

# BUSINESS ACQUISITION REPORT

## **Item 1 - Identity of the Company**

### **1.1 Name and Address of the Company**

DATA Communications Management Corp. (“**DCM**”)  
9195 Torbram Road  
Brampton, Ontario  
L6S 6H2

### **1.2 Executive Officer**

James Lorimer  
Chief Financial Officer  
Telephone: (905) 791-3151

## **Item 2 - Details of the Acquisition**

### **2.1 Nature of the Business Acquired**

DCM acquired (the “**Acquisition**”) all of the outstanding shares of Moore Canada Corporation (formerly, Moore Canada Inc.) (“**MCC**”) pursuant to a share purchase agreement dated February 22, 2023, as amended (the “**Purchase Agreement**”), between DCM, R.R. Donnelley Holdings B.V. (the “**Vendor**”) and R.R. Donnelley & Sons Company (the “**Vendor Parent**”).

MCC provides print and related services to customers across Canada, including financial institutions, retailers, insurance providers, transportation companies, government organizations and other regulated industries. MCC has approximately 1,000 employees.

### **2.2 Date of Acquisition**

April 24, 2023.

### **2.3 Consideration**

DCM acquired all of the outstanding shares of MCC for an aggregate cash purchase price of \$130.8 million, subject to final working capital and other customary post-closing adjustments. The purchase price was determined on the basis that MCC had: (i) no Indebtedness (as defined in the Purchase Agreement); (ii) no Corporate Cash (as defined in the Purchase Agreement); and (iii) Closing Date Working Capital (as defined in the Purchase Agreement) of \$41.792 million, in each case as at the effective time of the Acquisition. In accordance with the terms of the Purchase Agreement, a post-closing, dollar-for-dollar adjustment to the purchase price will be made, with the result that the purchase price will be increased or decreased, as applicable, if Indebtedness or Cash is greater than zero or Closing Date Working Capital is greater or less than \$41.792 million, in each case as at the effective time of the Acquisition.

Upon closing of the Acquisition (“**Closing**”), a total of \$1.6805 million of the purchase price was deposited into escrow with a third-party escrow agent to satisfy any final working capital adjustment and certain indemnity obligations of the Vendor or the Vendor Parent under the Purchase Agreement.

The Acquisition was funded with the proceeds of (i) a revolving, floating rate credit facility from a Canadian chartered bank (the “**Bank**”), which includes up to \$90 million of revolving credit capacity; (ii) a \$30 million floating rate term loan from the Bank (the “**Term Loan**”); and (iii) a \$50 million fixed rate credit facility from Fiera Private Debt Fund VI. For a description of such credit facilities, refer to the information under the heading “Credit Facilities” in Item 5 of the material change report of DCM dated May 5, 2023, which information is incorporated by reference in this Report. A copy of such material change report has been filed on SEDAR and is available under DCM’s issuer profile at [www.sedar.com](http://www.sedar.com).

## 2.4 Effect on Financial Position

The Acquisition provides DCM with a significantly larger presence in the Canadian market, an enhanced portfolio of products and services, and an expanded customer base across a broad range of vertical markets. DCM expects to realize total annualized cost reductions from post-merger synergies in the range of \$25 million to \$30 million over the next 18 to 24 months. These synergies are expected to be derived from cost reductions related to organizational, operational, and procurement efficiencies, amongst other initiatives.

On June 8, 2023, DCM completed a sale and leaseback of its Oshawa, Ontario warehouse facility, which was acquired as part of the Acquisition. The net proceeds of approximately \$23.1 million from the transaction have been applied to reduce the outstanding indebtedness under the Term Loan. DCM continues to assess opportunities to realize value from the Fergus, Ontario and Trenton, Ontario manufacturing facilities which were also acquired pursuant to the Acquisition.

On May 25, 2023, DCM completed a private placement (the “**Offering**”) of common shares of DCM (“**Common Shares**”). Upon closing of the Offering, DCM issued 8,707,200 Common Shares at a price per share of \$3.00 for gross proceeds of approximately \$26.1 million. The net proceeds from the Offering have been used for general corporate and working capital purposes.

Please also refer to the annual financial statements of MCC for the financial years ended December 31, 2022 and December 31, 2021, the unaudited interim financial statements of MCC for the three months ended March 31, 2023, and the unaudited *pro forma* consolidated financial statements of DCM, all attached as Schedule “A” to this Report.

## 2.5 Prior Valuations

Not applicable.

## 2.6 Parties to Transaction

The Acquisition was not with an informed person, associate or affiliate of DCM.

## **2.7 Date of Report**

June 29, 2023.

### **Item 3 - Financial Statements and Other Information**

The financial statements are attached as Schedule "A" hereto.

#### **Forward-looking Statements**

Certain statements in this Report constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of DCM, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward-looking statements. When used in this Report, words such as "may", "would", "could", "will", "expect", "anticipate", "estimate", "believe", "intend", "plan", and other similar expressions are intended to identify forward-looking statements. These statements reflect DCM's current views regarding future events and operating performance, are based on information currently available to DCM, and speak only as of the date of this Report. These forward-looking statements involve a number of risks, uncertainties and assumptions and should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Many factors could cause the actual results, performance, objectives or achievements of DCM to be materially different from any future results, performance, objectives or achievements that may be expressed or implied by such forward-looking statements. The principal factors, assumptions and risks that DCM made or took into account in the preparation of these forward-looking statements, and which could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements, include: DCM's operating results, which now include those of MCC, are sensitive to economic conditions, which can have a significant impact on DCM and uncertain economic conditions may have a material adverse effect on DCM's business, results of operations and financial condition; DCM's ability to successfully integrate the DCM and MCC businesses and realize anticipated benefits from the combination of those businesses, including revenue and profitability growth from an enhanced offering of products and services, larger customer base and cost reductions from post-merger synergies; there is limited growth in the traditional printing business, which may impact DCM's ability to grow its sales or even maintain historical levels of sales of printed business and marketing communications materials; competition from competitors supplying similar products and services, some of whom have greater economic resources than DCM and are well established suppliers; increases in the cost of, and supply constraints related to, paper, ink and other raw material inputs used by DCM, as well as increases in freight costs, may adversely impact the availability of raw materials and DCM's production, revenues and profitability; DCM's ability to meet its revenue and profitability targets; DCM's ability to comply with its financial covenants under its credit facilities or to obtain financial covenant waivers from its lenders if necessary; DCM's ability to realize value from the Fergus, Ontario and Trenton, Ontario manufacturing facilities acquired pursuant to the Acquisition; DCM may not be successful in obtaining capital to fund its business plans on satisfactory terms (or at all), including, without, limitation, with respect to investments in digital innovation (such as the development and successful marketing and sale of new digital capabilities), and capital expenditures; all of DCM's outstanding indebtedness under its Bank revolving credit facility is subject to floating interest rates, and therefore is subject to fluctuations in interest rates, an increase of which would increase DCM's borrowing costs. Additional factors are discussed elsewhere in the

information set out under the heading “Risk Factors” in DCM’s annual information form for the year ended December 31, 2022 (which information is incorporated by reference in this Report and a copy of such annual information form has been filed on SEDAR and is available under DCM’s issuer profile at [www.sedar.com](http://www.sedar.com)) and DCM’s other publicly available disclosure documents, as filed on SEDAR and available under DCM’s issuer profile at [www.sedar.com](http://www.sedar.com). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this Report as intended, planned, anticipated, believed, estimated or expected. Unless required by applicable securities law, DCM does not intend and does not assume any obligation to update these forward-looking statements.

## Schedule "A"

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**MOORE CANADA CORPORATION**

**Annual Financial Statements  
(in thousands of Canadian dollars)**

**For the Year Ended**

**December 31, 2022**

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## Independent auditor's report

To the Shareholder of Moore Canada Corporation

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### Our qualified opinion

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Moore Canada Corporation (the Company) as at December 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

#### What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2022;
- the statement of operations for the year ended December 31, 2022;
- the statement of comprehensive income for the year ended December 31, 2022;
- the statement of cash flows for the year ended December 31, 2022;
- the statement of changes in stockholder's equity for the year ended December 31, 2022; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### Basis for qualified opinion

Because we were appointed auditors of the Company on March 6, 2023, we were not able to observe the counting of the physical inventories as at January 1, 2022 or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations and cash flows, we were unable to determine whether adjustments to the net income reported in the statement of operations, and in the net cash provided by operating activities reported in the statement of cash flows for the year ended December 31, 2022 and opening accumulated deficit as at January 1, 2022 might be necessary. Our opinion on the current period's financial statements is modified because of the possible effect of this matter on the comparability of the current period's figures and the comparative information.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

PricewaterhouseCoopers LLP  
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7  
T: +1 604 806 7000, F: +1 604 806 7806, ca\_vancouver\_main\_fax@pwc.com



### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### **Comparative information**

The comparative information as at, and for the year ended December 31, 2021 has not been audited.

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### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, BC  
June 29, 2023

**MOORE CANADA CORPORATION (“MCC”)**

**BALANCE SHEETS**  
(in thousands of Canadian dollars)

	December 31,	
	2022	2021
		<i>(unaudited)</i>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24,277	\$ 22,591
Receivables, less allowances for credit losses of \$360 in 2022 (2021 - \$474) (Note 1)	51,529	43,484
Inventories (Note 1)	24,193	16,958
Prepaid expenses and other current assets	1,803	1,322
Assets held for sales-current (Note 13)	1,168	-
Total current assets	102,970	84,355
Property, plant and equipment-net (Note 1)	21,143	21,992
Intangible assets-net (Note 4)	1,019	593
Deferred income taxes (Note 8)	7,918	11,932
Operating lease assets (Note 6)	22,898	21,893
Other noncurrent assets	1,462	1,901
Total assets	\$ 157,410	\$ 142,666
<b>LIABILITIES</b>		
Accounts payable	\$ 12,711	\$ 11,693
Accrued liabilities and other payables (Note 5)	24,435	18,103
Deferred Revenue	3,480	2,939
Short-term operating lease liabilities (Note 6)	5,206	5,128
Total current liabilities	45,832	37,863
Pension liabilities (Note 7)	16,242	30,593
Long-term operating lease liabilities (Note 6)	18,185	17,147
Other noncurrent liabilities	354	344
Total liabilities	\$ 80,613	\$ 85,947
Commitments and Contingencies (Note 6)		
<b>EQUITY</b>		
Common stock, \$21.47 par value	214,732	214,732
Authorized and issued: 10,000 shares in 2022 (2021 – 10,000 shares)		
Accumulated deficit	(120,304)	(135,255)
Accumulated other comprehensive loss	(17,631)	(22,758)
Total equity	76,797	56,719
Total liabilities and equity	\$ 157,410	\$ 142,666

See accompanying Notes to Financial Statements.

