

# Q1

POSITIONED

FOR LONG -TERM GROWTH

DATA Group Inc.  
Quarter One ended March 31, 2013

# WE ARE DEFINED BY OUR VALUES

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

**We do what we say we will do.**

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

We are committed to customer service and quality.

**We conduct our business ethically and legally.**

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

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

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

## LETTER TO SHAREHOLDERS

We made modest progress on our growth strategy in the first quarter of 2013. Although revenues did not meet our expectations, we made progress implementing new customer agreements that were won in late 2012 and new capabilities, while also reducing our costs. The new customer agreements are impacting our results at a slower rate than expected due to the pace of implementation. We continued to focus on marketing our Managed Business Communications Services, or MBCS, and to implement new e-communications solutions. Our accelerated cost savings program, which we launched in the fourth quarter of 2012, began to be implemented, resulting in a number of operational and administrative cost reductions. As a result of these initiatives, we recorded \$0.8 million in restructuring charges in the first quarter of 2013 and expect to continue to incur restructuring charges through the balance of 2013.

Revenues for the quarter ended March 31, 2013 were \$82.9 million, a decrease of \$3.8 million or 4.4% compared with the same period in 2012. The decrease in revenues was due to orders which did not repeat in 2013 and a change in product mix. Gross profit for the first quarter of 2013 was \$21.7 million or 26.2% of revenues compared to gross profit of \$23.2 million or 26.8% of revenues for the same period in 2012. The decline in gross profit was due to a slight change in product mix and orders not repeating. Net income for the first quarter of 2013 was \$0.8 million or \$0.04 per basic share compared to net income of \$3.6 million or \$0.15 per basic share for the same period in 2012. The decrease in comparable profitability for the quarter ended March 31, 2013 was due to lower gross profit as a result of lower revenues, restructuring expenses, investment in our growth strategy and a smaller deferred income tax recovery. The decrease in comparable profitability was partially offset by lower SG&A expense.

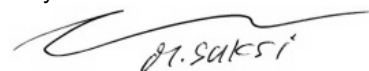
Adjusted EBITDA for the first quarter of 2013 was \$7.4 million or 8.9% of revenues compared to Adjusted EBITDA of \$7.7 million or 8.9% of revenues for the same period in 2012. Adjusted EBITDA decreased from the prior year due to the continued investment in our growth strategy and a decline in revenues, and was partially offset by cost savings realized. See "Non-GAAP Measures" in the accompanying report for a description of Adjusted EBITDA.

We declared total dividends to shareholders during the first quarter of 2013 of \$1.8 million or \$0.075 per share, which represents an annualized rate of \$0.30 per share, and reduced our debt by \$2.0 million, which is consistent with our previously announced plans. All of our dividends and debt repayments during the first quarter of 2013 were funded from cash generated by our operations.

Based on our current business outlook, we expect to continue with this dividend per share rate, while also continuing to reduce our debt and invest in new revenue generating activities. We believe this strategy will position DATA Group for sustainable profit growth, enterprise value appreciation and a consistent dividend payout to our shareholders over the longer term.

In closing, I would like to thank our shareholders for their ongoing support, our customers for continuing to work with us to maximize the value we provide to them and our dedicated employees for their diligent efforts as we continue this crucial transformation of our business.

May 2013



Michael Suksi  
President and Chief Executive Officer  
DATA Group

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2013 of DATA Group Inc. (the "Corporation") should be read in conjunction with the MD&A of the Corporation for the year ended December 31, 2012, the unaudited interim financial statements of the Corporation for the three months ended March 31, 2013, and the audited annual financial statements of the Corporation for the year ended December 31, 2012. These documents are available on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com). External economic, industry and risk factors remain substantially unchanged from those described in the Corporation's 2012 annual MD&A, unless otherwise noted.

The Corporation is the successor to The DATA Group Income Fund (the "Fund"). As of December 31, 2011, the Fund owned directly and indirectly all of the outstanding partnership units of The DATA Group Limited Partnership (the "Partnership") and all the outstanding shares of the Partnership's general partner, Data Business Forms Limited ("DBFL"). On January 1, 2012, the Fund completed a reorganization of its income trust structure into a corporation pursuant to a plan of arrangement (the "Arrangement") under the Ontario Business Corporations Act, involving the Fund, the Corporation, the Partnership and DBFL. As a result of the completion of the Arrangement and related transactions, the Corporation (as the successor to the Fund pursuant to the Arrangement) now owns, directly and indirectly, the subsidiaries which own and operate the businesses that were owned and operated by the subsidiaries of the Fund prior to completion of the Arrangement. Pursuant to the Arrangement, the Fund and the Partnership were wound up and dissolved and DBFL changed its name to "DATA Group Ltd." ("DGL"). Under the Arrangement, unitholders of the Fund received, on a tax deferred, roll-over basis, one common share of the Corporation for each unit of the Fund held. The common shares of the Corporation are listed on the Toronto Stock Exchange ("TSX") under the symbol "DGI". On November 1, 2011, a subsidiary of the Fund acquired all of the shares of The Fulfillment Solutions Advantage Inc. ("FSA"). FSA owns 82.35% of the outstanding shares of FSA Datalytics Canada Inc. ("Datalytics"). DGL owns 100% of the outstanding shares of DATA Group (US) Corp.

References in this MD&A to "DATA Group" mean the Fund in respect of periods prior to January 1, 2012 and mean the Corporation from and after January 1, 2012.

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

The date of this MD&A is May 7, 2013. Additional information relating to DATA Group Inc., including DATA Group Inc.'s most recently filed audited consolidated financial statements, Annual Information Form and Management Information Circular, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

Certain statements in this report constitute “forward-looking” statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of DATA Group, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward-looking statements. When used in this report, words such as “may”, “would”, “could”, “will”, “expect”, “anticipate”, “estimate”, “believe”, “intend”, “plan”, and other similar expressions are intended to identify forward-looking statements. These statements reflect DATA Group’s current views regarding future events and operating performance, are based on information currently available to DATA Group, and speak only as of the date of this report. These forward-looking statements involve a number of risks, uncertainties and assumptions and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Many factors could cause the actual results, performance, objectives or achievements of DATA Group to be materially different from any future results, performance, objectives or achievements that may be expressed or implied by such forward-looking statements. The principal factors, assumptions and risks that DATA Group made or took into account in the preparation of these forward-looking statements include the risk that DATA Group may not be successful in growing its business or in managing its organic growth; DATA Group’s ability to develop and successfully market new products and services; competition from competitors supplying similar products and services; DATA Group’s ability to grow its sales or even maintain historical levels of its sales of printed business documents; the impact of economic conditions on DATA Group’s businesses; risks associated with acquisitions by DATA Group; increases in the costs of paper and other raw materials used by DATA Group; and DATA Group’s ability to maintain relationships with its customers. Additional factors are discussed elsewhere in this report and under the heading “Risks and Uncertainties” in DATA Group’s publicly available disclosure documents, as filed by DATA Group on SEDAR ([www.sedar.com](http://www.sedar.com)). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this report as intended, planned, anticipated, believed, estimated or expected. Unless required by applicable securities law, DATA Group does not intend and does not assume any obligation to update these forward-looking statements.

## NON-GAAP MEASURES

This report includes certain non-GAAP measures as supplementary information. When used in this report, EBITDA means earnings before interest and finance costs, taxes, depreciation and amortization. Adjusted EBITDA for the three months ended March 31, 2013 means EBITDA adjusted for restructuring expenses. Adjusted EBITDA for the three months ended March 31, 2012 means EBITDA adjusted for corporate conversion costs. DATA Group believes that, in addition to net income (loss), EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating the performance of DATA Group and its predecessors. EBITDA and Adjusted EBITDA are not earnings measures recognized by IFRS and do not have any standardized meanings prescribed by IFRS. Therefore, EBITDA and Adjusted EBITDA are unlikely to be comparable to similar measures presented by other issuers.

Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income (loss) determined in accordance with IFRS as indicators of DATA Group’s performance. For a reconciliation of net income (loss) to Adjusted EBITDA, see Table 3 below.

## BUSINESS OF DATA GROUP

DATA Group is a managed business communications services company specializing in customized document management and marketing solutions. DATA Group develops, manufactures, markets and supports integrated web and print-based communications, information management and direct marketing products and services that help its customers reduce costs, increase revenues, maintain brand consistency and simplify their business processes. DATA Group's expertise and resources enable it to address any document requirement of its customers, from a simple mail-out to an enterprise-wide document management or direct marketing initiative. DATA Group derives its revenues from two sources: document management solutions, which provide its customers with a comprehensive suite of customized printed and electronic products, logistics and workflow enhancing services that help them better manage administrative elements of their business, maintain brand consistency and reduce the systemic cost of their documents and workflows; and marketing solutions, which provide an integrated set of services that enable its customers to plan, create, deploy and monitor their print and electronic marketing campaigns across multiple media channels. DATA Group has approximately 1,800 employees working from 35 locations across Canada and the United States to accomplish this and operates as two reporting segments. DATA East and West (which provided approximately 96% of DATA Group's total revenue for the first quarter of 2013) sells a broad range of document management services, marketing solutions and printed products directly to customers. Multiple Pakfold (which provided approximately 4% of DATA Group's total revenue for the first quarter of 2013) sells forms and labels to independent brokers and resellers. Sales of some of DATA Group's products are subject to seasonal fluctuations in demand. Certain elements of DATA Group's gift card and direct mail businesses and the buying patterns of certain major customers of DATA Group have historically generated higher revenues and profit in the fourth quarter than the other three quarters.

During the first quarter of 2013, DATA Group made modest progress on its growth plan, implementing new customer agreements won in late 2012 and new capabilities, and achieving a number of operational and administrative cost reductions by continuing to implement its accelerated cost savings program.

