Q2

DATA COMMUNICATIONS MANAGEMENT

QUARTER TWO

ENDED

JUNE 30, 2016

AT DATA COMMUNICATIONS MANAGEMENT WE…

…ARE UNITED AS ONE TEAM

We are a unified team bonded by our common purpose and driven by our commitment to openness, collaboration and a desire to win

…AIM FOR GREATNESS

We are obsessed with providing an exceptional customer experience grounded in quality, reliability and accountability

…INNOVATE AND LEAD

We are externally focused, using data and market trends to boldly serve our clients as trusted advisors and problem solvers

…ARE COMMITTED TO EVERY MEMBER OF OUR TEAM

We inspire and encourage our employees to do great things while continually learning and celebrating success, within a diverse environment built on support and belonging

…ARE MINDFUL OF OUR GREATER COMMUNITY AND THE ENVIRONMENT

We share a responsibility for the communities where we live and work and embrace the best environmental, ethical and governance practices

Letter to shareholders

Dear Shareholder,

In the second quarter of 2016, our financial results showed continued improvements in margins and profitability over the comparable period last year. Gross margin percentage, Adjusted EBITDA margin percentage and net margin percentage all improved, leading to healthy increases in Adjusted EBITDA and net income despite softer revenue. It's one year ago today that we announced a series of significant restructuring initiatives to improve DATA's financial performance and we have now experienced four successive quarters of year over year improvements in margins and profitability.

Although significant operating improvements have been implemented, we continue to optimize our operations. As such, we recently announced that we would be consolidating our Alberta operations into our Calgary facility. We have commenced the redistribution of our client work from Edmonton to our Calgary facility and to other facilities in Ontario and Quebec, and expect that process to be completed as planned by the end of fiscal 2016. This decision, while difficult, will help solidify our business and provide enhanced performance at our five remaining "centres of excellence".

On the sales front, we continue to contend with industry over-capacity in some print segments coupled with the current uncertainty about a potential Canada Post labour disruption. Some of our sales initiatives to address our industry challenges include: recruitment of both senior sales leadership and young talent; better integration of our outside sales teams and our inside "customer experience" teams; and building marketplace awareness and credibility through directed marketing strategies which leverage our new brand, name and website.

It was announced in early June that I will be staying on as President and CEO of DATA. As part of my continuing in this role, I`ve made a sizable investment in the company and am very much aligned with your interests. I feel strongly about the future prospects for DATA and look forward to reporting to you on our progress as we refine our strategy. Your management team has been very focused on stabilizing the business for the past year and we are now renewing our emphasis on developing and implementing growth strategies for both the short and longer term.

We have recently completed a number of corporate initiatives which I believe help position DATA better to execute on these strategies as they are developed. These include:

- Closing a private placement that raised a total of $2.8 million in gross proceeds in two tranches, further strengthening our balance sheet;
- Entering into a settlement, nomination and standstill agreement with KST Industries Inc.;
- Adding three new directors to the board of directors, who complement our board with strong governance and relevant industry expertise;
- Formally changing our legal name to "DATA Communications Management Corp."; and
- Consolidating our common shares on the basis of 100 pre-existing shares to one current share, along with a corresponding change in trading symbol.

I look forward to reporting back to you at the end of the third quarter.

For a full description of our financial results for the second quarter and the year to date of 2016, please refer to our unaudited consolidated financial statements for three and six months ended June 30, 2016 and related management's discussion and analysis, copies of which are available at www.sedar.com.

Sincerely,

Michael G. Sifton
President and Chief Executive Officer

DATA Communications Management Corp.
August 2016

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

This Management's Discussion and Analysis ("MD&A") comments on the consolidated operations, performance and financial condition of DATA Communications Management Corp. ("DATA") for the three and six months ended June 30, 2016. This MD&A should be read in conjunction with the MD&A of DATA for the year ended December 31, 2015, the unaudited interim consolidated financial statements and accompanying notes of DATA for the three and six months ended June 30, 2016, and the audited consolidated financial statements and accompanying notes of DATA for the year ended December 31, 2015. These documents are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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

The date of this MD&A is August 10, 2016. Additional information relating to DATA, including its most recently filed audited and unaudited consolidated financial statements, Annual Information Form and Management Information Circular, is available on SEDAR at www.sedar.com.

Forward-looking statements

Certain statements in this MD&A constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of DATA, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward-looking statements. When used in this MD&A, words such as "may", "would", "could", "will", "expect", "anticipate", "estimate", "believe", "intend", "plan", and other similar expressions are intended to identify forward-looking statements. These statements reflect DATA's current views regarding future events and operating performance, are based on information currently available to DATA, and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks, uncertainties and assumptions and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Many factors could cause the actual results, performance, objectives or achievements of DATA to be materially different from any future results, performance, objectives or achievements that may be expressed or implied by such forward-looking statements. The principal factors, assumptions and risks that DATA 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 DATA'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 DATA which are related to reduced demand for its printed products will adversely affect DATA's financial results; the risk that DATA may not be successful in reducing the size of its legacy print business, reducing costs, reducing its long-term debt, repaying or refinancing its outstanding 6.00% convertible unsecured subordinated debentures, and growing its digital communications business; the risk that DATA may not be successful in managing its organic growth; DATA'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 DATA and are well-established suppliers; DATA's ability to grow its sales or even maintain historical levels of its sales of printed business documents; the impact of economic conditions on DATA's businesses; risks associated with acquisitions by DATA; increases in the costs of paper and other raw materials used by DATA; and DATA's ability to maintain relationships with its customers. Additional factors are discussed elsewhere in this MD&A and under the headings "Risk Factors" and "Risks and Uncertainties" in DATA's publicly available disclosure documents, as filed by DATA 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, DATA does not intend and does not assume any obligation to update these forward-looking statements.

Non-GAAP measures

This MD&A includes certain non-GAAP measures as supplementary information. Except as otherwise noted, when used in this MD&A, EBITDA means earnings before interest and finance costs, taxes, depreciation and amortization and Adjusted net income (loss) means net income (loss) adjusted for the impact of certain non-cash items and certain items of note on an after-tax basis. Adjusted EBITDA for the three and six month periods ended June 30, 2016 means EBITDA adjusted for restructuring expenses. Adjusted EBITDA for the three and six month periods ended June 30, 2015 means EBITDA adjusted for restructuring expenses and goodwill impairment charges. Adjusted net income (loss) for the three and six month periods ended June 30, 2016 means net income (loss) adjusted for restructuring expenses and the tax effects of those items. Adjusted net income (loss) for the three and six month periods ended June 30, 2015 means net income (loss) adjusted for restructuring expenses, goodwill impairment charges and the tax effects of those items. Adjusted net income (loss) per share, basic is calculated by dividing Adjusted net income (loss) for the period by the weighted average number of common shares (basic and diluted) outstanding during the period. Pro forma Adjusted net income (loss) per share for the three and six month periods ended June 30, 2015 assumes Adjusted net income (loss) per share was calculated on the basis of the total number of common shares outstanding at December 31, 2015, rather than the weighted average number of common shares outstanding at the period end, given the significant dilution that occurred on December 23, 2015 due to the issuance of 975,262,140 common shares of DATA in connection with the redemption of a portion of DATA's then outstanding 6.00% Convertible Unsecured Subordinated Debentures (the "6.00% Convertible Debentures"). DATA believes that, in addition to net income (loss), Adjusted net income (loss), Adjusted net income (loss) per share, Pro forma Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating the performance of DATA. Adjusted net income (loss), Adjusted net income (loss) per share, Pro forma 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, Pro forma 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, Pro forma 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 DATA's performance. For a reconciliation of net income (loss) to EBITDA and a reconciliation of net income (loss) to Adjusted EBITDA, see Table 3 below. For a reconciliation of net income (loss) to Adjusted net income (loss) and a presentation of Adjusted net income (loss) per share and Pro forma Adjusted net income (loss) per share, see Table 4 below.

Business of DATA

OVERVIEW

DATA plans and executes business communications. DATA helps marketers and agencies unify and execute communications campaigns across multiple channels, and it helps operations teams streamline and automate document and communications processes. DATA derives its revenues from the following core capabilities: direct marketing, commercial print services, labels and automated identification solutions, event tickets and gift cards, logistics and fulfilment, content and workflow management, data management and analytics, and regulatory communications. DATA is strategically located across Canada to support clients on a national basis, and serves the U.S. market through its facilities in Chicago, Illinois. DATA generally negotiates sales contracts and service level agreements with its clients and generally does not use standardized contracts. Customer agreements and terms typically include provisions consistent with industry practice, allowing DATA to pass along increases in the cost of paper and other raw materials used to manufacture products.

Certain elements of DATA's gift card and direct mail businesses as well as the buying patterns of certain major customers of DATA have historically generated higher revenues and profit in the fourth quarter than the other three quarters, which results in seasonal fluctuations in sales of those products.

RECENT DEVELOPMENTS

On June 1, 2016, DATA announced that Michael G. Sifton will continue in his role as the President and Chief Executive Officer.

On June 1, 2016, DATA entered into a settlement, nomination and standstill agreement (the "KST Agreement") with KST Industries Inc. ("KST") and Harindar Takhar (collectively, the "KST Parties"). Pursuant to the terms of the KST Agreement, DATA agreed to include an eligible designee of KST in its slate of nominees for election as directors of DATA at its 2016 annual meeting of shareholders and at subsequent shareholder meetings. The KST Parties have agreed that, until July 1, 2019 (the "Standstill Period"), neither the KST Parties nor any of KST's associates, affiliates, subsidiaries, or certain other persons, will, take certain actions, including, among other things, acquiring or disposing of securities of DATA, except in certain circumstances; and soliciting proxies; proposing any nominee for election to the board of directors of DATA other than KST's designee. DATA granted to KST anti-dilution rights to participate in future offerings of common shares of DATA ("Common Shares") (or securities convertible into, or exchangeable for, Common Shares) on a pro rata basis, subject to certain exceptions. KST's director nomination and anti-dilution rights will terminate on the date on which KST owns 5% or less of the outstanding Common Shares. In addition, KST will have the right, in certain circumstances, to purchase Common Shares in the open market for the purpose of maintaining its then percentage ownership of the outstanding Common Shares. In no event may KST beneficially own in excess of 15.54% of the outstanding voting securities of DATA. KST has agreed to grant DATA a right of first offer to arrange for purchasers of the DATA's securities which KST desires to sell from time to time, subject to certain exceptions. KST has agreed that, during the Standstill

Period, it will vote the Common Shares held by it in accordance with the recommendation of DATA's board of directors with respect to the election of directors and the appointment of auditors and certain matters that were submitted for shareholder approval at DATA's 2016 annual meeting of shareholders. Under the terms of the KST Agreement, DATA has also agreed that, subject to certain conditions, it will not redeem any of the outstanding 6% Convertible Debentures, other than for cash, prior to November 30, 2016.

On May 27, 2016, DATA announced that it intended to complete a non-brokered private placement of up to 198,751,793 Common Shares at a price of $0.014 per Common Share for gross proceeds to DATA of approximately $2.8 million in two tranches. On May 31, 2016, the first portion of private placement was completed for net proceeds of $2.3 million. On July 4, 2016, following receipt of disinterested shareholder approval, the second portion of the private placement was completed for net proceeds of $0.4 million. See “Liquidity and capital resources” below.

On July 4, 2016, DATA changed its legal name to “DATA Communications Management Corp.” (the “Name Change”) and consolidated its issued and outstanding Common Shares on the basis of one post-consolidation Common Share for each 100 pre-consolidation Common Shares (the “Share Consolidation”) and the Common Shares commenced trading over the facilities of the Toronto Stock Exchange under the new stock symbol of “DCM” on July 7, 2016. See “Outstanding share data” below. In addition, the outstanding 6.00% Convertible Debentures commenced trading on July 7, 2016 under the new stock symbol DCM.DB. The Name Change and Share Consolidation were each approved at the annual and special meeting of the DATA's shareholders held on June 30, 2016.

