

**DATA GROUP LTD. QUARTER THREE ENDED SEPTEMBER 30, 2015**

**Q3 2015**

## WE ARE DEFINED **BY OUR VALUES**

Our success owes much to a set of corporate values which define and drive our culture.

We will be innovative, indeed visionary, in developing solutions for our customer's benefit...regardless of the technology.

We are committed to customer service and quality.

## We do what we say we will do.

We are a people-oriented company committed to employment equity, safety and the environment.

We strive for market leadership and take pride in our products and services.

We encourage decision-making and initiative at all levels of our company.

## We conduct our business ethically and legally.

## ***Letter to shareholders***

Dear Shareholder,

In the third quarter, we started to see the positive impact in our financial results of the substantial headcount and plant rationalizations we announced with our second quarter results in August. The impact of lower direct and indirect labour costs together with improved utilization rates at our key plants contributed positively to improved gross margins, despite lower levels of revenue compared to the third quarter of last year. In addition, our Adjusted EBITDA margin for the quarter benefited from headcount reduction and other savings initiatives we implemented across our selling, general and administrative functions. We expect to see additional benefits from our operational initiatives in the fourth quarter.

During the third quarter we substantially completed the restructuring initiatives we announced with our second quarter results. Our total headcount now stands at 1,435, a reduction of 205 employees since December 31, 2014. We are now experiencing significantly higher capacity utilization rates across our six key “centres of excellence”. While we will continue to carefully manage our operations, we are turning our efforts to stabilizing our revenue, including a renewed focus on core vertical markets where we have a strong competitive advantage and where we see opportunities for improved product margin together with growth opportunities.

To support our efforts to stabilize and grow revenue, we have been developing a renewed strategic plan, customer value story and marketplace identity. While much of this work is expected to be more broadly revealed in the first quarter of 2016, the process has been significantly wider and deeper than in recent years and we will focus more closely on solving the challenges that customers and prospects experience every day. We expect that this renewed strategic focus will better position us to invest in the right products, technology and people to deliver on evolving customer needs and drive top-line revenue growth in the future.

We have been conducting a comprehensive review of the company's capital structure in order to improve our financial flexibility and to better position the company for long-term growth. In particular, we have reviewed: potential means to refinance the indebtedness outstanding under our bank borrowings which mature in August 2016, a broad number of alternatives in regards to refinancing, amending and/or extending the terms of our outstanding 6.00% convertible unsecured subordinated debentures (the “6.00% Convertible Debentures”) which mature in June 2017, potential means of securing new equity investment, and other strategies to enhance value for our shareholders, 6.00% Convertible Debenture holders and our other stakeholders. In connection with that review, we engaged TD Securities Inc. as our exclusive financial advisor to assist in the evaluation of various strategic alternatives.

As a result of this process, our Board of Directors (the “Board”) has authorized the redemption of \$33.5 million aggregate principal amount of our \$44.7 million outstanding 6.00% Convertible Debentures as of December 23, 2015 (the “Redemption Date”) upon payment of a redemption amount of \$1,000 for each \$1,000 principal amount of 6.00% Convertible Debentures (the “Redemption Price”), plus accrued and unpaid interest thereon up to but excluding the Redemption Date. We have elected to satisfy our obligation to pay the Redemption Price by issuing and delivering to holders of 6.00% Convertible Debentures redeemed common shares of DATA Group (the “Shares”) in lieu of cash. The number of Shares to be issued and delivered to holders of 6.00% Convertible Debentures to be redeemed will be determined by dividing the Redemption Price by 95% of the volume-weighted average trading price of our common

shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on December 16, 2015. The Shares will be freely tradable in Canada and the issuance of the Shares is subject to receipt of all necessary regulatory approvals. Based on the current trading price of our common shares, we will be required to issue a large number of Shares, which will significantly dilute existing shareholders' interests in DATA Group and is likely to have an adverse effect on the trading price of the common shares.

In connection with our capital structure review, we have considered a number of proposals to refinance our senior indebtedness which matures in August 2016, and we are now in advanced discussions with potential arm's length lenders regarding proposed financing arrangements which would provide sufficient funding to refinance our senior indebtedness. While we remain confident in our ability to refinance our senior indebtedness, the current proposals are subject to final commitments, final due diligence, finalization of inter-creditor agreements and other customary closing conditions. There is no assurance that any such proposal will result in any transaction being entered into or consummated with the new lenders or our senior indebtedness being fully retired.

We recorded restructuring expenses of \$5.8 million for the quarter ended September 30, 2015, and a total of \$12.0 million for the nine months ended September 30, 2015 compared to an aggregate of \$2.0 million for the comparable nine month period in the prior year. We presently expect to incur additional restructuring expenses of approximately \$1.0 million to \$2.0 million in the fourth quarter of this year. These charges are expected to consist primarily of lease exit charges and, to a lesser extent, severance costs associated with headcount reductions.

For a full description of our financial results for the third quarter and year to date 2015, please refer to our unaudited interim consolidated financial statements for the three and nine months ended September 30, 2015 and related management's discussion and analysis, copies of which are available at [www.sedar.com](http://www.sedar.com).

Sincerely,



Michael G. Sifton  
President and Chief Executive Officer

DATA Group Ltd.  
November 2015

***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 Group") for the three and nine months ended September 30, 2015. This MD&A should be read in conjunction with the MD&A of DATA Group for the year ended December 31, 2014, the unaudited interim consolidated financial statements and accompanying notes of DATA Group for the three and nine months ended September 30, 2015, and the audited consolidated financial statements and accompanying notes of DATA Group for the year ended December 31, 2014. These documents are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://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 November 12, 2015. Additional information relating to DATA Group, 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](http://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 Group, 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 Group's current views regarding future events and operating performance, are based on information currently available to DATA Group, 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 Group 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 Group made or took into account in the preparation of these forward-looking statements include the risk that DATA Group may not be successful in reducing the size of its legacy print business, reducing costs, reducing or refinancing its long-term debt and growing its digital communications business; the risk that DATA Group may not be successful in managing its organic growth; DATA Group's ability to invest in, develop and successfully market new products and services; competition from competitors supplying similar products and services; DATA Group'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 Group's businesses; risks associated with acquisitions by DATA Group; increases in the costs of paper and other raw materials used by DATA Group; and DATA Group's ability to maintain relationships with its customers. Additional factors are discussed elsewhere in this MD&A and under the heading "Risks and Uncertainties" in DATA Group's publicly available disclosure documents, as filed by DATA Group on SEDAR ([www.sedar.com](http://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 Group 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. 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 September 30, 2015 means EBITDA adjusted for restructuring expenses. Adjusted EBITDA for the nine months ended September 30, 2015 means EBITDA adjusted for restructuring expenses and goodwill impairment charges. Adjusted EBITDA for the three and nine month periods ended September 30, 2014 means EBITDA adjusted for restructuring expenses and gains on the cancellation of convertible debentures purchased by DATA Group in the market. Adjusted net income (loss) for the three months ended September 30, 2015 means net income (loss) adjusted for restructuring expenses and tax effects of those expenses. Adjusted net income (loss) for the nine months ended September 30, 2015 means net income (loss) adjusted for restructuring expenses, goodwill impairment charges and tax effects of those items. Adjusted net income (loss) for the three and nine month periods ended September 30, 2014 means net income (loss) adjusted for restructuring expenses, gains on the cancellation of convertible debentures purchased by DATA Group in the market and tax effects of those items. Adjusted net income 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. DATA Group believes that, in addition to net income (loss), Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating the performance of DATA Group and its predecessors. Adjusted net income (loss), 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, EBITDA and Adjusted EBITDA are unlikely to be comparable to similar measures presented by other issuers.

Investors are cautioned that Adjusted net income (loss), EBITDA, Adjusted EBITDA should not be construed as alternatives to net income (loss) determined in accordance with IFRS as an indicator of DATA Group'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, see Table 4 below.

## **Business of DATA Group**

### **OVERVIEW**

DATA Group is a managed business communications services company specializing in customized document management and marketing solutions. DATA Group develops, manufactures, markets and supports integrated web and print-based communications, information management and direct marketing products and services that help its customers reduce costs, increase revenues, maintain brand consistency and simplify their business processes. DATA Group's expertise and resources enable it to address any document requirement of its customers, from a simple mail-out to an enterprise-wide document management or direct marketing initiative. DATA Group derives its revenues from two sources: document management solutions, which provide its customers with a comprehensive suite of customized printed and electronic products, logistics and workflow enhancing services that help them better manage administrative elements of their business, maintain brand consistency and reduce the systemic cost of their documents and workflows; and marketing solutions, which provide an integrated set of services that enables its customers to plan, create, deploy and monitor their print and electronic marketing campaigns across multiple media channels. DATA Group generally negotiates sales contracts and service level agreements with its customers and generally does not use standardized contracts. DATA Group's customer agreements and terms typically include provisions consistent with industry practice, allowing it to pass on increases in the cost of paper and other raw materials used in the manufacture of its products. DATA Group has approximately 1,435 employees working from 26 locations across Canada and the United States, and operates as two reporting segments. DATA (which provided approximately 95% of DATA Group's total revenue in the third quarter of 2015) sells a broad range of document management services, marketing solutions and printed products directly to customers in the Canadian and United States markets. Multiple Pakfold (which provided approximately 5% of DATA Group's total revenue in the third quarter of 2015) sells forms and labels to independent brokers and resellers in the Canadian market. Certain elements of DATA Group's gift card and direct mail businesses as well as the buying patterns of certain major customers of DATA Group 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.

DATA Group continues to make progress on implementing changes to its business in response to the significant changes experienced by the print industry in recent years and remains focused on creating long-term enterprise value appreciation for its shareholders. See "Outlook" below.

### **SOURCES OF REVENUE AND REVENUE RECOGNITION POLICY**

DATA Group 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 Group's products are customized, product returns are not significant. DATA Group 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 fair value. Therefore, these pre-production services and the final custom made printed product are considered to be one unit of accounting. DATA Group recognizes warehousing and marketing service fees as the services are provided, when the amount of revenue can be measured reliably, it is probable that economic benefits associated with these services will flow to DATA Group and the costs associated with these services can be reliably measured. DATA Group 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 Group's custom print products, the consideration is allocated to each component based on relative selling prices.

#### ***COST OF REVENUES AND EXPENSES***

DATA Group's cost of revenues consist of raw materials, manufacturing salaries and benefits, occupancy, lease of equipment and depreciation. DATA Group'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 Group's printing and warehousing facilities. Occupancy costs consist primarily of lease payments at DATA Group's facilities, utilities, insurance and building maintenance. DATA Group'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.