**MOORE CANADA CORPORATION (“MCC”)**

**STATEMENTS OF OPERATIONS**  
**(in thousands of Canadian dollars)**

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
		<i>(unaudited)</i>
Net sales (Note 2)	\$ 258,604	\$ 253,662
Cost of sales	206,190	199,422
<b>Gross profit</b>	52,414	54,240
Selling, general and administrative expenses	35,442	34,898
Restructuring and other related items-net (Note 3)	1,526	2,113
<b>Income from operations</b>	15,446	17,229
Interest expense-net	(96)	(4)
Net periodic benefit cost (Note 7)	(5,488)	(5,644)
<b>Income from operations before income taxes</b>	21,030	22,877
Income tax expense (Note 8)	6,079	5,610
<b>Net income</b>	\$ 14,951	\$ 17,267

*See accompanying Notes to Financial Statements.*

**MOORE CANADA CORPORATION (“MCC”)**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**(in thousands of Canadian dollars)**

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
		<i>(unaudited)</i>
Net income	\$ 14,951	\$ 17,267
Other comprehensive income, net of tax:		
Adjustment for net periodic pension and other postretirement benefits plan cost (Note 9)	5,127	12,194
<b>Other comprehensive income</b>	<b>5,127</b>	<b>12,194</b>
<b>Comprehensive income</b>	<b>\$ 20,078</b>	<b>\$ 29,461</b>

*See accompanying Notes to Financial Statements.*

**MOORE CANADA CORPORATION (“MCC”)**

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

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<i>(unaudited)</i>	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 14,951	\$ 17,267
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,550	7,505
Provision (benefit) for credit losses	(30)	144
Income tax expense	6,079	1,928
Gains from sales of property, plant and equipment	(179)	(2)
Net pension and other postretirement benefits plan income (Note 7)	(5,488)	(5,644)
Other	-	25
Changes in operating assets and liabilities:		
Accounts receivable – net	(8,015)	2,012
Inventories	(7,235)	5,794
Prepaid expenses and other current assets and other noncurrent assets	(42)	597
Accounts payable	1,018	(792)
Accrued liabilities and other payables and deferred revenue	3,799	1,446
Income taxes paid	(2,504)	(1,784)
Pension and other postretirement benefits plan contributions	(1,903)	(2,698)
Net cash provided by operating activities	6,001	25,798
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(4,555)	(3,049)
Proceeds from sales of property, plant and equipment	302	(3)
Net cash used in by investing activities	(4,253)	(3,052)
<b>FINANCING ACTIVITIES</b>		
Return of capital	-	(41,840)
Net cash provided by financing activities	-	(41,840)
Effect of exchange rate on cash and cash equivalents	(62)	-
Net increase (decrease) in cash and cash equivalents	1,686	(19,094)
Cash and cash equivalents at beginning of year	22,591	41,685
Cash and cash equivalents at end of year	\$ 24,277	\$ 22,591

See accompanying Notes to Financial Statements.

**MOORE CANADA CORPORATION (“MCC”)**  
**STATEMENTS OF CHANGES IN STOCKHOLDER’S EQUITY**  
**(in thousands of Canadian dollars)**

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Amount			
<b>Balance at December 31, 2020 (unaudited)</b>	10,000	\$ 256,572	\$ (152,522)	\$ (34,952)	\$ 69,098
Net income		-	17,267	-	17,267
Other comprehensive income		-	-	12,194	12,194
Return of capital		(41,840)	-	-	(41,840)
<b>Balance at December 31, 2021 (unaudited)</b>	10,000	\$ 214,732	\$ (135,255)	\$ (22,758)	\$ 56,719
Net income		-	14,951	-	14,951
Other comprehensive income		-	-	5,127	5,127
<b>Balance at December 31, 2022</b>	10,000	\$ 214,732	\$ (120,304)	\$ (17,631)	\$ 76,797

See accompanying Notes to Financial Statements

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands of Canadian dollars, except per share data and unless otherwise indicated)**

**Note 1. Basis of Presentation and Summary of Significant Accounting Policies**

*Basis of Presentation* —The accompanying financial statements include the accounts of Moore Canada Corporation (the “Company” or “MCC”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

*Nature of Operations* — MCC was a wholly owned subsidiary of R.R. Donnelley & Sons Company until April 2023 (note 13), and is a leading provider of packaging, print, and supply chain solutions. The Company offers a wide range of solutions and services designed to support its customers’ marketing and communications needs. MCC brings the expertise, execution, and scale designed to transform customer touchpoints into meaningful moments of impact.

*Use of Estimates* —The preparation of financial statements, in conformity with GAAP, requires the extensive use of management’s estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates. Estimates are used when accounting for items and matters including, but not limited to, allowance for credit losses, inventory obsolescence, asset valuations and useful lives, employee benefits, taxes, restructuring and other provisions and contingencies.

*Fair Value Measurements* —Certain assets and liabilities are required to be recorded at fair value on a recurring basis. Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The Company records the fair value of pension plan assets on a recurring basis. Assets measured at fair value on a nonrecurring basis include long-lived assets held and used, long-lived assets held for sale, goodwill and other intangible assets. The fair value of cash, cash equivalents, restricted cash, accounts receivable and accounts payable approximate their carrying values. The three-tier value hierarchy, which prioritizes valuation methodologies based on the reliability of the inputs, is:

**Level 1** —Valuations based on quoted prices for identical assets and liabilities in active markets.

**Level 2** —Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

**Level 3** —Valuations based on unobservable inputs reflecting the own assumptions, consistent with reasonably available assumptions made by other market participants.

*Cash and Cash Equivalents* —The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash deposits.

Canada

Accounts at each Canadian institution are insured by the Canada Deposit Insurance Corporation (“CDIC”) up to \$100,000 CAD, at December 31, 2022, the Company had \$13,756 in excess of the CDIC insured limit.

United States

Accounts at each United States institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 USD, at December 31, 2022, the Company had \$8,863 in excess of the FDIC insured limit.

Netherlands

Accounts at each Netherlands institution are insured by the Dutch Deposit Guarantee (“DDG”) up to €100,000 EUR, at December 31, 2022, the Company had \$1,658 in excess of the DDG insured limit.

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

*Receivables and Allowance for Credit Losses* —Receivables are stated net of allowances for credit losses and primarily include trade receivables (\$50,215) and miscellaneous receivables from suppliers (\$1,314). No single customer comprised more than 10% of net sales in 2022 or 2021. The Company will recognize an allowance for credit losses for financial assets carried at amortized cost to present the net amount expected to be collected as of the balance sheet date. Such allowance is based on credit losses expected to arise over the life of the asset’s contractual term, which includes consideration of prepayments. Assets are written off when determined that such financial assets are deemed uncollectible and are recognized as a deduction from the allowance for credit losses. Expected recoveries of amounts previously written off, not to exceed the aggregate of the amount previously written off, are included in determining the necessary reserve at the balance sheet date. The Company will pool financial assets based on similar risk characteristics to estimate expected credit losses. The Company estimates expected credit losses on financial assets individually when those assets do not share similar risk characteristics. The Company has trade receivables from customers engaged in various industries including financial institutions, insurance, healthcare, lottery and gaming, retailing, not-for-profit, energy and governmental agencies that are not concentrated in any specific geographic area. The Company does not believe that any single industry or geographic region represents significant credit risk. Credit risk concentration with respect to trade receivables is mitigated by MCC’s large customer base.

The Company has considered the current and expected economic and market conditions as a result of COVID-19 and other factors in determining credit loss expense for the years ended December 31, 2022 and 2021.

Transactions affecting the allowance for credit losses for financial instruments during the years ended December 31, 2022 and 2021 were as follows.

	<u>2022</u>	<u>2021</u> <i>(unaudited)</i>
Balance, beginning of year	\$ 474	\$ 350
Credit loss (income) expense	(30)	144
Write-offs and other	(84)	(20)
Balance, end of year	<u>\$ 360</u>	<u>\$ 474</u>

Recoveries were immaterial for the years ended December 31, 2022 and 2021.

*Inventories* —Inventories include material, labor and factory overhead and are stated at the lower of cost or market and net of excess and obsolescence reserves for raw materials and finished goods. Provisions for excess and obsolete inventories are made at differing rates, utilizing historical data and current economic trends, based upon the age and type of the inventory. Specific excess and obsolescence provisions are also made when a review of specific balances indicates that the inventories will not be utilized in production or sold. Raw materials are recorded at standard cost. Cost of finished goods and work-in-process are determined using the first-in, first-out method. Inventory manufactured includes the cost of materials, labour and production overheads (based on normal operating capacity) including applicable depreciation on property, plant and equipment. Net realizable value is the estimated selling price less cost to complete and applicable selling expenses.

The components of inventories, net of excess and obsolescence reserves for raw materials and finished goods, at December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u> <i>(unaudited)</i>
Raw materials and manufacturing supplies	\$ 19,188	\$ 12,621
Work in process	3,825	2,826
Finished goods	1,180	1,511
Total	<u>\$ 24,193</u>	<u>\$ 16,958</u>

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

*Long-Lived Assets* —Potential impairments are assessed to the long-lived assets if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair value based upon the most recent information available. Estimated fair value is generally measured by discounting estimated future cash flows. Long-lived assets, other than intangible assets, which are held for sale are recorded at the lower of the carrying value or the fair value less the estimated cost to sell.