Subsequent to the quarter ended June 30, 2016, DATA began consolidating its Alberta operations into its flagship Calgary, Alberta operations facility. As a result, it will close its Edmonton, Alberta operations facility at the end of 2016 and redistribute production from Edmonton to Calgary and other operations facilities across Canada. DATA presently expects to incur a total of approximately $3.5 million in restructuring expenses in the second half of 2016 related to these consolidation plans, consisting primarily of severance costs associated with headcount reductions and, to a lesser extent, relocation of equipment.

REVENUE RECOGNITION POLICY

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

COST OF REVENUES AND EXPENSES

DATA's cost of revenues consists of raw materials, manufacturing salaries and benefits, occupancy, lease of equipment and depreciation. DATA has incurred restructuring expenses in each of the last three fiscal years, which primarily consisted of severance costs associated with headcount reductions and costs related to facilities closures. DATA's raw material costs consist primarily of paper, carbon and ink. Manufacturing salaries and benefits costs consist of employee salaries and health benefits at DATA's printing and warehousing facilities. Occupancy costs consist primarily of lease payments at DATA's facilities, utilities, insurance and building maintenance. DATA's expenses consist of selling, depreciation and amortization, and general and administration expenses. Selling expenses consist primarily of employee salaries, health benefits and commissions, and include related costs for travel, corporate communications, trade shows, and marketing programs. Depreciation and amortization represent the allocation to income of the cost of property, plant and equipment, and intangible assets over their estimated useful lives. General and administration expenses consist primarily of employee salaries, health benefits, and other personnel related expenses for executive, financial and administrative personnel, as well as facility, telecommunications, pension plan expenses and professional service fees.

General information and results of operations

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

For the periods ended June 30, 2016 and 2015 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*	**April 1 to June 30, 2016**	April 1 to June 30, 2015	**January 1 to June 30, 2016**	January 1 to June 30, 2015
Revenues	**$ 69,716**	$ 73,447	**$ 144,330**	$ 149,449
Cost of revenues	**52,567**	57,821	**108,808**	116,538
Gross profit	**17,149**	15,626	**35,522**	32,911
Selling, general and administrative expenses	**13,748**	14,249	**27,581**	29,184
Restructuring expenses	**368**	4,205	**692**	6,259
Impairment of goodwill	**—**	26,000	**—**	26,000
Amortization of intangible assets	**510**	479	**1,015**	958
	14,626	44,933	**29,288**	62,401
Income (loss) before finance costs and income taxes	**2,523**	(29,307)	**6,234**	(29,490)
Finance costs				
Interest expense	**869**	1,464	**1,737**	2,748
Interest income	**(1)**	(3)	**(4)**	(7)
Amortization of transaction costs	**109**	134	**356**	170
	977	1,595	**2,089**	2,911
Income (loss) before income taxes	**1,546**	(30,902)	**4,145**	(32,401)
Income tax expense (recovery)				
Current	**1,156**	76	**1,332**	83
Deferred	**(601)**	(1,295)	**(60)**	(1,670)
	555	(1,219)	**1,272**	(1,587)
Net income (loss) for the period	**$ 991**	$ (29,683)	**$ 2,873**	$ (30,814)
Net income (loss) attributable to common shareholders	**$ 991**	$ (29,683)	**$ 2,873**	$ (30,814)
Basic earnings (loss) per share	**$ 0.00**	$ (1.26)	**$ 0.00**	$ (1.31)
Diluted earnings (loss) per share	**$ 0.00**	$ (1.26)	**$ 0.00**	$ (1.31)
Weighted average number of common shares outstanding - basic	**1,055,934,450**	23,490,592	**1,027,343,591**	23,490,592
Weighted average number of common shares outstanding - diluted	**1,058,695,311**	23,490,592	**1,028,724,021**	23,490,592

As at June 30, 2016 and December 31, 2015 *(in thousands of Canadian dollars, unaudited)*	**As at June 30, 2016**	As at December 31, 2015
Current assets	**$ 73,488**	$ 80,125
Current liabilities	**60,701**	90,298
Total assets	**125,025**	134,067
Total non-current liabilities	**41,278**	24,750
Shareholders' equity	**$ 23,046**	$ 19,019

TABLE 2 The following table sets out selected historical consolidated financial information for the periods noted. See "Non-GAAP Measures".

For the periods ended June 30, 2016 and 2015 *(in thousands of Canadian dollars, except percentage amounts, unaudited)*		**April 1 to June 30, 2016**		April 1 to June 30, 2015		**January 1 to June 30, 2016**		January 1 to June 30, 2015
Revenues	**$**	**69,716**	$	73,447	**$**	**144,330**	$	149,449
Gross profit	**$**	**17,149**	$	15,626	**$**	**35,522**	$	32,911
Gross profit, as a percentage of revenues		**24.6%**		21.3 %		**24.6%**		22.0 %
Selling, general and administrative expenses	**$**	**13,748**	$	14,249	**$**	**27,581**	$	29,184
As a percentage of revenues		**19.7%**		19.4 %		**19.1%**		19.5 %
Adjusted EBITDA (see Table 3)	**$**	**4,535**	$	2,601	**$**	**10,190**	$	6,101
Adjusted EBITDA, as a percentage of revenues		**6.5%**		3.5 %		**7.1%**		4.1 %
Net income (loss) for the period	**$**	**991**	$	(29,683)	**$**	**2,873**	$	(30,814)
Adjusted net income (loss) (see Table 4)	**$**	**1,263**	$	(567)	**$**	**3,384**	$	(176)
Adjusted net income (loss), as a percentage of revenues		**1.8%**		(0.8)%		**2.3%**		(0.1)%

TABLE 3 The following table provides reconciliations of net income (loss) to EBITDA and of net income (loss) to Adjusted EBITDA for the periods noted. See "Non-GAAP Measures".

EBITDA and Adjusted EBITDA reconciliation

For the periods ended June 30, 2016 and 2015 *(in thousands of Canadian dollars, unaudited)*		**April 1 to June 30, 2016**		April 1 to June 30, 2015		**January 1 to June 30, 2016**		January 1 to June 30, 2015
Net income (loss) for the period	**$**	**991**	$	(29,683)	**$**	**2,873**	$	(30,814)
Interest expense		**869**		1,464		**1,737**		2,748
Interest income		**(1)**		(3)		**(4)**		(7)
Amortization of transaction costs		**109**		134		**356**		170
Current income tax expense		**1,156**		76		**1,332**		83
Deferred income tax recovery		**(601)**		(1,295)		**(60)**		(1,670)
Depreciation of property, plant and equipment		**1,134**		1,224		**2,249**		2,374
Amortization of intangible assets		**510**		479		**1,015**		958
EBITDA	**$**	**4,167**	$	(27,604)	**$**	**9,498**	$	(26,158)
Restructuring expenses		**368**		4,205		**692**		6,259
Impairment of goodwill		**—**		26,000		**—**		26,000
Adjusted EBITDA	**$**	**4,535**	$	2,601	**$**	**10,190**	$	6,101

TABLE 4 The following table provides reconciliations of net income (loss) to Adjusted net income (loss) and a presentation of Adjusted net income (loss) per share and Pro forma Adjusted net income (loss) per share for the periods noted. See "Non-GAAP Measures".

Adjusted net income (loss) reconciliation

For the periods ended June 30, 2016 and 2015 *(in thousands of Canadian dollars, except share and per share amounts, unaudited)*		**April 1 to June 30, 2016**		April 1 to June 30, 2015		**January 1 to June 30, 2016**		January 1 to June 30, 2015
Net income (loss) for the period	**$**	**991**	$	(29,683)	**$**	**2,873**	$	(30,814)
Restructuring expenses		**368**		4,205		**692**		6,259
Impairment of goodwill		**—**		26,000		**—**		26,000
Tax effect of the above adjustments		**(96)**		(1,089)		**(181)**		(1,621)
Adjusted net income (loss)	**$**	**1,263**	$	(567)	**$**	**3,384**	$	(176)
Adjusted net income (loss) per share, basic	**$**	**0.0012**	$	(0.0241)	**$**	**0.0033**	$	(0.0075)
Adjusted net income (loss) per share, diluted	**$**	**0.0012**	$	(0.0241)	**$**	**0.0033**	$	(0.0075)
Pro forma Adjusted net income (loss) per share, basic (1)	**$**	**0.0012**	$	(0.0006)	**$**	**0.0033**	$	(0.0002)
Pro forma Adjusted net income (loss) per share, diluted (1)	**$**	**0.0012**	$	(0.0006)	**$**	**0.0033**	$	(0.0002)
Weighted average number of common shares outstanding - basic		**1,055,934,450**		23,490,592		**1,027,343,591**		23,490,592
Weighted average number of common shares outstanding - diluted		**1,058,695,311**		23,490,592		**1,028,724,021**		23,490,592
Number of common shares outstanding		**1,166,608,744**		23,490,592		**1,166,608,744**		23,490,592

Note:
(1) *On December 23, 2015, DATA issued 975,262,140 Common Shares in connection with the redemption of approximately 75% of the aggregated principal amount of its outstanding* 6.00% Convertible Debentures*. Pro forma Adjusted net income (loss) per share, a non-GAAP measure, assumes Adjusted net income (loss) per share* for the three and six month periods ended June 30, 2015 *were calculated on the basis of the total number of Common Shares outstanding of 998,752,732 at December 31, 2015, rather than the weighted average number of common shares outstanding at the respective period ends, given the significant dilution that occurred with eight days left in the 2015 fiscal year due to the issuance of 975,262,140 Common Shares as described above.*

Results of operations

The president and chief executive officer ("CEO") of DATA is the chief operating decision-maker ("CODM"). Management has determined that there is one operating segment based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance. As a result of the organizational and operational changes implemented by DATA in 2015, DATA's operations are increasingly integrated and interdependent and less focused on serving separate distribution channels and, therefore, DATA's former Multiple Pakfold operating segment has been included in one consolidated operating segment commencing in the quarter ended December 31, 2015.

REVENUES

For the quarter ended June 30, 2016, DATA recorded revenues of $69.7 million, a decrease of $3.7 million or 5.1% compared with the same period in 2015. The decrease in revenues was due to declines in and the timing of orders from existing customers for print-related products and services, which was partially offset by growth in revenues from new customer orders. For the six months ended June 30, 2016, DATA recorded revenues of $144.3 million, a decrease of $5.1 million or 3.4% compared with the same period in 2015. The decrease in revenues for the six months ended June 30, 2016 was primarily due to a greater decline in orders from existing customers for print-related products and services than offsetting growth in revenues from new customers.