<b>For the periods ended September 30, 2015 and 2014</b> <i>(in thousands of Canadian dollars, except per share amounts, unaudited)</i>	<b>July 1 to September 30, 2015</b>	<b>July 1 to September 30, 2014</b>	<b>January 1 to September 30, 2015</b>	<b>January 1 to September 30, 2014</b>
Revenues	\$ 74,116	\$ 78,128	\$ 223,565	\$ 232,804
Cost of revenues	55,730	58,900	172,268	176,936
Gross profit	18,386	19,228	51,297	55,868
Selling, general and administrative expenses	12,952	14,272	42,136	43,359
Restructuring expenses	5,756	301	12,015	2,035
Impairment of goodwill	—	—	26,000	—
Gain on cancellation of convertible debentures	—	(60)	—	(60)
Amortization of intangible assets	487	479	1,445	1,437
	19,195	14,992	81,596	46,771
(Loss) income before finance costs and income taxes	(809)	4,236	(30,299)	9,097
Finance costs				
Interest expense	1,481	1,550	4,229	4,638
Interest income	(3)	(6)	(10)	(15)
Amortization of transaction costs	135	137	305	416
	1,613	1,681	4,524	5,039
(Loss) income before income taxes	(2,422)	2,555	(34,823)	4,058
Income tax expense (recovery)				
Current	167	33	250	33
Deferred	(826)	673	(2,496)	1,126
	(659)	706	(2,246)	1,159
Net (loss) income for the period	\$ (1,763)	\$ 1,849	\$ (32,577)	\$ 2,899
Net (loss) income attributable to common shareholders	\$ (1,763)	\$ 1,849	\$ (32,577)	\$ 2,899
Basic and diluted (loss) earnings per share	\$ (0.08)	\$ 0.08	\$ (1.39)	\$ 0.12
Weighted average number of common shares outstanding	23,490,592	23,490,592	23,490,592	23,490,592

<b>As at September 30, 2015 and December 31, 2014</b> <i>(in thousands of Canadian dollars, unaudited)</i>	<b>As at September 30, 2015</b>	<b>As at December 31, 2014</b>
Current assets	\$ 80,629	\$ 83,619
Current liabilities	94,003	46,176
Total assets	138,106	164,977
Total non-current liabilities	57,552	100,388
Shareholders' (deficiency) equity	\$ (13,449)	\$ 18,413

**TABLE 2** The following table sets out selected historical consolidated financial information and historical financial information by reporting segment for the periods noted.

<b>For the periods ended September 30, 2015 and 2014</b> <i>(in thousands of Canadian dollars, except percentage amounts, unaudited)</i>	<b>July 1 to September 30, 2015</b>	July 1 to September 30, 2014	<b>January 1 to September 30, 2015</b>	January 1 to September 30, 2014
<b>Revenues</b>				
DATA	\$ 70,596	\$ 74,351	\$ 212,762	\$ 222,193
Multiple Pakfold	3,927	4,161	11,843	11,707
Intersegment	(407)	(384)	(1,040)	(1,096)
	<b>\$ 74,116</b>	<b>\$ 78,128</b>	<b>\$ 223,565</b>	<b>\$ 232,804</b>
<b>Gross profit</b>				
DATA	\$ 17,671	\$ 18,440	\$ 49,156	\$ 53,656
Multiple Pakfold	715	788	2,141	2,212
	<b>\$ 18,386</b>	<b>\$ 19,228</b>	<b>\$ 51,297</b>	<b>\$ 55,868</b>
<b>Gross profit, as a percentage of revenues</b>				
DATA	25.0%	24.8%	23.1%	24.1%
Multiple Pakfold	18.2%	18.9%	18.1%	18.9%
	<b>24.8%</b>	<b>24.6%</b>	<b>22.9%</b>	<b>24.0%</b>
<b>Selling, general and administrative expenses</b>				
	\$ 12,952	\$ 14,272	\$ 42,136	\$ 43,359
As a percentage of revenues	17.5%	18.3%	18.8%	18.6%
<b>Adjusted EBITDA (see Table 3)</b>				
	\$ 6,632	\$ 6,158	\$ 12,733	\$ 16,263
Adjusted EBITDA margin, as a percentage of revenues	8.9%	7.9%	5.7%	7.0%
<b>Net (loss) income for the period</b>				
	\$ (1,763)	\$ 1,849	\$ (32,577)	\$ 2,899

**TABLE 3** The following table provide 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 September 30, 2015 and 2014 <i>(in thousands of Canadian dollars, unaudited)</i>	July 1 to September 30, 2015	July 1 to September 30, 2014	January 1 to September 30, 2015	January 1 to September 30, 2014
<b>Net (loss) income for the period</b>	\$ (1,763)	\$ 1,849	\$ (32,577)	\$ 2,899
Interest expense	1,481	1,550	4,229	4,638
Interest income	(3)	(6)	(10)	(15)
Amortization of transaction costs	135	137	305	416
Current income tax (expense)	167	33	250	33
Deferred income tax (recovery) expense	(826)	673	(2,496)	1,126
Depreciation of property, plant and equipment	1,198	1,202	3,572	3,754
Amortization of intangible assets	487	479	1,445	1,437
<b>EBITDA</b>	<b>\$ 876</b>	<b>\$ 5,917</b>	<b>\$ (25,282)</b>	<b>\$ 14,288</b>
Restructuring expenses	5,756	301	12,015	2,035
Impairment of goodwill	—	—	26,000	—
Gain on cancellation of convertible debentures	—	(60)	—	(60)
<b>Adjusted EBITDA</b>	<b>\$ 6,632</b>	<b>\$ 6,158</b>	<b>\$ 12,733</b>	<b>\$ 16,263</b>

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

### Adjusted net income (loss) reconciliation

For the periods ended September 30, 2015 and 2014 <i>(in thousands of Canadian dollars, unaudited)</i>	July 1 to September 30, 2015	July 1 to September 30, 2014	January 1 to September 30, 2015	January 1 to September 30, 2014
<b>Net (loss) income for the period</b>	\$ (1,763)	\$ 1,849	\$ (32,577)	\$ 2,899
Restructuring expenses	5,756	301	12,015	2,035
Impairment of goodwill	—	—	26,000	—
Gain on cancellation of convertible debentures	—	(60)	—	(60)
Tax effect of the above adjustments	(1,490)	(62)	(3,111)	(507)
<b>Adjusted net income (loss)</b>	<b>\$ 2,503</b>	<b>\$ 2,028</b>	<b>\$ 2,327</b>	<b>\$ 4,367</b>
<b>Adjusted net income (loss) per share, basic and diluted</b>	<b>\$ 0.11</b>	<b>\$ 0.09</b>	<b>\$ 0.11</b>	<b>\$ 0.19</b>

### Results of operations

#### REVENUES

For the quarter ended September 30, 2015, DATA Group recorded revenues of \$74.1 million, a decrease of \$4.0 million or 5.1% compared with the same period in 2014. The decrease, before intersegment revenues, was primarily the result of a \$3.8 million decrease in the DATA segment and a \$0.2 million decrease in the Multiple Pakfold segment. For the nine months ended September 30, 2015, DATA Group recorded revenues of \$223.6 million, a decrease of \$9.2 million

or 4.0% compared with the same period in 2014. The decrease, before intersegment revenues, was the result of a \$9.4 million decrease in the DATA segment and was partially offset by a \$0.1 million increase in the Multiple Pakfold segment. A more detailed discussion of the results of operations of each of DATA Group's reporting segments is set out below.

#### **COST OF REVENUES AND GROSS PROFIT**

For the quarter ended September 30, 2015, cost of revenues decreased to \$55.7 million from \$58.9 million for the same period in 2014. Gross profit for the quarter ended September 30, 2015 was \$18.4 million, which represented a decrease of \$0.8 million or 4.4% from \$19.2 million for the same period in 2014. The decrease in gross profit for the quarter ended September 30, 2015 was attributable to a gross profit decrease of \$0.8 million in the DATA segment and a \$0.1 million decrease in the Multiple Pakfold segment. Gross profit as a percentage of revenues increased to 24.8% for the quarter ended September 30, 2015 compared to 24.6% for the same period in 2014. For the nine months ended September 30, 2015, cost of revenues decreased to \$172.3 million from \$176.9 million for the same period in 2014. Gross profit for the nine months ended September 30, 2015 was \$51.3 million, which represented a decrease of \$4.6 million or 8.2% from \$55.9 million for the same period in 2014. The decrease in gross profit for the nine months ended September 30, 2015 was attributable to a gross profit decrease of \$4.5 million in the DATA segment and a gross profit decrease of \$0.1 million in the Multiple Pakfold segment. Gross profit as a percentage of revenues decreased to 22.9% for the nine months ended September 30, 2015 compared to 24.0% for the same period in 2014.

#### **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES AND RESTRUCTURING EXPENSES**

Selling, general and administrative ("SG&A") expenses, excluding amortization of intangible assets, for the quarter ended September 30, 2015 decreased \$1.3 million or 9.2% to \$13.0 million compared to \$14.3 million in the same period in 2014. As a percentage of revenues, these costs were 17.5% of revenues for the quarter ended September 30, 2015 compared to 18.3% of revenues for the same period in 2014. SG&A expenses, excluding amortization of intangible assets, for the nine months ended September 30, 2015 decreased \$1.2 million or 2.8% to \$42.1 million compared to \$43.4 million for the same period of 2014. As a percentage of revenues, these costs were 18.8% and 18.6% of revenues for the nine month periods ended September 30, 2015 and 2014, respectively. The decrease in SG&A expenses for the three months ended September 30, 2015 was primarily attributable to continued cost savings initiatives implemented in the quarter ended September 30, 2015. The decrease in SG&A expenses for the nine months ended September 30, 2015 was primarily attributable to continued cost savings initiatives implemented in 2015, which particularly impacted SG&A expenses in the quarter ended September 30, 2015, and was partially offset by the write off of leasehold improvements at closed facilities.

For the three and nine months ended September 30, 2015, DATA Group incurred restructuring expenses of \$5.8 million and \$12.0 million, respectively, related to changes in senior management, headcount reductions across its operations and the closure of certain manufacturing and warehouse locations as part of its 2015 restructuring initiatives. For the three and nine months ended September 30, 2014, DATA Group incurred restructuring expenses related to headcount reductions of \$0.3 million and \$2.0 million, respectively, as part of its 2014 restructuring initiatives.

#### **IMPAIRMENT OF GOODWILL**

During the nine months ended September 30, 2015, impairment indicators, including changes in the revenue trends and profit forecasts and the failure to meet certain financial covenants under its credit facilities, indicated that DATA Group's

assets may be impaired. As a result of this new information, DATA Group performed an impairment analysis at June 30, 2015 by comparing the fair value of each cash generating unit ("CGU") to the CGU's carrying value. DATA Group determined the fair value of each CGU by discounting expected future cash flows in accordance with recognized valuation methods. The process of determining those fair values required DATA Group to make a number of estimates and assumptions such as projected future revenues, costs of revenues, operating margins, market conditions well into the future, and discount rates. As a result of that review, DATA Group concluded that the fair value of its DATA CGU was less than its carrying value. Accordingly, DATA Group recorded an impairment of goodwill of \$26.0 million related to the DATA CGU during the three month period ended June 30, 2015.

### **ADJUSTED EBITDA**

For the quarter ended September 30, 2015, Adjusted EBITDA was \$6.6 million, or 8.9% of revenues. Adjusted EBITDA for the quarter ended September 30, 2015 increased \$0.5 million or 7.7% from the same period in the prior year and the Adjusted EBITDA margin for the quarter, as a percentage of revenues, increased from 7.9% of revenues in 2014 to 8.9% of revenues in 2015. For the nine months ended September 30, 2015, Adjusted EBITDA was \$12.7 million, or 5.7% of revenues. Adjusted EBITDA for the nine months ended September 30, 2015 decreased \$3.5 million or 21.7% from the same period in the prior year and the Adjusted EBITDA margin for the period, as a percentage of revenues, decreased from 7.0% of revenues in 2014 to 5.7% of revenues in 2015. The increase in Adjusted EBITDA for the quarter ended September 30, 2015 was primarily the result of cost savings realized as a result of prior period restructuring initiatives and positive changes in product mix and was partially offset by a decline in revenues due to the impact of lower production volumes and pricing concessions. The decrease in Adjusted EBITDA for the nine months ended September 30, 2015 was attributable to a decline in revenues primarily attributable to lower production volumes, pricing concessions and changes in product mix, and was partially offset by cost savings realized as a result of prior restructuring initiatives.

