credit facility (the “Bank Term Facility”) in a maximum principal amount of $5,000 as well as a committed treasury facility pursuant to which the Bank may, in its sole discretion, agree to enter into nonspeculative hedging arrangements, subject to certain restrictions. Advances under the Bank Credit Facility may not, at any time, exceed the lesser of $25,000 and a fixed percentage of DATA's aggregate accounts receivable and inventory (less certain amounts). The Bank Term Facility is a sub facility of the Bank Credit Facility and is available by way of a single advance of $5,000 and it's availability is not based on DATA's accounts receivable or inventories. The proceeds of the Bank Term Facility were used by DATA to repay indebtedness owing by it under the senior credit facilities previously maintained by DATA with a syndicate of Canadian chartered banks. Advances under the Bank Credit Facility are subject to floating interest rates based upon the Canadian prime rate plus an applicable margin of 75 basis points. The Bank Term Facility matures on the earlier of March 10, 2018 and the date on which the Bank Credit Facility is terminated pursuant to the Bank Credit Agreement and monthly principal repayments of $208 made on the Bank Term Facility will not reduce the total available principal amount under the Bank Credit Facility. The Bank Credit Facility matures on the earlier of March 10, 2019 and the date on which the Bank Credit Facility is terminated pursuant to the Bank Credit Agreement. DATA has capitalized transaction costs of $606 related to this facility and the amortization of these costs is recognized over the term of this facility. As at March 31, 2016, the unamortized transaction costs related to this facility were $595. At March 31, 2016, DATA had outstanding borrowings of $15,357 under the Bank Credit Facility and all of DATA's indebtedness outstanding under the Bank Credit Facility was subject to a floating interest rate of 3.45% per annum.

The IAM Credit Facility matures on March 10, 2023 and has a maximum available principal amount of $28,000. Indebtedness outstanding under the IAM Credit Facility bears interest at a fixed rate equal to 6.95% per annum. Under the terms of the IAM Credit Agreement, DATA is required to make mandatory blended equal monthly repayments of principal and interest such that, on maturity, advances under the IAM Credit Facility and applicable interest on those advances will have been fully repaid. Monthly blended principal and interest repayments of $422 and an April 2016 blended principal and interest repayment of $448 cannot be reborrowed. DATA has capitalized transaction costs of $668 related to this facility and the amortization of these costs is recognized over the term of this facility. As at March 31, 2016, the unamortized transaction costs related to this facility were $661. Under the terms of the IAM Credit Agreement, DATA is required to deposit and hold cash in a blocked account to be used for repayments of principal and interest of indebtedness outstanding under the IAM Credit Facility. As at March 31, 2016, there was a balance of $450 in the blocked account which is recognized as restricted cash on the consolidated statement of financial position.

Both the Bank Credit Agreement and the IAM Credit Agreement contain customary representations and warranties, as well as restrictive covenants which limit the discretion of the Board of Directors and management with respect to certain business matters including the declaration or payment of dividends on the common shares of DATA without the consent of the Bank or IAM, as applicable. Under the terms of the IAM Credit Agreement, DATA has agreed that it will not, without the prior written consent of IAM, change (or permit any change) in its Chief Executive Officer, President or Chief Financial Officer, provided that, if he or she voluntarily resigns as an officer of DATA, or if any such person has either died or is disabled and can therefore no longer carry on his or her duties of such office, DATA will have 60 days to replace such officer, such replacement officer to be satisfactory to IAM, acting reasonably. See note 16. The Bank Credit Facility limits spending on capital expenditures by DATA to an aggregate amount not to exceed $5,500 during any fiscal year, and the IAM Credit Agreement limits the incurrence of capital expenditures to no more than $5,000 in any fiscal year.