COST OF REVENUES AND GROSS PROFIT

For the quarter ended June 30, 2016, cost of revenues decreased to $52.6 million from $57.8 million for the same period in 2015. Gross profit for the quarter ended June 30, 2016 was $17.1 million, which represented an increase of $1.5 million or 9.7% from $15.6 million for the same period in 2015. Gross profit as a percentage of revenues increased to 24.6% for the quarter ended June 30, 2016 compared to 21.3% for the same period in 2015. For the six months ended June 30, 2016, cost of revenues decreased to $108.8 million from $116.5 million for the same period in 2015. Gross profit for the six months ended June 30, 2016 was $35.5 million, which represented an increase of $2.6 million or 7.9% from $32.9 million for the same period in 2015. Gross profit as a percentage of revenues increased to 24.6% for the six months ended June 30, 2016 compared to 22.0% for the same period in 2015. The increase in gross profit as a percentage of revenues for the three and six month periods ended June 30, 2016 was largely due to the cost reductions realized from prior cost savings initiatives implemented in 2015. Those cost savings initiatives included headcount reductions, which helped reduce direct and indirect labour costs, respectively.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses, excluding amortization of intangible assets, for the quarter ended June 30, 2016 decreased $0.5 million or 3.5% to $13.7 million compared to $14.2 million in the same period in 2015. As a percentage of revenues, these costs were 19.7% of revenues for the quarter ended June 30, 2016 compared to 19.4% of revenues for the same period in 2015. SG&A expenses, excluding amortization of intangible assets, for the six months ended June 30, 2016 decreased $1.6 million or 5.5% to $27.6 million compared to $29.2 million for the same period of 2015. As a percentage of revenues, these costs were 19.1% and 19.5% of revenues for the six month periods ended June 30, 2016 and 2015, respectively. The decrease in SG&A expenses for the three and six month periods ended June 30, 2016 was primarily attributable to cost savings initiatives implemented in 2015, including headcount reductions across sales, general and administration functions, respectively. The decrease in SG&A expenses for the three and six month periods ended June 30, 2016 was partially offset by higher SG&A expenses related to share-based compensation expense and additional corporate costs related to changes in DATA's board of directors (the "Board of Directors"), the Name Change and the Share Consolidation during the quarter ended June 30, 2016.

RESTRUCTURING EXPENSES

For the three and six month periods ended June 30, 2016, DATA incurred restructuring expenses primarily related to headcount reductions of $0.4 million and $0.7 million, respectively. For the three months ended June 30, 2015, DATA incurred restructuring expenses of $4.2 million due to changes in senior management, headcount reductions across DATA's operations and the closure of certain manufacturing locations. For the six months ended June 30, 2015, DATA incurred restructuring expenses of $6.3 million comprised of (i) $5.6 million of restructuring expenses due to changes in senior management, headcount reductions across DATA's operations and the closure of certain manufacturing locations, and a (ii) charge to onerous contracts of $0.7 million for a lease exit charge for a closed facility in Calgary, Alberta.

ADJUSTED EBITDA

For the quarter ended June 30, 2016, Adjusted EBITDA was $4.5 million, or 6.5% of revenues. Adjusted EBITDA for the quarter ended June 30, 2016 increased $1.9 million or 74.4% from the same period in the prior year and Adjusted EBITDA margin for the quarter, as a percentage of revenues, increased from 3.5% of revenues in 2015 to 6.5% of revenues in 2016. For the six months ended June 30, 2016, Adjusted EBITDA was $10.2 million, or 7.1% of revenues. Adjusted EBITDA for the six months ended June 30, 2016 increased $4.1 million or 67.0% from the same period in the prior year and Adjusted EBITDA margin for the period, as a percentage of revenues, increased from 4.1% of revenues in 2015 to 7.1% of revenues in 2016. The increase in Adjusted EBITDA for the three and six month periods ended June 30, 2016 was attributable to improved gross margins as a result of prior cost savings initiatives which lowered direct and indirect labour costs, improved utilization rates at DATA's key plants and lowered SG&A expense, despite lower levels of revenues compared to the prior comparable periods.

INTEREST EXPENSE

Interest expense, including interest on debt outstanding under DATA's credit facilities, on its outstanding 6.00% Convertible Debentures, on certain unfavourable lease obligations related to closed facilities and on DATA's employee benefit plans, was $0.9 million for the quarter ended June 30, 2016 compared to $1.5 million for the same period in 2015, and was $1.7 million for the six months ended June 30, 2016 compared to $2.7 million for the same period in 2015. Interest expense for the three and six month periods ended June 30, 2016 was lower than the same periods in the prior year primarily as a result of reductions in the aggregate principal amount of outstanding 6.00% Convertible Debentures and debt outstanding under DATA's credit facilities, respectively.

INCOME TAXES

DATA reported income before income taxes of $1.5 million, a current income tax expense of $1.2 million and a deferred income tax recovery of $0.6 million for the quarter ended June 30, 2016 compared to a loss before income taxes of $30.9 million, a current income tax expense of $0.1 million and a deferred income tax recovery of $1.3 million for the quarter ended June 30, 2015. DATA reported income before income taxes of $4.1 million, a current income tax expense of $1.3 million and a deferred income tax recovery of $0.1 million for the six months ended June 30, 2016 compared to a loss before income taxes of $32.4 million, a current income tax expense of $0.1 million and a deferred income tax recovery of $1.7 million for the six months ended June 30, 2015. The current income tax expense was due to the taxes payable on DATA's estimated taxable income for the three and six month periods ended June 30, 2016, respectively. The current tax expense for the three and six month periods ended June 30, 2016 includes a recovery of taxes paid in a prior period offset by a reclassification from deferred taxes. The deferred income tax recoveries were due to changes in estimates of future reversals of temporary differences and new temporary differences that arose during the three and six month periods ended June 30, 2016 and 2015, respectively.

NET INCOME (LOSS)

Net income for the three and six months ended June 30, 2016 was $1.0 million and $2.9 million, respectively, compared to net loss of $29.7 million and $30.8 million, respectively, for the same periods in 2015. The increase in comparable profitability for the three and six month periods ended June 30, 2016 was substantially due to higher gross profit as a result of lower direct and indirect costs, cost savings realized as a result of the restructuring initiatives in 2015 that led to a decline in SG&A expenses and lower interest expense during the three and six month periods ended June 30, 2016, respectively. In addition, the increase in comparable profitability was due to lower restructuring expenses during the three and six month periods ended June 30, 2016 and a goodwill impairment charge during the three and six month periods ended June 30, 2015, respectively. The increase in comparable profitability was partially offset by larger current income tax expenses and smaller deferred income tax recoveries, respectively, during the three and six month periods ended June 30, 2016.

ADJUSTED NET INCOME (LOSS)

Adjusted net income for the three and six months ended June 30, 2016 was $1.3 million and $3.4 million, respectively, compared to Adjusted net loss of $0.6 million and $0.2 million, respectively, for the same periods in 2015. The increase in comparable profitability for the three and six month periods ended June 30, 2016 was attributable to higher gross profit as a result of lower direct and indirect labour costs and SG&A expenses attributable to cost savings realized as a result of the restructuring initiatives in 2015 and lower interest expense in 2016, respectively.

Liquidity and capital resources

LIQUIDITY

In 2016, DATA completed a non-brokered private placement of 198,751,793 Common Shares (or approximately 19.9% of the number of outstanding Common Shares on May 27, 2016) at a price of $0.014 per Common Share for gross proceeds to DATA of approximately $2.8 million in two tranches. On May 31, 2016, the first portion of the private placement was completed and DATA issued a total of 167,856,012 Common Shares for gross proceeds of $2.4 million, less issue expenses of $0.1 million for net proceeds of $2.3 million. On July 4, 2016, following receipt of disinterested shareholder approval at the annual and special meeting of the DATA's shareholders held on June 30, 2016, DATA completed the second portion of the private placement and DATA issued a total of 30,895,781 Common Shares for gross proceeds of $0.4 million, less issue expenses of $0.1 million for net proceeds of $0.4 million.

In March 2016, DATA refinanced its credit facilities by establishing a revolving credit facility (the "Bank Credit Facility") with a Canadian chartered bank (the "Bank") and an amortizing term loan facility (the "IAM Credit Facility") with the Integrated Private Debt division of Integrated Asset Management Corp. ("IAM") pursuant to separate credit agreements, each dated March 10, 2016, between DATA and the Bank (the "Bank Credit Agreement") and IAM (the "IAM Credit Agreement"), respectively. Approximately $43.3 million of the total principal amount available to DATA under the IAM Credit Agreement and the Bank Credit Agreement has been used to fully repay DATA's outstanding indebtedness under its former credit facilities, which would have matured in August 2016. As at June 30, 2016, DATA had outstanding borrowings of $6.5 million and letters of credit granted of $3.8 million under the Bank Credit Facility, and outstanding borrowings of $27.2 million under the IAM Credit Facility. Under the Bank Credit Facility, DATA had access to $13.1 million of available credit at June 30, 2016.

DATA has capitalized transaction costs of $0.6 million related to the Bank Credit Facility and the amortization of these costs is recognized over the term of this facility. As at June 30, 2016, the unamortized transaction costs related to this facility were $0.6 million. As at June 30, 2016, all of DATA's indebtedness outstanding under the Bank Credit Facility was subject to a floating interest rate of 3.45% per annum.

DATA has capitalized transaction costs of $0.7 million related to the IAM Credit Facility and the amortization of these costs is recognized over the term of this facility. As at June 30, 2016, the unamortized transaction costs related to this facility were $0.6 million. As at June 30, 2016, all of DATA's indebtedness outstanding under the IAM Credit Facility was subject to a fixed interest rate equal to 6.95% per annum.

Both the Bank Credit Agreement and the IAM Credit Agreement contain customary representations and warranties, as well as restrictive covenants which limit the discretion of the Board of Directors and management with respect to certain business matters including the declaration or payment of dividends on the Common Shares without the consent of the Bank or IAM, as applicable.

Under the terms of the IAM Credit Agreement, DATA must ensure that the aggregate of the principal amount outstanding under the IAM Credit Facility and the principal amount outstanding under the Bank Credit Facility, calculated on a consolidated basis in accordance with generally accepted accounting principles ("Senior Funded Debt"), does not exceed $50.0 million; and DATA must maintain (i) a ratio of Senior Funded Debt to EBITDA for its four most recently completed fiscal quarters of not greater than the following levels: from the date of the advance up to March 31, 2017 - 3.25 to 1; from April 1, 2017 up to March 31, 2018 - 3.00 to 1; and on and after April 1, 2018 - 2.75 to 1; (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 1.25:1. During the quarter ended June 30, 2016, DATA entered into an amendment agreement with IAM which changed the definition of the working capital ratio to exclude the aggregate principal amount of the 6.00% Convertible Debentures from current liabilities for the period from June 29, 2016 to June 30, 2017. As at June 30, 2016, the ratio of Senior Funded Debt to EBITDA was 1.31, the debt service coverage ratio was 3.04 and the working capital current ratio was 1.48.

Under the terms of the Bank Credit Agreement, DATA must maintain a fixed charge coverage ratio of not less than 1.1 to 1.0 at all times, 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 DATA to service its outstanding debt for such period. As at June 30, 2016, the fixed charge coverage ratio was 3.34.

A failure by DATA to comply with its obligations under either of the Bank Credit Agreement or the IAM Credit Agreement, together with certain other events, including a change of control of DATA and a change in DATA's chief executive officer, president or chief financial officer (unless a replacement officer acceptable to IAM, 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.

Each of the Bank Credit Facility and the IAM Credit Facility is secured by conventional security charging all of the property and assets of DATA and its affiliates. The payment of the principal of, and interest on, DATA's outstanding 6.00% Convertible Debentures is subordinated in right of payment to the prior payment in full of DATA's indebtedness under the Bank Credit Agreement and the IAM Credit Agreement.

The terms of the Bank Credit Facility and the IAM Credit Facility are described in greater detail in DATA's annual MD&A for the year ended December 31, 2015.

As at June 30, 2016, 6.00% Convertible Debentures in an aggregate principal amount of $11.2 million were outstanding. The 6.00% Convertible Debentures mature on June 30, 2017, bear interest at a rate of 6.00% per annum payable semi-annually and are convertible into Common Shares at the option of the holder at any time prior to June 30, 2017 (or, if called for redemption prior to that date, on the business day immediately preceding the dated specified by DATA for redemption of the 6.00% Convertible Debentures). As a result of the Share Consolidation, the conversion price changed to $1,220 per Common Share, being a conversion rate of approximately 0.8196 Common Shares per $1,000 principal amount of 6.00% Convertible Debentures, subject to adjustment in certain events. The terms of the 6.00% Convertible Debentures, including the right of DATA to satisfy the redemption price of 6.00% Convertible Debentures redeemed by DATA by the issuance of Common Shares, are described in greater detail in DATA's Annual Information Form for the year ended December 31, 2015 (subject to the changes to the 6.00% Convertible Debentures described above), which is available on SEDAR at www.sedar.com.