### **INTEREST EXPENSE**

Interest expense, including interest on debt outstanding under DATA Group's credit facilities, on its outstanding 6.00% Convertible Unsecured Subordinated Debentures (the "6.00% Convertible Debentures"), on certain unfavourable lease obligations related to closed facilities and on DATA Group's employee benefit plans, was \$1.5 million for the quarter ended September 30, 2015 compared to \$1.6 million for the same period in 2014, and was \$4.2 million for the nine months ended September 30, 2015 compared to \$4.6 million for the same period in 2014. Interest expense for the three and nine month periods ended September 30, 2015 was lower than the same periods in the prior year primarily as a result of a reduction in long-term debt outstanding under DATA Group's credit facilities.

### **INCOME TAXES**

DATA Group reported a loss before income taxes of \$2.4 million, a current income tax expense of \$0.2 million and a deferred income tax recovery of \$0.8 million for the quarter ended September 30, 2015 compared to income before income taxes of \$2.6 million and a deferred income tax expense of \$0.7 million for the quarter ended September 30, 2014. DATA Group reported a loss before income taxes of \$34.8 million, a current income tax expense of \$0.3 million and a deferred income tax recovery of \$2.5 million for the nine months ended September 30, 2015 compared to income before income taxes of \$4.1 million and a deferred income tax expense of \$1.1 million for the nine months ended September 30, 2014. The current income tax expense was due to the taxes payable on DATA Group's estimated taxable income for the three and nine month periods ended September 30, 2015. 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 the three and nine month periods ended September 30, 2015 and 2014.

#### **NET (LOSS) INCOME**

Net loss for the three and nine months ended September 30, 2015 was \$1.8 million and \$32.6 million, respectively, compared to net income of \$1.8 million and \$2.9 million, respectively, for the same periods in 2014. The decrease in comparable profitability for the three and nine months ended September 30, 2015 was substantially due to lower gross profit as a result of lower revenues, higher restructuring expenses during the three and nine months ended September 30, 2015, and a goodwill impairment charge during the nine months ended September 30, 2015. The decrease in comparable profitability was partially offset by a deferred income tax recovery during the three and nine months ended September 30, 2015.

#### **ADJUSTED NET (LOSS) INCOME**

Adjusted net income for the three and nine months ended September 30, 2015 was \$2.5 million and \$2.3 million, respectively, compared to Adjusted net income of \$2.0 million and \$4.4 million, respectively, for the same periods in 2014. The increase in comparable profitability for the quarter ended September 30, 2015 was substantially due to lower SG&A expenses as the result of cost savings realized as a result of period prior restructuring initiatives and positive changes in product mix and was partially offset by lower gross profit as a result of declines in revenues due to the impact of lower production volumes and price concessions. The decrease in comparable profitability for the nine months ended September 30, 2015 was attributable to lower gross profit as a result of declines in revenues primarily attributable to lower production volumes, pricing concessions and changes in product mix, and was partially offset by lower SG&A expenses attributable to cost savings realized as a result of prior restructuring initiatives.

#### **DATA**

Revenues at DATA Group's DATA segment for the quarter ended September 30, 2015 decreased \$3.8 million or 5.1% to \$70.6 million from \$74.4 million for the same period in the prior year. Revenues for the nine months ended September 30, 2015 decreased \$9.4 million or 4.2% to \$212.8 million from \$222.2 million for the same period in the prior year. The decrease in revenues for the three and nine months ended September 30, 2015 was primarily due to a reduction in orders from existing customers for print-related products and services, price concessions associated with maintaining existing customer contracts in response to aggressive pricing by DATA Group's competitors supplying similar products and services, reduced demand for printed products generally, non-recurring projects, timing of customer orders and a change in product mix.

For the quarter ended September 30, 2015, gross profit decreased \$0.8 million or 4.2% to \$17.7 million from \$18.4 million in the same period in 2014. Gross profit as a percentage of revenues for the quarter ended September 30, 2015 increased to 25.0% from 24.8% for the same period in 2014. For the nine months ended September 30, 2015, gross profit decreased \$4.5 million or 8.4% to \$49.2 million from \$53.7 million in the same period in 2014. Gross profit as a percentage of revenues for the nine months ended September 30, 2015 decreased to 23.1% from 24.1% for the same period in 2014. The increase in gross profit as a percentage of revenues for the quarter ended September 30, 2015 was due to cost reductions, including lower direct and indirect labour costs from prior cost savings initiatives and improved utilization rates at key plants and positive changes in product mix, which were partially offset by a decrease in revenues and the impact of competitive pricing. The decrease in gross profit as a percentage of revenues for the nine months ended September 30, 2015 was due to a decrease in revenues, the impact of competitive pricing and changes in product

mix, which were partially offset by cost reductions realized from prior cost savings initiatives. These cost savings included headcount reductions and the renegotiation of agreements for a number of raw material input costs. During the three and nine months ended September 30, 2015, the segment continued its on-going productivity improvement and cost reductions initiatives, which were substantially completed by the end of September 2015 and gave rise to the additional severance costs and restructuring charges noted under "Selling, General and Administrative Expenses" above.

### ***Multiple Pakfold***

Revenues at DATA Group's Multiple Pakfold segment for the quarter ended September 30, 2015 decreased \$0.2 million or 5.6% to \$3.9 million from \$4.2 million for the same period in the prior year. Revenues for the nine months ended September 30, 2015 increased \$0.1 million or 1.2% to \$11.8 million from \$11.7 million for the same period in the prior year. The decrease in revenues for the quarter ended September 30, 2015 was primarily due to lower production volumes. The increase in revenues for the nine months ended September 30, 2015 was primarily due to new business which arose as a result of the bankruptcy of a competitor.

For the quarter ended September 30, 2015 gross profit decreased \$0.1 million or 9.3% to \$0.7 million from \$0.8 million in the same period in 2014. Gross profit as a percentage of revenues for the quarter ended September 30, 2015 decreased to 18.2% from 18.9% for the same period in 2014. For the nine months ended September 30, 2015, gross profit decreased \$0.1 million or 3.2% to \$2.1 million from \$2.2 million in the same period in 2014. Gross profit as a percentage of revenues for the nine months ended September 30, 2015 decreased to 18.1% from 18.9% for the same period in 2014. The decrease in the gross profit and gross profit as a percentage of revenues for the three and nine months ended September 30, 2015 was due to lower revenues and was partially offset by benefits realized from cost savings initiatives instituted in 2014 and 2015.

## **Liquidity and capital resources**

### **LIQUIDITY**

DATA Group maintains credit facilities (the "Credit Facilities") with a syndicate of Canadian chartered banks (the "Lenders") pursuant to a Third Amended and Restated Credit Agreement (the "Credit Agreement") dated December 19, 2014. The Credit Facilities mature on August 31, 2016 and have 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. The \$40.0 million amortizing term loan was permanently reduced by \$0.25 million on December 31, 2014, by \$1.0 million on March 31, 2015, by \$1.0 million on June 30, 2015 and by \$1.0 million on September 30, 2015. Under the terms of the Credit Agreement, DATA Group is required to make mandatory repayments of outstanding advances under the term loan as follows: \$1.0 million on the last day of December of 2015 and \$1.5 million on the last day of March and June of 2016, respectively. The Lenders' commitment under the term loan will be permanently reduced by each of these repayments such that on maturity the maximum available principal amount of the term loan will be \$32.75 million. DATA Group made principal repayments under the term loan of \$1.0 million during each of the three month periods ended September 30, 2015, June 30, 2015 and March 31, 2015, respectively. As at September 30, 2015, DATA Group had outstanding borrowings of \$44.3 million under the Credit Facilities and all of DATA Group's indebtedness outstanding under the Credit Facilities was subject to a floating interest rate of 4.77% per annum.

Advances under the Credit Facilities are secured by conventional security charging all the property and assets of DATA Group and its subsidiary. A failure by DATA Group to comply with its obligations under the Credit Agreement, together with certain other events, including a change of control of DATA Group, could result in an event of default which, if not cured or waived, could permit acceleration of the indebtedness outstanding under the Credit Facilities and entitle the Lenders to exercise their remedies under their security over DATA Group's assets.

The Credit Agreement contains financial covenants and restrictions, including the requirement to meet certain financial ratios and financial condition tests. Those covenants require DATA Group to maintain, at all times, a quarterly maximum ratio (the "Debt to EBITDA Ratio") of total debt to adjusted earnings before interest, income taxes, depreciation and amortization ("Credit Agreement EBITDA"). The maximum Debt to EBITDA Ratio allowed for a 12-month trailing period was 2.50 at December 31, 2014 and March 31, 2015, respectively. The maximum Debt to EBITDA Ratio allowed for the 12-month trailing period ended June 30, 2015 declined to 2.25. The Credit Agreement also requires DATA Group to maintain, at all times, a quarterly minimum ratio of Credit Agreement EBITDA to fixed charges (the "Fixed Charge Ratio"). The minimum Fixed Charge Ratio allowed for a 12-month trailing period was 1.25. DATA Group did not maintain the required Debt to EBITDA Ratio or the Fixed Charge Ratio as at June 30, 2015. As a result, DATA Group was not in compliance with either of these financial covenants and the outstanding borrowings under the Credit Facilities as at June 30, 2015 were classified as current for purposes of DATA Group's interim consolidated financial statements for the three months ended June 30, 2015. However, during the quarter ended September 30, 2015, DATA Group entered into a Waiver and Amendment Agreement to Third Amended and Restated Credit Agreement with the Lenders with respect to a waiver for non-compliance with those financial covenants as at June 30, 2015 and amendments to the terms of the Credit Agreement as they relate to the Debt to EBITDA Ratio and the Fixed Charge Ratio. After giving effect to those amendments, the maximum Debt to EBITDA Ratio for the 12 month trailing period ended September 30, 2015 was 2.75 and will decline to 2.50 at December 31, 2015, to 2.25 at March 31, 2016 and to 2.0 after March 31, 2016. As at September 30, 2015, the Debt to EBITDA Ratio ratio was calculated at 2.35 (2014 – 2.10). The minimum Fixed Charge Ratio required to be maintain by DATA Group for the 12 month trailing period ended September 30, 2015 has been amended to 1.10 and will rise to 1.25 as at December 31, 2015. As at September 30, 2015, this ratio was calculated at 1.58 (2014 – 1.61).

As the Credit Facilities are due to mature in less than 12 months, the outstanding borrowings under the Credit Facilities have been classified as current at September 30, 2015 on DATA Group's interim consolidated financial statements for the three months ended September 30, 2015.

The Credit Agreement contains restrictive covenants which limit the discretion of management with respect to certain business matters and the declaration or payment of dividends on DATA Group's common shares without the prior consent of the Lenders.

