THIRD QUARTER REPORT

For the period ended September 30, 2019

DCM THE BRAND BEHIND YOUR BRAND

Letter to shareholders

Dear Fellow Shareholders,

The following provides an overview of:

- Third quarter 2019 and year to date financial results
- Third quarter initiatives & drivers for our business
- Management outlook for the near term

Third Quarter 2019 and First Nine Months 2019 Financial Results

Revenues for the quarter were $63.2 million compared to $74.9 million in the third quarter of 2018, a decrease of $11.7 million or 15.6%. Approximately $7.5 million of this year over year decrease was primarily attributed to continued production shortfalls in July and August, directly related to the launch of our new enterprise resource planning (ERP) system in June. We also experienced lower revenues of $1.6 million from certain core customers, which were primarily related to timing issues, and $1.5 million for certain retail customers that have moved to other solutions not offered by our company.

Adjusted EBITDA was $2.2 million in the third quarter of 2019, or 3.4% of revenues after adjusting for the impact of adopting IFRS 16, which became effective in the first quarter of 2019. This compares to $5.2 million in the third quarter of 2018, representing a $3.1 million or 58.7% decrease compared to last year. Before adjusting for the adoption of IFRS 16, adjusted EBITDA was $0.6 million or 1.0% of revenues for the quarter ended September 30, 2019. This decrease is primarily due to the continued production disruption we experienced with the launch of our new ERP system, in addition to some delay in the timing of work for certain customers.

For the first nine months of 2019, revenues were $211.4 million compared to $241.6 million in the first half of 2018, a decrease of $30.2 million or 12.5%. Adjusted EBITDA was $14.5 million, or 6.8% of revenues after adjusting for the impact of adopting IFRS 16. This compares to $15.7 million in the first half of 2018, representing a decrease of $1.2 million or 7.8%. Before adjusting for the adoption of IFRS 16, Adjusted EBITDA was $6.4 million for the first half of 2019.

Third Quarter Initiatives & Drivers

There is not much more to be said concerning our third quarter results. As Bill Parcells, the former coach of the Super Bowl winning New York Giants once said, “you are what your record says you are”.

Our third quarter financial results were significantly impacted by the launch of our ERP system.

As I reported in our second quarter shareholder letter, we weathered the start up phase of the system; the challenge, however, turned out to be far greater than initially anticipated.

During the third quarter, we continued to experience issues associated with the implementation of the ERP, primarily related to data input, production resourcing, shipping, billing and collecting.

I am pleased to report that substantially all of our September and October billings have gone through our new ERP system. Delays in proper invoicing have caused our working capital to increase materially, as we’ve experienced delays in converting accounts receivable to cash. This has caused borrowings under our revolving credit facility to increase towards its current ceiling. Our lenders have been supportive and have increased our available borrowings under that facility to help us through the most challenging part of our ERP implementation, which we believe is now substantially behind us.

To complete the ERP implementation, our focus for the balance of the year and first quarter 2020 will be as follows:

- Ensure all pricing calculations are correct and itemized
- Ensure trade terms with clients are correct and signed off
- Custom reporting is completed for clients
- Management reporting systems and dashboards completed

During the last five months our entire DCM team has been diligent and committed to getting us through to a better future.

In addition, our suppliers and customers have been patient and supportive. I thank each one personally. We are mission critical to many of our customers’ businesses and it’s no more evident than when product delivery disruptions occur.

While the ERP implementation has dominated our daily focus, we have not lost sight of the business going forward.

Revenue & Sales Pipeline

While our third quarter revenue was poor, we have made steady progress in capturing the backlog of business which occurred when we launched ERP. Our September revenue numbers were in line with historical norms and we experienced a strong October. We believe our fourth quarter revenue will compare favourably to our 2018 fourth quarter record revenue.

In addition, our pipeline for new revenue opportunities is strong and new business wins for the first nine months are in excess of $80 million of lifetime contract value, of which we expect approximately $20 million will be recognized in the current fiscal year. What's important with the new wins is that approximately 50% are directly related to our success in pivoting to a marketing and business services solutions enterprise.

Operations

While gross margins took a hit in the third quarter due to increased costs on over-time and shipping, and we experienced poor utilization rates in July and August, we expect to see our gross margins improve in the fourth quarter and into 2020. We anticipate that the efficiencies and cost controls we executed in the first and second quarter of the year will pay dividends for us, on top of the $3 to $4 million of post-ERP savings which we expect will now be realized commencing in early 2020.

While we have reduced our full-time employee count by over 200 people in the past few months, the savings of approximately $5 million to be realized in 2019 were partially offset by the addition of temporary staff and over-time required due to ERP implementation. While disappointing, these actions were needed to get us through that implementation.

We will, however, recognize these savings in 2020.

Corporate Initiatives

In September we bolstered our finance and reporting team by adding Edwina Fung. Edwina is a seasoned professional with deep operational experience in Canada and the U.S. Most recently she was the Vice President, Finance for a major private food processor. Her prior experience has been with Diageo, the Mars Corporation and Spin Master. Edwina is responsible for our entire operational finance and business analyst teams.

Rights Offering

Subject to receipt of all necessary regulatory approvals, including the approval of the Toronto Stock Exchange, we intend to pursue a rights offering under which eligible shareholders will receive rights to subscribe for common shares of the company. It is expected that our directors and senior officers will participate in the rights offering. Further details of the proposed rights offering will set out in a rights offering circular filed with securities regulatory authorities. The net proceeds from the proposed offering, if completed, would be used to enhance the company's liquidity in the near term.

Improved liquidity will support the Company's focus on growth initiatives, specifically in the area of technology and electronic platforms over the long term.

Management Outlook for the Near Term

1. Complete the remediation of the ERP; our number one priority
2. Shore up our balance sheet and work with our vendors as we lower our accounts receivable and build our liquidity
3. Continue the focus on our five key business principles

We expect our fourth quarter will be strong and in line with a record fourth quarter in 2018. Our objective for 2020 is to return to the path as we set out at the beginning of this year.

I thank you for your continued support. This hasn't been easy to transform a 60 year old business but we are well on our way.

For a full description of our financial results for the third quarter and year to date of 2019, please refer to our unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and related management's discussion and analysis, copies of which are available at www.sedar.com.

Yours truly,

Greg Cochrane

Gregory J. Cochrane

Chief Executive Officer

DATA Communications Management Corp.

November 2019

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

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies, performance and risk factors of DATA Communications Management Corp. (TSX: DCM) and its subsidiaries (referred to herein as "DCM" or the "Company") for the three and nine month periods ended September 30, 2019 and 2018. This MD&A should be read in conjunction with the MD&A of DCM for the year ended December 31, 2018, the unaudited condensed interim consolidated financial statements and accompanying notes of DCM for the three and nine month periods ended September 30, 2019 and 2018 and the audited consolidated financial statements and accompanying notes of DCM for the year ended December 31, 2018. Additional information about the Company, including its most recently filed audited consolidated financial statements, Annual Information Form and Management Information Circular may also be obtained on SEDAR (www.sedar.com). Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The Company's Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on November 14, 2019. This MD&A reflects information as of November 14, 2019.

Basis of presentation

DCM prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). 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 DCM's consolidated financial statements for the year ended December 31, 2018, except for certain new accounting pronouncements which have been adopted by DCM on January 1, 2019 and disclosed in note 2. Where applicable, DCM 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, 2019, as issued and outstanding as of November 14, 2019 the date the Board of Directors ("Board") approved these financial statements.

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 DCM, 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 DCM's current views regarding future events and operating performance, are based on information currently available to DCM, 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 DCM 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 DCM made or took into account in the preparation of these forward-looking statements include: DCM's new enterprise resource planning ("ERP") system has failed to perform as planned and interrupted operational transactions during and following the implementation, which has, and may continue to, materially and adversely affect DCM's financial liquidity and operations and results of operations; the limited growth in the traditional printing industry and the potential for further declines in sales of DCM’s printed business documents relative to historical sales levels for those products; the risk that changes in the mix of products and services sold by DCM will adversely affect DCM’s financial results; the risk that DCM may not be successful in reducing the size of its legacy print business, realizing the benefits expected from restructuring and business reorganization initiatives, reducing costs, reducing and repaying its long term debt, and growing its digital and marketing communications businesses; the risk that DCM may not be successful in managing its organic growth; DCM’s ability to invest in, develop and successfully market new digital and other products and services; competition from competitors supplying similar products and services, some of whom have greater economic resources than DCM and are well-established suppliers; DCM’s ability to grow its sales or even maintain historical levels of its sales of printed business documents; the impact of economic conditions on DCM’s businesses; risks associated with acquisitions and/or investments in joint ventures by DCM; the failure to realize the expected benefits from the acquisitions of Thistle Printing, Eclipse Colour & Imaging, BOLDER Graphics and Perennial Group of Companies and risks associated with the integration and growth of such businesses; increases in the costs of paper and other raw materials used by DCM; DCM’s ability to maintain relationships with its customers; risks relating to future legislative and regulatory developments and other business risks involving the wellness, medical and adult-use marijuana markets in Canada and internationally generally; risks relating to DCM’s ability to access sufficient capital, including, without limitation, under its existing revolving credit facility, on favourable terms to fund its business plans from internal and external sources; and the risk that DCM will not be successful in implementing amendments to the terms of its existing credit facilities including, without limitations, the financial covenants of DCM under these facilities.

Additional factors are discussed elsewhere in this MD&A under the headings "Liquidity and capital resources" and “Risks and Uncertainties” in DCM’s publicly available disclosure documents, as filed by DCM on SEDAR (www.sedar.com). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Unless required by applicable securities law, DCM does not intend and does not assume any obligation to update these forward-looking statements.

Non-IFRS measures

This MD&A includes certain non-IFRS measures as supplementary information. Except as otherwise noted, when used in this MD&A, EBITDA means earnings before interest and finance costs, taxes, depreciation and amortization and Adjusted EBITDA means EBITDA adjusted for restructuring expenses, one-time business reorganization costs and acquisition costs. Adjusted net income (loss) means net income (loss) adjusted for restructuring expenses, one-time business reorganization costs, acquisition costs and the tax effects of those items. Adjusted net income (loss) per share (basic and diluted) is calculated by dividing Adjusted net income (loss) for the period by the weighted average number of common shares of DCM (basic and diluted) outstanding during the period. In addition to net income (loss), DCM uses non-IFRS measures including Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA to provide investors with supplemental measures of DCM's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. DCM also believes that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. DCM's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet future debt service, capital expenditure and working capital requirements. 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), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA should not be construed as alternatives to net income (loss) determined in accordance with IFRS as an indicator of DCM's performance. For a reconciliation of net income (loss) to EBITDA and a reconciliation of net income (loss) to Adjusted EBITDA, see Table 6 and Table 7 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 8 and Table 9 below.

Business of DCM

OVERVIEW

DCM is a communication solutions partner that adds value for major companies across North America by creating more meaningful connections with their customers. DCM pairs customer insights and thought leadership with cutting-edge products, modular enabling technology and services to power its clients' go-to market strategies. DCM helps its clients manage how their brands come to life, determine which channels are right for them, manage multimedia campaigns, deploy location-specific and 1:1 marketing, execute custom loyalty programs, and fulfill their commercial printing needs all in one place.

DCM's extensive experience has positioned it as an expert at providing communication solutions across many verticals, including the financial, retail, healthcare, consumer health, energy, and not-for-profit sectors. As a result of its locations throughout Canada and in the United States (Chicago, Illinois and New York, New York), it is able to meet its clients' varying needs with scale, speed, and efficiency - no matter how large or complex the ask. DCM is able to deliver advanced data security, regulatory compliance, and bilingual communications, both in print and/or digital formats.

On February 22, 2017, DCM acquired Eclipse Colour and Imaging Corp. ("Eclipse"), a Canadian large-format and point-of-purchase printing and packaging company. On February 22, 2017, DCM acquired Thistle Printing Limited ("Thistle"), a full service commercial printing company. On January 1, 2019, Thistle was amalgamated into DCM. On November 10, 2017, DCM acquired BGI Holdings Inc. and 1416395 Alberta Limited (collectively "BOLDER Graphics"), a company focused on large-format digital printing, point of sale signage, corporate packaging, outdoor signage and vehicle graphics. On January 1, 2018, BOLDER Graphics was amalgamated into DCM.

On May 8, 2018, DCM acquired 100% of the outstanding common shares of Perennial Group of Companies Inc., Perennial Inc. and The Finished Line Studios Inc. (collectively, “Perennial Group”). On closing, Perennial Group was amalgamated as Perennial Inc. (“Perennial”). Perennial’s suite of services includes business and brand strategy, consumer insights, environmental and graphic design, and communications and retail operations design and strategy.

On November 7, 2018, DCM announced that Perennial and Aphria Inc. (“Aphria”) had entered into a joint venture agreement (the “JV”). The JV initially focused on cannabis-infused products for the wellness, medical and adult-use markets. The JV was owned equally by Perennial and Aphria. It selected specific projects to collaborate on and seek to leverage the respective capabilities of Perennial, DCM and Aphria. The JV was dissolved on July 12, 2019. As at September 30, 2019, there were no significant transactions or balances between incorporation and dissolution.

Customer agreements and terms typically include provisions consistent with industry practice, which allow DCM to pass along increases in the cost of paper and other raw materials used to manufacture products.

DCM’s revenue is subject to the seasonal advertising and mailing patterns of certain customers. Typically, higher revenues and profit are generated in the fourth quarter relative to the other three quarters, however this can vary from time to time by changes in customers' purchasing decisions throughout the year. As a result, DCM’s revenue and financial performance for any single quarter may not be indicative of revenue and financial performance which may be expected for the full year.

DCM has approximately 1,250 employees in Canada and the United States and had revenues of $322.8 million in 2018. Website: www.datacm.com.

RECENT DEVELOPMENTS

PROGRESS ON ERP TRANSITION

As a result of the significant disruption in DCM’s business caused by the implementation of a new ERP system since June 3, 2019, the Company’s liquidity has been constrained by delays in production, shipments and billings to its customers. Significant progress has been made throughout the third quarter to remediate many system issues pivotal to the proper functionality of the system, however clean up and remediation efforts are ongoing. Production and shipping volumes have begun to return to normal levels commensurate with activity prior to the implementation of the new ERP system, however DCM continues to experience challenges with issuing accurate billings to its customers which in turn has increased its accounts receivable by nearly double its normal levels (for the DCM core business that transitioned to the new ERP system). DCM has leveraged its Bank Credit Facility (as defined below) during the third quarter, in addition to obtaining additional financing from Crown (as defined below), to enable it to continue to meet its commitments to its valued suppliers until billings and collections issues are resolved with its customers. Management continues to work with its lenders, while exploring other financing alternatives to provide additional liquidity to the business while it continues to address its ERP issues, stabilize and position itself for growth going forward (see "Liquidity").

INCREASED PROCEEDS UNDER THE CROWN CREDIT FACILITY

On August 16, 2019, DCM entered into a third amendment to its Crown Facility (as defined in the "Liquidity and capital resources" section) whereby Crown advanced a second non-revolving term loan in the principal amount of $7 million, for total advances in the principal amount of $19 million on this facility. The terms are consistent with the provisions of the original Crown Facility agreement (see "Liquidity and capital resources" for further details). In addition, a total of 550,000 warrants have been issued to Crown in connection with this amendment. Each warrant entitles the holder to acquire one DCM common share at an exercise price of $1.08 for a period of 3.7 years, commencing on August 16, 2019.

INCREASE TO AVAILABLE CREDIT UNDER THE BANK CREDIT FACILITY

On July 31, 2019, DCM entered into a third amendment to increase the revolving commitment under its Bank Credit Facility with a Canadian chartered bank ("the Bank") from $35 million to $42 million for the period July 31 to December 31, 2019 (see "Liquidity" for details).

At the Company's request, the Bank is also reviewing the potential to provide additional funding by way of an increase to the credit available under its Bank Credit Facility from $42 million to up to $50 million ("Proposed Bank Credit Facility") to provide additional financial liquidity should the remediation of the short-term liquidity constraints arising from the ERP implementation take longer than anticipated.

In the interim, on November 14, 2019, a fourth amendment was made to the Bank Credit Facility to provide a short-term increase of available credit from $42,000 to $45,000 until December 31, 2019, or the date an agreement is reached under the Proposed Bank Credit Facility, should that come sooner.

RIGHTS OFFERING

Subject to receipt of all necessary regulatory approvals, including the approval of the Toronto Stock Exchange, we intend to pursue a rights offering under which eligible shareholders will receive rights to subscribe for common shares of the company. It is expected that our directors and senior officers will participate in the rights offering. Further details of the proposed rights offering will be set out in a rights offering circular filed with securities regulatory authorities. The net proceeds from the proposed offering, if completed, would be used to enhance the company's liquidity in the near term.

COST OF REVENUES AND OTHER EXPENSES

DCM's cost of revenues primarily consists of raw materials, manufacturing salaries and benefits, occupancy costs, depreciation of owned equipment, and depreciation of the right-of-use asset ("ROU Asset") for property leases and equipment leases. DCM's raw material costs consist primarily of paper, carbon and ink. Manufacturing salaries and benefits costs primarily consist of employee salaries and health benefits at DCM's printing and warehousing facilities. Occupancy costs consist primarily of depreciation of the ROU Asset for property leases, and costs related to utilities, insurance and building maintenance. DCM'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, the ROU Asset, 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 depreciation of the ROU Asset for property leases, telecommunications, pension plan expenses and professional service fees.

DCM has incurred restructuring expenses in each of the last four fiscal years, which primarily consisted of severance costs associated with headcount reductions and costs related to the closure of certain facilities.

Selected Consolidated Financial Information

The following tables set out the summary consolidated financial information and supplemental information for the periods indicated. The summary interim and financial information for fiscal 2019 and 2018 have been derived from consolidated financial statements, prepared in accordance with IFRS. The unaudited financial information presented has been prepared on a basis consistent with our fiscal 2018 audited consolidated financial statements. Due to the adoption of new IFRS standards at January 1, 2019, these periods do not reflect consistent accounting policies, particularly in relation to IFRS 16, and therefore are not directly comparable. In the opinion of management, such unaudited financial data reflects all adjustments, consisting of normal and non-recurring adjustments, necessary for the fair presentation of the results for those periods.

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

For the periods ended September 30, 2019 and 2018 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*	**January 1 to September 30, 2019**			January 1 to September 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Revenues	**$ 211,387**	**$ —**	**$ 211,387**	$ 241,617
Cost of revenues	**160,965**	**(1,314)**	**159,651**	183,292
Gross profit	**50,422**	**1,314**	**51,736**	58,325
Selling, general and administrative expenses	**50,684**	**(188)**	**50,496**	50,969
Restructuring expenses	**7,595**	**—**	**7,595**	809
Acquisition costs	**—**	**—**	**—**	319
	58,279	**(188)**	**58,091**	52,097
(Loss) income before finance costs and income taxes	**(7,857)**	**1,502**	**(6,355)**	6,228
Finance costs				
Interest expense, net	**3,748**	**2,719**	**6,467**	3,664
Amortization of transaction costs	**400**	**—**	**400**	469
	4,148	**2,719**	**6,867**	4,133
(Loss) income before income taxes	**(12,005)**	**(1,217)**	**(13,222)**	2,095
Income tax (recovery) expense				
Current	**(79)**	**—**	**(79)**	985
Deferred	**(3,149)**	**—**	**(3,149)**	(297)
	(3,228)	**—**	**(3,228)**	688
Net (loss) income for the period	**$ (8,777)**	**$ (1,217)**	**$ (9,994)**	$ 1,407
Basic (loss) earnings per share	**$ (0.41)**	**$ (0.06)**	**$ (0.46)**	$ 0.07
Diluted (loss) earnings per share	**$ (0.41)**	**$ (0.06)**	**$ (0.46)**	$ 0.07
Weighted average number of common shares outstanding, basic	**21,523,515**	**21,523,515**	**21,523,515**	20,821,844
Weighted average number of common shares outstanding, diluted	**21,523,515**	**21,523,515**	**21,523,515**	20,931,490

The adoption of IFRS 16 resulted in a lower net income by $1.2 million for the nine months ended September 30, 2019 versus on a pre IFRS 16 basis. Lease payments were previously expensed directly through the statement of operations as cost of sales or SG&A expenses for a total of $8.1 million. Under IFRS 16, (i) the $8.1 million lease payments are recognized as a reduction of lease liabilities in the condensed interim consolidated statement of financial position and are presented as finance lease payments on the condensed interim consolidated statement of cash flow, (ii) which offsets the depreciation expense of the ROU Asset recognized in cost of sales and SG&A for an aggregate amount of $6.6 million for a net operating income effect of $1.5 million, and (iii) finance charges on the lease liability were recognized as interest expense of $2.7 million.

TABLE 2 The following table sets out selected historical consolidated financial information for the periods noted.

For the periods ended September 30, 2019 and 2018 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*	**July 1 to September 30, 2019**			July 1 to September 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Revenues	**$ 63,215**	**$ —**	**$ 63,215**	$ 74,925
Cost of revenues	**48,346**	**(384)**	**47,962**	56,664
Gross profit	**14,869**	**384**	**15,253**	18,261
Selling, general and administrative expenses	**17,863**	**(55)**	**17,808**	15,547
Restructuring expenses	**2,724**	**—**	**2,724**	9
Acquisition costs	**—**	**—**	**—**	6
	20,587	**(55)**	**20,532**	15,562
(Loss) Income before finance costs and income taxes	**(5,718)**	**439**	**(5,279)**	2,699
Finance costs	**—**			
Interest expense, net	**1,344**	**916**	**2,260**	1,256
Amortization of transaction costs	**177**	**—**	**177**	168
	1,521	**916**	**2,437**	1,424
(Loss) Income before income taxes	**(7,239)**	**(477)**	**(7,716)**	1,275
Income tax (recovery) expense				
Current	**395**	**—**	**395**	430
Deferred	**(2,194)**	**—**	**(2,194)**	7
	(1,799)	**—**	**(1,799)**	437
Net (loss) income for the period	**$ (5,440)**	**$ (477)**	**$ (5,917)**	$ 838
Basic loss per share	**$ (0.25)**	**$ (0.02)**	**$ (0.27)**	0.04
Diluted loss per share	**$ (0.25)**	**$ (0.02)**	**$ (0.27)**	0.04
Weighted average number of common shares outstanding, basic	**21,523,515**	**21,523,515**	**21,523,515**	21,523,515
Weighted average number of common shares outstanding, diluted	**21,523,515**	**21,523,515**	**21,523,515**	21,759,414

The adoption of IFRS 16 resulted in a lower net income by $0.5 million for the three months ended September 30, 2019 versus on a pre IFRS 16 basis. Lease payments were previously expensed directly through the statement of operations as cost of sales or SG&A expenses for a total of $2.8 million. Under IFRS 16, (i) the $2.8 million lease payments are recognized as a reduction of lease liabilities in the condensed interim consolidated statement of financial position and are presented as finance lease payments on the condensed interim consolidated statement of cash flow, (ii) which offsets the depreciation expense of the ROU Asset recognized in cost of sales and SG&A for an aggregate amount of $2.3 million for a net operating loss effect of $0.4 million, and (iii) finance charges on the lease liability were recognized as interest expense of $0.9 million.

TABLE 3 The following table sets out selected historical consolidated financial information for the periods noted.

As at September 30, 2019 and December 31, 2018 *(in thousands of Canadian dollars, unaudited)*	**As at Sept. 30, 2019**			As at December 31, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Current assets	**$ 101,029**	**$ (241)**	**$ 100,788**	$ 85,455
Current liabilities	**66,825**	**7,933**	**74,758**	64,716
Total assets	**157,769**	**58,963**	**216,732**	142,231
Total non-current liabilities	**91,793**	**52,247**	**144,040**	70,003
Shareholders' equity	**$ (849)**	**$ (1,217)**	**$ (2,066)**	$ 7,512

Table 3 highlights the changes to the condensed interim consolidated statement of financial position as at September 30, 2019 as a result of the adoption of IFRS 16 as at January 1, 2019. The significant changes relate to the following:

- DCM recognized a ROU Asset and a lease liability at the lease commencement date for substantially all of its leases which increased total assets and total liabilities (current and long-term portion);
- The ROU Asset was adjusted for any lease payments made at or before the lease commencement date, less any lease incentives and onerous lease liabilities, which were previously classified within current assets and total liabilities (current and long-term portion), respectively; and
- With respect to subleases where DCM is the lessor, DCM has reclassified the finance lease receivable from total liabilities to total assets, with the short-term portion allocated to current assets.

