



Q1

DATA GROUP LTD.

Quarter One ended March 31, 2014



WE ARE DEFINED **BY OUR VALUES**

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

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

We are committed to customer service and quality.

We do what we say we will do.

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

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

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

We conduct our business ethically and legally.

LETTER TO SHAREHOLDERS

Dear fellow shareholders:

We continue to make progress on our Transformation Plan and remain focused on creating long-term enterprise value appreciation for our shareholders. **In the first quarter of 2014, we reduced our costs by \$2.3 million on an annualized basis, generated \$6.4 million in revenue from the selected growth areas management has targeted and reduced debt by \$2.0 million.**

Why is a Transformation Plan Required?

Our industry has seen wholesale changes over the last number of years, mostly due to rapid technological advances. The competitive environment in which we operate has become even more challenging as our industry transforms to more digital forms of communications and adapts to new client demands for blended print and digital solutions. These factors adversely impacted our financial results for 2013 and the first quarter of 2014. DATA Group has responded with a Transformation Plan that establishes clear goals, all of which aim to enhance shareholder value by:

- **continuing to significantly reduce our costs**
- **reducing our indebtedness**
- **stabilizing our revenues**

Cost Reduction

In 2013, we launched a comprehensive, three-year cost reduction program that resulted in **\$13.0 million in annualized cost savings in its first year. We expect an additional \$20.0 million to \$25.0 million in total annualized cost savings in 2014 and 2015**, mostly generated through a further reduction in locations, raw material costs and the number of employees. In the first quarter of 2014, we made further progress on this program by implementing new cost savings of \$2.3 million on an annualized basis.

Debt Reduction

We reduced our debt by \$2.0 million in the first quarter of 2014. DATA Group intends to continue our focus on debt reduction in the balance of 2014. We are also commencing a normal course issuer bid for the purchase of up to \$4.476 million of our outstanding 6.00% Convertible Unsecured Subordinated Debentures due June 30, 2017.

Revenue Stabilization

Our intent in 2014 is to stabilize our revenue and position ourselves for longer term growth. Our plan to achieve this is based on;

- Adding new sales talent
- Winning market share in our traditional print business
- Investing in the key growth areas we have identified; labels, marketing related print and digital (paperless) communications
- Bundling our digital services with our print offerings to increase the value we provide to our customers and the contributions these services make to our overall revenue and profitability

In the last three quarters we have made significant changes to our sales team by hiring new sales management and sales representatives. **During the first quarter of 2014, we generated \$6.4 million in new business and made encouraging progress on a number of new business sales opportunities in the retail, financial services and transportation markets.**

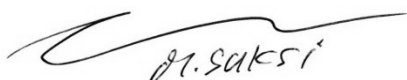
Additionally, during the first quarter a key competitor, Datamark Systems, announced they are ceasing operations and **we have won new business as a result.** Due to the timing of these wins, they did not have a material impact on our first quarter results, but we anticipate they will have a positive impact on our results during the remainder of the year. Business activity increased towards the end of the quarter which resulted in a \$1.3 million increase in working capital.

Conclusion

We know we have more work to do on our Transformation Plan and we are committed to successfully executing our strategy. We also know that the transformation we have embarked upon has taken a toll on our share price, something which causes us great concern. We are committed to delivering results that generate value to our shareholders. We will do this with a sense of urgency, while also being mindful of maintaining the operational business stability that is a precondition to maintaining our valued customer relationships. The best way forward is to continue to build a stronger company and we firmly believe we have the right strategy and the right people to get us there. For a full description of our financial results for the first quarter of 2014, please refer to our unaudited interim financial statements for the quarter ended March 31, 2014 and related management's discussion and analysis, copies of which are available at www.sedar.com or by contacting us at 905-791-3151.

I would like to conclude by thanking our investors, customers and employees for their support and encourage our shareholders to contact me directly at 905-494-4006.

May 2014



Michael Suksi
President and Chief Executive Officer
DATA Group Ltd.

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

This Management's Discussion and Analysis ("MD&A") of DATA Group Ltd. ("DATA Group") for the three months ended March 31, 2014 should be read in conjunction with the MD&A of DATA Group for the year ended December 31, 2013, the unaudited interim financial statements of DATA Group for the three months ended March 31, 2014, and the audited annual financial statements of DATA Group for the year ended December 31, 2013. These documents are available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. External economic, industry and risk factors remain substantially unchanged from those described in DATA Group's 2013 annual MD&A, unless otherwise noted.

On January 1, 2014, DATA Group, the successor to DATA Group Inc., completed an internal reorganization to simplify its corporate structure and to generate ongoing cost savings. Pursuant to the internal reorganization, DATA Group Inc. amalgamated with its Canadian subsidiaries to form a new corporation called "DATA Group Ltd.". Pursuant to the amalgamation, all of the issued and outstanding shares of DATA Group Inc.'s Canadian subsidiaries were cancelled and the assets and liabilities of the amalgamating corporations became the assets and liabilities of DATA Group. Pursuant to the amalgamation, DATA Group also assumed all of the covenants and obligations of DATA Group Inc. under its outstanding 6.00% Convertible Unsecured Subordinated Debentures (the "6.00% Convertible Debentures"). No securities were issued in connection with the amalgamation and the authorized and issued share capital of DATA Group is the same as that of DATA Group Inc. immediately prior to the amalgamation becoming effective.

The reorganization did not have any significant effect on the business and operations of DATA Group Inc. and its subsidiaries, which are now carried on by DATA Group and its subsidiary DATA Group (US) Corp.

