SECOND QUARTER REPORT

For the period ended June 30, 2019

DCM | THE BRAND BEHIND YOUR BRAND

Letter to shareholders

Dear Fellow Shareholders,

The following provides an overview of:

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

Second Quarter 2019 and First Half 2019 Financial Results

Revenues for the quarter were $69.6 million compared to $78.2 million in the second quarter of 2018, a decrease of $8.6 million or 10.9%. This year over year decrease was primarily attributed to a production shortfall which occurred in June directly related to the launch of our new enterprise resource planning (ERP) system. We also experienced lower revenues from two core customers, which were primarily related to timing issues. In aggregate, the quarter was negatively impacted by more than $6 million due to challenges related to our ERP launch.

Adjusted EBITDA was $4.4 million in the second quarter of 2019, or 6.4% of revenues after adjusting for the impact of adopting IFRS 16, which became effective in the first quarter of 2019. This compares to $4.1 million in the second quarter of 2018, representing a $0.3 million or 8.5% increase compared to last year. Before adjusting for the adoption of IFRS 16, adjusted EBITDA was $1.7 million or 2.4% of revenues for the quarter ended June 30, 2019. This decrease is primarily due to the production disruption we experienced with the launch of our new ERP system, in addition to some delay in the timing of work for certain customers.

For the first six months of 2019, revenues were $148.2 million compared to $166.7 million in the first half of 2018, a decrease of $18.5 million or 11.1%. Adjusted EBITDA was $12.3 million, or 8.3% of revenues after adjusting for the impact of adopting IFRS 16. This compares to $10.4 million in the first half of 2018, representing an increase of $1.9 million or 17.8%. Before adjusting for the adoption of IFRS 16, Adjusted EBITDA was $7.0 million for the first half of 2019.

Second Quarter Initiatives and Drivers

As Winston Churchill said, “When you’re going through hell, keep going!” Your company’s second quarter was a challenging one as we march towards the transformation of a print/production business to a more agile marketing & business services enterprise.

Enterprise Resource Planning (ERP)
On June 3, 2019, we launched our new ERP system across our core DCM business. Taking 60 years of disparate systems and customized processes and procedures, many distinct to each of our key production facilities in our core business, and unifying those into one harmonized platform with integrated financial and production reporting and workstreams has been daunting, but necessary. In our first month, we experienced operational challenges which led to a drop in production levels and shipments as we migrated almost 100,000 unique production and inventory items for our customers.

As I write, we are into our tenth week; we have weathered the start-up phase of the system at all of our core DCM facilities. The system and reporting work well; our main focus now is cleaning up a back log of orders and billings which were to occur in June and early July however will be deferred into August and September. We believe our open order production backlog was more than $6 million higher than normal at the end of July, which we have been working to clear up beginning in July and, throughout August and September. We expect production revenues and billings to return to normalized levels in the third quarter of 2019 and to also realize our June shortfall in this period.

Perennial Joint Venture with Aphria
In June, we mutually agreed to terminate our joint venture (J.V.) initiative with Aphria. Both parties determined we had taken the relationship to a point where further progress would be dependent on government legislation and regulatory approvals. Given we both had more pressing priorities in the near term, we wound up the J.V. on very good terms. Our net financial investment in the J.V. was nominal. Aphria continues to be a significant client as it pertains to our labels and packaging solutions.

Operations
Our continued thrust is twofold:

- Sustainable revenue with our core customer base
- Improving our gross margins through efficiencies and cost controls

During the second quarter, our top ten customers, who represented approximately 40% of our core revenue in the quarter, reported revenue more than 5% above plan, despite some timing issues offsetting that growth. Part of this performance is our focus on providing additional marketing and business services to customers. This is a critical pivot as we see the traditional print/production needs of our clients continue with secular declines.

On efficiencies and cost controls, we brought on a seasoned procurement services professional who recently led the procurement team at a large Canadian financial services company. He is making significant improvements in the way we deal with our core suppliers and the processes and routines we follow. We expect to see at least $2.5 to $3.5 million of annualized savings, together with improved purchasing processes, from his team's activities.

We also initiated a series of operations team staff reductions across our organization during the second quarter of 2019. We expect to see an annualized savings of approximately $2.8 million related to these changes. We expect additional operational savings once our ERP system is fully functional.

We continue to critically review each part of our business as it pertains to our target of being the premier marketing and business services company serving major organizations in North America.

Selling General & Administrative Expenses (SG&A)
Our focus on reducing SG&A as a percent of total revenues accelerated in the second quarter of 2019. During the quarter, we also reduced our SG&A headcount. We expect to realize annualized savings related to this headcount reduction of approximately $2.0 million on an annualized basis going forward.

Between our operational and SG&A headcount reductions, we reduced headcount by 75 individuals, and incurred total restructuring expenses in the quarter of $3.2 million. We expect these changes to help strengthen our margins in the second half of 2019. We continue to evaluate our business for further efficiencies, and therefore other areas of cost savings. Further, following our ERP completion, we expect to realize annualized cost savings in improved processes and lower overhead in the range of $3 to $4 million per year.

Corporate Initiatives
During the quarter, we sold our loose-leaf binders and index tab business to Southwest for cash proceeds of $0.7 million. The proceeds were used for general working capital requirements. We also entered into a long-term supply agreement with Southwest as a preferred vendor to DCM for the supply of binders, index tabs and related products.

Your senior leadership team believes share ownership promotes a different mind-set and supports our cultural initiatives to define responsibility and accountability across the entire organization.

During the second quarter, DCM launched an employee share ownership plan (ESOP) to all our employees (both unionized and non-union employees), across all our divisions. To date, we have over 100 employees participating in the plan through regular payroll deductions. We will continue to provide information forums and seminars to include more employees in the program.

During the second quarter, your senior leadership group was actively investing in your company's common shares. In fact, more than 235,000 shares were purchased by our senior executives and directors during this period alone. Insider reporting details can be found on www.SEDI.ca.

Management Outlook for the Near Term

To reiterate my first quarter letter to shareholders, we are focused on five business priorities:

1. **Focus on Core Customers** - Revenue from our core customers is showing promising expansion into more diversified products and services, including a number of wins related to our Perennial team's contributions
2. **Continue to Improve Gross Margin** - Year to date gross margin is 24.6% of revenues, vs. 24.0% one year ago, despite the unusually weak second quarter we experienced this year
3. **Reduce our SG&A** - While SG&A is in line year to date at 22.1% of revenues, total SG&A is $2.7 million lower compared to the first six months last year
4. **Pay Down Debt** - Year to date in 2019, we've repaid $6.7 million of fixed-term debt, including $3.9 million of promissory notes related to our four recent acquisitions and debt repayment remains a focus despite short term working capital constraints caused primarily by our ERP launch
5. **Strategic Investments in Technology** - Two new high-speed presses are fully operational; we are enhancing capabilities for our DATA Online customer-facing technology platform

We will continue our focus on these priorities.

As I have said before, your management and directors comprise a significant group of shareholders. We continue to invest in our company; we believe we can add significant value to our clients and to our shareholders.

I thank you for your continued support.

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

Yours truly,

Gregory J. Cochrane

Chief Executive Officer

DATA Communications Management Corp.

August 2019

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

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

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

Basis of presentation

DCM prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial reports, including International Accounting Standard ("IAS") 34 "*Interim Financial Reporting"*. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in DCM's consolidated financial statements for the year ended December 31, 2018, except for certain new accounting pronouncements which have been adopted by DCM on January 1, 2019 and disclosed in note 3. Where applicable, DCM has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ending December 31, 2019, as issued and outstanding as of August 14, 2019, the date the Board of Directors ("Board") approved these financial statements.

Forward-looking statements

Certain statements in this MD&A constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of DCM, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward-looking statements. When used in this MD&A, words such as "may", "would", "could", "will", "expect", "anticipate", "estimate", "believe", "intend", "plan", and other similar expressions are intended to identify forward-looking statements. These statements reflect DCM's current views regarding future events and operating performance, are based on information currently available to DCM, and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks, uncertainties and assumptions and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Many factors could cause the actual results, performance, objectives or achievements of DCM to be

materially different from any future results, performance, objectives or achievements that may be expressed or implied by such forward-looking statements. The principal factors, assumptions and risks that DCM made or took into account in the preparation of these forward-looking statements include: the limited growth in the traditional printing industry and the potential for further declines in sales of DCM's printed business documents relative to historical sales levels for those products; the risk that changes in the mix of products and services sold by DCM will adversely affect DCM's financial results; the risk that DCM may not be successful in reducing the size of its legacy print business, realizing the benefits expected from restructuring and business reorganization initiatives, reducing costs, reducing and repaying its long term debt, and growing its digital and marketing communications businesses; the risk that DCM may not be successful in managing its organic growth; DCM's ability to invest in, develop and successfully market new digital and other products and services; competition from competitors supplying similar products and services, some of whom have greater economic resources than DCM and are well-established suppliers; DCM's ability to grow its sales or even maintain historical levels of its sales of printed business documents; the impact of economic conditions on DCM's businesses; risks associated with acquisitions and/or investments in joint ventures by DCM; the failure to realize the expected benefits from the acquisitions of Thistle Printing, Eclipse Colour & Imaging, BOLDER Graphics and Perennial Group of Companies and risks associated with the integration and growth of such businesses; increases in the costs of paper and other raw materials used by DCM; DCM's ability to maintain relationships with its customers; risks relating to future legislative and regulatory developments and other business risks involving the wellness, medical and adult-use marijuana markets in Canada and internationally generally; DCM's new enterprise resource planning ("ERP") system may fail to perform as planned and interrupt operational transactions during and following the implementation, which could materially and adversely affect DCM's liquidity and operations and results of operations; and risks relating to DCM's ability to access sufficient capital on favourable terms to fund its business plans from internal and external sources.

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

Non-IFRS measures

This MD&A includes certain non-IFRS measures as supplementary information. Except as otherwise noted, when used in this MD&A, EBITDA means earnings before interest and finance costs, taxes, depreciation and amortization and Adjusted EBITDA means EBITDA adjusted for restructuring expenses, one-time business reorganization costs, goodwill impairment charges, and acquisition costs. Adjusted net income (loss) means net income (loss) adjusted for restructuring expenses, one-time business reorganization costs, goodwill impairment charges, acquisition costs and the tax effects of those items. Adjusted net income (loss) per share (basic and diluted) is calculated by dividing Adjusted net income (loss) for the period by the weighted average number of common shares of DCM (basic and diluted) outstanding during the period. In addition to net income (loss), DCM uses non-IFRS measures including Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA to provide investors with supplemental measures of DCM's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying

solely on IFRS financial measures. DCM also believes that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. DCM's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet future debt service, capital expenditure and working capital requirements. Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA are not earnings measures recognized by IFRS and do not have any standardized meanings prescribed by IFRS. Therefore, Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA are unlikely to be comparable to similar measures presented by other issuers.

Investors are cautioned that Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA should not be construed as alternatives to net income (loss) determined in accordance with IFRS as an indicator of DCM's performance. For a reconciliation of net income (loss) to EBITDA and a reconciliation of net income (loss) to Adjusted EBITDA, see Table 6 and Table 7 below. For a reconciliation of net income (loss) to Adjusted net income (loss) and a presentation of Adjusted net income (loss) per share, see Table 8 and Table 9 below.

Business of DCM

OVERVIEW

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

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

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

On May 8, 2018, DCM acquired 100% of the outstanding common shares of Perennial Group of Companies Inc., Perennial Inc. and The Finished Line Studios Inc. (collectively, "Perennial Group"). On closing, Perennial Group was amalgamated

as Perennial Inc. (“Perennial”). Perennial’s suite of services includes business and brand strategy, consumer insights, environmental and graphic design, and communications and retail operations design and strategy.

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

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

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

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

RECENT DEVELOPMENTS

LAUNCH OF NEW ERP SYSTEM

On June 3, 2019, DCM launched its new ERP system across its core DCM business, excluding Eclipse, Thistle and Perennial. DCM experienced numerous operational challenges in connection with the implementation of the ERP system, which led to a decline in production levels (and, as a result, lower revenue recognized during the month) and shipments, and negatively impacted the processing of accurate and timely billings to customers. DCM believes that it has addressed the material challenges encountered with the launch of the ERP system. However, the temporary lag in the issuance of invoices resulted in what management believes will be short term constraints on DCM’s working capital and financial liquidity. These challenges also required DCM to obtain from its senior lenders a number of waivers, amendments and related consents under the terms of its existing credit facilities.

Having worked through the initial launch period challenges, management’s focus is on cleaning up a back log of orders and billings which were to occur in June. DCM's open order production backlog was approximately $6 million higher than normal at the end of July. DCM expects to process this backlog in August and September. Production revenues, billings and working capital are expected to return to normalized levels in the third quarter of 2019.

AMENDMENT TO FPD A&R CREDIT FACILITIES

On July 25, 2019, Fiera Private Debt Fund III L.P ("FPD III"), Fiera Private Debt Fund IV L.P ("FPD IV") and Fiera Private Debt Fund V L.P ("FPD V") agreed to amend the credit agreements between DCM and FPD III, FPD IV and FPD V

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

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

In addition, DCM is also required to secure additional financial support from its bank lender (the "Bank"), Crown Capital LP Partner Funding Inc. ("Crown") and/or related parties of at least $7 million (see “Amendment to Bank A&R Credit Facility”, “Related Party Promissory Notes” and “Amendment to Crown Facility” below for further details) on or before August 16, 2019.

AMENDMENT TO BANK A&R CREDIT FACILITY

On July 31, 2019, DCM entered into a third amendment to increase the revolving commitment on its revolving credit facility (the “Bank A&R Credit Facility”) with a Canadian chartered bank from an aggregate outstanding principal amount of up to $35 million to up to $42 million between July 31 and December 31, 2019. In addition, the amendment includes the Bank’s consent to the amendments made to the FPD A&R Credit Facilities on July 25, 2019.

