

# The DATA Group Income Fund

2005  
Q2



Quarterly Report  
Quarter 2 - Ended June 30, 2005

# Our Values



**T**

*The DATA Group of Companies has evolved a deeply rooted, widely recognized way of doing business. Our success owes much to a set of corporate values, which have helped to define our culture.*



Solutions  
BEYOND  
PRINT



**W**

**We are committed to customer service and quality.**

**W**

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

**W**

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

**W**

**We are a people-oriented company committed to safety and the environment.**

**W**

**We will develop, adapt, and use technology for our customers' benefit.**

**W**

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

**W**

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

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**Letter to Unitholders**

I am pleased to inform you that we will be increasing your monthly distributions per unit by 3% from the current level of \$0.09375 to \$0.09656, which will become effective to unitholders of record August 31, 2005.

This increase is as a result of the solid performance achieved by your Company during the second quarter and year to date, and reflects both the underlying stability of our business and the conservatism of our model, evidence of which is the fact our payout ratio is 77% year to date.

The DATA Group's objective is to provide unitholders with steady, dependable and growing distributions. In our second quarter (April 1, 2005 to June 30, 2005) as a public company, the Fund had revenue of \$52.4 million, a decrease of 1.2% compared with the same period in 2004. Our year to date revenue of \$106.6 million (January 1, 2005 to June 30, 2005) is up 0.8% from the same period a year ago.

Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) in the quarter was \$6.4 million or 12.2% of revenue compared to \$7.0 million or 13.2% of revenue in the same period of 2004. Year to date Adjusted EBITDA was \$12.8 million or 12.0% of revenue compared to \$13.5 million or 12.8% of revenue in 2004. Year to date results compare favourably to the prior year because we have incurred public company costs of \$0.4 million in the second quarter and \$0.7 million year to date.

Our management team continues to focus upon our key strategies:

- Maintain leadership in providing effective and efficient document management solutions;
- Focus on selling higher value added products and services while trimming low value added products and services; and
- Cross-sell the depth and breadth of our offering to existing customers.

I am pleased with what our team has achieved in the first half of the year, and with the initiatives we are pursuing to build upon our success.

In closing, I would like to extend to you, our valued unitholders, our appreciation for your faith in us. In addition, we are most thankful for the continuing support of our customers and the pride and dedication our employees bring to ensuring that we are "best in class".

August 2005  
The DATA Group Income Fund



David M. Odell  
President and Chief Executive Officer

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

The DATA Group Income Fund (the "Fund") commenced business operations on December 21, 2004, when it completed an initial public offering ("IPO") and purchased all of the outstanding common shares of Data Business Forms Limited ("the Company", "DATA Group" or "Company") from WFIH, Inc. The Company is a wholly owned subsidiary of the Fund.

The DATA Group is a leading provider of total document management solutions, including printed products, and operates as three divisions. DATA East and West (which provide approximately 75% of total revenue) sell a broad range of printed products and document management services directly to end users. Sundog (which provides approximately 13% of total revenue) is a commercial printer specializing in the production of high-quality annual reports, marketing materials and event tickets. Multiple•Pakfold (which provides approximately 12% of revenue) sells forms and labels to independent brokers and resellers.

Pursuant to an Order dated March 31, 2005 issued by the Canadian Securities Administrators, The DATA Group Income Fund is required to include in its year to date results ended June 30, 2005 the results of operations for the period from December 21, 2004 to June 30, 2005.

In order to assist the reader in understanding management's discussion and analysis of the results of operations, the Fund has presented supplementary financial information for the period from December 21, 2004 to December 31, 2004, financial information for the period from January 1, 2005 to June 30, 2005, and financial information for the period from January 1, 2004 to June 30, 2004. Revenues, cost of revenues, gross margins, selling, general and administrative expenses and earnings before interest, taxes, depreciation and amortization adjusted for inventory fair value allocation charges (Adjusted EBITDA<sup>1</sup>) have also been provided for the comparative periods ended June 30, 2004, as the Fund believes that this is the relevant information that is comparable as a result of the change in capital structure of the business following the acquisition of the Company by the Fund.

All financial information is presented in Canadian dollars, unless specified otherwise. The 2004 comparative quarterly information presented herein includes the historical financial information of the underlying business operations prior to the acquisition of the Company by the Fund. Accordingly, cost of revenues, depreciation and amortization, interest expense, pension expense and the provision for income taxes will not be directly comparable as these income statement items are most

affected by the change in the capital structure and the application of purchase accounting by the Fund.

Additional information relating to the Fund, including the audited balance sheet as at December 31, 2004, the Annual Information Form for 2004, the first quarter management's discussion and analysis for the period ended March 31, 2005 and the second quarter financial statements for the periods ended June 30, 2005, is available on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Statements**

Certain statements in this management's discussion and analysis are "forward-looking statements", which reflect management's current beliefs and expectations regarding the Fund and DATA Group's future growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements, which may be identified by words such as "anticipate", "should", "could", "believe", "continue", "expect", "intend", "may", "will", "project" and "estimate", are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. Many factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including risks related to competition from competitors supplying similar products and services, failure to develop product and service options, limited growth in the printing of traditional business forms, expansion through acquisition, negotiation of collective agreements, an adverse change in labour relations, pension liabilities, increases in the cost of paper or other raw materials, economic conditions, interest rates and continued availability of credit facilities, among other risk factors. These factors should not be considered exhaustive. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Fund and DATA Group cannot assure investors that actual results will be consistent with these forward-looking statements. Such forward-looking statements are made as of the date of this report. Neither the Fund nor DATA Group assumes any obligation to update or revise such statements or any information contained in this report, or to publicly release the results of any revisions to forward-looking statements to reflect new events, assumptions or circumstances that the Fund or DATA Group may become aware of after the date of this report. Undue reliance should not be placed on forward-looking statements.

### **Non-GAAP Measures**

DATA Group provides some non-GAAP (non-generally accepted accounting principles) measures as supplementary information that management believes would be useful to investors. These non-GAAP measures include Adjusted EBITDA<sup>1</sup> and cash available for distribution<sup>2</sup>. Investors are

cautioned that the Fund may calculate these measures differently than other companies or income trusts and, as such, they may not be comparable. These amounts do not have a standardized meaning under GAAP and should not be construed as an alternative to GAAP measures. The Fund has reconciled these non-GAAP measures to the unaudited interim consolidated financial statements and has included them in this management's discussion and analysis, including Adjusted EBITDA<sup>1</sup> to cash available for distribution<sup>2</sup> (see Table 3), and cash flow from operating activities to cash available for distribution<sup>2</sup> (see Table 4). See footnotes for further information.

### **The DATA Group Income Fund**

On December 21, 2004, The DATA Group Income Fund completed an initial public offering of 13,327,377 Units at a price of \$10.00 per Unit for aggregate proceeds of \$133.274 million. The Fund also issued 47,823 Units to certain executives for proceeds of \$0.478 million. The proceeds were used to purchase the common shares of Data Business Forms Limited from WFIH, Inc. The total purchase price for the Company was \$129.92 million comprised of cash of \$101.16 million, a note payable of \$14.39 million, the over-allotment note of \$13.97 million, and the right to receive a tax refund estimated to be \$0.4 million.

On January 17, 2005, the underwriters exercised their over-allotment option and the Fund issued an additional 1,486,133 Units for net proceeds of \$13.97 million. The proceeds from the issuance of these additional Units were used to repay the over-allotment note owing to WFIH, Inc. No additional Units have been issued since this date and, as a result, there remains a total of 14,861,333 Units issued and outstanding.

Concurrent with the acquisition of the Company by the Fund, Data Business Forms Limited reorganized which included an amalgamation with a wholly owned subsidiary of the Fund. As a result of these transactions, the Fund holds a \$117.1 million 14% unsecured, subordinated note (the "DATA Note") due 2014 (subject to extension), payable by the Company to the Fund.