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 14, 2014. Additional information relating to DATA Group, including its most recently filed audited consolidated financial statements, Annual Information Form and Management Information Circular, is available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements in this 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 reducing the size of its legacy print business, reducing costs and long-term debt and growing its digital communications business; the risk that DATA Group may not be successful in managing its organic growth; DATA Group's ability to invest in, develop and successfully market new products and services; competition from competitors supplying similar products and services; DATA Group's ability to grow its sales or even maintain historical levels of its sales of printed business documents; the impact of economic conditions on DATA Group's businesses; risks associated with acquisitions by DATA Group; increases in the costs of paper and other raw materials used by DATA Group; and DATA Group's ability to maintain relationships with its customers. Additional factors are discussed elsewhere in this 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). 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, 2014 and 2013 means EBITDA adjusted for restructuring expenses, respectively. 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 1,670 employees working from 35 locations across Canada and the United States and operates as two reporting segments. DATA East and West (which provided approximately 95% of DATA Group's total revenue for the first quarter of 2014) sells a broad range of document management services, marketing solutions and printed products directly to customers. Multiple Pakfold (which provided approximately 5% of DATA Group's total revenue for the first quarter of 2014) 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.

DATA Group continues to made progress on its Transformation Plan and remains focused on creating long-term enterprise value appreciation for its shareholders. See "Outlook" below.

Sources of Revenue and Revenue Recognition Policy

DATA Group derives its revenues from two sources: document management solutions and marketing solutions. 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.

Cost of Revenues and Expenses

DATA Group's cost 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 consolidated financial information for the periods noted.

For the periods ended March 31, 2014 and 2013	Jan. 1 to	Jan. 1 to
<i>(in thousands of Canadian dollars, except per share amounts, unaudited)</i>	Mar. 31,	Mar. 31,
	2014	2013
	\$	\$
Revenues	77,903	82,863
Cost of revenues	59,100	61,125
Gross profit	18,803	21,738
Selling, general and administrative expenses	14,680	15,686
Restructuring expenses	865	767
Amortization of intangible assets	479	2,310
Income before finance costs and income taxes	2,779	2,975
Finance costs		
Interest expense	1,549	1,638
Interest income	(5)	(2)
Amortization of transaction costs	139	143
	1,683	1,779
Income before income taxes	1,096	1,196
Income tax expense (recovery)		
Current	-	1,272
Deferred	300	(925)
	300	347
Net income for the period	796	849
Net income attributable to common shareholders	796	853
Basic and diluted earnings per share	0.03	0.04
Number of common shares outstanding	23,490,592	23,490,592
	As at	As at
	Mar. 31,	Dec. 31,
	2014	2013
	\$	\$
As at March 31, 2014 and December 31, 2013		
<i>(in thousands of Canadian dollars, unaudited)</i>		
Current assets	81,344	78,717
Current liabilities	46,894	42,545
Total assets	166,982	166,597
Non-current liabilities	102,984	105,977
Shareholders' equity	17,104	18,075

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

For the periods ended March 31, 2014 and 2013	Jan. 1 to	Jan. 1 to
<i>(in thousands of Canadian dollars, except percentage amounts, unaudited)</i>	Mar. 31,	Mar. 31,
	2014	2013
	\$	\$
Revenues		
DATA East and West	74,550	79,722
Multiple Pakfold	3,649	3,450
Intersegment	(296)	(309)
	77,903	82,863
Gross profit		
DATA East and West	18,155	21,083
Multiple Pakfold	648	655
	18,803	21,738
Gross profit, as a percentage of revenues		
DATA East and West	24.4%	26.4%
Multiple Pakfold	17.8%	19.0%
	24.1%	26.2%
Selling, general and administrative expenses		
	14,680	15,686
As a percentage of revenues	18.8%	18.9%
Adjusted EBITDA (see Table 3)		
	5,431	7,380
Adjusted EBITDA margin, as a percentage of revenues	7.0%	8.9%
Net income for the period		
	796	849

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

For the periods ended March 31, 2014 and 2013 <i>(in thousands of Canadian dollars, unaudited)</i>	Jan. 1 to Mar. 31, 2014 \$	Jan. 1 to Mar. 31, 2013 \$
Net income for the period	796	849
Interest expense	1,549	1,638
Interest income	(5)	(2)
Amortization of transaction costs	139	143
Depreciation of property, plant and equipment	1,308	1,328
Amortization of intangible assets	479	2,310
Restructuring expenses	865	767
Current income tax expense	-	1,272
Deferred income tax expense (recovery)	300	(925)
Adjusted EBITDA	5,431	7,380

RESULTS OF OPERATIONS

Revenues

For the quarter ended March 31, 2014, DATA Group recorded revenues of \$77.9 million, a decrease of \$5.0 million or 6.0% compared with the same period in 2013. The decrease, before intersegment revenues, was the result of a \$5.2 million decrease in the DATA East and West segment and was offset by a \$0.2 million increase in the Multiple Pakfold segment. A more detailed discussion of the results of operations of each of DATA Group’s reporting segments is set out below.

Cost of Revenues and Gross Profit

For the quarter ended March 31, 2014, cost of revenues decreased to \$59.1 million from \$61.1 million for the same period in 2013. Gross profit for the quarter ended March 31, 2014 was \$18.8 million, which represented a decrease of \$2.9 million or 13.5% from \$21.7 million for the same period in 2013. The decrease in gross profit for the quarter ended March 31, 2014 was attributable to a gross profit decrease of \$2.9 million in the DATA East and West segment. Gross profit as a percentage of revenues decreased to 24.1% for the quarter ended March 31, 2014 compared to 26.2% for the same period in 2013.

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, 2014 decreased \$1.0 million to \$14.7 million compared to \$15.7 million in the same period in 2013. As a percentage of revenues, these costs were 18.8% of revenues for the quarter ended March 31, 2014 compared to 18.9% of revenues for the same period in 2013. The decrease in SG&A expenses for the three months ended March 31, 2014 was attributable to the benefits realized from cost savings initiatives implemented in 2013. For the three months ended March 31, 2014, DATA Group incurred restructuring expenses related to headcount reductions of \$0.9 million as part of its ongoing restructuring initiatives.

Adjusted EBITDA

For the quarter ended March 31, 2014, Adjusted EBITDA was \$5.4 million, or 7.0% of revenues. Adjusted EBITDA for the quarter ended March 31, 2014 decreased \$1.9 million or 26.4% 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 as a result of its restructuring initiatives. 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, decreased from 8.9% of revenues in 2013 to 7.0% of revenues in 2014.