Given the borrowing base under the terms of the Bank A&R Credit Facility did not reach the new maximum limit of $42 million, the shortfall in additional financing required by FPD and the Bank totaling $7 million was secured through new promissory notes issued to certain parties, including related parties of DCM, in conjunction with an increase in the principal amount payable under its existing non-revolving term loan facility with Crown Capital Partner Funding LP (the" Crown Facility") (see “Related Party Promissory Notes” and “Amendment to Crown Facility” below for further details). Under the provisions of the third amendment to the Bank A&R Credit Facility, DCM is only permitted to make regular scheduled payments of interest during the term of the Related Party Promissory Notes and cannot repay any portion of principal prior to the end of the term, and on maturity, without written consent of the Bank.

RELATED PARTY PROMISSORY NOTES

On July 31, 2019, DCM issued promissory notes (the "Related Party Promissory Notes") to certain parties, including related parties of DCM, in the aggregate principal amount of $1.0 million. The Related Party Promissory Notes bear interest at the rate of 10% per annum, payable quarterly on the first business day of each fiscal quarter beginning September 3, 2019, with principal repayable on or before the July 31, 2020 maturity date. The Related Party Promissory Notes are subordinated to DCM's obligations under the Bank A&R Credit Facility, the FPD A&R Credit Facilities and the Crown Facility on the same basis as the parties to the vendor take-back promissory notes issued in connection with

DCM's recent acquisitions (the "VTB Noteholders") as provided for in the amended and restated inter-creditor agreement dated May 7, 2018.

AMENDMENT TO CROWN CREDIT FACILITY

On August 7, 2019, DCM received confirmation from Crown that it intends to provide an increase in the principal amount outstanding on its existing Crown Facility by $7 million. All terms of the incremental funding are consistent with the provisions under the original Crown Facility. As part of this amendment, it is intended that the Related Party Promissory Notes will convert into a facility on substantially the same basis as, and ranking pari passu with, Crown. DCM is currently in the process of finalizing the amendment with Crown and expects to close this amendment and additional funding on or before August 16, 2019.

PIVOT TO MARKETING SERVICES AND RELATED RESTRUCTURING INITIATIVES

Management continues to critically review each part of DCM's business with the objective of becoming a premier marketing and business services company serving major organizations in North America.

During the quarter, DCM sold its loose-leaf binders and index tab business to Southwest Business Products Ltd. ("Southwest") for cash proceeds of $0.6 million. The proceeds were used for general working capital requirements. DCM also entered into a long-term supply agreement with Southwest as a preferred vendor to DCM for the supply of binders, index tabs and related products. This transaction aligns with DCM's strategy to focus on products and solutions that are critical to its top customers, and to source non-core offerings from other leading providers where it makes strategic sense.

As part of DCM's commitment to improving gross margins, and reducing selling, general and administration expenses ("SG&A"), DCM initiated a series of staff reductions across its various production facilities. During the quarter, headcount was reduced by approximately 75 individuals, and total restructuring expenses of $3.2 million were incurred. We expect to see an annualized savings of approximately $4.8 million related to these changes.

Further, in July 2019, DCM incurred additional restructuring costs of approximately $2.1 million in connection with further reductions in labour across its various manufacturing facilities and in SG&A staff and headcount was reduced by approximately another 30 individuals. We expect to see an annualized savings of approximately $2.7 million related to these changes.

In aggregate, approximately $10 million in annualized savings are expected to be realized, of which $7.5 million relates to headcount reductions for restructuring initiatives related to the second quarter and July 2019, and $2.5 million relates to 30 voluntarily vacated positions which will not be replaced. These changes are expected to immediately contribute to stronger margins in the second half of 2019.

Following the completion of DCM's transition to its new ERP system, further annualized cost savings in improved processes and lower overhead are expected in the range of $3 to $4 million.

EMPLOYEE SHARE OWNERSHIP PLAN AND SENIOR EXECUTIVE SHARE PURCHASES

During the second quarter, DCM launched an employee share ownership plan (“ESOP” or the “Plan”), which is available to all full-time employees of the Company and its subsidiaries. To date, more than 100 employees have enrolled in the Plan. Under the Plan, full-time employees of DCM may contribute up to a maximum of ten per cent of their base salary through regular, automatic payroll deductions. For each $1.00 contributed to the ESOP by an employee, DCM makes a matching contribution of $0.25, up to an annual company contribution of $750 per employee per fiscal year. Employee and matching contributions are used to acquire common shares of the Company (“Common Shares”) on behalf of employees through open market purchases through the facilities of the Toronto Stock Exchange (“TSX”). Common Shares will not be issued from treasury under the Plan.

In addition, during the second quarter, senior executives and directors as a group purchased more than 235,000 shares on the TSX. Insider reporting details are available on www.SEDI.ca.

PERENNIAL JOINT VENTURE WITH APHRIA WOUND DOWN

In June 2019, it was mutually agreed to terminate the joint venture initiative between Perennial and Aphria. Both parties determined the relationship had developed to a point where further progress would be dependent on government legislation and regulatory approvals. Given both parties had more pressing priorities in the near term, the JV was wound up on positive terms. DCM’s net financial investment in the JV was nominal. Aphria continues to be a significant client of DCM as it pertains to our labels and packaging solutions.

COST OF REVENUES AND OTHER EXPENSES

DCM’s cost of revenues primarily consists of raw materials, manufacturing salaries and benefits, occupancy costs, depreciation of owned equipment, and depreciation of the right-of-use asset ("ROU Asset") for property leases and equipment leases. DCM’s raw material costs consist primarily of paper, carbon and ink. Manufacturing salaries and benefits costs primarily consist of employee salaries and health benefits at DCM’s printing and warehousing facilities. Occupancy costs consist primarily of depreciation of the ROU Asset for property leases, and costs related to utilities, insurance and building maintenance. DCM’s expenses consist of selling, depreciation and amortization, and general and administration expenses. Selling expenses consist primarily of employee salaries, health benefits and commissions, and include related costs for travel, corporate communications, trade shows, and marketing programs. Depreciation and amortization represent the allocation to income of the cost of property, plant and equipment, the ROU Asset, and intangible assets over their estimated useful lives. General and administration expenses consist primarily of employee salaries, health benefits, and other personnel related expenses for executive, financial and administrative personnel, as well as depreciation of the ROU Asset for property leases, telecommunications, pension plan expenses and professional service fees.

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

Selected Consolidated Financial Information

The following tables set out the summary consolidated financial information and supplemental information for the periods indicated. The summary interim and financial information for fiscal 2019 and 2018 have been derived from consolidated

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

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

For the periods ended June 30, 2019 and 2018 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*	**January 1 to June 30, 2019**			January 1 to June 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Revenues	**$ 148,172**	**$ —**	**$ 148,172**	$ 166,692
Cost of revenues	**112,619**	**(930)**	**111,689**	126,628
Gross profit	**35,553**	**930**	**36,483**	40,064
Selling, general and administrative expenses	**32,821**	**(133)**	**32,688**	35,422
Restructuring expenses	**4,871**	**—**	**4,871**	800
Acquisition costs	**—**	**—**	**—**	313
	37,692	**(133)**	**37,559**	36,535
(Loss) income before finance costs and income taxes	**(2,139)**	**1,063**	**(1,076)**	3,529
Finance costs	—			
Interest expense, net	**2,404**	**1,803**	**4,207**	2,408
Amortization of transaction costs	**223**	**—**	**223**	301
	2,627	**1,803**	**4,430**	2,709
(Loss) income before income taxes	**(4,766)**	**(740)**	**(5,506)**	820
Income tax (recovery) expense				
Current	**(474)**	**—**	**(474)**	555
Deferred	**(955)**	**—**	**(955)**	(304)
	(1,429)	**—**	**(1,429)**	251
Net (loss) income for the period	**$ (3,337)**	**$ (740)**	**$ (4,077)**	$ 569
Basic (loss) earnings per share	**$ (0.16)**	**$ (0.03)**	**$ (0.19)**	$ 0.03
Diluted (loss) earnings per share	**$ (0.16)**	**$ (0.03)**	**$ (0.19)**	$ 0.03
Weighted average number of common shares outstanding, basic	**21,523,515**	**21,523,515**	**21,523,515**	20,456,993

The adoption of IFRS 16 resulted in a lower net income by $0.7 million for the six months ended June 30, 2019 versus on a pre IFRS 16 basis. Lease payments were previously expensed directly through the statement of operations as cost of sales or SG&A expenses for a total of $5.3 million. Under IFRS 16, (i) the $5.3 million lease payments are recognized

as a reduction of lease liabilities in the condensed interim consolidated statement of financial position and are presented as finance lease payments on the condensed interim consolidated statement of cash flow, (ii) which offsets the depreciation expense of the ROU Asset recognized in cost of sales and SG&A for an aggregate amount of $4.2 million for a net operating income effect of $1.1 million, and (iii) finance charges on the lease liability were recognized as interest expense of $1.8 million.

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

For the periods ended June 30, 2019 and 2018 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*	**April 1 to June 30, 2019**			April 1 to June 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Revenues	**$ 69,623**	**$ —**	**$ 69,623**	$ 78,176
Cost of revenues	**54,421**	**(519)**	**53,902**	59,587
Gross profit	**15,202**	**519**	**15,721**	18,589
Selling, general and administrative expenses	**15,604**	**(74)**	**15,530**	17,750
Restructuring expenses	**3,189**	**—**	**3,189**	736
Acquisition costs	**—**	**—**	**—**	270
	18,793	**(74)**	**18,719**	18,756
Loss before finance costs and income taxes	**(3,591)**	**593**	**(2,998)**	(167)
Finance costs	**—**			
Interest expense, net	**1,155**	**920**	**2,075**	1,271
Amortization of transaction costs	**86**	**—**	**86**	158
	1,241	**920**	**2,161**	1,429
Loss before income taxes	**(4,832)**	**(327)**	**(5,159)**	(1,596)
Income tax (recovery) expense				
Current	**(506)**	**—**	**(506)**	(288)
Deferred	**(899)**	**—**	**(899)**	(114)
	(1,405)	**—**	**(1,405)**	(402)
Net loss for the period	**$ (3,427)**	**$ (327)**	**$ (3,754)**	$ (1,194)
Basic loss per share	**$ (0.16)**	**$ (0.02)**	**$ (0.17)**	(0.06)
Diluted loss per share	**$ (0.16)**	**$ (0.02)**	**$ (0.17)**	(0.06)
Weighted average number of common shares outstanding, basic	**21,523,515**	**21,523,515**	**21,523,515**	20,870,234
Weighted average number of common shares outstanding, diluted	**21,523,515**	**21,523,515**	**21,523,515**	20,870,234

The adoption of IFRS 16 resulted in a lower net income by $0.3 million for the three months ended June 30, 2019 versus on a pre IFRS 16 basis. Lease payments were previously expensed directly through the statement of operations as cost

of sales or SG&A expenses for a total of $2.7 million. Under IFRS 16, (i) the $2.7 million lease payments are recognized as a reduction of lease liabilities in the condensed interim consolidated statement of financial position and are presented as finance lease payments on the condensed interim consolidated statement of cash flow, (ii) which offsets the depreciation expense of the ROU Asset recognized in cost of sales and SG&A for an aggregate amount of $2.2 million for a net operating loss effect of $0.6 million, and (iii) finance charges on the lease liability were recognized as interest expense of $0.9 million.

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

As at June 30, 2019 and December 31, 2018 *(in thousands of Canadian dollars, unaudited)*	**As at June 30, 2019**			As at December 31, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Current assets	**$ 81,446**	**$ (235)**	**$ 81,211**	$ 85,455
Current liabilities	**63,041**	**7,770**	**70,811**	64,716
Total assets	**137,583**	**61,018**	**198,601**	142,231
Total non-current liabilities	**70,675**	**54,072**	**124,747**	70,003
Shareholders' equity	**$ 3,782**	**$ (739)**	**$ 3,043**	$ 7,512

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

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

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

For the periods ended June 30, 2019 and 2018 *(in thousands of Canadian dollars, except percentage amounts, unaudited)*	**January 1 to June 30, 2019**			January 1 to June 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Revenues	**$ 148,172**	**$ —**	**$ 148,172**	$ 166,692
Gross profit	**$ 35,553**	**$ 930**	**$ 36,483**	$ 40,064
Gross profit, as a percentage of revenues	**24.0%**		**24.6%**	24.0%
Selling, general and administrative expenses	**$ 32,821**	**$ (133)**	**$ 32,688**	$ 35,422
As a percentage of revenues	**22.2%**		**22.1%**	21.2%
Adjusted EBITDA (see Table 6)	**$ 6,998**	**$ 5,297**	**$ 12,295**	$ 10,438
As a percentage of revenues	**4.7%**		**8.3%**	6.3%
Net (loss) income for the period	**$ (3,337)**	**$ (740)**	**$ (4,077)**	$ 569
Adjusted net income (see Table 8)	**$ 907**	**$ (740)**	**$ 167**	$ 2,340
As a percentage of revenues	**0.6%**		**0.1%**	1.4%

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

For the periods ended June 30, 2019 and 2018 *(in thousands of Canadian dollars, except percentage amounts, unaudited)*	**April 1 to June 30, 2019**			April 1 to June 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Revenues	**$ 69,623**	**$ —**	**$ 69,623**	$ 78,176
Gross profit	**$ 15,202**	**$ 519**	**$ 15,721**	$ 18,589
Gross profit, as a percentage of revenues	**21.8%**		**22.6%**	23.8%
Selling, general and administrative expenses	**$ 15,604**	**$ (74)**	**$ 15,530**	$ 17,750
As a percentage of revenues	**22.4%**		**22.3%**	22.7%
Adjusted EBITDA (see Table 7)	**$ 1,686**	**$ 2,750**	**$ 4,436**	$ 4,086
As a percentage of revenues	**2.4%**		**6.4%**	5.2%
Net loss for the period	**$ (3,427)**	**$ (327)**	**$ (3,754)**	$ (1,194)
Adjusted net (loss) income (see Table 9)	**$ (730)**	**$ (327)**	**$ (1,057)**	$ 241
As a percentage of revenues	**-1.0%**		**-1.5%**	0.3%