### **General Information and Results of Operations**

On a non-consolidated basis, the Fund generates its income primarily from the interest received on the DATA Note, plus dividends, if applicable. When the expenses it incurs related to the administration of the Fund are taken into account, the Fund generates net income that is distributed to unitholders. For the three months ended June 30, 2005, the Fund generated, on a consolidated basis, cash available for distribution<sup>2</sup> of \$5.5 million or \$0.370 per Unit.

## Distributions

The following is a summary of the declared distributions, record dates and payment dates:

<b>Record Date</b>	<b>Payment Date</b>	<b>Per Unit</b>	<b>Amount</b>
January 31, 2005	February 15, 2005	\$0.12702	\$1.887 million
February 28, 2005	March 15, 2005	\$0.09375	\$1.393 million
March 31, 2005	April 15, 2005	\$0.09375	\$1.393 million
April 29, 2005	May 13, 2005	\$0.09375	\$1.393 million
May 31, 2005	June 15, 2005	\$0.09375	\$1.393 million
June 30, 2005	July 15, 2005	\$0.09375	\$1.393 million

Whenever there is an excess of cash available for distribution<sup>2</sup> over actual distributions, this excess is retained primarily in the operating company, Data Business Forms, to allow for seasonal fluctuations in cash from operations, unforeseen additional expenses, and future or unforeseen maintenance capital expenditures.

## General Information and Results of Operations

**Table 1** provides unaudited financial information for the periods noted.

Unaudited Interim Consolidated Financial Information  
For the Periods Ended June 30, 2005 and 2004  
*(in thousands of dollars, unaudited)*

	Dec. 21 to Dec. 31, 2004	Apr. 1 to Jun. 30, 2005	Jan. 1 to Jun. 30, 2005	Dec. 21, 2004 to Jun. 30, 2005	Apr. 1 to Jun. 30, 2004	Jan. 1 to Jun. 30, 2004
	\$	\$	\$	\$	\$	\$
Revenues	5,715	52,425	106,598	112,313	53,051	105,791
Cost of revenues	4,972	36,753	81,030	86,002	37,340	74,647
Gross profit	743	15,672	25,568	26,311	15,711	31,144
Selling, general and administrative expenses	1,141	10,060	20,182	21,323	9,751	19,740
	(398)	5,612	5,386	4,988	5,960	11,404
Amortization	185	1,652	3,314	3,499	(87) *	(174) *
(Loss) income before interest and income taxes	(583)	3,960	2,072	1,489	6,047	11,578
Interest expense (income)						
Long-term debt	82	505	981	1,063	948	948
Other	-	-	-	-	-	(52)
	82	505	981	1,063	948	896
(Loss) income before income taxes	(665)	3,455	1,091	426	5,099	10,682
Provision for (recovery of) income taxes						
Current					756	2,782
Future	(200)	(20)	(2,055)	(2,255)	-	-
	(200)	(20)	(2,055)	(2,255)	756	2,782
Net (loss) income for the period	(465)	3,475	3,146	2,681	4,343	7,900

\* Amortization of deferred gains in 2004.

**Table 2**

Unaudited Interim Consolidated Financial Information  
For the periods from January 1 to June 30, 2005 and 2004  
*(in thousands of dollars, unaudited)*

	Apr. 1 to Jun. 30, 2005 \$	Jan. 1 to Jun. 30, 2005 \$	Apr. 1 to Jun. 30, 2004 \$	Jan. 1 to Jun. 30, 2004 \$
<u>Revenues</u>				
DATA East and West	40,796	81,889	40,674	81,575
Multiple•Pakfold	6,534	12,964	6,399	13,263
Sundog	6,031	13,545	7,175	13,247
Intersegment	(936)	(1,800)	(1,197)	(2,294)
	52,425	106,598	53,051	105,791
<u>Gross profit</u>				
DATA East and West	12,182	18,711	12,153	24,439
Multiple•Pakfold	1,129	2,061	1,113	2,450
Sundog	2,361	4,796	2,445	4,255
	15,672	25,568	15,711	31,144
<u>Gross profit, as a percentage of revenue</u>				
DATA East and West	29.9%	22.8%	29.9%	30.0%
Multiple•Pakfold	17.3%	15.9%	17.4%	18.5%
Sundog	39.1%	35.4%	34.1%	32.1%
	29.9%	24.0%	29.6%	29.4%
<u>Selling, general and administrative expenses</u>				
As a percentage of revenue	19.2%	18.9%	18.4%	18.7%
Adjusted EBITDA <sup>1</sup>	6,409	12,844	6,980	13,490
Adjusted EBITDA <sup>1</sup> margin, as a percentage of revenue	12.2%	12.0%	13.2%	12.8%
Net income	3,475	3,146	4,343	7,900

As the results disclosed in accordance with GAAP for the Fund and the Company prior to the IPO are materially different in many respects due to the change in the underlying capital structure, it is difficult to compare the 2005 and 2004 financial results of the Fund with those of the Company for the period prior to December 21, 2004. However, DATA Group management believe that the revenues, cost of revenues, gross profits, selling, general and administrative expenses and Adjusted EBITDA<sup>1</sup> of the underlying business are comparable and, therefore, have included this information in Tables 1 and 2 above, for purposes of comparison.

The Fund recorded revenues of \$52.4 million for the second quarter ended June 30, 2005, a decrease of 1.2% compared with the same period in 2004. For the six months ended June 30, 2005 the Fund recorded revenues of \$106.6 million, an increase of 0.8% compared with the same period in 2004. The reduction in the current quarter is due primarily to decreased revenue at Sundog, representing a shift in annual report revenue to the first quarter.

Cost of revenues for the second quarter ended June 30, 2005 decreased 1.6% from \$37.3 million in 2004 to \$36.8 million in 2005. This, combined with the above noted decrease in revenue, resulted in a gross profit of \$15.7 million in the second quarter, consistent with the same period in 2004. For the six months ended June 30, 2005 cost of revenues increased from \$74.6 million in 2004 to \$81.0 million in 2005. This resulted in a gross profit of \$25.6 million which decreased from \$31.1 million in 2004. This decline resulted from a charge of \$5.8 million relating to the inventory fair value allocation. At the date of acquisition, \$6.6 million of the purchase price was allocated to inventory in order to increase the value to estimated fair market value, less cost of selling. This inventory was substantially sold during the first quarter of 2005 and accordingly, the quarter included an additional cost of sales charge relating to the inventory sold. As a percentage of revenue, the gross margin declined in the first six months of 2005 to 24.0% from 29.4% in 2004. Before the fair value inventory allocation charge, gross profit margins were 29.4% in the first six months of 2005. Further comments on each reporting segment are discussed below.

Selling, general and administrative expenses, including administrative expenses of the Fund, for the quarter ended June 30, 2005 were \$10.1 million as compared to \$9.8 million for the same period in 2004. The \$0.3 million increase in costs resulted primarily from public company costs compared with 2004. Selling, general and administrative expenses were 19.2% of revenue for the quarter ended June 30, 2005 compared to 18.4% in 2004. For the six months ended June 30, 2005, selling, general and administrative expenses were \$20.2 million as compared to \$19.7 million in 2004.

Net income for the quarter ended June 30, 2005 was \$3.5 million compared with net income of \$4.3 million for the same period in 2004. For the six months ended June 30, 2005, net income was \$3.1 million compared to net income of \$7.9 million for the same period in 2004. The reduction in comparable profitability on a quarter to date and year to date basis is attributable to increased public company costs, amortization of purchase accounting intangible assets and the purchase accounting fair value inventory charge incurred in the first quarter of 2005.