DATA Group continues to expand its capabilities with new electronic communications-oriented solutions, in order to position the company for sustainable, long-term growth. DATA Group's growth strategy is focused on meeting its clients' evolving requirements by bundling its new e-communication services with its traditional print services into a single, holistic communications management solution called Managed Business Communications Services ("MBCS"). Clients typically enter into multi-year outsourcing contracts with DATA Group for this bundled solution. This growth strategy also includes selectively expanding into the United States with DATA Group's existing clients who have U.S. operations and making acquisitions that accelerate its expansion into new products and services. DATA Group is also focused on continuously reducing costs in its traditional business in order to offset the investment in its growth strategy and to improve profitability. DATA Group believes this strategy should provide it with substantial opportunities to offset revenue declines in traditional print services due to technological change, resulting in revenue and profit growth through expanded market share in its traditional business and from new revenue streams. DATA Group remains focused on the successful, ongoing execution of this plan in a prudent, well managed fashion, balancing its investment in the growth plan with its financial strategy.

DATA Group won a number of new customer agreements in late 2012 that are expected to positively impact DATA Group's revenues in the remainder of 2013, in which MBCS played a key role. DATA Group has signed a letter of intent for one of the largest single source, multi-year, customer agreements in its history. This is an expansion of a current agreement with a significant client, and includes management and provision of

administrative documents as well as marketing print and communications services in Canada and the U.S. The new agreement began in December of 2012 and has required DATA Group to make modest investments in people and technology, including the establishment of operations in Niles, Illinois. Two additional new agreements, based on the MBCS approach will begin in the first half of 2013. These new business wins are being partially offset by losses experienced due to market activity.

#### ***Sources of Revenue and Revenue Recognition Policy***

DATA Group derives its revenues from two sources: document management solutions, which provide its customers with a comprehensive suite of customized printed and electronic products, logistics and workflow enhancing services that help them better manage administrative elements of their business, maintain brand consistency and reduce the systemic cost of their documents and workflows; and marketing solutions, which provide an integrated set of services that enable its customers to plan, create, deploy and monitor their print and electronic marketing campaigns across multiple media channels. DATA Group generally negotiates sales contracts and service level agreements with its customers and generally does not use standardized contracts. DATA Group's customer agreements and terms typically include provisions consistent with industry practice, allowing it to pass on increases in the cost of paper and other raw materials used in the manufacture of its products.

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

#### ***Costs of Revenues and Expenses***

DATA Group's costs of revenues consist of raw materials, manufacturing salaries and benefits, occupancy costs, lease of equipment and depreciation. DATA Group's raw material costs consist primarily of paper, carbon and ink. Manufacturing salaries and benefit costs consist of employee salaries and health benefits at DATA Group's printing and warehousing facilities. Occupancy costs consist primarily of lease payments at DATA Group's facilities, and utilities, insurance and building maintenance. DATA Group's expenses consist of selling, depreciation and amortization, and general and administration expenses. Selling expenses consist primarily of employee salaries, health benefits and commissions, and include related travel, corporate communications costs, trade shows, and marketing programs. Depreciation and amortization represent the allocation to income of the

cost of property, plant and equipment, and intangible assets over their estimated useful lives. General and administration expenses consist primarily of employee salaries, health benefits, and other related expenses for executive, financial and administrative personnel, as well as facility, telecommunications, pension plan expenses and professional service fees.



**GENERAL INFORMATION AND RESULTS OF OPERATIONS**

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

**Consolidated Statements of Income Information**

<b>For the periods ended March 31, 2013 and 2012</b>	<b>Jan. 1 to Mar. 31, 2013</b>	<b>Jan. 1 to Mar. 31, 2012</b>
<i>(in thousands of Canadian dollars, except per share amounts, unaudited)</i>	<b>\$</b>	<b>\$</b>
Revenues	82,863	86,648
Cost of revenues	61,125	63,421
Gross profit	21,738	23,227
Selling, general and administrative expenses	15,686	16,924
Restructuring expenses	767	-
Corporate conversion costs	-	84
Amortization of intangible assets	2,310	2,311
Income before finance costs and income taxes	2,975	3,908
Finance costs		
Interest expense	1,638	1,677
Interest income	(2)	(9)
Amortization of transaction costs	143	152
	1,779	1,820
Income before income taxes	1,196	2,088
Income tax expense (recovery)		
Current	1,272	1,248
Deferred	(925)	(2,718)
	347	(1,470)
Net income for the period	849	3,558
Net income attributable to common shareholders	853	3,566
Basic and diluted earnings per share	0.04	0.15
Number of common shares outstanding	23,490,592	23,490,592

**Consolidated Statements of Financial Position Information**

<b>As at March 31, 2013 and December 31, 2012</b>	<b>As at Mar. 31, 2013</b>	<b>As at Dec. 31, 2012</b>
<i>(in thousands of Canadian dollars, unaudited)</i>	<b>\$</b>	<b>\$</b>
Current assets	85,176	84,069
Current liabilities	42,394	40,316
Total assets	223,021	224,629
Non-current liabilities	118,442	122,199
Shareholders' equity	62,053	61,978
Non-controlling interest	132	136
Total equity	62,185	62,114

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

### Consolidated Financial Information

For the periods ended March 31, 2013 and 2012

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

	Jan. 1 to Mar. 31, 2013 \$	Jan. 1 to Mar. 31, 2012 \$
<b>Revenues</b>		
DATA East and West	79,722	83,161
Multiple Pakfold	3,450	3,808
Intersegment	(309)	(321)
	82,863	86,648
<b>Gross profit</b>		
DATA East and West	21,083	22,476
Multiple Pakfold	655	751
	21,738	23,227
<b>Gross profit, as a percentage of revenues</b>		
DATA East and West	26.4%	27.0%
Multiple Pakfold	19.0%	19.7%
	26.2%	26.8%
<b>Selling, general and administrative expenses</b>		
	15,686	16,924
As a percentage of revenues	18.9%	19.5%
<b>Adjusted EBITDA (see Table 3)</b>		
	7,380	7,726
Adjusted EBITDA margin, as a percentage of revenues	8.9%	8.9%
<b>Net income for the period</b>		
	849	3,558

**Table 3** The following table provides a reconciliation of net income (loss) to Adjusted EBITDA for the periods noted. See “Non-GAAP Measures”.

### Adjusted EBITDA Reconciliation

<b>For the periods ended March 31, 2013 and 2012</b>	<b>Jan. 1 to Mar. 31, 2013</b>	<b>Jan. 1 to Mar. 31, 2012</b>
<i>(in thousands of Canadian dollars, unaudited)</i>	<b>\$</b>	<b>\$</b>
Net income for the period	849	3,558
Interest expense	1,638	1,677
Interest income	(2)	(9)
Amortization of transaction costs	143	152
Depreciation of property, plant and equipment	1,328	1,423
Amortization of intangible assets	2,310	2,311
Restructuring expenses	767	-
Corporate conversion costs	-	84
Current income tax expense	1,272	1,248
Deferred income tax recovery	(925)	(2,718)
Adjusted EBITDA	7,380	7,726

## RESULTS OF OPERATIONS

### Revenues

For the quarter ended March 31, 2013, DATA Group recorded revenues of \$82.9 million, a decrease of \$3.8 million or 4.4% compared with the same period in 2012. The decrease, before intersegment revenues, was the result of a \$3.4 million decrease in the DATA East and West segment and a \$0.4 million decrease in the Multiple Pakfold segment, respectively. A more detailed discussion of the results of operations of each of DATA Group’s reporting segments is set out below.

### Cost of Revenues and Gross Profit

For the quarter ended March 31, 2013, cost of revenues decreased to \$61.1 million from \$63.4 million for the same period in 2012. Gross profit for the quarter ended March 31, 2013 was \$21.7 million, which represented a decrease of \$1.5 million or 6.4% from \$23.2 million for the same period in 2012. The decrease in gross profit for the quarter ended March 31, 2013 was attributable to a gross profit decrease of \$1.4 million in the DATA East and West segment and a gross profit decrease of \$0.1 million in the Multiple Pakfold segment, respectively. Gross profit as a percentage of revenues decreased to 26.2% for the quarter ended March 31, 2013 compared to 26.8% for the same period in 2012.

### Selling, General and Administrative Expenses and Restructuring Expenses

Selling, general and administrative (“SG&A”) expenses, excluding amortization of intangible assets, for the quarter ended March 31, 2013 decreased \$1.2 million to \$15.7 million compared to \$16.9 million in the same period in 2012. As a percentage of revenues, these costs were 18.9% of revenues for the quarter ended March 31, 2013 compared to 19.5% of revenues for the same period in 2012. For the quarter ended March 31, 2012, DATA Group incurred \$0.1 million of severance expenses. The decrease in SG&A expenses for the three months ended March 31, 2013 was attributable to realizing the benefit of cost saving initiatives implemented in

2012. Severance costs for the three months ended March 31, 2012 were included in SG&A and were related to DATA Group's on-going productivity improvements and cost reduction initiatives. For the three months ended March 31, 2013, DATA Group incurred restructuring expenses related to headcount reductions of \$0.8 million as part of its 2013 restructuring initiatives.

#### ***Corporate Conversion Costs***

During the three months ended March 31, 2012, DATA Group incurred total professional fees of \$0.1 million related to the conversion of the Fund to a corporation on January 1, 2012.

#### ***Adjusted EBITDA***

For the quarter ended March 31, 2013, Adjusted EBITDA was \$7.4 million, or 8.9% of revenues. Adjusted EBITDA for the quarter ended March 31, 2013 decreased \$0.3 million or 4.5% from the same period in the prior year due to the continued investment in DATA Group's growth strategy and a decline in revenues, and was partially offset by cost savings realized. These costs included SG&A expense related to investments to launch new products and services. The Adjusted EBITDA margin for the quarter, as a percentage of revenues, remained unchanged at 8.9% of revenues in 2013 and the same period in 2012.