TABLE 4 The following table sets out selected historical consolidated financial information for the periods noted. See "Non-IFRS Measures" section above for more details.

For the periods ended September 30, 2019 and 2018 *(in thousands of Canadian dollars, except percentage amounts, unaudited)*	**January 1 to September 30, 2019**			January 1 to September 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Revenues	**$ 211,387**	**$ —**	**$ 211,387**	$ 241,617
Gross profit	**$ 50,422**	**$ 1,314**	**$ 51,736**	$ 58,325
Gross profit, as a percentage of revenues	**23.9%**		**24.5%**	24.1%
Selling, general and administrative expenses	**$ 50,684**	**$ (188)**	**$ 50,496**	$ 50,969
As a percentage of revenues	**24.0%**		**23.9%**	21.1%
Adjusted EBITDA (see Table 6)	**$ 6,397**	**$ 8,065**	**$ 14,462**	$ 15,680
As a percentage of revenues	**3.0%**		**6.8%**	6.5%
Net (loss) income for the period	**$ (8,777)**	**$ (1,217)**	**$ (9,994)**	$ 1,407
Adjusted (loss) net income (see Table 8)	**$ (2,515)**	**$ (1,217)**	**$ (3,732)**	$ 3,304
As a percentage of revenues	**-1.2%**		**-1.8%**	1.4%

TABLE 5 The following table sets out selected historical consolidated financial information for the periods noted. See "Non-IFRS Measures" section above for more details.

For the periods ended September 30, 2019 and 2018 *(in thousands of Canadian dollars, except percentage amounts, unaudited)*	**July 1 to September 30, 2019**			July 1 to September 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Revenues	**$ 63,215**	**$ —**	**$ 63,215**	$ 74,925
Gross profit	**$ 14,869**	**$ 384**	**$ 15,253**	$ 18,261
Gross profit, as a percentage of revenues	**23.5%**		**24.1%**	24.4%
Selling, general and administrative expenses	**$ 17,863**	**$ (55)**	**$ 17,808**	$ 15,547
As a percentage of revenues	**28.3%**		**28.2%**	20.8%
Adjusted EBITDA (see Table 7)	**$ (601)**	**$ 2,768**	**$ 2,167**	$ 5,242
As a percentage of revenues	**-1.0%**		**3.4%**	7.0%
Net (loss) income for the period	**$ (5,440)**	**$ (477)**	**$ (5,917)**	$ 838
Adjusted net (loss) income (see Table 9)	**$ (3,423)**	**$ (477)**	**$ (3,900)**	$ 964
As a percentage of revenues	**-5.4%**		**-6.2%**	1.3%

TABLE 6 The following table provides reconciliations of net (loss) income to EBITDA and of net (loss) income to Adjusted EBITDA for the periods noted. See "Non-IFRS Measures" section above for more details.

EBITDA and Adjusted EBITDA reconciliation

For the periods ended September 30, 2019 and 2018 *(in thousands of Canadian dollars, unaudited)*	**January 1 to September 30, 2019**			January 1 to September 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Net (loss) income for the period [1]	**$ (8,777)**	**$ (1,217)**	**$ (9,994)**	$ 1,407
Interest expense, net [1]	**3,748**	**2,719**	**6,467**	3,664
Amortization of transaction costs	**400**	**—**	**400**	469
Current income tax (recovery) expense	**(79)**	**—**	**(79)**	985
Deferred income tax recovery	**(3,149)**	**—**	**(3,149)**	(297)
Depreciation of property, plant and equipment	**3,109**	**—**	**3,109**	3,486
Amortization of intangible assets	**2,672**	**—**	**2,672**	3,514
Depreciation of the ROU Asset [1]	**—**	**6,563**	**6,563**	—
EBITDA	**$ (2,076)**	**$ 8,065**	**$ 5,989**	$ 13,228
Restructuring expenses	**7,595**	**—**	**7,595**	809
One-time business reorganization costs [2]	**878**	**—**	**878**	1,324
Acquisition costs	—	—	**—**	319
Adjusted EBITDA	**$ 6,397**	**$ 8,065**	**$ 14,462**	$ 15,680

(1) 2019 results include the impact of the adoption of new accounting standard IFRS 16. Refer to note 3 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and related management's discussion & analysis for further details of the impact of the adoption of new accounting standards.

(2) One-time business reorganization costs include non-recurring headcount reduction expenses for employees that did not qualify as restructuring costs. This also includes one-time expenses for the JV that was dissolved on July 12, 2019.

TABLE 7 The following table provides reconciliations of net (loss) income to EBITDA and of net (loss) income to Adjusted EBITDA for the periods noted. See “Non-IFRS Measures” section above for more details.

EBITDA and Adjusted EBITDA reconciliation

For the periods ended September 30, 2019 and 2018 *(in thousands of Canadian dollars, unaudited)*	**July 1 to September 30, 2019**			July 1 to September 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Net (loss) income for the period [1]	**$ (5,440)**	**$ (477)**	**$ (5,917)**	$ 838
Interest expense, net [1]	**1,344**	**916**	**2,260**	1,256
Amortization of transaction costs	**177**	**—**	**177**	168
Current income tax recovery	**395**	**—**	**395**	430
Deferred income tax recovery	**(2,194)**	**—**	**(2,194)**	7
Depreciation of property, plant and equipment	**959**	**—**	**959**	1,162
Amortization of intangible assets	**1,428**	**—**	**1,428**	1,213
Depreciation of the ROU Asset [1]	**—**	**2,329**	**2,329**	—
EBITDA	**$ (3,331)**	**$ 2,768**	**$ (563)**	$ 5,074
Restructuring expenses	**2,724**	**—**	**2,724**	9
One-time business reorganization costs [2]	**6**	**—**	**6**	153
Acquisition costs	—	—	—	6
Adjusted EBITDA	**$ (601)**	**$ 2,768**	**$ 2,167**	$ 5,242

(1) 2019 results include the impact of the adoption of new accounting standard IFRS 16. Refer to note 3 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and related management's discussion & analysis for further details of the impact of the adoption of new accounting standards.

(2) One-time business reorganization costs include non-recurring headcount reduction expenses for employees that did not qualify as restructuring costs.

TABLE 8 The following table provides reconciliations of net (loss) income to Adjusted net (loss) income and a presentation of Adjusted net income per share for the periods noted. See "Non-IFRS Measures" section above for more details.

Adjusted net (loss) income reconciliation

For the periods ended September 30, 2019 and 2018 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*	**January 1 to September 30, 2019**			January 1 to September 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Net (loss) income for the period [(1)]	**$ (8,777)**	**$ (1,217)**	**$ (9,994)**	$ 1,407
Restructuring expenses	**7,595**	**—**	**7,595**	809
One-time business reorganization costs [(2)]	**878**	**—**	**878**	1,324
Acquisition costs	**—**	**—**	**—**	319
Tax effect of the above adjustments	**(2,211)**	**—**	**(2,211)**	(555)
Adjusted net (loss) income	**$ (2,515)**	**$ (1,217)**	**$ (3,732)**	$ 3,304
Adjusted net (loss) income per share, basic and diluted	**$ (0.12)**	**$ (0.06)**	**$ (0.17)**	$ 0.16
Weighted average number of common shares outstanding, basic	**21,523,515**	**21,523,515**	**21,523,515**	20,821,844
Weighted average number of common shares outstanding, diluted	**21,523,515**	**21,523,515**	**21,523,515**	20,931,490
Number of common shares outstanding, basic	**21,523,515**	**21,523,515**	**21,523,515**	21,523,515
Number of common shares outstanding, diluted	**21,523,515**	**21,523,515**	**21,523,515**	21,633,161

(1) 2019 results include the impact of the adoption of new accounting standard IFRS 16. Refer to note 3 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and related management's discussion & analysis for further details of the impact of the adoption of new accounting standards.

(2) One-time business reorganization costs include non-recurring headcount reduction expenses for employees that did not qualify as restructuring costs. This also includes one-time expenses for the JV that was dissolved on July 12, 2019.

TABLE 9 The following table provides reconciliations of net (loss) to Adjusted net (loss) income and a presentation of Adjusted net income per share for the periods noted. See "Non-IFRS Measures" section above for more details.

Adjusted net (loss) income reconciliation

For the periods ended September 30, 2019 and 2018 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*	**July 1 to September 30, 2019**			July 1 to September 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Net (loss) income for the period [(1)]	**$ (5,440)**	**$ (477)**	**$ (5,917)**	$ 838
Restructuring expenses	**2,724**	**—**	**2,724**	9
One-time business reorganization costs [(2)]	**6**	**—**	**6**	153
Acquisition costs	**—**	**—**	—	6
Tax effect of the above adjustments	**(713)**	**—**	**(713)**	(42)
Adjusted net (loss) income	**$ (3,423)**	**$ (477)**	**$ (3,900)**	$ 964
Adjusted net (loss) income per share, basic and diluted	**$ (0.16)**	**$ (0.02)**	**$ (0.18)**	$ 0.04
Weighted average number of common shares outstanding, basic	**21,523,515**	**21,523,515**	**21,523,515**	21,523,515
Weighted average number of common shares outstanding, diluted	**21,523,515**	**21,523,515**	**21,523,515**	21,759,414
Number of common shares outstanding, basic	**21,523,515**	**21,523,515**	**21,523,515**	21,523,515
Number of common shares outstanding, diluted	**21,523,515**	**21,523,515**	**21,523,515**	21,759,414

(1) 2019 results include the impact of the adoption of new accounting standard IFRS 16. Refer to note 3 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and related management's discussion & analysis for further details of the impact of the adoption of new accounting standards.

(2) One-time business reorganization costs include non-recurring headcount reduction expenses for employees that did not qualify as restructuring costs.

Results of operations

REVENUES

For the three months ended September 30, 2019, DCM recorded revenues of $63.2 million, a decrease of $11.7 million or 15.6% compared with the same period in 2018. DCM continued to experience a disruption in its business during the third quarter as a result of the transition to the new ERP system on June 3, 2019. This impacted production, shipments and billing activity to its customers resulting in a significant backlog of sales orders and delays in meeting customer demand. As the third quarter progressed, DCM made significant improvements with remediating its ERP issues however further development and clean-up efforts are ongoing. Customer demand continues to be strong and DCM is beginning to work through its order backlog as revenues for September were more reflective of normalized levels. Commencement of the fourth quarter continues to show positive momentum in volumes commensurate with its strong fourth quarter in the prior year. Similarly, DCM's sales pipeline has never been stronger and continues to generate a healthy influx of new wins and additional wallet share from existing customers. As a result of the disruption caused by the new ERP transition, revenues for the three months ended September 30, 2019 decreased by approximately $7.5 million year over year. The sales order backlog continues to be higher than expected norms which DCM expects to recover in the fourth quarter as production resumes back to normal capacity.

Other significant factors contributing to the decrease in revenues for the three months ended September 30, 2019 versus the same period last year include: (i) $1.5 million reduction in spend by certain retailers and government agencies to better manage their inventory levels and/or move to other solutions not offered by DCM; (ii) $1.6 million due to the deferral of certain work including direct marketing campaigns, and (iii) $3.2 million reduction in sales due to lowered customer demand and volume decline. The reduction in revenue was partially offset due to (i) the onboarding of its new offering to a large provincial healthcare services customer which began to ramp up in the second and third quarter for $1.8 million and is expected to contribute to continued sales growth over the multi-year term of the agreement; (ii) new sales from customers in the Cannabis sector of $1.6 million, and (iii) $0.4 million from various other new customer wins or incremental wallet share from its existing customer base.

For the nine months ended September 30, 2019, DCM recorded revenues of $211.4 million, a decrease of $30.2 million or 12.5% compared with the same period in 2018. In the first quarter of 2019, DCM experienced a planned reduction in the scope of work versus the prior year by approximately $4.9 million for a specific customer, which was a one-time non-recurring win in 2018. The remaining decrease in revenue year over year is attributable to (i) a disruption of production and shipments to customers caused by DCM's transition to a new ERP system resulting in a reduction of revenue by $7.5 million year over year (for the reasons noted above for the three months ended September 30, 2019); (ii) $15.1 million reduction in sales due to lowered customer demand and volume decline; (iv) a reduction in spend by certain retailers to better manage their inventory levels and/or move to other solutions not offered by DCM of $6.1 million; (v) the loss of a lower margin, limited product line customer resulting in a $3.2 million decrease; (vi) $2.5 million due to the deferral of certain work including direct marketing campaigns, and (vii) $1.4 million for other non-recurring work. The reduction in revenue was partially offset due to (i) onboarding of its new offering to a large provincial healthcare services customer which began to ramp up in the second and third quarter for $2.8 million; (ii) new sales from customers in the Cannabis sector of $5.6 million; (iii) $0.9 million in new wins and existing customer growth, and (iv) a full nine months of revenue from Perennial this year given it was acquired in May 2018 resulting in an additional $1.0 million.

As noted above, recent large client wins are representative of the broad service and product offering with large enterprise customers which DCM continues to target. A number of enhanced relationships are particularly attributed to the strategic ideation and marketing expertise contributed by Perennial.

COST OF REVENUES AND GROSS PROFIT

For the three months ended September 30, 2019, cost of revenues decreased to $48.0 million from $56.7 million for the same period in 2018, resulting in a $8.7 million or 15.4% decrease over the same period last year. Excluding the effects of adopting IFRS 16, cost of revenues decreased by $8.3 million or 14.7% relative to the same period last year.

Gross profit for the three months ended September 30, 2019 was $15.3 million, which represented a decrease of $3.0 million or 16.5% from $18.3 million for the same period in 2018. Excluding the effects of adopting IFRS 16, gross profit decreased by $3.4 million or 18.6% relative to the same period last year. Gross profit as a percentage of revenues decreased to 24.1% for the three months ended September 30, 2019 compared to 24.4% for the same period in 2018, however, excluding the effects of adopting IFRS 16, gross profit as a percentage of revenues was 23.2% for the three months ended September 30, 2019. The decrease in gross profit as a percentage of revenues for the three months ended September 30, 2019 was primarily due to (i) production inefficiencies caused by disruptions arising from the implementation of the ERP system; (ii) softness in sales thereby resulting in weaker absorption of fixed overhead costs, and, (iii) impact of paper and other raw material price increases leading to somewhat compressed margins on contracts with certain customers. Gross profit as a percentage of revenues was, however, positively impacted due to continued discipline to improve pricing with customers, loss of low margin customers, and cost reductions realized from ongoing cost savings initiatives implemented in 2019 and the last quarter of 2018.

For the nine months ended September 30, 2019, cost of revenues decreased to $159.7 million from $183.3 million for the same period in 2018, resulting in a $23.6 million or 12.9% decrease over the same period last year. Excluding the effects of adopting IFRS 16, cost of revenues decreased by $22.3 million or 12.2% relative to the same period last year.

Gross profit for the nine months ended September 30, 2019 was $51.7 million, which represented a decrease of $6.6 million or 11.3% from $58.3 million for the same period in 2018. Gross profit as a percentage of revenues increased to 24.5% for the nine months ended September 30, 2019, compared to 24.1% for the same period in 2018. Excluding the effects of adopting IFRS 16, gross profit for the nine months ended September 30, 2019 was $50.4 million or 23.8% as a percentage of revenues. The decrease in gross profit as a percentage of revenues for the nine months ended September 30, 2019 was primarily attributable to the same reasons noted for the three months ended September 30, 2019.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (“SG&A”) expenses for the three months ended September 30, 2019 increased $2.3 million or 14.5% to $17.8 million, or 28.2% of total revenues, compared to $15.5 million, or 20.8% of total revenues, in the same period in 2018. The increase in SG&A expenses for the three months ended September 30, 2019 is due to an increase in general and administration expenses of $2.8 million, whereas selling, commissions and expenses decreased by $0.5 million. The decrease in selling, commissions and expenses was primarily attributable to (i) lower sales commission costs commensurate with the decrease in revenues, and (ii) benefits from the cost saving initiatives implemented in 2019 and the last quarter of 2018. The increase in general and administration expenses was primarily attributable to (i) an increase in amortization costs related to the ERP intangible asset which commenced in June 2019; (ii) increase in salaries and wages for employees that have resumed normal responsibilities following the launch of the ERP system and no longer have their salaries and wages capitalized; (iii) overtime and temporary labour required to action remediation efforts related to the new ERP system, in addition to catching up on production of the sales order backlog; (iv) professional fees surrounding the ERP system, and (v) costs incurred for the strategic ideation and marketing expertise contributed by Perennial for in-house support to the DCM Sales team.

SG&A expenses for the nine months ended September 30, 2019 decreased $0.5 million or 0.9% to $50.5 million, or 23.9% of total revenues, compared to $51.0 million, or 21.1% of total revenues, for the same period of 2018. After deducting one-time business reorganization costs, SG&A expenses were $49.6 million, or 23.5% of total revenues compared to $49.6 million or 20.5% of revenues in the prior period. The slight decrease in SG&A expenses for the nine months ended September 30, 2019 is due to an increase in general and administration expenses of $1.9 million, whereas selling, commissions and expenses decreased by $2.4 million. The net decrease was primarily attributable to the same reasons noted for the three months ended September 30, 2019.

RESTRUCTURING EXPENSES

Cost reductions and enhancement of operating efficiencies have been an area of focus for DCM over the past four years in order to improve margins and better align costs with the declining revenues experienced by the Company in its traditional business, a trend being faced by the traditional printing industry for several years now.

For the three months ended September 30, 2019, DCM incurred restructuring expenses of $2.7 million compared to a nominal amount in the same period in 2018. The restructuring expenses of $2.7 million during for the three months ended September 30, 2019 related to headcount reductions predominately for direct and indirect labour across DCM's various manufacturing facilities, in addition to certain SG&A functions.

For the nine months ended September 30, 2019, DCM incurred restructuring expenses of $7.6 million compared to $0.8 million in the same period in 2018. In 2019, the restructuring costs related to headcount reductions from (i) the closure of its Brossard, Quebec facility which was announced in March 2019, (ii) the sale of its loose-leaf binders and index tab business in May 2019, (iii) process improvements in manufacturing to improve efficiencies and gross margins, and (iv) process improvements in its SG&A functions to reduce costs and enhance productivity.

DCM will continue to evaluate its operating costs for further efficiencies as part of its commitment to improving its gross margins and lowering its selling, general and administration expenses.

ADJUSTED EBITDA

For the three months ended September 30, 2019, Adjusted EBITDA was $2.2 million, or 3.4% of revenues, after adjusting EBITDA for the $2.7 million in restructuring charges. Excluding the effects of adopting IFRS 16, Adjusted EBITDA was $(0.6) million or 1.0% of revenues for the three months ended September 30, 2019 compared with an Adjusted EBITDA of $5.2 million or 7.0% of revenues for the same period last year.

For the nine months ended September 30, 2019, Adjusted EBITDA was $14.5 million or 6.8% of revenues, after adjusting EBITDA for the $7.6 million in restructuring charges and $0.9 million of one-time business reorganization costs. Excluding the effects of adopting IFRS 16, Adjusted EBITDA for the nine months ended September 30, 2019 was $6.4 million, or 3.0% of revenues compared with an Adjusted EBITDA of $15.7 million or 6.5% of revenues.

The decrease in Adjusted EBITDA, excluding the effect of IFRS 16, for the three and nine months ended September 30, 2019 over the prior year comparative periods was primarily attributable to the launch of the ERP system resulting in (i) the deferral of revenues and compressing margins, as discussed above; (ii) an increase in SG&A as the cost for salaries and wages for those employees working on the ERP system implementation can no longer be capitalized post go-live; (iii) an increase in overtime costs and temporary labour to help resolve ERP issues post go-live and catch up on production from the sales order backlog caused by delays in the ERP transition, and additional professional fees incurred as a direct result of the new ERP system. Furthermore, there were additional reductions in revenues and margins in the normal course of operations. However, the decline was partially offset due to cost reductions realized from ongoing cost savings initiatives implemented in 2019 and the last quarter of 2018.

INTEREST EXPENSE

Interest expense, including interest on debt outstanding under DCM's credit facilities, interest accretion expense related to certain debt obligations recorded at fair value, and interest expense on lease liabilities under IFRS 16 was $2.3 million for the three months ended September 30, 2019 compared to $1.3 million for the same period in 2018, and was $6.5 million for the nine months ended September 30, 2019 compared to $3.7 million for the same period in 2018. Excluding the effects of adopting IFRS 16, interest expense the three months ended September 30, 2019 was $1.3 million and for the nine months ended September 30, 2019 was $3.8 million. Interest expense for the three and nine months ended September 30, 2019 was relatively consistent with the same period in the prior year excluding IFRS 16. The slight change was primarily due to the Crown facility, secured in 2018 to fund the acquisition of Perennial and to repay the outstanding balance on its subordinated debt facility with Bridging Finance Inc. ("Bridging Credit Facility"), which was partially reflected in the nine months period ended September 30, 2019 as the facility was obtained in May 2018. In addition, part way through the quarter, total debt increased as at September 30, 2019 due to an additional $7 million loan obtained from Crown, and an increase in the Bank Credit Facility resulting in additional interest expense. The increase was offset by a reduction in the unwinding of discount which was included in interest expense of the Eclipse and Thistle VTBs that were repaid during the first quarter of 2019, and reduction of FPD Credit Facilities through principal payments resulting in lower interest expense.

INCOME TAXES

DCM reported a loss before income taxes of $7.7 million and a net income tax recovery of $1.8 million for the three months ended September 30, 2019 compared to income before income taxes of $1.3 million and a net income tax expense of $0.4 million for the three months ended September 30, 2018. DCM reported a loss before income taxes of $13.2 million and a net income tax recovery of $3.2 million for the nine months ended September 30, 2019 compared to income before income taxes of $2.1 million and a net income tax expense of $0.7 million for the nine months ended September 30, 2018. The change from a net income tax expense to a recovery position was due to the reduction of DCM's estimated taxable income to a loss for the three and nine months ended September 30, 2019. The deferred income tax recovery for the three and nine months ended September 30, 2019 was adjusted for any changes in estimates of future reversals of temporary differences.

NET LOSS

Net loss the three months ended September 30, 2019 was $5.9 million compared to net income of $0.8 million for the same period in 2018. Excluding the effects of adopting IFRS 16, net loss for the three months ended September 30, 2019 was $5.4 million.

Net loss for the nine months ended September 30, 2019 was $10.0 million compared to a net income of $1.4 million for the same period in 2018. Excluding the effects of adopting IFRS 16, net loss for the nine months ended September 30, 2019 was $8.8 million.

The decrease in comparable profitability for the three and nine months ended September 30, 2019 was primarily due to (i) the launch in the ERP system resulting in both the reduction in revenues and margins, and increase in SG&A as discussed above, (ii) the decrease in revenues in the normal course of operations, and (iii) an increase in restructuring expenses. This was partially offset by improved pricing discipline and cost savings from restructuring efforts carried out in 2019 and the last quarter of 2018 in cost of sales and selling, commissions and expenses.

ADJUSTED NET LOSS

Adjusted net loss the three months ended September 30, 2019 was $3.9 million compared to Adjusted net income of $1.0 million for the same period in 2018. Excluding the effects of adopting IFRS 16, Adjusted net loss the three months ended September 30, 2019 was $3.4 million.

Adjusted net loss for the nine months ended September 30, 2019 was $3.7 million compared to Adjusted net income of $3.3 million for the same period in 2018. Excluding the effects of adopting IFRS 16, Adjusted net loss for the nine months ended September 30, 2019 was $2.5 million.