For the quarter ended June 30, 2005, earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA<sup>1</sup>) was \$6.4 million, or 12.2% of revenue. As compared to the same period in

2004, Adjusted EBITDA<sup>1</sup> was lower by \$0.6 million and the Adjusted EBITDA<sup>1</sup> margin, as a percentage of revenue, was down from 13.2% of revenue to 12.2% of revenue. For the six months ended June 30, 2005, Adjusted EBITDA<sup>1</sup> was \$12.8 million, or 12.0% of revenue. As compared to the same period in 2004, Adjusted EBITDA<sup>1</sup> was lower by \$0.6 million and the Adjusted EBITDA<sup>1</sup> margin, as a percentage of revenue, was down from 12.8% of revenue to 12.0% of revenue.

When the Fund purchased the Company, \$56.6 million of the purchase price was allocated to intangible assets, which represents the value of customer relationships, trademarks and trade names and the value of technology and software acquired. Intangible assets are amortized over the expected periods of benefit, generally from seven to nine years, which resulted in a charge of \$1.7 million for the quarter ended June 30, 2005 and \$3.5 million for the year to date period in 2005. In accordance with GAAP, goodwill represents the excess of the purchase price over the fair value of tangible and intangible assets acquired, and is not amortized. No impairment provision against goodwill was required during the three months and six months ended June 30, 2005.

Interest expense on long-term debt relating to the bank term debt was \$0.5 million for the quarter ended June 30, 2005 and \$1.1 million year to date in 2005. This represented an effective 4.50% interest rate on the Company's \$40.0 million term bank loan. Non-cash interest expense totaling \$0.1 million for the quarter ended June 30, 2005 and \$0.2 million for the year to date period in 2005 is comprised of the amortization of deferred finance fees included in interest on long-term debt.

Interest income of \$0.05 million was earned during the quarter ended June 30, 2005 and \$0.1 million in the year to date period in 2005. This interest relates to the cash and cash equivalents held by the Fund.

The Fund reported pre-tax income of \$3.5 million and a recovery of future income taxes of \$0.02 million for the quarter ended June 30, 2005. For the year to date period ended June 30, 2005 the Fund reported pre-tax income was \$1.1 million and a recovery of future income taxes of \$2.3 million. The recovery of future income taxes arises primarily from deductions claimed for accounting purposes in excess of deductions claimed for tax purposes including the amortization of intangibles (\$1.7 million for the quarter ended June 30, 2005 and \$3.5 million for the year to date period ended June 30, 2005) and purchase adjustments relating to inventory, which are included in the cost of goods sold (\$5.8 million for the six month period ended June 30, 2005).

Generally, the expected income tax expense would be \$1.2 million based on statutory income tax rates of 34%, while the actual income tax recovery is around 1% of pre-tax income for the quarter ended June 30, 2005. Since the Fund is a mutual fund trust for Canadian income tax purposes, the

income that is allocated to the unitholders is not taxable in the trust. As a result, interest paid by the Company to the trust is not taxable in the Fund. During the quarter ended June 30, 2005, the Company paid the Trust interest in the amount of \$4.1 million, which increases the total tax recoverable by \$1.4 million.

### **DATA East and West**

Revenues for the quarter ended June 30, 2005 increased nominally to \$40.8 million from \$40.7 million in 2004. For the six months ended June 30, 2005, revenue also increased nominally to \$81.9 million from \$81.6 million in the prior year.

While revenues in the quarter were essentially flat versus the prior year, sales declines in very low value added stock tab continued to be replaced with higher value added Document Management Services contracts and agreements. This reflects the continued strategic focus on higher value added products and services. Consistent with this strategy, during the quarter the businesses experienced growth in imaging revenue with an increase in volume in both continuous variable imaging and inkjet variable imaging combined with growth in labels and lottery slips.

Cost of revenues increased in the quarter from \$28.5 million in 2004 to \$28.6 million for the quarter ended June 30, 2005. The increase in cost of revenues was in line with the increase in revenues. After adjusting for the inventory fair value allocation charge, cost of revenues on a year to date basis increased 0.4% from \$57.1 million in 2004 to \$57.4 million in 2005. As a result, gross margin remained consistent at 29.9%.

### **Sundog**

Revenues for the quarter ended June 30, 2005 decreased 16% to \$6.0 million from \$7.2 million in the same period in 2004. For the six months ended June 30, 2005, revenue increased 2.2% to \$13.5 million from \$13.2 million.

This decline in sales for the quarter was due to decreased annual report production driven in part by changes in annual report filing requirements that shifted demand from the second quarter to the first quarter. However, revenue for the first six months of 2005 has increased due to continued strong demand in the Alberta marketplace.

Cost of revenues decreased 22.4% in the quarter from \$4.7 million in 2004 to \$3.7 million in 2005. The decrease is due to the shift in annual report production to the first quarter and lower paper costs and outside bindery requirements. For the six months ended June 30, 2005, cost of revenues have

decreased 2.7% from \$9.0 million in 2004 to \$8.7 million. As a result of this decrease in cost of revenues, gross profit as a percentage of revenue has risen to 39.1% from 34.1% in the previous year for the quarter ended June 30, 2005 and to 35.4% from 32.1% in the previous year for the six months ended June 30, 2005.

### **Multiple•Pakfold**

Revenues for the quarter ended June 30, 2005 increased by 2.1% to \$6.5 million from \$6.4 million. For the six months ended June 30, 2005, revenues decreased 2.3% to \$13.0 million from \$13.3 million. The increase in revenue in the quarter was due to improved demand in order levels from two significant customers.

Cost of revenues for the quarter ended June 30, 2005 increased by 2.2% to \$5.4 million from \$5.3 million in 2004. This increase corresponds with the increase in revenue. Therefore, gross margin in the quarter was consistent at \$1.1 million and 17.3% compared to \$1.1 million or 17.4% of revenues in 2004. For the six months ended June 30, 2005, cost of revenues increased 0.8% from \$10.8 million in 2004 to \$10.9 million in 2005.

As discussed previously in the first quarter MD&A, several management changes have been made at Multiple•Pakfold, including appointing a new Vice President and General Manager and supervisory changes in Toronto and Montreal. In addition, overall head count has been reduced and maintenance expense increased to improve efficiencies on certain pieces of equipment. As a result we observed improved results as gross margins increased from 14.5% in the first quarter to 17.3% in the second quarter.

## Payments to The DATA Group Income Fund

The Fund generated \$5.5 million or \$0.370 per Unit of cash available for distribution<sup>2</sup> for the period April 1, 2005 to June 30, 2005. Cash available for distribution<sup>2</sup> for the period was calculated by deducting cash interest of \$0.4 million, maintenance capital expenditures of \$0.2 million and, cash pension contribution of \$0.3 million from Adjusted EBITDA<sup>1</sup> of \$6.4 million. For the period December 21, 2004 to June 30, 2005, the Fund generated \$11.5 million or \$0.773 per unit of cash available for distribution<sup>2</sup>. Cash available for distribution<sup>2</sup> was calculated by deducting cash interest of \$0.9 million, maintenance capital expenditures of \$0.5 million and, cash pension contribution of \$0.6 million from Adjusted EBITDA<sup>1</sup> of \$13.5 million. See Table 3 for a breakdown of these figures for the period from December 21, 2004 to June 30, 2005.

Cash payments to the Fund were sufficient to declare distributions of \$4.2 million or \$0.281 per Unit for the period April 1, 2005 to June 30, 2005. The calculation of cash available for distribution<sup>2</sup> exceeded actual distributions by \$1.3 million or \$0.089 per Unit for the period April 1, 2005 to June 30, 2005. For the period December 21, 2004 to June 30, 2005 the Fund declared distributions of \$8.9 million or \$0.596 per Unit. The calculation of cash available for distribution<sup>2</sup> exceeded actual distributions by \$2.6 million or \$0.178 for the period December 21, 2004 to June 30, 2005.