*Property, Plant and Equipment* —Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives. Useful lives range from 15 to 40 years for buildings, the lesser of 7 years or the lease term for leasehold improvements and generally from 3 to 15 years for machinery and equipment. Maintenance and repair costs are charged to expense as incurred. Major overhauls that extend the useful lives of existing assets are capitalized. When properties are retired or disposed, the costs and accumulated depreciation are eliminated and the resulting profit or loss is recognized in the results of operations.

The components of property, plant and equipment at December 31, 2022 and 2021 were as follows:

	<b>2022</b>	<b>2021</b>
		<i>(unaudited)</i>
Land	\$ 2,367	\$ 2,428
Buildings	31,091	32,190
Machinery and equipment	94,617	110,500
	128,075	145,118
Accumulated depreciation	(106,932)	(123,126)
Total	\$ 21,143	\$ 21,992

During the years ended December 31, 2022 and 2021, depreciation expense was \$5,121 and \$5,636.

*Intangible Assets* —Certain costs to acquire and develop trademarks, licenses, agreements and internal-use computer software are capitalized at cost and amortized over their estimated useful life using the straight-line method, up to a maximum of three years. Amortization expense was \$429 and \$1,869 for the years ended December 31, 2022 and 2021, respectively. See Note 4, *Intangible Assets*, for further discussion of intangible assets and the related amortization expense.

*Pension Plans* —Annual income and expense amounts and the obligations relating to the defined benefit pension plans are based on calculations which include various actuarial assumptions, including discount rates, mortality, utilization rates of retiree health care accounts, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The actuarial assumptions are reviewed on an annual basis and make modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of modifications on the value of plan obligations and assets is recognized immediately within other comprehensive income (loss) and amortized into operating earnings over future periods (actuarial gains and losses are recognized in income under a “corridor” approach whereby cumulative actuarial gains and losses in excess of 10% of the greater of the defined benefit obligation or the market-related value of plan assets are amortized on a straight-line basis to income over the expected average remaining working lives of plan participants, and past service costs are amortized into income over the plan participants remaining years of service or life expectancy, depending on the facts and circumstances). The assumptions utilized in recording annual income and expense and the obligations under the plans are reasonable based on MCC’s experience, market conditions and input from the actuaries and investment advisors. Annual contribution amounts for defined contribution plans are expensed as incurred. See Note 7, *Retirement Plans*, for further discussion.

*Taxes on Income* —Deferred taxes are provided using an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in MCC’s opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company is regularly audited by tax authorities. These audits occasionally result in proposed assessments where the ultimate resolution might result in us owing additional taxes, including in some cases, penalties and interest. A tax position is recognized in the financial statements when it is more likely than not (*i.e.*, a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. This recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Although the estimates are reasonable, the final outcome of uncertain tax positions may be different from that which is reflected in the financial statements. Reserves are adjusted upon changes in circumstances that would cause a change to the estimate of the ultimate liability, upon effective settlement or upon the expiration of the statute of limitations, in the period in which such event occurs. See Note 8, *Income Taxes*, for further discussion.

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

*Contributed equity* - Common shares are classified as equity. Dividends in the form of a return on equity are recorded in the statement of changes in stockholder's equity. During 2021 the Company paid \$41,840 to its parent, R.R. Donnelley & Sons Company by way of a return of capital.

**Note 2. Revenue Recognition**

All revenue recognized in the Statements of Operations is considered to be revenue from contracts with customers according to Subtopic 606.

**Disaggregation of Revenue**

The following table presents net sales disaggregated by products and services. All significant external sales are to customers located in Canada.

	<b>2022</b>	<b>2021</b>
		<i>(unaudited)</i>
Product sales	\$ 252,824	\$ 247,298
Warehousing services	5,780	6,364
Total net sales	\$ 258,604	\$ 253,662

Product sales:

Revenue for product sales consists of statements, forms, commercial print, large format print, labels, and outsourced products. The Company manufactures customized products based on specifications pre-approved by its customers. The Company recognizes revenue when control over the product transfers to the customer, which is effectively transferred upon the completion of production or when resale product is purchased from a third party vendor and inducted into the Company's warehouses or shipped directly to customers from third party vendors due to the custom nature of the product, as it does not have an alternative use to the Company, such that the Company is entitled to payment once the quantity of product pursuant to an individual purchase order is produced or purchased from a third-party vendor and inducted into its warehouses. Given manufactured products are customized or purchased specifically at the customer's request, product returns are insignificant.

Warehousing services:

The Company provides custodial services to store customer product in its warehouse over a specified agreed upon period of time. For non-bundled pricing arrangements, warehousing revenues are recognized over the period that warehousing services are provided to the customer. For bundled pricing arrangements, the Company allocates a portion of the initial transaction price for warehousing services and recognizes revenue on a straight-line basis over the period of the warehousing as it best represents the pattern of performance. Amounts are typically invoiced as warehousing services are performed in accordance with agreed upon contractual terms at periodic intervals. When the Company receives advance payments or issues billings in excess of revenue, these are recognized as deferred revenue in the balance sheet. Deferred revenue is recognized as revenue when or as the Company provides custodial services over the agreed upon warehouse term.

**Variable Consideration**

Certain customers may receive volume-based rebates or early payment discounts, which are accounted for as variable consideration. These amounts are estimated based on the expected amount to be earned by customers and reduce revenue accordingly. There are no expected significant changes to estimates of variable consideration. Given the nature of the products and MCC's historical experience with returns, product returns are not significant.

**Contract Balances**

Contract liabilities primarily relate to customer advances received prior to completion of performance obligations. Reductions in contract liabilities are a result of completion of performance obligations.

**Practical Expedients and Exemptions**

As part of the adoption of Topic 606, the Company has elected practical expedients and exemptions allowable under the guidance.

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

The Company accounts for shipping and handling activities performed after the control of a good has been transferred to the customer as a fulfillment cost rather than as an additional promised service. As a result revenue is recognized when control of the goods transfers to the customer and the Company accrues for the cost of the shipping and handling activities if revenue is recognized before contractually agreed shipping and handling activities occur.

Topic 606 is applied to a portfolio of contracts (or performance obligations) with similar characteristics as the Company reasonably expects that the effects on the financial statements of applying this guidance to the portfolio would not differ significantly from applying this guidance to the individual contracts (or performance obligations) within that portfolio.

Sales commissions and other costs to obtain a contract are expensed when incurred. These costs are recorded within Selling, general and administrative expenses.

Sales taxes and other similar taxes are excluded from the measurement of the transaction price. The Company does not disclose the value of unsatisfied performance obligations, nor does the Company disclose the timing of revenue recognition for contracts with an original expected length of one year or less.

**Note 3. Restructuring, Other Related Items**

For the years ended December 31, 2022 and 2021, the following restructuring and other related items were recorded:

	<b>2022</b>	<b>2021</b>
		<i>(unaudited)</i>
Employee terminations	\$ 1,125	\$ 1,943
Other restructuring charges	580	170
Gains from sales of property, plant and equipment	(179)	-
Total accrued liabilities and other	\$ 1,526	\$ 2,113

For the years ended December 31, 2022 and 2021, restructuring charges of \$1,125 and \$1,943, respectively, were recorded for employee termination costs. These charges primarily relate to facility closures and consolidations and the reorganization of selling, general and administrative functions. The Company also incurred \$580 and \$170 of other restructuring charges, primarily comprised of equipment move costs and other facility closure and reorganization related costs for the years ended December 31, 2022 and 2021, respectively.

Net gains of \$179 was recorded on the sale of restructured facilities and equipment for the years ended December 31, 2022.

***Restructuring Reserve***

The restructuring reserve as of December 31, 2022 and 2021, and changes during the year ended December 31, 2022, were as follows:

	<b>December 31, 2021</b>	<b>Restructuring and Other Charges</b>	<b>Cash Paid</b>	<b>December 31, 2022</b>
	<i>(unaudited)</i>			
Employee terminations	\$ 1,264	\$ 1,125	\$ 1,396	\$ 993
Other	-	401	401	-
Total	\$ 1,264	\$ 1,526	\$ 1,797	\$ 993

The current portion of restructuring reserves of \$946 at December 31, 2022 was included in Accrued liabilities and other, while the long-term portion of \$47 was included in Other noncurrent liabilities at December 31, 2022.

**NOTES TO FINANCIAL STATEMENTS**  
(In thousands, except per share data and unless otherwise indicated)-(Continued)

**Note 4. Intangible Assets**

The components of intangible assets at December 31, 2022 and 2021 were as follows:

	December 31, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	<i>(unaudited)</i>		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Computer Software	\$ 6,643	\$ (5,689)	\$ 954	\$ 6,051	\$ (5,582)	\$ 469
Trademarks, licenses and agreements	595	(530)	65	595	(471)	124
Total other intangible assets	\$ 7,238	\$ (6,219)	\$ 1,019	\$ 6,646	\$ (6,053)	\$ 593

Amortization expense for intangible assets was \$429 and \$1,869 for the years ended December 31, 2022 and 2021, respectively.

The following table outlines the estimated annual amortization expense related to other intangible assets as of December 31, 2022:

	Amount
2023	\$ 465
2024	372
2025	182
Total	\$ 1,019

**Note 5. Accrued Liabilities and Other**

The components of accrued liabilities and other at December 31, 2022 and 2021 were as follows:

	2022	2021
	<i>(unaudited)</i>	
Employee-related liabilities	\$ 7,476	\$ 6,419
Current income taxes payable	1,724	325
Restructuring liabilities	946	1,168
Other accrued liabilities	14,289	10,191
Total accrued liabilities and other	\$ 24,435	\$ 18,103

Employee-related liabilities consist primarily of payroll, sales commission, incentive compensation, employee benefit accruals and workers' compensation. Incentive compensation accruals include amounts earned pursuant to primary employee incentive compensation plans. Other accrued liabilities include miscellaneous operating accruals and other tax liabilities.