The decrease in comparable profitability for the three and nine months ended September 30, 2019 was primarily due to (i) the launch of the ERP system resulting in both the reduction in revenues and margins, and increase in SG&A as discussed above, and (ii) the decrease in revenues in the normal course of operations. This was partially offset by improved pricing discipline and cost savings from restructuring efforts carried out in 2019 and the last quarter of 2018 in cost of sales and selling, commissions and expenses.

Liquidity and capital resources

CREDIT AGREEMENTS

BANK AND FPD CREDIT FACILITIES

DCM has established a revolving credit facility (the “Bank Credit Facility”) with a Canadian chartered bank (the “Bank”) and an amortizing term loan facility (the “FPD IV Credit Facility”) with Fiera Private Debt Fund IV L.P. ("FPD IV") (formerly, Integrated Private Debt Fund IV LP) a fund managed by Fiera Private Debt Fund GP Inc. ("FPD") (formerly, Integrated Asset Management Corp.) pursuant to separate amended and restated credit agreements between DCM and the Bank (as amended, the “Bank Credit Agreement”) and FPD (as amended, the “FPD IV Credit Agreement”), respectively. Upon closing of the Thistle acquisition in 2017, DCM became a co-borrower with Thistle under an existing credit agreement (the “FPD III Credit Agreement”) between Thistle and Fiera Private Debt Fund III L.P. ("FPD III") (formerly, Integrated Private Debt Fund III LP), another fund managed by FPD, pursuant to which FPD III has advanced to Thistle a term loan facility (the “FPD III Credit Facility”). On November 10, 2017, DCM established a $5.0 million secured, non-revolving senior credit facility (the "FPD V Credit Facility") with Fiera Private Debt V L.P. ("FPD V") (formerly, Integrated Private Debt Fund V LP), a fund managed by FPD (the "FPD V Credit Agreement" and, together with the FPD III Credit Agreement and the FPD IV Credit Agreement, the “FPD Credit Agreements”) to fund the acquisition of BOLDER Graphics and to repay a portion of DCM's outstanding principal under the Bank Credit Facility. The FPD III Credit Facility and the FPD V Credit Facility are subject to the same covenants stipulated under the FPD IV Credit Agreement and are reported on a consolidated basis.

Under the terms of the Bank Credit Agreement, the maximum principal amount available under the Bank Credit Facility is $42.0 million (see Amendments to Credit Facilities) and the Bank Credit Facility matures on January 31, 2023. Advances under the Bank Credit Facility may not, at any time, exceed the lesser of $42.0 million and a fixed percentage of DCM’s aggregate accounts receivable and inventory (less certain amounts). Advances under the amended Bank Credit Facility are subject to floating interest rates based upon the Canadian prime rate plus an applicable margin of 0.60%. DCM has capitalized transaction costs of $1,105 related to the Bank Credit Facility. The unamortized balance of the transaction costs are being amortized over the remaining term of the Bank Credit Facility. As at September 30, 2019, the unamortized transaction costs related to the Bank Credit Facility was $0.4 million. As at September 30, 2019, there were outstanding borrowings of $39.9 million under the revolving facilities portion of the Bank Credit Facility and letters of credit granted of $0.7 million. As at September 30, 2019, all of DCM’s indebtedness outstanding under the Bank Credit Facility was subject to a floating interest rate of 4.55% per annum. As at September 30, 2019, DCM had access to $1.4 million of available credit under the Bank Credit Facility. The bank overdraft of $1.5 million shown on the condensed interim consolidated statement of financial position as at September 30, 2019 represents outstanding cheques, which when cashed, would be a draw on the Bank Credit Facility.

Under the terms of the FPD Credit Agreements, the maximum aggregate principal amount which may be outstanding under the FPD III Credit Facility, FPD IV Credit Facility, the FPD V Credit Facility, the Bank Credit Facility and Crown Facility (as defined below), calculated on a consolidated basis in accordance with generally accepted accounting principles (“Total Funded Debt”), cannot exceed $80.0 million (after giving effect to the provisions of the inter-creditor agreement described below).

The principal amount of the amended FPD III Credit Facility amortizes in blended equal monthly repayments of principal and interest of $0.1 million over a nine year term ending October 15, 2022. The principal amount of the FPD IV Credit Facility amortizes in blended equal monthly repayments of principal and interest of $0.4 million over a seven year term ending March 10, 2023. The principal amount of the FPD V Credit Facility amortizes in blended equal monthly repayments of principal and interest of $0.1 million over a sixty six month term ending May 15, 2023. The FPD III Credit Facility, FPD IV Credit Facility and FPD IV Credit Facility were amended on July 25, 2019 to defer principal payments for the months of August through December 2019 (see Amendments to Credit Facilities). As at September 30, 2019, all of DCM’s indebtedness outstanding under the FPD III Credit Facility was subject to a fixed interest rate equal to 6.10% per annum and all of DCM's indebtedness outstanding under the amended FPD IV Credit Facility and under the FPD V Credit Facility were subject to a fixed interest rate equal to 6.95% per annum, respectively.

As at September 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD III Credit Facility were $20.0 thousand and $3.4 million, respectively. As at September 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD IV Credit Facility were $0.3 million and $16.4 million, respectively. As at September 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD V Credit Facility were $0.1 million and $3.7 million, respectively. The unamortized balance of the transaction costs for FPD III Credit Facility, FPD IV Credit Facility and the FPD V Credit Facility are being amortized over the remaining term of each respective facility.

CROWN FACILITY

On May 8, 2018, DCM established a $12.0 million non-revolving term loan facility ("Crown Tranche One Loan") with Crown Capital Partner Funding, LP (previously Crown Capital Fund IV, LP) (the "Crown Facility"), a fund managed by Crown Capital LP Partner Funding Inc. (previously Crown Capital Fund IV Management Inc.) ("Crown"), of which $8.2 million was used to fund the up-front cash component of the Perennial acquisition and $3.5 million was used to repay in full the outstanding balance on DCM's subordinated debt facility with Bridging Finance Inc. ("Bridging Credit Facility"). The balance of the Crown Facility was used for general working capital purposes.

The Crown Facility was made available in one advance on the funding date of May 8, 2018 and bears interest at a fixed rate of 10% per annum, payable quarterly, and the principal amount of the loan is due at maturity, which is 60 months from closing. DCM's obligations under the Crown Facility are subordinated to its other senior credit facilities and secured by a conventional security on all of the assets of DCM and its subsidiaries. In addition, a total of 960,000 warrants have been issued to Crown in connection with the Crown Facility. Each warrant entitles the holder to acquire one DCM common share at an exercise price of $1.75 for a period of five years, commencing on May 8, 2018. The Crown Facility of $12.0 million was apportioned to $11.5 million to the debt instrument and $0.5 million to the warrant option based on their relative fair values (note 13). The fair value of the warrant option was then bifurcated and recorded separately within equity while the fair value of the debt host will be accreted from $11.5 million to $12.0 million over the term of the loan.

On August 16, 2019, DCM entered into a third amendment to its Crown Facility whereby Crown advanced a second non-revolving term loan in the principal amount of $7.0 million ("Crown Tranche Two Loan"), for total advances in the principal amount of $19.0 million. The terms are consistent with the provisions of the Crown Tranche One Loan. In addition, a total of 550,000 warrants have been issued to Crown in connection with the Crown Tranche Two Loan. Each warrant entitles the holder to acquire one DCM common share at an exercise price of $1.08 for a period of 3.7 years, commencing on August 16, 2019. The Crown Facility was apportioned to $6.9 million to the debt instrument and $0.1 million to the warrant option based on the relative fair values (note 13). The fair value of the warrant option was then bifurcated and recorded separately within equity while the fair value of the debt host will be accreted from $6.9 million to $7.0 million over the term of the loan. In connection with the amendment, DCM recognized a loss on modification of debt of $0.1 million, which is included in the amortization of transactions costs in the condensed interim consolidated statement of operations.

As at September 30, 2019, the accreted debt instrument was valued at $18.5 million including total accretion expense of $0.1 million.

The Crown Facility can be prepaid in full at any time after twenty-four (24) months from the date of the funding anniversary. The penalties attached to each option are: (a) 3% prepayment penalty fee on the principal loan outstanding if the prepayment option is exercised during or after the 24th month but before the 36th month following the date of the funding anniversary, (b) 2% prepayment penalty fee on the principal loan outstanding if the prepayment option is exercised during or after the 36th month but before the 48th month following the date of the funding anniversary, or (c) 1% prepayment penalty fee on the principal loan outstanding if the prepayment option is exercised during or after the 48th month but before the 60th month following the date of the funding anniversary.

For the nine months ended September 30, 2019, DCM capitalized transaction costs of $0.2 million related to the Crown Facility. The unamortized transaction costs and outstanding borrowings related to the Crown Facility were $0.7 million and $18.5 million, respectively and the unamortized balance of the transaction costs is being amortized over the remaining term of this facility.

BANK LEASE FACILITY

On July 31, 2018, DCM entered into a commitment with the Bank to lease equipment by way of a demand, non-revolving lease facility for approximately $2.4 million (“Bank Lease Facility”). As part of this arrangement, DCM initially entered into an agreement to purchase the equipment from a third-party supplier. All of DCM's rights, title and interest in the equipment were subsequently assigned to the Bank by way of an agreement dated July 31, 2018. The Bank advanced funds pursuant to an interim funding agreement dated July 31, 2018 (the "Interim Funding Agreement") to pay for the upfront amounts required by the third-party supplier in exchange for a monthly fee payable by DCM which is calculated by multiplying the annual prime rate plus 0.75% by the total value of funds advanced and pro-rated for the days the funds remain outstanding. Total interest expense for the three and nine month periods ended September 30, 2019 was $nil and $30 thousand, respectively. On January 16, 2019, DCM entered into an amendment to extend the interim funding period to March 31, 2019.

On April 29, 2019, DCM finalized its lease agreement with the Bank pursuant to the Bank Lease Facility entered into on July 31, 2018. The agreement is for a period of five years with monthly payments of $38 thousand. Upon expiration of the lease term, DCM has the option to purchase or return the equipment.

AMENDMENTS TO CREDIT FACILITIES

Effective May 7, 2018, DCM entered into an amended and restated bank credit agreement (the "A&R Bank Credit Facility") with regards to its Bank Credit Facility, as amended, which incorporated conforming updates to the original Bank Credit Facility dated March 16, 2016 to consolidate the subsequent series of amendments previously made to that facility, including to provide for the addition of the Crown Facility together with the repayment of the Bridging Credit Facility into the A&R Bank Credit Facility and the acquisition of Perennial. No material changes were otherwise incorporated into the A&R Bank Credit Facility.

Effective May 7, 2018, DCM also entered into amended and restated credit agreements with regards to its FPD III Credit Facility (the "FPD III A&R Credit Facility"), its FPD IV Credit Facility (the "FPD IV A&R Credit Facility") and its FPD V Credit Facility (the "FPD V A&R Credit Facility" and, together with the FPD III A&R Credit Facility and the FPD IV A&R Credit Facility, the “FPD A&R Credit Facilities”), which, among other things incorporated conforming updates to each of those respective original credit agreements, to consolidate the subsequent series of amendments previously made to those agreements, including to provide for the addition of the Crown Facility together with the repayment of the Bridging Credit Facility and the acquisition of Perennial. No material changes were otherwise incorporated into the various credit facilities managed by FPD.

On July 31, 2018, the A&R Bank Credit Facility was amended to allow DCM to enter into the Bank Lease Facility for an amount not to exceed $3 million. The A&R Bank Credit Facility excludes the Bank Lease Facility from the maximum principal amount of debt available of $35 million and has added a cross default and cross collateralization condition which includes the equipment leased as collateral under A&R Bank Credit Facility and Bank Lease Facility.

On September 30, 2018, DCM received a waiver on the Crown Facility regarding the requirement to meet the fixed charge coverage ratio of 1.4 to 1.0 for the quarters ending December 31, 2018 and March 31, 2019. On February 8, 2019, DCM received an extension of the previous waiver in relation to meeting the fixed charge coverage ratio requirement for the quarter ending June 30, 2019.

On October 26, 2018, DCM received a waiver with regards to the FPD A&R Credit Facilities, and for the purposes of determining DCM's Excess Cash Flow (as defined under "Covenant Requirements" below), the FPD A&R Credit Facilities were waived to reduce the requirement to maintain a debt service coverage ratio of 2.0 times so long as DCM maintains a debt service coverage ratio of at least 1.85 times for the next four fiscal quarters beginning October 1, 2018 and ending on September 30, 2019. DCM is required to maintain the requirement in order to make payments in respect to the vendor take-back promissory notes issued in connection with the Eclipse, Thistle, BOLDER Graphics and Perennial acquisitions.

On March 5, 2019, DCM entered into a second amendment to its' A&R Bank Credit Facility. Significant terms of the amendment made to the credit facility include an extension of the maturity date to January 31, 2023, from its original maturity date of March 31, 2020; and a reduction in the prime rate margin on advances by 15 basis points from 0.75% per annum to 0.60% per annum.

On June 21, 2019, DCM received a waiver on the Crown Facility regarding the requirement to meet the fixed charge coverage ratio of 1.4 to 1.0 for the quarter ended September 30, 2019.

On June 21, 2019, DCM received an amendment regarding the FPD A&R Credit Facilities for the requirement to maintain a Total Funded Debt to EBITDA Ratio of no greater than 3:0 to 1:0, which was amended to no greater than 3.25 to 1:0 for the quarters ended June 30, 2019, and September 30, 2019, and for the quarter ending December 31, 2019. Subsequently, on June 30, 2019, DCM received a waiver regarding the requirement to maintain a Total Funded Debt to EBITDA Ratio of no greater than 3:25 to 1:0 for the quarter ended June 30, 2019.

On June 24, 2019, DCM received an amendment regarding the A&R Bank Credit Facility for the requirement to meet the fixed charge coverage ratio of 1.1 to 1.0, which was amended to 0.90 to 1.0 for May and June 2019, and 1.0 to 1.0 for July and August 2019.

On July 25, 2019, FPD III, FPD IV and FPD V agreed to amend the credit agreements between DCM and FPD III, FPD IV and FPD V for the FPD A&R Credit Facilities (“Amended FPD A&R Credit Facilities”). For each of the FPD A&R Credit Facilities, principal payments for the months of August 2019 through December 2019 will be deferred and paid out as bullet payments on each FPD A&R Credit Facility's respective maturity date. During this period, the interest rate on each of the FPD III, FPD IV and FPD V A&R Credit Facilities will be increased to 7.25% per annum. The increase in the interest rates will be treated as a payment in kind ("PIK") with the interest premium calculated and accrued on a monthly basis for each of the three credit facilities. The PIK is required to be repaid in cash prior to January 15, 2020 when the regularly scheduled principal and interest payments on each credit facility resume.

As a condition to those amendments, DCM has agreed to defer any payments on its vendor take-back promissory notes effective as of the date of the Amended FPD A&R Credit Facilities. In addition, the waiver obtained on October 26, 2018 to reduce the requirement to maintain a debt service coverage ratio from 2.0 to 1.85 times for the purposes of determining its Excess Cash Flow, and permit payments on its vendor take-back promissory notes, was revoked. Resumption of payments on vendor take-back promissory notes will require prior approval by FPD.

On July 31, 2019, DCM entered into a third amendment to increase the revolving commitment on its Bank A&R Credit Facility from an aggregate outstanding principal amount of up to $35 million to up to $42 million between July 31 and December 31, 2019. In addition, the amendment includes the Bank's consent to the amendments to the FPD A&R Credit Facilities on July 25, 2019. On November 14, 2019 a fourth amendment was made to increase the aggregate principal amount up to $45.0 million up until December 31, 2019.

On September 30, 2019, DCM received a waiver regarding the Crown Facility for the requirement to maintain the Net Debt to EBITDA of 4.0 to 1.0 for the quarter ended September 30, 2019.

On September 30, 2019, DCM received a waiver regarding the A&R Bank Credit Facility for the requirement to meet the fixed charge coverage ratio of 1.1 to 1.0 for the quarter ended September 30, 2019 and the months ending October 31 and November 30, 2019.

On September 30, 2019, DCM received a waiver regarding the FPD A&R Credit Facilities for the requirement to maintain a Total Funded Debt to EBITDA Ratio of no greater than 3:0 to 1:0 and Debt Service Coverage Ratio of no less than 1:5 to 1:0 and total funded debt of less than $80.0 million for the quarter ended September 30, 2019.

COVENANT REQUIREMENTS

Each of the Bank Credit Agreement, the FPD Credit Agreements and the Crown Facility contain customary representations and warranties, as well as restrictive covenants which limit the discretion of the Board and management with respect to certain business matters including the declaration or payment of dividends on the common shares of DCM without the consent of the Bank, FPD III, FPD IV, FPD V and Crown, as applicable. Under the terms of the FPD

Credit Agreements, DCM has agreed that it will not, without the prior written consent of FPD III, FPD IV and FPD V, change (or permit any change) in its Chief Executive Officer, President or Chief Financial Officer, provided that, if he or she voluntarily resigns as an officer of DCM, or if any such person has either died or is disabled and can therefore no longer carry on his or her duties of such office, DCM will have 60 days to replace such officer, such replacement officer to be satisfactory to FPD III, FPD IV and FPD V, acting reasonably. The A&R Bank Credit Facility, FPD A&R Credit Facilities and the Crown Facility limit spending on capital expenditures by DCM to an aggregate amount not to exceed $5.5 million, $5 million and $5 million, respectively during any fiscal year.

Under the terms of the Bank Credit Agreement, DCM is required to maintain a fixed charge coverage ratio of no less than the following levels: 1:00 to 1 from January 1, 2018 to March 31, 2018 and 1.10 to 1 on and after March 31, 2018, for which an amendment for the months of May, June, July and August 2019 has been obtained, and a waiver for the months of September, October and November 2019 was obtained (as noted above), calculated on a consolidated basis, in respect of any particular trailing 12 month period, as EBITDA for such period less cash taxes, cash distributions (including dividends paid) and non-financed capital expenditures paid in such period, divided by the total amount required by DCM to service its outstanding debt for such period. Each covenant is calculated and reported on a monthly basis. As at September 30, 2019, the fixed charge coverage ratio was 0.76. Absent the waiver, the Company would have been in breach of this covenant as at September 30, 2019.

Under the terms of the FPD Credit Agreements, DCM is required to maintain (i) a ratio of Total Funded Debt to EBITDA no greater than the following levels: 3.25 to 1 from January 1, 2018 up to March 31, 2018 and 3.00 to 1 on and after April 1, 2018, for which a waiver for the quarters ended June 30, 2019, and an amendment for the quarter ended September 30, 2019, which was subsequently waived, and for the quarter ending December 31, 2019 was previously obtained (as noted above); (ii) a debt service coverage ratio of not less than 1.50 to 1 for which a waiver for the quarter ended September 30, 2019 has been obtained (as noted above), (iii) a working capital current ratio of not less than 1.10 to 1, and (iv) total funded debt of not more than $80,000 for which a waiver for the quarter ended September 30, 2019 has been obtained (as noted above). Each covenant is calculated and reported on a quarterly basis. As of September 30, 2019, the ratio of Total Funded Debt to EBITDA was 6.43, the debt service coverage ratio was 1.04 and the working capital current ratio was 1.51. Absent the waivers, the Company would have been in breach of these covenants as at September 30, 2019.

In addition, the FPD Credit Agreements permit cash payments in respect to the vendor take-back promissory notes issued in connection with DCM's acquisitions, as well as consulting fees or distributions in cash to shareholders and/or related parties, in an amount equal to the Excess Cash Flow (as defined below), provided that the debt service coverage ratio for the four most recently completed quarters is greater than 2.00 to 1, which was subsequently amended to 1.85 to 1.00 from October 1, 2018 to September 30, 2019, and provided that there is no default or event of default. The excess cash flow is calculated by taking the EBITDA less payments for (i) cash taxes, (ii) capital expenditures, (iii) principal and interest payments on the A&R Bank Credit Facility, the FPD A&R Credit Facilities and the Crown Facility and (iv) interest on leases for the two most recently completed quarters ("Excess Cash Flow"). The Excess Cash Flow is required to be calculated as at March 31 and September 30 of each calendar year ("The Excess Cash Flow Determination Date") which determines the quantum of payments that can be made for the following six-month period until the next Excess Cash Flow Determination Date. As at September 30, 2019, DCM has agreed to defer any payments on its vendor take-back promissory notes effective as of the date of the Amended FPD A&R Credit Facilities. In addition, the waiver obtained on October 26, 2018 to reduce the requirement to maintain a debt service coverage ratio from 2.0 to 1.85 times for the purposes of determining its Excess Cash Flow, and permit payments on its vendor take-back promissory notes, was revoked. Resumption of payments on vendor take-back promissory notes will require prior approval by FPD.

Under the terms of the Crown Facility agreement, DCM is required to maintain (i) Net Debt to EBITDA of no greater than 4.0 to 1.0 from April 30, 2018 to December 31, 2019 and 3.00 to 1 thereafter, for which a waiver for the quarter ended September 30, 2019 has been obtained; (ii) a fixed charge coverage ratio no less than the following levels: 1.10 to 1 as at June 30, 2018, 1.25 to 1 from July 1, 2018 to September 30, 2018 and 1.40 to 1 for each quarter thereafter, for which waivers for the quarters ended December 31, 2018, March 31, 2019, June 30, 2019 and September 30, 2019 have been obtained (as noted above). Each covenant is calculated and reported on a quarterly basis. As at September 30, 2019, the fixed charge coverage ratio was 0.76 and the net debt to EBITDA ratio was 6.76. Absent the waiver, the Company would have been in breach of these covenants as at September 30, 2019.

A failure by DCM to comply with its obligations under the Bank Credit Agreement, the FPD Credit Agreements or the Crown Facility, together with certain other events, including a change of control of DCM and a change in DCM's Chief Executive Officer, President or Chief Financial Officer (unless a replacement officer acceptable to FPD, acting reasonably, is appointed within 60 days of the effective date of such officer's resignation), could result in an event of default which, if not cured or waived, could permit acceleration of the indebtedness outstanding under each of those agreements. DCM anticipates it will be in compliance with the covenants in its credit facilities for the next twelve months; however there can be no assurance that DCM will be successful in achieving the results targeted in its operating plans or in complying with its covenants over the next twelve months.

In addition, under the terms of the FPD IV Credit Agreement and the FPD V Credit Agreement, DCM is required to deposit and hold cash in a blocked account of $0.4 million and of $0.1 million to be used for repayments of principal and interest of indebtedness outstanding under the FPD IV A&R Credit Facility and indebtedness outstanding under the FPD V A&R Credit Facility, respectively. As at September 30, 2019, there was a balance of $0.5 million in the blocked account related to the FPD IV A&R Credit Facility and FPD V A&R Credit Facility which is recognized as restricted cash on the condensed interim consolidated statement of financial position.

INTER-CREDITOR AGREEMENT

DCM's obligations under the A&R Bank Credit Facility, the FPD V A&R Credit facility, the FPD IV A&R Credit Facility and the FPD III A&R Credit Facility are secured by conventional security charging all of the property and assets of DCM and its subsidiaries. On February 22, 2017, DCM entered into an amended Inter-creditor Agreement (the "Inter-creditor Agreement") between the Bank, FPD III, FPD IV, and the parties to the vendor take-back promissory notes (the “VTB Noteholders”) issued in connection with the acquisitions of Eclipse and Thistle, respectively, which, among other things, establishes the rights and priorities of the respective liens of the Bank, FPD III, FPD IV and the VTB Noteholders on the present and after-acquired property of DCM, Eclipse and Thistle (the "Original Inter-Creditor Agreement").

On November 10, 2017, the Original Inter-Creditor Agreement was amended in connection with the BOLDER Graphics acquisition to include FPD V as a party to the agreement and to establish the rights and priorities of the respective liens of the Bank, FPD III, FPD IV, FPD V and the VTB Noteholders on the present and after-acquired property of BOLDER Graphics.