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

EBITDA and Adjusted EBITDA reconciliation

For the periods ended June 30, 2019 and 2018 *(in thousands of Canadian dollars, unaudited)*	**January 1 to June 30, 2019**			January 1 to June 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Net (loss) income for the period [1]	**$ (3,337)**	**$ (740)**	**$ (4,077)**	$ 569
Interest expense, net [1]	**2,404**	**1,803**	**4,207**	2,408
Amortization of transaction costs	**223**	**—**	**223**	301
Current income tax (recovery) expense	**(474)**	**—**	**(474)**	555
Deferred income tax recovery	**(955)**	**—**	**(955)**	(304)
Depreciation of property, plant and equipment	**2,150**	**—**	**2,150**	2,324
Amortization of intangible assets	**1,244**	**—**	**1,244**	2,301
Depreciation of the ROU Asset [1]	**—**	**4,234**	**4,234**	—
EBITDA	**$ 1,255**	**$ 5,297**	**$ 6,552**	$ 8,154
Restructuring expenses	**4,871**	**—**	**4,871**	800
One-time business reorganization costs [2]	**872**	**—**	**872**	1,171
Acquisition costs	—	—	**—**	313
Adjusted EBITDA	**$ 6,998**	**$ 5,297**	**$ 12,295**	$ 10,438

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

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

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

EBITDA and Adjusted EBITDA reconciliation

For the periods ended June 30, 2019 and 2018 *(in thousands of Canadian dollars, unaudited)*	**April 1 to June 30, 2019**			April 1 to June 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Net loss for the period [1]	**$ (3,427)**	**$ (327)**	**$ (3,754)**	$ (1,194)
Interest expense, net [1]	**1,155**	**920**	**2,075**	1,271
Amortization of transaction costs	**86**	**—**	**86**	158
Current income tax recovery	**(506)**	**—**	**(506)**	(288)
Deferred income tax recovery	**(899)**	**—**	**(899)**	(114)
Depreciation of property, plant and equipment	**1,031**	**—**	**1,031**	1,176
Amortization of intangible assets	**597**	**—**	**597**	1,232
Depreciation of the ROU Asset [1]	**—**	**2,157**	**2,157**	—
EBITDA	**$ (1,963)**	**$ 2,750**	**$ 787**	$ 2,241
Restructuring expenses	**3,189**	**—**	**3,189**	736
One-time business reorganization costs [2]	**460**	**—**	**460**	839
Acquisition costs	—	—	—	270
Adjusted EBITDA	**$ 1,686**	**$ 2,750**	**$ 4,436**	$ 4,086

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

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

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

Adjusted net (loss) income reconciliation

For the periods ended June 30, 2019 and 2018 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*	**January 1 to June 30, 2019**			January 1 to June 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Net (loss) income for the period [1]	**$ (3,337)**	**$ (740)**	**$ (4,077)**	$ 569
Restructuring expenses	**4,871**	**—**	**4,871**	800
One-time business reorganization costs [2]	**872**	**—**	**872**	1,171
Acquisition costs	**—**	**—**	—	313
Tax effect of the above adjustments	**(1,499)**	**—**	**(1,499)**	(513)
Adjusted net income	**$ 907**	**$ (740)**	**$ 167**	$ 2,340
Adjusted net income per share, basic and diluted	**$ 0.04**	**$ (0.03)**	**$ 0.01**	$ 0.11
Weighted average number of common shares outstanding, basic and diluted	**21,523,515**	**21,523,515**	**21,523,515**	20,456,993
Weighted average number of common shares outstanding, diluted	**21,523,515**	**21,523,515**	**21,523,515**	20,495,793
Number of common shares outstanding, basic and diluted	**21,523,515**	**21,523,515**	**21,523,515**	21,523,515
Number of common shares outstanding, basic and diluted	**21,523,515**	**21,523,515**	**21,523,515**	20,456,993

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

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

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

Adjusted net (loss) income reconciliation

For the periods ended June 30, 2019 and 2018 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*	**April 1 to June 30, 2019**			April 1 to June 30, 2018
	Proforma without IFRS 16 adjustment	**IFRS 16 adjustments**	**As reported**	As reported
Net loss for the period [1]	**$ (3,427)**	**$ (327)**	**$ (3,754)**	$ (1,194)
Restructuring expenses	**3,189**	**—**	**3,189**	736
One-time business reorganization costs [2]	**460**	**—**	**460**	839
Acquisition costs	**—**	**—**	**—**	270
Tax effect of the above adjustments	**(952)**	**—**	**(952)**	(410)
Adjusted net (loss) income	**$ (730)**	**$ (327)**	**$ (1,057)**	$ 241
Adjusted net income per share, basic and diluted	**$ (0.03)**	**$ (0.02)**	**$ (0.05)**	$ 0.01
Weighted average number of common shares outstanding, basic and diluted	**21,523,515**	**21,523,515**	**21,523,515**	20,870,234
Weighted average number of common shares outstanding, diluted	**21,523,515**	**21,523,515**	**21,523,515**	21,742,477
Number of common shares outstanding, basic and diluted	**21,523,515**	**21,523,515**	**21,523,515**	21,523,515
Number of common shares outstanding, basic and diluted	**21,523,515**	**21,523,515**	**21,523,515**	22,395,758

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

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

Results of operations

REVENUES

For the three months ended June 30, 2019, DCM recorded revenues of $69.6 million, a decrease of $8.6 million or 10.9% compared with the same period in 2018. The decrease in revenues for the three months ended June 30, 2019 was primarily due to the following: (i) a disruption of production and shipments to customers caused by DCM's transition to a new ERP system in June 2019 of approximately $6 million (ii) a reduction in spend by certain retailers to better manage their inventory levels and/or move to other solutions not offered by DCM of $1.9 million (iii) deferral of work for certain other customers who procure a limited product offering from DCM of $0.5 million (iv) the loss of a lower margin, limited product line customer which was expected of $2.7 million and (iv) deferral of certain direct marketing campaigns until later in the year. Sales from DCM's larger financial institutions customers continue to be strong, and in particular, are notably higher for one of DCM's larger wins which was onboarded in late 2017 and has progressively increased in sales since that time as DCM continues to expand its portfolio of products and services to this customer. In addition, DCM benefited from the onboarding of its new offering to a large provincial healthcare services customer which began to ramp up in the second quarter for $1.4 million and is expected to contribute to continued sales growth over the multi-year term of the agreement. New wins were mitigated by lower than expected growth in the Cannabis sector given delays in regulatory approvals pertaining to retail launches, and related regulatory matters specific to this industry.

For the six months ended June 30, 2019, DCM recorded revenues of $148.2 million, a decrease of $18.5 million or 11.1% compared with the same period in 2018. In the first quarter of 2019, we experienced a planned reduction in the scope of work versus the prior year by approximately $4.9 million for a specific customer, which was a one-time non-recurring win in 2018. We are pleased to announce that we recently negotiated an extension to the term of our agreement with this long-standing customer. The remaining decrease in revenue year over year is attributable to similar reasons noted above for an aggregate amount of $9.2 million for the three months ended June 30, 2019, and an additional $4 million due to softness in spend and deferral of work from certain customers. This was partially offset by new sales from customers in the Cannabis sector of $3.5 million, increased wallet share from certain customers, including a large customer in the financial services industry which DCM won late 2017, other new client wins, and a full six months of revenue from Perennial this year given it was acquired in May 2018 resulting in an additional $1.4 million.

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

COST OF REVENUES AND GROSS PROFIT

For the three months ended June 30, 2019, cost of revenues decreased to $53.9 million from $59.6 million for the same period in 2018, resulting in a $5.7 million or 9.5% decrease over the same period last year. Excluding the effects of adopting IFRS 16, cost of revenues decreased by $5.2 million or 8.7% relative to the same period last year.

Gross profit for the three months ended June 30, 2019 was $15.7 million, which represented a decrease of $2.9 million or 15.4% from $18.6 million for the same period in 2018. Excluding the effects of adopting IFRS 16, gross profit decreased by $3.4 million or 18.2% relative to the same period last year. Gross profit as a percentage of revenues decreased to

22.6% for the three months ended June 30, 2019 compared to 23.8% for the same period in 2018, however, excluding the effects of adopting IFRS 16, gross profit as a percentage of revenues was 21.8% for the three months ended June 30, 2019. The decrease in gross profit as a percentage of revenues for the three months ended June 30, 2019 was primarily due to (i) production inefficiencies caused by disruptions in operational activity due to DCM's transition to a new ERP system in June 2019, (ii) softness in sales thereby resulting in weaker absorption of fixed overhead costs (iii) changes in product mix, and (iv) impact of paper and other raw material price increases leading to somewhat compressed margins on contracts with certain customers. Gross profit as a percentage of revenues was, however, positively impacted due to continued discipline to improve pricing with customers, cost reductions realized from ongoing cost savings initiatives implemented in 2019 and the last quarter of 2018, and higher margins attributed to the acquisition of Perennial which was partially reflected in the comparative period as the acquisition was completed in May 2018.

For the six months ended June 30, 2019, cost of revenues decreased to $111.7 million from $126.6 million for the same period in 2018, resulting in a $14.9 million or 11.8% decrease over the same period last year. Excluding the effects of adopting IFRS 16, cost of revenues decreased by $14.1 million or 11.1% relative to the same period last year.

Gross profit for the six months ended June 30, 2019 was $36.5 million, which represented a decrease of $3.6 million or 8.9% from $40.1 million for the same period in 2018. Gross profit as a percentage of revenues increased to 24.6% for the six months ended June 30, 2019, compared to 24.0% for the same period in 2018. Excluding the effects of adopting IFRS 16, gross profit for the six months ended June 30, 2019 was $35.6 million or 24.0% as a percentage of revenues. Gross profit as a percentage of revenues for the six months ended June 30, 2019 was positively impacted by (i) higher margins attributed to the acquisition of Perennial which was partially reflected in the comparative period as the acquisition was completed in May 2018 (ii) continued improvement in DCM's pricing discipline, (iii) cost reductions realized from ongoing cost savings initiatives implemented in 2019 and the last quarter of 2018, and (iv) improvements in product mix compared to last year. The increase in gross profit as a percentage of revenues was, however, partially offset by the impact of paper and other raw materials price increases leading to somewhat compressed margins on contracts with certain existing customers, and softness in spend by certain high margin customers.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (“SG&A”) expenses for the three months ended June 30, 2019 decreased $2.2 million or 12.5% to $15.5 million, or 22.3% of total revenues, compared to $17.8 million, or 22.7% of total revenues, in the same period in 2018. The decrease in SG&A expenses for the three months ended June 30, 2019 was primarily attributable to (i) lower sales commission costs commensurate with the decrease in revenues, (ii) benefits from the cost saving initiatives implemented in 2019 and the last quarter of 2018, (iii) a reduction of amortization expense of intangible assets that were fully amortized in the fourth quarter of 2018, and (iv) other one-time, non-recurring costs. The decrease was partially offset by an increase in SG&A expenses from the acquisition of Perennial which was partially reflected in the comparative period as the acquisition was completed in May 2018.

SG&A expenses for the six months ended June 30, 2019 decreased $2.7 million or 7.7% to $32.7 million, or 22.1% of total revenues, compared to $35.4 million, or 21.2% of total revenues, for the same period of 2018. After deducting one-time business reorganization costs, SG&A expenses were $31.8 million, or 21.5% of total revenues compared to $34.3

million or 20.5% of revenues in the prior period. The decrease in SG&A expenses for the six months ended June 30, 2019 was primarily attributable to the same reasons noted for the three months ended June 30, 2019.

RESTRUCTURING EXPENSES

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

For the three months ended June 30, 2019, DCM incurred restructuring expenses of $3.2 million compared to $0.7 million in the same period in 2018. The restructuring expenses of $3.2 million during for the three months ended June 30, 2019 related to headcount reductions predominately for direct and indirect labour across DCM's various manufacturing facilities, including those employees impacted by the sale of its loose-leaf binders and index tab business in May 2019, in addition to certain SG&A functions. Improved efficiencies, enhanced gross margins and lower SG&A costs are a high business priority for DCM, as highlighted previously and at the outset of this year. For the quarter ended June 30, 2018, DCM incurred restructuring expenses of $0.7 million which primarily related to headcount reductions across the operational, sales and administration functions of the business.

For the six months ended June 30, 2019, DCM incurred restructuring expenses of $4.9 million compared to $0.8 million in the same period in 2018. In 2019, the restructuring costs related to headcount reductions from (i) the closure of its Brossard, Quebec facility which was announced in March 2019, (ii) the sale of its loose-leaf binders and index tab business in May 2019, (iii) process improvements in manufacturing to improve efficiencies and gross margins, and (iv) process improvements in its SG&A functions to reduce costs and enhance productivity.

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

ADJUSTED EBITDA

For the quarter ended June 30, 2019, Adjusted EBITDA was $4.4 million, or 6.4% of revenues, after adjusting EBITDA for the $3.2 million in restructuring charges and $0.5 million of one-time business reorganization costs. Excluding the effects of adopting IFRS 16, Adjusted EBITDA was $1.7 million or 2.4% of revenues for the quarter ended June 30, 2019 compared with an Adjusted EBITDA of $4.1 million or 5.2% of revenues for the same period last year.

For the six months ended June 30, 2019, Adjusted EBITDA was $12.3 million or 8.3% of revenues, after adjusting EBITDA for the $4.9 million in restructuring charges and $0.9 million of one-time business reorganization costs. Excluding the effects of adopting IFRS 16, Adjusted EBITDA for the six months ended June 30, 2019 was $7.0 million, or 4.7% of revenues compared with an Adjusted EBITDA of $10.4 million or 6.3% of revenues.