**Note 6. Commitments and Contingencies**

The Company is subject to various claims, potential claims and lawsuits. While the outcome of these matters is not determinable, MCC's management does not believe that the ultimate resolution of such matters will have a material adverse impact on the financial position. Directors and officers are indemnified by the Company for various items including, but not limited to, costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. MCC has purchased directors' and officers' liability insurance to mitigate the costs of any potential future lawsuits or actions. The term of the indemnification covers the period during which the indemnified party served as a director or officer of the Company.

In the normal course of business, MCC has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts and license agreements. These indemnification arrangements may sometimes require such third parties to compensate counterparties for losses as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined. No accruals have been required to be made as at December 31, 2022 with respect to these agreements.

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

**Leases**

The determination of whether an arrangement is a lease is done at inception. Operating leases are recorded in Operating lease assets, Short-term operating lease liabilities and Long-term operating lease liabilities on the Balance Sheets. Operating lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the incremental borrowing rate is used based on the information available at the lease commencement date. Operating lease assets also include any lease payments made and are reduced by any lease incentives received. The lease terms may include options to extend or terminate the lease. When there is reasonable certainty that any such options will be exercised, it will be reflected in the calculation of the lease term. Operating lease liabilities recognized do not include \$12,120 related to options to extend lease terms that were not reasonably certain of being exercised as at December 31, 2022. Leases with an expected term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized on a straight-line basis over the expected lease term.

The most significant leases are real estate leases for plants, warehouses, storage facilities, offices and other facilities. For real estate leases, the practical expedient permitted under Topic 842 to combine lease and non-lease components was elected. As a result, non-lease components, such as common area maintenance charges, are accounted for as a single lease element. The remaining operating leases are primarily comprised of leases of office equipment and machinery and technology equipment.

Certain of the operating lease agreements include variable payments that are passed-through by the landlord, such as insurance, taxes and common area maintenance, payments based on the usage of the asset and rental payments adjusted periodically for inflation. Pass-through charges, payments due to change in usage of the asset and payments due to changes in inflation are included within variable rent expense.

The lease agreements do not contain material residual value guarantees, restrictions or covenants.

The components of lease expense for the years ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
		<i>(unaudited)</i>
Operating lease cost	\$ 5,385	\$ 5,755
Variable lease cost	3,049	3,362
Sublease income	(309)	-
Total lease cost	<u>\$ 8,125</u>	<u>\$ 9,117</u>

Short-term lease cost is not material for the years ended December 31, 2022 and 2021.

Supplemental cash flow information related to leases for the years ended December 31, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
		<i>(unaudited)</i>
<b>Cash paid for amounts included in the measurement of lease liabilities</b>		
Operating cash outflows	\$ 5,471	\$ 5,448
<b>Right-of-use assets obtained in exchange for lease obligations</b>		
Operating leases	\$ 4,389	\$ -

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

As of December 31, 2022, the future lease payments under operating leases were as follows:

<u>Year Ended December 31</u>	<u>Operating Leases</u>
2023	\$ 5,602
2024	4,818
2025	4,655
2026	3,773
2027	2,588
2028 and thereafter	6,975
Total lease payments	28,411
Less: Amount representing interest	5,020
Present value of lease obligation	<u>\$ 23,391</u>
Weighted average remaining lease term	6.2 years
Weighted average discount rate	6.3%

**Note 7. Retirement Plans**

The Company sponsors a defined benefit retirement income pension plan which was frozen March 31, 2012. No new employees will be permitted to enter the frozen plan and existing participants will earn no additional benefits for years of service. These defined benefit retirement income plans are funded in conformity with the applicable government regulations. The Company funds at least the minimum amount required for the plans using actuarial cost methods and assumptions acceptable under government regulations. The Company also has an unfunded supplemental defined benefit pension plan for certain employees and also provides certain other unfunded defined benefit post-employment benefits plans to certain employees including health care benefits on retirement to certain former employees, their beneficiaries and covered dependents. The Company also has a defined contribution pension plan which is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Pension benefits for defined contribution formula are based on the accrued contributions with investment earnings. The Company's annual pension expense is based on the amounts contributed in respect of eligible employees when they are due. The total pension expenses related to the Company's defined contribution plan during the year ended December 31, 2022 and 2021 was \$113 and \$109, respectively.

Total contributions of \$1,903 were made to the defined benefit pension plans during the year ended December 31, 2022. Cash contributions of approximately \$55 are expected for the pension plans in 2023.

The expected returns on pension plan assets and discount rates for these plans are determined based on the plan's investment approach, local interest rates and plan participant profiles.

The pension plan and other defined benefit plan obligations are calculated using generally accepted actuarial methods and are measured as of December 31.

The following is a summary of the change in MCC's net pension obligations for the Registered funded pension plan and unfunded supplemental pension plan ("excess plan") (included in pension benefits) and other-post employment benefit plans ("OPEB"). The components of the net periodic benefit expense, (income) and total (income) were as follows:

	<u>Pension Benefits</u>		<u>OPEB</u>	
	<u>2022</u>	<u>2021</u> <i>(Unaudited)</i>	<u>2022</u>	<u>2021</u> <i>(Unaudited)</i>
Interest cost	\$ 5,320	4,251	-	-
Expected return on plan assets	(9,023)	(8,074)	-	-
Amortization of prior service credit	-	-	(3,474)	(4,149)
Amortization of actuarial loss (gain)	2,682	3,282	(994)	(955)
Net periodic expense (income)	<u>\$ (1,020)</u>	<u>\$ (541)</u>	<u>\$ (4,468)</u>	<u>\$ (5,104)</u>

**NOTES TO FINANCIAL STATEMENTS**  
(In thousands, except per share data and unless otherwise indicated)-(Continued)

	<u>Pension Benefits</u>		<u>OPEB</u>	
	<u>2022</u>	<u>2021</u> <i>(unaudited)</i>	<u>2022</u>	<u>2021</u> <i>(unaudited)</i>
Benefit obligation at beginning of year	\$ 218,630	\$ 237,883	\$ -	\$ 447
Interest cost	5,321	4,251	-	1
Actuarial (gain) loss	(44,499)	(12,590)	-	(339)
Benefits paid	(11,597)	(10,914)	-	(109)
Benefit obligation at end of year	<u>\$ 167,855</u>	<u>\$ 218,630</u>	<u>\$ -</u>	<u>\$ -</u>
Fair value of plan assets at beginning of year	\$ 187,635	\$ 182,376	-	-
Actual return on assets	(26,725)	13,523	-	-
Employer contributions	1,902	2,650	-	-
Benefits paid	(11,597)	(10,914)	-	-
Fair value of plan assets at end of year	<u>\$ 151,215</u>	<u>\$ 187,635</u>	<u>\$ -</u>	<u>\$ -</u>
Total net pension liability recognized as of December 31	<u>\$ 16,639</u>	<u>\$ 30,996</u>	<u>\$ -</u>	<u>\$ -</u>

The accumulated benefit obligation for all defined benefit pension plans was \$16,639 and \$30,996 at December 31, 2022 and 2021, respectively.

Actuarial gains and losses result from changes in actuarial assumptions. Actuarial gains in 2022 primarily relate to an increase in discount rates for the defined benefit pension plans offset in part by worse than expected asset return. Actuarial gains in 2021 primarily relate to an increase in discount rates.

Amounts recognized in the Balance Sheets as of December 31, 2022 and 2021 were as follows:

	<u>Pension Benefits</u>	
	<u>2022</u>	<u>2021</u> <i>(unaudited)</i>
Accrued benefit cost (included in accrued liabilities)	\$ 397	\$ 403
Pension liabilities	16,242	30,593
Net liability recognized in the Balance Sheets	<u>\$ 16,639</u>	<u>\$ 30,996</u>

The amounts included in accumulated other comprehensive loss in the Balance Sheets, excluding tax effects, at December 31, 2022 and 2021 were as follows:

	<u>Pension Benefits</u>		<u>OPEB</u>	
	<u>2022</u>	<u>2021</u> <i>(unaudited)</i>	<u>2022</u>	<u>2021</u> <i>(unaudited)</i>
Accumulated other comprehensive (loss) income				
Net actuarial (loss) gain	\$ (57,881)	\$ (69,314)	\$ 7,537	\$ 8,531
Net prior service credit	-	-	26,330	29,804
Total	<u>\$ (57,881)</u>	<u>\$ (69,314)</u>	<u>\$ 33,867</u>	<u>\$ 38,335</u>

In 2018 the OPEB plan was amended to change the plan from an employer funded plan to a fully funded employee funded plan effective January 1, 2022 which reduced the benefit obligation to nil by the end of 2021. The resulting prior service credits and actuarial gains arising from the amendments are reflected in accumulated other comprehensive income. The unamortized amounts of \$33,867 (2021 - \$38,335) are being amortized through the statement of operations on a straight line basis over the period to 2030.

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

The pre-tax amounts recognized in other comprehensive income in 2022 as components of net periodic benefit costs were as follows:

	<b>Pension Benefits</b>		<b>OPEB</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Amortization of:				
Net actuarial (loss) gain	\$ (2,682)	\$ (3,282)	\$ 994	\$ 955
Net prior service credit	-	-	3,474	4,149
Amounts arising during the period:				
Net actuarial gain	(8,751)	(18,039)	-	(338)
Total	<u>\$ (11,433)</u>	<u>\$ (21,321)</u>	<u>\$ 4,468</u>	<u>\$ 4,766</u>

Actuarial gains and losses in excess of 10.0% of the greater of the projected benefit obligation or the market-related value of plan assets were recognized as a component of net periodic benefit costs over the average remaining service period of a plan's active employees. As a result of the plan freezes, the actuarial gains and losses are recognized as a component of net periodic benefit costs over the average remaining life of a plan's active employees. Unrecognized prior service costs or credits are also recognized as a component of net periodic benefit cost over the average remaining service period of a plan's active employees. For plans that are frozen or primarily inactive, unrecognized prior service costs or credits are recognized over the average life expectancy of the plan's participants.