As at September 30, 2015, 6.00% Convertible Debentures in an aggregate principal amount of \$44.7 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 of DATA Group 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 Group 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 6.00% Convertible Debentures may be redeemed by DATA Group in whole or in part, from time to time, at the option of DATA Group at a price equal to the principal amount thereof plus accrued and unpaid interest. DATA Group may, at its option and without the consent of holders of 6.00% Convertible Debentures, on not more than 60 days' and not less than 40 days' prior notice, subject to applicable regulatory approval and provided no Event of Default (as defined in the amended and restated trust indenture dated as of January 1, 2012 (the "Trust Indenture") between DATA Group and Computershare Trust Company of Canada (the "Debenture Trustee"), which governs the 6.00% Convertible Debentures) has occurred and is continuing, elect to satisfy its obligation to pay the redemption price of the 6.00% Convertible Debentures which are to be redeemed or the principal amount of the 6.00% Convertible Debentures which are due on maturity, as the case may be, by issuing freely tradable common shares of DATA Group to the holders of the 6.00% Convertible Debentures. Any accrued and unpaid interest on those debentures will be paid in cash. The number of common shares to be issued will be determined by dividing the aggregate redemption price of the outstanding 6.00% Convertible Debentures which are to be redeemed or the principal amount of the outstanding 6.00% Convertible Debentures which have matured, as the case may be, by 95% of the Current Market Price (being the volume-weighted average trading price of DATA Group's common shares on the Toronto Stock Exchange ("TSX") for 20 consecutive trading days ending (on the fifth trading day preceding the redemption date) on the date fixed for redemption or the maturity date, as the case may be. The terms of the 6.00% Convertible Debentures are described in greater detail in DATA Group's Annual Information Form for the year ended December 31, 2014, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

As at September 30, 2015, DATA Group had cash and cash equivalents of \$3.2 million compared to cash and cash equivalents of \$0.8 million at September 30, 2014. During the three and nine month periods ended September 30, 2015, DATA Group used \$1.0 million and \$3.0 million, respectively, in cash to repay a portion of the Credit Facilities outstanding. The cash equivalents consisted mainly of short-term investments, such as money market deposits. DATA Group has deposited the cash equivalents with Canadian Schedule 1 banks, from which DATA Group believes the risk of loss to be remote. In addition, under the terms of the Credit Facilities, DATA Group had access to \$7.5 million of additional available credit under its revolving and swing line facilities, less letters of credit granted of \$2.3 million at September 30, 2015.

In assessing DATA Group's liquidity requirements, DATA Group 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 Group'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 Group'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 Group'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.

Over the past several months, DATA Group has been conducting a comprehensive review of the company's capital structure in order to improve its financial flexibility and to better position DATA Group for long term growth. In particular, DATA Group has reviewed: potential means to refinance the indebtedness outstanding under its credit facilities, a broad number of alternatives in regards to refinancing, amending and/or extending the terms of the outstanding 6.00% Convertible Debentures, potential means of securing new equity investment, and other strategies to enhance value for shareholders, 6.00% Convertible Debenture holders and DATA Group's other stakeholders. In connection with that review, DATA Group engaged TD Securities Inc. as its exclusive financial advisor to assist in the evaluation of various strategic alternatives.

As a result of this process, DATA Group's Board of Directors (the "Board") has authorized the redemption of \$33.5 million aggregate principal amount of its \$44.7 million outstanding 6.00% Convertible Debentures as of December 23, 2015 (the "Redemption Date") upon payment of a redemption amount of \$1,000 for each \$1,000 principal amount of 6.00% Convertible Debentures (the "Redemption Price"), plus accrued and unpaid interest thereon up to but excluding the Redemption Date. DATA Group has elected to satisfy its obligation to pay the Redemption Price by issuing and delivering to holders of 6.00% Convertible Debentures redeemed common shares of DATA Group (the "Shares") in lieu of cash. The redemption of the 6.00% Convertible Debentures will be completed in accordance with the terms of Trust Indenture and does not require the consent of 6.00% Convertible Debenture holders.

The Board has determined that the 6.00% Convertible Debentures remain a significant obstacle to refinancing DATA Group's credit facilities and to securing additional growth capital required for DATA Group's long-term sustainability. DATA Group believes that redeeming 75% of the total principal amount of the 6.00% Convertible Debentures for Shares also has a number of other benefits, including:

- Elimination of a significant obstacle to refinancing the current senior credit facilities indebtedness and securing additional growth capital;
- In the absence of completing the redemption, DATA Group believes that its ability to refinance its existing senior indebtedness on commercially acceptable terms or at all is unlikely. Failure to refinance DATA Group's senior indebtedness would create a significant risk of insolvency at or prior to maturity of the senior credit facilities;
- Reduction of approximately 37.5% of DATA Group's outstanding total debt, which will result in significantly reduced financial leverage and improved book value of shareholders' equity;
- Reduction of annual cash interest expense by \$2.0 million per year will enhance the DATA Group's free cash flow and provide additional liquidity for working capital and growth opportunities;
- Additional financial flexibility to enable the DATA Group's management to continue its focus on improving profitability, and to pursue new growth initiatives; and
- Increased customer, supplier and investor confidence in the DATA Group's long term viability.

The number of Shares to be issued and delivered to holders of 6.00% Convertible Debentures to be redeemed will be determined by dividing the Redemption Price by 95% of the volume-weighted average trading price of DATA Group's common shares on the TSX for the 20 consecutive trading days ending on December 16, 2015 (the "Redemption Current Market Price"). DATA Group will not issue fractional Shares on redemption but instead will satisfy any fractional interest by a payment equal to the cash equivalent of such fractional interest on the basis of the Redemption Current Market Price, less applicable withholding taxes, if any. The issuance of the Shares is subject to receipt of all necessary regulatory approvals, including the approval of TSX.

Based on the current trading price of the Company's common shares, DATA Group will be required to issue a large number of Shares, which will significantly dilute existing shareholders' interests in DATA Group and is likely to have an adverse effect on the trading price of the Company's common shares. 6.00% Convertible Debentures in an aggregate principal amount of \$44.7 million are currently outstanding of which 75%, or \$33.5 million, aggregate principal amount will be redeemed. Any accrued and unpaid interest on the 6.00% Convertible Debentures redeemed will be paid in cash on the Redemption Date, less applicable withholding taxes, if any.

In connection with its capital structure review, DATA Group has considered a number of proposals to refinance its senior credit facilities which mature in August 2016, and is now in advanced discussions with potential arm's length lenders regarding proposed financing arrangements which would provide sufficient funding to refinance DATA Group's credit facilities. While DATA Group remains confident in its ability to refinance its credit facilities, the current proposals are subject to final commitments, final due diligence, finalization of inter-creditor agreements and other customary closing conditions. There is no assurance that any such proposal will result in any transaction being entered into or consummated with the new lenders or DATA Group's current credit facilities being fully retired.

DATA Group believes that the currently projected cash flow from operations and existing cash resources will be sufficient to fund its currently projected operating requirements.

#### **PENSION FUNDING OBLIGATIONS**

DATA Group maintains a defined benefit and defined contribution pension plan (the "DATA Group Pension Plan") for some of its employees. DATA Group's funding obligation for the defined benefit provision of the DATA Group Pension Plan for 2015 is \$1.3 million.

DATA Group 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 Group 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-trusted 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 Group's estimated annual funding obligation for the SRDF for 2015 is \$0.7 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 Group would have been required to fund any outstanding solvency deficiency in respect of its employees, pensioners and vested deferred members if DATA Group 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 Group cannot be determined at this time.

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

### **CASH FLOW FROM OPERATIONS**

Changes in working capital resulted in a decrease in cash of \$1.0 million during the three months ended September 30, 2015. The trade receivables balance increased by \$2.6 million as a result of higher revenues during the period. Inventory levels increased by \$0.9 million as a result of the timing of shipments of products to customers of the DATA segment. Prepaid expenses and other current assets increased by \$1.2 million due to prepayments for insurance expense, rent expense and interest on DATA Group's Credit Facilities. The trade payables balance increased by \$2.5 million as a result of the timing of payments to suppliers for purchases during the third quarter of 2015. Deferred revenues increased by \$1.1 million due to the timing of shipments during the third quarter of 2015. Changes in working capital resulted in an increase in cash of \$7.5 million during the nine months ended September 30, 2015. The trade receivables balance decreased by \$4.4 million as a result of improved collections of payments by DATA Group's customers and lower revenues during the period. Inventory levels decreased by \$0.8 million as a result of timing of shipments of products to customers of the DATA segment and DATA Group's efforts to reduce the amount of customer inventory on hand. The trade payables balance increased by \$1.8 million as a result of the timing of payments to suppliers for purchases.

### **INVESTING ACTIVITIES**

Capital expenditures for the three and nine months ended September 30, 2015 were \$0.5 million and \$4.0 million, respectively. These capital expenditures, which were financed by cash flow from operations, were related primarily to maintenance capital expenditures and the consolidation of three existing manufacturing facilities into one new manufacturing facility in Calgary, Alberta. The capital expenditures related to the new manufacturing facility in Calgary, Alberta totaled approximately \$3.8 million of which approximately \$3.2 million was paid during the nine months ended September 30, 2015 and the balance was paid in 2014.

**FINANCING ACTIVITIES**

During the three and nine months ended September 30, 2015, DATA Group repaid \$1.0 million and \$3.0 million, respectively, of the principal amount outstanding under its Credit Facilities.

**Normal course issuer bid**

In May 2015, DATA Group renewed its normal course issuer bid (“NCIB”) for another 12 months. Under the NCIB, DATA Group 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, \$0.3 million aggregate principal amount of the 6.00% Convertible Debentures were purchased.

**Outstanding share data**

At November 12, 2015, September 30, 2015 and December 31, 2014, there were 23,490,592 common shares of DATA Group outstanding. At November 12, 2015, September 30, 2015 and December 31, 2014, \$44.7 million aggregate principal amount of 6.00% Convertible Debentures were outstanding. The 6.00% Convertible Debentures are convertible into common shares of DATA Group 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.

## Contractual obligations

During the nine months ended September 30, 2015, DATA Group entered into an equipment lease that will increase its lease commitments by \$0.4 million per year for the next five years beginning in the second quarter of 2015.

## Eight quarter results of operations – Summary

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

	2015			2014				2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	\$74,116	\$73,447	\$76,002	\$80,371	\$78,128	\$76,773	\$77,903	\$82,147
Net income (loss) attributable to shareholders	(1,763)	(29,683)	(1,131)	1,580	1,849	254	796	(22,868)
Basic earnings (loss) per share	(0.08)	(1.26)	(0.05)	0.07	0.08	0.01	0.03	(0.97)
Diluted earnings (loss) per share	(0.08)	(1.26)	(0.05)	0.07	0.08	0.01	0.03	(0.97)

The variations in DATA Group's quarterly revenues and net income (loss) over the eight quarters ended September 30, 2015 can be attributed to several principal factors: revenue declines in DATA Group's traditional print business due to production volume declines largely related to technological change, price concessions and competitive activity, restructuring and severance expenses related to DATA Group's ongoing productivity improvement and cost reduction initiatives and goodwill impairment charges.

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

DATA Group's net income 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 CGU. DATA Group's net income for the second quarter of 2014 included restructuring expenses of \$0.9 million related to its cost reduction initiatives.