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

As at June 30, 2016, DATA had cash and cash equivalents of $1.0 million compared to cash and cash equivalents of $0.9 million at December 31, 2015. The cash equivalents consisted mainly of short-term investments, such as money market deposits. DATA has deposited the cash equivalents with a Canadian Schedule 1 bank, from which DATA believes the risk of loss to be remote. Under the terms of the IAM Credit Agreement, DATA is required to deposit and hold cash in a blocked account to be used for repayments of principal and interest of indebtedness outstanding under the IAM Credit Facility. As at June 30, 2016, there was a balance of $0.4 million in the blocked account which is recognized as restricted cash in DATA's consolidated statement of financial position.

In assessing DATA's liquidity requirements, DATA takes into account its level of cash and cash equivalents, together with currently projected cash to be provided by operating activities, cash available from its unused credit facilities, cash from investing activities such as sales of redundant assets, access to the capital markets and anticipated reductions in operating costs projected to result from existing and planned restructuring activities, as well as its ongoing cash needs for its existing operations, including expenditures related to its growth strategy, payments associated with various restructuring and productivity improvement initiatives, contributions to its pension plans, payment of income tax liabilities and cash required to finance currently planned expenditures. Cash flows from operations have been, and could continue to be, negatively impacted by decreased demand for DATA's products and services and pricing pressures from its existing and new customers, which could result from factors such as reduced demand for traditional business forms and other print-related products, adverse economic conditions and competition from competitors supplying similar products and services, increases in DATA's operating costs (including interest expense on its outstanding indebtedness and restructuring expenses) and increased costs associated with the manufacturing and distribution of products or the provision of services. DATA'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.

PENSION FUNDING OBLIGATIONS

DATA maintains a defined benefit and defined contribution pension plan (the "DATA Group Pension Plan") for some of its employees. DATA's funding obligation for the defined benefit provision of the DATA Group Pension Plan for 2016 is $1.3 million.

DATA makes contributions to the Québec Graphics Communications Supplemental Retirement and Disability Fund of Canada (the "SRDF") based on a percentage of the wages of its unionized employees covered by the respective collective bargaining agreements, all of whom are employed at DATA facilities located in the Province of Québec. The SRDF is a negotiated contribution defined benefit, multi-employer pension plan which provides retirement benefits to unionized employees in the printing industry. The SRDF is jointly-trusteed by representatives of the employers of SRDF members and the unions which represent SRDF members in collective bargaining. Based upon the terms of those applicable collective bargaining agreements, DATA's estimated annual funding obligation for the SRDF for 2016 is $0.5 million. The most recent funding actuarial report (as at December 31, 2013) in respect of the Québec members of the plan disclosed a solvency deficiency and a gap between the minimum total contributions required under applicable Québec pension legislation and total employer contributions determined pursuant to collective agreements.

Under Québec pension legislation applicable prior to December 31, 2014, DATA would have been required to fund any outstanding solvency deficiency in respect of its employees, pensioners and vested deferred members if DATA had withdrawn from the plan or if the plan had been terminated. On February 18, 2015, Bill 34 (An Act to amend the Supplemental Pension Plans Act with respect to the funding and restructuring of certain multi-employer pension plans) was tabled in the Québec legislature. Bill 34, which was adopted on April 2, 2015 with effect from December 31, 2014, amends and clarifies the Québec pension legislation for the SRDF to, among other things:

- limit required employer contributions only to those amounts specified in the applicable collective agreements negotiated with the relevant unions;
- eliminate the employer's obligation to fund solvency deficiencies;
- allow for the reduction of accrued benefits; and
- remove the responsibility of participating employers to fund their share of the solvency deficit upon withdrawal from the plan or termination of the plan, except in certain circumstances when withdrawal from the plan or termination of the plan occurs within five years of Bill 34 being adopted.

In addition, it appears that another consequence of Bill 34 will be to require the administrator of the SRDF to propose and seek consensus on a "Recovery Plan". However, it is unclear as to what form any such plan will take and any related implications for DATA cannot be determined at this time.

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

CASH FLOW FROM OPERATIONS

Changes in working capital generated $5.5 million in cash flow during the three months ended June 30, 2016. The trade receivables balance decreased by $1.8 million as a result of lower revenues during the second quarter of 2016 and as a result of timing of collections from customers. Inventory levels decreased by $0.7 million as a result of the timing of shipments of products to customers of the DATA segment. The trade payables balance increased by $1.6 million as a result of the timing of payments to suppliers for purchases during the second quarter of 2016. Deferred revenues increased by $1.8 million due to the timing of shipments during the second quarter of 2016.

Changes in working capital generated $5.0 million in cash flow during the six months ended June 30, 2016. The trade receivables balance decreased by $7.5 million as a result of lower revenues during the six months ended June 30, 2016 and as result of timing of collections from customers. Inventory levels increased by $0.7 million as a result of the timing of shipments of products to customers. The trade payables balance decreased by $1.7 million as a result of the timing of payments to suppliers for purchases and lower production levels because of lower revenues.

INVESTING ACTIVITIES

Capital expenditures for three and six months ended June 30, 2016 were $0.2 million and $0.8 million, respectively. These capital expenditures, which were financed by cash flow from operations, were related primarily to maintenance capital expenditures.

FINANCING ACTIVITIES

On May 31, 2016, DATA issued a total of 167,856,012 Common Shares at a price of $0.014 per common share for net proceeds of $2.3 million. See “Liquidity and capital resources”.

During the three months ended June 30, 2016, DATA repaid $9.6 million of principal amounts outstanding under its new credit facilities. During the six months ended June 30, 2016, DATA received $43.9 million in cash from advances under its new credit facilities and repaid $43.3 million and $10.2 million of the principal amounts outstanding under its old and new credit facilities, respectively. During the six months ended June 30, 2016, DATA incurred $1.3 million of transaction costs related to the establishment of its new credit facilities.

Normal course issuer bid

In May 2016, DATA's normal course issuer bid (“NCIB”) expired and was not renewed. Under the NCIB, DATA could have purchased up to a maximum of $4.4 million aggregate principal amount of its outstanding 6.00% Convertible Debentures, representing 10% of the “public float” of the 6.00% Convertible Debentures outstanding and daily purchases were limited to $14,250 principal amount of 6.00% Convertible Debentures, other than block purchase exemptions. No 6.00% Convertible Debentures were purchased under the NCIB that expired in May 2016. Under the previous NCIB, which expired in May 2015, DATA purchased an aggregate of $0.3 million aggregate principal amount of the 6.00% Convertible Debentures.

Outstanding share data

At August 10, 2016, June 30, 2016 and December 31, 2015, there were 11,975,053, 1,166,608,744 and 998,752,732 Common Shares outstanding, respectively.

On July 4, 2016, DATA completed the Share Consolidation and consolidated its issued and outstanding Common Shares on the basis of one post-consolidation Common Share for each 100 pre-consolidation Common Shares.

After giving effect to the Share Consolidation, the 1,197,504,525 Common Shares outstanding (which includes the Common Shares issued pursuant to the private placement described under "Liquidity and capital resources") were consolidated into 11,975,053 Common Shares. No fractional Common Shares were issued, and any fractional share entitlements resulting from the Share Consolidation were rounded up to the nearest whole number of Common Shares. The exercise price and number of Common Shares issuable, and other entitlements, under awards granted pursuant to DATA's long-term incentive plan have been proportionately adjusted to reflect the Share Consolidation. Additionally, the conversion price of the 6.0% Convertible Debentures was proportionately adjusted to reflect the Share Consolidation.

In May 2016 and July 2016, DATA completed a non-brokered private placement in two tranches, and issued an aggregate total of 198,751,793 Common Shares (or approximately 19.9% of the current number of outstanding Common Shares on May 27, 2016). See "Liquidity and capital resources".

At August 10, 2016, June 30, 2016 and December 31, 2015, $11.2 million aggregate principal amount of 6.00% Convertible Debentures were outstanding. The 6.00% Convertible Debentures are convertible into Common Shares at the option of the holder at any time prior to June 30, 2017. See "Liquidity and capital resources".

During 2015, the Board of Directors approved the award of options to purchase up to 1,174,500 Common Shares to the CEO of DATA. The options were granted on April 16, 2015 and once vested, are exercisable for a period of seven years from the grant date at an exercise price of $0.75 per share, representing the fair value of the Common Shares on date of the grant.

During the six months ended June 30, 2016, the Board of Directors approved awards of options to purchase up to 98,700,773 Common Shares to the executive management team of DATA. Once vested, the options are exercisable for a period of seven years from the grant date at an exercise price of $0.015 per share, representing the fair value of the Common Shares on the date of grant. A total of 49,937,636 options were awarded to DATA's CEO and vested on June 23, 2016 and a total of 48,763,137 options were awarded to the other members of DATA's executive management team and vest at a rate of 1/24th per month beginning on June 23, 2016.

After giving effect to the Share Consolidation, the outstanding options to purchase up to 99,875,273 Common Shares were consolidated into options to purchase up to 998,756 Common Shares.

Contractual obligations

During the three months ended June 30, 2016, DATA entered into a property lease extension agreement which will increase its lease commitments by $0.6 million from 2017 to 2021. During the six months ended June 30, 2016, DATA entered into property lease extension agreements that will increase its lease commitments by $0.6 million in 2017, by $2.0 million in 2018, by $2.3 million in 2019, by $2.4 million in 2020 and by $2.5 million in 2021 and thereafter.

Eight quarter results of operations – Summary

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

	2016		2015				2014	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	**$ 69,716**	**$ 74,614**	$ 81,010	$ 74,116	$ 73,447	$ 76,002	$ 80,371	$ 78,128
Net income (loss) attributable to shareholders	**991**	**1,882**	13,405	(1,763)	(29,683)	(1,131)	1,576	1,850
Basic earnings (loss) per share	**0.00**	**0.00**	0.11	(0.08)	(1.26)	(0.05)	0.07	0.08
Diluted earnings (loss) per share	**0.00**	**0.00**	0.11	(0.08)	(1.26)	(0.05)	0.07	0.08

The variations in DATA's quarterly revenues and net income (loss) over the eight quarters ended June 30, 2016 can be attributed to several principal factors: revenue declines in DATA's traditional print business due to production volume declines largely related to technological change, price concessions and competitive activity, seasonal variations in customer spending, restructuring expenses related to DATA's ongoing productivity improvement and cost reduction initiatives, profitability improvements resulting from cost savings initiatives which lowered direct and indirect labour costs and improved utilization rates at DATA's key plants, gain on redemption of convertible debentures, lower interest expense a result of the partial redemption of its outstanding 6.00% Convertible Debentures in 2015 and a goodwill impairment charge.

DATA's net income for the second quarter of 2016 included restructuring expenses of $0.4 million related to its cost reduction initiatives. DATA's net loss for the second quarter of 2015 included restructuring expenses of $4.2 million related to its cost reduction initiatives and an impairment of goodwill of $26.0 million related to its operating CGU.

DATA's net income for the first quarter of 2016 included restructuring expenses of $0.3 million related to its cost reduction initiatives. DATA's net loss for the first quarter of 2015 included restructuring expenses of $2.1 million related to its cost reduction initiatives.

DATA's net income for the fourth quarter of 2015 included restructuring expenses of $1.5 million related to its cost reduction initiatives and a gain on redemption of convertible debenture of $12.8 million. DATA's net income for the fourth quarter of 2014 included restructuring expenses of $0.8 million related to its cost reduction initiatives.