The decrease in Adjusted EBITDA, excluding the effect of IFRS 16, for the three and six months ended June 30, 2019 over the prior year comparative periods was attributable to a decrease in revenues, along other fluctuations noted earlier in gross margins and SG&A expenses.

INTEREST EXPENSE

Interest expense including interest on debt outstanding under DCM's credit facilities, interest accretion expense related to certain debt obligations recorded at fair value, and interest expense on lease liabilities under IFRS 16 was $2.1 million for the three months ended June 30, 2019 compared to $1.3 million for the same period in 2018, and was $4.2 million for the six months ended June 30, 2019 compared to $2.4 million for the same period in 2018. Excluding the effects of adopting IFRS 16, interest expense the three months ended June 30, 2019 was $1.2 million and for the six months ended June 30, 2019 was $2.4 million. Interest expense for the three and six months ended June 30, 2019 was relatively consistent with the same period in the prior year excluding IFRS 16. The slight change was primarily due to the Crown facility, secured in 2018 to fund the acquisition of Perennial and to repay the outstanding balance on its subordinated debt facility with Bridging Finance Inc. ("Bridging Credit Facility"), which was partially reflected in the comparative period as the facility was obtained in May 2018. The increase was offset by a reduction in the unwinding of discount which was included in interest expense of the Eclipse and Thistle VTBs that were repaid during the first quarter of 2019.

INCOME TAXES

DCM reported a loss before income taxes of $5.2 million and a net income tax recovery of $1.4 million for the three months ended June 30, 2019 compared to a loss before income taxes of $1.6 million and a net income tax recovery of $0.4 million for the three months ended June 30, 2018. The increase in the net income tax recovery was primarily related to the increase in DCM's estimated taxable loss the three months ended June 30, 2019, adjusted for any changes in estimates of future reversals of temporary differences and new temporary differences.

DCM reported a loss before income taxes of $5.5 million and a net income tax recovery of $1.4 million for the six months ended June 30, 2019 compared to income before income taxes of $0.8 million and a net income tax expense of $0.3 million for the six months ended June 30, 2018. The change from a net income tax expense to a recovery position was due to the reduction of DCM's estimated taxable income to a taxable loss for the six months ended June 30, 2019. The deferred income tax recovery for the six months ended June 30, 2019 was adjusted for any changes in estimates of future reversals of temporary differences.

NET LOSS

Net loss the three months ended June 30, 2019 was $3.8 million compared to net loss of $1.2 million for the same period in 2018. Excluding the effects of adopting IFRS 16, net loss for the three months ended June 30, 2019 was $3.4 million.

Net loss for the six months ended June 30, 2019 was $4.1 million compared to a net income of $0.6 million for the same period in 2018. Excluding the effects of adopting IFRS 16, net loss for the six months ended June 30, 2019 was $3.3 million.

The decrease in comparable profitability for the three and six months ended June 30, 2019 was primarily due to (i) the decrease in revenues and (ii) an increase in restructuring expenses. This was partially offset by improved pricing discipline and cost savings from restructuring efforts carried out in 2019 and the last quarter of 2018, and a reduction in SG&A expenses.

ADJUSTED NET LOSS

Adjusted net loss the three months ended June 30, 2019 was $1.1 million compared to Adjusted net income of $0.2 million for the same period in 2018. Excluding the effects of adopting IFRS 16, Adjusted net loss the three months ended June 30, 2019 was $0.7 million.

Adjusted net loss for the six months ended June 30, 2019 was $0.2 million compared to Adjusted net income of $2.3 million for the same period in 2018. Excluding the effects of adopting IFRS 16, Adjusted net income for the six months ended June 30, 2019 was $0.9 million.

The decrease in comparable profitability for the three and six months ended June 30, 2019 was primarily due to (i) the decrease in revenues and (ii) an increase in restructuring expenses. This was partially offset by improved pricing discipline and cost savings from restructuring efforts carried out in 2019 and the last quarter of 2018, and a reduction in SG&A expenses.

Liquidity and capital resources

LIQUIDITY

CREDIT AGREEMENTS

BANK AND FPD CREDIT FACILITIES

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

Under the terms of the Bank Credit Agreement, the maximum principal amount available under the Bank Credit Facility is $35 million and the Bank Credit Facility matures on January 31, 2023. Advances under the Bank Credit Facility may not, at any time, exceed the lesser of $35 million and a fixed percentage of DCM’s aggregate accounts receivable and inventory (less certain amounts). Advances under the amended Bank Credit Facility are subject to floating interest rates based upon the Canadian prime rate plus an applicable margin of 0.60%. DCM has capitalized transaction costs of $1 million related to the Bank Credit Facility. The unamortized balance of the transaction costs are being amortized over the remaining term of the Bank Credit Facility. As at June 30, 2019, the unamortized transaction costs related to the Bank Credit Facility was $0.4 million. As at June 30, 2019, there were outstanding borrowings of $25.5 million under

the revolving facilities portion of the Bank Credit Facility and letters of credit granted of $0.7 million. As at June 30, 2019, all of DCM's indebtedness outstanding under the Bank Credit Facility was subject to a floating interest rate of 4.55% per annum. As at June 30, 2019, DCM had access to $5.7 million of available credit under the Bank Credit Facility. The bank overdraft of $0.7 million on the statement of condensed interim consolidated financial position as at June 30, 2019 includes outstanding cheques, which when cashed, would be a draw on the Bank Credit Facility.

Under the terms of the FPD Credit Agreements, the maximum aggregate principal amount which may be outstanding under the FPD III Credit Facility, FPD IV Credit Facility, the FPD V Credit Facility, the Bank Credit Facility and Crown Facility (as defined in "Recent Developments"), calculated on a consolidated basis in accordance with generally accepted accounting principles ("Total Funded Debt"), cannot exceed $72 million (after giving effect to the provisions of the inter-creditor agreement described below).

The principal amount of the amended FPD III Credit Facility amortizes in blended equal monthly repayments of principal and interest of $0.1 million over a nine year term ending October 15, 2022. The principal amount of the FPD IV Credit Facility amortizes in blended equal monthly repayments of principal and interest of $0.4 million over a seven year term ending in March 10, 2023. The principal amount of the FPD V Credit Facility amortizes in blended equal monthly repayments of principal and interest of $0.1 million over a sixty six month term ending in May 15, 2023. As at June 30, 2019, all of DCM's indebtedness outstanding under the FPD III Credit Facility was subject to a fixed interest rate equal to 6.10% per annum and all of DCM's indebtedness outstanding under the amended FPD IV Credit Facility and under the FPD V Credit Facility were subject to a fixed interest rate equal to 6.95% per annum, respectively.

As at June 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD III Credit Facility were $22 thousand and $3.5 million, respectively. As at June 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD IV Credit Facility were $0.4 million and $16.7 million, respectively. As at June 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD V Credit Facility were $0.1 million and $3.8 million, respectively. The unamortized balance of the transaction costs for FPD III Credit Facility, FPD IV Credit Facility and the FPD V Credit Facility are being amortized over the remaining term of each respective facility.

CROWN FACILITY

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

The Crown Facility was made available in one advance on the funding date of May 8, 2018 and bears interest at a fixed rate of 10% per annum, payable quarterly, and the principal amount of the loan is due at maturity, which is 60 months from closing. DCM's obligations under the Crown Facility are subordinated to its other senior credit facilities and is secured by a conventional security on all of the assets of DCM and its subsidiaries. In addition, a total of 960,000 warrants have been issued to Crown in connection with the Crown Facility. Each warrant entitles the holder to acquire one DCM common share at an exercise price of $1.75 for a period of five years, commencing on May 8, 2018. The

Crown Facility of $12 million was apportioned to $11.5 million to the debt instrument and $0.5 million to the warrant option based on their relative fair values (note 13). The fair value of the warrant option was then bifurcated and recorded separately within equity while the fair value of the debt host will be accreted from $11.5 million to $12 million over the term of the loan. As at June 30, 2019 the accreted debt instrument was valued at $11.6 million including total accretion expense of $44 thousand.

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

For the six months ended June 30, 2019, DCM capitalized transaction costs of $18 thousand related to the Crown Facility. The unamortized transaction costs and outstanding borrowings related to the Crown Facility were $0.6 million and $11.6 million, respectively and the unamortized balance of the transaction costs is being amortized over the remaining term of this facility.

BANK LEASE FACILITY

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

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

AMENDMENTS TO CREDIT FACILITIES

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

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

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

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

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

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

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

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

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

COVENANT REQUIREMENTS

Each of the Bank Credit Agreement, the FPD Credit Agreements and the Crown Facility contain customary representations and warranties, as well as restrictive covenants which limit the discretion of the Board and management with respect to certain business matters including the declaration or payment of dividends on the common shares of DCM without the consent of the Bank, FPD III, FPD IV, FPD V and Crown, as applicable. Under the terms of the FPD Credit Agreements, DCM has agreed that it will not, without the prior written consent of FPD III, FPD IV and FPD V, change (or permit any change) in its Chief Executive Officer, President or Chief Financial Officer, provided that, if he or she voluntarily resigns as an officer of DCM, or if any such person has either died or is disabled and can therefore no longer carry on his or her duties of such office, DCM will have 60 days to replace such officer, such replacement officer to be satisfactory to FPD III, FPD IV and FPD V, acting reasonably. The A&R Bank Credit Facility, FPD A&R Credit Facilities and the Crown Facility limit spending on capital expenditures by DCM to an aggregate amount not to exceed $5.5 million, $5 million and $5 million, respectively during any fiscal year.

Under the terms of the Bank Credit Agreement, DCM is required to maintain a fixed charge coverage ratio of no less than the following levels: 1:00 to 1 from January 1, 2018 to March 31, 2018 and 1.10 to 1 on and after March 31, 2018, for which an amendment for the months of May, June, July and August 2019 has been obtained (as noted above), calculated on a consolidated basis, in respect of any particular trailing 12 month period, as EBITDA for such period less cash taxes, cash distributions (including dividends paid) and non-financed capital expenditures paid in such period, divided by the total amount required by DCM to service its outstanding debt for such period. Each covenant is calculated and reported on a quarterly basis. As at June 30, 2019, the fixed charge coverage ratio was 1.02. As at June 30, 2019, DCM was in compliance with this covenant and it expects to be compliant with this covenant going forward.

Under the terms of the FPD Credit Agreements, DCM is required to maintain (i) a ratio of Total Funded Debt to EBITDA no greater than the following levels: 3.25 to 1 from January 1, 2018 up to March 31, 2018 and 3.00 to 1 on and after April 1, 2018, for which an amendment for the quarter ended June 30, 2019, and for the quarters ending September 30, 2019 and December 31, 2019 has been obtained (as noted above); (ii) a debt service coverage ratio of not less than 1.50 to 1 and (iii) a working capital current ratio of not less than 1.10 to 1. Each covenant is calculated and reported on a quarterly basis. As of June 30, 2019, the ratio of Total Funded Debt to EBITDA was 3.28, the debt service coverage ratio was 2.05 and the working capital current ratio was 1.29. As at June 30, 2019, DCM was in compliance with these covenants as at June 30, 2019 and it expects to be compliant with these covenants going forward.

In addition, the FPD Credit Agreements permit cash payments in respect to the vendor take-back promissory notes issued in connection with DCM's acquisitions, as well as consulting fees or distributions in cash to shareholders and/or related parties, in an amount equal to the Excess Cash Flow (as defined below), provided that the debt service coverage ratio for the four most recently completed quarters is greater than 2.00 to 1, which was subsequently amended to 1.85 to 1.00 from October 1, 2018 to September 30, 2019, and provided that there is no default or event of default. The excess cash flow is calculated by taking the EBITDA less payments for (i) cash taxes, (ii) capital expenditures, (iii) principal and interest payments on the A&R Bank Credit Facility, the FPD A&R Credit Facilities and the Crown Facility and (iv) interest

on leases for the two most recently completed quarters ("Excess Cash Flow"). The Excess Cash Flow is required to be calculated as at March 31 and September 30 of each calendar year ("The Excess Cash Flow Determination Date") which determines the quantum of payments that can be made for the following six-month period until the next Excess Cash Flow Determination Date. As at June 30, 2019, the conditions required to permit excess cash flow payments were met and the Excess Cash Flow was sufficient to cover the payments required in respect of the vendor take-back promissory notes for six months.

Under the terms of the Crown Facility agreement, DCM is required to maintain (i) Net Debt to EBITDA of no greater than 4.0 to 1.0 from April 30, 2018 to December 31, 2019 and 3.00 to 1 thereafter; (ii) a fixed charge coverage ratio no less than the following levels: 1.10 to 1 as at June 30, 2018, 1.25 to 1 from July 1, 2018 to September 30, 2018 and 1.40 to 1 for each quarter thereafter, for which a waiver for the quarters ended December 31, 2018, March 31, 2019 and June 30, 2019 and for the quarter ending September 30, 2019 have been obtained (as noted above). Each covenant is calculated and reported on a quarterly basis. As at June 30, 2019, the fixed charge coverage ratio was 1.02 and the net debt to EBITDA ratio was 3.41. DCM was in compliance with these covenants as at June 30, 2019 and it expects to be compliant with these covenants going forward.

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

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

INTER-CREDITOR AGREEMENT

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

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

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

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

In assessing DCM's liquidity requirements, DCM takes into account its level of cash, together with currently projected cash to be provided by operating activities, cash available from its unused credit facilities, cash from investing activities such as sales of redundant assets, access to the capital markets and anticipated reductions in operating costs projected to result from existing restructuring activities, as well as its ongoing cash needs for its existing operations. As noted under "Recent Developments", additional financing has been obtained subsequent to June 30, 2019 to provide financial support in what DCM believes to be a short-term constraint on its liquidity given the disruption caused by transitioning to its new ERP system. DCM expects to return to normal conditions in the third quarter of 2019 as it continues to work through this transition and the processing of its larger than normal sales order backlog. As a result of this, DCM expects there to be sufficient liquidity to fund its currently projected operating requirements including expenditures related to its growth strategy, payments associated with various restructuring and productivity improvement initiatives, contributions to its pension plans, payment of income tax liabilities, cash required to finance currently planned capital expenditures and funds required to meets its debt repayment obligations. Cash flows from operations have been, and could continue to be, negatively impacted by decreased demand for DCM's products and services and pricing pressures from its existing and new customers, which could result from factors such as reduced demand for traditional business forms and other print-related products, adverse economic conditions and competition from competitors supplying similar products and services, increases in DCM's operating costs (including interest expense on its outstanding indebtedness and restructuring expenses) and increased costs associated with the manufacturing and distribution of products or the provision of services. DCM'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.