#### ***Interest Expense and Finance Costs***

Interest expense on long-term debt outstanding under DATA Group's credit facilities, DATA Group's outstanding \$45.0 million aggregate principal amount of 6.00% Convertible Unsecured Subordinated Debentures (the "6.00% Convertible Debentures") and interest expense on DATA Group's employee benefit plans was \$1.6 million for the three months ended March 31, 2013 compared to \$1.7 million for the same period in 2012. The decrease in interest expense during the three months ended March 31, 2013 was the result of lower outstanding balances under DATA Group's credit facilities.

#### ***Income Taxes***

DATA Group reported income before income taxes of \$1.2 million, a current income tax expense of \$1.3 million and a deferred income tax recovery of \$0.9 million for the three months ended March 31, 2013 compared to income before income taxes of \$2.1 million, current income tax expense of \$1.2 million and a deferred income tax recovery of \$2.7 million for the three months ended March 31, 2012. As a result of the conversion, DATA Group re-measured its deferred tax assets and liabilities at the corporate tax rates applicable to corporations, which are lower than the top marginal tax rate for individuals used by the Fund. In addition, the Fund's conversion option liabilities were reclassified as equity on January 1, 2012 and the associated deferred tax liability was reversed. As a result of these changes, DATA Group recorded a deferred income tax recovery \$2.0 million during the first quarter of 2012.

#### ***Net Income***

Net income for the quarter ended March 31, 2013 was \$0.8 million compared to a net income of \$3.6 million for the quarter ended March 31, 2012. The decrease in comparable profitability for the quarter ended March 31, 2013 was due to lower gross profit as a result of lower revenues, restructuring expenses and a smaller deferred income tax recovery. The decrease in comparable profitability was partially offset by lower SG&A expense.

**DATA EAST AND WEST**

Revenues at DATA Group's DATA East and West segment for the quarter ended March 31, 2013 decreased \$3.4 million, or 4.1%, to \$79.7 million from \$83.2 million for the same period in the prior year.

Revenues for the three months ended March 31, 2013 decreased from the same period in the prior year primarily due to orders which did not repeat in 2013 and a change in product mix. During the first quarter of 2013, the segment continued to experience revenue gains from new business, particularly from the start-up of a new contract in the United States, which partially offset declines in revenues from existing customers due to technological changes.

For the quarter ended March 31, 2013, gross profit decreased \$1.4 million to \$21.1 million from \$22.5 million for the same period in 2012. Gross profit as a percentage of revenues for the quarter ended March 31, 2013 decreased to 26.4% from 27.0% for the same period in 2012. The decrease in gross profit as a percentage of revenues during the three months ended March 31, 2013 was due to a slight change in product mix and orders not repeating. In addition, the segment continued development on its new products and services initiatives, which are expected to positively impact revenues and gross margins during the remainder of 2013.

**MULTIPLE PAKFOLD**

Revenues at DATA Group's Multiple Pakfold segment for the quarter ended March 31, 2013 decreased \$0.4 million, or 9.4%, to \$3.5 million from \$3.8 million from the same period in the prior year. The decrease in revenues for the three months ended March 31, 2013 was attributable to aggressive pricing by competitors and declines in traditional business forms.

For the quarter ended March 31, 2013, gross profit decreased \$0.1 million to \$0.7 million from \$0.8 million for the same period in the prior year. Gross profit as a percentage of revenues for the quarter ended March 31, 2013 decreased to 19.0% from 19.7% for the same period in 2012. The decrease in gross profit as a percentage of revenues for the three months ended March 31, 2013 was due to lower revenues compared to the same period in 2012 and lower margins on repeat orders affected by competitive pricing.

**LIQUIDITY AND CAPITAL RESOURCES*****Liquidity***

DATA Group maintains an amended and restated credit agreement (the "Amended Credit Agreement") with two Canadian chartered banks which provides for the establishment of revolving credit facilities (the "Revolving Bank Facility"). The Revolving Bank Facility has a maximum available principal amount of \$90.0 million, matures on August 31, 2014 and is secured by substantially all of DATA Group's assets. Market conditions could affect certain terms of the replacement facility along with the terms of other debt instruments that DATA Group enters into from time to time. The Amended Credit Agreement contains financial covenants and restrictions which require DATA Group to at all times maintain a quarterly maximum ratio of total debt to adjusted earnings before interest, income taxes, depreciation and amortization ("Credit Agreement EBITDA") and a quarterly minimum ratio of Credit Agreement EBITDA to fixed charges (the "Fixed Charge Ratio"). As at March 31, 2013, DATA Group had outstanding borrowings of \$56.0 million under this credit facility and was in compliance with its credit facility covenants. At March 31, 2013, all of DATA Group's indebtedness outstanding under the credit facility was subject to floating interest rates of 4.53%.

At March 31, 2013, DATA Group had an aggregate principal amount of \$45.0 million outstanding of 6.00% Convertible Debentures. The 6.00% Convertible Debentures mature on June 30, 2017, bear interest at a rate of 6.00% payable semi-annually and are convertible into common shares of DATA Group at any time at the option of the holder prior to maturity or redemption at a conversion price of \$12.20 per share. The terms of the 6.00% Convertible Debentures are described in greater detail in DATA Group's annual information form for the year ended December 31, 2012, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

At March 31, 2013, DATA Group had outstanding cheques in excess of cash and cash equivalents of \$0.6 million compared to outstanding cheques in excess of cash and cash equivalents of \$1.2 million at December 31, 2012. During the three months ended March 31, 2013, DATA Group used \$2.0 million in cash to repay a portion of its Revolving Bank Facility outstanding. The bank overdraft of \$0.6 million was primarily due to timing of cheques being issued to suppliers and the timing of the collection of trade receivables. The cash equivalents consist mainly of short-term investments, such as money market deposits. DATA Group has deposited the cash equivalents with Canadian Schedule 1 banks, from which DATA Group believes the risk of loss to be remote. In addition, under the terms of DATA Group's credit facility, DATA Group had access to \$34.0 million of available credit less letters of credit granted of \$3.2 million at March 31, 2013.

In assessing DATA Group's liquidity requirements, DATA Group takes into account its level of cash and cash equivalents, together with currently projected cash to be provided by operating activities, cash available from its unused line of credit, cash from investing activities such as sales of redundant assets, and access to the capital markets, as well as its ongoing cash needs for its existing operations, payments associated with various restructurings and productivity improvement initiatives, taxes and cash required to finance currently planned expenditures. DATA Group anticipates that its maintenance capital expenditures will be approximately \$2.0 to \$3.0 million in 2013. Cash flows from operations could be negatively impacted by decreased demand for DATA Group's products and services, which could result from factors such as adverse economic conditions and competition from competitors supplying similar products and services, or by increased costs associated with the manufacturing and distribution of products or the provision of services. DATA Group's ability to conduct its operations could be negatively impacted in the future should these or other adverse conditions affect its primary sources of liquidity.

DATA Group believes that its currently projected cash flow from operations, existing cash resources and borrowings under available credit facilities, if necessary, will be sufficient to fund its currently projected operating requirements, including expenditures related to its growth strategy, payments associated with accrued restructuring provisions as the result of ongoing productivity improvement initiatives, payment of income tax liabilities, contributions to its pension plans, maintenance capital expenditures and dividends to DATA Group's shareholders in 2013.

#### ***Cash Flow from Operations***

Changes in working capital increased cash flow from operations by \$2.1 million during the quarter ended March 31, 2013. The trade receivables balance decreased by \$2.4 million as a result of the timing of payments by customers of the DATA East and West segment. Inventory levels increased by \$3.1 million as a result of the timing of shipments of products to customers of the DATA East and West segment. The trade payables balance increased by \$3.2 million as a result of the timing of payments to suppliers for purchases during the first quarter of 2013.

***Pension Funding Obligations***

DATA Group maintains a defined benefit and defined contribution pension plan (the "DATA Group Pension Plan") for some of its employees. DATA Group also contributes to the Graphic Communications Supplemental Retirement and Disability Fund of Canada ("SRDF") for certain employees at its Granby and Drummondville, Québec plants. Certain former senior executives of a predecessor corporation participated in a Supplementary Executive Retirement Plan ("SERP"), which provided for pension benefits payable as a single life annuity with a five year guarantee.

Effective January 1, 2008, no further service credits will accrue under the defined benefit provision of the DATA Group Pension Plan. DATA Group is required under applicable pension legislation to make monthly, annual and/or one-time cash contributions to the DATA Group Pension Plan to fund current or future funding deficiencies which may emerge in the defined benefit provision of the DATA Group Pension Plan. Applicable pension legislation requires that the funded status of the defined benefit provision of the DATA Group Pension Plan be determined periodically on both a going concern basis (that is, essentially assuming indefinite plan continuation) and a solvency basis (that is, essentially assuming immediate plan termination).

The funded status of DATA Group's pension plans are impacted by actuarial assumptions, the plan's investment performance, changes in economic conditions and debt and equity markets, changes in long-term interest rates, estimates of the price of annuities, and other elements of pension plan experience such as demographic changes and administrative expenses, among others. Where an actuarial valuation reveals a solvency deficit, current pension regulations require it to be funded by equal payments over a maximum period of five years from the date of valuation. Annual actuarial valuations are required on the DATA Group Pension Plan until the solvency deficiency is reduced to a level under which applicable pension regulations allow the valuations to be completed every three years. Based on these valuations, the annual cash contributions to this plan will be determined annually and will depend on the plan's investment performance and changes in long-term interest rates, estimates of the price of annuities, and other elements of pension plan experience such as demographic changes and administration expenses, among others.