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 Debentures, certain unfavourable lease obligations related to closed facilities and DATA Group's employee benefit plans was \$1.5 million for the three months ended March 31, 2014 compared to \$1.6 million for the same period in 2013.

Income Taxes

DATA Group reported income before income taxes of \$1.1 million and a deferred income tax expense of \$0.3 million for the three months ended March 31, 2014 compared to income before income taxes of \$1.2 million, 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. The decrease in the current income tax expense during the three months ended March 31, 2014 was due to the reduction in taxable income as the result of the use of non-capital loss carry-forwards.

Net Income

Net income for the quarter ended March 31, 2014 was largely unchanged at \$0.8 million compared to same period in 2013. The relatively small decrease in comparable profitability for the quarter ended March 31, 2014 was due to lower gross profit as a result of lower revenues and higher restructuring expenses in 2014. The decrease in comparable profitability was partially offset by lower SG&A expense and amortization of intangibles in the first quarter of 2014.

DATA EAST AND WEST

Revenues at DATA Group's DATA East and West segment for the quarter ended March 31, 2014 decreased \$5.2 million, or 6.5%, to \$74.5 million from \$79.7 million for the same period in the prior year.

Revenues for the three months ended March 31, 2014 decreased from the same period in the prior year primarily due to an order from existing customers for print-related products and services which did not repeat in 2014 and aggressive pricing by DATA Group's competitors supplying similar products and services. The segment continued to experience revenue gains from new business, which partially offset declines in revenues from existing customers due to non-repeating orders, technological change and competitive activity.

For the quarter ended March 31, 2014, gross profit decreased \$2.9 million to \$18.2 million from \$21.1 million for the same period in 2013. Gross profit as a percentage of revenues for the quarter ended March 31, 2014 decreased to 24.4% from 26.4% for the same period in 2013. The decrease in gross profit as a percentage of revenues for the quarter ended March 31, 2014 was due to the impact of competitive pricing offset by cost reductions realized from savings initiatives instituted by DATA Group in 2013.

MULTIPLE PAKFOLD

Revenues at DATA Group's Multiple Pakfold segment for the quarter ended March 31, 2014 increased \$0.1 million, or 1.6%, to \$3.5 million from \$3.4 million from the same period in the prior year. The increase in revenues for the three months ended March 31, 2014 was primarily due to new business which arose as a result of the bankruptcy of a competitor.

For the quarter ended March 31, 2014, gross profit decreased \$0.1 million to \$0.6 million from \$0.7 million for the same period in 2013. Gross profit as a percentage of revenues for the quarter ended March 31, 2014 decreased to 17.8% from 19.0% for the same period in 2013. The decrease in gross profit as a percentage of revenues for the three months ended March 31, 2014 was due to lower margins on repeat orders affected by competitive pricing and was partially offset by benefits realized from cost savings initiatives instituted in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

DATA Group maintains revolving credit facilities (the "Revolving Bank Facility") with two Canadian chartered banks. The Revolving Bank Facility currently has a maximum available principal amount of \$67.0 million and requires DATA Group to make principal repayments of \$3.0 million on March 31 and September 30 of each year commencing on March 31, 2014, each of which will permanently reduce the maximum available principal amount under the Revolving Bank Facility by the amount of the payment. During the fourth quarter of 2013, DATA Group made a principal payment of \$2.0 million in partial satisfaction of its obligation to make a mandatory principal repayment on March 31, 2014. During the quarter ended March 31, 2014, DATA Group made the remaining mandatory principal payment for March 31, 2014 of \$1.0 million and an additional early principal repayment of \$1.0 million. The Revolving Bank Facility matures on August 31, 2015 and is secured by all of DATA Group's assets. Market and other conditions could affect certain terms of any replacement facility along with the terms of other debt instruments that DATA Group enters into from time to time. The Revolving Bank Facility 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, 2014, DATA Group had outstanding borrowings of \$51.5 million under its credit facilities and was in compliance with its facility covenants under the facilities. At March 31, 2014, all of DATA Group's indebtedness outstanding under the Revolving Bank Facility was subject to a floating interest rate of 5.23% per annum.

At March 31, 2014, 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% per annum 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, being a conversion rate of approximately 81.967 shares per \$1,000 principal amount of 6.00% Convertible Debentures, subject to adjustment in certain events. The terms of the 6.00% Convertible Debentures are described in greater detail in DATA Group's Annual Information Form for the year ended December 31, 2013, which is available on SEDAR at www.sedar.com.

At March 31, 2014, DATA Group had outstanding cheques in excess of cash and cash equivalents of \$1.3 million compared to cash and cash equivalents of \$0.5 million at December 31, 2013. During the three months ended March 31, 2014, DATA Group used \$2.0 million in cash to repay a portion of the Revolving Bank Facility outstanding. The bank overdraft of \$1.3 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, at March 31, 2014 DATA Group had access to \$15.5 million of available credit less letters of credit granted of \$2.9 million.

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, access to the capital markets and anticipated reductions in operating costs projected to result from existing and planned restructuring activities, as well as its ongoing cash needs for its existing operations, including expenditures related to its growth strategy, payments associated with various restructurings and productivity improvement initiatives, taxes and cash required to finance currently planned expenditures. Cash flows from operations have been, and could continue to be, negatively impacted by decreased demand for DATA Group's products and services, which may result from factors such as reduced demand for traditional business forms and other print-related products, adverse economic conditions, competition from competitors supplying similar products and services, DATA Group's existing operating costs and increased costs associated with the manufacturing and distribution of products or the provision of services. DATA Group's ability to conduct its operations could be negatively impacted in the future should these or other adverse conditions affect its primary sources of liquidity.

DATA Group believes that its currently projected cash flow from operations and existing cash resources will be sufficient to fund its currently projected operating requirements, including expenditures related to its growth strategy, payments associated with provisions as the result of ongoing productivity improvement initiatives, payment of income tax liabilities, contributions to its pension plans, maintenance capital expenditures and interest and scheduled repayment of borrowings under its credit facilities.