DATA Group's net income for the first quarter of 2015 included restructuring expense of \$2.1 million related to its cost reduction initiatives. DATA Group's net income for the first quarter of 2014 included restructuring expenses of \$0.9 million related to its costs reduction initiatives.

During the fourth quarter of 2014, DATA Group recorded restructuring expenses of \$0.8 million related to its cost reduction initiatives. During the fourth quarter of 2013, DATA Group performed its annual review for impairment of goodwill, which resulted in DATA Group recognizing an impairment of goodwill of \$25.0 million related to its DATA CGU and recorded restructuring expenses of \$0.4 million related to its cost reduction initiatives.

## New accounting policies

(a) *New and amended standards adopted*

DATA Group has not adopted any new accounting policies since the year ended December 31, 2014.

(b) *New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2015 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 Group 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. IFRS 15 must be adopted for annual periods beginning on or after January 1, 2018 using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. DATA Group 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 Group.

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

DATA Group'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 Group for external purposes in accordance with IFRS.

DATA Group's management has determined that there have been no changes in the internal controls over financial reporting of DATA Group during the most recent interim reporting period that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting of DATA Group.

## Outlook

In the third quarter of 2015, DATA Group started to see the positive impact in its financial results of the substantial headcount and plant rationalizations it previously announced. The impact of lower direct and indirect labour costs together with improved utilization rates at its key plants contributed positively to improved gross margins, despite lower levels of revenue compared to the third quarter of last year. In addition, DATA Group's Adjusted EBITDA margin for the third quarter of 2015 benefited from headcount reductions and other savings initiatives DATA Group implemented across its selling, general and administrative functions. DATA Group expects to see additional benefits from its operational improvement initiatives in the fourth quarter of 2015.

During the third quarter of 2015, DATA Group substantially completed the restructuring initiatives it previously announced. The total headcount now stands at 1,435, a reduction of 205 employees since December 31, 2014. DATA Group is now experiencing significantly higher capacity utilization rates across our six key "centres of excellence". While DATA will continue to carefully manage its operations, it is turning its efforts to stabilizing its revenue, including a renewed focus on core vertical markets where DATA Group has a strong competitive advantage and where it sees opportunities for improved product margin together with growth opportunities.

To support its efforts to stabilize and grow revenue, DATA Group has been developing a renewed strategic plan, customer value story and marketplace identity. While much of this work is expected to be more broadly revealed in the first quarter of 2016, the process has been significantly wider and deeper than in recent years and will focus the company more closely on solving the challenges that customers and prospects experience every day. DATA Group expects that this renewed strategic focus will better position the company to invest in the right products, technology and people to deliver on evolving customer needs and drive top-line revenue growth in the future.

DATA Group recorded restructuring expenses of \$5.8 million for the quarter ended September 30, 2015, and a total of \$12.0 million for the nine months ended September 30, 2015 compared to an aggregate of \$2.0 million for the comparable nine month period in the prior year. DATA Group presently expects to incur additional restructuring expenses of approximately \$1.0 million to \$2.0 million in the fourth quarter of 2015. These charges are expected to consist primarily of lease exit charges and, to a lesser extent, severance costs associated with headcount reductions.

## Risks and uncertainties

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



**Consolidated statements of financial position**

<i>(in thousands of Canadian dollars, unaudited)</i>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,153	\$ 812
Trade receivables (note 4)	32,835	37,175
Inventories (note 5)	39,350	40,045
Prepaid expenses and other current assets	5,291	5,587
	<b>80,629</b>	<b>83,619</b>
<b>NON-CURRENT ASSETS</b>		
Deferred income tax assets (note 10)	3,928	1,508
Property, plant and equipment	15,347	15,523
Pension asset	1,018	—
Intangible assets	6,118	7,261
Goodwill (note 6)	31,066	57,066
	<b>\$ 138,106</b>	<b>\$ 164,977</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of Credit facilities (note 8)	\$ 44,037	\$ 3,500
Trade payables	31,177	29,061
Provisions (note 7)	6,937	2,042
Income taxes payable	198	154
Deferred revenue	11,654	11,419
	<b>94,003</b>	<b>46,176</b>
<b>NON-CURRENT LIABILITIES</b>		
Provisions (note 7)	1,519	1,361
Credit facilities (note 8)	—	43,382
Convertible debentures (note 9)	43,496	43,222
Deferred income tax liabilities (note 10)	55	50
Other non-current liabilities (note 11)	1,127	548
Pension obligations	8,266	8,949
Other post-employment benefit plans	3,089	2,876
	<b>\$ 151,555</b>	<b>\$ 146,564</b>
<b>(DEFICIT) EQUITY</b>		
<b>SHAREHOLDERS' (DEFICIENCY) EQUITY</b>		
Shares	\$ 215,336	\$ 215,336
Conversion options (note 9)	513	513
Accumulated other comprehensive income	245	92
Deficit	(229,543)	(197,528)
	<b>\$ (13,449)</b>	<b>\$ 18,413</b>
	<b>\$ 138,106</b>	<b>\$ 164,977</b>

**Approved by Board of Directors**


Director



Director

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

**Consolidated statements of (loss) income***(in thousands of Canadian dollars, except per share amounts, unaudited)*

	<b>For the three months ended September 30, 2015</b>		For the three months ended September 30, 2014	
<b>REVENUES</b>	\$	<b>74,116</b>	\$	78,128
<b>COST OF REVENUES</b>		<b>55,730</b>		58,900
<b>GROSS PROFIT</b>		<b>18,386</b>		19,228
<b>EXPENSES (INCOME)</b>				
Selling, commissions and expenses		<b>7,549</b>		8,589
General and administration expenses excluding amortization of intangible assets		<b>5,403</b>		5,683
Restructuring expenses (note 7)		<b>5,756</b>		301
Gain on cancellation of convertible debentures		<b>—</b>		(60)
Amortization of intangible assets		<b>487</b>		479
		<b>19,195</b>		14,992
<b>(LOSS) INCOME BEFORE FINANCE COSTS AND INCOME TAXES</b>		<b>(809)</b>		4,236
<b>FINANCE COSTS</b>				
Interest expense		<b>1,481</b>		1,550
Interest income		<b>(3)</b>		(6)
Amortization of transaction costs		<b>135</b>		137
		<b>1,613</b>		1,681
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>		<b>(2,422)</b>		2,555
<b>INCOME TAX EXPENSE (RECOVERY)</b>				
Current		<b>167</b>		33
Deferred		<b>(826)</b>		673
		<b>(659)</b>		706
<b>NET (LOSS) INCOME FOR THE PERIOD</b>	\$	<b>(1,763)</b>	\$	1,849
<b>BASIC (LOSS) EARNINGS PER SHARE (note 12)</b>	\$	<b>(0.08)</b>	\$	0.08
<b>DILUTED (LOSS) EARNINGS PER SHARE (note 12)</b>	\$	<b>(0.08)</b>	\$	0.08

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

**Consolidated statements of (loss) income***(in thousands of Canadian dollars, except per share amounts, unaudited)*

	<b>For the nine months ended September 30, 2015</b>	For the nine months ended September 30, 2014
<b>REVENUES</b>	<b>\$ 223,565</b>	<b>\$ 232,804</b>
<b>COST OF REVENUES</b>	<b>172,268</b>	<b>176,936</b>
<b>GROSS PROFIT</b>	<b>51,297</b>	<b>55,868</b>
<b>EXPENSES (INCOME)</b>		
Selling, commissions and expenses	25,347	26,308
General and administration expenses excluding amortization of intangible assets	16,789	17,051
Restructuring expenses (note 7)	12,015	2,035
Impairment of goodwill (note 6)	26,000	—
Gain on cancellation of convertible debentures	—	(60)
Amortization of intangible assets	1,445	1,437
	<b>81,596</b>	<b>46,771</b>
<b>(LOSS) INCOME BEFORE FINANCE COSTS AND INCOME TAXES</b>	<b>(30,299)</b>	<b>9,097</b>
<b>FINANCE COSTS</b>		
Interest expense	4,229	4,638
Interest income	(10)	(15)
Amortization of transaction costs	305	416
	<b>4,524</b>	<b>5,039</b>
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	<b>(34,823)</b>	<b>4,058</b>
<b>INCOME TAX EXPENSE (RECOVERY)</b>		
Current	250	33
Deferred	(2,496)	1,126
	<b>(2,246)</b>	<b>1,159</b>
<b>NET (LOSS) INCOME FOR THE PERIOD</b>	<b>\$ (32,577)</b>	<b>\$ 2,899</b>
<b>BASIC (LOSS) EARNINGS PER SHARE (note 12)</b>	<b>\$ (1.39)</b>	<b>\$ 0.12</b>
<b>DILUTED (LOSS) EARNINGS PER SHARE (note 12)</b>	<b>\$ (1.39)</b>	<b>\$ 0.12</b>

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

**Consolidated statements of comprehensive (loss) income***(in thousands of Canadian dollars, unaudited)*

	<b>For the three months ended September 30, 2015</b>	<b>For the three months ended September 30, 2014</b>
<b>NET (LOSS) INCOME FOR THE PERIOD</b>	<b>\$ (1,763)</b>	<b>\$ 1,849</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>		
<b>ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET (LOSS) INCOME</b>		
Foreign currency translation	<b>80</b>	<b>32</b>
	<b>80</b>	<b>32</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO NET (LOSS) INCOME</b>		
Re-measurements of post-employment benefit obligations	<b>(391)</b>	<b>(2,478)</b>
Taxes related to post-employment adjustment above	<b>102</b>	<b>636</b>
	<b>(289)</b>	<b>(1,842)</b>
<b>OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX</b>	<b>\$ (209)</b>	<b>\$ (1,810)</b>
<b>COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD</b>	<b>\$ (1,972)</b>	<b>\$ 39</b>

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

**Consolidated statements of comprehensive loss***(in thousands of Canadian dollars, unaudited)*

	<b>For the nine months ended September 30, 2015</b>	<b>For the nine months ended September 30, 2014</b>
<b>NET (LOSS) INCOME FOR THE PERIOD</b>	<b>\$ (32,577)</b>	<b>\$ 2,899</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>		
<b>ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET (LOSS) INCOME</b>		
Foreign currency translation	153	33
	<b>153</b>	<b>33</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO NET (LOSS) INCOME</b>		
Re-measurements of post-employment benefit obligations	760	(5,427)
Taxes related to post-employment adjustment above	(198)	1,393
	<b>562</b>	<b>(4,034)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>\$ 715</b>	<b>\$ (4,001)</b>
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>\$ (31,862)</b>	<b>\$ (1,102)</b>

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

**Consolidated statements of changes in (deficit) equity***(in thousands of Canadian dollars, unaudited)*

	Shares	Conversion options	Accumulated other comprehensive income	Deficit	Total (deficit) equity
Balance as at December 31, 2013	\$ 215,336	\$ 516	\$ 30	\$ (197,807)	\$ 18,075
Net income for the period	—	—	—	2,899	2,899
Other comprehensive income (loss) for the period	—	—	33	(4,034)	(4,001)
Total comprehensive income (loss) for the period	—	—	33	(1,135)	(1,102)
Cancellation of convertible debentures	—	(2)	—	—	(2)
Balance as at September 30, 2014	\$ 215,336	\$ 514	\$ 63	\$ (198,942)	\$ 16,971
<b>BALANCE AS AT DECEMBER 31, 2014</b>	<b>\$ 215,336</b>	<b>\$ 513</b>	<b>\$ 92</b>	<b>\$ (197,528)</b>	<b>\$ 18,413</b>
Net loss for the period	—	—	—	(32,577)	(32,577)
Other comprehensive income for the period	—	—	153	562	715
Total comprehensive income (loss) for the period	—	—	153	(32,015)	(31,862)
<b>BALANCE AS AT SEPTEMBER 30, 2015</b>	<b>\$ 215,336</b>	<b>\$ 513</b>	<b>\$ 245</b>	<b>\$ (229,543)</b>	<b>\$ (13,449)</b>