During the year ended December 31, 2012, DATA Group engaged actuaries to complete an updated actuarial valuation of the DATA Group Pension Plan, which confirmed that, as at January 1, 2012, the DATA Group Pension Plan had a significant solvency deficit. Based upon the January 1, 2012 actuarial valuation report, DATA Group's annual cash contributions to the defined benefit provision of the DATA Group Pension Plan remained unchanged at \$2.4 million effective from January 1, 2012, which assumed no change in Canadian economic conditions from those in effect as at January 1, 2012. DATA Group expects that, by having taken into account the funding relief in the 2012 Ontario budget, the estimated annual funding obligation for the DATA Group Pension Plan for 2013 will be \$2.5 million. The final funding requirement for 2013 will be based on the actuarial valuation as at January 1, 2013, which will be completed within the first nine months of 2013.

The SRDF is a defined benefit, multi-employer pension plan which provides retirement benefits to unionized employees in the printing industry jointly-trusted by representatives of the employers of SRDF members and the unions which represent SRDF members in collective bargaining. DATA Group makes contributions to the SRDF based on a percentage of the wages of unionized employees covered by the respective negotiated collective bargaining agreements. DATA Group's estimated annual funding obligation for the SRDF, based on collective agreement terms, for 2013 is \$0.7 million. The most recent funding actuarial report in respect of the Québec

members of the plan discloses a solvency deficiency and a gap between the minimum total contributions required under applicable Québec legislation and total employer contributions determined pursuant to collective agreements. There is no contractual agreement as to how the share of the deficiency is determined or funded in respect of each participating employer. These issues are currently being negotiated and DATA Group may be required to make additional ongoing contributions towards funding DATA Group's portion of the solvency deficiency. Under Québec legislation, DATA Group would be required to fund any outstanding solvency deficiency in respect of DATA Group employees if, in future, DATA Group withdraws from the plan or the plan is terminated. Based on the most recent actuarial report and additional information supplied by the multi-employer plan actuary and administrator, the portion of the plan solvency deficiency in respect of DATA Group employees was estimated to be approximately \$30.0 million as of December 31, 2011. Currently, there is uncertainty and a lack of complete information to support the allocation of assets and liabilities used to determine this estimate. There is also uncertainty over DATA Group's funding obligation in respect of a solvency deficiency while the plan is ongoing. DATA Group has accounted for this plan on a defined contribution basis as DATA Group does not believe there is sufficient information to recognize participation on a defined benefit basis.

The SERP is unfunded. DATA Group's annual funding obligation under the SERP is \$0.6 million.

#### ***Investing Activities***

Capital expenditures for the three months ended March 31, 2013 of \$0.5 million related primarily to maintenance capital expenditures. These capital expenditures were financed by cash flow from operations.

#### ***Financing Activities***

During the three months ended March 31, 2013, DATA Group repaid \$2.0 million of its Revolving Bank Facility outstanding. For the three months ended March 31, 2013, DATA Group paid aggregate cash dividends of \$1.3 million on its common shares.

### **OUTSTANDING SHARE DATA**

At May 7, 2013, March 31, 2013 and December 31, 2012, there were 23,490,592 common shares of DATA Group outstanding and \$45.0 million aggregate principal amount of 6.00% Convertible Debentures outstanding. The 6.00% Convertible Debentures are convertible into DATA Group common shares. See "Liquidity and Capital Resources – Liquidity" above.

### **DIVIDENDS**

The Board of Directors of the Corporation has established and adopted a dividend policy. Currently, dividends under this policy are intended to be paid quarterly at a rate of \$0.075 per share (or an annual rate of \$0.30 per share) to shareholders of record on or about the last business day of March, June, September and December, with actual payment to be made to those shareholders on or about the 15th day of the following month, subject to any contractual restrictions on those dividends, including any agreements entered into with lenders to DATA Group.

The dividend policy of the Corporation is subject to the discretion of the Board of Directors of the Corporation and will be evaluated on an ongoing basis, and may be revised subject to business circumstances and expected capital requirements depending on, among other things, the Corporation's earnings, financial requirements,



growth opportunities, the satisfaction of solvency tests imposed by the Ontario Business Corporations Act for the declaration and payment of dividends and other conditions existing at such future time.

The following is a summary of the declared dividends, record dates and payment dates in respect of DATA Group's outstanding common shares in 2013:

Record Date	Payment Date	Per Share	Amount
March 28, 2013	April 15, 2013	\$0.075	\$1.762 million

## CONTRACTUAL OBLIGATIONS

There were no significant new contractual obligations for operating leases incurred during the three months ended March 31, 2013. See "Liquidity and Capital Resources – Liquidity" above for a description of the 6.00% Convertible Debentures.

**Table 4** The following table sets out selected historical financial information for the periods noted.

### Eight Quarter Results of Operations - Summary

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

	2013		2012			2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	82,863	86,915	80,144	82,608	86,648	89,798	77,965	79,992
Net (loss) income attributable to								
common shareholders/unitholders	853	(41,710)	196	496	3,566	1,265	995	1,406
Basic (loss) earnings per share/unit	0.04	(1.78)	0.01	0.02	0.15	0.05	0.04	0.06
Diluted (loss) earnings per share/unit	0.04	(1.78)	0.01	0.02	0.15	0.05	0.04	0.06

The variations in DATA Group's quarterly revenues and net income over the eight quarters ended March 31, 2013 can be attributed to several principal factors: DATA Group's investment in its growth strategy, a deferred income tax recovery, the costs related to the Fund's conversion to a corporation on January 1, 2012, restructuring and severance expenses related to DATA Group's ongoing productivity improvement and cost reduction initiatives, acquisition costs related to the acquisition of FSA, charges and recoveries related to the change in the fair value of the Fund's conversion options during 2011, a gain on the settlement of a pension plan, a goodwill impairment charge, and, beginning January 1, 2011, the fact that the Fund became subject to income tax at the same combined federal and provincial corporate tax rate applicable to a taxable Canadian corporation.

DATA Group's net income for the first quarter of 2013 included restructuring expenses of \$0.7 million related to its accelerated cost savings program and its continued investment in its growth strategy. DATA Group's net income for the first quarter of 2012 included a deferred income tax recovery totalling \$2.0 million, costs of \$0.1 million and higher current income tax expense as a result of the conversion of the Fund to a corporation. On January 1, 2012, DATA Group re-measured its deferred tax assets and liabilities at the corporate tax rates applicable to corporations, which are lower than the top marginal tax rate for individuals used by the Fund. As a result of the Fund's conversion to a corporation, the Fund's conversion option liabilities were reclassified as equity on January 1, 2012 and the associated deferred tax asset was reversed.

During the fourth quarter of 2012, DATA Group performed its annual review for impairment of goodwill, which resulted in DATA Group recognizing an impairment of goodwill charge of \$44.0 million related to its DATA East and West cash generating unit and a \$0.2 million gain on the settlement of a pension plan. DATA Group's net income for the fourth quarter of 2011 included costs related to the acquisition of FSA of \$0.4 million, costs of \$0.1 million related to the Fund's conversion to a corporation, a \$0.4 million charge related to the change in the fair value of the Fund's conversion options, and a current income tax expense of \$0.5 million primarily related to the income tax payable on the Fund's estimated taxable income for the quarter.

DATA Group's net income for the third quarter of 2012 included a deferred income tax recovery of \$0.5 million related to a change in estimates of future reversals of temporary differences and an increased investment in its growth strategy. DATA Group's net income for the third quarter of 2011 included a \$0.2 million recovery related to the change in the fair value of the Fund's conversion options and a current income tax expense of \$0.3 million related to the income tax payable on the Fund's estimated taxable income for the quarter.

DATA Group's net income for the second quarter of 2012 included a deferred income tax recovery of \$0.6 million related to a change in estimates of future reversals of temporary differences and an increased investment in its growth strategy. DATA Group's net income for the second quarter of 2011 included costs of \$0.3 million related to the Fund's conversion to a corporation, a \$0.8 million recovery related to the change in the fair value of the Fund's conversion options and a current income tax expense of \$0.4 million related to the income tax payable on the Fund's estimated taxable income for the quarter.

During 2012, DATA Group incurred severance costs of \$0.7 million as part of its ongoing productivity improvement initiatives to reduce its cost of operations. Included in DATA Group's quarterly net income for 2012 are restructuring and severance expenses of \$0.1 million, \$0.3 million and \$0.3 million incurred during first, second and third quarters of 2012, respectively.

During 2011, DATA Group incurred severance costs of \$0.6 million as part of its ongoing productivity improvement initiatives to reduce its cost of operations. Included in DATA Group's quarterly net income for 2011 are restructuring and severance expenses of \$0.2 million, \$0.2 million and \$0.2 million incurred during the first, second and third quarters of 2011, respectively.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

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

## OUTLOOK

DATA Group's growth strategy is to meet its clients' evolving document management and marketing requirements by expanding its product and service offerings with new electronic communications-oriented solutions and combining those solutions with DATA Group's traditional print services into a single communications management solution, or "MBCS". During the first quarter of 2013, DATA Group commenced deliveries under two new contracts which are based on the MBCS approach. During the same period, DATA Group continued to experience revenue declines in its traditional print business due to technological change and believes this strategy provides it with substantial opportunities to offset revenue declines in traditional print services due to technological change, and achieve revenue and profit growth through expanded market share in its traditional business and from new revenue streams. DATA Group remains focused on the successful, ongoing execution of this plan in a prudent, well managed fashion, balancing its investment in the growth plan with its financial strategy.