The weighted average assumptions used to determine the benefit obligation and net periodic benefit expense at the measurement date were as follows:

	<b>Pension Benefits</b>	
	<b>2022</b>	<b>2021</b>
		<i>(unaudited)</i>
Benefit obligation discount rate	5.12%	2.88%
Interest cost discount rate	5.04%	2.51%
Salary growth rate	3.00%	2.50%
Excess return on plan assets	5.75%	5.25%

The following table provides a summary of under-funded or unfunded pension benefit plans with projected benefit obligations in excess of plan assets as of December 31, 2022 and 2021:

	<b>Pension Benefits</b>	
	<b>2022</b>	<b>2021</b>
		<i>(unaudited)</i>
Projected benefit obligation	\$ 167,855	\$ 218,630
Fair value of plan assets	\$ 151,215	\$ 187,635

The following table provides a summary of pension plans with accumulated benefit obligations in excess of plan assets as of December 31, 2022 and 2021:

	<b>Pension Benefits</b>	
	<b>2022</b>	<b>2021</b>
		<i>(unaudited)</i>
Accumulated benefit obligation	\$ 162,022	\$ 211,042
Fair value of plan assets	\$ 151,215	\$ 187,635

The Company determines the assumption for the discount rate to be used for purposes of computing interest costs based on an index of high-quality corporate bond yields and matched-funding yield curve analysis as of the measurement date.

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

Benefit payments are expected to be paid as follows:

	<b>Pension Benefits</b>
2023	\$ 11,537
2024	11,724
2025	11,883
2026	11,997
2027	12,054
2028-2032	60,147

***Plan Assets***

The pension plans are frozen and utilize a risk management approach for the pension plan assets. The overall investment objective of this approach is to further reduce the risk of significant decreases in the plan’s funded status by allocating a larger portion of the plan’s assets to investments expected to hedge the impact of interest rate risks on the plan’s obligation. The expected long-term rate of return for plan assets is based upon many factors including asset allocations, historical asset returns, current and expected future market conditions, risk and active management premiums. The target asset allocation percentage as of December 31, 2022, for the primary pension plan was approximately 50% for return seeking investments and approximately 50% for hedging investments.

The plan assets are segregated by the following major categories and levels for determining their fair value as of December 31, 2022 and 2021. All plan assets that are valued using the net asset value per share (“NAV”) practical expedient have not been included within the fair value hierarchy but are separately disclosed.

*Cash and cash equivalents*— Carrying value approximates fair value. As such, these assets were classified as Level 1.

*Equity*— The Company invests in certain equity funds that are valued at calculated NAV. These investments are not quoted on active markets; therefore, they are classified as Level 2.

*Fixed income*— Fixed income securities are typically priced based on a valuation model rather than a last trade basis and are not exchange-traded. These valuation models involve utilizing dealer quotes, analyzing market information, estimating prepayment speeds and evaluating underlying collateral to equate an NAV. Accordingly, these fixed income securities are classified as Level 2. The Company also invests in certain fixed income funds and securities in trust owned life insurance policies which are valued at NAV and included as Level 2.

For Level 2 plan assets, as applicable, the significant investments are reviewed on a quarterly basis including investigation of unusual fluctuations in price or returns and obtaining an understanding of the pricing methodology to assess the reliability of third-party pricing estimates.

The valuation methodologies described above may generate a fair value calculation that may not be indicative of net realizable value or future fair values. While the Company believes the valuation methodologies used are appropriate, the use of different methodologies or assumptions in calculating fair value could result in different amounts. The Company invests in various assets in which valuation is determined by NAV. The Company believes that the NAV is representative of fair value at the reporting date, as there are no significant restrictions on redemption of these investments or other reasons to indicate that the investment would be redeemed at an amount different than the NAV.

The fair values of the pension plan assets at December 31, 2022 and 2021, by asset category were as follows:

<b>Asset Category</b>	<b>December 31, 2022</b>			<b>December 31, 2021</b>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<i>(unaudited)</i>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
Cash and cash equivalents	\$ 1,762	\$ 1,762	\$ -	\$ 1,293	\$ 1,293	\$ -
Other	5	5	-	13	13	-
Subtotal	\$ 1,767	\$ 1,767	\$ -	\$ 1,306	\$ 1,306	\$ -
<b><u>Plan assets measured at NAV</u></b>						
Equity funds	\$ 66,824	\$ -	\$ 66,824	\$ 92,360	\$ -	\$ 92,360
Fixed income	82,624	-	82,624	91,521	-	91,521
Total plan assets measured at NAV	\$ 149,448	\$ -	\$ 149,448	\$ 183,881	\$ -	\$ 183,881
Total	\$ 151,215	\$ -	\$ 151,215	\$ 185,187	\$ -	\$ 185,187

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

**Note 8. Income Taxes**

Income before income taxes was \$21,030 and \$22,877 for the years ended December 31, 2022 and 2021, respectively.

The components of income tax expense for the years ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Federal and Provincial (except Quebec and Alberta):		
Current	\$ 3,502	\$ 3,320
Deferred	1,952	1,739
Provincial (Quebec and Alberta):		
Current	401	362
Deferred	224	189
Total	<u>\$ 6,079</u>	<u>\$ 5,610</u>

The following is a reconciliation of income tax expense at the Canada federal statutory tax rate for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Income from operations before income taxes	\$ 21,030	\$ 22,877
Expected income tax expense calculated at the statutory income tax rate (26.39%)	5,550	6,037
Non-deductible expenses and other items	529	(427)
Total income tax expense for the year	<u>\$ 6,079</u>	<u>\$ 5,610</u>

***Deferred income taxes***

The significant deferred tax assets and liabilities at December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
Pension	\$ 4,392	\$ 8,180
Accrued liabilities	119	189
Property, plant and equipment	2,204	1,883
Intangible assets	1,577	1,786
Other	478	570
Total deferred tax assets	<u>\$ 8,770</u>	<u>\$ 12,608</u>
Deferred tax liabilities:		
Intangible assets	\$ (269)	\$ (156)
Property, plant and equipment	(481)	(480)
Other	(102)	(40)
Total deferred tax liabilities	<u>(852)</u>	<u>(676)</u>
Total net deferred tax assets	<u>\$ 7,918</u>	<u>\$ 11,932</u>

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Cash payments for income taxes were \$2,396 and \$5,693 during the years ended December 31, 2022 and 2021, respectively.

See Note 9, *Other Comprehensive Income*, for details of the income tax expense or benefit allocated to each component of other comprehensive income.

Interest expense and any related penalties related to income tax are classified as a component of income tax expense.

For Canadian federal purposes, the 2018 and subsequent taxation years remain open to examination with transactions with non-arm's length non-residents remaining open to examination for an additional 3 years.

**NOTES TO FINANCIAL STATEMENTS**  
(In thousands, except per share data and unless otherwise indicated)-(Continued)

**Note 9. Other Comprehensive Income**

The components of other comprehensive income and income tax expense allocated to each component for the years ended December 31, 2022 and 2021 were as follows:

	2022			2021		
				<i>(unaudited)</i>		
	Before Tax Amount	Income Tax	Net of Tax Amount	Before Tax Amount	Income Tax	Net of Tax Amount
Adjustment for net periodic pension and OPEB plan cost	\$ 6,965	\$ 1,838	\$ 5,127	\$ 16,555	\$ 4,361	\$ 12,194
Other comprehensive income	<u>\$ 6,965</u>	<u>\$ 1,838</u>	<u>\$ 5,127</u>	<u>\$ 16,555</u>	<u>\$ 4,361</u>	<u>\$ 12,194</u>

The following table summarizes changes in accumulated other comprehensive income by component for the years ended December 31, 2022 and 2021:

	Total
<b>Balance at December 31, 2020</b>	<u>\$ (34,952)</u>
Other comprehensive income before reclassifications	13,528
Amounts reclassified from accumulated other comprehensive loss to the statement of operations	<u>(1,334)</u>
Net change in accumulated other comprehensive loss	<u>12,194</u>
<b>Balance at December 31, 2021</b>	<u>\$ (22,758)</u>
Other comprehensive income before reclassifications	6,441
Amounts reclassified from accumulated other comprehensive loss to the statement of operations	<u>(1,314)</u>
Net change in accumulated other comprehensive loss	<u>5,127</u>
<b>Balance at December 31, 2022</b>	<u>\$ (17,631)</u>

Reclassifications from accumulated other comprehensive income for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021	Classification in the Statements of Operations
<b>Amortization of pension and OPEB plan cost:</b>			
Net actuarial loss	\$ 1,688	\$ 2,327	(a)
Net prior service credit	<u>(3,474)</u>	<u>(4,149)</u>	(a)
Reclassifications before tax	(1,786)	(1,822)	
Income tax benefit	472	488	
Reclassifications, net of tax	<u>\$ (1,314)</u>	<u>\$ (1,334)</u>	

- (a) These accumulated other comprehensive income (loss) components are included in the calculation of net periodic pension and OPEB plan (income) expense recognized in net investment and other income in the Statements of Operations (see Note 7, *Retirement Plans*).

**Note 10. New Accounting Pronouncements**

***Recently Adopted Accounting Pronouncements***

No recently adopted accounting pronouncements.

***Accounting Pronouncements Issued and Not Yet Adopted***

*Accounting Standards Update 2023-02—Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period.

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

*Accounting Standards Update 2023-01—Leases (Topic 842): Common Control Arrangements*

The amendments in this Update are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance.

**Note 11. Related Party Transactions and Balances**

Included in receivables and accounts payable is \$222 (2021 - \$142) and \$5,191 (2021 - \$3,049), respectively, related to amounts owing to other related companies within the R.R. Donnelly & Sons Company group.

During 2021, the Company paid \$41,840 to its parent, R.R. Donnelley & Sons Company by way of a return of capital.