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)*

	<b>For the three months ended September 30, 2015</b>		For the three months ended September 30, 2014	
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net (loss) income for the period	\$	(1,763)	\$	1,849
Adjustments to net (loss) income				
Depreciation of property, plant and equipment		1,198		1,202
Amortization of intangible assets		487		479
Pension expense		152		156
Gain on disposal of property, plant and equipment		(5)		(139)
Gain on cancellation of convertible debentures		—		(60)
Provisions (note 7)		5,756		301
Amortization of transaction costs		135		137
Accretion of convertible debentures		76		73
Other non-current liabilities		368		(33)
Other post-employment benefit plans, net		77		59
Tax credits recognized		(181)		—
Income tax (recovery) expense		(659)		706
		<b>5,641</b>		<b>4,730</b>
Changes in working capital (note 13)		<b>(1,042)</b>		<b>2,479</b>
Contributions made to pension plans		<b>(458)</b>		<b>(624)</b>
Provisions paid (note 7)		<b>(3,018)</b>		<b>(1,023)</b>
Income taxes (paid) received		<b>(10)</b>		<b>301</b>
		<b>1,113</b>		<b>5,863</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment		<b>(526)</b>		<b>(990)</b>
Purchase of intangible assets		<b>(302)</b>		<b>—</b>
Proceeds on disposal of property, plant and equipment		<b>7</b>		<b>140</b>
		<b>(821)</b>		<b>(850)</b>
<b>FINANCING ACTIVITIES</b>				
Repayment of Credit Facilities (note 8)		<b>(1,000)</b>		<b>(2,000)</b>
Repurchase of convertible debentures		<b>—</b>		<b>(107)</b>
Proceeds from loan payable (note 11)		<b>341</b>		<b>—</b>
Repayment of loan payable		<b>(13)</b>		<b>—</b>
Finance costs		<b>(20)</b>		<b>(9)</b>
Finance lease payments		<b>(9)</b>		<b>(6)</b>
		<b>(701)</b>		<b>(2,122)</b>
<b>(DECREASE) IN CASH AND CASH EQUIVALENTS / DECREASE IN (BANK OVERDRAFT) DURING THE PERIOD</b>				
		<b>(409)</b>		<b>2,891</b>
<b>CASH AND CASH EQUIVALENTS (BANK OVERDRAFT) – BEGINNING OF PERIOD</b>				
	\$	<b>3,514</b>	\$	<b>(4,167)</b>
<b>EFFECTS OF FOREIGN EXCHANGE ON CASH BALANCES</b>				
		<b>48</b>		<b>13</b>
<b>CASH AND CASH EQUIVALENTS (BANK OVERDRAFT) – END OF PERIOD</b>				
	\$	<b>3,153</b>	\$	<b>(1,263)</b>

*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)*

	<b>For the nine months ended September 30, 2015</b>	<b>For the nine months ended September 30, 2014</b>
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net (loss) income for the period	\$ (32,577)	\$ 2,899
Adjustments to net (loss) income		
Depreciation of property, plant and equipment	3,572	3,754
Amortization of intangible assets	1,445	1,437
Pension expense	456	397
Loss (gain) on disposal of property, plant and equipment	34	(149)
Impairment of goodwill (note 6)	26,000	—
Gain on cancellation of convertible debentures	—	(60)
Provisions (note 7)	12,015	2,035
Amortization of transaction costs	305	416
Accretion of convertible debentures	137	220
Other non-current liabilities	438	(194)
Other post-employment benefit plans, net	213	174
Tax credits recognized	(181)	—
Income tax (recovery) expense	(2,246)	1,159
	<b>9,611</b>	<b>12,088</b>
Changes in working capital (note 13)	7,534	(1,337)
Contributions made to pension plans	(1,397)	(2,384)
Provisions paid (note 7)	(6,962)	(3,255)
Income taxes (paid) received	(148)	427
	<b>8,638</b>	<b>5,539</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(4,019)	(1,784)
Purchase of intangible assets	(302)	—
Proceeds on disposal of property, plant and equipment	639	161
	<b>(3,682)</b>	<b>(1,623)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of Credit Facilities (note 8)	(3,000)	(5,500)
Repurchase of convertible debentures	—	(107)
Proceeds from loan payable (note 11)	341	—
Repayment of loan payable	(13)	—
Finance costs	(13)	(47)
Finance lease payments	(27)	(18)
	<b>(2,712)</b>	<b>(5,672)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<b>2,244</b>	<b>(1,756)</b>
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD</b>	<b>\$ 812</b>	<b>\$ 478</b>
<b>EFFECTS OF FOREIGN EXCHANGE ON CASH BALANCES</b>	<b>97</b>	<b>15</b>
<b>CASH AND CASH EQUIVALENTS (BANK OVERDRAFT) – END OF PERIOD</b>	<b>\$ 3,153</b>	<b>\$ (1,263)</b>

*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 September 30, 2015 and 2014

*(in thousands of Canadian dollars, except percentages, shares and per share amounts, unaudited)***1 General Information**

DATA Group Ltd. ("DATA Group") is a managed business communications services company specializing in customized document management and marketing solutions. DATA Group develops, manufactures, markets and supports integrated web and print-based communications, information management and direct marketing products and services that help its customers reduce costs, increase revenues, maintain brand consistency and simplify their business processes. DATA Group's expertise and resources enable it to address any document requirement of its customers, from a simple mail-out to an enterprise-wide document management or direct marketing initiative. DATA Group derives its revenues from two sources: document management solutions, which provides its customers with a comprehensive suite of customized printed and electronic products, logistics and workflow enhancing services that help them better manage administrative elements of their business, maintain brand consistency and reduce the systemic cost of their documents and workflows; and marketing solutions, which provide an integrated set of services that enables its customers to plan, create, deploy and monitor their print and electronic marketing campaigns across multiple media channels. DATA Group operates in the following reporting segments:

- a. DATA - sells a broad range of document management services, marketing solutions and printed products directly to customers in the Canadian and U.S. markets; and
- b. Multiple Pakfold - sells forms and labels to independent brokers/resellers in the Canadian market.

Certain elements of DATA Group's gift card and direct mail businesses as well as the buying patterns of certain major customers of DATA Group 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 Group are listed on the Toronto Stock Exchange ("TSX") under the symbol "DGI". DATA Group'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 Group is 9195 Torbram Road, Brampton, Ontario.

**2 Basis of presentation and significant accounting policies**

DATA Group 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 Group's consolidated financial statements for the year ended December 31, 2014, except for any new accounting pronouncements which have been adopted. Where applicable, DATA Group 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, 2015, as issued and outstanding as of November 12, 2015, the date the Board of Directors approved these financial statements. Any subsequent changes to IFRS that are given effect in DATA Group's annual consolidated financial statements for the year ending December 31, 2015 could result in restatement of these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements should be read in conjunction with DATA Group's consolidated annual financial statements for the year ended December 31, 2014 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 September 30, 2015 and 2014

*(in thousands of Canadian dollars, except percentages, shares and per share amounts, unaudited)***3 Change in accounting policies***(a) New and amended standards adopted*

DATA Group has not adopted any new accounting policies since the year ended December 31, 2014.

*(b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2015 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 Group 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. IFRS 15 must be adopted for annual periods beginning on or after January 1, 2018 using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. DATA Group 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 Group.

**4 Trade receivables**

	<b>September 30, 2015</b>	December 31, 2014
Trade receivables	\$ 33,479	\$ 37,835
Provision for doubtful accounts	(644)	(660)
	<b>\$ 32,835</b>	<b>\$ 37,175</b>

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

## Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2015 and 2014

*(in thousands of Canadian dollars, except percentages, shares and per share amounts, unaudited)***5 Inventories**

	<b>September 30, 2015</b>	December 31, 2014
Raw materials	\$ 6,488	\$ 5,842
Work-in-progress	3,609	3,369
Finished goods	29,253	30,834
	<b>\$ 39,350</b>	<b>\$ 40,045</b>

Raw materials and finished goods inventory amounts are net of obsolescence reserves of \$637 (2014 – \$1,323). The cost of inventories recognized as an expense within cost of revenues for the three months ended September 30, 2015 was \$52,018 (2014 – \$56,768) and for the nine months ended September 30, 2015 was \$162,655 (2014 – \$170,004).

**6 Goodwill**

	<b>September 30, 2015</b>	December 31, 2014
Opening balance	\$ 57,066	\$ 57,066
Impairment of goodwill	(26,000)	—
<b>Ending balance</b>	<b>\$ 31,066</b>	<b>\$ 57,066</b>

	<b>September 30, 2015</b>	December 31, 2014
Cost	\$ 160,725	\$ 160,725
Accumulated impairment losses	(129,659)	(103,659)
<b>Net carrying value</b>	<b>\$ 31,066</b>	<b>\$ 57,066</b>

During the second quarter of 2015, impairment indicators, including changes in the revenue trends and profit forecasts and the failure to meet certain financial covenants under its credit facilities, indicated that DATA Group's assets may be impaired. As a result of this new information, DATA Group performed an impairment analysis by comparing the fair value of each cash generating unit ("CGU") to the CGU's carrying value. As a result of that review, DATA Group concluded that the fair value of its DATA CGU was less than its carrying value. Accordingly, DATA Group recorded an impairment of goodwill of \$26,000 related to the DATA CGU.

DATA Group did not make any changes to the valuation methodology used to assess goodwill impairment since its last annual impairment test. The recoverable amounts of all CGUs have been determined based on the fair value less cost to sell. DATA Group uses the income approach to estimate the recoverable value of each CGU. The income approach is predicated on the value of the future cash flows that a business will generate going forward. The discounted cash flow method was used which involves projecting cash flows and converting them into a present value through discounting. The discounting uses a rate of return that is commensurate with the risk associated with the business and the time value of money. This approach requires assumptions about revenue growth rates, operating margins, tax rates and discount rates.

Revenue growth rates and operating margins were based on DATA Group's internal approved financial budgets or forecasts. DATA Group projected revenue, operating margins and cash flows for a period of five years, and applied a perpetual long-term growth rate thereafter. Based on the most recent forecasts, DATA Group is expecting negative growth of 2.5% (2014 – 1%) over the next two years (2014 – five years) and a perpetual long-term growth rate of 0% (2014 – 0%) based on forecast GDP growth, inflation rates, the industry's expected growth rates and management

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

For the periods ended September 30, 2015 and 2014

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

experience. In arriving at its forecasts, DATA Group considered past experience, economic trends as well as industry and market trends. The projections also took into account the expected impact of restructuring initiatives approved.