CASH FLOW FROM OPERATIONS

During the six months ended June 30, 2019, cash flows generated by operating activities were $13.5 million compared to cash flows generated by operating activities of $11.9 million during the same period in 2018. Current period cash flow from operations, before adjusting for changes in working capital, generated a total of $5.3 million compared with $2.8 million for the same period last year. As a result of the adoption of IFRS 16, $5.3 million in lease payments are now presented as cash used for financing activities in the condensed interim consolidated statement of cash flow whereby

in the prior year comparative period, this was classified as a reduction of operating activities. Excluding the effects of IFRS 16, cash flow from operations, before adjusting for changes in working capital, was $nil, a decrease of $2.8 million over the same period last year. Current period cash flows from operations were negatively impacted by the decrease in revenues particularly in the second quarter this year due to (i) a disruption of production and shipments to customers caused by DCM's transition to a new ERP system in June 2019 (ii) timing of work and iii) a reduction in customer spend. This was offset by an improvement in gross margin as a percent of revenue and a reduction in SG&A expenses due to the further improvements in DCM's pricing discipline, and cost reductions realized from ongoing cost savings initiatives implemented in 2019 and the last quarter of 2018. Lastly, payments for severances and lease terminations related to DCM's restructuring initiatives were $2.7 million during the current period compared with $3.9 million for the same period last year.

Changes in working capital during the six months ended June 30, 2019 generated $8.2 million in cash compared with $9.1 million of cash generated in the prior year. In the prior year equivalent period DCM's focus was to better align payments to its vendors with cash receipts from its customers given many of its customers opt to store their product in DCM's warehouses and pay upon taking shipment of product which extends the time to collection. In the current year, DCM continues to better manage its cash flow. The current period decrease over the prior year comparative period is primarily due to timing of payments to certain vendors and a slight reduction in purchases, hence the decrease in trade and accrued liabilities by $1.7 million, inventory by $0.5 million and prepaid expenses by $0.4 million. This was partially offset by an increase in trade receivables by $2.0 million given the challenges encountered with issuing accurate and timely billings as a result of the ERP transition in June 2019.

INVESTING ACTIVITIES

For the six months ended June 30, 2019, $2.7 million in cash flows were used for investing activities compared with $11.2 million during the same period in 2018. This represents a reduction of $8.5 million over the same period last year, of which $7.5 million was used in the comparable period for the acquisition of Perennial. In the current period, $0.6 million of cash was primarily used to invest in IT equipment related to the implementation of the new ERP system and costs related to leasehold improvements to set up new production equipment, including the Gallus/Heidelberg hybrid digital label press at its Brampton, Ontario facility and the Heidelberg six-colour press at its Toronto, Ontario facility, compared with $1.3 million of capital expenditures incurred in the first quarter of 2018 related to investments in IT equipment and costs related to leasehold improvements, which were incurred as part of DCM's consolidation of certain facilities. Furthermore, $3.0 million of cash was used to further invest in the development of DCM's new ERP system compared with $2.5 million for the same period last year. $0.7 million in cash proceeds were received upon the sale of its loose-leaf and index tab business in May 2019.

FINANCING ACTIVITIES

For the six months ended June 30, 2019, cash flow used for financing activities was $7.6 million compared with $0.1 million during the same period in 2018. As noted under "Cash Flow From Operations", as a result of the adoption of IFRS 16, $5.3 million in lease payments are now presented as cash used for financing activities whereas this is presented as a reduction of cash from operations in the prior year comparative period, thereby contributing to the overall variance in cash used for financing activities. Excluding the effects of IFRS 16, cash flow used for financing activities was $2.3

million, an increase of $2.2 million over the same period last year. A total of $2.8 million in outstanding principal amounts under its various credit facilities were repaid during the current period compared with $6.7 million during the same period last year. In addition, $3.9 million was repaid during the period related to the vendor take-back promissory notes issued in connection with the acquisitions of Eclipse, Thistle and BOLDER Graphics compared with $3.4 million in the prior year comparative period. The Eclipse and Thistle VTBs were fully repaid in the first quarter of 2019, and $1.0 million was paid for the Perennial VTB. Lastly, proceeds of $4.7 million was received in the current period by way of a draw on DCM's revolving credit facility with the Bank compared with $10.4 million during the same period last year to fund its working capital requirements and pay down debt on its fixed-term credit facilities and VTBs.

Outstanding share data

At August 14, 2019, June 30, 2019 and December 31, 2018, there were 21,523,515 common shares of DCM ("Common Shares") outstanding.

At August 14, 2019 and June 30, 2019, there were options outstanding to purchase up to 1,798,624 Common Shares and at December 31, 2018, there were options outstanding to purchase up to 1,991,957 Common Shares. During the six months ended June 30, 2019, the Board approved awards of options to purchase up to 40,000 Common Shares for a member of DCM's Board. Once vested, the options are exercisable for a period of seven years from the grant date at an exercise price of $1.41 per share, representing the fair value of the Common Shares on March 28, 2019. The options vest at a rate of 1/36th per month beginning on March 28, 2019. The fair value of the options issued was estimated to be $22.8 thousand using the Black-Scholes option-pricing model, assuming a risk-free interest of 1.45%, a weighted average life of seven years, a dividend yield of nil, an expected volatility of 40% and a forfeiture rate of 10%. During the six months ended June 30, 2019, there were 233,333 forfeitures of options to purchase Common Shares.

At August 14, 2019, June 30, 2019 and December 31, 2018, there were warrants outstanding to purchase up to 960,000 Common Shares. During the six months ended June 30, 2019, 1,291,550 warrants to purchase Common Shares expired.

Contractual obligations

DCM believes that it will have sufficient resources from its operating cash flow, existing cash resources and borrowing under available credit facilities to meet its contractual obligations as they become due. As noted under "Recent Developments", additional financing has been obtained subsequent to June 30, 2019 to provide financial support in what DCM believes to be a short-term constraint on its liquidity given the disruption caused by transitioning to its new ERP system. DCM expects to return to normal conditions in the third quarter of 2019 as it continues to work through this transition and the processing of its larger than normal sales order backlog. Contractual obligations have been defined as contractual commitments in existence but not paid for as at June 30, 2019.

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

DCM believes that it will continue to remain compliant with its covenants and other obligations under its credit facilities. See discussion under “Recent Developments” and “Liquidity and Capital Resources” for a number of waivers, amendments and related consents obtained by DCM from its lenders to provide additional financial support.

Summary of eight quarter results

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

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

	2019		2018				2017	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3
Revenues	**$ 69,623**	**$ 78,549**	$81,152	$74,925	$78,176	$88,516	$76,125	$70,212
Net income (loss) attributable to shareholders	**(3,754)**	**(323)**	842	838	(1,194)	1,763	(2,459)	(1,068)
Basic earnings (loss) per share	**(0.17)**	**(0.02)**	0.04	0.04	(0.06)	0.09	(0.12)	(0.06)
Diluted earnings (loss) per share	**(0.17)**	**(0.02)**	0.04	0.04	(0.06)	0.09	(0.12)	(0.06)

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

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

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

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

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

Accounting policies

CHANGES IN ACCOUNTING POLICIES

The accounting policies and critical accounting estimates and judgments as disclosed in DCM's audited annual consolidated financial statements have been applied consistently in the preparation of its unaudited condensed interim consolidated financial statements, with the exception of the accounting standards implemented in 2019 which are outlined in notes 2 and 3 of the Notes to the consolidated financial statements of DCM for the six months ended June 30, 2019.

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

IFRS 16 - LEASES

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

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

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

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

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

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

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

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

AS A LESSEE

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

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

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

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

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

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

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

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

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

AS AN INTERMEDIATE LESSOR

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

USE OF SIGNIFICANT ESTIMATES AND JUDGMENT

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

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

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

IMPACT OF ADOPTION OF IFRS 16:

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

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

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

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

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

(b) Deferred lease inducements and lease escalation liabilities previously recognized with respect to operating leases in accordance with SIC-15, *Operating leases- Incentives* ("SIC-15"), have been derecognized, and the balance as of January 1, 2019 has been adjusted as a reduction to the ROU Asset as at that date for a total

of $3.2 million. Under SIC-15, payments made under operating leases net of lease inducements were recognized in the statement of operations on a straight-line basis over the term of the lease. Previously deferred lease inducements and lease escalation liabilities were included within other non-current liabilities and trade payables and accrued liabilities' on the statement of financial position.

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

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

RECONCILIATION TO THE OPENING BALANCE:

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

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

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

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

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

IFRIC 23 - UNCERTAINTY OVER INCOME TAX TREATMENTS

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

IAS 19 EMPLOYEE BENEFITS (AMENDMENT)

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

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

FUTURE ACCOUNTING STANDARDS NOT YET ADOPTED

IFRS 3 BUSINESS COMBINATIONS (AMENDMENT)

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

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

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

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

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

Management's report on internal controls over financial reporting

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

A cross-functional business transformation process, enabled by a new end to end ERP system was launched in June 2019 to standardize and automate business processes and controls across the organization. The project is a major initiative that is utilizing third party consultants and will expand the depth and breadth of the finance and information technology organizations. The new ERP system will enable continuous improvement and scalability and is intended to facilitate improved reporting and oversight and enhance internal controls over financial reporting. A variety of changes to internal processes and accounting procedures are occurring as a result of the implementation of our new ERP system and related restructuring initiatives. DCM is currently evaluating the impact of these changes and are designing tests to evaluate the design and effectiveness of controls. High level compensating controls remain in place which DCM feels provides reasonable levels of assurance that the financial statements are not materially incorrect.

Outlook

At the outset of 2019, management of DCM set out five business priorities:

- Focus on its core customers;
- Continue to improve gross margins;
- Reduce its SG&A;
- Pay down debt; and
- Make strategic investments in technologies.

During the second quarter, DCM continued its focus on providing additional products and services to its core client base, including a number of contracts won or in advanced stages of negotiation, through its collaboration with the Perennial ideation and sales enablement teams for strategic services. The company has successfully secured a number of notable wins with new and existing customers, and the pipeline remains robust for the balance of 2019.

The results for the first two quarters of 2019 show improved gross margin from 24.0% to 24.6% as a percent of revenue, despite the business challenges experienced in the second quarter, along with a reduction in SG&A on a year over year basis of approximately $2.2 million. A focus on improving gross margin and reducing SG&A expenses will continue with the refinement of the new ERP system and further cost saving benefits are expected from the reduction of direct and indirect labour later in 2019.

Approximately $10 million in annualized savings are expected to be realized from recent actions to reduce headcount and the elimination of voluntarily vacated positions in recent months which are expected to contribute to stronger margins in the second half of 2019.

DCM reduced its fixed-term debt and promissory notes obligations by approximately $6.7 million in the first two quarters of 2019. As DCM continues to work through its transition to the new ERP system, management secured a number of waivers, amendments and related consents with its lenders to provide additional financial support. A number of initiatives were completed to provide additional financial flexibility through the balance of 2019, and particularly through the third quarter, to accommodate what is believed to be short term constraints on DCM's working capital and financial liquidity.

Despite the unusually weak second quarter of 2019 due to the challenges experienced with the launch of its ERP system, management remains optimistic on its path to transition DCM to become a leading marketing services provider, make strategic investments in client facing technology and operational enhancements, in addition to continuing to focus on its top five business priorities.