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

New accounting policies

(a) New and amended standards adopted

DATA has not adopted any new accounting policies since the year ended December 31, 2015.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016 and not early adopted.

IFRS 9 *Financial Instruments* was issued in July 2014. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard establishes a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. It also provides guidance on an entity's own credit risk relating to financial liabilities and has modified the hedge accounting model to better link the economics of risk management with its accounting treatment. Additional disclosures will also be required under the new standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 to establish principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 *Leases* or other IFRSs. Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain non-financial assets such as property and equipment. Additional disclosures will also be required under the new standard. In September 2015, the IASB deferred the effective date of the standard to annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 Leases was issued in January 2016. IFRS 16 requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with early application permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

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

Disclosure controls and procedures and Internal controls over financial reporting

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

DATA's management has determined that there have been no changes in the internal controls over financial reporting of DATA during the period beginning on April 1, 2016 and ending on June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting of DATA.

Outlook

DATA's financial results for the second quarter and the year to date of 2016 continued to demonstrate the benefits of the restructuring initiatives it implemented in fiscal 2015. Despite revenue declining year over year, DATA continued to demonstrate year over year improvements in gross margin percentage, Adjusted EBITDA margin, Adjusted EBITDA and net income. DATA has now experienced four successive quarters of year over year improvements in margins and profitability.

Although significant operating improvements have been implemented, DATA continues to optimize its operations. As such, DATA recently announced it is consolidating its Alberta operations into its flagship Calgary, Alberta operations facility. As a result, it will close its Edmonton, Alberta operations facility at the end of 2016 and redistribute production from Edmonton to Calgary and other operations facilities across Canada. DATA presently expects to incur a total of approximately $3.5 million in restructuring expenses in the second half of 2016 related to these consolidation plans, consisting primarily of severance costs associated with headcount reductions and, to a lesser extent, relocation of equipment.

DATA continues to contend with industry over-capacity in some print segments and the current uncertainty about a potential Canada Post labour disruption. Some of DATA's sales initiatives to address its industry challenges include: recruitment of both senior sales leadership and young talent; better integration of its outside sales teams and its inside "customer experience" teams; and building marketplace awareness and credibility through directed marketing strategies which leverage its new brand, name and website.

DATA's senior leadership team has been focused on stabilizing the business for the past year and is now renewing its emphasis on developing and implementing growth strategies for both the short and longer term. DATA has recently completed a number of corporate initiatives which it believes will help position DATA better to execute on these strategies as they are developed. These include:

- Closing a private placement that raised a total of $2.8 million in gross proceeds in two tranches, further strengthening its balance sheet;
- Entering into a settlement, nomination and standstill agreement with KST;
- Adding three new directors to its Board of Directors, with strong governance and relevant industry expertise;
- Formally changing its legal name to “DATA Communications Management Corp.”; and
- Consolidating its outstanding Common Shares on a 1-for-100 basis, along with a corresponding change in trading symbol.

Risks and uncertainties

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

Consolidated statements of financial position

(in thousands of Canadian dollars, unaudited)	**June 30, 2016**	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,003**	$ 871
Trade receivables (note 4)	**30,472**	38,051
Inventories (note 5)	**37,745**	37,053
Prepaid expenses and other current assets	**4,268**	4,150
	73,488	80,125
NON-CURRENT ASSETS		
Deferred income tax assets (note 10)	**2,635**	2,070
Restricted cash (note 8)	**425**	—
Property, plant and equipment	**12,661**	14,422
Pension asset	**—**	770
Intangible assets	**4,750**	5,614
Goodwill (note 6)	**31,066**	31,066
	$ 125,025	$ 134,067
LIABILITIES		
CURRENT LIABILITIES		
Current portion of Credit facilities (note 8)	**$ 5,770**	$ 43,095
Current portion of Convertible debentures (note 9)	**10,998**	—
Trade payables	**28,042**	29,766
Provisions (note 7)	**3,086**	5,723
Income taxes payable	**1,965**	903
Deferred revenue	**10,840**	10,811
	60,701	90,298
NON-CURRENT LIABILITIES		
Provisions (note 7)	**751**	1,483
Credit facilities (note 8)	**26,782**	—
Convertible debentures (note 9)	**—**	10,912
Deferred income tax liabilities (note 10)	**19**	76
Other non-current liabilities (note 11)	**1,931**	1,362
Pension obligations	**9,106**	8,354
Other post-employment benefit plans	**2,689**	2,563
	$ 101,979	$ 115,048
EQUITY		
SHAREHOLDERS' EQUITY		
Shares (note 12)	**$ 237,062**	$ 234,782
Conversion options	**128**	128
Contributed surplus	**961**	385
Accumulated other comprehensive income	**189**	306
Deficit	**(215,294)**	(216,582)
	$ 23,046	$ 19,019
	$ 125,025	$ 134,067

Approved by Board of Directors


Director


Director

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

Consolidated statements of income (loss)

(in thousands of Canadian dollars, except per share amounts, unaudited)		**For the three months ended June 30, 2016**		For the three months ended June 30, 2015
REVENUES	**$**	**69,716**	$	73,447
COST OF REVENUES		**52,567**		57,821
GROSS PROFIT		**17,149**		15,626
EXPENSES (INCOME)				
Selling, commissions and expenses		**7,664**		8,686
General and administration expenses excluding amortization of intangible assets		**6,084**		5,563
Restructuring expenses (note 7)		**368**		4,205
Impairment of goodwill (note 6)		**—**		26,000
Amortization of intangible assets		**510**		479
		14,626		44,933
INCOME (LOSS) BEFORE FINANCE COSTS AND INCOME TAXES		**2,523**		(29,307)
FINANCE COSTS				
Interest expense		**869**		1,464
Interest income		**(1)**		(3)
Amortization of transaction costs		**109**		134
		977		1,595
INCOME (LOSS) BEFORE INCOME TAXES		**1,546**		(30,902)
INCOME TAX EXPENSE (RECOVERY)				
Current		**1,156**		76
Deferred		**(601)**		(1,295)
		555		(1,219)
NET INCOME (LOSS) FOR THE PERIOD	**$**	**991**	$	(29,683)
BASIC EARNINGS (LOSS) PER SHARE (note 13)	**$**	**0.00**	$	(1.26)
DILUTED EARNINGS (LOSS) PER SHARE (note 13)	**$**	**0.00**	$	(1.26)

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

Consolidated statements of income (loss)

(in thousands of Canadian dollars, except per share amounts, unaudited)		**For the six months ended June 30, 2016**		For the six months ended June 30, 2015
REVENUES	**$**	**144,330**	$	149,449
COST OF REVENUES		**108,808**		116,538
GROSS PROFIT		**35,522**		32,911
EXPENSES (INCOME)				
Selling, commissions and expenses		**16,179**		17,798
General and administration expenses excluding amortization of intangible assets		**11,402**		11,386
Restructuring expenses (note 7)		**692**		6,259
Impairment of goodwill (note 6)		**—**		26,000
Amortization of intangible assets		**1,015**		958
		29,288		62,401
INCOME (LOSS) BEFORE FINANCE COSTS AND INCOME TAXES		**6,234**		(29,490)
FINANCE COSTS				
Interest expense		**1,737**		2,748
Interest income		**(4)**		(7)
Amortization of transaction costs		**356**		170
		2,089		2,911
INCOME (LOSS) BEFORE INCOME TAXES		**4,145**		(32,401)
INCOME TAX EXPENSE (RECOVERY)				
Current		**1,332**		83
Deferred		**(60)**		(1,670)
		1,272		(1,587)
NET INCOME (LOSS) FOR THE PERIOD	**$**	**2,873**	$	(30,814)
BASIC EARNINGS (LOSS) PER SHARE (note 13)	**$**	**0.00**	$	(1.31)
DILUTED EARNINGS (LOSS) PER SHARE (note 13)	**$**	**0.00**	$	(1.31)

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

Consolidated statements of comprehensive income (loss)

(in thousands of Canadian dollars, unaudited)		**For the three months ended June 30, 2016**		For the three months ended June 30, 2015
NET INCOME (LOSS) FOR THE PERIOD	**$**	**991**	$	(29,683)
OTHER COMPREHENSIVE INCOME (LOSS):				
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME (LOSS)				
Foreign currency translation		**(8)**		(13)
		(8)		(13)
ITEMS THAT WILL NOT BE RECLASSIFIED TO NET INCOME (LOSS)				
Re-measurements of post-employment benefit obligations		**(1,096)**		986
Taxes related to post-employment adjustment above		**286**		(258)
		(810)		728
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD, NET OF TAX	**$**	**(818)**	$	715
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**$**	**173**	$	(28,968)

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

Consolidated statements of comprehensive income (loss)

(in thousands of Canadian dollars, unaudited)		**For the six months ended June 30, 2016**		For the six months ended June 30, 2015
NET INCOME (LOSS) FOR THE PERIOD	**$**	**2,873**	$	(30,814)
OTHER COMPREHENSIVE INCOME (LOSS):				
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME (LOSS)				
Foreign currency translation		**(117)**		73
		(117)		73
ITEMS THAT WILL NOT BE RECLASSIFIED TO NET INCOME (LOSS)				
Re-measurements of post-employment benefit obligations		**(2,145)**		1,151
Taxes related to post-employment adjustment above		**560**		(300)
		(1,585)		851
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD, NET OF TAX	**$**	**(1,702)**	$	924
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**$**	**1,171**	$	(29,890)

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

Consolidated statements of changes in equity (deficit)

(in thousands of Canadian dollars, unaudited)	Shares	Conversion options	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity (deficit)
Balance as at December 31, 2014	$215,336	$ 513	$ —	$ 92	$ (197,528)	$ 18,413
Net loss for the period	—	—	—	—	(30,814)	(30,814)
Other comprehensive income for the period	—	—	—	73	851	924
Total comprehensive income (loss) for the period	—	—	—	73	(29,963)	(29,890)
Balance as at June 30, 2015	$215,336	$ 513	$ —	$ 165	$ (227,491)	$ (11,477)
BALANCE AS AT DECEMBER 31, 2015	**$234,782**	**$ 128**	**$ 385**	**$ 306**	**$ (216,582)**	**$ 19,019**
Net income for the period	**—**	**—**	**—**	**—**	**2,873**	**2,873**
Other comprehensive loss for the period	**—**	**—**	**—**	**(117)**	**(1,585)**	**(1,702)**
Total comprehensive (loss) income for the period	**—**	**—**	**—**	**(117)**	**1,288**	**1,171**
Issuance of common shares (note 12)	**2,280**	**—**	**—**	**—**	**—**	**2,280**
Share-based compensation expense	**—**	**—**	**576**	**—**	**—**	**576**
BALANCE AS AT JUNE 30, 2016	**$237,062**	**$ 128**	**$ 961**	**$ 189**	**$ (215,294)**	**$ 23,046**

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

Consolidated statements of cash flows

(in thousands of Canadian dollars, unaudited)	**For the three months ended June 30, 2016**	For the three months ended June 30, 2015
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the period	**$ 991**	$ (29,683)
Adjustments to net income (loss)		
Depreciation of property, plant and equipment	**1,134**	1,224
Amortization of intangible assets	**510**	479
Share-based compensation expense	**576**	—
Pension expense	**147**	152
Loss (gain) on disposal of property, plant and equipment	**7**	(128)
Impairment of goodwill (note 6)	**—**	26,000
Provisions (note 7)	**368**	4,205
Amortization of transaction costs	**109**	134
Accretion of convertible debentures	**21**	79
Other non-current liabilities	**267**	21
Other post-employment benefit plans, net	**62**	69
Income tax expense (recovery)	**555**	(1,219)
	4,747	1,333
Changes in working capital (note 14)	**5,478**	4,913
Contributions made to pension plans	**(459)**	(480)
Provisions paid (note 7)	**(1,622)**	(2,874)
Income taxes paid	**(263)**	(67)
	7,881	2,825
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(171)**	(903)
Purchase of intangible assets	**(127)**	—
Proceeds on disposal of property, plant and equipment	**6**	604
	(292)	(299)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares, net (note 12)	**2,280**	—
Repayment of Credit Facilities (note 8)	**(9,622)**	(1,000)
Repayment of loan payable	**(56)**	—
Decrease in restricted cash	**25**	—
Finance and transaction costs (note 8)	**(15)**	7
Finance lease payments	**(7)**	(9)
	(7,395)	(1,002)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**194**	1,524
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	**$ 815**	$ 1,993
EFFECTS OF FOREIGN EXCHANGE ON CASH BALANCES	**(6)**	(3)
CASH AND CASH EQUIVALENTS – END OF PERIOD	**$ 1,003**	$ 3,514