Under the terms of the IAM Credit Agreement, DATA must ensure that the aggregate of the principal amount outstanding under the IAM Credit Facility and the principal amount outstanding under the Bank Credit Facility, calculated on a consolidated basis in accordance with generally accepted accounting principles ("Senior Funded Debt"), does not exceed $50,000; and DATA must maintain (i) a ratio of Senior Funded Debt to EBITDA (as defined below) for its four most recently completed fiscal quarters of not greater than the following levels: from the date of the advance up to March 31, 2017 - 3.25 to 1; from April 1, 2017 up to March 31, 2018 - 3.00 to 1; and on and after April 1, 2018 - 2.75 to 1; (ii) a debt service coverage ratio of not less than 1.50 to 1; and (iii) a working capital current ratio of not less than 1.25:1. For purposes of the Bank Credit Agreement and the IAM Credit Agreement, "EBITDA" means net income or net loss for the relevant period, calculated on a consolidated basis in accordance with generally accepted accounting principles, plus amounts deducted, or minus amounts added, in calculating net income or net loss in respect of: the aggregate expense incurred for interest on debt and other costs of obtaining credit; income taxes, whether or not deferred; depreciation and amortization; non-cash expenses resulting from employee or management compensation, including the grant of stock options or restricted options to employees; any gain or loss attributable to the sale, conversion or other disposition of property out of the ordinary course of business; interest or dividend income; foreign exchange gain or loss; gains resulting from the write-up of property and losses resulting from the write-down of property (except allowances for doubtful accounts receivable and non-cash reserves for obsolete inventory); any gain or loss on the repurchase or redemption of any securities (including in connection with the early retirement or defeasance of any debt); goodwill and other intangible asset write-downs; and any other extraordinary, non-recurring or unusual items as agreed to by the lender. As at March 31, 2016, the ratio of Senior Funded Debt to EBITDA was 1.86, the debt service coverage ratio was 2.55 and the working capital current ratio was 1.63.

(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)

Under the terms of the Bank Credit Agreement, DATA must maintain a fixed charge coverage ratio of not less than 1.1:1.0 at all times, calculated on a consolidated basis, in respect of any particular trailing 12 month period, as EBITDA for such period less cash taxes, cash distributions (including dividends paid) and non-financed capital expenditures paid in such period, divided by the total amount required by DATA to service its outstanding debt for such period. As at March 31, 2016, the fixed charge coverage ratio was 3.09.

A failure by DATA to comply with its obligations under either of the Bank Credit Agreement or the IAM Credit Agreement, together with certain other events, including a change of control of DATA and in relation to a change in DATA's chief executive officer, could result in an event of default which, if not cured or waived, could permit acceleration of the indebtedness outstanding under each of those agreements.

Each of the Bank Credit Facility and the IAM Credit Facility is secured by conventional security charging all of the property and assets of DATA and its affiliates. The payment of the principal of, and interest on, DATA's outstanding 6.00% Convertible Debentures is subordinated in right of payment to the prior payment in full of DATA's indebtedness under the Bank Credit Agreement and the IAM Credit Agreement.

The principal repayments on the long-term debt are as follows:

| | **March 31, 2016** |
|---|---|
| 2016 | **$ 4,261** |
| 2017 | **5,886** |
| 2018 | **4,057** |
| 2019 | **14,458** |
| 2020 | **4,173** |
| 2021 and thereafter | **10,522** |
| | **$ 43,357** |

## 8 Convertible debentures

| | | **March 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| 6.00% Convertible Debentures, maturing June 30, 2017, interest payable in June and December, convertible at 81.967 shares per $1,000 of debenture | **$** | **11,066** | $ | 11,044 |
| Unamortized transaction costs | | **(110)** | | (132) |
| | **$** | **10,956** | $ | 10,912 |

The 6.00% Convertible Debentures in an aggregate principal amount of $11,175 (2015 – $11,175) bear interest at a rate of 6.00% per annum payable semi-annually, in arrears, on June 30 and December 31. The 6.00% Convertible Debentures mature on June 30, 2017 and are convertible into common shares of DATA ("Shares") at the option of the holder prior

*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

to maturity or redemption at a conversion price of $12.20 per Share, subject to adjustment in certain events described in greater detail in DATA's Annual Information Form for the year ended December 31, 2015. The 6.00% Convertible Debentures could not be redeemed before June 30, 2013.

On or after June 30, 2013 and prior to June 30, 2015, the 6.00% Convertible Debentures could have been redeemed by DATA in whole or in part, from time to time, at the option of DATA at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the current market price of the Shares (being the volume-weighted average trading price of the Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the applicable date) is at least 125% of the conversion price of the 6.00% Convertible Debentures. On or after June 30, 2015, the 6.00% Convertible Debentures may be redeemed by DATA in whole or in part, from time to time, at the option of DATA at a price equal to the principal amount thereof plus accrued and unpaid interest.

On redemption or at maturity, DATA may, at its option, subject to regulatory approval and certain other conditions, elect to satisfy its obligation to pay the applicable redemption price for the principal amount of the 6.00% Convertible Debentures by issuing and delivering that number of Shares obtained by dividing the aggregate redemption price of the debentures to be redeemed, or the principal amount of outstanding debentures which have matured, by 95% of the current market price of the Shares on the date fixed for redemption or the maturity date.

DATA capitalized transaction costs of $2,266 related to this issuance and the amortization of these costs is recognized over the term of the 6.00% Convertible Debentures.