Effective May 7, 2018, DCM entered into a second amended and restated inter-creditor agreement between the Bank, FPD III, FPD IV, FPD V, Crown and the VTB Noteholders, respectively, which, among other things, establishes the rights and priorities of the respective liens of the Bank, FPD III, FPD IV, FPD V, Crown and the VTB Noteholders on the present and after-acquired property of DCM and its subsidiaries.

LIQUIDITY

In assessing DCM's liquidity requirements, DCM takes into account its level of cash, 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 restructuring activities, as well as its ongoing cash needs for its existing operations.

Market conditions and DCM's financial condition and capital structure could affect the availability and terms of any replacement credit facilities or other funding sought by DCM from time to time or upon the maturity of the amended Bank Credit Facility, the Amended FPD A&R Credit Facilities, the Crown Facility, as amended, or other indebtedness of DCM.

On June 3, 2019, DCM implemented a new Enterprise Resource Planning ("ERP") system company-wide (excluding Eclipse, Thistle and Perennial). As part of its transition to the new ERP system, DCM encountered various migration issues which affected production and the recognition of revenue and its ability to generate accurate and timely billings to its customers. This has resulted in a deterioration in operating results, a backlog of production orders, a temporary lag in the issuance of invoices and, as a result, delays in the collection of cash. These factors have created what is believed by management to be a short-term constraint on DCM's financial liquidity. Net working capital (current assets less current liabilities) increased to $26.0 million as at September 30, 2019 from $10.4 million as at June 30, 2019, primarily due to an increase in trade receivables over this period. Trade receivables, excluding unbilled receivables, were $53.1 million compared with $33.4 million as at September 30, 2019 and June 30, 2019, respectively. The significant growth in trade receivables had a simultaneous effect on the Company's total calculated collateral, which exceeded the $42.0 million of available credit on its Bank Credit Facility. As a result, DCM's access to additional credit under the Bank Credit Facility was capped, despite the Company's liquidity being supported by excess collateral. Outstanding borrowing under the Company's Bank Credit Facility was $39.9 million as at September 30, 2019 compared to $25.5 million as at June 30, 2019. The Company had access to $1.4 million of available credit as at September 30, 2019 however in the absence of the $42.0 million maximum limit on the Bank Credit Facility, DCM would have had access to a total of $2.4 million of credit as at September 30, 2019. Subsequently, the volume of shipments and billings to its customers resulted in further growth of its collateral in excess of the $42.0 million maximum limit and therefore, availability of credit, on the Bank Credit Facility. In the absence of the $42.0 million limit, total availability as at November 12, 2019 would be $9.9 million. The Bank Credit Facility is a key source of liquidity for the Company's operations.

During the quarter ended September 30, 2019, management secured additional financial support from its lenders and received a number of waivers from its lenders as a result of the disruption in DCM's business caused by the new ERP, absent which the Company would have been in breach of most of the financial covenants associated with its credit facilities as at September 30, 2019.

Without amendments to the financial covenants in DCM's existing credit facilities, the Company also expects to be in breach of its financial covenants throughout the remainder of 2019 and through at least mid 2020 based on its latest financial forecasts.

The Company is currently engaged in negotiations with its senior lenders regarding certain amendments (the “Credit Facilities Amendments”) to its senior credit agreements, including amendments to its financial covenants to align with an agreed budget for the next twelve months and enable the Corporation to resolve the issues it has encountered in connection with the implementation of the ERP system such that the related adverse effects on the Company’s financial results no longer impact the Company’s ability to comply with its financial covenants on a trailing twelve month basis. The Company is seeking to reach agreement with its senior lenders on the terms of the Credit Facilities Amendments by no later than November 30, 2019. In that regard, the Company’s senior lenders have agreed to waive certain financial covenants for the period of September 1, 2019 to November 30, 2019. There can be no assurance that the Company will negotiate and implement the Credit Facilities Amendments on terms satisfactory to the Company prior to November 30, 2019 or the Expiry Time, or at all.

At the Company’s request, the Bank is also reviewing the potential to provide additional funding by way of an increase to the credit available under its Bank Credit Facility from $42.0 million to up to $50.0 million (“Proposed Bank Credit Facility”) to provide some additional financial liquidity should the remediation of the short-term liquidity constraints arising from the ERP implementation take longer than anticipated. The Bank has engaged its own financial advisors, with the consent of the Company, to review the Company’s business and financial position, including assessing the Company’s financial forecasts and assisting the Bank with formulating updated financial covenants under the credit agreement to align with an agreed forecast. The Bank has indicated its intention to amend the Bank Credit Agreement to accommodate an increase in available credit, in conjunction with amending its financial covenants for the next twelve months, by November 30, 2019, subject to the completion and outcome of the report from its own financial advisors before then.

In the interim, on November 14, 2019, a fourth amendment was made to the Bank Credit Facility to provide a short-term increase of available credit from $42.0 million to $45.0 million until December 31, 2019, or the date an agreement is reached under the Proposed Bank Credit Facility, should that come sooner.

While it is the Company's intention to execute on its refinancing plan, obtain additional debt and equity financing and mitigate the working capital constraints caused by the implementation of the new ERP system before the end of the year, there can be no assurance that DCM will be successful in these efforts. Failure to obtain adequate financing and/or on satisfactory terms could have a material adverse effect on the Company’s results of operations and financial condition.

The estimate of future cash flows in the Company’s financial forecasts include a number of key assumptions to support these financial covenant calculations, specifically related to revenues and gross margins, which in turn impact EBITDA. The estimate of forecast future cash flows currently being reviewed with the Company’s lenders as a basis for proposed amendments to the credit facilities are sensitive to those assumptions (e,g if EBITDA realized over the next twelve months falls short of our forecast by more than 11%, the Company will also be offside with certain existing financial covenants in Q3 2020). If the lenders amend the financial covenants based on an agreed forecast, the Company could still be in breach of those amended covenants if those forecasts are not met requiring further covenant waivers by the lenders.

CASH FLOW FROM OPERATIONS

During the nine months ended September 30, 2019, cash flows used for operating activities were $4.9 million compared to cash flows generated by operating activities of $14.5 million during the same period in 2018. Current period cash flow from operations, before adjusting for changes in working capital, generated a total of $4.1 million compared with $5.8 million for the same period last year. As a result of the adoption of IFRS 16, $8.1 million in lease payments are now presented as cash used for financing activities in the condensed interim consolidated statement of cash flow whereby in the prior year comparative period, this was classified as a reduction of operating activities. Excluding the effects of IFRS 16, cash flow used for operating activities, before adjusting for changes in working capital, was $4.0 million, a decrease of $9.2 million over the same period last year. Current period cash flows from operations were negatively impacted primarily due to an increase in the net loss which stems from the decrease in revenues and increase in general and administration expese, particularly in the second and third quarter this year as a direct result of the new ERP system, alongside other reductions in revenue due to softness in customer spend. This was offset by further improvements in DCM's pricing discipline and cost reductions realized from ongoing cost savings initiatives implemented in 2019 and the last quarter of 2018. Other payments for severances and lease termination related to DCM's restructuring initiatives, contributions to defined benefit pension plans and income taxes were relatively consistent with the comparative period.

Changes in working capital during the nine months ended September 30, 2019 used $9.0 million in cash compared with $8.7 million of cash generated in the prior year. In the prior year comparable period DCM’s focus was to better align payments to its vendors with cash receipts from its customers given many of its customers opt to store their product in DCM’s warehouses and pay upon taking shipment of product which extends the time to collection. In the current year, DCM continues to manage cash flow consistent with the comparative period. There was a significant increase in trade receivables by $15.4 million given the challenges encountered with issuing accurate and timely billings as a result of the ERP transition in June 2019. In the third quarter of 2019, billing volumes progressively increased throughout the quarter as the Company began catching up on its backlog of orders. However, DCM continued to experience issues with issuing accurate billings to its customers thereby resulting in a deterioration of collections and an increase in trade receivables. This resulted in liquidity constraints whereby the Company was required to obtain additional financing and manage payments to suppliers to maintain cash for working capital requirements resulting in an increase in trade and accrued liabilities by $6.9 million.

INVESTING ACTIVITIES

For the nine months ended September 30, 2019, $3.8 million in cash flows were used for investing activities compared with $13.3 million during the same period in 2018. This represents a reduction of $9.5 million over the same period last year, of which $7.5 million was used in the comparable period for the acquisition of Perennial. In the current period, $0.8 million of cash was primarily used to invest in IT equipment related to the implementation of the new ERP system and costs related to leasehold improvements to set up new production equipment, including the Gallus/Heidelberg hybrid digital label press at its Brampton, Ontario facility and the Heidelberg six-colour press at its Toronto, Ontario facility, compared with $2.3 million of capital expenditures incurred in 2018 related to investments in IT equipment and costs related to leasehold improvements, which were incurred as part of DCM's consolidation of certain facilities. Furthermore, $3.9 million of cash was used to further invest in the development of DCM's new ERP system compared with $3.7 million for the same period last year. DCM continues to capitalize costs for the ERP system in the third quarter of 2019 related to further development of the system. $0.7 million in cash proceeds were received upon the sale of its loose-leaf and index tab business in May 2019.

FINANCING ACTIVITIES

For the nine months ended September 30, 2019, cash flow generated by financing activities was $11.2 million compared with $0.6 million paid during the same period in 2018. As noted under "Cash Flow From Operations", as a result of the adoption of IFRS 16, $8.1 million in lease payments are now presented as cash used for financing activities whereas this is presented as a reduction of cash from operations in the prior year comparative period, thereby contributing to the overall variance in cash used for financing activities. Excluding the effects of IFRS 16, cash flow generated for financing activities was $19.3 million, increasing the variance to $20 million from the comparative period. A total of $3.3 million in outstanding principal amounts under its various credit facilities were repaid during the current period compared with $9.1 million during the same period last year. DCM amended its FPD Credit Facilities on July 25, 2019 to defer principal amounts for the months of August to December 2019 which explains the reduction of the repayments on the credit facilities from the comparative period. In addition, $3.9 million was repaid during the period related to the vendor take-back promissory notes issued in connection with the acquisitions of Eclipse, Thistle and BOLDER Graphics compared with $4.0 million in the prior year comparative period. The Eclipse and Thistle VTBs were fully repaid in the first quarter of 2019, and $1.0 million was paid for the Perennial VTB. The slight decrease from the comparative period relates to the deferral of payments for the Bolder VTB. Lastly, proceeds of $26.1 million was received in the current period, of which $7 million represents additional proceeds received from the Crown Facility and the remaining $19.1 million represents the draw on DCM's revolving credit facility with the Bank compared with $12.9 million during the same period last year to fund its working capital requirements, and manage cash flow to compensate for the slow down in the collection process as a result of the ERP disruptions.

Outstanding share data

At November 14, 2019, September 30, 2019 and December 31, 2018, there were 21,523,515 common shares of DCM (“Common Shares”) outstanding.

At November 14, 2019 and September 30, 2019, there were options outstanding to purchase up to 1,456,409 Common Shares and at December 31, 2018, there were options outstanding to purchase up to 1,991,957 Common Shares. During the nine months ended September 30, 2019, the Board approved awards of options to purchase up to 40,000 Common Shares for a member of DCM's Board. Once vested, the options are exercisable for a period of seven years from the grant date at an exercise price of $1.41 per share, representing the fair value of the Common Shares on March 28, 2019. The options vest at a rate of 1/36th per month beginning on March 28, 2019. The fair value of the options issued was estimated to be $22.8 thousand using the Black-Scholes option-pricing model, assuming a risk-free interest of 1.45%, a weighted average life of seven years, a dividend yield of nil, an expected volatility of 40% and a forfeiture rate of 10%. During the nine months ended September 30, 2019, there were 575,548 forfeitures of options to purchase Common Shares.

At November 14, 2019 and September 30, 2019, there were warrants outstanding to purchase up to 1,588,571 Common Shares and at December 31, 2018, there were warrants outstanding to purchase up to 2,251,550 Common Shares. During the nine months ended September 30, 2019, there were a total of 628,571 warrants issued. On July 31, 2019, DCM issued 78,571 warrants in connection with the issuance of the Related Party Promissory Notes. Each warrant entitles the holder to acquire one Common Share at an exercise price of $1.08 for a period of 3.8 years, commencing on July 31, 2019. The fair value of the warrants issued was estimated to be $39 thousand using the Black-Scholes option-pricing model, assuming a risk-free interest of 1.49%, a weighted average life of 3.8 years, a dividend yield of nil and an expected volatility of 40% based on comparable companies. On August 16, 2019, DCM entered into an amendment with Crown and issued 550,000 warrants as part of this financing. Each warrant entitles the holder to acquire one Common Share at an exercise price of $1.08 for a period of 3.7 years, commencing on August 16, 2019. The fair value of the warrants issued was estimated to be $0.1 million using the Black-Scholes option-pricing model, assuming a risk-free interest of 1.24%, a weighted average life of 3.7 years, a dividend yield of nil and an expected volatility of 40% based on comparable companies. This was adjusted using a discount rate of 5% for the statutory hold period and net of transaction costs totaling $5. During the nine months ended September 30, 2019, 1,291,550 warrants to purchase Common Shares expired.

Contractual obligations

Although the majority of the operating lease commitments disclosed in the 2018 Annual MD&A have been recorded as a ROU Asset and lease liability in the condensed interim consolidated statement of financial position as at September 30, 2019, as a result of the adoption of IFRS 16, these continue to represent contractual obligations of the company.

Summary of eight quarter results

TABLE 10 The following table summarizes quarterly financial information for the past eight quarters.

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

	2019			**2018**				**2017**
	Q3	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	Q4
Revenues	**$63,215**	**$69,623**	**$78,549**	$81,152	$74,925	$78,176	$88,516	$76,125
Net income (loss) attributable to shareholders	**(5,917)**	**(3,754)**	**(323)**	842	838	(1,194)	1,763	(2,459)
Basic earnings (loss) per share	**(0.27)**	**(0.17)**	**(0.02)**	0.04	0.04	(0.06)	0.09	(0.12)
Diluted earnings (loss) per share	**0.27**	**(0.17)**	**(0.02)**	0.04	0.04	(0.06)	0.09	(0.12)

The variations in DCM's quarterly revenues and net income (loss) over the eight quarters ended September 30, 2019 can be attributed to several principal factors: the adoption of IFRS 16 on January 1, 2019, the launch and implementation of the new ERP system, the adoption of IFRS 9 and 15 on January 1, 2018, the acquisitions of Eclipse, Thistle, BOLDER Graphics and Perennial, revenue declines in DCM's traditional print business due to production volume declines largely related to technological change, price concessions and competitive activity, seasonal variations in customer spending, refinement of DCM's pricing discipline, the impact of paper and other raw materials price increases and compressed margins on contracts with certain existing customers, and restructuring expenses and business reorganization costs related to DCM's ongoing productivity improvement and cost reduction initiatives.

DCM's net loss for the third quarter of 2019 included the impact on adoption of IFRS 16, reduction in revenue and higher costs due to disruptions caused by the transition to the new ERP system, and restructuring expenses of $2.7 million related to its cost reduction initiatives. DCM's net income for the third quarter of 2018 included higher revenue at more normalized levels, lower SG&A, restructuring expenses of a nominal amount, and $0.2 million of one-time business reorganization costs related to its cost reduction initiatives.

DCM's net loss for the second quarter of 2019 included the impact on adoption of IFRS 16, reduction in revenue due to a disruption of production and shipments to customers caused by DCM's transition to a new ERP and softness in spend from certain retailers, which is offset by an increase related to operating results of Perennial for the full quarter of 2019, restructuring expenses of $3.2 million related to its cost reduction initiatives, and $0.5 million of one-time business reorganization costs that did not qualify as a restructuring expense. DCM's net loss for the second quarter of 2018 included partial operating results of Perennial, restructuring expenses of $0.7 million related to its cost reduction initiatives, $0.8 million of one-time business reorganization costs related to its cost reduction initiatives and business acquisition costs of $0.3 million.

DCM's net loss for the first quarter of 2019 included the impact on adoption of IFRS 16, in addition to the operating results of Perennial for the full quarter of 2019, restructuring expenses of $1.7 million related to its cost reduction initiatives, and $0.4 million of one-time business reorganization costs that did not qualify as a restructuring expense. DCM's net income for the first quarter of 2018 included higher revenues due to large, non-recurring work for a government contract, restructuring expenses of $0.1 million related to its cost reduction initiatives, and $0.3 million of one-time business reorganization costs that did not qualify as a restructuring expense.

DCM's net income for the fourth quarter of 2018 included the impact on adoption of IFRS 9 and 15, and the operating results of Perennial and BOLDER Graphics for the full quarter of 2018, restructuring expenses of $1.8 million related to its cost reduction initiatives. DCM's net loss for the fourth quarter of 2017 included operating results of Eclipse, Thistle and BOLDER Graphics, restructuring expenses of $4.5 million, $0.4 million of one-time business reorganization costs related to its cost reduction initiatives and business acquisition costs of $0.4 million.

DCM's net income for the third quarter of 2018 included the impact on adoption of IFRS 9 and 15, and the operating results of Perennial for the full quarter of 2018. DCM's net loss for the third quarter of 2017 included operating results of Eclipse and Thistle as well as restructuring cost initiatives of $1.4 million related to its cost reduction initiatives.

Accounting policies

CHANGES IN ACCOUNTING POLICIES

The accounting policies and critical accounting estimates and judgments as disclosed in DCM's audited annual consolidated financial statements have been applied consistently in the preparation of its unaudited condensed interim consolidated financial statements, with the exception of the accounting standards implemented in 2019 which are outlined in note 2 of the Notes to the consolidated financial statements of DCM for the nine months ended September 30, 2019.

On January 1, 2019, DCM implemented the following new and revised standards, along with any consequential amendments, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The impact of the implementation of these standards on DCM's condensed interim consolidated financial statements are described below.

IFRS 16 - LEASES

IFRS 16 Leases was issued in January 2016. It supersedes the International Accounting Standard Board's ("IASB") prior lease standard, IAS 17 Leases, which required lessees and lessors to classify their leases as either finance leases or operating leases and to account for them according to the respective classification.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognize a ROU Asset and a lease liability for all leases but can elect to exclude those with a term of less than twelve months and for which the underlying asset is of low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

DCM elected to adopt IFRS 16 using the modified retrospective approach, and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4, Determining whether an Arrangement contains a Lease.

IFRS 16 provides for certain practical expedients and exemptions, including those related to the initial adoption of the standard. DCM applied the following practical expedients, permitted by the standard, upon adoption of IFRS 16:

- the use of a single discount rate to a portfolio of equipment leases with reasonably similar characteristics;
- reliance on previous assessments under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases;
- the accounting for operating leases (on a lease-by-lease basis) with underlying value of assets being less than $5 thousand CAD;
- the exclusion of initial direct costs for the measurement of the ROU Asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- election, by class of underlying asset, not to separate non-lease components from lease components.

DCM has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date DCM relied on its assessment made applying IAS 17 and IFRIC 4.

The details of DCM's leasing activities, new significant accounting policies and the impact of the changes from the previous significant accounting policies are set out below.

AS A LESSEE

DCM leases various offices, warehouses and machinery and office equipment. Rental contracts are typically made for fixed periods of 1 to 13 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. DCM has options to purchase certain manufacturing equipment for a nominal amount or the then fair market value, to extend the term, or return the equipment at the end of the lease term. The obligations are secured by the lessors' title to the leased asset for such leases.

DCM assesses, at the inception of a contract, whether a contract is, or contains, a lease. A lease is a contract in which the right to control the use of an identified asset is granted for an agreed upon period of time in exchange for consideration. DCM assessed whether a contract conveys the right to control the use of an identified asset when there is both the right to direct the use of the asset and obtain substantially all the economic benefits from that use. Effective January 1, 2019, DCM recognizes a ROU Asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the non-cancellable lease payments over the lease term and discounted at DCM's incremental borrowing rate. Lease payments include fixed payments and such variable payments that depend on an index or a rate; less any lease incentives receivable.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in DCM's estimate of the amount expected to be payable under a residual value guarantee, or if DCM changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU Asset, with any difference recorded in the condensed interim statement of operations.

The ROU Asset is measured at cost, which comprises the initial lease liability, lease payments made at or before the lease commencement date, initial direct costs and restoration obligations less lease incentives. The ROU Asset is subsequently measured at amortized cost.

The assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The lease term includes periods covered by an option to extend if DCM is reasonably certain to exercise that option. The ROU Asset is assessed for impairment in accordance with the requirements of IAS 36 *Impairment of Assets*.

On a lease by lease basis, DCM also exercises the option available for contracts comprising lease components as well as non-lease components, not to separate these components. Payments to the lessor for variable costs associated with the lease, including variable payments to the lessor related to non-lease components, are not included in the measurement of the lease liability, and are expensed as incurred in the condensed interim consolidated statement of operations.

Extension and termination options exist for DCM's property leases. DCM re-measures the lease liability, when there is a change in the assessment of the inclusion of the extension option in the lease term, resulting from a change in facts and circumstances.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the condensed interim consolidated statement of operations. Short-term leases are leases with a lease term of twelve months or less. Low value assets comprise IT equipment and small items of office furniture.

AS AN INTERMEDIATE LESSOR

DCM enters into sub-leases as an intermediate lessor. It accounts for its interest in the head lease and sub-lease separately. It assesses the lease classification of a sub-lease as either an operating lease or a finance lease with reference to the ROU Asset arising from the head lease. If a head lease is a short-term lease to which DCM applies the exemption described above, then the sub-lease is classified as an operating lease.

USE OF SIGNIFICANT ESTIMATES AND JUDGMENT

(i) DCM uses significant judgment when determining whether a contract contains an identified asset, and whether DCM has the right to control the use of the identified asset.

(ii) DCM also makes significant judgment in determining the incremental borrowing rate used to measure the lease liability for each lease contract. The incremental borrowing rate represents the rate DCM would pay to borrow funds to obtain the underlying asset over a similar term and with similar security. This requires judgment to determine the financing spread adjustment based on existing credit facilities and a lease-specific adjustment based on the underlying asset.

(iii) In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

IMPACT OF ADOPTION OF IFRS 16:

The following table summarizes the impact of adopting IFRS 16 on DCM's condensed interim consolidated statement of financial position as at January 1, 2019:

(in thousands of Canadian dollars, unaudited)	***December 31, 2018 prior to the adoption of IFRS 16***	***Impact of adopting IFRS 16***	***January 1, 2019 after the adoption of IFRS 16***
Prepaid expenses and other current assets [c]	3,519	31	3,550
Other non-current assets [c]	827	257	1,084
Right-of-use assets [a] [b] [c]	—	56,879	56,879
Property, plant and equipment [a]	16,804	(29)	16,775
Trade payables and accrued liabilities [a][b]	43,497	(239)	43,258
Provisions (current portion) [c]	2,908	(105)	2,803
Provisions (non-current portion) [c]	540	(211)	329
Lease liabilities [a]	—	60,645	60,645
Other non-current liabilities [b]	3,272	(2,952)	320

(a) Previously under IAS 17, leases were classified as financing or operating leases depending on the terms and conditions of the contracts.

Leases previously classified as finance leases under IAS 17, where DCM assumed substantially all the risks and rewards of ownership, were initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. On adoption of IFRS 16, for such leases previously classified as finance leases, DCM recognized the carrying amount of the lease asset and lease liability immediately before transition in the amount of $29 thousand as the carrying amount of the ROU Asset and the lease liability at the date of initial application. The application of IFRS 16 to these leases as at January 1, 2019 resulted in the equipment held under finance lease arrangements previously presented within property, plant, and equipment, and the obligation previously presented under trade payables and accrued liabilities on the statement of financial position, to be presented as a ROU Asset and a lease liability.

Payments made under leases previously classified as operating leases were charged to the statement of operations on a straight-line basis over the period of the lease. On adoption of IFRS 16, DCM recognized a lease liability and a ROU Asset in relation to substantially all leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019, which amounted to $60.6 million. The ROU Asset was measured at the amount equal to the lease liability, adjusted by the amount of prepaid and accrued lease payments relating to that lease (as noted below) recognized on the statement of financial position as at January 1, 2019.