During 2012 and in the first quarter of 2013, DATA Group made modest progress on this strategy. DATA Group won a number of new customer agreements in late 2012 which its bundled MBCS played a key role. The largest agreement began in December of 2012 and has required DATA Group to make modest investments in people and technology, including the establishment of operations in Niles, Illinois. Two additional new agreements, based on the MBCS approach began in the first half of 2013. DATA Group experienced some losses of business during the first quarter of 2013 due to technological change and competitive activity.

DATA Group is also focused on continuously reducing costs in its traditional business to offset the investment in its growth strategy and to improve profitability. In the first quarter of 2013, DATA Group achieved approximately \$3.0 million in annualized cost saving efficiencies.

## NEW ACCOUNTING POLICIES

### (a) *New and amended standards adopted.*

DATA Group has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 13 *Fair Value Measurement* provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the assets or liability under current market conditions, including assumptions about risk. DATA Group adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by DATA Group to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

DATA Group has adopted the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* effective January 1, 2013. These amendments required DATA Group to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be classified. DATA Group has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

*IAS 19 Employee Benefits (amended in 2011)*, amends certain accounting requirements for defined benefit pension plans and termination benefits and was adopted as of January 1, 2013.

IAS 19 (Revised 2011) requires the net defined benefit liability (asset) to be recognized on the statement of financial position without deferral of actuarial gains and losses and past service costs as previously allowed. Past services costs are recognized in net income (loss) when incurred. The expected rate of return on assets ("EROA") assumption is no longer used in the measurement of post-employment benefits expense. Instead, post-employment benefits expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Re-measurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the assets ceiling are recognized in other comprehensive income. DATA Group continues to immediately recognize in retained earnings (deficit) all pension adjustments recognized in other comprehensive income (loss). DATA Group will commence recognizing interest expense (income) on net defined benefit liabilities (assets) in finance expense (income) in the consolidated statement of income that were previously recognized in general and administration expenses effective January 1, 2012. Administration costs of running DATA Group Pension Plan which were included in the EROA are now recognized as period costs in general and administration expenses in the consolidated statement of income when incurred effective January 1, 2012.

The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognize any related restructuring costs. Termination benefits that require future services are required to be recognized over the periods the future services are provided. This amendment did not require DATA Group to change its accounting policy for termination benefits when future services are required.

DATA Group adopted these amendments retrospectively. General and administration expense, finance expense and deferred income tax expense for the comparative period have been adjusted to reflect the accounting changes for defined benefit plans. The adjustments for each financial statement line item affected are presented in the tables below.

**Adjustments to condensed consolidated statements of income***(in thousands of Canadian dollars, except per share amounts, unaudited)*

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
<b>Net income before accounting change</b>	1,038	3,652
<b>Increase in:</b>		
Finance expense	194	197
General and administration expenses	62	-
<b>Decrease in:</b>		
General and administration expenses	-	(71)
Deferred income tax expense	(67)	(32)
Change to net income	189	94
<b>Net income after accounting change</b>	849	3,558
<b>Net income (loss) attributable to:</b>		
Common shareholders	853	3,566
Non-controlling interest	(4)	(8)
	849	3,558
<b>Earnings per share after accounting change</b>		
Basic	0.04	0.15
Diluted	0.04	0.15

**Adjustments to condensed consolidated statements of comprehensive income***(in thousands of Canadian dollars, unaudited)*

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
<b>Comprehensive income before accounting change</b>	1,833	3,520
<b>Increase in:</b>		
Re-measurement of actuarial losses on post-employment benefit obligations	256	126
<b>Decrease in:</b>		
Net income	(189)	(94)
Deferred income tax expense	(67)	(32)
Change to comprehensive income	-	-
<b>Comprehensive income after accounting change</b>	1,833	3,520
<b>Comprehensive income (loss) attributable to:</b>		
Common shareholders	1,837	3,528
Non-controlling interest	(4)	(8)
	1,833	3,520

- (b) *New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013 and not early adopted.*

In October 2012, the ISAB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* to include an exception to the consolidation requirements for investment entities as defined in the amendments issued by the IASB. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier adoption permitted. DATA Group is currently evaluating the impact, if any, of adopting the amendments on its consolidated financial statements.

IFRS 9 *Financial Instruments* was issued in November 2009 and October 2010. The issuance of IFRS 9 is the first phase of the three phase project to replace International Accounting Standards (“IAS”) 39 *Financial Instruments: Recognition and Measurement* by improving and simplifying the reporting for financial instruments. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income (loss) indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. DATA Group is currently assessing the impact of the new standard on its consolidated financial statements.

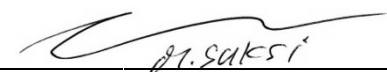
There are no other IFRS or International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that are not yet effective that would be expected to have a material impact on DATA Group.

## **RISKS AND UNCERTAINTIES**

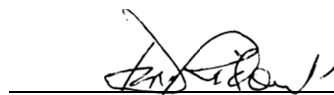
An investment in the common shares of DATA Group involves risks. In addition to the information contained in this report, investors should carefully consider the risks described in DATA Group’s MD&A for the year ended December 31, 2012 before investing in DATA Group’s securities. The risks described in DATA Group’s MD&A for the year ended December 31, 2012 and this report are not the only ones facing DATA Group. Additional risks not currently known to DATA Group or which DATA Group currently believes are immaterial may also impair the business, results of operations, financial condition and liquidity of DATA Group, and the ability of DATA Group to pay dividends.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION***(in thousands of Canadian dollars, unaudited)*

	March 31, 2013	December 31, 2012
	\$	\$
<b>Assets</b>		
Current assets		
Trade receivables (note 3)	39,187	41,580
Inventories (note 4)	41,218	38,085
Prepaid expenses and other current assets	4,771	4,404
	<u>85,176</u>	<u>84,069</u>
Non-current assets		
Deferred income tax assets (note 16)	2,076	1,534
Property, plant and equipment	19,473	20,420
Intangible assets	15,230	17,540
Goodwill (note 5)	101,066	101,066
	<u>223,021</u>	<u>224,629</u>
<b>Liabilities</b>		
Current liabilities		
Bank overdraft	583	1,161
Trade payables	31,486	28,289
Provisions (note 6)	807	308
Income taxes payable	158	1,699
Deferred revenue	7,598	7,586
Dividends payable (note 13)	1,762	1,273
	<u>42,394</u>	<u>40,316</u>
Non-current liabilities		
Provisions (note 6)	814	867
Revolving bank facility (note 7)	55,620	57,553
Convertible debentures (note 8)	42,459	42,311
Deferred income tax liabilities (note 16)	732	766
Other non-current liabilities (note 9)	1,057	1,137
Pension obligations	14,984	16,839
Other post-employment benefit plans	2,776	2,726
	<u>160,836</u>	<u>162,515</u>
<b>Equity</b>		
Shareholders' equity		
Shares (note 11)	215,336	215,336
Conversion options	516	516
Accumulated other comprehensive income	2	1
Deficit	(153,801)	(153,875)
	<u>62,053</u>	<u>61,978</u>
Non-controlling interest		
	<u>132</u>	<u>136</u>
	<u>62,185</u>	<u>62,114</u>
	<u>223,021</u>	<u>224,629</u>

**APPROVED BY THE BOARD OF DIRECTORS**


Director



Director

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

**CONSOLIDATED STATEMENTS OF INCOME***(in thousands of Canadian dollars, except per share amounts, unaudited)*

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	82,863	86,648
<b>Cost of revenues</b>	61,125	63,421
<b>Gross profit</b>	21,738	23,227
<b>Expenses</b>		
Selling, commissions and expenses	9,368	9,786
General and administration expenses excluding amortization of intangibles assets	6,318	7,138
Restructuring expenses	767	-
Corporate conversion costs	-	84
Amortization of intangible assets	2,310	2,311
	18,763	19,319
<b>Income before finance costs and income taxes</b>	2,975	3,908
<b>Finance costs</b>		
Interest expense	1,638	1,677
Interest income	(2)	(9)
Amortization of transaction costs	143	152
	1,779	1,820
<b>Income before income taxes</b>	1,196	2,088
<b>Income tax expense (recovery) (note 16)</b>		
Current	1,272	1,248
Deferred	(925)	(2,718)
	347	(1,470)
<b>Net income for the period</b>	849	3,558
<b>Net income (loss) attributable to:</b>		
Common shareholders	853	3,566
Non-controlling interest	(4)	(8)
	849	3,558
<b>Basic earnings per share (note 12)</b>	0.04	0.15
<b>Diluted earnings per share (note 12)</b>	0.04	0.15

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



**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(in thousands of Canadian dollars, unaudited)*

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
<b>Net income for the period</b>	849	3,558
<b>Other comprehensive income (loss):</b>		
<b>Items that may be reclassified subsequently to net income</b>		
Foreign currency translation	1	-
	1	-
<b>Items that will not be reclassified to net income</b>		
Deferred income tax recovery on conversion to a corporation	-	406
Actuarial gains (losses) on post-employment benefit obligations	1,332	(596)
Taxes on post-employment adjustment above	(349)	152
	983	(38)
<b>Other comprehensive income (loss) for the period, net of tax</b>	984	(38)
<b>Comprehensive income for the period</b>	1,833	3,520
<b>Comprehensive income (loss) attributable to:</b>		
Common shareholders	1,837	3,528
Non-controlling interest	(4)	(8)
	1,833	3,520