**Table 3**

Cash Available for Distribution<sup>2</sup> and Adjusted EBITDA<sup>1</sup>  
For the periods ended June 30, 2005  
*(in thousands of dollars, except per unit amounts, unaudited)*

Period ended	Apr. 1 to June 30, 2005 \$	Dec. 21, 2004 to June 30, 2005 \$
Net Income	3,475	2,681
Add:		
Recovery of income taxes	(20)	(2,255)
Interest expense	505	1,063
Depreciation	798	1,814
Amortization	1,652	3,499
Non-cash inventory step-up charges	-	6,668
Adjusted EBITDA <sup>1</sup>	6,410	13,470
Less:		
Cash interest expense †	428	901
Maintenance capital expenditures ††	201	472
Pension Contributions in excess of expense **	286	605
Cash income taxes (recovery) †††	-	-
Cash available for distribution <sup>2</sup>	5,495	11,492
Distributions to unitholders *	4,179	8,853
Excess of cash for distribution <sup>2</sup> over actual distributions	1,316	2,639
Per unit (14,861,333 units)		
Cash available for distribution <sup>2</sup> ***	0.370	0.773
Distributions to unitholders ***	0.281	0.596
Excess of cash for distribution <sup>2</sup> over actual distributions	0.089	0.178
Payout ratio	76.0%	77.0%

\* Distributions are in respect of the quarterly distribution declared, not what was paid in the quarter.

† Cash interest expense is interest expense calculated in accordance with GAAP, less amortization of deferred finance fees.

†† Maintenance capital expenditures are additions, replacements or improvements to property and equipment to maintain the Company's business operations. These expenditures involve the replacement of printing and digital equipment, computers and software and leasehold improvements.

††† Cash income taxes are current income taxes calculated in accordance with GAAP.

\*\* Excludes special pension contribution of \$5 million funded from IPO proceeds.

\*\*\* Per Unit calculations are based on the total number of units outstanding as of the first distribution and not the weighted average number of units.

**Table 4**

Reconciliation of Cash Flow from Operating Activities to Cash Available for Distribution<sup>2</sup>  
For the periods ended June 30, 2005  
*(in thousands of dollars)*

	<b>Apr. 1 to June 30, 2005</b>	<b>Dec. 21, 2004 to June 30, 2005</b>
	<b>\$</b>	<b>\$</b>
Cash flow from operations*	5,729	328
Pension contributions **	-	5,000
Loss on disposal of property and equipment	(33)	(32)
Maintenance capital expenditures	(201)	(472)
Inventory fair value allocation charge	-	6,668
Cash available for distribution <sup>2</sup>	5,495	11,492

\* Prior to net changes in current assets and liabilities

\*\* Special contributions funded out of proceeds from the IPO

### Liquidity and Capital Resources

Concurrent with the acquisition of the Company, the existing credit facilities with outstanding borrowings of \$53.9 million were repaid and a new credit facility was obtained. The Company entered into a three-year revolving credit bank facility having a total availability of \$50.0 million. The new credit facility is secured by substantially all of the Company's assets and bears interest at prime plus varying rates between 0% and 2%, dependent upon achieving certain financial ratios. At June 30, 2005, there was \$40.0 million of borrowings outstanding. The revolving term facility is available to finance working capital fluctuations and capital expenditures.

### Cash Flow from Operations

As cash flow from operations has been determined in accordance with Canadian GAAP, management believes that the reconciliation of this measure to cash available for distribution<sup>2</sup> provides useful supplemental information for investors, as illustrated in Table 4 above.

## **Investing Activities**

The Fund acquired Data Business Forms Limited on December 21, 2004 for a total cash payment of \$101.16 million and the issuance of a note in the amount of \$14.388 million, a convertible note in the amount of \$13.97 million, and the obligation to pay the former owners of Data Business Forms Limited a tax refund amount estimated to be \$0.4 million. The total cash paid was increased by \$13.97 million on January 17, 2005 when the over-allotment note was paid. The total cash paid for the purchase was \$115.1 million. Upon acquisition, the Company held cash balances of \$0.3 million and, accordingly, the total cash investment was \$114.8 million. Capital expenditures in the quarter of \$0.201 million and year to date of \$0.472 million related primarily to maintenance capital expenditures financed out of operating cash flows.

## **Financing Activities**

On December 21, 2004, the Fund completed an initial public offering of 13,327,377 Units for net proceeds of \$123.071 million, after expenses of \$10.203 million. The Fund also issued 47,823 Units to certain executives for proceeds of \$0.478 million. On January 17, 2005, the underwriters exercised their over-allotment option, and the Fund issued an additional 1,486,133 Units for net proceeds of \$13.970 million. The total net cash proceeds from the issuance of Units totalled \$137.5 million.

Upon acquisition, \$53.9 million of existing long-term borrowings of Data Business Forms Limited were repaid and a new credit facility was obtained. The initial proceeds obtained under the new credit facility were \$40.0 million. The costs associated with the new credit facility were \$0.9 million and are reported as deferred finance fees on the balance sheet less accumulated amortization.

## **Financial Instruments**

The DATA Group Income Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, unitholder distributions payable and long-term debt, the amounts of which are included in the Fund's balance sheet as at June 30, 2005 and December 31, 2004.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and unitholder distributions payable approximates their fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the long-term debt approximates its carrying value as it bears interest at a floating interest rate.

The DATA Group is exposed to credit risk with respect to its accounts receivable. However, this is minimized by The DATA Group's large client base and by careful control and follow-up of customers' accounts. Creditworthiness of customers is monitored continuously. The DATA Group maintains an allowance for bad debts and credit losses, which to date have been within expectations. The DATA Group is also exposed to credit risk with its holdings of cash and cash equivalents. The DATA Group minimizes this credit risk by placing these financial assets with governments and well-capitalized financial institutions.

### **Contractual Obligations**

The DATA Group believes that it will have sufficient resources from its operating cash flow to meet its contractual obligations as they become due. Contractual obligations have been defined as contractual commitments in existence but not paid for as at June 30, 2005. For further clarity, short-term commitments such as month-to-month office leases, which are easily cancelled, are excluded from this definition. Operating leases include payments to landlords for the rental of facilities and equipment. Subsequent to the quarter, the Company entered into a lease obligation for computer hardware and support service that will increase commitments by approximately \$0.7 million per year for three to five years. Please refer to the December 31, 2004 Balance Sheet for detail of the contractual obligations as at December 31, 2004.

The Company has a defined benefit pension plan for the benefit of certain employees and a defined contribution plan for other employees. During the period ended June 30, 2005, the Company contributed \$6.3 million to the defined benefit plan. Management expects that payments under the defined benefit pension plan will be approximately \$2.4 million in calendar 2005 and payments for the defined contribution plan should continue in 2005 at approximately the same level as in 2004.

### **Off-Balance Sheet Arrangements**

The Fund has no off-balance sheet arrangements other than operating leases and pension obligations as described elsewhere in the MD&A.

### **Transactions with Related Parties**

There are regular intercompany activities between the Fund and its subsidiaries during the normal course of business. These transactions and balances are eliminated in the consolidated financial statements of the Fund. Related parties are defined as individuals who can influence the direction or management of the Fund or any of its subsidiaries and are, therefore, the trustees of the Fund or the

directors and officers of the Fund's subsidiaries. Neither the Fund nor any of its subsidiaries entered into any transactions with related parties as defined above during the period ended June 30, 2005.

### **Critical Accounting Estimates**

Details of the critical accounting estimates are available in the first quarter management's discussion and analysis for the period ended March 31, 2005.

### **New Accounting Policies**

The Company may undertake transactions to hedge its interest rate risk on the new floating rate credit facility. The Company will adopt the accounting requirements of the CICA's Accounting Guideline 13, "Hedging Relationships". This standard sets out the conditions that must be met in order to apply hedge accounting. Any derivative financial instrument that does not qualify for hedge accounting must be accounted for on a mark-to-market basis. The impact of not applying hedge accounting is that gains and losses on a derivative instrument may not be recorded in the same accounting period as gains or losses on the hedged item.