Risks and uncertainties

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

Condensed interim consolidated statements of financial position

(in thousands of Canadian dollars, unaudited)		**June 30, 2019**		December 31, 2018
ASSETS				
CURRENT ASSETS				
Trade receivables (note 5)	**$**	**70,548**	$	73,124
Inventories (note 6)		**8,208**		8,812
Prepaid expenses and other current assets		**2,455**		3,519
		81,211		85,455
NON-CURRENT ASSETS				
Other non-current assets		**953**		827
Deferred income tax assets (note 11)		**3,332**		3,428
Restricted cash (note 9)		**515**		515
Property, plant and equipment		**14,650**		16,804
Right-of-use assets (note 7)		**61,110**		—
Intangible assets		**19,857**		18,164
Goodwill (note 4)		**16,973**		17,038
	$	**198,601**	$	142,231
LIABILITIES				
CURRENT LIABILITIES				
Bank overdraft (note 9)	**$**	**747**	$	3,999
Trade payables and accrued liabilities		**47,928**		43,497
Current portion of credit facilities (note 9)		**5,866**		5,670
Current portion of promissory notes (note 10)		**1,125**		4,013
Current portion of lease liabilities (note 7)		**8,009**		—
Provisions (note 8)		**4,658**		2,908
Income taxes payable		**1,207**		3,152
Deferred revenue		**1,271**		1,477
		70,811		64,716
NON-CURRENT LIABILITIES				
Provisions (note 8)		**691**		540
Credit facilities (note 9)		**53,663**		51,751
Promissory notes (note 10)		**450**		1,363
Lease liabilities (note 7)		**57,340**		—
Deferred income tax liabilities (note 11)		**514**		1,753
Other non-current liabilities (note 12)		**130**		3,272
Pension obligations		**8,853**		8,346
Other post-employment benefit plans (note 17)		**3,106**		2,978
	$	**195,558**	$	134,719
EQUITY				
SHAREHOLDERS' EQUITY / (DEFICIT)				
Shares (note 13)	**$**	**251,217**	$	251,217
Warrants (note 13)		**537**		806
Contributed surplus		**2,242**		1,841
Translation reserve		**254**		242
Deficit		**(251,207)**		(246,594)
	$	**3,043**	$	7,512
	$	**198,601**	$	142,231

Commitments and Contingencies (note 16); Subsequent events (note 19)

Approved by Board of Directors

Director _____ Director _____

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

Condensed interim consolidated statements of operations

(in thousands of Canadian dollars, except per share amounts, unaudited)		**For the three months ended June 30, 2019**		For the three months ended June 30, 2018
REVENUES (note 18)	**$**	**69,623**	$	78,176
COST OF REVENUES		**53,902**		59,587
GROSS PROFIT		**15,721**		18,589
EXPENSES				
Selling, commissions and expenses		**7,677**		9,200
General and administration expenses		**7,853**		8,550
Restructuring expenses (note 8)		**3,189**		736
Acquisition costs (note 4)		**—**		270
		18,719		18,756
LOSS BEFORE FINANCE COSTS AND INCOME TAXES		**(2,998)**		(167)
FINANCE COSTS				
Interest expense, net		**2,075**		1,271
Amortization of transaction costs		**86**		158
		2,161		1,429
LOSS BEFORE INCOME TAXES		**(5,159)**		(1,596)
INCOME TAX (RECOVERY) EXPENSE				
Current		**(506)**		(288)
Deferred		**(899)**		(114)
		(1,405)		(402)
NET LOSS FOR THE PERIOD	**$**	**(3,754)**	$	(1,194)
BASIC LOSS PER SHARE (note 14)	**$**	**(0.17)**	$	(0.06)
DILUTED LOSS PER SHARE (note 14)	**$**	**(0.17)**	$	(0.06)

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

Condensed interim consolidated statements of operations

(in thousands of Canadian dollars, except per share amounts, unaudited)		**For the six months ended June 30, 2019**		For the six months ended June 30, 2018
REVENUES (note 18)	**$**	**148,172**	$	166,692
COST OF REVENUES		**111,689**		126,628
GROSS PROFIT		**36,483**		40,064
EXPENSES				
Selling, commissions and expenses		**16,982**		19,661
General and administration expenses		**15,706**		15,761
Restructuring expenses (note 8)		**4,871**		800
Acquisition costs (note 4)		**—**		313
		37,559		36,535
(LOSS) INCOME BEFORE FINANCE COSTS AND INCOME TAXES		**(1,076)**		3,529
FINANCE COSTS				
Interest expense, net		**4,207**		2,408
Amortization of transaction costs		**223**		301
		4,430		2,709
(LOSS) INCOME BEFORE INCOME TAXES		**(5,506)**		820
INCOME TAX EXPENSE (RECOVERY)				
Current		**(474)**		555
Deferred		**(955)**		(304)
		(1,429)		251
NET (LOSS) INCOME FOR THE PERIOD	**$**	**(4,077)**	$	569
BASIC (LOSS) EARNINGS PER SHARE (note 14)	**$**	**(0.19)**	$	0.03
DILUTED (LOSS) EARNINGS PER SHARE (note 14)	**$**	**(0.19)**	$	0.03

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

Condensed interim consolidated statements of comprehensive loss

(in thousands of Canadian dollars, unaudited)		**For the three months ended June 30, 2019**		For the three months ended June 30, 2018
NET LOSS FOR THE PERIOD	**$**	**(3,754)**	$	(1,194)
OTHER COMPREHENSIVE INCOME:				
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET LOSS				
Foreign currency translation		**(19)**		15
		(19)		15
ITEMS THAT WILL NOT BE RECLASSIFIED TO NET LOSS				
Re-measurements of pension and other post-employment benefit obligations		**(474)**		891
Taxes related to pension and other post-employment benefit adjustment above		**123**		(232)
		(351)		659
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD, NET OF TAX	**$**	**(370)**	$	674
COMPREHENSIVE LOSS FOR THE PERIOD	**$**	**(4,124)**	$	(520)

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

Condensed interim consolidated statements of comprehensive (loss) income

(in thousands of Canadian dollars, unaudited)		**For the six months ended June 30, 2019**		For the six months ended June 30, 2018
NET (LOSS) INCOME FOR THE PERIOD	**$**	**(4,077)**	$	569
OTHER COMPREHENSIVE (LOSS) INCOME:				
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME				
Foreign currency translation		**12**		37
		12		37
ITEMS THAT WILL NOT BE RECLASSIFIED TO NET (LOSS) INCOME				
Re-measurements of pension and other post-employment benefit obligations		**(724)**		1,214
Taxes related to pension and other post-employment benefit adjustment above		**188**		(316)
		(536)		898
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD, NET OF TAX	**$**	**(524)**	$	935
COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	**$**	**(4,601)**	$	1,504

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

Condensed interim consolidated statements of changes in shareholders' equity

(in thousands of Canadian dollars, unaudited)	Shares	Warrants	Conversion options	Contributed surplus	Translation reserve	Deficit	Total equity
Balance as at December 31, 2017	$ 248,996	$ 287	$ —	$ 1,368	$ 183	$ (256,233)	$ (5,399)
Impact of change in accounting policy on adoption of IFRS 15	—	—	—	—	—	8,365	8,365
	$ 248,996	$ 287	$ —	$ 1,368	$ 183	$ (247,868)	$ 2,966
Net income for the period	—	—	—	—	—	569	569
Other comprehensive income for the period	—	—	—	—	37	898	935
Total comprehensive loss for the period	—	—	—	—	37	1,467	1,504
Issuance of common shares and warrants, net (note 13)	2,221	519	—	—	—	—	2,740
Share-based compensation expense	—	—	—	265	—	—	265
Balance as at June 30, 2018	$ 251,217	$ 806	$ —	$ 1,633	$ 220	$ (246,401)	$ 7,475
BALANCE AS AT DECEMBER 31, 2018	**$ 251,217**	**$ 806**	**$ —**	**$ 1,841**	**$ 242**	**$ (246,594)**	**$ 7,512**
Net loss for the period	**—**	**—**	**—**	**—**	**—**	**(4,077)**	**(4,077)**
Other comprehensive loss for the period	**—**	**—**	**—**	**—**	**12**	**(536)**	**(524)**
Total comprehensive loss for the period	**—**	**—**	**—**	**—**	**12**	**(4,613)**	**(4,601)**
Expiration of warrants (note 13)	—	**(269)**	**—**	**269**	—	—	—
Share-based compensation expense	**—**	**—**	**—**	**132**	**—**	**—**	**132**
BALANCE AS AT JUNE 30, 2019	**$ 251,217**	**$ 537**	**$ —**	**$ 2,242**	**$ 254**	**$ (251,207)**	**$ 3,043**

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

Condensed interim consolidated statements of cash flows

(in thousands of Canadian dollars, unaudited)		**For the six months ended June 30, 2019**		For the six months ended June 30, 2018
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Net (loss) income for the period	**$**	**(4,077)**	$	569
Adjustments to net (loss) income				
Depreciation of property, plant and equipment		**2,150**		2,324
Amortization of intangible assets		**1,244**		2,301
Depreciation of right-of-use-assets (note 7)		**4,234**		—
Interest expense on lease liability (note 7)		**1,803**		—
Share-based compensation expense		**132**		265
Defined benefit pension expense (note 17)		**297**		269
Loss (gain) on disposal of property, plant and equipment		**84**		(129)
Write-off of intangible assets		**—**		242
Provisions (note 8)		**4,871**		934
Amortization of transaction costs (note 9)		**223**		301
Accretion of non-current liabilities and related interest expense		**178**		311
Other non-current liabilities		**—**		446
Other post-employment benefit plans, net		**128**		134
Income tax (recovery) expense		**(1,429)**		251
		9,838		8,218
Changes in working capital (note 15)		**8,207**		9,107
Contributions made to defined benefit pension plans		**(514)**		(588)
Provisions paid (note 8)		**(2,654)**		(3,923)
Income taxes paid		**(1,362)**		(894)
		13,515		11,920
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		**(645)**		(1,286)
Addition to intangible assets		**(2,986)**		(2,518)
Proceeds on disposal of property, plant and equipment		**254**		150
Proceeds on sale of business (note 4)		**675**		—
Net cash consideration for acquisition of businesses (note 4)		**—**		(7,505)
		(2,702)		(11,159)
FINANCING ACTIVITIES				
Issuance of common shares and warrants, net (note 13)		**—**		685
Proceeds from credit facilities (note 9)		**4,741**		10,395
Repayment of credit facilities (note 9)		**(2,788)**		(6,695)
Repayment of other liabilities		**(200)**		(201)
Repayment of promissory notes (note 10)		**(3,905)**		(3,393)
Transaction costs (note 9)		**(112)**		(868)
Lease payments (note 7)		**(5,298)**		(13)
		(7,562)		(90)
DECREASE IN BANK OVERDRAFT DURING THE PERIOD		**3,251**		671
BANK OVERDRAFT – BEGINNING OF PERIOD	**$**	**(3,999)**	$	(2,868)
EFFECTS OF FOREIGN EXCHANGE ON CASH BALANCES		**1**		33
BANK OVERDRAFT – END OF PERIOD	**$**	**(747)**	$	(2,164)

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

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2019 and 2018

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

1 General Information

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

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

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

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

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

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

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

2 Basis of presentation and significant accounting policies

DCM prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial reports, including International Accounting Standard ("IAS") 34 "*Interim Financial Reporting*". The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in DCM's consolidated financial statements for the year ended December 31, 2018, except for certain new accounting pronouncements which have been adopted by DCM on January 1, 2019 and disclosed in note 3. Where applicable, DCM has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ending December 31, 2019, as issued and outstanding as of August 14, 2019, the date the Board of Directors ("Board") approved these financial statements.

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

3 Change in accounting policies

(a) New and amended standards adopted

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

IFRS 16 - LEASES

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

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

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

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

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

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

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

AS A LESSEE

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

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

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

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

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

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

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

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

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

AS AN INTERMEDIATE LESSOR

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

USE OF SIGNIFICANT ESTIMATES AND JUDGMENT

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

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

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

IMPACT OF ADOPTION OF IFRS 16:

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

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

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

Leases previously classified as finance leases under IAS 17, where DCM assumed substantially all the risks and rewards of ownership, were initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. On adoption of IFRS 16, for such leases previously classified as finance leases, DCM recognized the carrying amount of the lease asset and lease liability immediately before transition in the amount of $29 as the carrying amount of the ROU Asset and the lease liability at the date of initial application. The application of IFRS 16 to these leases as at January 1, 2019 resulted in the equipment

held under finance lease arrangements previously presented within property, plant, and equipment, and the obligation previously presented under trade payables and accrued liabilities on the statement of financial position, to be presented as a ROU Asset and a lease liability.

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

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

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

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

RECONCILIATION TO THE OPENING BALANCE:

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

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

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

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

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

IFRIC 23 - UNCERTAINTY OVER INCOME TAX TREATMENTS

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

IAS 19 EMPLOYEE BENEFITS (AMENDMENT)

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

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

(b) Future accounting standards not yet adopted.

IFRS 3 BUSINESS COMBINATIONS (AMENDMENT)

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

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

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

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

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

4 Business acquisitions

ACQUISITION OF PERENNIAL GROUP OF COMPANIES

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

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

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

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2019 and 2018

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

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

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

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

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

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

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

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

The revenues and net loss contributed by Perennial and included in the consolidated statement of operations for the period between the Perennial Closing Date and June 30, 2018 were $890 and $106, respectively. Net profit (loss) has been adjusted for additional amortization and depreciation expense related to the fair value adjustments made to tangible and intangible assets on acquisition. If the acquisition had occurred on January 1, 2018, the estimated revenues and net loss contributed by Perennial to DCM's operating results for the six months ended June 30, 2018 would have been approximately $3,290 and $590, respectively, after adjusting net loss for additional amortization and depreciation expense

that would have been charged assuming the fair value adjustments to tangible and intangible assets had applied from January 1, 2018.

SALE OF TABS AND BINDER BUSINESS

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

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

5 Trade receivables

		June 30, 2019		December 31, 2018
Trade receivables	**$**	**71,107**	$	73,919
Provision for doubtful accounts		**(559)**		(795)
	$	**70,548**	$	73,124

As at June 30, 2019, trade receivables include unbilled receivables of $37,544 (2018 - $29,114), net of an expected credit loss allowance of $136 (2018 - $453).