(b) Deferred lease inducements and lease escalation liabilities previously recognized with respect to operating leases in accordance with SIC-15, *Operating leases- Incentives* ("SIC-15"), have been derecognized, and the balance as of January 1, 2019 has been adjusted as a reduction to the ROU Asset as at that date for a total of $3.2 million. Under SIC-15, payments made under operating leases net of lease inducements were recognized in the statement of operations on a straight-line basis over the term of the lease. Previously deferred lease inducements and lease escalation liabilities were included within other non-current liabilities and trade payables and accrued liabilities' on the statement of financial position.

(c) Provisions for onerous operating lease contracts and unfavourable lease obligations have been derecognized and the balance as of January 1, 2019 has been adjusted as a reduction to the ROU Asset for a total of $0.3 million. This results in a reduction to the onerous lease provision and the unfavourable lease obligation included within "Provisions" on the statement of financial position. With respect to an onerous lease where DCM entered into a sublease whereby the rent payments received were lower than the rent payments paid for the head lease, DCM has classified the sublease as a finance lease receivable for $0.5 million, which is included in prepaid expenses and other current assets, and other non-current assets on the statement of financial position.

Prepaid lease payments previously recognized for operating leases have been derecognized from prepaid expenses and other current assets on the statement of financial position, and the balance as of January 1, 2019 has been adjusted to increase the ROU Asset as at that date for a total of $0.2 million.

RECONCILIATION TO THE OPENING BALANCE:

The following reconciliation to the opening balance for the lease liability as at January 1, 2019 is based upon the operating lease obligations as at December 31, 2018:

(in thousands of Canadian dollars)		**January 1, 2019**
Operating lease commitment at December 31, 2018 as disclosed in the consolidated financial statements	$	**59,925**
Undiscounted cash flows for lease commitments related to leases not yet commenced		**(8,591)**
Undiscounted cash flows for extension options reasonably certain to be exercised		**38,932**
Recognition exemption for short-term and low dollar value leases		**(519)**
		89,747
Leases previously classified as finance leases under IAS 17		**29**
Discounted using the incremental borrowing rate at January 1, 2019		**(29,131)**
Lease liabilities recognized at January 1, 2019	$	**60,645**
Current		**6,762**
Non-current		**53,883**

When measuring lease liabilities, DCM discounted lease payments using its incremental borrowing rate as at January 1, 2019. The weighted-average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.70%.

The recognized ROU Asset relates to the following types of assets:

(in thousands of Canadian dollars)		**January 1, 2019**
Property	$	**48,720**
Office equipment		**419**
Production equipment		**7,740**
	$	**56,879**

IFRIC 23 - UNCERTAINTY OVER INCOME TAX TREATMENTS

In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments. The interpretation clarifies the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If the entity considers it to be not probable that a taxation authority will accept an uncertain tax provision the interpretation requires the entity to use the most likely amount or the expected value. DCM adopted the amendments to IFRIC 23 in its condensed interim consolidated financial statements effective January 1, 2019. The adoption of this amendment did not have a significant impact on DCM's condensed interim consolidated financial statements.

IAS 19 EMPLOYEE BENEFITS (AMENDMENT)

In February 2018, the IASB issued amendments to IAS 19 Employee Benefits with a mandatory effective date of January 1, 2019. The amendment clarifies the effect of a plan amendment, curtailment and settlement on the requirements regarding the asset ceiling. In addition, if a plan amendment, curtailment or settlement occurs, it is mandatory under the amended standard that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. This amendment is to be applied prospectively. DCM adopted the amendment to IAS 19 in its condensed interim consolidated financial statements effective January 1, 2019. The adoption of this amendment did not have a significant impact on DCM's condensed interim consolidated financial statements.

FUTURE ACCOUNTING STANDARDS NOT YET ADOPTED

IFRS 3 BUSINESS COMBINATIONS (AMENDMENT)

In October 2018, the IASB issued Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the first annual reporting period beginning January 1, 2020. DCM is currently evaluating the new guidance and does not expect it to have a significant impact on its consolidated financial statements.

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS AND IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS (AMENDMENT)

In October 2012, the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8) to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after January 1, 2020. DCM is currently evaluating the new guidance and does not expect it to have a significant impact on its consolidated financial statements.

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The amendments are effective for annual periods beginning on or after January 1, 2020. DCM is currently evaluating the new guidance and does not expect it to have a significant impact 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 DCM.

Management's report on internal controls over financial reporting

DCM'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 DCM for external purposes in accordance with IFRS.

A cross-functional business transformation process, enabled by a new end to end ERP system was launched in June 2019 to standardize and automate business processes and controls across the organization. The project is a major initiative that is utilizing third party consultants and will expand the depth and breadth of the finance and information technology organizations. The new ERP system will enable continuous improvement and scalability and is intended to facilitate improved reporting and oversight and enhance internal controls over financial reporting. A variety of changes to internal processes and accounting procedures are occurring as a result of the implementation of our new ERP system and related restructuring initiatives.

DCM is currently evaluating the impact of these changes and are designing tests to evaluate the design and effectiveness of controls. See "Liquidity and capital resources" for further discussion related to disruptions in DCM's business caused by the transition to a new ERP system.

Outlook

DCM experienced a weak third quarter of 2019, primarily due to the disruption caused by its transition to the new ERP system. Inaccuracies in billings caused working capital to increase significantly, as we experienced delays in converting accounts receivable to cash, thereby requiring additional draws on our Bank Credit Facility and causing us to delay payments to vendors as we managed our available credit line. Disruption caused by the new ERP transition resulted in decreased revenues by approximately $7.5 million year over year. The sales order backlog continues to be higher than expected norms which DCM expects to recover in the fourth quarter as production resumes back to normal capacity. Financial liquidity however is expected to remain tight through the fourth quarter, subject to obtaining additional credit on its existing facilities and completion of additional financing.

As DCM continued to work through the transition of the new system with the commitment and diligence of our senior management and employees, we achieved significant progress on resolving the implementation issues, with production, billings and shipments returning to more normalized levels in the months of September and October. Substantially all customer transactions are now flowing through the new system, however further work is required to continue refinements.

DCM continued its commitment to improving gross margin and reducing SG&A with additional staff reductions, resulting in annualized savings of $3.5 million during the quarter. Although DCM did not realize the full quarter effects of these cost savings due to additional costs incurred as a direct result of the ERP issues for overtime and temporary labour, margins and SG&A are expected to improve as the business demonstrates further signs of stabilizing.

Fourth quarter revenue is expected to compare favorably to our 2018 fourth quarter revenue, given the positive developments in September and October. DCM continues to attract new customers and obtain greater wallet share from its existing customers. DCM continues to attract new business wins and is committed to continuing its strategy of becoming a leading marketing solutions and business services provider.

The Company's key priority for the remainder of 2019 is to complete the remediation of the ERP system and work with vendors as collections improve from accounts receivable. DCM's objective for 2020 is to return to the path set out at the beginning of this year and return our focus to our five key business principles.

Risks and uncertainties

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

Condensed interim consolidated statements of financial position

(in thousands of Canadian dollars, unaudited)		**September 30, 2019**		December 31, 2018
ASSETS				
CURRENT ASSETS				
Trade receivables (note 5)	**$**	**88,450**	$	73,124
Inventories (note 6)		**10,477**		8,812
Prepaid expenses and other current assets		**1,861**		3,519
		100,788		85,455
NON-CURRENT ASSETS				
Other non-current assets		**895**		827
Deferred income tax assets (note 11)		**5,357**		3,428
Restricted cash (note 9)		**515**		515
Property, plant and equipment		**13,886**		16,804
Right-of-use assets (note 7)		**58,976**		—
Intangible assets		**19,342**		18,164
Goodwill (note 4)		**16,973**		17,038
	$	**216,732**	$	142,231
LIABILITIES				
CURRENT LIABILITIES				
Bank overdraft (note 9)	**$**	**1,475**	$	3,999
Trade payables and accrued liabilities		**50,233**		43,497
Current portion of credit facilities (notes 1 and 9)		**4,591**		5,670
Current portion of promissory notes (note 10)		**2,104**		4,013
Current portion of lease liabilities (note 7)		**8,172**		—
Provisions (note 8)		**5,295**		2,908
Income taxes payable		**1,573**		3,152
Deferred revenue		**1,315**		1,477
		74,758		64,716
NON-CURRENT LIABILITIES				
Provisions (note 8)		**771**		540
Credit facilities (notes 1 and 9)		**75,661**		51,751
Promissory notes (note 10)		**457**		1,363
Lease liabilities (note 7)		**55,515**		—
Deferred income tax liabilities (note 11)		**457**		1,753
Other non-current liabilities (note 12)		**33**		3,272
Pension obligations		**7,962**		8,346
Other post-employment benefit plans		**3,184**		2,978
	$	**218,798**	$	134,719
EQUITY				
SHAREHOLDERS' EQUITY / (DEFICIT)				
Shares (note 13)	**$**	**251,217**	$	251,217
Warrants (note 13)		**716**		806
Contributed surplus		**2,277**		1,841
Translation reserve		**258**		242
Deficit		**(256,534)**		(246,594)
	$	**(2,066)**	$	7,512
	$	**216,732**	$	142,231

General Information and Going Concern (note 1); Commitments and Contingencies (note 16); Subsequent Events (note 3)

Approved by Board of Directors

Director

Director Greg Cochrane

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

Condensed interim consolidated statements of operations

(in thousands of Canadian dollars, except per share amounts, unaudited)	**For the three months ended September 30, 2019**	For the three months ended September 30, 2018
REVENUES (note 18)	**$ 63,215**	$ 74,925
COST OF REVENUES	**47,962**	56,664
GROSS PROFIT	**15,253**	18,261
EXPENSES		
Selling, commissions and expenses	**8,545**	8,235
General and administration expenses	**9,263**	7,312
Restructuring expenses (note 8)	**2,724**	9
Acquisition costs (note 4)	**—**	6
	20,532	15,562
(LOSS) INCOME BEFORE FINANCE COSTS AND INCOME TAXES	**(5,279)**	2,699
FINANCE COSTS		
Interest expense, net	**2,260**	1,256
Amortization of transaction costs	**177**	168
	2,437	1,424
(LOSS) INCOME BEFORE INCOME TAXES	**(7,716)**	1,275
INCOME TAX (RECOVERY) EXPENSE		
Current	**395**	430
Deferred	**(2,194)**	7
	(1,799)	437
NET (LOSS) INCOME FOR THE PERIOD	**$ (5,917)**	$ 838
BASIC (LOSS) EARNINGS PER SHARE (note 14)	**$ (0.27)**	$ 0.04
DILUTED (LOSS) EARNINGS PER SHARE (note 14)	**$ (0.27)**	$ 0.04

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

Condensed interim consolidated statements of operations

(in thousands of Canadian dollars, except per share amounts, unaudited)	**For the nine months ended September 30, 2019**	For the nine months ended September 30, 2018
REVENUES (note 18)	**$ 211,387**	$ 241,617
COST OF REVENUES	**159,651**	183,292
GROSS PROFIT	**51,736**	58,325
EXPENSES		
Selling, commissions and expenses	**25,527**	27,896
General and administration expenses	**24,969**	23,073
Restructuring expenses (note 8)	**7,595**	809
Acquisition costs (note 4)	**—**	319
	58,091	52,097
(LOSS) INCOME BEFORE FINANCE COSTS AND INCOME TAXES	**(6,355)**	6,228
FINANCE COSTS		
Interest expense, net	**6,467**	3,664
Amortization of transaction costs	**400**	469
	6,867	4,133
(LOSS) INCOME BEFORE INCOME TAXES	**(13,222)**	2,095
INCOME TAX (RECOVERY) EXPENSE		
Current	**(79)**	985
Deferred	**(3,149)**	(297)
	(3,228)	688
NET (LOSS) INCOME FOR THE PERIOD	**$ (9,994)**	$ 1,407
BASIC (LOSS) EARNINGS PER SHARE (note 14)	**$ (0.46)**	$ 0.07
DILUTED (LOSS) EARNINGS PER SHARE (note 14)	**$ (0.46)**	$ 0.07

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

Condensed interim consolidated statements of comprehensive (loss) income

(in thousands of Canadian dollars, unaudited)	**For the three months ended September 30, 2019**	For the three months ended September 30, 2018
NET (LOSS) INCOME FOR THE PERIOD	**$ (5,917)**	$ 838
OTHER COMPREHENSIVE (LOSS) INCOME:		
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET (LOSS) INCOME		
Foreign currency translation	**4**	(11)
	4	(11)
ITEMS THAT WILL NOT BE RECLASSIFIED TO NET (LOSS) INCOME		
Re-measurements of pension and other post-employment benefit obligations	**791**	243
Taxes related to pension and other post-employment benefit adjustment above	(201)	(63)
	590	180
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**$ 594**	$ 169
COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	**$ (5,323)**	$ 1,007

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

Condensed interim consolidated statements of comprehensive (loss) income

(in thousands of Canadian dollars, unaudited)	**For the nine months ended September 30, 2019**	For the nine months ended September 30, 2018
NET (LOSS) INCOME FOR THE PERIOD	**$ (9,994)**	$ 1,407
OTHER COMPREHENSIVE (LOSS) INCOME:		
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET (LOSS) INCOME		
Foreign currency translation	**16**	26
	16	26
ITEMS THAT WILL NOT BE RECLASSIFIED TO NET (LOSS) INCOME		
Re-measurements of pension and other post-employment benefit obligations	**67**	1,457
Taxes related to pension and other post-employment benefit adjustment above	**(13)**	(379)
	54	1,078
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**$ 70**	$ 1,104
COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	**$ (9,924)**	$ 2,511

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

Condensed interim consolidated statements of changes in shareholders' equity (deficit)

(in thousands of Canadian dollars, unaudited)	Shares	Warrants	Conversion options	Contributed surplus	Translation reserve	Deficit	Total equity
Balance as at December 31, 2017	$ 248,996	$ 287	$ —	$ 1,368	$ 183	$ (256,233)	$ (5,399)
Impact of change in accounting policy on adoption of IFRS 15	—	—	—	—	—	8,365	8,365
	$ 248,996	$ 287	$ —	$ 1,368	$ 183	$ (247,868)	$ 2,966
Net income for the period	—	—	—	—	—	1,407	1,407
Other comprehensive income for the period	—	—	—	—	26	1,078	1,104
Total comprehensive income for the period	—	—	—	—	26	2,485	2,511
Issuance of common shares and warrants, net (note 13)	2,221	519	—	—	—	—	2,740
Share-based compensation expense	—	—	—	383	—	—	383
Balance as at September 30, 2018	$ 251,217	$ 806	$ —	$ 1,751	$ 209	$ (245,383)	$ 8,600
BALANCE AS AT DECEMBER 31, 2018	**$ 251,217**	**$ 806**	**$ —**	**$ 1,841**	**$ 242**	**$ (246,594)**	**$ 7,512**
Net loss for the period	**—**	**—**	**—**	**—**	**—**	**(9,994)**	**(9,994)**
Other comprehensive income for the period	**—**	**—**	**—**	**—**	**16**	**54**	**70**
Total comprehensive income (loss) for the period	**—**	**—**	**—**	**—**	**16**	**(9,940)**	**(9,924)**
Expiration of warrants (note 13)	—	**(269)**	**—**	**269**	—	—	—
Share-based compensation expense	**—**	**—**	**—**	**167**	**—**	**—**	**167**
Issuance of warrants, net (note 13)		**179**	—	—	—	—	**179**
BALANCE AS AT SEPTEMBER 30, 2019	**$ 251,217**	**$ 716**	**$ —**	**$ 2,277**	**$ 258**	**$ (256,534)**	**$ (2,066)**

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

Condensed interim consolidated statements of cash flows

(in thousands of Canadian dollars, unaudited)	**For the nine months ended September 30, 2019**	For the nine months ended September 30, 2018
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net (loss) income for the period	**$ (9,994)**	$ 1,407
Adjustments to net (loss) income		
Depreciation of property, plant and equipment	**3,109**	3,486
Amortization of intangible assets	**2,672**	3,514
Depreciation of right-of-use-assets (note 7)	**6,563**	—
Interest expense on lease liability (note 7)	**2,707**	—
Share-based compensation expense	**167**	383
Defined benefit pension expense (note 17)	**446**	403
Loss (gain) on disposal of property, plant and equipment	**84**	(144)
Write-off of intangible assets	—	242
Provisions (note 8)	**7,595**	943
Amortization of transaction costs (note 9)	**400**	469
Accretion of non-current liabilities and related interest expense	**238**	471
Other non-current liabilities	**—**	403
Other post-employment benefit plans, net	**206**	202
Tax credits recognized	**(89)**	—
Income tax (recovery) expense	**(3,228)**	688
	10,876	12,467
Changes in working capital (note 15)	**(8,957)**	8,723
Contributions made to defined benefit pension plans	**(763)**	(818)
Provisions paid (note 8)	**(4,661)**	(4,803)
Income taxes paid	**(1,391)**	(1,056)
	(4,896)	14,513
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(820)**	(2,319)
Addition to intangible assets	**(3,899)**	(3,664)
Proceeds on disposal of property, plant and equipment	**254**	172
Proceeds on sale of business (note 4)	**675**	—
Net cash consideration for acquisition of businesses (note 4)	**—**	(7,505)
	(3,790)	(13,316)
FINANCING ACTIVITIES		
Issuance of common shares and warrants, net (note 13)	**—**	685
Proceeds from credit facilities and warrants (note 9)	**26,097**	12,951
Repayment of credit facilities (note 9)	**(3,262)**	(9,093)
Repayment of other liabilities	**(300)**	(301)
Proceeds from promissory notes and warrants (note 10)	**1,000**	—
Repayment of promissory notes (note 10)	**(3,905)**	(3,978)
Transaction costs (note 9)	**(327)**	(890)
Lease payments (note 7)	**(8,075)**	(20)
	11,228	(646)
DECREASE IN BANK OVERDRAFT DURING THE PERIOD	**2,542**	551
BANK OVERDRAFT – BEGINNING OF PERIOD	**$ (3,999)**	$ (2,868)
EFFECTS OF FOREIGN EXCHANGE ON CASH BALANCES	**(18)**	34
BANK OVERDRAFT – END OF PERIOD	**$ (1,475)**	$ (2,283)

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, 2019 and 2018

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

1 General Information and Going Concern

DATA Communications Management Corp. ("DCM") is a communication solutions partner that adds value for major companies across North America by creating more meaningful connections with its customers. DCM pairs customer insights and thought leadership with cutting-edge products, modular enabling technology and services to power its clients' go-to market strategies. DCM helps its clients manage how their brands come to life, determine which channels are right for them, manage multimedia campaigns, deploy location-specific and 1:1 marketing, execute custom loyalty programs, and fulfill their commercial printing needs all in one place.

DCM's extensive experience has positioned it as an expert at providing communication solutions across many verticals, including the financial, retail, healthcare, consumer health, energy, and not-for-profit sectors. As a result of its locations throughout Canada and in the United States (Chicago, Illinois and New York, New York), it is able to meet its clients' varying needs with scale, speed, and efficiency - no matter how large or complex the ask. DCM is able to deliver advanced data security, regulatory compliance, and bilingual communications, both in print or digital formats.

On February 22, 2017, DCM acquired Eclipse Colour and Imaging Corp. ("Eclipse"), a Canadian large-format and point-of-purchase printing and packaging company. On February 22, 2017, DCM acquired Thistle Printing Limited ("Thistle"), a full service commercial printing company. On January 1, 2019, Thistle was amalgamated into DCM. On November 10, 2017, DCM acquired BGI Holdings Inc. and 1416395 Alberta Limited (collectively "BOLDER Graphics"), a company focused on large-format digital printing, point of sale signage, corporate packaging, outdoor signage and vehicle graphics. On January 1, 2018, BOLDER Graphics was amalgamated into DCM.

On May 8, 2018, DCM acquired 100% of the outstanding common shares of Perennial Group of Companies Inc., Perennial Inc. and The Finished Line Studios Inc. (collectively, "Perennial Group"). On closing, Perennial Group was amalgamated as Perennial Inc. ("Perennial"). Perennial's suite of services includes business and brand strategy, consumer insights, environmental and graphic design, and communications and retail operations design and strategy.

On November 7, 2018, DCM announced that Perennial and Aphria Inc. ("Aphria") had entered into a joint venture agreement (the "JV"). The JV initially focused on cannabis-infused products for the wellness, medical and adult-use markets. The JV was owned equally by Perennial and Aphria. It selected specific projects to collaborate on and seek to leverage the respective capabilities of Perennial, DCM and Aphria. The JV was dissolved on July 12, 2019. As at September 30, 2019, there were no significant transactions or balances between incorporation and dissolution.

DCM's revenue is subject to the seasonal advertising and mailing patterns of certain customers. Typically, higher revenues and profit are generated in the fourth quarter relative to the other three quarters, however this can vary from time to time by changes in customers' purchasing decisions throughout the year. As a result, DCM's revenue and financial performance for any single quarter may not be indicative of revenue and financial performance which may be expected for the full year.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. There are material uncertainties associated with the resolution of the liquidity challenges currently facing the Company as described in note 3, that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management's plans for dealing with these events and conditions and the expected timing of resolution thereof and the possible effects of these issues if they are not resolved are discussed in note 3. There is no assurance that these initiatives will be successful. The Company's ability to continue as a going concern is dependent upon its ability to return the Company to profitability, generate positive cash flows from operations, obtain additional financing and resetting the financial covenants associated with its credit facilities as discussed in note 3. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. Management do not expect that such adjustments will be necessary assuming its lenders agree to amend the credit facilities as planned which is expected to be completed before the end of this year.

The common shares of DCM are listed on the Toronto Stock Exchange ("TSX") under the symbol "DCM". The address of the registered office of DCM is 9195 Torbram Road, Brampton, Ontario.

2 Basis of presentation, significant accounting policies and change in accounting policies

DCM prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). 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 DCM's consolidated financial statements for the year ended December 31, 2018, except for certain new accounting pronouncements which have been adopted by DCM on January 1, 2019 and disclosed in note 2. Where applicable, DCM 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, 2019, as issued and outstanding as of November 14, 2019, the date the Board of Directors ("Board") approved these financial statements.

The condensed interim consolidated financial statements should be read in conjunction with DCM's consolidated annual financial statements for the year ended December 31, 2018 which have been prepared in accordance with IFRS.

(a) New and amended standards adopted

On January 1, 2019, DCM implemented the following new and revised standards, along with any consequential amendments, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The impact of the implementation of these standards on DCM's condensed interim consolidated financial statements are described below.

IFRS 16 - LEASES

IFRS 16 *Leases* was issued in January 2016. It supersedes the International Accounting Standard Board's ("IASB") prior lease standard, IAS 17 *Leases*, which required lessees and lessors to classify their leases as either finance leases or operating leases and to account for them according to the respective classification.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognize a right-of-use asset ("ROU Asset") and a lease liability for all leases but can elect to exclude those with a term of less than twelve months and for which the underlying asset is of low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

DCM elected to adopt IFRS 16 using the modified retrospective approach, and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4, *Determining whether an Arrangement contains a Lease.*

IFRS 16 provides for certain practical expedients and exemptions, including those related to the initial adoption of the standard. DCM applied the following practical expedients, permitted by the standard, upon adoption of IFRS 16:

- the use of a single discount rate to a portfolio of equipment leases with reasonably similar characteristics;

- reliance on previous assessments under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases;
- the accounting for operating leases (on a lease- by-lease basis) with underlying value of assets being less than $5,000 CAD as low dollar value leases;
- the exclusion of initial direct costs for the measurement of the ROU Asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- election, by class of underlying asset, not to separate non-lease components from lease components.

DCM has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date DCM relied on its assessment made applying IAS 17 and IFRIC 4.

The details of DCM's leasing activities, new significant accounting policies and the impact of the changes from the previous significant accounting policies are set out below.