Cash Flow from Operations

Changes in working capital decreased cash flow from operations by \$1.3 million during the quarter ended March 31, 2014. Inventory levels increased by \$2.9 million as a result of 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 2014. Deferred revenues increased by \$1.4 million due to the timing of shipments during the first quarter of 2014.

Pension Funding Obligations

DATA Group maintains a defined benefit and defined contribution pension plan (the "DATA Group Pension Plan") for some of its employees. DATA Group's preliminary estimated funding obligation for the defined benefit provision of the DATA Group Pension Plan for 2014 is \$2.2 million to \$2.9 million. The final funding requirement for 2014 will be based on the actuarial valuation as at January 1, 2014, which will be completed within the first nine months of 2014. For further details regarding DATA Group's pension funding obligations, refer to DATA Group's MD&A for the year ended December 31, 2013.

Investing Activities

Capital expenditures for the three months ended March 31, 2014 of \$0.6 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, 2014, DATA Group repaid \$2.0 million of the principal amount outstanding under its Revolving Bank Facility.

NORMAL COURSE ISSUER BID

Pursuant to a Notice of Intention to Make a Normal Court Issuer Bid (the "Notice") dated May 12, 2014, DATA Group will commence a normal course issuer bid ("NCIB") to purchase up to a maximum of \$4,475,640 aggregate principal amount of its outstanding 6.00% Convertible Debentures, representing 10% of the "public float" of the 6.00% Convertible Debentures outstanding as at May 1, 2014. The daily average trading volume of the 6.00% Convertible Debentures for the six calendar months preceding May 1, 2014 represents \$76,113 aggregate principal amount of 6.00% Convertible Debentures. Daily purchases will be limited to \$19,028 principal amount of 6.00% Convertible Debentures, other than block purchase exemptions. The 6.00% Convertible Debentures are quoted based on \$100 principal amounts with all trades being made in multiples of \$1,000. As of May 1, 2014, DATA Group had \$45.0 million aggregate principal amount of 6.00% Convertible Debentures outstanding. Purchases under the NCIB are permitted to commence on the Toronto Stock Exchange (the "TSX") on May 15, 2014 and will terminate no later than May 14, 2015, the date DATA Group completes its purchases pursuant to the Notice filed with the TSX and the date of notice by DATA Group of termination of the bid. The 6.00% Convertible Debentures purchased under the NCIB will be cancelled. There have been no previous purchases of 6.00% Convertible Debentures by DATA Group. Purchase and payment for the 6.00% Convertible Debentures will be made by DATA Group in accordance with the rules and policies of the TSX and the price that DATA Group will pay for any 6.00% Convertible Debentures acquired by it will be at the market price of the 6.00% Convertible Debentures at the time of acquisition. The actual number of 6.00% Convertible Debentures made by DATA Group pursuant to the NCIB and the timing of any such purchases will occur when management believes that the market price of DATA Group's 6.00% Convertible Debentures may be attractive and that the purchase of 6.00% Convertible Debentures would be an appropriate use of corporate funds in light of potential benefits to remaining shareholders.

Shareholders can obtain a copy of the Notice filed with the regulators by DATA Group, without charge, by contacting DATA Group Ltd., 9195 Torbram Road, Brampton, ON, L6S 6H2 or by calling 905-791-3151.

OUTSTANDING SHARE DATA

At May 14, 2014, March 31, 2014 and December 31, 2013, 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.

CONTRACTUAL OBLIGATIONS

There were no significant new contractual obligations for operating leases incurred during the three months ended March 31, 2014. 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 amounts, unaudited)

	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	77,903	82,147	74,129	77,822	82,863	86,915	80,144	82,608
Net (loss) income attributable to common shareholders	796	(22,868)	(20,164)	(3,652)	853	(41,710)	197	496
Basic (loss) earnings per share	0.03	(0.97)	(0.86)	(0.16)	0.04	(1.77)	0.01	0.02
Diluted (loss) earnings per share	0.03	(0.97)	(0.86)	(0.16)	0.04	(1.77)	0.01	0.02

The variations in DATA Group's quarterly revenues and net income over the eight quarters ended March 31, 2014 can be attributed to several principal factors: revenue declines in DATA Group's traditional print business due to technological change and competitive activity, DATA Group's investment in its growth strategy, restructuring and severance expenses related to DATA Group's ongoing productivity improvement and cost reduction initiatives, a gain on the settlement of a pension plan and goodwill impairment charges.

DATA Group's net income for the first quarter of 2014 included restructuring expense of \$0.9 million related to its comprehensive cost reduction program. DATA Group's net income for the first quarter of 2013 included restructuring expenses of \$0.8 million related to its comprehensive costs reduction program, and costs related to its continued investment in its growth strategy.

During the fourth quarter of 2013, DATA Group performed its annual review for impairment of goodwill, which resulted in DATA Group recognizing an impairment of goodwill charge of \$25.0 million related to its DATA East and West cash generating unit ("CGU") and recorded restructuring expenses of \$0.4 million related to its comprehensive cost reduction program. 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 CGU and a \$0.2 million gain on the settlement of a pension plan.

DATA Group's net income for the third quarter of 2013 included restructuring expenses of \$0.6 million related to its comprehensive cost reduction program, an impairment of goodwill charge of \$19.0 million related to its DATA East and West CGU. DATA Group's net income for the third quarter of 2012 included costs associated with an increased investment in its growth strategy.

DATA Group's net income for the second quarter of 2013 included restructuring expenses of \$5.2 million related to its comprehensive cost reduction program, and costs related to its continued investment in its growth strategy. DATA Group's net income for the second quarter of 2012 included costs associated with an increased investment in its growth strategy.

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 continues to make progress on its Transformation Plan and remains focused on creating long-term enterprise value appreciation for its shareholders.