6 Inventories

		June 30, 2019		December 31, 2018
Raw materials	**$**	**5,737**	$	4,779
Work-in-progress		**1,586**		2,810
Finished goods		**885**		1,223
	$	**8,208**	$	8,812

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

7 Leases

(i) *ROU ASSET*

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2019 and 2018

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

(in thousands of Canadian dollars, unaudited)	***Property***	**Office Equipment**	***Production Equipment***	***Total***
Balance, January 1, 2019	48,720	419	7,740	$ 56,879
Additions	—	2,155	6,082	8,237
Modifications	(597)	(29)	854	228
Depreciation charge for the period	(2,239)	(386)	(1,609)	(4,234)
Balance, June 30, 2019	45,884	2,159	13,067	61,110

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

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2019 and 2018

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

(ii) *LEASE LIABILITIES*

(in thousands of Canadian dollars, unaudited)	***Property***	**Office Equipment**	***Production Equipment***	***Total***
Balance, January 1, 2019	52,209	419	8,017	$ 60,645
Additions	—	2,155	5,816	7,971
Modifications	(597)	(29)	854	228
Payments during the period	(3,013)	(432)	(1,853)	(5,298)
Interest charge for the period	1,440	58	305	1,803
Balance, June 30, 2019	50,039	2,171	13,139	65,349

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

(in thousands of Canadian dollars)	**Contractual Cash Flows**	**Extension Options**	**Total June 30, 2019**
Not later than one year	$ 11,236	$ —	**$ 11,236**
Later than one and not later than five years	36,396	4,267	**40,663**
Later than five years	6,554	34,437	**40,991**
Total undiscounted lease liabilities at June 30, 2019	$ 54,186	$ 38,704	**$ 92,890**
Discounted using the incremental borrowing rate			**(27,541)**
Lease liabilities at June 30, 2019			**$ 65,349**
Current			**8,009**
Non-current			**57,340**

(iii) AMOUNTS RECOGNIZED IN THE STATEMENT OF OPERATIONS

(in thousands of Canadian dollars)	**For the three months ended June 30, 2019**	**For the six months ended June 30, 2019**
Variable lease payments not included in the measurement of lease liabilities	**$ 1,557**	**$ 3,071**
Income from sub-leasing right-of-use assets	**$ (48)**	**$ (96)**
Expenses relating to short-term leases and leases of low value assets	**$ 295**	**$ 609**

Notes to The Condensed Interim Consolidated Financial Statements

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

8 Provisions

	Termination provisions	Onerous contracts	Other	Total
Balance – March 31, 2019	$ 3,385	$ —	$ —	$ 3,385
Additional charge during the three month period	3,189	—	—	3,189
Utilized during the three month period	(1,225)	—	—	(1,225)
Balance – June 30, 2019	$ 5,349	$ —	$ —	$ 5,349
Less: Current portion of provisions	(4,658)	—	—	(4,658)
As at June 30, 2019	$ 691	$ —	$ —	$ 691

	Termination provisions	Onerous contracts	Other	Total
Balance – December 31, 2018	$ 2,581	$ 653	$ 214	$ 3,448
Adoption of IFRS 16 (note 3)	—	(136)	(180)	(316)
As at January 1, 2019	2,581	517	34	3,132
Additional charge during the six month period	4,871	—	—	4,871
Utilized during the six month period	(2,103)	(517)	(34)	(2,654)
Balance – June 30, 2019	$ 5,349	$ —	$ —	$ 5,349
Less: Current portion of provisions	(4,658)	—	—	(4,658)
As at June 30, 2019	$ 691	$ —	$ —	$ 691

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

TERMINATION PROVISIONS

During the three and six months ended June 30, 2019, DCM continued its restructuring and ongoing productivity improvement initiatives to reduce its cost of operations. During the three and six months ended June 30, 2019, these initiatives resulted in $3,189 and $4,871, respectively, of additional restructuring expenses due to headcount reduction across DCM's operations, the closure of its Brossard, Quebec manufacturing facility effective April 30, 2019, as part of its strategy to exit the stationery business, and the sale of its tabs and bindery business in the Calgary, Alberta manufacturing facility.

During the three and six months ended June 30, 2018, total restructuring initiatives resulted in costs incurred of $763 and $1,923, respectively, due to headcount reductions in the condensed interim consolidated statement of operations.

For the three and six months ended June 30, 2019, cash payments of $1,225 (2018 - $1,149) and $2,103 (2018 - $2,737), respectively, were made to former employees for severances and for other restructuring costs. The remaining severance and restructuring accruals of $5,349 at June 30, 2019 are expected to be paid in 2019 and 2020.

ONEROUS CONTRACTS

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

The remaining balance of $136 relates to an onerous sublease contract for the Dorval, Quebec facility. This balance was reclassified as a reduction to the ROU Asset upon the adoption of IFRS 16 (see note 3).

OTHER

During the first quarter of 2019, the outstanding balance of $34 (2018 - nil) was paid in connection with a former contract. The remaining balance of $180 relates to an unfavourable lease obligation for its Burlington, Ontario facility in connection with the acquisition of Eclipse where the rent payments exceeded the fair market value. This balance was reclassified as a reduction to the ROU Asset upon the adoption of IFRS 16 (see note 3).

9 Credit facilities

		June 30, 2019		December 31, 2018
Term loans				
- 6.10% term debt, maturing October 15, 2022, (FPD III Credit Facility)		**3,483**		3,947
- 6.95% term debt, maturing March 10, 2023, (FPD IV Credit Facility)		**16,675**		18,589
- 6.95% term debt, maturing May 15, 2023, (FPD V Credit Facility)		**3,750**		4,160
- 10.00% term debt, maturing May 7, 2023, (Crown Facility)		**11,554**		11,511
Revolving facilities				
- floating rate debt, maturing January 31, 2023, (Bank Credit Facility)		**25,541**		20,799
Credit facilities		**61,003**		59,006
Unamortized transaction costs		**(1,474)**		(1,585)
	$	**59,529**	$	57,421
Less: Current portion of Credit facilities		**(5,866)**		(5,670)
Credit facilities	**$**	**53,663**	$	51,751

CREDIT AGREEMENTS

BANK AND FPD FACILITIES
DCM has established a revolving credit facility (the “Bank Credit Facility”) with a Canadian chartered bank (the “Bank”) and an amortizing term loan facility (the “FPD IV Credit Facility”) with Fiera Private Debt Fund IV L.P. ("FPD IV") (formerly, Integrated Private Debt Fund IV LP) a fund managed by Fiera Private Debt Fund GP Inc. ("FPD") (formerly, Integrated Asset Management Corp.) pursuant to separate amended and restated credit agreements between DCM and the Bank (as amended, the “Bank Credit Agreement”) and FPD (as amended, the “FPD IV Credit Agreement”), respectively. Upon closing of the Thistle acquisition in 2017, DCM became a co-borrower with Thistle under an existing credit agreement

(the “FPD III Credit Agreement”) between Thistle and Fiera Private Debt Fund III L.P. ("FPD III") (formerly, Integrated Private Debt Fund III LP), another fund managed by FPD, pursuant to which FPD III has advanced to Thistle a term loan facility (the “FPD III Credit Facility”). On November 10, 2017, DCM established a $5,000 secured, non-revolving senior credit facility (the "FPD V Credit Facility") with Fiera Private Debt V L.P. ("FPD IV") (formerly, Integrated Private Debt Fund V LP), a fund managed by FPD (the "FPD V Credit Agreement" and, together with the FPD III Credit Agreement and the FPD IV Credit Agreement, the “FPD Credit Agreements”) to fund the acquisition of BOLDER Graphics and to repay a portion of DCM's outstanding principal under the Bank Credit Facility. The FPD III Credit Facility and the FPD V Credit Facility are subject to the same covenants stipulated under the FPD IV Credit Agreement and are reported on a consolidated basis.

Under the terms of the Bank Credit Agreement, the maximum principal amount available under the Bank Credit Facility is $35,000 and the Bank Credit Facility matures on January 31, 2023. Advances under the Bank Credit Facility may not, at any time, exceed the lesser of $35,000 and a fixed percentage of DCM’s aggregate accounts receivable and inventory (less certain amounts). Advances under the amended Bank Credit Facility are subject to floating interest rates based upon the Canadian prime rate plus an applicable margin of 0.60%. DCM has capitalized transaction costs of $1,031 related to the Bank Credit Facility. The unamortized balance of the transaction costs are being amortized over the remaining term of the Bank Credit Facility. As at June 30, 2019, the unamortized transaction costs related to the Bank Credit Facility was $390. As at June 30, 2019, there were outstanding borrowings of $25,541 under the revolving facilities portion of the Bank Credit Facility and letters of credit granted of $725. As at June 30, 2019, all of DCM’s indebtedness outstanding under the Bank Credit Facility was subject to a floating interest rate of 4.55% per annum. As at June 30, 2019, DCM had access to $5,655 of available credit under the Bank Credit Facility. The bank overdraft of $747 on the statement of condensed interim consolidated financial position as at June 30, 2019 represents outstanding cheques, which when cashed, would be a draw on the Bank Credit Facility.

Under the terms of the FPD Credit Agreements, the maximum aggregate principal amount which may be outstanding under the FPD III Credit Facility, FPD IV Credit Facility, the FPD V Credit Facility, the Bank Credit Facility and Crown Facility (as defined below), calculated on a consolidated basis in accordance with generally accepted accounting principles (“Total Funded Debt”), cannot exceed $72,000 (after giving effect to the provisions of the inter-creditor agreement described below).

The principal amount of the amended FPD III Credit Facility amortizes in blended equal monthly repayments of principal and interest of $96 over a nine year term ending October 15, 2022. The principal amount of the FPD IV Credit Facility amortizes in blended equal monthly repayments of principal and interest of $422 over a seven year term ending in March 10, 2023. The principal amount of the FPD V Credit Facility amortizes in blended equal monthly repayments of principal and interest of $91 over a sixty six month term ending in May 15, 2023. As at June 30, 2019, all of DCM’s indebtedness outstanding under the FPD III Credit Facility was subject to a fixed interest rate equal to 6.10% per annum and all of DCM’s indebtedness outstanding under the amended FPD IV Credit Facility and under the FPD V Credit Facility were subject to a fixed interest rate equal to 6.95% per annum, respectively.

As at June 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD III Credit Facility were $22 and $3,483, respectively. As at June 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD IV Credit Facility were $362 and $16,675, respectively. As at June 30, 2019, the unamortized transaction costs and outstanding borrowings related to the FPD V Credit Facility were $129 and $3,750, respectively. The unamortized balance of the transaction costs for FPD III Credit Facility, FPD IV Credit Facility and the FPD V Credit Facility are being amortized over the remaining term of each respective facility.

CROWN FACILITY

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

The Crown Facility was made available in one advance on the funding date of May 8, 2018 and bears interest at a fixed rate of 10% per annum, payable quarterly, and the principal amount of the loan is due at maturity, which is 60 months from closing. DCM's obligations under the Crown Facility are subordinated to its other senior credit facilities and is secured by a conventional security on all of the assets of DCM and its subsidiaries. In addition, a total of 960,000 warrants have been issued to Crown in connection with the Crown Facility. Each warrant entitles the holder to acquire one DCM common share at an exercise price of $1.75 for a period of five years, commencing on May 8, 2018. The Crown Facility of $12,000 was apportioned to $11,458 to the debt instrument and $542 to the warrant option based on their relative fair values (note 13). The fair value of the warrant option was then bifurcated and recorded separately within equity while the fair value of the debt host will be accreted from $11,458 to $12,000 over the term of the loan. As at June 30, 2019 the accreted debt instrument was valued at $11,554 including total accretion expense of $44.

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

For the six months ended June 30, 2019, DCM capitalized transaction costs of $18 related to the Crown Facility. The unamortized transaction costs and outstanding borrowings related to the Crown Facility were $571 and $11,554, respectively and the unamortized balance of the transaction costs is being amortized over the remaining term of this facility.

BANK LEASE FACILITY

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

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

AMENDMENTS TO CREDIT FACILITIES

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

Effective May 7, 2018, DCM also entered into amended and restated credit agreements with regards to its FPD III Credit Facility (the "FPD III A&R Credit Facility"), its FPD IV Credit Facility (the "FPD IV A&R Credit Facility") and its FPD V Credit Facility (the "FPD V A&R Credit Facility" and, together with the FPD III A&R Credit Facility and the FPD IV A&R Credit Facility, the "FPD A&R Credit Facilities"), each managed by FPD, which, among other things incorporated conforming updates to each of those respective original credit agreements, to consolidate the subsequent series of amendments previously made to those agreements, including to provide for the addition of the Crown Facility together

with the repayment of the Bridging Credit Facility and the acquisition of Perennial. No material changes were otherwise incorporated into the various credit facilities managed by FPD.

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

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

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

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

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

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

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

COVENANT REQUIREMENTS

Each of the Bank Credit Agreement, the FPD Credit Agreements and the Crown Facility contain customary representations and warranties, as well as restrictive covenants which limit the discretion of the Board and management with respect to certain business matters including the declaration or payment of dividends on the common shares of DCM without the consent of the Bank, FPD III, FPD IV, FPD V and Crown, as applicable. Under the terms of the FPD Credit Agreements, DCM has agreed that it will not, without the prior written consent of FPD III, FPD IV and FPD V, change (or permit any change) in its Chief Executive Officer, President or Chief Financial Officer, provided that, if he or she voluntarily resigns as an officer of DCM, or if any such person has either died or is disabled and can therefore no

longer carry on his or her duties of such office, DCM will have 60 days to replace such officer, such replacement officer to be satisfactory to FPD III, FPD IV and FPD V, acting reasonably. The A&R Bank Credit Facility, FPD A&R Credit Facilities and the Crown Facility limit spending on capital expenditures by DCM to an aggregate amount not to exceed $5,500, $5,000 and $5,000, respectively during any fiscal year.

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

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

In addition, the FPD Credit Agreements permit cash payments in respect to the vendor take-back promissory notes issued in connection with DCM's acquisitions, as well as consulting fees or distributions in cash to shareholders and/or related parties, in an amount equal to the Excess Cash Flow (as defined below), provided that the debt service coverage ratio for the four most recently completed quarters is greater than 2.00 to 1, which was subsequently amended to 1.85 to 1.00 from October 1, 2018 to September 30, 2019, and provided that there is no default or event of default. The excess cash flow is calculated by taking the EBITDA less payments for (i) cash taxes, (ii) capital expenditures, (iii) principal and interest payments on the A&R Bank Credit Facility, the FPD A&R Credit Facilities and the Crown Facility and (iv) interest on leases for the two most recently completed quarters ("Excess Cash Flow"). The Excess Cash Flow is required to be calculated as at March 31 and September 30 of each calendar year ("The Excess Cash Flow Determination Date") which determines the quantum of payments that can be made for the following six-month period until the next Excess Cash Flow Determination Date. As at June 30, 2019, the conditions required to permit excess cash flow payments were met and the Excess Cash Flow was sufficient to cover the payments required in respect of the vendor take-back promissory notes for six months (see “Subsequent Events” for further details on changes to this condition).

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

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

included on a trailing twelve month basis effective as of the closing date of the acquisitions for the purposes of DCM's calculations.