**NORMAL COURSE ISSUER BID**

In May 2015, DATA renewed its normal course issuer bid ("NCIB") for another 12 months. Under the NCIB, DATA may purchase up to a maximum of $4,365 aggregate principal amount of its outstanding 6.00% Convertible Debentures, representing 10% of the "public float" of the 6.00% Convertible Debentures outstanding and daily purchases are limited to $14 principal amount of 6.00% Convertible Debentures, other than block purchase exemptions. At March 31, 2016, $ Nil of the 6.00% Convertible Debentures have been purchased under the renewed NCIB. Under the previous NCIB, which expired in May 2015, an aggregate of $295 aggregate principal amount of the 6.00% Convertible Debentures were purchased.

## 9 Income taxes

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax assets and liabilities have been measured using an expected average combined statutory income tax rate of 25.77% (2015 – 25.63%) based on the tax rates in years when the temporary differences are expected to reverse.

| **Reflected in the consolidated statement of financial position as follows:** | | **March 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Deferred tax assets | **$** | **1,761** | $ | 2,070 |
| Deferred tax liabilities | | **(32)** | | (76) |
| Net deferred tax assets | **$** | **1,729** | $ | 1,994 |

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended March 31, 2016 and 2015

*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

## 10 Other non-current liabilities

| | | **March 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Deferred lease inducement | **$** | **769** | $ | 828 |
| Lease escalation liabilities | | **773** | | 768 |
| Finance lease liabilities | | **7** | | 18 |
| Loan payable | | **318** | | 342 |
| | **$** | **1,867** | $ | 1,956 |
| Less: Current portion of other non-current liabilities | | **(146)** | | (594) |
| | **$** | **1,721** | $ | 1,362 |

The current portion of other non-current liabilities is included in trade payables.

DATA's operations are conducted in leased properties. DATA's leases generally provide for minimum rent and may also include escalation clauses, guarantees and certain other restrictions, and generally require it to pay a portion of the real estate taxes and other property operating expense. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease, expiring in 2016 to 2025.

During the quarter ended March 31, 2016, DATA entered into an extension lease agreement for its Brampton, Ontario facility that included lease inducements which were deferred and are recognized over the life of the lease expiring in 2025.

During the year ended December 31, 2006, DATA entered into a lease agreement for its Edmonton, Alberta facility that included lease inducements which were deferred and are recognized over the life of the lease, expiring in 2016. During the year ended December 31, 2015, DATA entered into a lease agreement for its Calgary, Alberta facility that included lease inducements which were deferred and are recognized over the life of the lease, expiring in 2022.

During the year ended December 31, 2015, DATA entered into a loan payable agreement for licensed software in the amount of $368. The loan has an interest rate of 2.90% and repayments of $19 per month will be made over 20 months ending in August 2017.

## 11 Shares

DATA is authorized to issue an unlimited number of common shares. The common shares have a stated capital of one dollar. Each common share is entitled to one vote at any meeting of shareholders. Each holder of the common shares will be entitled to receive dividends if, as and when declared by the Board of Directors. In the event of the liquidation, dissolution, winding up of DATA or other distribution of assets of DATA among its shareholders for the purpose of winding up its affairs, the holders of the common shares will, subject to the rights of the holders of any other class of shares of DATA entitled to receive assets of DATA upon such a distribution in priority to or concurrently with the holders of the common shares, be entitled to participate in the distribution. Such distribution will be made in equal amounts per share on all the common shares at the time outstanding without preference or distinction.

The following summarizes the change in shares:

| | **Number of Common shares** | | **Amount** |
|---|---|---|---|
| Balance – March 31, 2016 and December 31, 2015 | **998,752,732** | **$** | **234,782** |

*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

**SHARE-BASED COMPENSATION**

DATA has adopted a Long-Term Incentive Plan ("LTIP") to: recruit and retain highly qualified directors, officers, employees and consultants (the "Participants"); provide Participants with an incentive for productivity and an opportunity to share in the growth and the value of DATA; and, align the interests of Participants with those of the shareholders of DATA. Awards to Participants are primarily based on the financial results of DATA and services provided. The aggregate maximum number of common shares available for issuance from DATA's treasury under the LTIP is 99,875,273 common shares or 10% of the issued common shares outstanding. The shares to be awarded will be authorized and unissued shares.

DATA's share-based compensation plan consists of five types of awards: restricted share unit ("RSUs"), options, deferred share unit ("DSUs"), restricted shares or stock appreciation right ("SARs") awards. No DSUs, restricted shares or SARs have been granted to date.