AS A LESSEE

DCM leases various offices, warehouses and machinery and office equipment. Rental contracts are typically made for fixed periods of 1 to 13 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. DCM has options to purchase certain manufacturing equipment for a nominal amount or the then fair market value, to extend the term, or return the equipment at the end of the lease term. The obligations are secured by the lessors' title to the leased asset for such leases.

DCM assesses, at the inception of a contract, whether a contract is, or contains, a lease. A lease is a contract in which the right to control the use of an identified asset is granted for an agreed upon period of time in exchange for consideration. DCM assessed whether a contract conveys the right to control the use of an identified asset when there is both the right to direct the use of the asset and obtain substantially all the economic benefits from that use. Effective January 1, 2019, DCM recognizes a ROU Asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the non-cancellable lease payments over the lease term and discounted at DCM's incremental borrowing rate. Lease payments include fixed payments and such variable payments that depend on an index or a rate; less any lease incentives receivable.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in DCM's estimate of the amount expected to be payable under a residual value guarantee, or if DCM changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU Asset, with any difference recorded in the condensed interim statement of operations.

The ROU Asset is measured at cost, which comprises the initial lease liability, lease payments made at or before the lease commencement date, initial direct costs and restoration obligations less lease incentives. The ROU Asset is subsequently measured at amortized cost.

The assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The lease term includes periods covered by an option to extend if DCM is reasonably certain to exercise that option. The ROU Asset is assessed for impairment in accordance with the requirements of IAS 36 *Impairment of Assets*.

On a lease by lease basis, DCM also exercises the option available for contracts comprising lease components as well as non-lease components, not to separate these components. Payments to the lessor for variable costs associated with the lease, including variable payments to the lessor related to non-lease components, are not included in the measurement of the lease liability, and are expensed as incurred in the condensed interim consolidated statement of operations.

Extension and termination options exist for DCM’s property leases. DCM re-measures the lease liability, when there is a change in the assessment of the inclusion of the extension option in the lease term, resulting from a change in facts and circumstances.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the condensed interim consolidated statement of operations. Short-term leases are leases with a lease term of twelve months or less. Low value assets comprise IT equipment and small items of office furniture.

AS AN INTERMEDIATE LESSOR

DCM enters into sub-leases as an intermediate lessor. It accounts for its interest in the head lease and sub-lease separately. It assesses the lease classification of a sub-lease as either an operating lease or a finance lease with reference to the ROU Asset arising from the head lease. If a head lease is a short-term lease to which DCM applies the exemption described above, then the sub-lease is classified as an operating lease.

USE OF SIGNIFICANT ESTIMATES AND JUDGMENT

(i) DCM uses significant judgment when determining whether a contract contains an identified asset, and whether DCM has the right to control the use of the identified asset.

(ii) DCM also makes significant judgment in determining the incremental borrowing rate used to measure the lease liability for each lease contract. The incremental borrowing rate represents the rate DCM would pay to borrow funds to obtain the underlying asset over a similar term and with similar security. This requires judgment to determine the financing spread adjustment based on existing credit facilities and a lease-specific adjustment based on the underlying asset.

(iii) In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

IMPACT OF ADOPTION OF IFRS 16:

The following table summarizes the impact of adopting IFRS 16 on DCM's condensed interim consolidated statement of financial position as at January 1, 2019:

(in thousands of Canadian dollars, unaudited)	***December 31, 2018 prior to the adoption of IFRS 16***	***Impact of adopting IFRS 16***	***January 1, 2019 after the adoption of IFRS 16***
Prepaid expenses and other current assets (c)	3,519	31	3,550
Other non-current assets (c)	827	257	1,084
Right-of-use assets (a) (b) (c)	—	56,879	56,879
Property, plant and equipment (a)	16,804	(29)	16,775
Trade payables and accrued liabilities (a)(b)	43,497	(239)	43,258
Provisions (current portion) (c)	2,908	(105)	2,803
Provisions (non-current portion) (c)	540	(211)	329
Lease liabilities (a)	—	60,645	60,645
Other non-current liabilities (b)	3,272	(2,952)	320

(a) Previously under IAS 17, leases were classified as financing or operating leases depending on the terms and conditions of the contracts.

Leases previously classified as finance leases under IAS 17, where DCM assumed substantially all the risks and rewards of ownership, were initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. On adoption of IFRS 16, for such leases previously classified as finance leases, DCM recognized the carrying amount of the lease asset and lease liability immediately before transition in the amount of $29 as the carrying amount of the ROU Asset and the lease liability at the date of initial application. The application of IFRS 16 to these leases as at January 1, 2019 resulted in the equipment held under finance lease arrangements previously presented within property, plant, and equipment, and the obligation previously presented under trade payables and accrued liabilities on the statement of financial position, to be presented as a ROU Asset and a lease liability.

Payments made under leases previously classified as operating leases were charged to the statement of operations on a straight-line basis over the period of the lease. On adoption of IFRS 16, DCM recognized a lease liability and a ROU Asset in relation to substantially all leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019, which amounted to $60,616. The ROU Asset was measured at the amount equal to the lease liability, adjusted by the amount of prepaid and accrued lease payments relating to that lease (as noted below) recognized on the statement of financial position as at January 1, 2019.

(b) Deferred lease inducements and lease escalation liabilities previously recognized with respect to operating leases in accordance with SIC-15, *Operating leases- Incentives* ("SIC-15"), have been derecognized, and the balance as of January 1, 2019 has been adjusted as a reduction to the ROU Asset as at that date for a total of $3,162. Under SIC-15, payments made under operating leases net of lease inducements were recognized in the statement of operations on a straight-line basis over the term of the lease. Previously deferred lease inducements and lease escalation liabilities were included within other non-current liabilities and trade payables and accrued liabilities on the statement of financial position.

(c) Provisions for onerous operating lease contracts and unfavourable lease obligations have been adjusted as a reduction to the ROU Asset as at January 1, 2019 for a total of $316. This results in a reduction to the onerous lease provision and the unfavourable lease obligation included within "Provisions" on the statement of financial position. With respect to an onerous lease where DCM entered into a sublease whereby the rent payments received were lower than the rent payments paid for the head lease, DCM has classified the sublease as a finance lease receivable for $506, which is included in prepaid expenses and other current assets, and other non-current assets on the statement of financial position.

(d) Prepaid lease payments previously recognized for operating leases have been derecognized from prepaid expenses and other current assets on the statement of financial position, and the balance as of January 1, 2019 has been adjusted to increase the ROU Asset as at that date for a total of $218.

RECONCILIATION TO THE OPENING BALANCE:

The following reconciliation to the opening balance for the lease liability as at January 1, 2019 is based upon the operating lease obligations as at December 31, 2018:

(in thousands of Canadian dollars)		**January 1, 2019**
Operating lease commitment at December 31, 2018 as disclosed in the consolidated financial statements	**$**	**59,925**
Undiscounted cash flows for lease commitments related to leases not yet commenced		**(8,591)**
Undiscounted cash flows for extension options reasonably certain to be exercised		**38,932**
Recognition exemption for short-term and low dollar value leases		**(519)**
		89,747
Leases previously classified as finance leases under IAS 17		**29**
Discounted using the incremental borrowing rate at January 1, 2019		**(29,131)**
Lease liabilities recognized at January 1, 2019	**$**	**60,645**
Current		**6,762**
Non-current		**53,883**

When measuring lease liabilities, DCM discounted lease payments using its incremental borrowing rate as at January 1, 2019. The weighted-average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.70%.

The recognized ROU Asset relates to the following types of assets:

(in thousands of Canadian dollars)		**January 1, 2019**
Property	**$**	**48,720**
Office equipment		**419**
Production equipment		**7,740**
	$	**56,879**

IFRIC 23 - UNCERTAINTY OVER INCOME TAX TREATMENTS

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If the entity considers it to be not probable that a taxation authority will accept an uncertain tax provision the interpretation requires the entity to use the most likely amount or the expected value. DCM adopted the amendments to IFRIC 23 in its condensed interim consolidated financial statements effective January 1, 2019. The adoption of this amendment did not have a significant impact on DCM's condensed interim consolidated financial statements.

IAS 19 EMPLOYEE BENEFITS (AMENDMENT)

In February 2018, the IASB issued amendments to IAS 19 *Employee Benefits* with a mandatory effective date of January 1, 2019. The amendment clarifies the effect of a plan amendment, curtailment and settlement on the requirements regarding the asset ceiling. In addition, if a plan amendment, curtailment or settlement occurs, it is mandatory under the amended standard that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. This amendment is to be applied prospectively. DCM adopted the amendment to IAS 19 in its condensed interim consolidated financial statements effective January 1, 2019. The adoption of this amendment did not have a significant impact on DCM's condensed interim consolidated financial statements.

(b) Future accounting standards not yet adopted.

IFRS 3 BUSINESS COMBINATIONS (AMENDMENT)

In October 2018, the IASB issued *Definition of a Business (Amendments to IFRS 3)* aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the first annual reporting period beginning January 1, 2020. DCM is currently evaluating the new guidance and does not expect it to have a significant impact on its consolidated financial statements.

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS AND IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS (AMENDMENT)

In October 2012, the IASB issued *Definition of Material (Amendments to IAS 1 and IAS 8)* to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after January 1, 2020. DCM is currently evaluating the new guidance and does not expect it to have a significant impact on its consolidated financial statements.

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The amendments are effective for annual periods beginning on or after January 1, 2020. DCM is currently evaluating the new guidance and does not expect it to have a significant impact 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 DCM.

3 Liquidity

On June 3, 2019, DCM implemented a new Enterprise Resource Planning ("ERP") system company-wide (excluding Eclipse, Thistle and Perennial). As part of its transition to the new ERP system, DCM encountered various migration issues which affected production and the recognition of revenue and its ability to generate accurate and timely billings to its customers. This has resulted in a deterioration in operating results, a backlog of production orders, a temporary lag in the issuance of invoices and, as a result, delays in the collection of cash. These factors have created what is believed by management to be a short-term constraint on DCM's financial liquidity. Net working capital (current assets less current liabilities) increased to $26,030 as at September 30, 2019 from 10,400 as at June 30, 2019, primarily due to an increase in trade receivables over this period. Trade receivables, excluding unbilled receivables, were $53,075 compared with $33,427 as at September 30, 2019 and June 30, 2019, respectively. The significant growth in trade receivables had a simultaneous effect on the Company's total calculated collateral, which exceeded the $42,000 of available credit on its Bank Credit Facility. As a result, DCM's access to additional credit under the Bank Credit Facility was capped, despite the Company's liquidity being supported by excess collateral. Outstanding borrowing under the Company's Bank Credit Facility was $39,897 as at September 30, 2019 compared to $25,541 as at June 30, 2019. The

Company had access to $1,400 of available credit as at September 30, 2019 however in the absence of the $42,000 maximum limit on the Bank Credit Facility, DCM would have had access to a total of $2,400 of credit as at September 30, 2019. Subsequently, the volume of shipments and billings to its customers resulted in further growth of its collateral in excess of the $42,000 maximum limit and therefore, availability of credit, on the Bank Credit Facility. In the absence of the $42,000 limit, total availability as at November 12, 2019 would be $9,900. The Bank Credit Facility is a key source of liquidity for the Company's operations.

During the quarter ended September 30, 2019, management secured additional financial support from its lenders and received a number of waivers from its lenders as a result of the disruption in DCM's business caused by the new ERP, absent which the Company would have been in breach of most of the financial covenants associated with its credit facilities as at September 30, 2019 (note 9).

Without amendments to the financial covenants in DCM's existing credit facilities, the Company also expects to be in breach of its financial covenants throughout the remainder of 2019 and through at least mid 2020 based on its latest financial forecasts.

The Company is currently engaged in negotiations with its senior lenders regarding certain amendments (the "Credit Facilities Amendments") to its senior credit agreements, including amendments to its financial covenants to align with an agreed budget for the next twelve months and enable the Corporation to resolve the issues it has encountered in connection with the implementation of the ERP system such that the related adverse effects on the Company's financial results no longer impact the Company's ability to comply with its financial covenants on a trailing twelve month basis. The Company is seeking to reach agreement with its senior lenders on the terms of the Credit Facilities Amendments by no later than November 30, 2019. In that regard, the Company's senior lenders have agreed to waive certain financial covenants for the period of September 1, 2019 to November 30, 2019. There can be no assurance that the Company will negotiate and implement the Credit Facilities Amendments on terms satisfactory to the Company prior to November 30, 2019 or the Expiry Time, or at all.

At the Company's request, the Bank is also reviewing the potential to provide additional funding by way of an increase to the credit available under its Bank Credit Facility from $42,000 to up to $50,000 ("Proposed Bank Credit Facility") to provide some additional financial liquidity should the remediation of the short-term liquidity constraints arising from the ERP implementation take longer than anticipated. The Bank has engaged its own financial advisors, with the consent of the Company, to review the Company's business and financial position, including assessing the Company's financial forecasts and assisting the Bank with formulating updated financial covenants under the credit agreement to align with an agreed forecast. The Bank has indicated its intention to amend the Bank Credit Agreement to accommodate an increase in available credit, in conjunction with amending its financial covenants for the next twelve months, by November 30, 2019, subject to the completion and outcome of the report from its own financial advisors before then.

In the interim, on November 14, 2019, a fourth amendment was made to the Bank Credit Facility to provide a short-term increase of available credit from $42,000 to $45,000 until December 31, 2019, or the date an agreement is reached under the Proposed Bank Credit Facility, should that come sooner.

The Company is also planning a rights offering pending a successful conclusion to the refinancing negotiations with its lenders. Management anticipate having amended credit facilities in place and a rights offering closed before the end of the year.

While it is the Company's intention to execute on its refinancing plan, obtain additional debt and equity financing and mitigate the working capital constraints caused by the implementation of the new ERP system before the end of the year, there can be no assurance that DCM will be successful in these efforts. Failure to obtain adequate financing and/or on satisfactory terms could have a material adverse effect on the Company's results of operations and financial condition.

The estimate of future cash flows in the Company's financial forecasts include a number of key assumptions to support these financial covenant calculations, specifically related to revenues and gross margins, which in turn impact earnings before interest, income taxes, depreciation and amortization (EBITDA). The estimate of forecast future cash flows currently being reviewed with the Company's lenders as a basis for proposed amendments to the credit facilities are sensitive to those assumptions (e,g if EBITDA realized over the next twelve months falls short of our forecast by more than 11%, the Company will also be offside with certain existing financial covenants in Q3 2020). If the lenders amend the financial covenants based on an agreed forecast, the Company could still be in breach of those amended covenants if those forecasts are not met requiring further covenant waivers by the lenders.

4 Business acquisitions

ACQUISITION OF PERENNIAL GROUP OF COMPANIES

On May 8, 2018 (the "Perennial Closing Date"), DCM acquired 100% of the outstanding common shares of Perennial, a leading design firm. The acquisition of Perennial has added a new suite of services which include business and brand strategy, consumer insights, environmental and graphic design, and communications and retail operations design and strategy.

DCM acquired Perennial for a total purchase price of approximately $12,530, comprised of $8,226 in cash paid on closing (after giving effect to the preliminary working capital adjustment of $1,166 and the post-closing working capital adjustments of $60), $2,051 through the issuance of common shares of DCM, and $2,253 in the form of a subordinated, unsecured non-interest bearing vendor take back note (the "Perennial VTB"). The Perennial VTB is repayable as follows: $1,000 was paid on May 6, 2019, $1,000 is payable on the second anniversary of closing and $500 on the third anniversary of closing. A total of 1,394,856 common shares ("Common Shares") of DCM were issued to one of the vendors of Perennial. During the last quarter of fiscal 2018, the total post-closing adjustments to the purchase price were finalized and paid in cash to the vendor in the amount of $60.

The fair value of the Common Shares attributed to the acquisition consideration was estimated based on the market price of the Common Shares on the Perennial Closing Date of $1.73 per Common Share, discounted by 15% for the effect of the contractual restrictions on selling those Common Shares for a twelve month period from the Perennial Closing Date. The fair value of the Perennial VTB was determined by present valuing the future cash flows using a discount rate of 6% which represents management's best estimate based on financial instruments with a similar term and risk profile in the market.

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

The consideration paid and the allocation of the consideration to the fair values of the assets acquired and liabilities assumed in the acquisition as of the Perennial Closing Date were as follows:

Recognized amounts of identifiable assets acquired and liabilities assumed		Amount
Cash and cash equivalents	$	906
Trade receivables		1,012
Prepaid expenses and other assets		287
Property, plant and equipment		115
Intangible assets		2,995
Trade payables and accrued liabilities		(388)
Income taxes payable		(28)
Deferred revenue		(115)
Deferred income tax liabilities		(924)
Total identifiable net assets		**3,860**
Goodwill		**8,670**
Total	**$**	**12,530**

Purchase price consideration		Amount
Cash	$	8,226
Common shares		2,051
Promissory note (note 10)		2,253
Total	**$**	**12,530**

The fair value of trade receivables was $1,012. The gross contractual amount of trade receivables due was $721 of which $4 was deemed to be uncollectible. The remaining balance of $295 relates to unbilled receivables.

The identifiable intangible assets acquired of $2,995 relate to customer relationships of $1,615, trade names of $550 and customer backlog intangible of $830. The customer relationship is being amortized over an expected useful life of 5 years. The trade name and the customer backlog are being amortized over estimated useful lives of 10 years and 19 months, respectively.

Goodwill of $8,670 arising from the acquisition is mainly attributable to expected future growth in sales from existing and new customers through cross selling opportunities, in addition to the company's skilled workforce. The goodwill is not tax deductible.

Total acquisition costs incurred and charged to the consolidated statement of operations for the year ended December 31, 2018 were $294 related to the Perennial acquisition.

The revenues and net loss contributed by Perennial and included in the condensed interim consolidated statement of operations for the period between the Perennial Closing Date and September 30, 2018 were $1,928 and $56, respectively. Net profit (loss) has been adjusted for additional amortization and depreciation expense related to the fair value adjustments made to tangible and intangible assets on acquisition. If the acquisition had occurred on January 1, 2018, the estimated revenues and net loss contributed by Perennial to DCM's operating results for the nine months ended September 30, 2018 would have been approximately $4,328 and $541, respectively, after adjusting net loss for additional amortization and depreciation expense that would have been charged assuming the fair value adjustments to tangible and intangible assets had applied from January 1, 2018.

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

SALE OF TABS AND BINDER BUSINESS

On May 2, 2019, DCM entered into an asset purchase agreement with Southwest Business Products Ltd. ("Southwest") whereby DCM has sold its loose-leaf binders and index tab business to Southwest for cash of $675 and Southwest acquired certain assets and assumed certain liabilities related to the business, including $65 of goodwill. The gross cash proceeds are used for general working capital requirements. The release of security on the assets sold have been approved by DCM's senior lenders.

In addition, DCM has entered into a long-term supply agreement with Southwest as a preferred vendor to DCM for the supply of binders, index tabs and related products. The loose-leaf binders and tab business was previously acquired by DCM in conjunction with the acquisition of BOLDER Graphics in November of 2018.

5 Trade receivables

		September 30, 2019		December 31, 2018
Trade receivables	**$**	**88,945**	$	73,919
Provision for doubtful accounts		**(495)**		(795)
	$	**88,450**	$	73,124

As at September 30, 2019, trade receivables include unbilled receivables of $35,695 (2018 - $29,114), net of an expected credit loss allowance of $175 (2018 - $453).

6 Inventories

		September 30, 2019		December 31, 2018
Raw materials	**$**	**5,201**	$	4,779
Work-in-progress		**3,073**		2,810
Finished goods		**2,203**		1,223
	$	**10,477**	$	8,812

Raw materials inventory amount is net of obsolescence reserves of $229 (2018 – $250). Finished goods at September 30, 2019 and December 31, 2018 consist of base stock items.

7 Leases

(i) *ROU ASSET*

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2019 and 2018

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

(in thousands of Canadian dollars, unaudited)	***Property***	**Office Equipment**	***Production Equipment***	***Total***
Balance, January 1, 2019	48,720	419	7,740	$ 56,879
Additions	—	2,155	6,337	8,492
Modifications	(597)	(29)	794	168
Depreciation charge for the period	(3,404)	(605)	(2,554)	(6,563)
Balance, September 30, 2019	44,719	1,940	12,317	58,976

During the three and nine month period ended September 30, 2019, DCM modified certain leases by entering into renewal and/or amending agreements to extend or reduce a lease term and/or reduce the lease payments. This includes early termination of the Saskatoon, Saskatchewan property lease effective November 30, 2019, and negotiations with a significant lessor to extend the term of existing production and office equipment contracts.

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2019 and 2018

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

(i) *LEASE LIABILITIES*

(in thousands of Canadian dollars, unaudited)	**Property**	**Office Equipment**	**Production Equipment**		**Total**
Balance, January 1, 2019	52,209	419	8,017	$	60,645
Additions	—	2,155	6,087		8,242
Modifications	(597)	(29)	794		168
Payments during the period	(4,475)	(670)	(2,930)		(8,075)
Interest charge for the period	2,128	87	492		2,707
Balance, September 30, 2019	49,265	1,962	12,460		63,687

The contractual undiscounted cash flows of DCM's lease liabilities are as follows:

(in thousands of Canadian dollars)		**Contractual Cash Flows**		**Extension Options**		**Total September 30, 2019**
Not later than one year	$	11,339	$	—	$	11,339
Later than one and not later than five years		34,875		4,597		39,472
Later than five years		5,445		34,107		39,552
Total undiscounted lease liabilities at September 30, 2019	$	51,659	$	38,704	$	90,363
Discounted using the incremental borrowing rate						(26,676)
Lease liabilities at September 30, 2019					$	63,687
Current						8,172
Non-current						55,515

(ii) AMOUNTS RECOGNIZED IN THE STATEMENT OF OPERATIONS

(in thousands of Canadian dollars)		**For the three months ended September 30, 2019**		**For the nine months ended September 30, 2019**
Variable lease payments not included in the measurement of lease liabilities	**$**	**1,590**	**$**	**4,661**
Income from sub-leasing right-of-use assets	**$**	**(48)**	**$**	**(144)**
Expenses relating to short-term leases and leases of low value assets	**$**	**177**	**$**	**786**

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2019 and 2018

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

8 Provisions

	Termination provisions	Onerous contracts	Other	Total
Balance – June 30, 2019	**$ 5,349**	**$ —**	**$ —**	**$ 5,349**
Additional charge during the three month period	**2,724**	**—**	**—**	**2,724**
Utilized during the three month period	**(2,007)**	**—**	**—**	**(2,007)**
Balance – September 30, 2019	**$ 6,066**	**$ —**	**$ —**	**$ 6,066**
Less: Current portion of provisions	**(5,295)**	**—**	**—**	**(5,295)**
As at September 30, 2019	**$ 771**	**$ —**	**$ —**	**$ 771**

	Termination provisions	Onerous contracts	Other	Total
Balance – December 31, 2018	**$ 2,581**	**$ 653**	**$ 214**	**$ 3,448**
Adoption of IFRS 16 (note 2)	**—**	**(136)**	**(180)**	**(316)**
As at January 1, 2019	**2,581**	**517**	**34**	**3,132**
Additional charge during the nine month period	**7,595**	**—**	**—**	**7,595**
Utilized during the nine month period	**(4,110)**	**(517)**	**(34)**	**(4,661)**
Balance – September 30, 2019	**$ 6,066**	**$ —**	**$ —**	**$ 6,066**
Less: Current portion of provisions	**(5,295)**	**—**	**—**	**(5,295)**
As at September 30, 2019	**$ 771**	**$ —**	**$ —**	**$ 771**

	Termination provisions	Onerous contracts	Other	Total
Balance – December 31, 2017	$ 3,468	$ 2,988	$ 196	$ 6,652
Additional charge during the year	2,654	—	134	2,788
Recovery during the year	—	(1,123)	—	(1,123)
Utilized during the year	(3,541)	(1,212)	(116)	(4,869)
Balance – December 31, 2018	$ 2,581	$ 653	$ 214	3,448
Less: Current portion of provisions	(2,286)	(571)	(51)	(2,908)
As at December 31, 2018	$ 295	$ 82	$ 163	$ 540

TERMINATION PROVISIONS

During the three and nine months ended September 30, 2019, DCM continued its restructuring and ongoing productivity improvement initiatives to reduce its cost of operations. During the three and nine months ended September 30, 2019, these initiatives resulted in $2,724 and $7,595, respectively, of additional restructuring expenses due to headcount reduction across DCM's operations, the closure of its Brossard, Quebec manufacturing facility effective April 30, 2019, as part of its strategy to exit the stationery business, and the sale of its tabs and bindery business in the Calgary, Alberta manufacturing facility.