The Company had the following transactions with other related companies within the R.R. Donnelley & Sons Company group that were recorded at their exchange amount:

	<u>2022</u>	<u>2021</u>
Sales	\$ 2,686	\$ 2,672
Cost of sales	4,181	2,671
Management fees	5,441	5,942
Royalties Income	116	112
Other reimbursable costs	1,274	1,740
Total related party transactions	<u>\$ 13,698</u>	<u>\$ 13,137</u>

**Note 12. US GAAP to IFRS reconciliation**

The Company's information will be included in a public filing including a Business Acquisition report (BAR). As a requirement of the public filing/BAR, the Company's financial statements must include a description of the material differences between U.S. Generally Accepted Accounting Principles ("US GAAP") to International Financial Reporting Standards (IFRS) along with a quantification of each, as well as a reconciliation of the impact on the Company's net income.

The following tables quantify the material differences of the Company's net income between US GAAP and IFRS for the years ended December 31, 2022 and 2021 with descriptions of such differences:

	<u>2022</u>	<u>2021</u>
		<i>(unaudited)</i>
Net income as previously reported under US GAAP	\$ 14,951	\$ 17,267
Transition adjustments:		
Net periodic benefit cost	\$ (6,886)	\$ (7,468)(a)
Income tax expense	1,990	1,831(a)
Reclassifications:		
Net periodic benefit cost	\$ 1,398	\$ 1,824(a)
Selling, general and administrative	(562)	(394)(a)
Interest expense-net	(836)	(1,430)(a)
Cost of sales	(1,508)	(4,317)(b)
Interest expense-net	1,508	(4,317)(b)
Net income reported under IFRS	<u>\$ 10,055</u>	<u>\$ 11,630</u>

	<u>2022</u>	<u>2021</u>
Other comprehensive income previously reported under US GAAP	\$ 5,127	\$ 12,194
Transition adjustments:		
Adjustment for net periodic pension and other postretirement benefits plan cost	6,886	7,468(a)
Taxes related to pension adjustment	(1,990)	(1,831)(a)
Other comprehensive income reported under IFRS	<u>\$ 10,023</u>	<u>\$ 17,831</u>

**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except per share data and unless otherwise indicated)-(Continued)**

The following tables quantify the material differences of the Company's balance sheet between US GAAP and IFRS as at December 31, 2022 and 2021 with descriptions of such differences:

	As at December 31, 2022		
	As reported under US GAAP	Adjustments	As reported under IFRS
Accumulated deficit	\$ 120,304	\$ 17,361	137,665(a)
Accumulated other comprehensive (income) loss	17,631	(17,631)	-(a)

  

	As at December 31, 2021		
	As reported under US GAAP	Adjustments	As reported under IFRS
Accumulated deficit	\$ 135,255	\$ 22,758	158,013(a)
Accumulated other comprehensive (income) loss	22,758	(22,758)	-(a)

- a) Under IFRS, remeasurement of defined benefit pension and other post-employment benefits are recognized immediately into OCI and accumulated deficit, whereas under US GAAP the gains/losses in the year are initially deferred into OCI and then only amortized to the extent that they are outside of the corridor.

Under IFRS, past service costs are recognized directly into income in the statement of operations, whereas under US GAAP the gains/losses in the year are recognized into OCI and amortized into the P&L over time.

Under IFRS, the components of the defined benefit cost (allocated between the net interest cost or income and administrative expenses) is calculated by applying the discount rate to the defined benefit liability or asset of the plan. The defined benefit asset (liability) is the surplus (deficit) which is recognized on the balance sheet after considering the asset ceiling test. Under US GAAP, expected return is based on an expected rate of return on plan assets which are measured using a calculated value that recognizes changes in fair value arising if any given year over a five year smoothing period.

The transitional adjustments to the net periodic benefit cost results in a reduction in the income tax expense of \$1,990 (2021 - \$1,831).

- b) Under ASC 842, all leases for the Company were classified as operating leases for which the amortization of the right-of-use asset and interest expense related to the lease liability are recorded together as lease expense in cost of sales. Under IFRS, operating leases are accounted for similar to finance leases in ASC 842 and the expense is recognized as depreciation expense (within cost of sales) and interest expense, separately on the statement of operations.

**Note 13. Subsequent Events**

On April 17, 2023, the Company sold its' Cowansville, Quebec property to a third party for total proceeds of \$6,889 (net of transaction expenses). The carrying value was reported as assets held for sale as of December 31, 2022.

On April 24, 2023 DATA Communications Management Corp. ("DCM") completed the acquisition of the Company from R.R. Donnelley & Sons ("RRD") for a total cash purchase price of \$130,800, subject to final working capital and other customary post-closing adjustments. With the completion of the acquisition, the Company is a wholly-owned subsidiary of DCM.

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**MOORE CANADA CORPORATION**

**Condensed Interim Financial Statements  
(in thousands of Canadian dollars)**

**For the Quarter Ended**

**March 31, 2023**

**MOORE CANADA CORPORATION (“MCC”)  
Condensed Interim Financial Statements  
MARCH 31, 2023**

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**MOORE CANADA CORPORATE (“MCC”)**  
**CONDENSED INTERIM BALANCE SHEETS**  
(in thousands of Canadian dollars)  
**(UNAUDITED)**

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,982	\$ 24,277
Receivables, less allowances for credit losses of \$382 in 2023 (2022 - \$360)	59,028	51,529
Inventories (Note 3)	24,876	24,193
Prepaid expenses and other current assets	1,510	1,803
Assets held for sales-current (Note 13)	1,168	1,168
Total current assets	95,564	102,970
Property, plant and equipment-net (Note 4)	20,680	21,143
Intangible assets-net (Note 5)	900	1,019
Deferred income taxes (Note 8)	8,076	7,918
Operating lease assets	22,020	22,898
Other noncurrent assets	701	1,462
Total assets	\$ 147,941	\$ 157,410
<b>LIABILITIES</b>		
Accounts payable	\$ 14,221	\$ 12,711
Accrued liabilities and other payables	17,972	24,435
Deferred Revenue	2,601	3,480
Short-term operating lease liabilities	5,084	5,206
Total current liabilities	39,878	45,832
Pension liabilities	15,654	16,242
Long-term operating lease liabilities	17,449	18,185
Other noncurrent liabilities	318	354
Total liabilities	73,299	80,613
Commitments and Contingencies (Note 11)		
<b>EQUITY (Note 9)</b>		
Common stock	204,732	214,732
Accumulated deficit	(111,824)	(120,304)
Accumulated other comprehensive loss	(18,266)	(17,631)
Total equity	74,642	76,797
Total liabilities and equity	\$ 147,941	\$ 157,410

See Notes to Condensed Interim Financial Statements

**MOORE CANADA CORPORATION (“MCC”)**  
**CONDENSED INTERIM STATEMENTS OF OPERATIONS**  
(in thousands of Canadian dollars)  
**(UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2023</b>	<b>2022</b>
Net sales (Note 2)	\$ 76,086	\$ 66,593
Cost of sales	56,659	51,091
<b>Gross profit</b>	<b>19,427</b>	<b>15,502</b>
Selling, general and administrative expenses	9,315	8,997
Restructuring, impairment and other expense -net (Note 6)	374	195
<b>Income from operations</b>	<b>9,738</b>	<b>6,310</b>
Interest expense-net	(55)	(16)
Net periodic benefit cost	(1,204)	(1,373)
<b>Income before income taxes</b>	<b>10,997</b>	<b>7,699</b>
Income tax expense (Note 8)	2,517	2,050
<b>Net income</b>	<b>\$ 8,480</b>	<b>\$ 5,649</b>

See Notes to Condensed Interim Financial Statements

**MOORE CANADA CORPORATE (“MCC”)**  
**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**  
**(in thousands of Canadian dollars)**  
**(UNAUDITED)**

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Net income	\$ 8,480	\$ 5,649
Other comprehensive loss, net of tax:		
Adjustments for net periodic pension and postretirement benefits plan cost (Note 7)	(635)	(329)
<b>Other comprehensive loss</b>	<b>(635)</b>	<b>(329)</b>
<b>Comprehensive income</b>	<b>\$ 7,845</b>	<b>\$ 5,320</b>

See Notes to Condensed Interim Financial Statements

**MOORE CANADA CORPORATE (“MCC”)**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
(in thousands of Canadian dollars)  
**(UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 8,480	\$ 5,649
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,247	1,550
Provision for credit losses	22	11
Income tax expense	2,517	2,050
Net pension and other postretirement benefits plan income (Note 7)	(1,204)	(1,372)
Other	-	142
Changes in operating assets and liabilities:		
Receivable-net	(7,521)	(8,644)
Inventories	(683)	(4,163)
Prepaid expenses and other current assets and other noncurrent assets	301	(413)
Accounts payable	1,510	6,274
Accrued liabilities and other payables and deferred revenue	(5,391)	(2,295)
Pension and other postretirement benefits plan contributions	(247)	(778)
Income taxes (paid) refund	(2,129)	(793)
Net cash used in operating activities	<u>(3,098)</u>	<u>(2,782)</u>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(2,188)	(933)
Proceeds from sales of property, plant and equipment	(9)	-
Net cash used in investing activities	<u>(2,197)</u>	<u>(933)</u>
<b>FINANCING ACTIVITIES</b>		
Return of Capital (Note 9)	(10,000)	-
Net cash provided by financing activities	<u>(10,000)</u>	<u>-</u>
Net decrease in cash and cash equivalents	(15,295)	(3,715)
Cash and cash equivalents at beginning of year	24,277	22,591
Cash and cash equivalents at end of period	<u>\$ 8,982</u>	<u>\$ 18,876</u>

See Notes to Condensed Interim Financial Statements

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(In thousands of Canadian dollars, except per share data and unless otherwise indicated)**

**1. General information and basis of Presentation**

*Nature of Operations* — Moore Canada Corporation (“MCC”) was a wholly owned subsidiary of R.R. Donnelley & Sons Company until April 2023 (note 13) and is a leading provider of packaging, print, and supply chain solutions. The Company offers a wide range of solutions and services designed to support its customers’ marketing and communications needs. MCC brings the expertise, execution, and scale designed to transform customer touchpoints into meaningful moments of impact.