### **Taxation**

The Fund qualifies as a mutual fund trust as defined under the Income Tax Act (Canada) (the "Tax Act") and is subject to taxation on its income for the year, less the portion paid or payable in respect of distributions to unitholders. Since it is the intention to pay all of the net income of the Fund to unitholders, the Fund itself should have no taxable income and, therefore, should not pay any income tax, which was the case for the 2004 fiscal year.

From the unitholders' perspective, amounts paid or payable by the Fund in respect of the distribution period of the fiscal year are taxable in the hands of the unitholders as interest and dividend income, as the case may be. In certain circumstances, distributions are classified as a return of capital for Canadian income tax purposes, rather than as interest or dividend income. Unitholders who are non-residents of Canada are required to pay all withholding taxes payable in respect of any distributions by the Fund.

### **Liquidity and Capital Resources**

The Fund's operating cash flows are generated entirely from interest on the Company Notes and dividends. Regular monthly distributions are paid to unitholders based on the cash received less expenses of the Fund and any amounts paid in connection with the redemption of Units. On an ongoing basis, the Fund does not expect to require additional capital resources to maintain its

investment in the Company, other than the renegotiation of credit arrangements from time to time or in connection with financing for acquisition purposes.

## **Risks and Uncertainties**

Among the risks and uncertainties affecting the Fund are the following (see also the Fund's final prospectus dated December 14, 2004):

### *Currency Risk*

The Company is exposed to some minor financial risk from fluctuations in exchange rates and the degree of volatility in these rates.

### *Interest Rate Risk*

Advances under the New Credit Facility will bear interest at rates based upon the prime rate of interest. Accordingly, the Company will be exposed to interest rate risk on those advances. The Company may undertake transactions to hedge its interest rate risk on the New Credit Facility.

### *Commodity Prices*

Due to the significance of paper in the manufacture of most of the Company's products, DATA Group is dependent upon the availability of competitively priced paper. In fiscal 2004, the cost of paper represented approximately 25.4% of the Company's cost of revenues. Historically and consistent with industry practice, the Company has generally been able to pass on price increases in the cost of paper to its customers. The Company cannot be certain that it will be able to pass on future increases in the cost of paper to its customers.

See also "Risk Factors" for a discussion of other risks and uncertainties affecting the Company's business.

## **Dependence on the Company**

The Fund is a trust, which is entirely dependent on the operations and assets of the Company through the ownership of shares and the Company Notes. Accordingly, the cash distributions per Unit to the holders thereof are dependent on the Company's ability to pay its interest obligations under the Data Note and to declare and pay dividends or make other distributions on its shares, which will depend, among other things, on compliance with applicable laws and its credit facilities.

## **Cash Distributions Are Not Guaranteed and Will Fluctuate with the Company Performance**

Although the Fund intends to distribute the interest and dividend income earned by the Fund, less expenses and any amounts paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Company and paid to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, debt covenants, intercompany guarantees by the Fund, fluctuations in working capital, the sustainability of margins and capital expenditures.

## **Restrictions on Potential Growth**

The Company will pay out substantially all of its operating cash flow. This will make any additional capital and operating expenditures and further acquisitions dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of the Company and its cash flow.

## **Income Tax Matters**

There can be no assurance that Canadian federal income tax laws governing the treatment of mutual fund trusts will not be changed in a manner that could adversely affect the holders of Units. If the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax considerations would be materially different.

Income fund structures generally involve significant amounts of intercompany or similar debt, generating substantial interest expense, which serves to reduce earnings and, therefore, income tax payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted. The Company’s management believes that the interest expense inherent in the structure of the Fund is supportable and reasonable.

The Company may be reassessed for taxes from time to time. Such reassessments, together with associated interest and penalties, could adversely affect the Company and the Fund.

## **Outlook**

Management believes that the Fund will continue to meet its objectives for the balance of the year, continuing at minimum to meet its monthly per unit distributions to unitholders which will increase by 3% to \$0.09656, effective to unitholders of record August 31, 2005.

The Company will continue to fund necessary maintenance capital expenditures by utilizing cash flow from operations. Based on year to date and what is anticipated for the rest of the year, maintenance capital expenditures are expected to be considerably less than the conservative \$3.7 million forecast in the prospectus.

The Company will continue its strategic focus on being the leading document management service provider in Canada, concentrating on providing high value added products and services to achieve target annual organic profit growth of 2.5% to 3%. The Company will also pursue acquisition opportunities, which are accretive to distributable cash before synergies.

- 1. While Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization adjusted for the non-cash inventory charges) is not a recognized measure under Canadian generally accepted accounting principles (GAAP), management believes it to be a useful supplemental measure. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income (loss) as an indicator of The DATA Group's performance or cash flows. The DATA Group's method of calculating EBITDA and Adjusted EBITDA may differ from other companies' or income trusts' and may not be comparable to measures used by other companies or income trusts. For a reconciliation of net income to Adjusted EBITDA, see Table 3.*
- 2. Cash available for distribution, or distributable cash, is not intended to be representative of cash flow or results of operations determined in accordance with GAAP and does not have a standardized meaning prescribed by GAAP. Cash available for distribution is unlikely to be comparable to similar measures used by other companies or income trusts. The calculation of cash available for distribution is different from actual cash flow. There are some accrued expenses, such as pension expense that are recognized differently from when payments are made and reduce or increase the cash available for distribution thereby creating a difference between cash available for distribution and actual cash flow. For a reconciliation of cash flow from operations to cash available for distribution, see Table 4. If the calculation of cash available for distribution had included pension contributions, the Fund's cash available for distribution would have been decreased by approximately \$5 million or \$.336 per Unit for the period from December 21, 2004 to June 30, 2005.*

Interim Consolidated Balance Sheet  
(Unaudited)

(In thousands of dollars)

	June 30, 2005 \$ (Unaudited)	December 31, 2004 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	8,949	5,125
Accounts receivable	23,403	25,065
Inventories (note 3)	21,670	27,966
Prepaid expenses	2,127	1,528
Income taxes recoverable	439	666
	56,588	60,350
<b>Property and equipment</b>	14,742	16,036
<b>Goodwill</b> (note 1)	88,194	88,194
<b>Intangible assets</b> (note 4)	53,101	56,405
<b>Deferred finance fees</b>	753	906
	213,378	221,891
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	19,343	20,908
Distribution payable (note 10)	1,393	-
Future income taxes (note 5)	-	1,931
	20,736	22,839
<b>Term bank loan</b> (note 6)	40,000	40,000
<b>Convertible note</b> (note 7)	-	13,970
<b>Future income taxes</b> (note 5)	16,176	16,305
<b>Pension obligation</b> (note 8)	5,119	5,693
	82,031	98,807
<b>Unitholders' Equity</b> (note 9)		
<b>Units</b>	137,519	123,549
<b>Accumulated income (loss)</b>	2,681	(465)
<b>Cumulative distributions</b>	(8,853)	-
	131,347	123,084
	213,378	221,891

Approved by the Board of Trustees



Trustee



Trustee

Interim Consolidated Statement of Income  
(Unaudited)

(in thousands of dollars, except per unit amounts)

	<b>For the three months ended June 30, 2005 \$</b>	<b>For the period from December 21, 2004 to June 30, 2005 \$</b>
<b>Revenue</b>	52,425	112,313
<b>Cost of revenues</b> (including depreciation of \$731 and \$1,662 respectively)	<u>36,753</u>	<u>86,002</u>
<b>Gross profit</b>	<u>15,672</u>	<u>26,311</u>
<b>Expenses</b>		
Selling, commissions and expenses	5,812	12,311
General and administration (including depreciation of \$67 and \$152, respectively)	4,248	9,012
Amortization of intangible assets	<u>1,652</u>	<u>3,499</u>
	<u>11,712</u>	<u>24,822</u>
<b>Income before interest and income taxes</b>	3,960	1,489
<b>Interest expense</b>		
Long-term debt (net of interest income of \$45 and \$82, respectively)	<u>505</u>	<u>1,063</u>
<b>Income before income taxes</b>	3,455	426
<b>Recovery of future income taxes</b> (Note 5)	<u>(20)</u>	<u>(2,255)</u>
<b>Net Income for the period</b>	<u>3,475</u>	<u>2,681</u>
<b>Basic income per unit</b>	<u>0.23</u>	<u>0.18</u>
<b>Weighted average number of units</b>	<u>14,861,333</u>	<u>14,651,251</u>