*(a) Restricted share unit ("RSU")*

Under the RSU portion of the LTIP, selected employees are granted RSUs where each RSU represents the right to receive a distribution from the company in an amount equal to the fair value of one DATA common share. RSUs generally vest within three years and primarily settle in cash upon vesting.

A liability for RSUs is measured at fair value on the grant date and is subsequently adjusted for changes in fair value. The liability is recognized on a graded vesting basis over the vesting period, with a corresponding charge to compensation expense, as a component of general and administration expenses. Compensation expenses for RSUs incorporate an estimate for expected forfeiture rates based on which the fair value is adjusted.

| | **March 31, 2016** | December 31, 2015 |
|---|---|---|
| | **(in units)** | (in units) |
| Balance - beginning of period | **236,277** | — |
| Granted in the period | **2,508,861** | 318,217 |
| Forfeited in the period | **—** | (55,096) |
| Settled in cash in the period | **—** | (26,844) |
| Balance - end of period | **2,745,138** | 236,277 |

During the three months ended March 31, 2016, a total of 2,508,861 RSUs were granted to the president and chief executive officer of ("CEO") DATA. Of the total outstanding RSUs at March 31, 2016, 22,967 have vested and are payable.

*(b) Option ("Option")*

During 2015, the Board of Directors approved the award of options to purchase up to 1,174,500 common shares to the CEO of DATA. The options were granted on April 16, 2015, have an exercise period of seven years from the grant date once vested, and have an exercise price of $0.75 per share, representing the fair value of the common shares on the date of grant. The vesting of the award is based on meeting certain performance targets for Actual EPS and Actual Return on Capital Employed ("ROCE") for the fiscal 2016, 2017 and 2018 fiscal periods. As the targets have not been set, the value of the award, as determined using a Black-Scholes model and current market inputs, is revalued at each reporting date. At March 31, 2016, $Nil compensation expense has been recognized and no options have vested.

**Notes to The Condensed Interim Consolidated Financial Statements**

For the periods ended March 31, 2016 and 2015

*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

## 12 Earnings (loss) per share

| | For the three months ended March 31, 2016 | For the three months ended March 31, 2015 |
|---|---|---|
| **BASIC EARNINGS (LOSS) PER SHARE** | | |
| Net income (loss) for the period attributable to common shareholders | **$ 1,882** | $ (1,131) |
| Weighted average number of shares | **998,752,732** | 23,490,592 |
| Basic earnings (loss) per share | **$ 0.00** | $ (0.05) |
| **DILUTED EARNINGS (LOSS) PER SHARE** | | |
| Net income (loss) for the period attributable to common shareholders | **$ 1,882** | $ (1,131) |
| Weighted average number of shares | **998,752,732** | 23,490,592 |
| Diluted earnings (loss) per share | **$ 0.00** | $ (0.05) |

6.00% Convertible Debentures in the aggregate principal amount of $11,175 (2015 – $11,175) and the related interest expense were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. Options granted were excluded from the computation of diluted earnings per share because their exercise price was higher than the market price of common shares.

## 13 Changes in working capital

| | For the three months ended March 31, 2016 | For the three months ended March 31, 2015 |
|---|---|---|
| Trade receivables | **$ 5,741** | $ 4,299 |
| Inventories | **(1,434)** | (1,359) |
| Prepaid expenses and other current assets | **298** | 1,063 |
| Trade payables | **(3,244)** | (1,471) |
| Deferred revenue | **(1,803)** | 1,131 |
| | **$ (442)** | $ 3,663 |

## 14 Commitments

DATA and its subsidiary are subject to various claims, potential claims and lawsuits. While the outcome of these matters is not determinable, DATA's management does not believe that the ultimate resolution of such matters will have a material adverse impact on DATA's financial position.

DATA makes contributions to the Québec Graphics Communications Supplemental Retirement and Disability Fund of Canada (the "SRDF") based on a percentage of the wages of its unionized employees covered by the respective collective bargaining agreements, all of whom are employed at DATA facilities located in the Province of Québec. The SRDF is a negotiated contribution defined benefit, multi-employer pension plan which provides retirement benefits to unionized employees in the printing industry. The SRDF is jointly-trusteed by representatives of the employers of SRDF members and the unions which represent SRDF members in collective bargaining. Based upon the terms of those applicable collective agreements, DATA's estimated annual funding obligation for the SRDF for 2016 is $546. The most recent funding actuarial report (as at December 31, 2013) in respect of the Québec members of the plan disclosed a solvency deficiency and a gap between the minimum total contributions required under applicable Québec pension legislation and total employer contributions determined pursuant to collective agreements.