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

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

INTER-CREDITOR AGREEMENT

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

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

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

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

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

		June 30, 2019		December 31, 2018
Balance - January 1, 2019, net of transaction costs	**$**	**57,421**	$	55,932
Changes from financing cash flows				
Proceeds from credit facilities		**4,741**		12,951
Repayment of credit facilities		**(2,788)**		(11,238)
Transaction costs		**(112)**		(900)
Total change from financing cash flows		**59,262**		56,745
Non-cash movements				
Amortization of transaction costs		**223**		623
Accretion of discount		**44**		53
Balance - End of period	**$**	**59,529**	$	57,421

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

	June 30, 2019
2019	**5,866**
2020	**6,278**
2021	**6,718**
2022	**5,046**
2023	**37,541**
	$ 61,449

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

10 Promissory notes

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

2019	**Eclipse acquisition**	**Thistle acquisition**	**BOLDER Graphics acquisition**	**Perennial acquisition**	**Total**
Balance – Beginning of period	**$ 2,254**	**$ 270**	**$ 509**	**$ 2,343**	**$ 5,376**
Unwinding of discount	**29**	**4**	**—**	**60**	**93**
Interest expense	**—**	**—**	**11**	**—**	**11**
Payments during the period	**(2,283)**	**(274)**	**(348)**	**(1,000)**	**(3,905)**
Balance – End of period	**$ —**	**$ —**	**$ 172**	**$ 1,403**	**$ 1,575**
Less: Current portion of promissory notes	**$ —**	**$ —**	**$ (172)**	**(953)**	**(1,125)**
As at June 30, 2019	**$ —**	**$ —**	**$ —**	**$ 450**	**$ 450**

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

11 Income taxes

Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred income tax assets and liabilities have been measured using an expected average combined statutory income tax rate of 26.13% (2018 – 26.07%) based on the tax rates in years when the temporary differences are expected to reverse. Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As at June 30, 2019, DCM has non-capital loss carry-forwards of $547 (2018 – nil).

Reflected in the consolidated statement of financial position as follows:	**June 30, 2019**	December 31, 2018
Deferred income tax assets	**3,332**	$ 3,428
Deferred income tax liabilities	**(514)**	(1,753)
Net deferred income tax assets	**$ 2,818**	$ 1,675

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2019 and 2018

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

12 Other non-current liabilities

		June 30, 2019		December 31, 2018
Deferred lease inducement	$	—	$	908
Lease escalation liabilities		—		2,254
Bonuses payable		497		668
	$	497	$	3,830
Less: Current portion of other non-current liabilities		(367)		(558)
	$	130	$	3,272

In connection with the acquisition on February 22, 2017 of Thistle, DCM assumed certain liabilities related to bonuses payable to former employees of Thistle which will be paid in equal monthly payments until the end of October 2020. The liability was recorded at fair value based on discounting using a discount rate of 10%. The carrying amount of the liability at June 30, 2019 was $497 (2018 - $668) of which $367 (2018 - $348) was classified as current liabilities in trade payables and accrued liabilities.

DCM's operations are conducted in leased properties. DCM's leases generally provide for minimum rent and may also include escalation clauses, guarantees and certain other restrictions, and generally require it to pay a portion of the real estate taxes and other property operating expense. Up until December 31, 2018, payments made under operating leases were recognized in the condensed interim consolidated statements of operations on a straight-line basis over the term of the lease, expiring in 2019 to 2028. These balances were reclassified as a reduction of the ROU Asset as at January 1, 2019 upon adoption of IFRS 16 (see note 3).

13 Shares and warrants

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

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

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

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

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

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

WARRANTS

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

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

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

On June 28, 2017, DCM completed a non-brokered private placement offering, which included purchase warrants entitling the holder to acquire one Common Share at an exercise price of $1.75 for a period of two years. On June 28, 2019, the remaining purchase warrants of 1,291,550 expired.

SHARE-BASED COMPENSATION

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

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

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2019 and 2018

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

(a) Restricted share unit ("RSU")

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

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

	June 30, 2019	December 31, 2018
	Number of RSUs	Number of RSUs
Balance - beginning of period/year	**530,452**	177,869
Units granted	**813,910**	740,432
Units forfeited	**(613,135)**	(387,344)
Units paid out	**(26,635)**	(505)
Balance - end of period/year	**704,592**	530,452

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

Of the total outstanding RSUs at June 30, 2019, Nil (December 31, 2018 – 26,634) have vested and are payable. The carrying amount of the liability relating to the RSUs at June 30, 2019 was $630 (December 31, 2018 – $400).

During the six months ended June 30, 2019, compensation expense of $178 (six months ended June 30, 2018 – $296) was recognized in the condensed interim consolidated statement of operations related to RSUs granted.

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2019 and 2018

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

(b) Options ("Options")

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

	2019		2018	
	Number of Options	**Weighted average Exercise Price**	Number of Options	Weighted average Exercise Price
Options outstanding - beginning of period / year	**1,991,957**	**$ 1.45**	804,961	$ 1.50
Granted	**40,000**	**1.41**	1,200,000	1.41
Forfeited	**(233,333)**	**—**	(13,004)	1.50
Options outstanding - end of period / year	**1,798,624**	**$ 1.45**	1,991,957	$ 1.45
Exercisable	**1,221,589**	**$ 1.47**	1,125,281	$ 1.50

The outstanding Options had an exercise price range as follows:

	June 30, 2019	December 31, 2018
	Number of Options	Number of Options
$1.41	**1,006,667**	1,200,000
$1.50	**791,957**	791,957
Options outstanding	**1,798,624**	1,991,957

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

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

During the six months ended June 30, 2019, options to purchase up to 40,000 common shares were awarded to a director. Once vested, the options are exercisable for a period of seven years from the grant date at an exercise price of $1.41 per share, representing the fair value of the common shares on the date of grant. These options vest at a rate of 1/36th per month beginning on March 28, 2019. During the six months ended June 30, 2019, a total of 233,333 options awarded were forfeited.

During the six months ended June 30, 2019, compensation expense of $132 (six months ended June 30, 2018 – $265) was recognized in the condensed interim consolidated statement of operations related to options granted.

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

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

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

During the three and six months ended June 30, 2019, 21,885 DSUs (three and six months ended June 30, 2018 – 28,009 DSUs) were granted. The carrying amount of the liability relating to the DSUs at June 30, 2019 was $148 (December 31, 2018 – $116).

During the six months ended June 30, 2019, an expense of $31 (six months ended June 30, 2018 – $48) was recognized in the interim condensed consolidated statement of operations related to DSUs granted.

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For the periods ended June 30, 2019 and 2018

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

14 (Loss) earnings per share

	For the three months ended June 30, 2019	For the three months ended June 30, 2018
BASIC LOSS PER SHARE		
Net loss for the period attributable to common shareholders	**$ (3,754)**	$ (1,194)
Weighted average number of shares	**21,523,515**	20,870,234
Basic loss per share	**$ (0.17)**	$ (0.06)
DILUTED LOSS PER SHARE		
Net loss for the period attributable to common shareholders	**$ (3,754)**	$ (1,194)
Weighted average number of shares	**21,523,515**	20,870,234
Diluted loss per share	**$ (0.17)**	$ (0.06)

	For the six months ended June 30, 2019	For the six months ended June 30, 2018
BASIC (LOSS) EARNINGS PER SHARE		
Net (loss) income for the period attributable to common shareholders	**$ (4,077)**	$ 569
Weighted average number of shares	**21,523,515**	20,456,993
Basic (loss) earnings per share	**$ (0.19)**	$ 0.03
DILUTED (LOSS) EARNINGS PER SHARE		
Net (loss) income for the period attributable to common shareholders	**$ (4,077)**	$ 569
Weighted average number of shares	**21,523,515**	20,495,793
Diluted (loss) earnings per share	**$ (0.19)**	$ 0.03

For the three and six months ended June 30, 2019, options to purchase up to 1,798,624 common shares were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. Warrants to purchase up to 960,000 common shares were excluded from the computation of diluted earnings per share as they were out-of-the-money as of June 30, 2019.

During the three months ended June 30, 2018, options to purchase 1,991,957 common shares were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. During the six months ended June 30, 2018, options to purchase up to 1,200,000 common shares where the average market price of the common shares was greater than the exercise price were included in the computation of diluted earnings per share while options to purchase up to 791,957 common shares where the average market price of the common stock was less than the exercise price were anti-dilutive and as such these were excluded from the computation of diluted earnings per share. Warrants to purchase up to 2,251,550 common shares were excluded from the computation of diluted earnings per share as they were out-of-the-money as of June 30, 2018.

15 Changes in working capital

	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Trade receivables	**$ 2,467**	$ 424
Inventories	**334**	830
Prepaid expenses and other current and non-current assets	**960**	1,358
Trade and accrued liabilities	**4,652**	6,324
Deferred revenue	**(206)**	171
	$ 8,207	$ 9,107

16 Commitments and Contingencies

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

17 Employee benefit plans

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

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

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

Pension expense

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

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2019 and 2018

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

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	**For the six months ended June 30, 2019**	For the six months ended June 30, 2018
Net cost recognized in general and administration expenses	**$ 75**	$ 75	**$ 150**	$ 150
Interest costs in finance expense	**74**	60	147	119
Defined benefit plans	**$ 149**	$ 135	$ 297	$ 269
Defined contribution plans	**$ 370**	$ 317	$ 714	$ 714
Defined benefit multi-employer plans	**$ 145**	$ 158	$ 272	$ 312

Other post-employment benefit plans expense

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

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	**For the six months ended June 30, 2019**	For the six months ended June 30, 2018
Net cost recognized in general and administration expenses	**$ 70**	$ 73	$ 140	$ 146
Interest costs in finance expense	**29**	28	58	56
Other post-employment benefit plans	**$ 99**	$ 101	$ 198	$ 202

18 Segmented information

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

(in thousands of Canadian dollars, unaudited)	**For the three months ended June 30, 2019**	For the three months ended June 30, 2018
Product sales	**$ 63,687**	$ 71,511
Warehousing services	**2,302**	2,584
Freight services	**2,578**	2,895
Marketing and other services	**1,056**	1,186
	$ 69,623	$ 78,176

	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Product sales	**$ 135,540**	$ 152,481
Warehousing services	**4,898**	5,510
Freight services	**5,487**	6,173
Marketing and other services	**2,247**	2,528
	$ 148,172	$ 166,692

19 Subsequent events

LIQUIDITY

On June 3, 2019, DCM implemented a new Enterprise Resource Planning ("ERP") system company-wide (excluding Eclipse, Thistle and Perennial). As part of its transition to the new ERP system, DCM encountered various migration issues which affected its ability to generate accurate and timely billings to its customers. This issue has resulted in a temporary lag in the issuance of invoices provided what is believed to be short term constraints on DCM's working capital and financial liquidity. As DCM continues to work through its transition to the new ERP system, management secured a number of waivers, amendments and related consents with its lenders to provide additional financial support.

AMENDMENT TO FPD A&R CREDIT FACILITIES

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

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

In addition, DCM is also required to secure additional financial support from the Bank, Crown and/or related parties of at least $7,000 (see "Amendment to Bank A&R Credit Facility", "Related Party Promissory Notes" and "Amendment to Crown Facility" below for further details) on or before August 16, 2019.

AMENDMENT TO BANK A&R CREDIT FACILITY

On July 31, 2019, DCM entered into a third amendment to increase the revolving commitment on its Bank A&R Credit Facility from an aggregate outstanding principal amount of up to $35,000 to up to $42,000 between July 31 and December 31, 2019. In addition, the amendment includes the Bank's consent to the amendments made to the FPD A&R Credit Facilities on July 25, 2019.

Given the borrowing base under the terms of the Bank A&R Credit Facility did not reach the new maximum limit of $42,000, the shortfall in additional financing required by FPD and the Bank totaling $7,000 was secured through new promissory notes issued to certain parties, including related parties of DCM, in conjunction with an increase in the principal amount payable under its existing Crown Facility (see "Related Party Promissory Notes" and "Amendment to Crown Facility" below for further details). Under the provisions of the third amendment to the Bank A&R Credit Facility, DCM is only permitted to make regular scheduled payments of interest during the term of the Related Party Promissory Notes and cannot repay any portion of principal prior to the end of the term, and on maturity, without written consent of the Bank.

RELATED PARTY PROMISSORY NOTES

On July 31, 2019, DCM issued promissory notes ("Related Party Promissory Notes") to certain parties, including related parties of DCM, in the aggregate principal amount of $1,000. The Related Party Promissory Notes bear interest at the rate of 10% per annum, payable quarterly on the first business day of each fiscal quarter beginning September 3, 2019, with principal repayable on or before the July 31, 2020 maturity date. The Related Party Promissory Notes are subordinated to DCM's obligations under the Bank A&R Credit Facility, the FPD A&R Credit Facilities and the Crown

Facility on the same basis as the VTB Noteholders as provided for in the amended and restated inter-creditor agreement dated May 7, 2018.

AMENDMENT TO CROWN CREDIT FACILITY

On August 7, 2019, DCM received confirmation from Crown that it intends to provide an increase in the principal amount outstanding on its existing Crown Facility by $7,000. All terms of the incremental funding are consistent with the provisions under the original Crown Facility. As part of this amendment, it is intended that the Related Party Promissory Notes will convert into a facility on substantially the same basis as, and ranking pari passu with, Crown. DCM is currently in the process of finalizing the amendment with Crown and expects to close this amendment and additional funding on or before August 16, 2019.

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

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

William Albino [1,2,3]
Director

Merri L. Jones [1,3]
Director

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

Michael G. Sifton [1]
Director

Derek J. Watchorn [1,2]
Director

Gregory J. Cochrane
Director & Officer

James E. Lorimer
Officer
Chief Financial Officer &
Corporate Secretary

EXECUTIVE TEAM

Gregory J. Cochrane
Chief Executive Officer

Michael Coté
President

James E. Lorimer
Chief Financial Officer

Kevin Lund
Chief Brand Officer

Ralph Misale
Senior Vice President, Operations

Don Smith
Senior Vice President,
Coroporate Services

Vik Boldie
Vice President, Finance

CORPORATE INFORMATION

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Toronto Stock Exchange Symbol
DCM

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

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

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

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