Interim Consolidated Statement of Unitholders' Equity  
(Unaudited)

(in thousands of dollars)

	Unitholders' capital \$	Accumulated (loss) income \$	Cumulative distributions \$	Total \$
Issuance of units - net of issuance costs (note 1)	123,549	-	-	123,549
Loss for the period from December 21, 2004 to December 31, 2004	-	(465)	-	(465)
<b>Balance as at December 31, 2004</b>	123,549	(465)	-	123,084
Issuance of units	13,970	-	-	13,970
Distributions declared (note 10)	-	-	(4,674)	(4,674)
Loss for the three-month period ended March 31, 2005	-	(329)	-	(329)
<b>Balance as at March 31, 2005</b>	137,519	(794)	(4,674)	132,051
Distributions declared (note 10)	-	-	(4,179)	(4,179)
Net income for the three-month period ended June 30, 2005	-	3,475	-	3,475
<b>Balance as at June 30, 2005</b>	137,519	2,681	(8,853)	131,347

**Interim Consolidated Statement of Cash Flows**  
(Unaudited)

(in thousands of dollars)

<b>Cash provided by (used in)</b>	<b>For the three months ended June 30, 2005 \$</b>	<b>For the period from December 21, 2004 to June 30, 2005 \$</b>
<b>Operating activities</b>		
Net income for the period	3,475	2,681
Items not involving cash		
Depreciation of property and equipment	798	1,814
Amortization of intangible assets	1,652	3,499
Pension expense	314	673
Contributions made to pension plans	(600)	(6,278)
Amortization of deferred financing fees	77	162
Loss on disposal of property and equipment	33	32
Future income taxes	(20)	(2,255)
	<u>5,729</u>	<u>328</u>
Changes in non-cash items relating to operating activities (note 11)	559	8,666
	<u>6,288</u>	<u>8,994</u>
<b>Investing activities</b>		
Purchase of property and equipment	(201)	(472)
Proceeds on disposal of property and equipment	-	3
Acquisition of business - net of cash acquired of \$323 (note 1)	-	(114,807)
	<u>(201)</u>	<u>(115,276)</u>
<b>Financing activities</b>		
Repayment of acquired Data Business Forms' long-term debt	-	(53,913)
Proceeds from long-term debt	-	40,000
Payment of bank financing fees	-	(915)
Distributions to unitholders	(4,179)	(7,460)
Issuance of units - net of expenses (note 1)	-	137,519
	<u>(4,179)</u>	<u>115,231</u>
<b>Increase in cash and cash equivalents during the period</b>	1,908	8,949
<b>Cash and cash equivalents - Beginning of period</b>	7,041	-
<b>Cash and cash equivalents - End of period</b>	<u>8,949</u>	<u>8,949</u>
<b>Supplemental cash flow information</b>		
Interest paid	370	936
<b>Non-cash investing and financing activities</b>		
Acquisition of certain assets and settlement for non-cash consideration	-	14,388

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

**1 The Fund**

The Data Group Income Fund (the “Fund”) is a trust established under the Laws of the province of Ontario pursuant to a Declaration of Trust dated November 15, 2004. The Fund was created to invest in common shares and \$117,140 of 14% unsecured subordinated notes of Data Business Forms Limited (the “company” or “Data Business Forms”).

On December 14, 2004, the Fund filed a final prospectus for the sale of 13,327,377 units at the price of \$10.00 per unit, for aggregate gross proceeds of \$133,274. The cost related to the issuance of the units was \$10,203, resulting in net proceeds of \$123,071. The Fund also issued 47,823 units to certain executives for proceeds of \$478. On December 21, 2004, in conjunction with the closing of the public offering, the Fund acquired all the outstanding shares of Data Business Forms. Concurrent with the acquisition, Data Business Forms reorganized, which included the statutory amalgamation with a subsidiary of the Fund. The amalgamated company continued as Data Business Forms Limited.

The acquisition has been accounted for by the purchase method from the date of acquisition. The allocation of the purchase price is not finalized due to estimates used in determining the fair value of the assets acquired and liabilities assumed. The preliminary purchase price allocation is as follows:

	\$
Cash and cash equivalents	323
Accounts receivable	25,420
Inventories	29,122
Prepaid expenses and other assets	2,000
Income taxes recoverable	671
Property and equipment	16,119
Due from parent	14,388
Goodwill	88,194
Intangible assets	56,600
Accounts payable and accrued liabilities	(19,852)
Pension obligation	(10,724)
Long-term debt	(53,913)
Future income tax liabilities - net	(18,430)
	<u>129,918</u>
Consideration	
Cash	101,160
Convertible note (over-allotment note)	13,970
Note payable	14,388
Accrued consideration payable	400
	<u>129,918</u>

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

Immediately following the acquisition, the note payable of \$14,388 was settled by offsetting this note with the amount due from parent of \$14,388. On January 17, 2005, the Fund repaid the \$13,970 convertible note with proceeds from the issuance of an additional 1,486,133 units.

Data Business Forms offers a wide variety of print and electronic products and related services, which include traditional business forms, labels, direct mail products, security documents, commercial print and facility and print management. The company operates in the following business segments:

- i) Data East and West - sells a broad range of printed products and document management services directly to customers in the Canadian market;
- ii) Multiple Pakfold® - sells forms and labels to independent brokers/resellers in the Canadian market; and
- iii) Sundog - commercial printing division and total document management and event ticket production.

## **2 Summary of significant accounting policies**

### **Basis of presentation**

These unaudited interim consolidated financial statements as at June 30, 2005 and for the period from December 21, 2004 to June 30, 2005 have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows. Results for the period ended June 30, 2005 are not necessarily indicative of results expected for the full fiscal year or any other future period.

The disclosures provided in these interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and, accordingly, the interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended April 30, 2004 included in the Data Group Income Fund prospectus dated December 14, 2004 and the consolidated balance sheet as at December 31, 2004. The interim consolidated financial statements have been prepared using the same accounting policies as applied to the company's annual financial statements.

These interim consolidated financial statements reflect the results of operations for the period from December 21, 2004 to June 30, 2005. As the Fund commenced operations on December 21, 2004, no comparative information is provided.

### **Principles of consolidation**

The consolidated balance sheet includes the accounts of the Fund and its wholly owned subsidiary company. All intercompany transactions have been eliminated.

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

**Revenue recognition**

Revenue from the sale of product is recognized upon shipment to the customer, upon the transfer of title and when risk of loss passes to the buyer. Revenue from services is recognized upon completion of services provided to the customer. The majority of products are customized and product returns are not significant. Warehousing fees are recognized as the service is provided.

**Concentration of credit risk**

Financial instruments, which potentially subject the Fund to concentrations of credit risk, consist primarily of trade accounts receivable.

Credit risk with respect to trade receivables, in management's opinion, is limited due to industry and geographic diversification. The four largest customers represent 11% of total accounts receivable. An allowance for doubtful accounts is maintained to cover estimated credit losses.

**Inventories**

Raw materials inventories are stated at the lower of cost and replacement cost. Printed finished goods and work-in-progress are recorded at the lower of cost and net realizable value. Cost of finished goods and work-in-process at December 21, 2004 was determined based on estimated fair value and subsequent thereto using the first-in, first-out method. Inventory manufactured by the company includes the cost of materials and labour and the applicable share of variable production overhead.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities of three months or less at the date of purchase.