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

*(in thousands of Canadian dollars, unaudited)*

	Attributable to Shareholders'									
	Shares	Units	Conversion options	Accumulated other comprehensive income	Deficit	Shareholders' Equity	Non-controlling interest	Total Equity		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance as at December 31, 2011</b>	-	215,336	-	-	(97,973)	117,363	313	117,676		
Effect of conversion to a corporation	215,336	(215,336)	516	-	-	516	-	516		
	215,336	-	516	-	(97,973)	117,879	313	118,192		
Net income (loss) for the period	-	-	-	-	3,566	3,566	(8)	3,558		
Other comprehensive loss for the period	-	-	-	-	(38)	(38)	-	(38)		
Total comprehensive income (loss) for the period	-	-	-	-	3,528	3,528	(8)	3,520		
Dividends declared (note 13)	-	-	-	-	(3,820)	(3,820)	-	(3,820)		
<b>Balance as at March 31, 2012</b>	215,336	-	516	-	(98,265)	117,587	305	117,892		
<b>Balance as at December 31, 2012</b>	215,336	-	516	1	(153,875)	61,978	136	62,114		
Net income (loss) for the period	-	-	-	-	853	853	(4)	849		
Other comprehensive income for the period	-	-	-	1	983	984	-	984		
Total comprehensive income (loss) for the period	-	-	-	1	1,836	1,837	(4)	1,833		
Dividends declared (note 13)	-	-	-	-	(1,762)	(1,762)	-	(1,762)		
<b>Balance as at March 31, 2013</b>	215,336	-	516	2	(153,801)	62,053	132	62,185		

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands of Canadian dollars, unaudited)*

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	849	3,558
Adjustments to net income		
Depreciation of property, plant and equipment	1,328	1,423
Amortization of intangible assets	2,310	2,311
Pension expense	236	234
Loss on disposal of property, plant and equipment	57	1
Change in provisions	446	(64)
Amortization of transaction costs	143	152
Accretion of convertible debentures	73	74
Other non-current liabilities	(80)	(47)
Other post-employment benefit plans, net	50	67
Income tax expense (recovery)	347	(1,470)
	5,759	6,239
Changes in working capital (note 10)	2,100	(1,719)
Contributions made to pension plans	(759)	(775)
Income taxes paid	(2,813)	(1,904)
	4,287	1,841
<b>Investing activities</b>		
Purchase of property, plant and equipment	(464)	(292)
Purchase of intangible assets	-	(415)
Proceeds on disposal of property, plant and equipment	26	-
	(438)	(707)
<b>Financing activities</b>		
Repayment of revolving bank facility	(2,000)	(1,000)
Finance costs	(1)	(138)
Dividends or distributions paid (note 13)	(1,273)	(3,819)
	(3,274)	(4,957)
<b>Increase (decrease) in (bank overdraft) cash and cash equivalents during the period</b>	575	(3,823)
<b>Effects of foreign exchange on cash balances</b>	3	-
<b>(Bank overdraft) cash and cash equivalents – beginning of period</b>	(1,161)	4,046
<b>(Bank overdraft) cash and cash equivalents – end of period</b>	(583)	223

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

Notes to The Condensed Interim Consolidated Financial Statements  
The Periods Ended March 31, 2013 and 2012  
*(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)*

## 1. GENERAL INFORMATION

DATA Group Inc. (the "Corporation") is the successor to The DATA Group Income Fund (the "Fund"). Until December 31, 2011, the Fund was an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the Amended and Restated Declaration of Trust dated May 12, 2010. As of December 31, 2011, the Fund owned directly and indirectly all of the outstanding partnership units of The DATA Group Limited Partnership (the "Partnership") and all of the outstanding shares of the Partnership's general partner, Data Business Forms Limited ("DBFL"). On November 1, 2011, a subsidiary of the Fund acquired all of the outstanding shares of The Fulfillment Solutions Advantage Inc. ("FSA"). FSA owns 82.35% of the outstanding shares of FSA Datalytics Canada Inc. ("Datalytics").

Effective January 1, 2012, the Fund completed a reorganization of its income trust structure into a publicly traded corporation named DATA Group Inc. (the "Corporation") pursuant to a plan of arrangement (the "Arrangement") under the Business Corporations Act (Ontario) ("OBCA"), involving the Fund, the Corporation, the Partnership and DBFL. As a result of the completion of the Arrangement and related transactions, the Corporation (as the successor to the Fund pursuant to the Arrangement) now owns, directly and indirectly, the subsidiaries which own and operate the businesses that were owned and operated by the subsidiaries of the Fund prior to completion of the Arrangement. Pursuant to the Arrangement, the Fund and the Partnership were wound up and dissolved and DBFL changed its name to "DATA Group Ltd." ("DGL"). The management of the Partnership and the trustees of the Fund are now the management and directors of the Corporation. The transaction was accounted for as a reorganization using the continuity of interest method. DGL also owns 100% of the outstanding shares of DATA Group (US) Corp.

As a result of the Arrangement, the Fund's units were reclassified to share capital of the Corporation on a one for one basis. Under the Arrangement, unitholders of the Fund received, on a tax deferred, roll-over basis, one common share of the Corporation for each unit of the Fund held. The common shares of the Corporation are listed on the Toronto Stock Exchange ("TSX") under the symbol "DGI". The head and registered offices of the Corporation are located at 9195 Torbram Road, Brampton, Ontario, Canada L6S 6H2.

References to "DATA Group" mean the Fund in respect of periods prior to January 1, 2012 and mean the Corporation from and after January 1, 2012.

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

Notes to The Condensed Interim Consolidated Financial Statements  
The Periods Ended March 31, 2013 and 2012  
*(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)*

electronic marketing campaigns across multiple media channels. DATA Group operates in the following reporting segments:

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

DATA Group established operations in Niles, Illinois during the fourth quarter of 2012 in order to service the U.S. operations of a large customer. Sales of some of DATA Group's products are subject to seasonal fluctuations in demand. Certain elements of DATA Group's gift card and direct mail businesses as well as the buying patterns of certain major customers of DATA Group have historically generated higher revenues and profit in the fourth quarter than the other three quarters.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

DATA Group prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation to interim financial reports, including International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in DATA Group's consolidated financial statements for the year ended December 31, 2012, except for any new accounting pronouncements which have been adopted. DATA Group has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ending December 31, 2013, as issued and outstanding as of May 7, 2013, the date the Board of Directors approved these financial statements. Any subsequent changes to IFRS that are given effect in DATA Group's annual consolidated financial statements for the year ending December 31, 2013 could result in restatement of these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements should be read in conjunction with DATA Group's consolidated annual financial statements for the year ended December 31, 2012 which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), which are included in DATA Group's 2012 annual report.

Notes to The Condensed Interim Consolidated Financial Statements  
The Periods Ended March 31, 2013 and 2012  
(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)

**CHANGE IN ACCOUNTING POLICIES****(i) New and amended standards adopted**

DATA Group has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 13 *Fair Value Measurement* provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. DATA Group adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by DATA Group to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

DATA Group has adopted the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* effective January 1, 2013. These amendments required DATA Group to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. DATA Group has reclassified comprehensive income items for the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IAS 19 *Employee Benefits (amended in 2011)*, amends certain accounting requirements for defined benefit pension plans and termination benefits and was adopted as of January 1, 2013.

IAS 19 (Revised 2011) requires the net defined benefit liability (asset) to be recognized on the statement of financial position without deferral of actuarial gains and losses and past service costs as previously allowed. Past services costs are recognized in net income (loss) when incurred. The expected rate of return on assets ("EROA") assumption is no longer used in the measurement of post-employment benefits expense. Instead, post-employment benefits expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Re-measurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the assets ceiling are recognized in other comprehensive income. DATA Group continues to immediately recognize in retained earnings (deficit) all pension adjustments recognized in other comprehensive income (loss). DATA Group will commence recognizing interest expense (income) on net defined benefit liabilities (assets) in finance expense (income) in the consolidated statement of income that were previously recognized in general and administration expenses effective January 1, 2012. Administration costs of running DATA Group Pension Plan which were included in the EROA are now recognized as period costs in general and administration expenses in the consolidated statement of income when incurred effective January 1, 2012.

The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognize any related restructuring costs. Termination benefits that require future services are required to be recognized over the periods the future services are provided. This amendment did not require DATA Group to change its accounting policy for termination benefits when future services are required.

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)*

DATA Group adopted these amendments retrospectively. General and administration expense, finance expense and deferred income tax expense for the comparative period have been adjusted to reflect the accounting changes for defined benefit plans. The adjustments for each financial statement line item affected are presented in the tables below.

**Adjustments to condensed consolidated statements of income**

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
<b>Net income before accounting change</b>	1,038	3,652
<b>Increase in:</b>		
Finance expense	194	197
General and administration expenses	62	-
<b>Decrease in:</b>		
General and administration expenses	-	(71)
Deferred income tax expense	(67)	(32)
Change to net income	189	94
<b>Net income after accounting change</b>	849	3,558
<b>Net income (loss) attributable to:</b>		
Common shareholders	853	3,566
Non-controlling interest	(4)	(8)
	849	3,558
<b>Earnings per share after accounting change</b>		
Basic	0.04	0.15
Diluted	0.04	0.15

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)*

**Adjustments to condensed consolidated statements of comprehensive income**

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
<b>Comprehensive income before accounting change</b>	1,833	3,520
<b>Increase in:</b>		
Re-measurement of actuarial losses on post-employment benefit obligations	256	126
<b>Decrease in:</b>		
Net income	(189)	(94)
Deferred income tax expense	(67)	(32)
Change to comprehensive income	-	-
<b>Comprehensive income after accounting change</b>	1,833	3,520
<b>Comprehensive income (loss) attributable to:</b>		
Common shareholders	1,837	3,528
Non-controlling interest	(4)	(8)
	1,833	3,520

**(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013 and not early adopted**

In October 2012, the ISAB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* to include an exception to the consolidation requirements for investment entities as defined in the amendments issued by the IASB. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier adoption permitted. DATA Group is currently evaluating the impact, if any, of adopting the amendments on its consolidated financial statements.

IFRS 9 *Financial Instruments* was issued in November 2009 and October 2010. The issuance of IFRS 9 is the first phase of the three phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement* by improving and simplifying the reporting for financial instruments. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income (loss) indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. DATA Group is currently assessing the impact of the new standard on its consolidated financial statements.



Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)*

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

### 3. TRADE RECEIVABLES

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	39,699	42,097
Provision for doubtful accounts	(512)	(517)
	<b>39,187</b>	<b>41,580</b>

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

### 4. INVENTORIES

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Raw materials	6,701	6,042
Work-in-progress	3,337	2,449
Finished goods	31,180	29,594
	<b>41,218</b>	<b>38,085</b>

Raw materials and finished goods inventory amounts are net of obsolescence reserves of \$1,681 and (2012 – \$1,715). The cost of inventories recognized as an expense within cost of revenues for the three months ended March 31, 2013 was \$57,856 (2012 – \$59,714).

### 5. GOODWILL

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Balance - Beginning of period	101,066	145,200
Fair value adjustments	-	(134)
Impairment of goodwill	-	(44,000)
Balance - End of period	<b>101,066</b>	<b>101,066</b>

On November 1, 2011, DATA Group acquired all of the shares of FSA. At the time of the acquisition, FSA owned 70% of the outstanding shares of Datalytics. On June 21, 2012, FSA increased its ownership to 82.35% of the outstanding shares of Datalytics for no additional consideration. As a result of finalizing the adjustments to fair value of the identifiable assets acquired and liabilities assumed during 2012, the fair value of trade receivables acquired was increased by \$134 and accordingly goodwill was reduced by \$134.

During the fourth quarter of 2012, DATA Group performed its annual review for impairment of goodwill by comparing the fair value of each of its cash generating units (“CGU”) to the CGUs carrying value. As a result of that review and market indicators, including the trading price of DATA Group’s common shares, DATA Group

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)*

concluded that the fair value of its DATA East and West CGU was less than its carrying value. Accordingly, DATA Group recognized an impairment of goodwill charge of \$44,000 related to the DATA East and West CGU.

## 6. PROVISIONS

	Restructuring	Onerous contracts	Total
	\$	\$	\$
Balance - Beginning of period	106	1,069	1,175
Additional charge during the period	767	-	767
Utilized during the period	(273)	(48)	(321)
Balance - End of period	600	1,021	1,621
Less: Current portion of provisions	(600)	(207)	(807)
As at March 31, 2013	-	814	814

	Restructuring	Onerous contracts	Total
	\$	\$	\$
Balance - Beginning of year	163	1,255	1,418
Additional charge during the year	747	-	747
Utilized during the year	(804)	(186)	(990)
Balance - End of year	106	1,069	1,175
Less: Current portion of provisions	(106)	(202)	(308)
As at December 31, 2012	-	867	867

### Restructuring

During the three months ended March 31, 2013, DATA Group continued its restructuring and ongoing productivity improvement initiatives to reduce its cost of operations. These initiatives resulted in a \$767 charge during the three months ended March 31, 2013 to restructuring expenses due to headcount reductions in the consolidated statement of income and comprehensive income. During the three months ended March 31, 2012, the ongoing productivity improvement initiatives resulted in severance expense of \$145 included within general and administration expenses.

For the three months ended March 31, 2013, cash payments of \$273 (2012 - \$164) were made to former employees for severances and a significant portion of the remaining severance and restructuring accruals of \$600 at March 31, 2013 is expected to be paid during the remainder of 2013.

### Onerous contracts

During the year ended December 31, 2006, DATA Group assumed a lease agreement for its Drummondville, Québec facility with rent payments that exceeded the fair market value for rent and as a result DATA Group recorded an unfavourable lease obligation. The monthly rent payments for this lease are allocated between the unfavourable lease obligation and a reduction in rent expense over the lease term, expiring in 2016.

During the year ended December 31, 2009, DATA Group sublet its Dorval, Québec facility for the remainder of the term of the lease agreement. A lease exit charge of \$866, representing the liability, at present value for

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)*

remaining lease costs under the lease agreement net of sublease income, was recorded in 2009 and is recognized over the remaining term of the lease, expiring in 2021.

## 7. REVOLVING BANK FACILITY

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
4.48% banker's acceptances, maturing January 28, 2013	-	58,000
4.47% banker's acceptances, maturing April 30, 2013	52,000	-
Floating rate debt	4,000	-
Revolving bank facility	56,000	58,000
Unamortized transaction costs	(380)	(447)
	<b>55,620</b>	<b>57,553</b>

DATA Group's amended and restated credit agreement (the "Amended Credit Agreement") with two Canadian chartered banks which provides for the establishment of credit facilities (the "Revolving Bank Facility") consisting of a committed revolving credit facility in the maximum principal amount of \$90,000 maturing on August 31, 2014 and is secured by substantially all of DATA Group's assets. The credit facilities do not require DATA Group to make any principal payments prior to August 31, 2014. A portion of the credit facilities are subject to bankers' acceptance fees over the applicable banker's acceptance rates. The floating rate debt is an advance that is subject to interest at the Canadian prime rate plus an applicable margin. At March 31, 2013, all of DATA Group's indebtedness outstanding under the credit facilities was subject to floating interest rates of 4.53%.

The Amended Credit Agreement contains financial covenants and restrictions, including the requirement to meet certain financial ratios and financial condition tests. DATA Group is required to maintain, at all times, a quarterly maximum ratio of total debt to adjusted earnings before interest, income taxes, depreciation and amortization ("Credit Agreement EBITDA") as defined in the Amended Credit Agreement. The maximum ratio allowed for a 12-month trailing period is 2.50. As at March 31, 2013, this ratio was calculated at 1.92 (2012 – 1.80). DATA Group is also required to at all times maintain a quarterly minimum ratio of Credit Agreement EBITDA to fixed charges. The minimum ratio allowed under the amended terms of the Amended Credit Agreement is 1.00. As at March 31, 2013, this ratio was calculated at 1.41 (2012 – 2.58).

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)*

**8. CONVERTIBLE DEBENTURES**

	<b>March 31, 2013 \$</b>	<b>December 31, 2012 \$</b>
6.00% convertible debentures, maturing June 30, 2017, interest payable in June and December, convertible at 81.967 common shares or units per \$1,000 of debenture	43,733	43,660
Unamortized transaction costs	(1,274)	(1,349)
	<b>42,459</b>	<b>42,311</b>

On January 1, 2012, DATA Group became the successor debtor and assumed all the covenants and obligations of the \$45,000 aggregate principal amount of 6.00% Convertible Unsecured Subordinated Debentures (the "6.00% Convertible Debentures") issued by the Fund on April 27, 2010. The 6.00 % Convertible Debentures continue to be listed on the TSX under the symbol "DGI.DB.A". The 6.00% Convertible Debentures bear interest at a rate of 6.00% payable semi-annually, in arrears, on June 30 and December 31 in each year commencing on December 31, 2010. The 6.00% Convertible Debentures mature on June 30, 2017 and are convertible into common shares of DATA Group Inc. ("Shares"), at the option of the holder prior to maturity or redemption at a conversion price of \$12.20 per Share, subject to adjustment in certain events described in greater detail in DATA Group's short form prospectus. The 6.00% Convertible Debentures may not be redeemed before June 30, 2013.

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

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

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

The 6.00% Convertible Debentures are listed for trading on the TSX, and the carrying value is recorded at amortized cost. Based on the quoted market price, the 6.00% Convertible Debentures had a fair value of \$35,618 at March 31, 2013.

As a result of the Fund's conversion to the Corporation on January 1, 2012, the Fund's conversion option liabilities were classified as equity due to the change in the nature of the underlying security to Shares from units.

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)*

**9. OTHER NON-CURRENT LIABILITIES**

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Deferred lease inducement	460	490
Lease escalation liabilities	917	937
	1,377	1,427
Less: Current portion of other non-current liabilities	(320)	(290)
	1,057	1,137

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

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

DATA Group's operations are conducted in leased properties. DATA Group's leases generally provide for minimum rent and may also include escalation clauses, guarantees and certain other restrictions, and generally require it to pay a portion of the real estate taxes and other property operating expense. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the leases, expiring in 2013 to 2018.

**10. CHANGES IN WORKING CAPITAL**

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	2,395	2,812
Inventories	(3,130)	(1,219)
Prepaid expenses and other current assets	(364)	290
Trade payables	3,187	(2,006)
Deferred revenue	12	(1,596)
	2,100	(1,719)

**11. SHARES**

The following summarizes the changes in common shares during the period:

	<b>March 31, 2013</b>	
	<b>Number of common shares</b>	<b>Amount \$</b>
Balance – Beginning and end of period	23,490,592	215,336

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)*

The following summarizes the changes in common shares during the year:

	December 31, 2012	
	Number of common shares	Amount \$
Balance – January 1, 2012	-	-
Converted on January 1, 2012 from units (note 1)	23,490,592	215,336
Balance – December 31, 2012	23,490,592	215,336

## 12. BASIC AND DILUTED EARNINGS PER SHARE

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
<b>Basic earnings per share</b>		
Net income for the period attributable to shareholders	\$ 853	\$ 3,566
Weighted average shares	23,490,592	23,490,592
Basic earnings per share	\$ 0.04	\$ 0.15
<b>Diluted earnings per share</b>		
	\$ 0.04	\$ 0.15

6.00% Convertible Debentures in the aggregate principal amount of \$45,000 and related interest expense were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive.

## 13. DIVIDENDS

The Board of Directors has established and adopted a dividend policy. Currently, dividends under this policy are intended to be paid quarterly at a rate of \$0.075 per share (or an annual rate of \$0.30 per share) to shareholders of record on or about the last business day of March, June, September and December, with actual payment to be made to those shareholders on or about the 15th day of the following month, subject to any contractual restrictions on those dividends, including any agreements entered into with lenders to DATA Group.