During the three and nine months ended September 30, 2018, total restructuring initiatives resulted in costs incurred of $9 and $1,932, respectively, due to headcount reductions in the condensed interim consolidated statement of operations.

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

For the three and nine months ended September 30, 2019, cash payments of $2,007 (2018 - $806) and $4,110 (2018 - $3,543), respectively, were made to former employees for severances and for other restructuring costs. The remaining severance and restructuring accruals of $6,066 at September 30, 2019 are expected to be paid in 2019 and 2020.

ONEROUS CONTRACTS

During the first quarter of 2018, DCM entered into an agreement with the landlord of the Granby, Quebec facility to terminate its existing lease. DCM agreed to make payments to the landlord in two equal installments of $517 each due on May 15, 2018 and January 15, 2019. During the three months ended March 31, 2019, DCM made the last installment payment to the landlord of the facility.

The remaining balance of $136 relates to an onerous sublease contract for the Dorval, Quebec facility. This balance was reclassified as a reduction to the ROU Asset upon the adoption of IFRS 16 (see note 2).

OTHER

During the first quarter of 2019, the outstanding balance of $34 (2018 - nil) was paid in connection with a former contract. The remaining balance of $180 relates to an unfavourable lease obligation for its Burlington, Ontario facility in connection with the acquisition of Eclipse where the rent payments exceeded the fair market value. This balance was reclassified as a reduction to the ROU Asset upon the adoption of IFRS 16 (see note 2).

9 Credit facilities

		September 30, 2019		December 31, 2018
Term loans				
- 6.10% term debt, maturing October 15, 2022, (FPD III Credit Facility)		**3,404**		3,947
- 6.95% term debt, maturing March 10, 2023, (FPD IV Credit Facility)		**16,350**		18,589
- 6.95% term debt, maturing May 15, 2023, (FPD V Credit Facility)		**3,681**		4,160
- 10.00% term debt, maturing May 7, 2023, (Crown Facility)		**18,502**		11,511
Revolving facilities				
- floating rate debt, maturing January 31, 2023, (Bank Credit Facility) - see amendment in note 3		**39,897**		20,799
Credit facilities		**81,834**		59,006
Unamortized transaction costs		**(1,582)**		(1,585)
	$	**80,252**	$	57,421
Less: Current portion of Credit facilities		**(4,591)**		(5,670)
Credit facilities	**$**	**75,661**	$	51,751

CREDIT AGREEMENTS

BANK AND FPD FACILITIES

DCM has established a revolving credit facility (the “Bank Credit Facility”) with a Canadian chartered bank (the “Bank”) and an amortizing term loan facility (the “FPD IV Credit Facility”) with Fiera Private Debt Fund IV L.P. ("FPD IV") (formerly, Integrated Private Debt Fund IV LP) a fund managed by Fiera Private Debt Fund GP Inc. ("FPD") (formerly, Integrated Asset Management Corp.) pursuant to separate amended and restated credit agreements between DCM and the Bank (as amended, the “Bank Credit Agreement”) and FPD (as amended, the “FPD IV Credit Agreement”), respectively. Upon closing of the Thistle acquisition in 2017, DCM became a co-borrower with Thistle under an existing credit agreement (the “FPD III Credit Agreement”) between Thistle and Fiera Private Debt Fund III L.P. ("FPD III") (formerly, Integrated Private Debt Fund III LP), another fund managed by FPD, pursuant to which FPD III has advanced to Thistle a term loan facility (the “FPD III Credit Facility”). On November 10, 2017, DCM established a $5,000 secured, non-revolving senior credit facility (the "FPD V Credit Facility") with Fiera Private Debt V L.P. ("FPD V") (formerly, Integrated Private Debt Fund V LP), a fund managed by FPD (the "FPD V Credit Agreement" and, together with the FPD III Credit Agreement and the FPD IV Credit Agreement, the “FPD Credit Agreements”) to fund the acquisition of BOLDER Graphics and to repay a portion of DCM's outstanding principal under the Bank Credit Facility. The FPD III Credit Facility and the FPD V Credit Facility are subject to the same covenants stipulated under the FPD IV Credit Agreement and are reported on a consolidated basis.

Under the terms of the Bank Credit Agreement, the maximum principal amount available under the Bank Credit Facility is $42,000 (see Amendments to Credit Facilities) and the Bank Credit Facility matures on January 31, 2023. Advances under the Bank Credit Facility may not, at any time, exceed the lesser of $42,000 and a fixed percentage of DCM’s aggregate accounts receivable and inventory (less certain amounts). Advances under the amended Bank Credit Facility are subject to floating interest rates based upon the Canadian prime rate plus an applicable margin of 0.60%. DCM has capitalized transaction costs of $1,105 related to the Bank Credit Facility. The unamortized balance of the transaction costs are being amortized over the remaining term of the Bank Credit Facility. As at September 30, 2019, the unamortized transaction costs related to the Bank Credit Facility was $437. As at September 30, 2019, there were outstanding borrowings of $39,897 under the revolving facilities portion of the Bank Credit Facility and letters of credit granted of $725. As at September 30, 2019, all of DCM’s indebtedness outstanding under the Bank Credit Facility was subject to a floating interest rate of 4.55% per annum. As at September 30, 2019, DCM had access to $1,400 of available credit under the Bank Credit Facility. The bank overdraft of $1,475 shown on the condensed interim consolidated statement of financial position as at September 30, 2019 represents outstanding cheques, which when cashed, would be a draw on the Bank Credit Facility.

Under the terms of the FPD Credit Agreements, the maximum aggregate principal amount which may be outstanding under the FPD III Credit Facility, FPD IV Credit Facility, the FPD V Credit Facility, the Bank Credit Facility and Crown Facility (as defined below), calculated on a consolidated basis in accordance with generally accepted accounting principles (“Total Funded Debt”), cannot exceed $80,000 (after giving effect to the provisions of the inter-creditor agreement described below).

The principal amount of the amended FPD III Credit Facility amortizes in blended equal monthly repayments of principal and interest of $96 over a nine year term ending October 15, 2022. The principal amount of the FPD IV Credit Facility amortizes in blended equal monthly repayments of principal and interest of $422 over a seven year term ending March 10, 2023. The principal amount of the FPD V Credit Facility amortizes in blended equal monthly repayments of principal and interest of $91 over a sixty six month term ending May 15, 2023. The FPD III Credit Facility, FPD IV Credit Facility and FPD IV Credit Facility were amended on July 25, 2019 to defer principal payments for the months of August through December 2019 (see Amendments to Credit Facilities). As at September 30, 2019, all of DCM’s indebtedness outstanding under the FPD III Credit Facility was subject to a fixed interest rate equal to 6.10% per annum and all of DCM’s indebtedness outstanding under the amended FPD IV Credit Facility and under the FPD V Credit Facility were subject to a fixed interest rate equal to 6.95% per annum, respectively.

As at September 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD III Credit Facility were $20 and $3,404, respectively. As at September 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD IV Credit Facility were $329 and $16,350, respectively. As at September 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD V Credit Facility were $117 and $3,680, respectively. The unamortized balance of the transaction costs for FPD III Credit Facility, FPD IV Credit Facility and the FPD V Credit Facility are being amortized over the remaining term of each respective facility.

CROWN FACILITY

On May 8, 2018, DCM established a $12,000 non-revolving term loan facility ("Crown Tranche One Loan") with Crown Capital Partner Funding, LP (previously Crown Capital Fund IV, LP) (the "Crown Facility"), a fund managed by Crown Capital LP Partner Funding Inc. (previously Crown Capital Fund IV Management Inc.) ("Crown"), of which $8,226 was used to fund the up-front cash component of the Perennial acquisition and $3,500 was used to repay in full the outstanding balance on DCM's subordinated debt facility with Bridging Finance Inc. ("Bridging Credit Facility"). The balance of the Crown Facility was used for general working capital purposes.

The Crown Facility was made available in one advance on the funding date of May 8, 2018 and bears interest at a fixed rate of 10% per annum, payable quarterly, and the principal amount of the loan is due at maturity, which is 60 months from closing. DCM's obligations under the Crown Facility are subordinated to its other senior credit facilities and secured by a conventional security on all of the assets of DCM and its subsidiaries. In addition, a total of 960,000 warrants have been issued to Crown in connection with the Crown Facility. Each warrant entitles the holder to acquire one DCM common share at an exercise price of $1.75 for a period of five years, commencing on May 8, 2018. The Crown Facility of $12,000 was apportioned to $11,458 to the debt instrument and $542 to the warrant option based on their relative fair values (note 13). The fair value of the warrant option was then bifurcated and recorded separately within equity while the fair value of the debt host will be accreted from $11,458 to $12,000 over the term of the loan.

On August 16, 2019, DCM entered into a third amendment to its Crown Facility whereby Crown advanced a second non-revolving term loan in the principal amount of $7,000 ("Crown Tranche Two Loan"), for total advances in the principal amount of $19,000. The terms are consistent with the provisions of the Crown Tranche One Loan. In addition, a total of 550,000 warrants have been issued to Crown in connection with the Crown Tranche Two Loan. Each warrant entitles the holder to acquire one DCM common share at an exercise price of $1.08 for a period of 3.7 years, commencing on August 16, 2019. The Crown Facility was apportioned to $6,855 to the debt instrument and $145 to the warrant option based on the relative fair values (note 13). The fair value of the warrant option was then bifurcated and recorded separately within equity while the fair value of the debt host will be accreted from $6,855 to $7,000 over the term of the loan.

In connection with the amendment, DCM recognized a loss on modification of debt of $70, which is included in the amortization of transactions costs in the condensed interim consolidated statement of operations.

As at September 30, 2019, the accreted debt instrument was valued at $18,502 including total accretion expense of $68.

The Crown Facility can be prepaid in full at any time after twenty-four (24) months from the date of the funding anniversary. The penalties attached to each option are: (a) 3% prepayment penalty fee on the principal loan outstanding if the prepayment option is exercised during or after the 24th month but before the 36th month following the date of the funding anniversary, (b) 2% prepayment penalty fee on the principal loan outstanding if the prepayment option is exercised during or after the 36th month but before the 48th month following the date of the funding anniversary, or (c) 1% prepayment penalty fee on the principal loan outstanding if the prepayment option is exercised during or after the 48th month but before the 60th month following the date of the funding anniversary.

For the nine months ended September 30, 2019, DCM capitalized transaction costs of $176 related to the Crown Facility. The unamortized transaction costs and outstanding borrowings related to the Crown Facility were $679 and $18,502, respectively and the unamortized balance of the transaction costs is being amortized over the remaining term of this facility.

BANK LEASE FACILITY

On July 31, 2018, DCM entered into a commitment with the Bank to lease equipment by way of a demand, non-revolving lease facility for approximately $2,400 ("Bank Lease Facility"). As part of this arrangement, DCM initially entered into an agreement to purchase the equipment from a third-party supplier. All of DCM's rights, title and interest in the equipment were subsequently assigned to the Bank by way of an agreement dated July 31, 2018. The Bank advanced funds pursuant to an interim funding agreement dated July 31, 2018 (the "Interim Funding Agreement") to pay for the upfront amounts required by the third-party supplier in exchange for a monthly fee payable by DCM which is calculated by multiplying the annual prime rate plus 0.75% by the total value of funds advanced and pro-rated for the days the funds remain outstanding. Total interest expense for the three and nine month periods ended September 30, 2019 was $nil and $30, respectively. On January 16, 2019, DCM entered into an amendment to extend the interim funding period to March 31, 2019.

On April 29, 2019, DCM finalized its lease agreement with the Bank pursuant to the Bank Lease Facility entered into on July 31, 2018. The agreement is for a period of five years with monthly payments of $38. Upon expiration of the lease term, DCM has the option to purchase or return the equipment.

AMENDMENTS TO CREDIT FACILITIES

Effective May 7, 2018, DCM entered into an amended and restated bank credit agreement (the "A&R Bank Credit Facility") with regards to its Bank Credit Facility, as amended, which incorporated conforming updates to the original Bank Credit Facility dated March 16, 2016 to consolidate the subsequent series of amendments previously made to that facility, including to provide for the addition of the Crown Facility together with the repayment of the Bridging Credit Facility into the A&R Bank Credit Facility and the acquisition of Perennial. No material changes were otherwise incorporated into the A&R Bank Credit Facility.

Effective May 7, 2018, DCM also entered into amended and restated credit agreements with regards to its FPD III Credit Facility (the "FPD III A&R Credit Facility"), its FPD IV Credit Facility (the "FPD IV A&R Credit Facility") and its FPD V Credit Facility (the "FPD V A&R Credit Facility" and, together with the FPD III A&R Credit Facility and the FPD IV A&R Credit Facility, the “FPD A&R Credit Facilities”), which, among other things incorporated conforming updates to each of those respective original credit agreements, to consolidate the subsequent series of amendments previously made to those agreements, including to provide for the addition of the Crown Facility together with the repayment of the Bridging Credit Facility and the acquisition of Perennial. No material changes were otherwise incorporated into the various credit facilities managed by FPD.

On July 31, 2018, the A&R Bank Credit Facility was amended to allow DCM to enter into the Bank Lease Facility for an amount not to exceed $3,000. The A&R Bank Credit Facility excludes the Bank Lease Facility from the maximum principal amount of debt available of $35,000 and has added a cross default and cross collateralization condition which includes the equipment leased as collateral under A&R Bank Credit Facility and Bank Lease Facility.

On September 30, 2018, DCM received a waiver on the Crown Facility regarding the requirement to meet the fixed charge coverage ratio of 1.4 to 1.0 for the quarters ending December 31, 2018 and March 31, 2019. On February 8, 2019, DCM received an extension of the previous waiver in relation to meeting the fixed charge coverage ratio requirement for the quarter ending June 30, 2019.

On October 26, 2018, DCM received a waiver with regards to the FPD A&R Credit Facilities, and for the purposes of determining DCM's Excess Cash Flow (as defined under "Covenant Requirements" below), the FPD A&R Credit Facilities were waived to reduce the requirement to maintain a debt service coverage ratio of 2.0 times so long as DCM maintains a debt service coverage ratio of at least 1.85 times for the next four fiscal quarters beginning October 1, 2018 and ending on September 30, 2019. DCM is required to maintain the requirement in order to make payments in respect to the vendor take-back promissory notes issued in connection with the Eclipse, Thistle, BOLDER Graphics and Perennial acquisitions.

On March 5, 2019, DCM entered into a second amendment to its' A&R Bank Credit Facility. Significant terms of the amendment made to the credit facility include an extension of the maturity date to January 31, 2023, from its original maturity date of March 31, 2020; a reduction in the prime rate margin on advances by 15 basis points from 0.75% per annum to 0.60% per annum; the elimination of an early termination fee in the event the credit facility is terminated or repaid prior to maturity; and amendments related to the calculation of certain financial covenants as a result of the adoption of IFRS 16 effective for reporting periods on or after January 1, 2019. The amendments related to IFRS 16 include clarification that the calculation of DCM's fixed charge coverage ratio under the A&R Bank Credit Facility will be completed on a basis that substantially has the same effect as the results prior to the adoption of IFRS 16 whereby lease payments will also be deducted from EBITDA, in addition to all other adjustments previously allowed per the Bank Credit Agreement. As a result, definitions of certain terms related to IFRS 16 were added to the A&R Bank Credit Facility. DCM’s financial covenant ratio with the Bank remains unchanged.

On June 21, 2019, DCM received a waiver on the Crown Facility regarding the requirement to meet the fixed charge coverage ratio of 1.4 to 1.0 for the quarter ended September 30, 2019.

On June 21, 2019, DCM received an amendment regarding the FPD A&R Credit Facilities for the requirement to maintain a Total Funded Debt to EBITDA Ratio of no greater than 3:0 to 1:0, which was amended to no greater than 3.25 to 1:0 for the quarters ended June 30, 2019, and September 30, 2019, and for the quarter ending December 31, 2019. Subsequently, on June 30, 2019, DCM received a waiver regarding the requirement to maintain a Total Funded Debt to EBITDA Ratio of no greater than 3:25 to 1:0 for the quarter ended June 30, 2019.

On June 24, 2019, DCM received an amendment regarding the A&R Bank Credit Facility for the requirement to meet the fixed charge coverage ratio of 1.1 to 1.0, which was amended to 0.90 to 1.0 for May and June 2019, and 1.0 to 1.0 for July and August 2019.

On July 25, 2019, FPD III, FPD IV and FPD V agreed to amend the credit agreements between DCM and FPD III, FPD IV and FPD V for the FPD A&R Credit Facilities (“Amended FPD A&R Credit Facilities”). For each of the FPD A&R Credit Facilities, principal payments for the months of August 2019 through December 2019 will be deferred and paid out as bullet payments on each FPD A&R Credit Facility's respective maturity date. During this period, the interest rate on each of the FPD III, FPD IV and FPD V A&R Credit Facilities will be increased to 7.25% per annum. The increase in the interest rates will be treated as a payment in kind ("PIK") with the interest premium calculated and accrued on a monthly basis for each of the three credit facilities. The PIK is required to be repaid in cash prior to January 15, 2020 when the regularly scheduled principal and interest payments on each credit facility resume.

As a condition to those amendments, DCM has agreed to defer any payments on its vendor take-back promissory notes effective as of the date of the Amended FPD A&R Credit Facilities. In addition, the waiver obtained on October 26, 2018 to reduce the requirement to maintain a debt service coverage ratio from 2.0 to 1.85 times for the purposes of determining its Excess Cash Flow, and permit payments on its vendor take-back promissory notes, was revoked. Resumption of payments on vendor take-back promissory notes will require prior approval by FPD.

On July 31, 2019, DCM entered into a third amendment to increase the revolving commitment on its Bank A&R Credit Facility from an aggregate outstanding principal amount of up to $35,000 to up to $42,000 between July 31 and December 31, 2019. In addition, the amendment includes the Bank's consent to the amendments to the FPD A&R Credit Facilities on July 25, 2019. On November 14, 2019 a fourth amendment was made to increase the aggregate principal amount up to $45,000 up until December 31, 2019 (see further details in note 3).

On September 30, 2019, DCM received a waiver regarding the Crown Facility for the requirement to maintain the Net Debt to EBITDA of 4.0 to 1.0 for the quarter ended September 30, 2019.

On September 30, 2019, DCM received a waiver regarding the A&R Bank Credit Facility for the requirement to meet the fixed charge coverage ratio of 1.1 to 1.0 for the quarter ended September 30, 2019 and the months ending October 31 and November 30, 2019.

On September 30, 2019, DCM received a waiver regarding the FPD A&R Credit Facilities for the requirement to maintain a Total Funded Debt to EBITDA Ratio of no greater than 3:0 to 1:0 and Debt Service Coverage Ratio of no less than 1:5 to 1:0 and total funded debt of less than $80,000 for the quarter ended September 30, 2019.

COVENANT REQUIREMENTS

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

Under the terms of the Bank Credit Agreement, DCM is required to maintain a fixed charge coverage ratio of no less than the following levels: 1:00 to 1 from January 1, 2018 to March 31, 2018 and 1.10 to 1 on and after March 31, 2018, for which an amendment for the months of May, June, July and August 2019 has been obtained, and a waiver for the months of September, October and November 2019 was obtained (as noted above), calculated on a consolidated basis, in respect of any particular trailing 12 month period, as EBITDA for such period less cash taxes, cash distributions (including dividends paid) and non-financed capital expenditures paid in such period, divided by the total amount required by DCM to service its outstanding debt for such period. Each covenant is calculated and reported on a monthly basis. See note 1 for liquidity risk. Absent the waiver, the Company would have been in breach of this covenant as at September 30, 2019.

Under the terms of the FPD Credit Agreements, DCM is required to maintain (i) a ratio of Total Funded Debt to EBITDA no greater than the following levels: 3.25 to 1 from January 1, 2018 up to March 31, 2018 and 3.00 to 1 on and after April 1, 2018, for which a waiver for the quarters ended June 30, 2019, and an amendment for the quarter ended September 30, 2019, which was subsequently waived, and for the quarter ending December 31, 2019 was previously obtained (as noted above); (ii) a debt service coverage ratio of not less than 1.50 to 1 for which a waiver for the quarter ended September 30, 2019 has been obtained (as noted above), (iii) a working capital current ratio of not less than 1.10 to 1, and (iv) total funded debt of not more than $80,000 for which a waiver for the quarter ended September 30, 2019 has been obtained (as noted above). Each covenant is calculated and reported on a quarterly basis. Absent the waivers, the Company would have been in breach of these covenants as at September 30, 2019.

In addition, the FPD Credit Agreements permit cash payments in respect to the vendor take-back promissory notes issued in connection with DCM's acquisitions, as well as consulting fees or distributions in cash to shareholders and/or related parties, in an amount equal to the Excess Cash Flow (as defined below), provided that the debt service coverage ratio for the four most recently completed quarters is greater than 2.00 to 1, which was subsequently amended to 1.85 to 1.00 from October 1, 2018 to September 30, 2019, and provided that there is no default or event of default. The excess cash flow is calculated by taking the EBITDA less payments for (i) cash taxes, (ii) capital expenditures, (iii) principal and interest payments on the A&R Bank Credit Facility, the FPD A&R Credit Facilities and the Crown Facility and (iv) interest on leases for the two most recently completed quarters ("Excess Cash Flow"). The Excess Cash Flow is required to be calculated as at March 31 and September 30 of each calendar year ("The Excess Cash Flow Determination Date") which determines the quantum of payments that can be made for the following six-month period until the next Excess Cash Flow Determination Date. As at September 30, 2019, DCM has agreed to defer any payments on its vendor take-back promissory notes effective as of the date of the Amended FPD A&R Credit Facilities. In addition, the waiver obtained on October 26, 2018 to reduce the requirement to maintain a debt service coverage ratio from 2.0 to 1.85 times for the purposes of determining its Excess Cash Flow, and permit payments on its vendor take-back promissory notes, was revoked. Resumption of payments on vendor take-back promissory notes will require prior approval by FPD.

Under the terms of the Crown Facility agreement, DCM is required to maintain (i) Net Debt to EBITDA of no greater than 4.0 to 1.0 from April 30, 2018 to December 31, 2019 and 3.00 to 1 thereafter, for which a waiver for the quarter ended September 30, 2019 has been obtained; (ii) a fixed charge coverage ratio no less than the following levels: 1.10 to 1 as at June 30, 2018, 1.25 to 1 from July 1, 2018 to September 30, 2018 and 1.40 to 1 for each quarter thereafter, for which waivers for the quarters ended December 31, 2018, March 31, 2019, June 30, 2019 and September 30, 2019 have been obtained (as noted above). Each covenant is calculated and reported on a quarterly basis. Absent the waiver, the Company would have been in breach of these covenants as at September 30, 2019.

For purposes of the Bank Credit Agreement, the FPD Credit Agreements and Crown Facility agreement, “EBITDA” means net income or net loss for the relevant period, calculated on a consolidated basis in accordance with generally accepted accounting principles, plus amounts deducted, or minus amounts added, in calculating net income or net loss in respect of: the aggregate expense incurred for interest on debt and other costs of obtaining credit; income taxes, whether or not deferred; depreciation and amortization; non-cash expenses resulting from employee or management compensation, including the grant of stock options or restricted options to employees; any gain or loss attributable to the sale, conversion or other disposition of property out of the ordinary course of business; interest or dividend income; foreign exchange gain or loss; gains resulting from the write-up of property and losses resulting from the write-down of property (except allowances for doubtful accounts receivable and non-cash reserves for obsolete inventory); any gain or loss on the repurchase or redemption of any securities (including in connection with the early retirement or defeasance of any debt); goodwill and other intangible asset write-downs; and any other extraordinary, non-recurring or unusual items as agreed to by the lender. The pro forma financial results from DCM's acquisitions completed during the year are included on a trailing twelve month basis effective as of the closing date of the acquisitions for the purposes of DCM's calculations.