DATA Group assumed a discount rate to calculate the present value of the projected cash flows, representing a pre-tax discount rate using a weighted average cost of capital ("WACC") for DATA Group adjusted for tax, and is an estimate of the total overall required rate of return on an investment for both debt and equity owners. Determination of the WACC requires separate analysis of cost of equity and debt, and considers a risk premium based on the assessment of risks related to the projected cash flows of DATA Group. DATA Group used discount rates of 15.5% to 19.9% (2014 – 15.5% to 19.9%) reflecting management's judgment that sales channels and size of its CGU's would affect the volatility of each CGU's cash flows. Following the impairment of the DATA CGU, the recoverable amount is equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to a further impairment of the DATA CGU.

DATA Group projects cash flows net of income taxes using substantively enacted tax rates effective during the forecast periods. DATA Group used a tax rate of 26.5% (2014 – 26.5%). Tax assumptions are sensitive to changes in tax laws as well as assumptions about the jurisdictions in which profits are earned. It is possible that actual tax rates could differ from those assumed.

During the fourth quarter of 2014, DATA Group performed its annual review for impairment of goodwill by comparing the fair value of each of its CGU's to the CGUs carrying value. As a result of that review, DATA Group recorded no goodwill impairment charges. The estimated recoverable amount of DATA CGU exceeded its carrying value by approximately \$1,200 and its recoverable amount would equal its carrying value if the discount rate was increased by 0.2% to 15.7%.

## Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2015 and 2014

*(in thousands of Canadian dollars, except percentages, shares and per share amounts, unaudited)***7 Provisions**

	Restructuring		Onerous contracts		Total
Balance – Beginning of period	\$	3,654	\$	2,064	\$ 5,718
Additional charge during the three month period		5,037		719	5,756
Utilized during the three month period		(2,575)		(443)	(3,018)
Balance – End of period	\$	6,116	\$	2,340	\$ 8,456
Less: Current portion of provisions		(5,111)		(1,826)	(6,937)
As at September 30, 2015	\$	1,005	\$	514	\$ 1,519

	Restructuring		Onerous contracts		Total
Balance – Beginning of period	\$	1,300	\$	2,103	\$ 3,403
Additional charge during the nine month period		10,627		1,388	12,015
Utilized during the nine month period		(5,811)		(1,151)	(6,962)
Balance – End of period	\$	6,116	\$	2,340	\$ 8,456
Less: Current portion of provisions		(5,111)		(1,826)	(6,937)
As at September 30, 2015	\$	1,005	\$	514	\$ 1,519

	Restructuring		Onerous contracts		Total
Balance – Beginning of year	\$	1,600	\$	3,137	\$ 4,737
Additional charge during the year		2,804		—	2,804
Utilized during the year		(3,104)		(1,034)	(4,138)
Balance – End of year	\$	1,300	\$	2,103	\$ 3,403
Less: Current portion of provisions		(1,069)		(973)	(2,042)
As at December 31, 2014	\$	231	\$	1,130	\$ 1,361

**RESTRUCTURING**

During the three and nine months ended September 30, 2015, DATA Group continued its restructuring and ongoing productivity improvement initiatives to reduce its cost of operations. During the three and nine months ended September 30, 2015, these initiatives resulted in \$5,037 and \$10,627, respectively, of restructuring expenses due to changes in senior management, headcount reductions across DATA Group's operations and the closure of certain manufacturing and warehouse locations in the consolidated statement of loss and comprehensive loss. During the three and nine months ended September 30, 2014, these initiatives resulted in \$301 and \$2,035, respectively, of restructuring expenses due to headcount reductions in the consolidated statement of income and comprehensive loss.

For the three months ended September 30, 2015, cash payments of \$2,575 (2014 - \$785) and for the nine months ended September 30, 2015, cash payments of \$5,811 (2014 - \$2,460) were made to former employees for severances and for other restructuring costs. The remaining severance and restructuring accruals of \$6,116 at September 30, 2015 is expected to be paid during the fourth quarter of 2015, and in 2016 and 2017.

**ONEROUS CONTRACTS**

During the three months ended September 30, 2015, DATA Group closed a Brampton, Ontario warehouse. A lease exit charge of \$719, representing the liability, at present value, for remaining lease costs under the lease agreement and the building maintenance costs, was recorded and will be paid over the remaining term of the lease, expiring in 2016.

## Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2015 and 2014

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

During the nine months ended September 30, 2015, DATA Group also closed a Calgary, Alberta facility. A lease exit charge of \$669, representing the liability, at present value, for remaining lease costs under the lease agreement and the building maintenance costs, was recorded and will be paid over the remaining term of the lease, expiring in 2016.

**8 Credit facilities**

	September 30, 2015	December 31, 2014
Term loan		
- 4.55% bankers' acceptances, maturing January 30, 2015	\$ —	\$ 39,750
- 4.77% bankers' acceptances, maturing October 19, 2015	36,750	—
Revolving facility		
- 4.55% bankers' acceptances, maturing January 30, 2015	—	5,000
- 4.77% bankers' acceptances, maturing October 19, 2015	7,500	—
- Floating rate debt	—	2,500
Credit facilities	44,250	47,250
Unamortized transaction costs	(213)	(368)
	\$ 44,037	\$ 46,882
Less: Current portion of Credit facilities	(44,037)	(3,500)
Credit facilities	\$ —	\$ 43,382

DATA Group maintains credit facilities (the "Credit Facilities") with a syndicate of Canadian chartered banks (the "Lenders") pursuant to a Third Amended and Restated Credit Agreement (the "Credit Agreement") dated December 19, 2014. The Credit Facilities mature on August 31, 2016 and have a maximum available principal amount of \$55,000, comprised of a \$10,000 revolving facility, a \$5,000 swing line facility, and a \$40,000 amortizing term loan. The \$40,000 amortizing term loan was permanently reduced by \$250 on December 31, 2014, by \$1,000 on March 31, 2015, by \$1,000 on June 30, 2015 and by \$1,000 on September 30, 2015. Under the terms of the Credit Agreement, DATA Group is required to make mandatory repayments of outstanding advances under the term loan as follows: \$1,000 on the last day of December of 2015 and \$1,500 on the last day of March and June of 2016, respectively. The Lenders' commitment under the term loan will be permanently reduced by each of these repayments such that on maturity the maximum available principal amount of the term loan will be \$32,750. DATA Group made principal repayments under the term loan of \$1,000 during each of the three month periods ended September 30, 2015, June 30, 2015 and March 31, 2015, respectively. A portion of the credit facilities are subject to bankers' acceptance fees over the applicable banker's acceptance rates. Maturing bankers' acceptances are typically rolled into new bankers' acceptances. The floating rate debt is an advance that is subject to interest at the Canadian prime rate plus an applicable margin. At September 30, 2015, all of DATA Group's indebtedness outstanding under the Credit Facilities was subject to a floating interest rate of 4.77% (2014 – 4.59%) per annum.

Advances under the Credit Facilities are secured by conventional security charging all the property and assets of DATA Group and its subsidiary. A failure by DATA Group to comply with its obligations under the Credit Agreement, together with certain other events, including a change of control of DATA Group, could result in an event of default which, if not cured or waived, could permit acceleration of the indebtedness outstanding under the Credit Facilities and entitle the Lenders to exercise their remedies under their security over DATA Group's assets.

The Credit Agreement contains financial covenants and restrictions, including the requirement to meet certain financial ratios and financial condition tests. Those covenants require DATA Group to maintain, at all times, a quarterly maximum ratio (the "Debt to EBITDA Ratio") of total debt to adjusted earnings before interest, income taxes, depreciation and amortization ("Credit Agreement EBITDA"). The maximum Debt to EBITDA Ratio allowed for a 12-month trailing period was 2.50 at December 31, 2014 and March 31, 2015, respectively. The maximum Debt to EBITDA Ratio allowed for a

## Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2015 and 2014

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

12-month trailing period ended June 30, 2015 declined to 2.25. The Credit Agreement also requires DATA Group to maintain, at all times, a quarterly minimum ratio of Credit Agreement EBITDA to fixed charges (the "Fixed Charge Ratio"). The minimum Fixed Charge Ratio allowed for a 12-month trailing period was 1.25. DATA Group did not maintain the required Debt to EBITDA Ratio or the Fixed Charge ratio as at June 30, 2015. As a result, DATA Group was not in compliance with either of these financial covenants and the outstanding borrowings under the Credit Facilities as at June 30, 2015 were classified as current. However, during the quarter ended September 30, 2015, DATA Group entered into a Waiver and Amendment Agreement to Third Amended and Restated Credit Agreement with the Lenders with respect to a waiver for non-compliance with those financial covenants as at June 30, 2015 and amendments to the terms of the Credit Agreement as they relate to the Debt to EBITDA Ratio and the Fixed Charge Ratio. After giving effect to those amendments, the maximum Debt to EBITDA Ratio for the 12 month trailing period ended September 30 2015 was 2.75 and declines to 2.50 at December 31, 2015, to 2.25 at March 31, 2016, and to 2.0 after March 31, 2016. As at September 30, 2015, the Debt to EBITDA Ratio was calculated at 2.35 (2014 – 2.10). The minimum Fixed Charge Ratio required to be maintained by DATA Group for the 12 month trailing period ended September 30, 2015 has been amended to 1.10 and will rise to 1.25 as at December 31, 2015. As at September 30, 2015, the Fixed Charge Ratio was calculated at 1.58 (2014 – 1.61).

As the Credit Facilities are due to mature in less than 12 months, the outstanding borrowings under the Credit Facilities have been classified as current at September 30, 2015.

The Credit Agreement contains restrictive covenants which limit the discretion of management with respect to certain business matters and the declaration or payment of dividends on DATA Group's common shares without the prior consent of the Lenders.

**9 Convertible debentures**

	September 30, 2015	December 31, 2014
6.00% convertible debentures, maturing June 30, 2017, interest payable in June and December, convertible at 81.967 shares per \$1,000 of debenture	\$ 44,103	\$ 43,966
Unamortized transaction costs	(607)	(744)
	\$ 43,496	\$ 43,222

The 6.00% Convertible Debentures with an aggregate principal amount of \$44,705 (2014 – \$44,705) 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 Group ("Shares") at the option of the holder prior 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 Group's Annual Information Form for the year ended December 31, 2014. 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 Group in whole or in part, from time to time, at the option of DATA Group 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 Group in whole or in part, from time to time, at the option of DATA Group at a price equal to the principal amount thereof plus accrued and unpaid interest.

On redemption or at maturity, DATA Group 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

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

For the periods ended September 30, 2015 and 2014

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

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

**NORMAL COURSE ISSUER BID**

In May 2015, DATA Group renewed its normal course issuer bid ("NCIB") for another 12 months. Under the NCIB, DATA Group 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 September 30, 2015, \$ Nil of the 6.00% Convertible Debentures have been purchased under the renewed NCIB. Under the previous NCIB, which expired in May 2015, \$295 aggregate principal amount of the 6.00% Convertible Debentures were purchased.

**10 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 26.25% (2014 – 25.99%) based on the tax rates in years when the temporary differences are expected to reverse. Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As at September 30, 2015, DATA Group has non-capital loss carry-forwards of \$7,771 (2014 – \$3,692). The non-capital loss carry-forwards expire in varying amounts from 2032 to 2035.