The dividend policy of DATA Group is subject to the discretion of the Board of Directors and will be evaluated on an ongoing basis, and may be revised subject to business circumstances and expected capital requirements depending on, among other things, DATA Group's earnings, financial requirements, growth opportunities, the satisfaction of solvency tests imposed by the Ontario Business Corporations Act for the declaration and payment of dividends and other conditions existing at such future time.

Dividends declared by DATA Group on its outstanding common shares for the three months ended March 31, 2013 were as follows:

Record date	Payment date	Per share \$	Amount \$
March 28, 2013	April 15, 2013	0.075	1,762

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)*

Dividends declared by DATA Group on its outstanding common shares for the three months ended March 31, 2012 were as follows:

Record date	Payment date	Per share	Amount
		\$	\$
January 31, 2012	February 15, 2012	0.054	1,273
February 29, 2012	March 15, 2012	0.054	1,273
March 30, 2012	April 13, 2012	0.054	1,274
			3,820

#### 14. CONTINGENCIES

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

DATA Group contributes to the Graphics Communications Supplemental Retirement and Disability Fund of Canada ("SRDF") for certain employees at its Drummondville and Granby plants in Québec. The SRDF is a defined benefit, multi-employer pension plan which provides retirement benefits to unionized employees in the printing industry jointly-trusted by representatives of the employers of SRDF members and the unions which represent SRDF members in collective bargaining.

DATA Group's members in the SRDF plan are in Québec and therefore the funded status of the accrued benefit obligation for these employees are subject to pension regulations in that province. The most recent funding actuarial report in respect of the Québec members of the plan discloses a solvency deficiency and a gap between the minimum total contributions required under applicable Québec legislation and total employer contributions determined pursuant to collective agreements. There is no contractual agreement as to how the share of the deficiency is determined or funded in respect of each participating employer. These issues are currently being negotiated and DATA Group may be required to make additional ongoing contributions towards funding DATA Group's portion of the solvency deficiency. Under Québec legislation, DATA Group would be required to fund any outstanding solvency deficiency in respect of DATA Group employees if, in future, DATA Group withdraws from the plan or the plan is terminated. Based on the most recent actuarial report and additional information supplied by the multi-employer plan actuary and administrator, the portion of the plan solvency deficiency in respect of DATA Group employees was estimated to be approximately \$30,000 as of December 31, 2011. Currently, there is uncertainty and a lack of complete information to support the allocation of assets and liabilities used to determine this estimate.

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)*

**15. EMPLOYEE BENEFIT PLANS**Pension expense

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

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Net cost recognized in general and administration expenses	73	73
Interest costs in finance expense	163	161
Defined benefit plans	236	234
Defined contribution plan	514	516
Defined benefit multi-employer plan	176	176

Other post-employment benefit plan expense

DATA Group's other post-employment benefit plan expense related to its other post-employment benefit plans are as follows:

	<b>For the three months ended March 31, 2013</b>	<b>For the three months ended March 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Net cost recognized in general and administration expenses	39	61
Interest costs in finance expense	31	36
Other post-employment benefit plans	70	97

**16. INCOME TAXES**

On January 1, 2012, the Fund completed the Arrangement. The Arrangement resulted in the reorganization of the Fund into a corporate structure. Mutual fund trusts like the Fund were required to use the "undistributed" tax rate in the determination of income tax amounts. Current and deferred tax assets and liabilities were measured at the tax rate applicable to undistributed profits until such time that the distribution becomes payable. This required a mutual fund trust to use the tax rate applicable if no distributions of income were made to unitholders. A Specified Investment Flow-Through ("SIFT") trust was subject to tax on income distributed to unitholders at a rate similar to the combined federal and provincial corporate tax rate applicable to corporations, whereas undistributed income is taxed at the top marginal individual income tax rates. As a result, the Fund was required to use the top marginal tax rate for individuals in jurisdictions where it had permanent establishments, which was approximately 44.8%, in the calculation of deferred income taxes prior to 2012. As a result of the Fund's conversion to a corporation on January 1, 2012, DATA Group re-measured its deferred tax assets and liabilities in accordance



Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)*

with IFRS Standing Interpretations Committee (“SIC”) Interpretation - 25: *Changes in Tax Structure of an Entity* using the tax rates applicable to a corporation, which do not vary depending on whether income is distributed or not and the Corporation is not subject to the SIFT Rules. Also, as a result of the Fund’s conversion to a corporation on January 1, 2012, the Fund’s conversion option liabilities were classified as equity on the financial statements of the Corporation due to the change in the nature of the underlying security to shares from units and are not re-measured at fair value at each reporting date. The effect of the change in tax rate and reversal of the deferred tax liability associated with the conversion option liabilities was to reduce DATA Group’s net deferred income tax liability at December 31, 2011 by \$2,359, which was recorded as a deferred income tax recovery of \$1,953 and \$406 in other comprehensive income during the three months ended March 31, 2012.

The calculation of current tax is based on a combined federal and provincial statutory income tax rate of 26.2%. The tax rate for the current year is unchanged from 2012 as there were no changes to the statutory tax rates. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax assets and liabilities have been measured using an expected average combined statutory income tax rate of 26.1% based on the tax rates in years when the temporary differences are expected to reverse.

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>Reflected in the consolidated statement of financial position as follows:</b>	<b>\$</b>	<b>\$</b>
Deferred tax assets	2,076	1,534
Deferred tax liabilities	(732)	(766)
Net deferred tax assets (liabilities)	1,344	768

## 17. SEGMENTED INFORMATION

The president and chief executive officer (“CEO”) of DATA Group is the chief operating decision-maker. Management has determined the reporting segments based on the information reviewed by the president and CEO for the purpose of allocating resources and assessing performance. DATA Group has two reporting segments organized on the basis of geography, channels and specialties as follows: DATA East and West and Multiple Pakfold. The reporting segments follow the same accounting policies as described in the summary of significant accounting policies, and all intersegment revenues are recorded at the exchange amount. Management evaluates the performance of each reporting segment based on income before interest, finance costs and income taxes. Corporate expenses, certain non-recurring expenses, interest expense, finance costs and income taxes are not taken into account in the evaluation of the performance of the reporting segments. All significant external sales are to customers located in Canada. DATA Group established operations in Niles, Illinois during the fourth quarter of 2012 in order to service the U.S. operations of a large customer.

Notes to The Condensed Interim Consolidated Financial Statements  
**The Periods Ended March 31, 2013 and 2012**  
*(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)*

**For the three months ended March 31, 2013**

	<b>DATA East and West \$</b>	<b>Multiple Pakfold \$</b>	<b>Intersegment \$</b>	<b>Total \$</b>
Revenues	79,722	3,450	(309)	82,863
Gross profit	21,083	655	-	21,738
Income before under noted items	7,059	175	-	7,234
Restructuring expenses				767
Unallocated corporate expenses				3,492
Income before finance costs and income taxes				2,975
Finance costs				1,779
Current income tax expense				1,272
Deferred income tax recovery				(925)
Net income for the period				849

**For the three months ended March 31, 2012**

	<b>DATA East and West \$</b>	<b>Multiple Pakfold \$</b>	<b>Intersegment \$</b>	<b>Total \$</b>
Revenues	83,161	3,808	(321)	86,648
Gross profit	22,476	751	-	23,227
Income before under noted items	7,255	245	-	7,500
Corporate conversion costs				84
Unallocated corporate expenses				3,508
Income before finance costs and income taxes				3,908
Finance costs				1,820
Current income tax expense				1,248
Deferred income tax recovery				(2,718)
Net income for the period				3,558

Also included in total revenues are warehousing revenues of approximately 7% (2012 – 8%) for the three months ended March 31, 2013, and were included in the DATA East and West segment.

# Corporate information

## Directors and Officers

**Derek Ridout**<sup>2</sup>  
Chairman, Director

**Ronald A. Fotheringham**<sup>1,2</sup>  
Director

**John H. Greenhough**<sup>1,3</sup>  
Director

**Thomas R. Spencer**<sup>1,2,3</sup>  
Director

**William Albino**<sup>1,3</sup>  
Director

**Michael Suksi**  
Director and Officer  
President and Chief Executive Officer

**Paul O'Shea**  
Officer  
Chief Financial Officer and  
Corporate Secretary

<sup>1</sup> Member, Audit Committee  
(Chairperson is Thomas R. Spencer)

<sup>2</sup> Member, Compensation Committee (Chairperson is Ronald A. Fotheringham)

<sup>3</sup> Member, Corporate Governance Committee (Chairperson is John H. Greenhough)

## Executive Team

**Michael Suksi**  
President and Chief Executive Officer

**Paul O'Shea**  
Chief Financial Officer

**Elaine Deramo**  
Vice-President, Human Resources

**Stuart Hendrie**  
Chief Information Officer

**Steve Galarneau**  
President, DATA West

**Rick Barron**  
Vice-President, Sales and Marketing, DATA West

**Diane Schwind**  
Vice-President, Operations, DATA East

**Steve Wittal**  
Vice-President, Sales and Marketing, DATA East

**Ian Halliday**  
Vice-President, Document Process Management

**Alan Roberts**  
Vice-President, Operations – On Demand Services and Marketing Campaign Management

**Tanya Stambolic**  
Vice-President, Digital and Direct Marketing

## Corporate Information

**Auditors**  
PricewaterhouseCoopers LLP

**Transfer Agent**  
Computershare Investor Services Inc.

**Corporate Counsel**  
McCarthy Tétrault LLP

**Corporate Office**  
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Brampton, Ontario L6S 6H2  
Telephone: 905-791-3151  
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**Website**  
[www.datagroup.ca](http://www.datagroup.ca)

**Toronto Stock Exchange Symbols**  
DGI and DGI.DB.A



[www.datagroup.ca](http://www.datagroup.ca)



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