**Property and equipment**

Property and equipment are recorded at cost. Additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed using the methods and rates based on the estimated useful lives of the property and equipment as outlined below:

	<b>Basis</b>	<b>Rate</b>
Leasehold improvements	straight-line	lease term
Office furniture and equipment	diminishing balance	20%
Presses and printing equipment	straight-line	1 to 10 years
Computer hardware and software	straight-line	1 to 5 years

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An estimate of undiscounted future cash flows produced by the assets, or the appropriate grouping of assets, is compared with the carrying value to determine whether an impairment exists. If an impairment is determined to exist, the assets are written down to fair value.

### **Intangible assets**

Intangible assets are related to acquisitions and are recorded at their fair value at the acquisition date. These assets include customer relationships, existing technology, trademarks and trade names. These assets are amortized over their estimated useful lives of seven to nine years.

Management reviews the carrying value of its intangible assets annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If an impairment is determined to exist, the assets are written down to fair value.

### **Goodwill**

Goodwill represents the excess of cost over the fair value of tangible and identifiable intangible assets acquired in business combinations accounted for by the purchase method.

Goodwill is not amortized but is subject to an annual impairment review or more frequently if circumstances indicate goodwill may be impaired. An impairment is recognized when the fair value of a reporting unit is less than the carrying value of the reporting unit's net assets. These impairment reviews are highly dependent on management's projection of future results for this reporting unit, and there can be no assurance that at the time such reviews are completed, a material impairment charge will not be recorded.

### **Pensions**

The cost of pensions and other retirement benefits earned by employees covered by the defined benefit pension plans is determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates. For the purpose of calculating the expected return on plan assets, those assets are valued at fair market value. Adjustments arising from changes in pension benefits and assumptions and experience gains and losses above 10% of lower of the accrued benefit obligation and plan assets are amortized over the expected average remaining service lives of the employees.

### **Deferred finance fees**

Finance costs related to the acquisition of financing are deferred and amortized as interest expense over the term of the related debt.

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

### **Leases**

Leases are classified as capital or operating depending on the terms and conditions of the contracts. Where the Fund is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the term of the lease. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

### **Income taxes**

The Fund is a mutual fund trust for income tax purposes and, therefore, is not subject to tax on income distributed to unitholders. Taxes payable on income of the Fund's distribution to unitholders are the responsibility of individual unitholders.

Income taxes for the Fund's subsidiaries are calculated using the liability method of accounting for income taxes. Future income tax assets or liabilities are recognized for temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. Future taxes are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The income tax expense or benefit is the income tax payable or refundable for the year plus or minus the change in future income tax assets and liabilities during the year.

### **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at rates prevailing on the transaction dates. Gains and losses resulting from translation are included in net earnings for the year.

### **Financial instruments**

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, the convertible note and note payable approximates fair value due to the short-term maturities of these instruments. The fair value of the term bank loan is not significantly different from its carrying values as the loan bears interest at floating interest rates.

### **Income (loss) per unit**

Income (loss) per Fund unit is computed by dividing the net income (loss) available for Fund unitholders by the weighted average number of Fund units outstanding during the period.

### **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of the contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Actual results could differ from those estimates.

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

**3 Inventories**

	<b>June 30, 2005</b> \$ (Unaudited)	<b>December 31, 2004</b> \$
Paper, carbon and ink	5,644	6,759
Work-in-progress	2,057	2,398
Forms, computer paper and labels	13,969	18,809
	<u>21,670</u>	<u>27,966</u>

At the date of acquisition, the cost of inventory was increased by \$6,668 representing the excess of the estimated fair value of inventory over the cost of inventory in the acquired company, Data Business Forms.

**4 Intangible assets**

Intangible assets comprise:

	<b>June 30, 2005</b> (Unaudited)		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net</b> \$
Software and technology	10,000	757	9,243
Customer relationships	38,900	2,289	36,611
Trademarks and trade names	7,700	453	7,247
	<u>56,600</u>	<u>3,499</u>	<u>53,101</u>
	<b>December 31, 2004</b>		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net</b> \$
Software and technology	10,000	43	9,957
Customer relationships	38,900	127	38,773
Trademarks and trade names	7,700	25	7,675
	<u>56,600</u>	<u>195</u>	<u>56,405</u>

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

**5 Income taxes**

The difference between the income tax recovery and the recovery sustained for the period from December 21, 2004 to June 30, 2005 by applying the statutory rate is as follows:

	<b>For the three months ended June 30, 2005</b>	<b>For the period from December 21, 2004 to June 30, 2005</b>
	\$	\$
	(Unaudited)	(Unaudited)
Expected income tax at 34%	1,175	144
Trust income not taxable	(1,385)	(2,773)
Other items - net	190	374
	<hr/>	<hr/>
Income tax recovery	(20)	(2,255)
	<hr/>	<hr/>

The composition of the future income tax asset and liability is as follows:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	\$	\$
	(Unaudited)	
Inventory	-	1,953
Property and equipment	1,300	1,408
Intangible assets	17,996	19,110
Pension obligation	(1,735)	(1,929)
Deferred finance fees	(688)	(759)
Benefit of income tax loss carry-forwards	(691)	(1,526)
Other	(6)	(21)
	<hr/>	<hr/>
Net future tax liability	16,176	18,236
Current future tax liability	-	1,931
	<hr/>	<hr/>
Long-term future tax liability	16,176	16,305
	<hr/>	<hr/>

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

**6 Term bank loan**

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	\$	\$
	(Unaudited)	
Revolving term bank loan	40,000	40,000

On December 21, 2004, the company entered into a three-year revolving credit bank facility in the amount of \$50,000. The facility is secured by substantially all of the company's assets and bears interest at prime plus varying rates between 0% to 2%, dependent upon certain financial ratios. As at June 30, 2005, the effective interest rate was 4.5% (December 31, 2004 - 4.5%). The provisions under this facility provide for restrictions on the operations and activities of the company. Generally, the most significant restrictions relate to permitted investments and distributions, as well as the incurrence and maintenance of certain financial ratios primarily linked to total debt to net income before interest, income taxes, depreciation and amortization and non-cash employee compensation. As at June 30, 2005, the company was in compliance with all covenants. The revolving term facility is repayable in full in December 2007.

**7 Convertible note**

The consideration for the acquisition of Data Business Forms included a \$13,970 convertible note (the "over-allotment note"). Pursuant to the terms of the note, in the event that the over-allotment option to acquire up to 1,486,133 units was exercised by the underwriters, the note would be repaid in cash. Otherwise, the note was required to be converted into 1,486,133 units within 30 days of closing of the public offering. On January 17, 2005, 1,486,133 units were issued for net proceeds of \$13,970 on exercise of the over-allotment option, and the note was repaid in cash.

**8 Pension obligation**

The Fund maintains a defined benefit and a defined contribution pension plan for certain employees and contributes to the Graphics and Communications International Union pension plan for certain employees at the Granby plant. There are no other post-retirement benefits for employees. The most recent actuarial valuation for these plans was completed on January 1, 2004.