The accompanying condensed interim financial statements include the accounts of MCC (“the Company”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These condensed interim financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. Operating results for the three months ended March 31, 2023 are not indicative of the results that may be expected for the fiscal year ending December 31, 2023. All significant intercompany transactions have been eliminated in consolidation. These condensed interim financial statements include estimates and assumptions of management that affect the amounts reported in the condensed financial statements. Actual results could differ from these estimates. Amounts are in thousand, unless otherwise indicated.

**2. Revenue Recognition**

**Disaggregation of Revenue**

The following table presents net sales disaggregated by products and services:

	Three Months Ended March 31,	
	2023	2022
Product sales	\$ 74,782	\$ 65,071
Warehousing services	1,304	1,522
Total net sales	\$ 76,086	\$ 66,593

**Variable Consideration**

Certain customers may receive volume-based rebates or early payment discounts, which are accounted for as variable consideration. These amounts are estimated based on the expected amount to be earned by customers and reduce revenue accordingly. There are no expected significant changes to estimates of variable consideration. Given the nature of the products and MCC’s historical experience with returns, product returns are not significant.

**Contract Balances**

The following table provides information about contract liabilities from contracts with customers:

	Contract Liabilities	
	Short-Term	Long-Term
Balance at December 31, 2022	\$ 3,480	\$ -
Balance at March 31, 2023	\$ 2,601	\$ -

Contract liabilities primarily relate to customer advances received prior to completion of performance obligations. Reductions in contract liabilities are a result of the completion of performance obligations. Revenue recognized during the three months ended March 31, 2023 from amounts included in contract liabilities at the beginning of the period was \$1,838.

**3. Inventories**

The components of inventories, net of excess and obsolescence reserves for raw materials and finished goods, at March 31, 2023 and December 31, 2022 were as follows:

	March 31, 2023	December 31, 2022
Raw materials and manufacturing supplies	\$ 19,299	\$ 19,188
Work in process	4,597	3,825
Finished goods	980	1,180
Total inventories	\$ 24,876	\$ 24,193

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
(In thousands of Canadian dollars, except per share data and unless otherwise indicated)

**4. Property, Plant and Equipment**

The components of property, plant and equipment at March 31, 2023 and December 31, 2022 were as follows:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Land	\$ 2,367	\$ 2,367
Buildings	31,200	31,091
Machinery and equipment	94,853	94,617
	<u>128,420</u>	<u>128,075</u>
Less: Accumulated depreciation	(107,740)	(106,932)
Total property, plant and equipment-net	<u>\$ 20,680</u>	<u>\$ 21,143</u>

During the three months ended March 31, 2023 depreciation expense was \$1,121. During the three months ended March 31, 2022 depreciation expense was \$1,354.

**5. Intangible Assets**

The components of intangible assets at March 31, 2023 and December 31, 2022 were as follows:

	<u>March 31, 2023</u>			<u>December 31, 2022</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Software	6,593	(5,743)	850	6,643	(5,689)	954
Tradenames	595	(545)	50	595	(530)	65
Total amortizable other intangible assets	<u>7,188</u>	<u>(6,288)</u>	<u>900</u>	<u>7,238</u>	<u>(6,219)</u>	<u>1,019</u>

During the three months ended March 31, 2023 amortization expense for other intangible assets was \$126. During the three months ended March 31, 2022 amortization expense for other intangible assets was \$197.

**6. Restructuring and Other Related Items**

For the three months ended March 31, 2023 and 2022, the company recorded the following restructuring and other related items:

	<u>Three Months Ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
Employee terminations	\$ 157	\$ 123
Other restructuring charges	208	72
Other	9	-
Total	<u>\$ 374</u>	<u>\$ 195</u>

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(In thousands of Canadian dollars, except per share data and unless otherwise indicated)**

For the three months ended March 31, 2023, the company recorded net restructuring charges of \$157 for employee termination costs. These charges primarily related to announced facility closures and the reorganization of selling, general and administrative functions across each segment. The company also incurred \$208 of other restructuring charges during the three months ended March 31, 2023, primarily comprised of equipment move costs and other facility closure and reorganization related costs.

For the three months ended March 31, 2022, the company recorded net restructuring charges of \$123 for employee termination costs. These charges primarily related to announced facility closures and the reorganization of selling, general and administrative functions across each segment. The company also incurred \$72 of other restructuring charges during the three months ended March 31, 2022, primarily comprised of equipment move costs and other facility closure and reorganization related costs.

***Restructuring Reserve***

Restructuring reserve as of December 31, 2022 and March 31, 2023, and changes during the three months ended March 31, 2023, were as follows:

	December 31, 2022	Restructuring and Other Charges	Cash Paid	March 31, 2023
Employee terminations	\$ 993	\$ 157	\$ 417	\$ 733
Other	-	208	208	-
Total	<u>\$ 993</u>	<u>\$ 365</u>	<u>\$ 625</u>	<u>\$ 733</u>

The current portion of restructuring reserves of \$722 at March 31, 2023 was included in accrued liabilities and other, while the long-term portion of \$11 was included in other noncurrent liabilities at March 31, 2023.

The restructuring liabilities classified as “other” primarily consisted of reserves for employee termination litigation and environmental matters. Any potential recoveries or additional charges could affect amounts reported in the condensed financial statements.

**7. Retirement Plans**

Components of net pension and other postretirement benefits plan (“OPEB”) loss (income) for the three months ended March 31, 2023 were as follows:

	Three Months Ended March 31,	
	2023	2022
<b>Pension income:</b>		
Interest cost	\$ 2,038	\$ 1,330
Expected return on plan assets	(2,379)	(2,256)
Amortization, net	254	670
Net pension income	<u>\$ (87)</u>	<u>\$ (256)</u>
<b>OPEB income:</b>		
Amortization, net	<u>\$ (1,117)</u>	<u>\$ (1,117)</u>
Net OPEB income	<u>\$ (1,117)</u>	<u>\$ (1,117)</u>

During the three months ended March 31, 2023 and 2022, the company contributed \$247 and \$778, respectively, to the retirement plans.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(In thousands of Canadian dollars, except per share data and unless otherwise indicated)**

**8. Income Taxes**

Income before income taxes was \$10,997 and \$7,699 for the Quarter ended March 31, 2023 and 2022, respectively.

The components of income tax expense for the quarter ended March 31, 2023 and 2022 were as follows:

	<u>Three Months ended March 31, 2023</u>	<u>Three Months ended March 31, 2022</u>
Federal and Provincial (except Quebec and Alberta):		
Current	\$ 2,196	\$ 1,207
Deferred	62	642
Provincial (Quebec and Alberta):		
Current	252	131
Deferred	7	70
Total	<u>\$ 2,517</u>	<u>\$ 2,050</u>

The following is a reconciliation of income tax expense at the Canada federal statutory tax rate for the quarter ended March 31, 2023 and 2022:

	<u>Three Months ended March 31, 2023</u>	<u>Three Months ended March 31, 2022</u>
Income from operations before income taxes	\$ 10,997	\$ 7,699
Expected income tax expense calculated at the statutory income tax rate (26.39%)	2,902	2,031
Non-deductible expenses and other items	(385)	19
Total income tax expense for the year	<u>\$ 2,517</u>	<u>\$ 2,050</u>

***Deferred income taxes***

The significant deferred tax assets and liabilities at March 31, 2023 and December 31, 2022 were as follows:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Deferred tax assets:		
Pension	\$ 4,237	\$ 4,392
Accrued liabilities	121	119
Property, plant and equipment	2,555	2,204
Intangible assets	1,529	1,577
Other	469	478
Total deferred tax assets	<u>8,911</u>	<u>8,770</u>
Valuation allowances	-	-
Net deferred tax assets	<u>\$ 8,911</u>	<u>\$ 8,770</u>
Deferred tax liabilities:		
Intangible assets	\$ (237)	\$ (269)
Property, plant and equipment	(481)	(481)
Other	(117)	(102)
Total deferred tax liabilities	<u>(835)</u>	<u>(852)</u>
Total net deferred tax assets	<u>\$ 8,076</u>	<u>\$ 7,918</u>

Cash payments for income taxes were \$2,129 and \$793 during the quarter ended March 31, 2023 and 2022, respectively. There were no cash refunds for income taxes for the three months ended March 31, 2023 and 2022, respectively. Income taxes payable of \$1,290 and \$1,724 as of March 31, 2023 and December 31, 2022, respectively, are included within accrued liabilities and other.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
(In thousands of Canadian dollars, except per share data and unless otherwise indicated)

**9. Equity**

The following table reflects the changes in stockholder's equity during the three months ended March 31, 2023 and March 31, 2022:

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Amount			
<b>Balance at December 31, 2022</b>	10,000	\$ 214,732	\$ (120,304)	\$ (17,631)	\$ 76,797
Net income	-	-	8,480	-	8,480
Other comprehensive loss	-	-	-	(635)	(635)
Return of capital	-	(10,000)	-	-	(10,000)
<b>Balance at March 31, 2023</b>	10,000	\$ 204,732	\$ (111,824)	\$ (18,266)	\$ 74,642
<b>Balance at December 31, 2021</b>	10,000	\$ 214,732	\$ (135,255)	\$ (22,758)	\$ 56,719
Net income	-	-	5,649	-	5,649
Other comprehensive loss	-	-	-	(329)	(329)
<b>Balance at March 31, 2022</b>	10,000	\$ 214,732	\$ (129,606)	\$ (23,087)	\$ 62,039

During the three months ended March 31, 2023 the Company paid \$10,000 to its parent, R.R. Donnelley & Sons Company by way of a return of capital.