The Transformation Plan is required because DATA Group's industry has seen wholesale changes over the last number of years, mostly due to rapid technological advances. The competitive environment in which DATA Group operates has become even more challenging as DATA Group's industry transforms to more digital forms of communications and adapts to new client demands for blended print and digital solutions. These factors adversely impacted DATA Group's financial results for 2013 and the first quarter of 2014. DATA Group has responded with a Transformation Plan that establishes clear goals, all of which aim to enhance shareholder value by:

- continuing to significantly reduce DATA Group's costs
- reducing DATA Group's indebtedness
- stabilizing DATA Group's revenues

In 2013, DATA Group launched a comprehensive, three-year cost reduction program that resulted in \$13.0 million in annualized cost savings in its first year. DATA Group expects an additional \$20.0 million to \$25.0 million in total annualized cost savings in 2014 and 2015, mostly generated through a further reduction in locations, raw material costs and the number of employees. In the first quarter of 2014, DATA Group made further progress on this program by implementing new cost savings of \$2.3 million on an annualized basis.

DATA Group reduced its outstanding long-term debt by \$2.0 million in the first quarter of 2014. DATA Group intends to continue its focus on debt reduction during the remainder of 2014. DATA Group is also commencing a NCIB for the purchase of up to \$4.5 million aggregate principal amount of 6.00% Convertible Debentures due June 30, 2017 outstanding.

DATA Group's intent in 2014 is to stabilize its revenues and position DATA Group for longer term growth. DATA Group plan to achieve this is based on;

- Adding new sales personnel,
- Winning market share in its traditional print business
- Investing in the key growth areas DATA Group has identified; labels, marketing related print and digital (paperless) communications

- Bundling DATA Group's digital services with its print offerings to increase the value DATA Group provides to its customers and the contribution these services make to DATA Group's overall revenue and profitability

In the last three quarters, DATA Group has made significant changes to its sales team by hiring new sales management and sales representatives. During the first quarter of 2014, DATA Group generated \$6.4 million in new business and made encouraging progress on a number of new business sales opportunities in the retail, financial services and transportation markets.

Additionally, during the first quarter a key competitor, Datamark Systems, announced they are ceasing operations and DATA Group won new business as a result. Due to the timing of these wins, they did not have a material impact on DATA Group's first quarter results, but DATA Group anticipates these wins will have a positive impact on its results during the remainder of the year.

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, 2014. These changes were made in accordance with the applicable transitional provisions.

In October 2012, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and International Accounting Standards ("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 assessed its consolidation conclusions on January 1, 2014 and determined that the adoption of these amendments did not result in any change in the consolidation status of any of its subsidiaries.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2014 and not early adopted. 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. The effective date of application for this standard has not been determined. DATA Group is currently assessing the impact of the new standard on its consolidated financial statements.

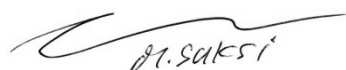
There are no other IFRS or International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that are not yet effective that would be expected to have a material impact on DATA Group.

RISKS AND UNCERTAINTIES

An investment in the securities 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 most recent Annual Information Form and other continuous disclosure filings with Canadian securities regulator filings before investing in DATA Group’s securities. The risks described in this report and in the Annual Information Form are not the only ones facing DATA Group. Additional risks not currently known to DATA Group or which DATA Group currently believes are immaterial may also impair the business, results of operations, financial condition and liquidity of DATA Group.

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

	March 31, 2014	December 31, 2013
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	-	478
Trade receivables (note 3)	36,646	36,551
Inventories (note 4)	40,518	37,585
Prepaid expenses and other current assets	3,994	3,929
Income taxes receivable	186	174
	<u>81,344</u>	<u>78,717</u>
Non-current assets		
Deferred income tax assets (note 14)	2,023	1,687
Property, plant and equipment	16,562	17,266
Pension asset	1,289	2,684
Intangible assets	8,698	9,177
Goodwill (note 5)	57,066	57,066
	<u>166,982</u>	<u>166,597</u>
Liabilities		
Current liabilities		
Bank overdraft	1,308	-
Current portion of Revolving bank facility (note 7)	5,000	4,000
Trade payables	29,266	26,061
Provisions (note 6)	2,574	2,369
Deferred revenue	8,746	10,115
	<u>46,894</u>	<u>42,545</u>
Non-current liabilities		
Provisions (note 6)	1,956	2,368
Revolving bank facility (note 7)	46,135	49,109
Convertible debentures (note 8)	43,057	42,909
Other non-current liabilities (note 9)	766	858
Pension obligations	8,382	8,102
Other post-employment benefit plans	2,688	2,631
	<u>149,878</u>	<u>148,522</u>
Equity		
Shareholders' equity		
Shares	215,336	215,336
Conversion options	516	516
Accumulated other comprehensive income	50	30
Deficit	(198,798)	(197,807)
	<u>17,104</u>	<u>18,075</u>
	<u>166,982</u>	<u>166,597</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)*

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
	\$	\$
Revenues	77,903	82,863
Cost of revenues	59,100	61,125
Gross profit	18,803	21,738
Expenses		
Selling, commissions and expenses	8,922	9,368
General and administration expenses excluding amortization of intangibles assets	5,758	6,318
Restructuring expenses	865	767
Amortization of intangible assets	479	2,310
	16,024	18,763
Income before finance costs and income taxes	2,779	2,975
Finance costs		
Interest expense	1,549	1,638
Interest income	(5)	(2)
Amortization of transaction costs	139	143
	1,683	1,779
Income before income taxes	1,096	1,196
Income tax expense (recovery) (note 14)		
Current	-	1,272
Deferred	300	(925)
	300	347
Net income for the period	796	849
Net income (loss) attributable to:		
Common shareholders	796	853
Non-controlling interest	-	(4)
	796	849
Basic earnings per share (note 11)	0.03	0.04
Diluted earnings per share (note 11)	0.03	0.04