Information about the Fund's defined benefit pension plan as at June 30, 2005 and December 31, 2004, in aggregate, is as follows:

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	\$	\$
	(Unaudited)	
Accrued benefit obligation	37,858	35,928
Fair value of plan assets	32,741	30,237
	<hr/>	<hr/>
Funded status - plan deficit	(5,117)	(5,691)
Unamortized net actuarial loss	(2)	(2)
	<hr/>	<hr/>
Pension obligations	(5,119)	(5,693)
	<hr/>	<hr/>

**Defined benefit plan obligations**

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	\$	\$
	(Unaudited)	
Accrued benefit obligation		
Balance - Beginning of period (acquired on acquisition)	35,928	35,914
Current service cost	686	45
Interest cost	1,122	71
Employee contributions	480	31
Benefits paid	(358)	(133)
	<hr/>	<hr/>
Balance - End of period	37,858	35,928
	<hr/>	<hr/>

**Defined benefit plan assets**

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	\$	\$
	(Unaudited)	
Fair value of plan assets		
Balance - Beginning of period (acquired on acquisition)	30,237	25,190
Actual return on plan assets	1,182	71
Employer contributions	1,200	5,078
Employee contributions	480	31
Benefits paid	(358)	(133)
	<hr/>	<hr/>
Balance - End of period	32,741	30,237
	<hr/>	<hr/>

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

The significant actuarial assumptions adopted in measuring the Fund's accrued benefit obligations are as follows:

	%
Discount rate	6.00
Expected rate of return on plan assets	7.50
Rate of compensation increase	4.00

The Fund's pension expense is as follows:

	<b>For the three months ended June 30, 2005</b>	<b>For the period from December 21, 2004 to June 30, 2005</b>
	\$	\$
Pension expense - defined benefit plans	314	673
Pension expense - defined contribution plans	113	262

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

**9 Unitholders' equity**

An unlimited number of units may be issued pursuant to the declaration of trust. Units are redeemable by the holder at a price equal to the lesser of 90% of the market price of a unit during the 10 consecutive trading day period ending on the trading day immediately prior to the date on which the units were surrendered for redemption and an amount based on the closing price on the redemption date, subject to certain restrictions. Each holder of units of the Fund participates pro rata in any distributions from the Fund. Income tax obligations related to the distributions by the Fund are obligations of the unitholders. Each unit is entitled to one vote at any meeting of unitholders. The Fund issued one unit on November 15, 2004 for cash proceeds of ten dollars. Upon completion of the initial public offering, the initial unit was redeemed for ten dollars.

On December 14, 2004, the Fund issued 13,327,377 units for cash proceeds of \$123,071, net of unit issuance costs of \$10,203. The Fund also issued 47,823 units to certain executives for \$478. On January 17, 2005, the Fund issued 1,486,133 units for net cash proceeds of \$13,970.

The following summarizes the movement in units:

	<b>Number of units</b>	<b>Amount \$</b>
Issued pursuant to declaration of trust	1	-
Redeemed	(1)	-
Issued upon initial public offering	13,327,377	123,071
Issued to certain executives	47,823	478
	<hr/>	<hr/>
Balance - December 31, 2004	13,375,200	123,549
Issued upon exercise of the over-allotment option	1,486,133	13,970
	<hr/>	<hr/>
Balance – June 30, 2005	14,861,333	137,519

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

**10 Distributions**

The Fund makes regular monthly distributions to unitholders of record as of the last business day of each month. Distributions to unitholders are calculated and recorded when declared. Distributions for the six-month period ended June 30, 2005 are as follows:

<b>Period</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per unit \$</b>	<b>Amount \$</b>
January 2005	January 31, 2005	February 15, 2005	0.127	1,888
February 2005	February 28, 2005	March 15, 2005	0.094	1,393
March 2005	March 31, 2005	April 15, 2005	0.094	1,393
April 2005	April 29, 2005	May 13, 2005	0.094	1,393
May 2005	May 31, 2005	June 15, 2005	0.094	1,393
June 2005	June 30, 2005	July 15, 2005	0.094	1,393
				8,853

**11 Changes in non-cash items relating to operating activities**

	<b>For the three months ended June 30, 2005 \$</b>	<b>For the period from December 21, 2004 to June 30, 2005 \$</b>
Accounts receivable	2,441	2,017
Inventories	240	7,452
Prepaid expenses	(583)	(127)
Income taxes recoverable	(124)	232
Accounts payable and accrued liabilities	(1,415)	(909)
	559	8,666

**12 Segmented information**

The company has three reportable segments organized on the basis of geography, channels and specialties as follows: Data East and West; Multiple Pakfold; and Sundog. These segments follow the same accounting policies as described in the summary of significant accounting policies, and all intersegment revenues are recorded at the exchange amount. Management evaluates the performance of each segment based on earnings before interest and taxes (EBIT). Corporate expenses, interest expense and income taxes are not taken into account in the evaluation of the performance of the business segments. All significant external sales are to customers located in Canada.

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

	<b>For the three months ended June 30, 2005</b>				
	(Unaudited)				
	<b>Data East and West \$</b>	<b>Multiple Pakfold \$</b>	<b>Sundog \$</b>	<b>Intersegment \$</b>	<b>Total \$</b>
Revenue	40,796	6,534	6,031	(936)	52,425
Gross margin	12,182	1,129	2,361	-	15,672
Earnings before under noted items	5,047	314	1,062	-	6,423
Unallocated corporate and Fund expenses					2,463
Interest expense - net					505
Income taxes					(20)
Earnings for the period					<u>3,475</u>

	<b>Period from December 21, 2004 to June 30, 2005</b>				
	(Unaudited)				
	<b>Data East and West \$</b>	<b>Multiple Pakfold \$</b>	<b>Sundog \$</b>	<b>Intersegment \$</b>	<b>Total \$</b>
Revenue	86,516	13,763	13,907	(1,873)	112,313
Gross margin	19,245	2,206	4,860	-	26,311
Earnings before under noted items	3,818	456	2,151	-	6,425
Unallocated corporate and Fund expenses					4,935
Interest expense - net					1,063
Income taxes					(2,255)
Earnings for the period					<u>2,681</u>

Notes to Interim Consolidated Financial statements  
(Unaudited)  
**June 30, 2005**

(in thousands of dollars, except per unit amounts)

	<b>June 30, 2005</b>				
	(Unaudited)				
	<b>Data East and West</b>	<b>Multiple Pakfold</b>	<b>Sundog</b>	<b>Corporate</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Assets (other than goodwill)	91,171	6,099	10,459	17,455	125,184
Goodwill	72,496	5,556	10,142	-	88,194
					<u>213,378</u>

	<b>December 31, 2004</b>				
	<b>Data East and West</b>	<b>Multiple Pakfold</b>	<b>Sundog</b>	<b>Corporate</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Assets (other than goodwill)	98,343	7,254	10,005	18,095	133,697
Goodwill	72,496	5,556	10,142	-	88,194
					<u>221,891</u>

**13 Subsequent Event**

Subsequent to the quarter, the Company entered into a lease obligation for computer hardware and support service that will increase commitments by approximately \$0.7 million per year for three to five years.

## THE DATA GROUP INCOME FUND

### **DIRECTORS, TRUSTEES AND OFFICERS**

**Derek Ridout**<sup>(2) (3)</sup>  
Chairman, Director and Trustee

**Ron Fotheringham**<sup>(1) (2) (3)</sup>  
Director and Trustee

**John H. Greenhough**<sup>(1)</sup>  
Director and Trustee

**Thomas R. Spencer**<sup>(1) (2) (3)</sup>  
Director and Trustee

**David M. Odell**  
Director, Trustee and Officer  
President and Chief Executive Officer

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

### **EXECUTIVE TEAM**

**David M. Odell**  
President and  
Chief Executive Officer

**Paul O'Shea**  
Chief Financial Officer

**Elaine Deramo**  
Vice President,  
Human Resources

**Steve Galarneau**  
President  
DATA West

**Ross Van Patter**  
Vice President  
and General Manager  
Sundog

**Tom Cochrane**  
Vice President  
and General Manager  
Multiple•Pakfold®

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

### **CORPORATE INFORMATION**

**Auditors**  
PricewaterhouseCoopers LLP

**Transfer Agent**  
Computershare Investor Services Inc.

**Corporate Counsel**  
McCarthy Tétrault LLP

**Investor Relations**  
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Telephone: 905-791-3151  
Facsimile: 905-791-1713  
Website: www.datagroup.ca

**Toronto Stock Exchange Symbol**  
DGI.UN

The DATA Group Income Fund



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

<sup>(2)</sup> Member, Compensation Committee (Chairperson is Ron Fotheringham)

<sup>(3)</sup> Member, Corporate Governance Committee (Chairperson is Derek Ridout)

The DATA Group Income Fund  
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Brampton, ON  
L6S 6H2

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Exchange: TSX

Trading Symbol: DGI.UN