*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

Under Québec pension legislation applicable prior to December 31, 2014, DATA would have been required to fund any outstanding solvency deficiency in respect of its employees, pensioners and vested deferred members if DATA had withdrawn from the plan or if the plan had been terminated. On February 18, 2015, Bill 34 (An Act to amend the Supplemental Pension Plans Act with respect to the funding and restructuring of certain multi-employer pension plans) was tabled in the Québec legislature. Bill 34, which was adopted on April 2, 2015 with effect from December 31, 2014, amends and clarifies the Québec pension legislation for the SRDF to, among other things:

- limit required employer contributions only to those amounts specified in the applicable collective agreements negotiated with the relevant unions;
- eliminate the employer's obligation to fund solvency deficiencies;
- allow for the reduction of accrued benefits; and
- remove the responsibility of participating employers to fund their share of the solvency deficit upon withdrawal from the plan or termination of the plan, except in certain circumstances when withdrawal from the plan or termination of the plan occurs within five years of Bill 34 being adopted.

In addition, it appears that another consequence of Bill 34 will be to require the administrator of the SRDF to propose and seek consensus on a “Recovery Plan”. However, it is unclear as to what form any such plan will take and any related implications for DATA cannot be determined at this time.

## 15 Employee benefit plans

Pension expense

DATA's pension expense related to its defined benefit and defined contributions plans as follows:

| | **For the three months ended March 31, 2016** | For the three months ended March 31, 2015 |
|---|---|---|
| Net cost recognized in general and administration expenses | $ 81 | $ 75 |
| Interest costs in finance expense | 67 | 77 |
| Defined benefit plans | $ 148 | $ 152 |
| | | |
| Defined contribution plan | $ 394 | $ 468 |
| Defined benefit multi-employer plan | $ 154 | $ 178 |

Other post-employment benefit plans expense

DATA's other post-employment benefit plans are as follows:

| | **For the three months ended March 31, 2016** | For the three months ended March 31, 2015 |
|---|---|---|
| Net cost recognized in general and administration expenses | $ 72 | $ 71 |
| Interest costs in finance expense | 25 | 30 |
| Other post-employment benefit plans | $ 97 | $ 101 |

Notes to The Condensed Interim Consolidated Financial Statements

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*(in thousands of Canadian dollars, except percentages, shares, units and per share amounts, unaudited)*

## 16 Subsequent event

### RESIGNATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER

Subsequent to the quarter ended March 31, 2016, Michael G. Sifton, the President and Chief Executive Officer of DATA, tendered his resignation as an officer of the Company for personal reasons, with an effective date of July 3, 2016. Mr. Sifton remains a director of the Company.

DATA's board of directors has commenced a search for Mr. Sifton's successor and expects to announce his replacement prior to the effective date of his resignation. Under the terms of the IAM Credit Agreement, if the Chief Executive Officer of the Company voluntarily resigns as an officer of DATA, DATA will have 60 days from the effective date of the officer's resignation to replace such officer, such replacement officer to be satisfactory to IAM, acting reasonably. See note 7.

# CORPORATE INFORMATION

## DIRECTORS AND OFFICERS

**Michael Blair** [3]
Chairman, Director

**J.R. Kingsley Ward** [2]
Vice-Chairman, Director

**William Albino** [1, 2]
Director

**Rod Phillips** [1,3]
Director

**Harinder S. Takhar** [1, 3]
Director

**Michael G. Sifton**
Director & Officer
President & Chief Executive Officer

**James E. Lorimer**
Officer
Chief Financial Officer & Corporate Secretary

[1] Member, Audit Committee (Chairperson is Harinder S. Takhar)

[2] Member, Corporate Governance Committee (Chairperson is William Albino)

[3] Member, Human Resources and Compensation Committee (Chairperson is Rod Phillips)

## EXECUTIVE TEAM

**Michael G. Sifton**
President & Chief Executive Officer

**James E. Lorimer**
Chief Financial Officer

**Steve Wittal**
Senior Vice-President, Sales

**Alan Roberts**
Senior Vice-President, Operations

**Judy Holcomb-Williams**
Vice-President, Human Resources

**Jeff Gladwish**
Vice-President, Marketing

**Karl Spangler**
Chief Technology Officer

## CORPORATE INFORMATION

**Auditors**
PricewaterhouseCoopers LLP

**Transfer Agent**
Computershare Investor Services Inc.

**Corporate Counsel**
McCarthy Tétrault LLP

**Corporate Office**
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**Toronto Stock Exchange Symbols**
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