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

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

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
	\$	\$
Net income for the period	796	849
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net income		
Foreign currency translation	20	1
	20	1
Items that will not be reclassified to net income		
Re-measurements of post-employment benefit obligations	(2,423)	1,332
Taxes on post-employment adjustment above	636	(349)
	(1,787)	983
Other comprehensive (loss) income for the period, net of tax	(1,767)	984
Comprehensive (loss) income for the period	(971)	1,833
Comprehensive (loss) income attributable to:		
Common shareholders	(971)	1,837
Non-controlling interest	-	(4)
	(971)	1,833

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'									
	Accumulated					Total				
	Shares	Conversion options	comprehensive income	other comprehensive income	Deficit	Shareholders' Equity	Non-controlling interest	Total Equity		
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Balance as at December 31, 2012	215,336	516	1	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	1	983	984	-	984		
Total comprehensive income (loss) for the period	-	-	1	1	1,836	1,837	(4)	1,833		
Dividends declared	-	-	-	-	(1,762)	(1,762)	-	(1,762)		
Balance as at March 31, 2013	215,336	516	2	2	(153,801)	62,053	132	62,185		
Balance as at December 31, 2013	215,336	516	30	30	(197,807)	18,075	-	18,075		
Net income for the period	-	-	-	-	796	796	-	796		
Other comprehensive (loss) income for the period	-	-	20	20	(1,787)	(1,767)	-	(1,767)		
Total comprehensive (loss) income for the period	-	-	20	20	(991)	(971)	-	(971)		
Balance as at March 31, 2014	215,336	516	50	50	(198,798)	17,104	-	17,104		

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

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

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the period	796	849
Adjustments to net income		
Depreciation of property, plant and equipment	1,308	1,328
Amortization of intangible assets	479	2,310
Pension expense	121	236
(Gain) loss on disposal of property, plant and equipment	(13)	57
Provisions (note 6)	865	767
Amortization of transaction costs	139	143
Accretion of convertible debentures	73	73
Other non-current liabilities	(82)	(80)
Other post-employment benefit plans, net	57	50
Income tax expense	300	347
	<u>4,043</u>	<u>6,080</u>
Changes in working capital (note 10)	(1,255)	2,100
Contributions made to pension plans	(869)	(759)
Provisions paid (note 6)	(1,072)	(321)
Income taxes paid	(12)	(2,813)
	<u>835</u>	<u>4,287</u>
Investing activities		
Purchase of property, plant and equipment	(603)	(464)
Proceeds on disposal of property, plant and equipment	19	26
	<u>(584)</u>	<u>(438)</u>
Financing activities		
Repayment of revolving bank facility	(2,000)	(2,000)
Finance costs	(38)	(1)
Finance lease payments	(6)	-
Dividends paid	-	(1,273)
	<u>(2,044)</u>	<u>(3,274)</u>
(Decrease) in cash and cash equivalents and decrease in bank overdraft during the period		
	<u>(1,793)</u>	<u>575</u>
Cash and cash equivalents (bank overdraft) – beginning of period		
	<u>478</u>	<u>(1,161)</u>
Effects of foreign exchange on cash balances		
	<u>7</u>	<u>3</u>
Bank overdraft – end of period		
	<u>(1,308)</u>	<u>(583)</u>

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, 2014 and 2013
(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)

1. GENERAL INFORMATION

On January 1, 2014, DATA Group Ltd. ("DATA Group"), the successor to DATA Group Inc., completed an internal reorganization to simplify its corporate structure and to generate ongoing cost savings. Pursuant to the internal reorganization, DATA Group Inc. amalgamated with its Canadian subsidiaries to form a new corporation called "DATA Group Ltd.". Pursuant to the amalgamation, all of the issued and outstanding shares of DATA Group Inc.'s Canadian subsidiaries were cancelled and the assets and liabilities of the amalgamating corporations became the assets and liabilities of DATA Group. Pursuant to the amalgamation, DATA Group also assumed all of the covenants and obligations of DATA Group Inc. under its outstanding 6.00% Convertible Unsecured Subordinated Debentures (the "6.00% Convertible Debentures"). No securities were issued in connection with the amalgamation and the authorized and issued share capital of DATA Group is the same as that of DATA Group Inc. immediately prior to the amalgamation becoming effective.

The reorganization did not have any significant effect on the business and operations of DATA Group Inc. and its subsidiaries, which are now carried on by DATA Group and its subsidiary DATA Group (US) Corp.

The common shares of DATA Group are listed on the Toronto Stock Exchange ("TSX") under the symbol "DGI". The head and registered offices of DATA Group are located at 9195 Torbram Road, Brampton, Ontario, Canada L6S 6H2.

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 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.

Notes to The Condensed Interim Consolidated Financial Statements
The Periods Ended March 31, 2014 and 2013
(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

DATA Group prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial reports, including International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in DATA Group’s consolidated financial statements for the year ended December 31, 2013, except for any new accounting pronouncements which have been adopted. Where applicable, DATA Group has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ending December 31, 2014, as issued and outstanding as of May 14, 2014, 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, 2014 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, 2013 which have been prepared in accordance with IFRS, as issued by the IASB.

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, 2014. These changes were made in accordance with the applicable transitional provisions.

In October 2012, the IASB 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 assessed its consolidation conclusions on January 1, 2014 and determined that the adoption of these amendments did not result in any change in the consolidation status of any of its subsidiaries.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2014 and not early adopted

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

Notes to The Condensed Interim Consolidated Financial Statements
The Periods Ended March 31, 2014 and 2013
(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)

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. The effective date of application for this standard has not been determined. 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.

3. TRADE RECEIVABLES

	March 31, 2014	December 31, 2013
	\$	\$
Trade receivables	37,308	37,188
Provision for doubtful accounts	(662)	(637)
	36,646	36,551

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

4. INVENTORIES

	March 31, 2014	December 31, 2013
	\$	\$
Raw materials	7,198	5,856
Work-in-progress	3,859	3,038
Finished goods	29,461	28,691
	40,518	37,585

Raw materials and finished goods inventory amounts are net of obsolescence reserves of \$1,549 and (2013 – \$1,602). The cost of inventories recognized as an expense within cost of revenues for the three months ended March 31, 2014 was \$56,403 (2013 – \$57,856).