<b>Reflected in the consolidated statement of financial position as follows:</b>	<b>September 30, 2015</b>	December 31, 2014
Deferred tax assets	\$ 3,928	\$ 1,508
Deferred tax liabilities	(55)	(50)
Net deferred tax assets (liabilities)	\$ 3,873	\$ 1,458

**11 Other non-current liabilities**

	<b>September 30, 2015</b>	December 31, 2014
Deferred lease inducement	\$ 531	\$ 245
Lease escalation liabilities	818	614
Finance lease liabilities	28	58
Loan payable	328	—
	\$ 1,705	\$ 917
Less: Current portion of other non-current liabilities	(578)	(369)
	\$ 1,127	\$ 548

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



## Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2015 and 2014

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

DATA Group's operations are conducted in leased properties. DATA Group'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 2015 to 2022.

During the quarter ended September 30, 2015, DATA Group entered into a loan payable agreement for licensed software in the amount of \$341. The loan has an interest rate of 2.90% and repayments of \$15 per month will be made over 24 months ending in August 2017.

**12 (Loss) earnings per share**

	<b>For the three months ended September 30, 2015</b>	For the three months ended September 30, 2014
<b>BASIC (LOSS) EARNINGS PER SHARE</b>		
Net (loss) income for the period attributable to common shareholders	\$ (1,763)	\$ 1,849
Weighted average shares	23,490,592	23,490,592
Basic (loss) earnings per share	\$ (0.08)	\$ 0.08

<b>DILUTED (LOSS) EARNINGS PER SHARE</b>		
Net (loss) income for the period attributable to common shareholders	\$ (1,763)	\$ 1,849
Weighted average shares	23,490,592	23,490,592
Diluted (loss) earnings per share	\$ (0.08)	\$ 0.08

	<b>For the nine months ended September 30, 2015</b>	For the nine months ended September 30, 2014
<b>BASIC (LOSS) EARNINGS PER SHARE</b>		
Net (loss) income for the period attributable to common shareholders	\$ (32,577)	\$ 2,899
Weighted average shares	23,490,592	23,490,592
Basic (loss) earnings per share	\$ (1.39)	\$ 0.12

<b>DILUTED (LOSS) EARNINGS PER SHARE</b>		
Net (loss) income for the period attributable to common shareholders	\$ (32,577)	\$ 2,899
Weighted average shares	23,490,592	23,490,592
Diluted (loss) earnings per share	\$ (1.39)	\$ 0.12

6.00% Convertible Debentures in the aggregate principal amount of \$44,705 (2014 – \$44,705) and the related interest expense were excluded from the computation of diluted earnings per share as their effect would have been antidilutive.

## Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2015 and 2014

*(in thousands of Canadian dollars, except percentages, shares and per share amounts, unaudited)***13 Changes in working capital**

	<b>For the three months ended September 30, 2015</b>	For the three months ended September 30, 2014
Trade receivables	\$ (2,584)	\$ (750)
Inventories	(885)	(626)
Prepaid expenses and other current assets	(1,186)	(874)
Trade payables	2,538	2,704
Deferred revenue	1,075	2,025
	<b>\$ (1,042)</b>	<b>\$ 2,479</b>

	<b>For the nine months ended September 30, 2015</b>	For the nine months ended September 30, 2014
Trade receivables	\$ 4,393	\$ (1,172)
Inventories	780	(2,657)
Prepaid expenses and other current assets	317	(1,161)
Trade payables	1,818	2,166
Deferred revenue	226	1,487
	<b>\$ 7,534</b>	<b>\$ (1,337)</b>

**14 Contingencies**

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

DATA Group 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 Group 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-trusted 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 Group's estimated annual funding obligation for the SRDF for 2015 is \$685. 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 Group would have been required to fund any outstanding solvency deficiency in respect of its employees, pensioners and vested deferred members if DATA Group 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;

## Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2015 and 2014

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

- 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 Group cannot be determined at this time.

**15 Employee benefit plans**Pension expense

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

	<b>For the three months ended September 30, 2015</b>		For the three months ended September 30, 2014		<b>For the nine months ended September 30, 2015</b>		For the nine months ended September 30, 2014
Net cost recognized in general and administration expenses	\$ 75	\$	80	\$	225	\$	225
Interest costs in finance expense	77		76		231		172
Defined benefit plans	\$ 152	\$	156	\$	456	\$	397
Defined contribution plan	\$ 429	\$	458	\$	1,334	\$	1,400
Defined benefit multi-employer plan	\$ 173	\$	168	\$	507	\$	506

Other post-employment benefit plans expense

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

	<b>For the three months ended September 30, 2015</b>		For the three months ended September 30, 2014		<b>For the nine months ended September 30, 2015</b>		For the nine months ended September 30, 2014
Net cost recognized in general and administration expenses	\$ 71	\$	60	\$	213	\$	181
Interest costs in finance expense	30		34		90		102
Other post-employment benefit plans	\$ 101	\$	94	\$	303	\$	283

**16 Segmented information**

The president and chief executive officer ("CEO") of DATA Group is the chief operating decision-maker. Management has determined the reporting segments based on the information reviewed by the president and CEO for the purpose of allocating resources and assessing performance. DATA Group has two reporting segments organized on the basis of geography, channels and specialties as follows: DATA and Multiple Pakfold. These reporting segments follow the same accounting policies as described in the summary of significant accounting policies, and all intersegment revenues are recorded at the exchange amount. Management evaluates the performance of each reporting segment based on income before interest, finance costs and income taxes. Corporate expenses, certain non-recurring expenses, interest

## Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2015 and 2014

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

expense, finance costs and income taxes are not taken into account in the evaluation of the performance of the reporting segments. All significant external sales are to customers located in Canada. DATA Group established operations in Niles, Illinois during the fourth quarter of 2012 in order to service the U.S. operations of a large customer.

<b>For the three months ended September 30, 2015</b>	<b>DATA</b>	<b>Multiple Pakfold</b>	<b>Intersegment</b>	<b>Total</b>
Revenues	\$ 70,596	\$ 3,927	\$ (407)	\$ 74,116
Gross profit	17,671	715	—	18,386
Income before under noted items	\$ 6,645	\$ 231	\$ —	6,876
Restructuring expenses				5,756
Unallocated corporate expenses				1,929
Loss before finance costs and income taxes				(809)
Finance costs				1,613
Current income tax expense				167
Deferred income tax (recovery)				(826)
Net loss for the period				\$ (1,763)

For the three months ended September 30, 2014	DATA	Multiple Pakfold	Intersegment	Total
Revenues	\$ 74,351	\$ 4,161	\$ (384)	\$ 78,128
Gross profit	18,440	788	—	19,228
Income before under noted items	\$ 5,912	\$ 303	\$ —	6,215
Restructuring expenses				301
Gain on cancellation of convertible debentures				(60)
Unallocated corporate expenses				1,738
Income before finance costs and income taxes				4,236
Finance costs				1,681
Current income tax expense				33
Deferred income tax expense				673
Net income for the period				\$ 1,849

## Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2015 and 2014

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

For the nine months ended September 30, 2015	DATA	Multiple Pakfold	Intersegment	Total
Revenues	\$ 212,762	\$ 11,843	\$ (1,040)	\$ 223,565
Gross profit	49,156	2,141	—	51,297
Impairment of goodwill	26,000	—	—	26,000
(Loss) income before under noted items	\$ (11,950)	\$ 650	\$ —	(11,300)
Restructuring expenses				12,015
Unallocated corporate expenses				6,984
Loss before finance costs and income taxes				(30,299)
Finance costs				4,524
Current income tax expense				250
Deferred income tax (recovery)				(2,496)
Net loss for the period				\$ (32,577)

For the nine months ended September 30, 2014	DATA	Multiple Pakfold	Intersegment	Total
Revenues	\$ 222,193	\$ 11,707	\$ (1,096)	\$ 232,804
Gross profit	53,656	2,212	—	55,868
Income before under noted items	\$ 16,386	\$ 751	\$ —	17,137
Restructuring expenses				2,035
Gain on cancellation of convertible debentures				(60)
Unallocated corporate expenses				6,065
Income before finance costs and income taxes				9,097
Finance costs				5,039
Current income tax expense				33
Deferred income tax expense				1,126
Net income for the period				\$ 2,899

Warehousing revenues were approximately 7% of total consolidated revenues for the three months ended September 30, 2015 and were approximately 7% of total consolidated revenues for the three months ended September 30, 2014.

Warehousing revenues were approximately 7% of total consolidated revenues for the nine months ended September 30, 2015 and were approximately 7% of total consolidated revenues for the nine months ended September 30, 2014.

## 17 Subsequent events

### REDEMPTION OF 6.00% CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES FOR SHARES

On November 12, 2015, DATA Group's Board of Directors authorized the redemption of \$33,500 aggregate principal amount of its \$44,705 outstanding 6.00% Convertible Debentures as of December 23, 2015 (the "Redemption Date"), upon payment of a redemption amount of \$1 for each \$1 principal amount of 6.00% Convertible Debentures (the "Redemption Price"), plus accrued and unpaid interest thereon up to but excluding the Redemption Date. DATA Group has elected to satisfy its obligation to pay the Redemption Price by issuing and delivering to holders of 6.00% Convertible Debentures redeemed common shares of DATA Group (the "Shares") in lieu of cash. Any accrued and unpaid interest on the 6.00% Convertible Debentures redeemed will be paid in cash on the Redemption Date, less applicable withholding

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

For the periods ended September 30, 2015 and 2014

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

taxes, if any. The redemption of the 6.00% Convertible Debentures will be completed in accordance with the terms of the amended and restated trust indenture dated as of January 1, 2012 (the "Trust Indenture") between DATA Group and Computershare Trust Company of Canada (the "Debenture Trustee"), which governs the 6.00% Convertible Debentures, and does not require the consent of 6.00% Convertible Debenture holders.

The number of Shares to be issued and delivered to holders of 6.00% Convertible Debentures to be redeemed will be determined by dividing the Redemption Price by 95% of the volume-weighted average trading price of DATA Group's common shares on the TSX for the 20 consecutive trading days ending on December 16, 2015 (the "Current Market Price"). DATA Group will not issue fractional Shares on redemption but instead will satisfy any fractional interest by a payment equal to the cash equivalent of such fractional interest on the basis of the Current Market Price, less applicable withholding taxes, if any. The issuance of the Shares is subject to receipt of all necessary regulatory approvals, including the approval of TSX.

Based on the current trading price of the Company's common shares, DATA Group will be required to issue a large number of Shares, which will significantly dilute existing shareholders' interests in DATA Group and is likely to have an adverse effect on the trading price of DATA Group's common shares.

# CORPORATE INFORMATION

## Directors & Officers

**Michael Blair**  
Chairman, Director

**J.R. Kingsley Ward**  
Vice-Chairman, Director

**Rod Phillips**  
Director

**Harinder S. Takhar**  
Director

**William Albino**  
Director

**Mike Sifton**  
Director & Officer  
President & Chief Executive Officer

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

## Executive Team

**Mike Sifton**  
President & Chief Executive Officer

**James Lorimer**  
Chief Financial Officer

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

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

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

**Jeff Gladwish**  
Vice-President, Marketing

**Patrick Aussant**  
Chief Information Officer

## Corporate Information

**Auditors**  
PricewaterhouseCoopers LLP

**Transfer Agent**  
Computershare Investor Services Inc.

**Corporate Counsel**  
McCarthy Tétrault LLP

**Corporate Office**  
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**Website**  
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**Toronto Stock Exchange Symbols**  
DGI and DGI.DB.A



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