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

Consolidated statements of cash flows

(in thousands of Canadian dollars, unaudited)	**For the six months ended June 30, 2016**	For the six months ended June 30, 2015
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the period	**$ 2,873**	$ (30,814)
Adjustments to net income (loss)		
Depreciation of property, plant and equipment	**2,249**	2,374
Amortization of intangible assets	**1,015**	958
Share-based compensation expense	**576**	—
Pension expense	**295**	304
Loss on disposal of property, plant and equipment	**189**	39
Impairment of goodwill (note 6)	**—**	26,000
Provisions (note 7)	**692**	6,259
Amortization of transaction costs	**356**	170
Accretion of convertible debentures	**43**	61
Other non-current liabilities	**671**	70
Other post-employment benefit plans, net	**126**	136
Income tax expense (recovery)	**1,272**	(1,587)
	10,357	3,970
Changes in working capital (note 14)	**5,036**	8,576
Contributions made to pension plans	**(918)**	(939)
Provisions paid (note 7)	**(4,061)**	(3,944)
Income taxes paid	**(268)**	(138)
	10,146	7,525
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(823)**	(3,493)
Purchase of intangible assets	**(151)**	—
Proceeds on disposal of property, plant and equipment	**124**	632
	(850)	(2,861)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares, net (note 12)	**2,280**	—
Proceeds from Credit Facilities (note 8)	**43,931**	—
Repayment of Credit Facilities (note 8)	**(53,446)**	(2,000)
Repayment of loan payable	**(80)**	—
Increase in restricted cash	**(425)**	—
Finance and transaction costs (note 8)	**(1,341)**	7
Finance lease payments	**(18)**	(18)
	(9,099)	(2,011)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**197**	2,653
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	**$ 871**	$ 812
EFFECTS OF FOREIGN EXCHANGE ON CASH BALANCES	**(65)**	49
CASH AND CASH EQUIVALENTS – END OF PERIOD	**$ 1,003**	$ 3,514

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, 2016 and 2015

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

1 General Information

DATA Communications Management Corp. (formerly DATA Group Ltd.) ("DATA") plans and executes business communications. DATA helps marketers and agencies unify and execute communications campaigns across multiple channels, and it helps operations teams streamline and automate document and communications processes. DATA derives its revenues from the following core capabilities: direct marketing, commercial print services, labels and automated identification solutions, event tickets and gift cards, logistics and fulfilment, content and workflow management, data management and analytics, and regulatory communications. DATA is strategically located across Canada to support clients on a national basis, and serves the U.S. market through its facilities in Chicago, Illinois.

Certain elements of DATA's gift card and direct mail businesses as well as the buying patterns of certain major customers of DATA have historically generated higher revenues and profit in the fourth quarter than the other three quarters, which results in seasonal fluctuations in sales of those products.

The common shares of DATA are listed on the Toronto Stock Exchange ("TSX") under the symbol "DCM". DATA's outstanding 6.00% Convertible Unsecured Subordinated Debentures (the "6.00% Convertible Debentures") are listed on the TSX under the symbol "DCM.DB". The address of the registered office of DATA is 9195 Torbram Road, Brampton, Ontario. See note 17.

2 Basis of presentation and significant accounting policies

DATA prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial reports, including International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in DATA's consolidated financial statements for the year ended December 31, 2015, except for any new accounting pronouncements which have been adopted. Where applicable, DATA 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, 2016, as issued and outstanding as of August 10, 2016, the date the Board of Directors approved these financial statements. Any subsequent changes to IFRS that are given effect in DATA's annual consolidated financial statements for the year ending December 31, 2016 could result in restatement of these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements should be read in conjunction with DATA's consolidated annual financial statements for the year ended December 31, 2015 which have been prepared in accordance with IFRS, as issued by the IASB.

3 Change in accounting policies

(a) New and amended standards adopted

DATA has not adopted any new accounting policies since the year ended December 31, 2015.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016 and not early adopted.

IFRS 9 *Financial Instruments* was issued in July 2014. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. IFRS 9 replaces IAS 39

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

Financial Instruments: Recognition and Measurement. The new standard establishes a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. It also provides guidance on an entity's own credit risk relating to financial liabilities and has modified the hedge accounting model to better link the economics of risk management with its accounting treatment. Additional disclosures will also be required under the new standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 to establish principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 *Leases* or other IFRSs. Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain non-financial assets such as property and equipment. Additional disclosures will also be required under the new standard. In September 2015, the IASB deferred the effective date of the standard to annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 *Leases* was issued in January 2016. IFRS 16 requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with early application permitted. DATA is currently assessing the impact of the new standard on its consolidated financial statements.

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

4 Trade receivables

		June 30, 2016		December 31, 2015
Trade receivables	**$**	**30,939**	$	38,577
Provision for doubtful accounts		**(467)**		(526)
	$	**30,472**	$	38,051

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

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2016 and 2015

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

5 Inventories

		June 30, 2016		December 31, 2015
Raw materials	**$**	**5,049**	$	5,923
Work-in-progress		**2,546**		2,850
Finished goods		**30,150**		28,280
	$	**37,745**	$	37,053

Raw materials and finished goods inventory amounts are net of obsolescence reserves of $583 (2015 – $657). The cost of inventories recognized as an expense within cost of revenues for the three months ended June 30, 2016 was $49,458 (2015 – $54,569) and for the six months ended June 30, 2016 was $102,636 (2015 – $110,637).

6 Goodwill

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

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

Revenue growth rates and operating margins were based on DATA’s internal approved financial budgets or forecasts. DATA projected revenue, operating margins and cash flows for a period of five years, and applied a perpetual long-term growth rate thereafter. Based on the most recent forecasts, DATA is expecting negative growth of 2.5% over the next two years and a perpetual long-term growth rate of 0% based on forecast GDP growth, inflation rates, the industry’s expected growth rates and management experience. In arriving at its forecasts, DATA considered past experience, economic trends as well as industry and market trends. The projections also took into account the expected impact of restructuring initiatives approved.

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

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

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

7 Provisions

For the three months ended June 30, 2016		**Restructuring**		**Onerous contracts**		**Total**
Balance – Beginning of period	**$**	**3,185**	**$**	**1,906**	**$**	**5,091**
Additional charge during the three month period		**368**		**—**		**368**
Utilized during the three month period		**(1,150)**		**(472)**		**(1,622)**
Balance – End of period	**$**	**2,403**	**$**	**1,434**	**$**	**3,837**
Less: Current portion of provisions		**(2,200)**		**(886)**		**(3,086)**
As at June 30, 2016	**$**	**203**	**$**	**548**	**$**	**751**

For the six months ended June 30, 2016		**Restructuring**		**Onerous contracts**		**Total**
Balance – Beginning of period	**$**	**4,614**	**$**	**2,592**	**$**	**7,206**
Additional charge during the six month period		**692**		**—**		**692**
Utilized during the six month period		**(2,903)**		**(1,158)**		**(4,061)**
Balance – End of period	**$**	**2,403**	**$**	**1,434**	**$**	**3,837**
Less: Current portion of provisions		**(2,200)**		**(886)**		**(3,086)**
As at June 30, 2016	**$**	**203**	**$**	**548**	**$**	**751**

For the year ended December 31, 2015		Restructuring		Onerous contracts		Total
Balance – Beginning of year	$	1,300	$	2,103	$	3,403
Additional charge during the year		11,231		2,329		13,560
Utilized during the year		(7,917)		(1,840)		(9,757)
Balance – End of year	$	4,614	$	2,592	$	7,206
Less: Current portion of provisions		(3,981)		(1,742)		(5,723)
As at December 31, 2015	$	633	$	850	$	1,483

RESTRUCTURING

During the three and six months ended June 30, 2016, DATA continued its restructuring and ongoing productivity improvement initiatives to reduce its cost of operations. During the three and six months ended June 30, 2016, these initiatives resulted in $368 and $692, respectively, of restructuring expenses due to headcount reductions in the consolidated statement of income (loss) and comprehensive income (loss). During the three and six months ended June 30, 2015, these initiatives resulted in $4,205 and $5,590, respectively, of restructuring expenses due to changes in senior management, headcount reductions across DATA's operations and the closure of certain manufacturing and warehouse locations in the consolidated statement of income (loss) and comprehensive income (loss).

For the three months ended June 30, 2016, cash payments of $1,150 (2015 - $2,408) and for the six months ended June 30, 2016, cash payments of $2,903 (2015 - $3,236) were made to former employees for severances and for other restructuring costs. The remaining severance and restructuring accruals of $2,403 at June 30, 2016 are expected to be paid in the balance of 2016, in 2017 and in 2018.

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2016 and 2015

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

8 Credit facilities

		June 30, 2016		December 31, 2015
Term loans				
- 4.86% bankers' acceptances, matured January 16, 2016	$	—	$	35,750
- floating rate debt, maturing March 10, 2018		4,168		—
- 6.95% term debt, maturing March 10, 2023		27,219		—
Revolving facilities				
- 4.86% bankers' acceptances, matured January 16, 2016		—		7,500
- floating rate debt, maturing March 10, 2019		2,348		—
Credit facilities		33,735		43,250
Unamortized transaction costs		(1,183)		(155)
	$	32,552	$	43,095
Less: Current portion of Credit facilities		(5,770)		(43,095)
Credit facilities	$	26,782	$	—

As at December 31, 2015, DATA maintained credit facilities (the "Former Credit Facilities") with a syndicate of Canadian chartered banks pursuant to a Third Amended and Restated Credit Agreement dated December 19, 2014. The Former Credit Facilities, which had a maximum available principal amount of $55.0 million (comprised of a $10.0 million revolving facility, a $5.0 million swing line facility, and a $40.0 million amortizing term loan), were to have matured on August 31, 2016 without the option for renewal or extension.

In March 2016, DATA established a revolving credit facility (the “Bank Credit Facility”) with a Canadian chartered bank (the “Bank”) and an amortizing term loan facility (the “IAM Credit Facility”) with the Integrated Private Debt division of Integrated Asset Management Corp. ("IAM") pursuant to separate credit agreements, each dated March 10, 2016, between DATA and the Bank (the “Bank Credit Agreement”) and IAM (as amended, the “IAM Credit Agreement”), respectively. Approximately $43,250 of the total principal amount available to DATA under the IAM Credit Agreement and the Bank Credit Agreement was used to fully repay DATA’s outstanding indebtedness under its former senior credit facilities. As at March 11, 2016, DATA had outstanding borrowings of $15,931 and letters of credit granted of $2,159 under the Bank Credit Facility, and outstanding borrowings of $28,000 under the IAM Credit Facility. As at June 30, 2016, DATA had outstanding borrowings of $6,516 and letters of credit granted of $3,782 under the Bank Credit Facility, and outstanding borrowings of $27,219 under the IAM Credit Facility. Under the Bank Credit Facility, DATA had access to $13,127 of available credit at June 30, 2016.