5. GOODWILL

	March 31, 2014	December 31, 2013
	\$	\$
Balance - Beginning of period	57,066	101,066
Impairment of goodwill	-	(44,000)
Balance - End of period	57,066	57,066

Notes to The Condensed Interim Consolidated Financial Statements
The Periods Ended March 31, 2014 and 2013
(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)

	March 31, 2014	December 31, 2013
	\$	\$
Cost	160,725	160,725
Accumulated impairment losses	(103,659)	(103,659)
Net carrying value	57,066	57,066

6. PROVISIONS

	Restructuring	Onerous contracts	Total
	\$	\$	\$
Balance - Beginning of period	1,600	3,137	4,737
Charge during the three month period	865	-	865
Utilized during the three month period	(757)	(315)	(1,072)
Balance - End of period	1,708	2,822	4,530
Less: Current portion of provisions	(1,613)	(961)	(2,574)
As at March 31, 2014	95	1,861	1,956

	Restructuring	Onerous contracts	Total
	\$	\$	\$
Balance - Beginning of year	106	1,069	1,175
Charge during the year	4,364	2,670	7,034
Utilized during the year	(2,870)	(602)	(3,472)
Balance - End of year	1,600	3,137	4,737
Less: Current portion of provisions	(1,334)	(1,035)	(2,369)
As at December 31, 2013	266	2,102	2,368

Restructuring

During the three months ended March 31, 2014, DATA Group continued its restructuring and ongoing productivity improvement initiatives to reduce its cost of operations. These initiatives resulted in a \$865 (2013 – \$767) charge during the three months ended March 31, 2014 to restructuring expenses due to headcount reductions in the consolidated statement of income and comprehensive (loss) income.

For the three months ended March 31, 2014, cash payments of \$757 (2013 – \$273) were made to former employees for severances and for other restructuring costs.

Onerous contracts

During the year ended December 31, 2013, DATA Group closed its Anjou, Québec warehouse. A lease exit charge of \$1,441, representing the liability, at present value, for remaining lease costs under the lease agreement and the building maintenance costs, was recorded and will be paid over the remaining term of the lease, expiring in 2016.

During the year ended December 31, 2013, DATA Group closed its Brockville, Ontario facility. A lease exit charge of \$1,229, representing the liability, at present value, for remaining lease costs under the lease agreement and the

Notes to The Condensed Interim Consolidated Financial Statements
The Periods Ended March 31, 2014 and 2013
(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)

building maintenance costs of \$1,877 and net of sublease income of \$648, was recorded and is amortized over the remaining term of the lease, expiring in 2017.

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 remaining lease costs under the lease agreement of \$2,166 and net of sublease income of \$1,300, was recorded in 2009 and is amortized over the term of the lease, expiring in 2021.

7. REVOLVING BANK FACILITY

	March 31, 2014 \$	December 31, 2013 \$
5.22% bankers' acceptances, maturing January 27, 2014	-	52,000
5.22% bankers' acceptances, maturing April 28, 2014	51,000	-
Floating rate debt	500	1,500
Revolving bank facility	51,500	53,500
Unamortized transaction costs	(365)	(391)
	51,135	53,109
Less: Current portion of Revolving bank facility	(5,000)	(4,000)
	46,135	49,109

DATA Group's maintains revolving credit facilities (the "Revolving Bank Facility") with two Canadian chartered banks. The Revolving Bank Facility currently has a maximum principal amount of \$67,000 (2013 – \$70,000) and requires DATA Group to make principal repayments of \$3,000 on March 31 and September 30 of each year commencing on March 31, 2014, each of which will permanently reduce the maximum available principal amount under the Revolving Bank Facility by the amount of the payment. During the fourth quarter of 2013, DATA Group made a principal repayment of \$2,000 in partial satisfaction of its obligation to make a mandatory principal repayment on March 31, 2014. During the quarter ended March 31, 2014, DATA Group made the remaining mandatory principal payment for March 31, 2014 of \$1,000 and an additional early principal repayment of \$1,000. The Revolving Bank Facility matures on August 31, 2015 and is secured by all of DATA Group's assets. Under the terms of DATA Group's credit facility, at March 31, 2014 DATA Group had access to \$15,500 of available credit less letters of credit granted of \$2,875. A portion of the credit facilities are subject to bankers' acceptance fees over the applicable banker's acceptance rates. Maturing bankers' acceptances are typically rolled into new bankers' acceptances. The floating rate debt is an advance that is subject to interest at the Canadian prime rate plus an applicable margin. At March 31, 2014, all of DATA Group's indebtedness outstanding under the credit facilities was subject to a floating interest rate of 5.23% per annum.

The Revolving Bank Facility contains financial covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. DATA Group is required to at all times maintain a quarterly maximum

Notes to The Condensed Interim Consolidated Financial Statements
The Periods Ended March 31, 2014 and 2013

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

ratio of total debt to adjusted earnings before interest, income taxes, depreciation and amortization (“Credit Agreement EBITDA”) as defined in the Revolving Bank Facility agreement. The maximum ratio allowed for a 12-month trailing period is 2.50. As at March 31, 2014, this ratio was calculated at 2.17 (2013 – 2.08). 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 for a 12-month trailing period is 1.00. As at March 31, 2014, this ratio was calculated at 1.69 (2013 – 2.14).

8. CONVERTIBLE DEBENTURES

	March 31, 2014	December 31, 2013
	\$	\$
6.00% convertible debentures, maturing June 30, 2017, interest payable in June and December, convertible at 81.967 common shares per \$1,000 of debenture	44,031	43,958
Unamortized transaction costs	(974)	(1,049)
	43,057	42,909

On January 1, 2014, DATA Group became the successor debtor and assumed all the covenants and obligations in respect of the \$45,000 aggregate principal amount of the 6.00% Convertible Debentures issued on April 27, 2010. The 6.00% Convertible Debentures with an aggregate principal amount of \$45,000 bear interest at a rate of 6.00% per annum 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 (“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 could not be redeemed before June 30, 2013.