A failure by DCM to comply with its obligations under the Bank Credit Agreement, the FPD Credit Agreements or the Crown Facility, together with certain other events, including a change of control of DCM and a change in DCM's Chief Executive Officer, President or Chief Financial Officer (unless a replacement officer acceptable to FPD, acting reasonably, is appointed within 60 days of the effective date of such officer's resignation), could result in an event of default which, if not cured or waived, could permit acceleration of the indebtedness outstanding under each of those agreements. DCM anticipates it will be in compliance with the covenants in its credit facilities for the next twelve months; however there can be no assurance that DCM will be successful in achieving the results targeted in its operating plans or in complying with its covenants over the next twelve months (see note 1).

In addition, under the terms of the FPD IV Credit Agreement and the FPD V Credit Agreement, DCM is required to deposit and hold cash in a blocked account of $425 and of $90 to be used for repayments of principal and interest of indebtedness outstanding under the FPD IV A&R Credit Facility and indebtedness outstanding under the FPD V A&R Credit Facility, respectively. As at September 30, 2019, there was a balance of $515 (September 30, 2018 - $515) in the blocked account related to the FPD IV A&R Credit Facility and FPD V A&R Credit Facility which is recognized as restricted cash on the condensed interim consolidated statement of financial position.

INTER-CREDITOR AGREEMENT

DCM's obligations under the A&R Bank Credit Facility, the FPD V A&R Credit facility, the FPD IV A&R Credit Facility and the FPD III A&R Credit Facility are secured by conventional security charging all of the property and assets of DCM and its subsidiaries. On February 22, 2017, DCM entered into an amended Inter-creditor Agreement (the "Inter-creditor Agreement") between the Bank, FPD III, FPD IV, and the parties to the vendor take-back promissory notes (the “VTB Noteholders”) issued in connection with the acquisitions of Eclipse and Thistle, respectively, which, among other things, establishes the rights and priorities of the respective liens of the Bank, FPD III, FPD IV and the VTB Noteholders on the present and after-acquired property of DCM, Eclipse and Thistle (the "Original Inter-Creditor Agreement").

On November 10, 2017, the Original Inter-Creditor Agreement was amended in connection with the BOLDER Graphics acquisition to include FPD V as a party to the agreement and to establish the rights and priorities of the respective liens of the Bank, FPD III, FPD IV, FPD V and the VTB Noteholders on the present and after-acquired property of BOLDER Graphics.

Effective May 7, 2018, DCM entered into a second amended and restated inter-creditor agreement between the Bank, FPD III, FPD IV, FPD V, Crown and the VTB Noteholders, respectively, which, among other things, establishes the rights and priorities of the respective liens of the Bank, FPD III, FPD IV, FPD V, Crown and the VTB Noteholders on the present and after-acquired property of DCM and its subsidiaries.

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2019 and 2018

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

The movement in credit facilities during the nine month period ended September 30, 2019 are as follows:

		September 30, 2019		December 31, 2018
Balance - January 1, 2019, net of transaction costs	**$**	**57,421**	$	55,932
Changes from financing cash flows				
Proceeds from credit facilities		**26,097**		12,951
Repayment of credit facilities		**(3,262)**		(11,238)
Transaction costs		**(327)**		(900)
Total change from financing cash flows		**79,929**		56,745
Non-cash movements				
Issuance of warrants		**(145)**		—
Amortization of transaction costs		**400**		623
Accretion of discount		**68**		53
Balance - End of period	**$**	**80,252**	$	57,421

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

	September 30, 2019
2019	**—**
2020	**5,899**
2021	**6,313**
2022	**7,043**
2023	**63,076**
	$ 82,331

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

10 Promissory notes

The movement in the promissory note balances during the nine months ended September 30, 2019 and year ended December 31, 2018 is as follows:

2019	**Eclipse acquisition**	**Thistle acquisition**	**BOLDER Graphics acquisition**	**Perennial acquisition**	**Related Party Promissory Notes**	**Total**
Balance – Beginning of period	**$ 2,254**	**$ 270**	**$ 509**	**$ 2,343**	**$ —**	**$ 5,376**
Additions	**—**	**—**	**—**	**—**	**961**	**961**
Unwinding of discount	**29**	**4**	**—**	**81**	**4**	**118**
Interest expense	**—**	**—**	**11**	**—**	**—**	**11**
Payments during the period	**(2,283)**	**(274)**	**(348)**	**(1,000)**	**—**	**(3,905)**
Balance – End of period	**$ —**	**$ —**	**$ 172**	**$ 1,424**	**$ 965**	**$ 2,561**
Less: Current portion of promissory notes	**$ —**	**$ —**	**$ (172)**	**(967)**	**$ (965)**	**(2,104)**
As at September 30, 2019	**$ —**	**$ —**	**$ —**	**$ 457**	**$ —**	**$ 457**

2018	Eclipse acquisition	Thistle acquisition	BOLDER Graphics acquisition	Perennial acquisition	Related Party Promissory Notes	Total
Balance - Beginning of year	$ 4,309	$ 1,799	$ 1,095	$ —	$ —	$ 7,203
Addition - May 8, 2018	—	—	—	2,253	—	2,253
Unwinding of discount	228	111	—	90	—	429
Interest expense	—	—	52	—	—	52
Payments during the year	(2,283)	(1,640)	(638)	—	—	(4,561)
Balance - End of year	$ 2,254	$ 270	$ 509	$ 2,343	$ —	$ 5,376
Less: Current portion of promissory notes	(2,254)	(270)	(509)	(980)	—	(4,013)
As at December 31, 2018	$ —	$ —	$ —	$ 1,363	$ —	$ 1,363

On July 31, 2019, DCM issued promissory notes (“Related Party Promissory Notes”) to certain parties, including related parties of DCM, in the aggregate principal amount of $1,000. The Related Party Promissory Notes bear interest at the rate of 10% per annum, payable quarterly on the first business day of each fiscal quarter beginning September 3, 2019, with principal repayable on or before the July 31, 2020 maturity date. The Related Party Promissory Notes are subordinated to DCM's obligations under the Bank A&R Credit Facility, the FPD A&R Credit Facilities and the Crown Facility on the same basis as the VTB Noteholders as provided for in the amended and restated inter-creditor agreement dated May 7, 2018.

In addition, a total of 78,571 warrants have been issued in connection with the issuance of the Related Party Promissory Notes. Each warrant entitles the holder to acquire one DCM common share at an exercise price of $1.08 for a period of 3.8 years, commencing on July 31, 2019. The Related Party Promissory Notes of $1,000 was apportioned to $961 to the debt instrument and $39 to the warrant option based on their relative fair values (note 13). The fair value of the warrant option was then bifurcated and recorded separately within equity while the fair value of the debt host will be accreted from $961 to $1,000 over the term of the loan.

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

11 Income taxes

Deferred income 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 income tax assets and liabilities have been measured using an expected average combined statutory income tax rate of 26.07% (2018 – 26.07%) 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, 2019, DCM has non-capital loss carry-forwards of $5,289 (2018 – nil).

Reflected in the consolidated statement of financial position as follows:		**September 30, 2019**		December 31, 2018
Deferred income tax assets	**$**	**5,357**	$	3,428
Deferred income tax liabilities		**(457)**		(1,753)
Net deferred income tax assets	**$**	**4,900**	$	1,675

12 Other non-current liabilities

		September 30, 2019		December 31, 2018
Deferred lease inducement	**$**	**—**	$	908
Lease escalation liabilities		**—**		2,254
Bonuses payable		**409**		668
	$	**409**	$	3,830
Less: Current portion of other non-current liabilities		**(376)**		(558)
	$	**33**	$	3,272

In connection with the acquisition on February 22, 2017 of Thistle, DCM assumed certain liabilities related to bonuses payable to former employees of Thistle which will be paid in equal monthly payments until the end of October 2020. The liability was recorded at fair value based on discounting using a discount rate of 10%. The carrying amount of the liability at September 30, 2019 was $409 (2018 - $668) of which $376 (2018 - $348) was classified as current liabilities in trade payables and accrued liabilities.

DCM's operations are conducted in leased properties. DCM'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. Up until December 31, 2018, payments made under operating leases were recognized in the condensed interim consolidated statements of operations on a straight-line basis over the term of the lease, expiring in 2019 to 2028. These balances were reclassified as a reduction of the ROU Asset as at January 1, 2019 upon adoption of IFRS 16 (see note 2).

13 Shares and warrants

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

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

The following summarizes the change in number of issued and outstanding common shares during the periods below:

	Number of Common shares		Amount
Balance – January 1, 2019 and September 30, 2019	**21,523,515**	**$**	**251,217**

	Number of Common shares		Amount
Balance - January 1, 2018	20,039,159	$	248,996
Shares issued - May 8, 2018 (note 4)	1,394,856		2,046
Shares issued - June 11, 2018	89,500		175
Balance – September 30, 2018	21,523,515	$	251,217

In connection with the acquisition of Perennial on May 8, 2018, DCM issued a total of 1,394,856 Common Shares to the vendors of the companies as partial consideration for the fair value of the net assets acquired on the Perennial Closing Date for $2,051, net of $8 in issuance costs and increased by a deferred income tax asset of $3.

On June 11, 2018, a total of 89,500 Common Shares were issued pursuant to the exercise of warrants. The additional share issue caused an increase in common shares by $175. The increase consisted of cash proceeds of $157 as well as the transfer of share options from the warrant reserves to common shares at the recognized fair value of $18.

WARRANTS

A summary of warrant activities for the nine months ended September 30, 2019 and the year ended December 31, 2018 is as follows:

	2019			2018		
	Number of Warrants		**Weighted average Exercise Price**	Number of Warrants		Weighted average Exercise Price
Warrants outstanding - beginning of period / year	**2,251,550**	**$**	**1.75**	1,381,050	$	1.75
Granted	**628,571**		**1.08**	960,000		1.75
Expired	**(1,291,550)**		**1.75**	—		—
Exercised	**—**		**—**	(89,500)		1.75
Warrants outstanding - end of period / year	**1,588,571**	**$**	**1.49**	2,251,550	$	1.75

On August 16, 2019, DCM entered into an amendment with Crown for an additional principal amount of $7,000 and issued 550,000 warrants as part of this financing. Each warrant entitles the holder to acquire one Common Share at an exercise price of $1.08 for a period of 3.7 years, commencing on August 16, 2019. The fair value of the warrants issued was estimated to be $145 using the Black-Scholes option-pricing model, assuming a risk-free interest of 1.24%, a weighted average life of 3.7 years, a dividend yield of nil and an expected volatility of 40% based on comparable companies. This was adjusted using a discount rate of 5% for the statutory hold period and net of transaction costs totaling $5. The additional principal amount of $7,000 was then apportioned between the host debt and the warrant option based on relative fair values. As at September 30, 2019, the value allocated to the warrant options outstanding for this issue was $140, net of transaction costs.

On July 31, 2019, DCM issued 78,571 warrants in connection with the issuance of the Related Party Promissory Notes. Each warrant entitles the holder to acquire one DCM common share at an exercise price of $1.08 for a period of 3.8 years, commencing on July 31, 2019. The fair value of the warrants issued was estimated to be $39 using the Black-Scholes option-pricing model, assuming a risk-free interest of 1.49%, a weighted average life of 3.8 years, a dividend yield of nil and an expected volatility of 40% based on comparable companies. The total Related Party Promissory Notes amount of $1,000 was then apportioned between the host debt and the warrant option based on relative fair values. As at September 30, 2019, the value allocated to the warrant options outstanding for this issue was $39.

On May 8, 2018, DCM established the $12,000 Crown Facility and issued 960,000 warrants as part of this financing. Each warrant entitles the holder to acquire one Common Share at an exercise price of $1.75 for a period of five years, commencing on May 8, 2018. The fair value of the warrants issued was estimated to be $565 using the Black-Scholes option-pricing model, assuming a risk-free interest of 2.16%, a weighted average life of five years, a dividend yield of nil and an expected volatility of 40% based on comparable companies. This was adjusted using a discount rate of 5% for the statutory hold period and net of transaction costs totaling $5 (increased by a deferred income tax asset of $2). The total credit facility amount of $12,000 was then apportioned between the host debt and the warrant option based on relative fair values. As at September 30, 2019 and December 31, 2018, the value allocated to the warrant options outstanding for this issue was $537, net of transaction costs.

On June 28, 2017, DCM completed a non-brokered private placement offering, which included purchase warrants entitling the holder to acquire one Common Share at an exercise price of $1.75 for a period of two years. On June 28, 2019, the remaining purchase warrants of 1,291,550 expired, resulting in a reduction of warrants and corresponding increase to contributed surplus of $269 on the condensed consolidated interim statement of financial position.

SHARE-BASED COMPENSATION

DCM has adopted a Long-Term Incentive Plan ("LTIP") to: recruit and retain highly qualified directors, officers, employees and consultants (the "Participants"); provide Participants with an incentive for productivity and an opportunity to share in the growth and the value of DCM; and, align the interests of Participants with those of the shareholders of DCM. Awards to Participants are primarily based on the financial results of DCM and services provided. The aggregate maximum number of common shares available for issuance from DCM's treasury under the LTIP is 2,152,352 common shares or 10% of the issued and outstanding common shares of DCM. The shares to be awarded will be authorized and unissued shares.

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

(a) Restricted share unit ("RSU")

Under the RSU portion of the LTIP, selected employees are granted RSUs where each RSU represents the right to receive a distribution from DCM in an amount equal to the fair value of one DCM common share. RSUs granted are performance and non-performance based. The performance component is based on Company specific financial targets approved by the Board and the non-performance component is based on continued employment. RSUs generally vest within three years, requires continued employment with DCM for the duration of the vesting period and settles in cash upon final vesting.

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

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2019 and 2018

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

	September 30, 2019	December 31, 2018
	Number of RSUs	Number of RSUs
Balance - beginning of period/year	**530,452**	177,869
Units granted	**813,910**	740,432
Units forfeited	**(618,924)**	(387,344)
Units paid out	**(26,635)**	(505)
Balance - end of period/year	**698,803**	530,452

During the nine months ended September 30, 2019, the CEO and the President of DCM were granted 327,343 RSUs (2018 – 299,021 RSUs) and a total of 486,567 RSUs (2018 – 441,411 RSUs) were awarded to other key members of DCM's management.

Of the total outstanding RSUs at September 30, 2019, Nil (December 31, 2018 – 26,634) have vested and are payable. The carrying amount of the liability relating to the RSUs at September 30, 2019 was $446 (December 31, 2018 – $400).

During the nine months ended September 30, 2019, compensation expense of $46 (nine months ended September 30, 2018 – $330) was recognized in the condensed interim consolidated statement of operations related to RSUs granted.

(b) Options ("Options")

A summary of Options activities for the nine months ended September 30, 2019 and the year ended December 31, 2018 is as follows:

	2019		2018	
	Number of Options	**Weighted average Exercise Price**	Number of Options	Weighted average Exercise Price
Options outstanding - beginning of period / year	**1,991,957**	**$ 1.45**	804,961	$ 1.50
Granted	**40,000**	**1.41**	1,200,000	1.41
Forfeited	**(575,548)**	**—**	(13,004)	1.50
Options outstanding - end of period / year	**1,456,409**	**$ 1.45**	1,991,957	$ 1.45
Exercisable	**1,121,531**	**$ 1.47**	1,125,281	$ 1.50

The outstanding Options had an exercise price range as follows:

	September 30, 2019	December 31, 2018
	Number of Options	Number of Options
$1.41	**664,452**	1,200,000
$1.50	**791,957**	791,957
Options outstanding	**1,456,409**	1,991,957

The Black-Scholes option-pricing model inputs used to compute compensation expense for the options granted in the nine months ended September 30, 2019 under the fair value-based method are as follows:

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

	September 30, 2019
Expected life (years)	**7**
Expected volatility	**40%**
Dividend yield	**0%**
Risk free rate of return	**1.45%**
Weighted average fair value of options granted	**$0.57**
Forfeiture rate	**10%**

During the nine months ended September 30, 2019, options to purchase up to 40,000 common shares were awarded to a director. Once vested, the options are exercisable for a period of seven years from the grant date at an exercise price of $1.41 per share, representing the fair value of the common shares on the date of grant. These options vest at a rate of 1/36th per month beginning on March 28, 2019. During the nine months ended September 30, 2019, a total of 575,548 options awarded were forfeited.

During the nine months ended September 30, 2019, compensation expense of $167 (nine months ended September 30, 2018– $383) was recognized in the condensed interim consolidated statement of operations related to options granted.

*(c) Deferred share unit ("DS*U")

On March 11, 2019 and March 21, 2019, each director was given the option to elect to receive all or part of his or her compensation (the "Director Fees") in DSUs.

Each DSU represents the right to receive a distribution from DCM in an amount equal to the fair value of one DCM common share on the date of the termination of service of the respective director. The number of DSUs payable to each director is determined by multiplying the total Director Fees payable by the percent elected to be paid in DSUs and dividing the product by the Fair Value of one DCM common share on the grant date. A liability for DSUs is measured at fair value on the grant date and is subsequently adjusted for changes in fair value. The DSUs payable is included in trade payables and accrued liabilities.

During the three and nine months ended September 30, 2019, 131,042 and 152,927 DSUs (three and nine months ended September 30, 2018 – 54,579 DSUs) were granted. The carrying amount of the liability relating to the DSUs at September 30, 2019 was $221 (December 31, 2018 – $81).

During the nine months ended September 30, 2019, an expense of $102 (nine months ended September 30, 2018 – $81) was recognized in the interim condensed consolidated statement of operations related to DSUs granted.

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2019 and 2018

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

14 Earnings (loss) per share

		For the three months ended September 30, 2019		For the three months ended September 30, 2018
BASIC LOSS PER SHARE				
Net loss for the period attributable to common shareholders	**$**	**(5,917)**	$	838
Weighted average number of shares		**21,523,515**		21,523,515
Basic loss per share	**$**	**(0.27)**	$	0.04
DILUTED LOSS PER SHARE				
Net loss for the period attributable to common shareholders	**$**	**(5,917)**	$	838
Weighted average number of shares		**21,523,515**		20,821,844
Diluted loss per share	**$**	**(0.27)**	$	0.04

		For the nine months ended September 30, 2019		For the nine months ended September 30, 2018
BASIC (LOSS) EARNINGS PER SHARE				
Net (loss) income for the period attributable to common shareholders	**$**	**(9,994)**	$	1,407
Weighted average number of shares		**21,523,515**		20,931,490
Basic (loss) earnings per share	**$**	**(0.46)**	$	0.07
DILUTED (LOSS) EARNINGS PER SHARE				
Net (loss) income for the period attributable to common shareholders	**$**	**(9,994)**	$	1,407
Weighted average number of shares		**21,523,515**		20,931,490
Diluted (loss) earnings per share	**$**	**(0.46)**	$	0.07

For the three and nine months ended September 30, 2019, options to purchase up to 1,456,409 common shares were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. Warrants to purchase up to 1,588,571 common shares were excluded from the computation of diluted earnings per share as they were out-of-the-money as of September 30, 2019.

During the three and nine months ended September 30, 2018, options to purchase up to 1,991,957 common shares where the average market price of the common shares was greater than the exercise price were included in the computation of diluted earnings per share as their effect would have been dilutive. Warrants to purchase up to 2,251,550 common shares were excluded from the computation of diluted earnings per share as they were out-of-the-money as of September 30, 2018, respectively.

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

15 Changes in working capital

		For the nine months ended September 30, 2019		For the nine months ended September 30, 2018
Trade receivables	**$**	**(15,435)**	$	(1,542)
Inventories		**(1,935)**		814
Prepaid expenses and other current and non-current assets		**1,628**		1,422
Trade and accrued liabilities		**6,947**		8,576
Deferred revenue		**(162)**		(547)
	$	**(8,957)**	$	8,723

16 Commitments and Contingencies

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

17 Employee benefit plans

DCM maintains a defined benefit and defined contribution pension plan (the "DATA Communications Management Pension Plan") for some of its employees.

During the year ended December 31, 2018, DCM engaged actuaries to complete an updated actuarial valuation of the DATA Communications Management Pension Plan, which confirmed that, as at January 1, 2018, the solvency position of the DATA Communications Management Pension Plan had improved since the previous valuation. Based on the January 1, 2018 actuarial report, DCM's annual minimum funding obligation for the defined benefit provision of the DATA Communications Management Pension Plan for 2018 decreased from $647 to $527, when compared to the actuarial report as at January 1, 2017.

As of December 31, 2017, DCM had exceeded its minimum required funding requirements for the defined benefit provision of the DATA Communications Management Pension Plan for 2017 by $227. During the year ended December 31, 2018, DCM made all the required payments related to its 2018 funding requirements for the defined benefit provision of the DATA Communications Management Pension Plan after applying $216 of the excess funding from 2017. The remaining excess funding from 2017 of $11 has been applied to DCM's 2019 minimum funding requirements for the defined benefit provision of the DATA Communications Management Pension Plan.

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended September 30, 2019 and 2018

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

Pension expense

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

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	**For the nine months ended September 30, 2019**	For the nine months ended September 30, 2018
Net cost recognized in general and administration expenses	**$ 75**	$ 75	**$ 225**	$ 225
Interest costs in finance expense	**74**	59	**221**	178
Defined benefit plans	**$ 149**	$ 134	**$ 446**	$ 403
Defined contribution plans	**$ 506**	$ 318	**$ 947**	$ 1,032
Defined benefit multi-employer plans	**$ 110**	$ 135	**$ 382**	$ 447

Other post-employment benefit plans expense

DCM's other post-employment benefit plans expense is as follows:

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	**For the nine months ended September 30, 2019**	For the nine months ended September 30, 2018
Net cost recognized in general and administration expenses	**$ 70**	$ 73	**$ 210**	$ 219
Interest costs in finance expense	**29**	28	**87**	84
Other post-employment benefit plans	**$ 99**	$ 101	**$ 297**	$ 303

18 Segmented information

As at September 30, 2019, DCM has disclosed revenue on a disaggregated basis based on the nature of the major products and services it provides to its customers as follows:

(in thousands of Canadian dollars, unaudited)		**For the three months ended September 30, 2019**		For the three months ended September 30, 2018
Product sales	**$**	**57,152**	$	67,739
Warehousing services		**2,262**		2,681
Freight services		**2,854**		3,383
Marketing and other services		**947**		1,122
	$	**63,215**	$	74,925

		For the nine months ended September 30, 2019		For the nine months ended September 30, 2018
Product sales	**$**	**192,692**	$	220,248
Warehousing services		**7,160**		8,183
Freight services		**8,341**		9,534
Marketing and other services		**3,194**		3,652
	$	**211,387**	$	241,617

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

J.R. Kingsley Ward [3]
Chairman, Director

William Albino [1,2,3]
Director

Merri L. Jones [1,3]
Director

James J. Murray O.Ont., SIOR [2]
Director

Michael G. Sifton [1]
Director

Derek J. Watchorn [1,2]
Director

Gregory J. Cochrane
Director & Officer

James E. Lorimer
Officer
Chief Financial Officer &
Corporate Secretary

EXECUTIVE TEAM

Gregory J. Cochrane
Chief Executive Officer

Michael Coté
President

James E. Lorimer
Chief Financial Officer

Kevin Lund
Chief Brand Officer

Ralph Misale
Senior Vice President, Operations

Don Smith
Senior Vice President,
Coroporate Services

Vik Boldie
Vice President, Finance

CORPORATE INFORMATION

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Toronto Stock Exchange Symbol
DCM

[1] Member, Audit Comittee
(chairperson is Michael G. Sifton)

[2] Member, Corporate Governance Committee
(Chairperson is Derek J.Watchorn)

[3] Member, Human Resources & Compensation Committee
(Chairperson is J.R. Kingsley Ward)

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