The Bank Credit Facility has a maximum available principal amount of $25,000. A portion of the Bank Credit Facility consists of a non-revolving term credit facility (the “Bank Term Facility”) in a maximum principal amount of $5,000 as well as a committed treasury facility pursuant to which the Bank may, in its sole discretion, agree to enter into non-speculative hedging arrangements, subject to certain restrictions. Advances under the Bank Credit Facility may not, at any time, exceed the lesser of $25,000 and a fixed percentage of DATA’s aggregate accounts receivable and inventory (less certain amounts). The Bank Term Facility is a sub facility of the Bank Credit Facility and is available by way of a single advance of $5,000 and it's availability is not based on DATA’s accounts receivable or inventories. The proceeds of the Bank Term Facility were used by DATA to repay indebtedness owing by it under the senior credit facilities previously maintained by DATA with a syndicate of Canadian chartered banks. Advances under the Bank Credit Facility are subject to floating interest rates based upon the Canadian prime rate plus an applicable margin of 75 basis points. The Bank Term Facility matures on the earlier of March 10, 2018 and the date on which the Bank Credit Facility is terminated pursuant to the Bank Credit Agreement and monthly principal repayments of $208 made on the Bank Term Facility will not reduce the total available principal amount under the Bank Credit Facility. The Bank Credit Facility matures on the earlier of March 10, 2019 and the date on which the Bank Credit Facility is terminated pursuant to the Bank Credit

Agreement. DATA has capitalized transaction costs of $624 related to this facility and the amortization of these costs is recognized over the term of this facility. As at June 30, 2016, the unamortized transaction costs related to this facility were $561. At June 30, 2016, DATA had outstanding borrowings of $6,516 under the Bank Credit Facility and all of DATA's indebtedness outstanding under the Bank Credit Facility was subject to a floating interest rate of 3.45% per annum.

The IAM Credit Facility matures on March 10, 2023 and has a maximum available principal amount of $28,000. Indebtedness outstanding under the IAM Credit Facility bears interest at a fixed rate equal to 6.95% per annum. Under the terms of the IAM Credit Agreement, DATA is required to make mandatory blended equal monthly repayments of principal and interest such that, on maturity, advances under the IAM Credit Facility and applicable interest on those advances will have been fully repaid. Monthly blended principal and interest repayments of $422 and an April 2016 blended principal and interest repayment of $448 cannot be reborrowed. DATA has capitalized transaction costs of $665 related to this facility and the amortization of these costs is recognized over the term of this facility. As at June 30, 2016, the unamortized transaction costs related to this facility were $622. Under the terms of the IAM Credit Agreement, DATA is required to deposit and hold cash in a blocked account to be used for repayments of principal and interest of indebtedness outstanding under the IAM Credit Facility. As at June 30, 2016, there was a balance of $425 in the blocked account which is recognized as restricted cash on the consolidated statement of financial position.

Both the Bank Credit Agreement and the IAM Credit Agreement contain customary representations and warranties, as well as restrictive covenants which limit the discretion of the Board of Directors and management with respect to certain business matters including the declaration or payment of dividends on the common shares of DATA without the consent of the Bank or IAM, as applicable. Under the terms of the IAM Credit Agreement, DATA has agreed that it will not, without the prior written consent of IAM, 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 DATA, 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, DATA will have 60 days to replace such officer, such replacement officer to be satisfactory to IAM, acting reasonably. The Bank Credit Facility limits spending on capital expenditures by DATA to an aggregate amount not to exceed $5,500 during any fiscal year, and the IAM Credit Agreement limits the incurrence of capital expenditures to no more than $5,000 in any fiscal year.

Under the terms of the IAM Credit Agreement, DATA must ensure that the aggregate of the principal amount outstanding under the IAM Credit Facility and the principal amount outstanding under the Bank Credit Facility, calculated on a consolidated basis in accordance with generally accepted accounting principles ("Senior Funded Debt"), does not exceed $50,000; and DATA must maintain (i) a ratio of Senior Funded Debt to EBITDA (as defined below) for its four most recently completed fiscal quarters of not greater than the following levels: from the date of the advance up to March 31, 2017 - 3.25 to 1; from April 1, 2017 up to March 31, 2018 - 3.00 to 1; and on and after April 1, 2018 - 2.75 to 1; (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 1.25:1. During the quarter ended June 30, 2016, DATA entered into an amendment agreement with IAM which changed the definition of the working capital ratio to exclude the aggregate principal amount of the 6.00% Convertible Debentures from current liabilities for the period from June 29, 2016 to June 30, 2017. For purposes of the Bank Credit Agreement and the IAM Credit 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. As at June 30, 2016, the ratio of Senior Funded Debt to EBITDA was 1.31, the debt service coverage ratio was 3.04 and the working capital current ratio was 1.48.

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

Under the terms of the Bank Credit Agreement, DATA must maintain a fixed charge coverage ratio of not less than 1.1 to 1.0 at all times, 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 DATA to service its outstanding debt for such period. As at June 30, 2016, the fixed charge coverage ratio was 3.34.

A failure by DATA to comply with its obligations under either of the Bank Credit Agreement or the IAM Credit Agreement, together with certain other events, including a change of control of DATA and a change in DATA's chief executive officer, president or chief financial officer (unless a replacement officer acceptable to IAM, 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.

Each of the Bank Credit Facility and the IAM Credit Facility is secured by conventional security charging all of the property and assets of DATA and its affiliates. The payment of the principal of, and interest on, DATA's outstanding 6.00% Convertible Debentures is subordinated in right of payment to the prior payment in full of DATA's indebtedness under the Bank Credit Agreement and the IAM Credit Agreement.

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

	June 30, 2016
2016	**$ 2,856**
2017	**5,886**
2018	**4,057**
2019	**6,241**
2020	**4,173**
2021 and thereafter	**10,522**
	$ 33,735

9 Convertible debentures

		June 30, 2016		December 31, 2015
6.00% Convertible Debentures, maturing June 30, 2017, interest payable in June and December, convertible at 81.967 common shares per $1,000 of debenture	**$**	**11,087**	$	11,044
Unamortized transaction costs		**(89)**		(132)
	$	**10,998**	$	10,912
Less: Current portion of Convertible debentures		**10,998**		—
Convertible debentures	**$**	**—**	**$**	**10,912**

The 6.00% Convertible Debentures in an aggregate principal amount of $11,175 (2015 – $11,175) bear interest at a rate of 6.00% per annum payable semi-annually, in arrears, on June 30 and December 31. The 6.00% Convertible Debentures mature on June 30, 2017 and are convertible into common shares of DATA ("Shares") at the option of the holder prior to maturity or redemption at a conversion price of $12.20 per Share, subject to adjustment in certain events described in greater detail in DATA's Annual Information Form for the year ended December 31, 2015 (subject to the changes to the 6.00% Convertible Debentures described below in "Subsequent events"). See note 17.

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

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

NORMAL COURSE ISSUER BID

In May 2016, DATA's normal course issuer bid ("NCIB") expired and was not renewed. Under the NCIB, DATA could have purchased up to a maximum of $4,365 aggregate principal amount of its outstanding 6.00% Convertible Debentures, representing 10% of the "public float" of the 6.00% Convertible Debentures outstanding and daily purchases were limited to $14 principal amount of 6.00% Convertible Debentures, other than block purchase exemptions. No 6.00% Convertible Debentures were purchased under the NCIB that expired in May 2016. Under the previous NCIB, which expired in May 2015, an aggregate of $295 aggregate principal amount of the 6.00% Convertible Debentures were purchased.

10 Income taxes

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax assets and liabilities have been measured using an expected average combined statutory income tax rate of 26.30% (2015 – 25.63%) based on the tax rates in years when the temporary differences are expected to reverse.

Reflected in the consolidated statement of financial position as follows:		**June 30, 2016**		December 31, 2015
Deferred tax assets	**$**	**2,635**	$	2,070
Deferred tax liabilities		**(19)**		(76)
Net deferred tax assets	**$**	**2,616**	$	1,994

11 Other non-current liabilities

		June 30, 2016		December 31, 2015
Deferred lease inducement	**$**	**910**	$	828
Lease escalation liabilities		**923**		768
Finance lease liabilities		**—**		18
Loan payable		**262**		342
	$	**2,095**	$	1,956
Less: Current portion of other non-current liabilities		**(164)**		(594)
	$	**1,931**	$	1,362

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

DATA's operations are conducted in leased properties. DATA's leases generally provide for minimum rent and may also include escalation clauses, guarantees and certain other restrictions, and generally require it to pay a portion of the real estate taxes and other property operating expense. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease, expiring in 2016 to 2025.

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

During the six months ended June 30, 2016, DATA entered into an extension lease agreement for its Brampton, Ontario facility that included lease inducements which were deferred and are recognized over the life of the lease expiring in 2025.

During the year ended December 31, 2015, DATA entered into a lease agreement for its Calgary, Alberta facility that included lease inducements which were deferred and are recognized over the life of the lease, expiring in 2022.

During the year ended December 31, 2015, DATA entered into a loan payable agreement for licensed software in the amount of $368. The loan has an interest rate of 2.90% and repayments of $19 per month will be made over 20 months ending in August 2017.

12 Shares

DATA 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 of Directors. In the event of the liquidation, dissolution, winding up of DATA or other distribution of assets of DATA 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 DATA entitled to receive assets of DATA 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 shares:

	Number of Common shares		Amount
Balance – January 1, 2016	**998,752,732**	**$**	**234,782**
Shares issued - May 31, 2016	**167,856,012**		**2,280**
Balance – June 30, 2016	**1,166,608,744**	**$**	**237,062**
Balance – January 1, 2015 and June 30, 2015	23,490,592	$	215,336

On May 27, 2016, DATA announced that it intended to complete a non-brokered private placement of up to 198,751,793 common shares (or approximately 19.9% of the then current number of outstanding common shares) at a price of $0.014 per share for gross proceeds to DATA of approximately $2,783 in two tranches. On May 31, 2016, the first portion of the private placement was completed and DATA issued a total of 167,856,012 common shares for gross proceeds of $2,350, less issue expenses of $70 for net proceeds of $2,280. Subsequent to the quarter ended June 30, 2016, the second portion of the private placement was completed. See note 17.

SHARE-BASED COMPENSATION

DATA 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 DATA; and, align the interests of Participants with those of the shareholders of DATA. Awards to Participants are primarily based on the financial results of DATA and services provided. The aggregate maximum number of common shares available for issuance from DATA's treasury under the LTIP is 116,660,874 common shares or 10% of the issued and outstanding common shares of DATA. The shares to be awarded will be authorized and unissued shares. Subsequent to the quarter ended June 30, 2016, DATA consolidated its outstanding common shares on a 1-for-100 basis and made related adjustments to the number and exercise price of awards outstanding under the LTIP. See note 17.

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

DATA'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 DSUs, restricted shares or SARs have been granted to date.

(a) Restricted share unit ("RSU")

Under the RSU portion of the LTIP, selected employees are granted RSUs where each RSU represents the right to receive a distribution from the company in an amount equal to the fair value of one DATA common share. RSUs generally vest within three years and primarily settle in cash upon 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 general and administration expenses. Compensation expenses for RSUs incorporate an estimate for expected forfeiture rates based on which the fair value is adjusted.

	June 30, 2016	December 31, 2015
	Number of RSUs	Number of RSUs
Balance - beginning of period	**236,277**	—
Granted in the period	**2,508,861**	318,217
Forfeited in the period	**—**	(55,096)
Settled in cash in the period	**—**	(26,844)
Balance - end of period	**2,745,138**	236,277

During the six months ended June 30, 2016, a total of 2,508,861 RSUs were granted to the president and chief executive officer ("CEO") of DATA. Of the total outstanding RSUs at June 30, 2016, 22,967 have vested and are payable.