On or after June 30, 2013 and prior to June 30, 2015, the 6.00% Convertible Debentures 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.

Notes to The Condensed Interim Consolidated Financial Statements
The Periods Ended March 31, 2014 and 2013
(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)

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.

9. OTHER NON-CURRENT LIABILITIES

	March 31, 2014	December 31, 2013
	\$	\$
Deferred lease inducement	337	368
Lease escalation liabilities	701	748
Finance lease liabilities	86	95
	<u>1,124</u>	<u>1,211</u>
Less: Current portion of other non-current liabilities	(358)	(353)
	<u>766</u>	<u>858</u>

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

10. CHANGES IN WORKING CAPITAL

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
	\$	\$
Trade receivables	(88)	2,395
Inventories	(2,910)	(3,130)
Prepaid expenses and other current assets	(58)	(364)
Trade payables	3,171	3,187
Deferred revenue	(1,370)	12
	<u>(1,255)</u>	<u>2,100</u>

11. BASIC AND DILUTED EARNINGS PER SHARE

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
Basic earnings per share		
Net income for the period attributable to shareholders	\$ 796	\$ 853
Weighted average shares	23,490,592	23,490,592
Basic earnings per share	\$ 0.03	\$ 0.04
Diluted earnings per share	\$ 0.03	\$ 0.04

The 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.

Notes to The Condensed Interim Consolidated Financial Statements
The Periods Ended March 31, 2014 and 2013
(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)

12. 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 negotiated contribution 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 also affect other industry groups and are currently being negotiated by the relevant parties. 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, pensioners, vested deferred members if, in the 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, pensioners, vested deferred members is estimated to be approximately \$28,000 or 15.5% of the total plan solvency deficiency as of December 31, 2013. Currently, there is uncertainty and a lack of complete information to support the allocation of assets and liabilities used to determine this estimate.

13. EMPLOYEE BENEFIT PLANSPension expense

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

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
	\$	\$
Net cost recognized in general and administration expenses	73	73
Interest costs in finance expense	48	163
Defined benefit plans	121	236
Defined contribution plan	477	514
Defined benefit multi-employer plan	172	176

Notes to The Condensed Interim Consolidated Financial Statements
The Periods Ended March 31, 2014 and 2013
(in thousands of Canadian dollars, except number of shares and per share amounts, unaudited)

Other post-employment benefit plan expense

DATA Group's other post-employment benefit plan expense is as follows:

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
	\$	\$
Net cost recognized in general and administration expenses	60	39
Interest costs in finance expense	34	31
Other post-employment benefit plans	94	70

14. INCOME TAXES

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax assets and liabilities have been measured using an expected average combined statutory income tax rate of 26.16% (2013 – 26.55%) based on the tax rates in years when the temporary differences are expected to reverse. Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As at March 31, 2014, DATA Group has non-capital loss carry-forwards of \$7,933 (2012 – \$8,765) primarily due to tax deductions for interest on DATA Group's convertible debentures. The non-capital loss carry-forwards expire in varying amounts from 2030 to 2034.

	March 31, 2014	December 31, 2013
	\$	\$
Reflected in the consolidated statement of financial position as follows:		
Deferred tax assets	2,023	1,687

15. 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 and the results of this operation are included in the DATA East and West segment.

Notes to The Condensed Interim Consolidated Financial Statements
The Periods Ended March 31, 2014 and 2013
(in thousands of Canadian dollars, except number of share and per share amounts, unaudited)

For the three months ended March 31, 2014

	DATA East and West	Multiple Pakfold	Intersegment	Total
	\$	\$	\$	\$
Revenues	74,550	3,649	(296)	77,903
Gross profit	18,155	648	-	18,803
Income before under noted items	5,771	161	-	5,932
Restructuring expenses				865
Unallocated corporate expenses				2,288
Income before finance costs and income taxes				2,779
Finance costs				1,683
Deferred income tax expense				300
Net income for the period				796

For the three months ended March 31, 2013

	DATA East and West	Multiple Pakfold	Intersegment	Total
	\$	\$	\$	\$
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

Also included in total revenues are warehousing revenues of approximately 7% (2013 – 7%) of total revenues for the three months ended March 31, 2014, and were included in the DATA East and West segment.

16. SUBSEQUENT EVENT

On May 14, 2014, DATA Group announced a Normal Course Issuer Bid, which will begin on May 15, 2014 and terminate on May 14, 2015, to purchase up to \$4,476 aggregate principal amount of its 6.00% Convertible Debentures for cancellation.



CORPORATE INFORMATION

Directors and Officers

Derek Ridout²
Chairman, Director

Ronald A. Fotheringham^{1,2}
Director

John H. Greenhough^{1,3}
Director

Thomas R. Spencer^{1,2,3}
Director

William Albino^{1,3}
Director

Michael Suksi
Director and Officer
President and Chief Executive Officer

Paul O'Shea
Officer
Chief Financial Officer and
Corporate Secretary

¹ Member, Audit Committee
(Chairperson is Thomas R. Spencer)

² Member, Compensation
Committee (Chairperson is
Ronald A. Fotheringham)

³ Member, Corporate Governance
Committee (Chairperson is
John H. Greenhough)

Executive Team

Michael Suksi
President and Chief Executive Officer

Paul O'Shea
Chief Financial Officer

Judy Holcomb-Williams
Vice-President
Human Resources

Rick Barron
Vice-President, Sales and Marketing,
Western Canada

Steve Wittal
Vice-President, Sales and Marketing,
Eastern Canada

Diane Schwind
Vice-President, Operations,
Eastern Canada and
Multiple Pakfold

Alan Roberts
Vice-President, Operations
– On Demand Services,
FSA and Western Canada

Ian Halliday
Vice-President, Document Process
Management

Paul Dunkerley
Vice-President
Digital Marcom Services

Corporate Information

Auditors
PricewaterhouseCoopers LLP

Transfer Agent
Computershare Investor Services Inc.

Corporate Counsel
McCarthy Tétrault LLP

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