(b) Option ("Option")

A summary of Option activities for the three months ended June 30, 2016 and 2015 is as follows:

	2016			2015		
	Number of Options		**Weighted average Exercise Price**	Number of Options		Weighted average Exercise Price
Options outstanding - beginning of period	**1,174,500**	**$**	**0.75**	—	$	—
Granted in the period	**98,700,773**		**0.015**	1,174,500		0.75
Expired or forfeited in the period	**—**		**—**	—		—
Exercised in the period	**—**		**—**	—		—
Options outstanding - end of period	**99,875,273**	**$**	**0.024**	1,174,500	$	0.75
Exercisable	**51,969,433**	**$**	**0.015**	—	$	—

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2016 and 2015

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

The outstanding options had an exercise price range as follows:

	June 30, 2016	December 31, 2015
	Number of Options	Number of Options
$0.75	**1,174,500**	1,174,500
$0.015	**98,700,773**	—
Options outstanding	**99,875,273**	1,174,500

The Black-Scholes option-pricing model inputs used to compute compensation expense under the fair value-based method are as follows:

	June 30, 2016	December 31, 2015
Expected life	**7 yrs**	7 yrs
Expected volatility	**40%**	40%
Dividend yield	**0%**	0%
Risk free rate of return	**0.99%**	1.03%
Weighted average fair value of options granted	**$ 0.01**	$ —

During 2015, the Board of Directors approved the award of options to purchase up to 1,174,500 common shares to the CEO of DATA. The options were granted on April 16, 2015, have an exercise period of seven years from the grant date once vested, and have an exercise price of $0.75 per share, representing the fair value of the common shares on the date of grant. The vesting of the award is based on meeting certain performance targets for Actual EPS and Actual Return on Capital Employed ("ROCE") for the fiscal 2016, 2017 and 2018 fiscal periods. As the targets have not been set, the value of the award, as determined using a Black-Scholes option-pricing model and current market inputs, is revalued at each reporting date.

During the six months ended June 30, 2016, the Board of Directors approved awards of options to purchase up to 98,700,773 common shares to the executive management team of DATA. Once vested, the options are exercisable for a period of seven years from the grant date at an exercise price of $0.015 per share, representing the fair value of the common shares on the date of grant. A total of 49,937,636 options were awarded to DATA's CEO and vested on June 23, 2016 and a total of 48,763,137 options were awarded to the other members of DATA's executive management team and vest at a rate of 1/24th per month beginning on June 23, 2016.

During the three and six month periods ended June 30, 2016, compensation expense of $576 was recognized in the consolidated statement of income (loss) related to options granted.

Notes to The Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2016 and 2015

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

13 Earnings (loss) per share

		For the three months ended June 30, 2016		For the three months ended June 30, 2015
BASIC EARNINGS (LOSS) PER SHARE				
Net income (loss) for the period attributable to common shareholders	**$**	**991**	$	(29,683)
Weighted average number of shares		**1,055,934,450**		23,490,592
Basic earnings (loss) per share	**$**	**0.00**	$	(1.26)
DILUTED EARNINGS (LOSS) PER SHARE				
Net income (loss) for the period attributable to common shareholders	**$**	**991**	$	(29,683)
Weighted average number of shares		**1,058,695,311**		23,490,592
Diluted earnings (loss) per share	**$**	**0.00**	$	(1.26)

		For the six months ended June 30, 2016		For the six months ended June 30, 2015
BASIC EARNINGS (LOSS) PER SHARE				
Net income (loss) for the period attributable to common shareholders	**$**	**2,873**	$	(30,814)
Weighted average number of shares		**1,027,343,591**		23,490,592
Basic earnings (loss) per share	**$**	**0.00**	$	(1.31)
DILUTED EARNINGS (LOSS) PER SHARE				
Net income (loss) for the period attributable to common shareholders	**$**	**2,873**	$	(30,814)
Weighted average number of shares		**1,028,724,021**		23,490,592
Diluted earnings (loss) per share	**$**	**0.00**	$	(1.31)

6.00% Convertible Debentures in the aggregate principal amount of $11,175 (2015 – $11,175) and the related interest expense were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. Options to purchase up to 1,174,500 common shares were excluded from the computation of diluted earnings per share because their exercise price was higher than the market price of the common shares.

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

14 Changes in working capital

	For the three months ended June 30, 2016	For the three months ended June 30, 2015
Trade receivables	**$ 1,804**	$ 2,678
Inventories	**701**	3,024
Prepaid expenses and other current assets	**(424)**	440
Trade payables	**1,558**	751
Deferred revenue	**1,839**	(1,980)
	$ 5,478	$ 4,913

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Trade receivables	**$ 7,545**	$ 6,977
Inventories	**(733)**	1,665
Prepaid expenses and other current assets	**(126)**	1,503
Trade payables	**(1,686)**	(720)
Deferred revenue	**36**	(849)
	$ 5,036	$ 8,576

15 Commitments

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

DATA makes contributions to the Québec Graphics Communications Supplemental Retirement and Disability Fund of Canada (the "SRDF") based on a percentage of the wages of its unionized employees covered by the respective collective bargaining agreements, all of whom are employed at DATA facilities located in the Province of Québec. The SRDF is a negotiated contribution defined benefit, multi-employer pension plan which provides retirement benefits to unionized employees in the printing industry. The SRDF is jointly-trusteed by representatives of the employers of SRDF members and the unions which represent SRDF members in collective bargaining. Based upon the terms of those applicable collective agreements, DATA's estimated annual funding obligation for the SRDF for 2016 is $546. The most recent funding actuarial report (as at December 31, 2013) in respect of the Québec members of the plan disclosed a solvency deficiency and a gap between the minimum total contributions required under applicable Québec pension legislation and total employer contributions determined pursuant to collective agreements.

Under Québec pension legislation applicable prior to December 31, 2014, DATA would have been required to fund any outstanding solvency deficiency in respect of its employees, pensioners and vested deferred members if DATA had withdrawn from the plan or if the plan had been terminated. On February 18, 2015, Bill 34 (An Act to amend the Supplemental Pension Plans Act with respect to the funding and restructuring of certain multi-employer pension plans) was tabled in the Québec legislature. Bill 34, which was adopted on April 2, 2015 with effect from December 31, 2014, amends and clarifies the Québec pension legislation for the SRDF to, among other things:

- limit required employer contributions only to those amounts specified in the applicable collective agreements negotiated with the relevant unions;
- eliminate the employer's obligation to fund solvency deficiencies;

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

- allow for the reduction of accrued benefits; and
- remove the responsibility of participating employers to fund their share of the solvency deficit upon withdrawal from the plan or termination of the plan, except in certain circumstances when withdrawal from the plan or termination of the plan occurs within five years of Bill 34 being adopted.

In addition, it appears that another consequence of Bill 34 will be to require the administrator of the SRDF to propose and seek consensus on a “Recovery Plan”. However, it is unclear as to what form any such plan will take and any related implications for DATA cannot be determined at this time.

16 Employee benefit plans

Pension expense

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

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	**For the six months ended June 30, 2016**	For the six months ended June 30, 2015
Net cost recognized in general and administration expenses	**$ 81**	$ 75	**$ 162**	150
Interest costs in finance expense	**66**	77	**133**	154
Defined benefit plans	**$ 147**	$ 152	**$ 295**	$ 304
Defined contribution plan	**$ 369**	$ 437	**$ 763**	$ 905
Defined benefit multi-employer plan	**$ 135**	$ 156	**$ 289**	$ 334

Other post-employment benefit plans expense

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

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	**For the six months ended June 30, 2016**	For the six months ended June 30, 2015
Net cost recognized in general and administration expenses	**$ 72**	$ 71	**$ 144**	142
Interest costs in finance expense	**25**	30	**50**	60
Other post-employment benefit plans	**$ 97**	$ 101	**$ 194**	$ 202

17 Subsequent events

NAME CHANGE

On July 4, 2016 and after receiving shareholder approval at DATA’s annual and special meeting of shareholders held on June 30, 2016, DATA changed its legal name to “DATA Communications Management Corp.”

SHARE CONSOLIDATION

After receiving shareholder approval at DATA's annual and special meeting of shareholders held on June 30, 2016, DATA consolidated its issued and outstanding common shares on the basis of one post-consolidation common share for each 100 pre-consolidation common shares (the “Share Consolidation”) on July 4, 2016 and its common shares commenced trading over the facilities of the TSX under the new stock symbol of “DCM” on July 7, 2016. In addition, the outstanding 6.00% Convertible Debentures commenced trading over the facilities of the TSX on July 7, 2016 under the new stock symbol DCM.DB.

After giving effect to the Share Consolidation, the 1,197,504,525 common shares then outstanding (which includes the common shares issued pursuant to the private placement described below) were consolidated into approximately 11,975,053 common shares outstanding. No fractional common shares were issued, and any fractional share entitlements resulting from the Share Consolidation were rounded up to the nearest whole number of common shares.

The exercise price and number of common shares issuable and other entitlements under awards granted pursuant to DATA’s LTIP have been proportionately adjusted to reflect the Share Consolidation. The aggregate maximum number of common shares available for issuance from DATA's treasury under the LTIP changed to 1,197,506 common shares or 10% of the issued and outstanding common shares of DATA.

Additionally, the conversion price of the 6.0% Convertible Debentures has been proportionately adjusted to reflect the Share Consolidation. As a result of the Share Consolidation, the conversion price changed to $1,220 per Share, being a conversion rate of approximately 0.8196 Shares per $1,000 principal amount of 6.00% Convertible Debentures.

PRIVATE PLACEMENT

On July 4, 2016, after receiving disinterested shareholder approval at DATA's annual and special meeting of shareholders held on June 30, 2016, DATA completed the second portion of the private placement announced on May 27, 2016 and issued 30,895,781 common shares for gross proceeds of $433, less issue expenses of $64 for net proceeds of $369.

RESTRUCTURING EXPENSES

Subsequent to the quarter ended June 30, 2016, DATA began consolidating its Alberta operations into its flagship Calgary, Alberta operations facility. As a result, it will close its Edmonton, Alberta operations facility at the end of 2016 and redistribute production from Edmonton to Calgary and other operations facilities across Canada. DATA presently expects to incur a total of approximately $3,500 in restructuring expenses in the second half of 2016 related to these consolidation plans, consisting primarily of severance costs associated with headcount reductions and, to a lesser extent, relocation of equipment.

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

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

William Albino [1,2,3]
Director

Gregory Cochrane [3]
Director

James Murray [1,2]
Director

Derek Watchorn [1,2]
Director

Michael G. Sifton
Director & Officer
President & Chief Executive Officer

James E. Lorimer
Officer
Chief Financial Officer & Corporate Secretary

[1] Member, Audit Committee (Chairperson is William Albino)

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

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

EXECUTIVE TEAM

Michael G. Sifton
President & Chief Executive Officer

James E. Lorimer
Chief Financial Officer

Steve Wittal
Senior Vice-President, Sales

Alan Roberts
Senior Vice-President, Operations

Jeff Gladwish
Vice-President, Marketing & Corporate Development

Judy Holcomb-Williams
Vice-President, Human Resources

Karl Spangler
Chief Technology Officer

CORPORATE INFORMATION

Auditors
PricewaterhouseCoopers LLP

Transfer Agent
Computershare Investor Services Inc.

Corporate Counsel
McCarthy Tétrault LLP

Corporate Office
9195 Torbram Road
Brampton, Ontario L6S 6H2
Telephone: 905-791-3151
Facsimile: 905-791-1713

Website
www.datacm.com

Toronto Stock Exchange Symbol
DCM

DATA Communications Management Corp., 9195 Torbram Road, Brampton, ON L6S 6H2

WWW.DATACM.COM