**10. Other Comprehensive Loss**

The components of other comprehensive loss and income tax benefit allocated to each component for the three months ended March 31, 2023 were as follows:

	Three Months Ended March 31, 2023		
	Before Tax Amount	Income Tax	Net of Tax Amount
Adjustments for net periodic pension and OPEB cost	\$ (863)	\$ 228	\$ (635)
Other comprehensive loss	\$ (863)	\$ 228	\$ (635)
	Three Months Ended March 31, 2022		
	Before Tax Amount	Income Tax	Net of Tax Amount
Adjustments for net periodic pension and OPEB cost	\$ (447)	\$ 118	\$ (329)
Other comprehensive loss	\$ (447)	\$ 118	\$ (329)

Accumulated other comprehensive loss by component as of December 31, 2022 and March 31, 2023, and changes during the three months ended March 31, 2023, were as follows:

	Total
<b>Balance at December 31, 2022</b>	\$ (17,631)
Other comprehensive income before reclassifications	-
Amounts reclassified from accumulated other comprehensive loss to the statement of operations	(635)
Net change in accumulated other comprehensive loss	(635)
<b>Balance at March 31, 2023</b>	\$ (18,266)

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(In thousands of Canadian dollars, except per share data and unless otherwise indicated)**

Accumulated other comprehensive loss by component as of December 31, 2021 and March 31, 2022, and changes during the three months ended March 31, 2022, were as follows:

	<b>Total</b>
<b>Balance at December 31, 2021</b>	\$ (22,758)
Other comprehensive income (loss) before reclassifications	-
Amounts reclassified from accumulated other comprehensive loss to the statement of operations	(329)
Net change in accumulated other comprehensive loss	(329)
<b>Balance at March 31, 2022</b>	<b>\$ (23,087)</b>

Reclassifications from accumulated other comprehensive loss for the three months ended March 31, 2023 were as follows:

	<b>Three Months Ended</b>		<b>Classification in the Condensed</b>
	<b>March 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>Statements of Operations</b>
<b>Amortization of pension and OPEB cost:</b>			
Net actuarial gains	\$ 4	\$ (198)	Investment and other income-net
Net prior service credit	(868)	(249)	Investment and other income-net
Reclassifications before tax	(864)	(447)	
Income tax benefit	229	118	
Reclassification, net of tax	<b>\$ (635)</b>	<b>\$ (329)</b>	

## 11. Commitments and Contingencies

The Company is subject to various claims, potential claims and lawsuits. While the outcome of these matters is not determinable, MCC's management does not believe that the ultimate resolution of such matters will have a material adverse impact on the financial position. Directors and officers are indemnified by the Company for various items including, but not limited to, costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. MCC has purchased directors' and officers' liability insurance to mitigate the costs of any potential future lawsuits or actions. The term of the indemnification covers the period during which the indemnified party served as a director or officer of the Company.

In the normal course of business, MCC has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts and license agreements. These indemnification arrangements may sometimes require such third parties to compensate counterparties for losses as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined. No accruals have been required to be made as at March 31, 2023 with respect to these agreements.

## Note 12. US GAAP to IFRS reconciliation

The Company's information will be included in a public filing including a Business Acquisition report (BAR). As a requirement of the public filing/BAR, the Company's financial statements must include a description of the material differences between U.S. Generally Accepted Accounting Principles ("US GAAP") to International Financial Reporting Standards (IFRS) along with a quantification of each, as well as a reconciliation of the impact on the Company's net income.

The following tables quantify the material differences of the Company's net income between US GAAP and IFRS for the years ended March 31, 2023 and 2022 with descriptions of such differences:

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
(In thousands of Canadian dollars, except per share data and unless otherwise indicated)

	<u>Three Months ended March 31, 2023</u>	<u>Three Months ended March 31, 2022</u> <i>(unaudited)</i>
Net income as previously reported under US GAAP	\$ 8,480	\$ 5,649
Transition adjustments:		
Net periodic benefit cost	(1,516)	(1,721) (a)
Income tax expense	347	458 (a)
Reclassifications:		
Net periodic benefit cost	312	348 (a)
Selling, general and administrative	(95)	(107) (a)
Interest expense-net	(217)	(241) (a)
Cost of sales	333	349 (b)
Interest expense-net	(333)	(349) (b)
Net income reported under IFRS	<u>\$ 7,311</u>	<u>\$ 4,386</u>

	<u>Three Months ended March 31, 2023</u>	<u>Three Months ended March 31, 2022</u>
Other comprehensive income previously reported under US GAAP	\$ (635)	\$ (329)
Transition adjustments:		
Adjustment for net periodic pension and other postretirement benefits plan cost	1,516	1,721 (a)
Taxes related to pension adjustment	(347)	(458) (a)
Other comprehensive income reported under IFRS	<u>\$ 534</u>	<u>\$ 934</u>

The following tables quantify the material differences of the Company's balance sheet between US GAAP and IFRS as at March 31, 2023 with descriptions of such differences:

	<u>As at March 31, 2023</u>		
	<u>As reported under US GAAP</u>	<u>Adjustments</u>	<u>As reported under IFRS</u>
Accumulated deficit	111,824	18,266	130,090 (a)
Accumulated other comprehensive (income) loss	18,266	(18,266)	-

- a) Under IFRS, remeasurement of defined benefit pension and other post-employment benefits are recognized immediately into OCI and accumulated deficit, whereas under US GAAP the gains/losses in the year are initially deferred into OCI and then only amortized to the extent that they are outside of the corridor.

Under IFRS, past service costs are recognized directly into income in the statement of operations, whereas under US GAAP the gains/losses in the year are recognized into OCI and amortized into the P&L over time.

Under IFRS, the components of the defined benefit cost (allocated between the net interest cost or income and administrative expenses) is calculated by applying the discount rate to the defined benefit liability or asset of the plan. The defined benefit asset (liability) is the surplus (deficit) which is recognized on the balance sheet after considering the asset ceiling test. Under US GAAP, expected return is based on an expected rate of return on plan assets which are measured using A calculated value that recognizes changes in fair value arising in any given year over a five year smoothing period.

The transitional adjustments to the net periodic benefit cost results in a reduction in the income tax expense of \$347 (2021 - \$458).

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(In thousands of Canadian dollars, except per share data and unless otherwise indicated)**

- b) Under ASC 842, all leases for the Company were classified as operating leases for which the amortization of the right-of-use asset and interest expense related to the lease liability are recorded together as lease expense in cost of sales. Under IFRS, operating leases are accounted for similar to finance leases in ASC 842 and the expense is recognized as depreciation expense (within cost of sales) and interest expense, separately on the statement of operations.

**Note 13. Subsequent Events**

On April 17, 2023, the Company sold its' Cowansville, Quebec property to a third party for total proceeds of \$6,889 (net of transaction expenses). The carrying value was reported as assets held for sale as of December 31, 2022.

On April 24, 2023 DATA Communications Management Corp. ("DCM") completed the acquisition of the Company from R.R. Donnelley & Sons ("RRD") for a total cash purchase price of \$130,800, subject to final working capital and other customary post-closing adjustments. With the completion of the acquisition, the Company is a wholly-owned subsidiary of DCM.

Pro Forma Condensed Consolidated Financial Statements of

**DATA COMMUNICATIONS MANAGEMENT  
CORP.**

As at March 31, 2023 and for the year ended December 31, 2022 and for the three  
months ended March 31, 2023  
(Unaudited)

## DATA COMMUNICATIONS MANAGEMENT CORP.

Pro forma condensed interim consolidated statements of financial position

As at March 31, 2023

<i>(in thousands of Canadian dollars, unaudited)</i>	<b>DATA Communications Management Corp. as at March 31, 2023</b>	<b>Moore Canada Corporation as at March 31, 2023 (Note 4)</b>	<b>Pro Forma Adjustments (Note 2)</b>	<b>DATA Communications Management Corp. Consolidated Pro Forma</b>	<b>Note 2</b>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 2,994	\$ 8,982	\$ (130,800)	\$ 10,776	(a)
			(783)		(e)
			130,383		(f)
Trade receivables	54,381	59,028	(441)	112,968	(c)
Inventories	18,760	24,876	(232)	43,404	(c)
Prepaid expenses and other current assets	3,578	1,510	—	5,088	
Income taxes receivable	15	—	—	15	
Assets held for sale	—	1,168	(1,168)	—	(d)
	<u>79,728</u>	<u>95,564</u>	<u>(3,041)</u>	<u>172,251</u>	
<b>NON-CURRENT ASSETS</b>					
Other non-current assets	449	701	—	1,150	
Deferred income tax assets	6,362	8,076	(4,319)	9,264	(c)
	—		(855)		(c)
Property, plant and equipment	6,646	20,680	39,018	66,344	(b)
Right-of-use assets	33,141	22,020	12,120	67,281	(h)
Pension assets	2,793	—	—	2,793	
Intangible assets	2,058	900	—	2,958	
Goodwill	16,973	—	24,974	41,947	(a)
	<u>\$ 148,150</u>	<u>\$ 147,941</u>	<u>\$ 67,897</u>	<u>\$ 363,988</u>	
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade payables and accrued liabilities	\$ 50,795	\$ 30,903	\$ (1,441)	\$ 80,257	(e)
Current portion of credit facilities	10,228	—	30,000	40,228	(f)
Current portion of lease liabilities	6,538	5,084	149	11,771	(h)
Income taxes payable	1,665	1,290	742	4,432	(d)
			735		(c)
Deferred revenue	4,386	2,601	—	6,987	
	<u>73,612</u>	<u>39,878</u>	<u>30,185</u>	<u>143,675</u>	
<b>NON-CURRENT LIABILITIES</b>					
Credit facilities	12,064	—	100,383	112,447	(f)
Lease liabilities	32,832	17,449	11,971	62,252	(h)
Pension obligations	6,101	15,654	—	21,755	
Other post-employment benefit plans	2,720	—	—	2,720	
Other non-current liabilities	—	\$ 318	\$ —	\$ 318	
	<u>\$ 127,329</u>	<u>\$ 73,299</u>	<u>\$ 142,539</u>	<u>\$ 343,167</u>	
<b>EQUITY</b>					
<b>SHAREHOLDERS' EQUITY</b>					
Shares	\$ 256,478	\$ 204,732	\$ (204,732)	\$ 256,478	(a)
Shares to be issued	332	—	—	332	
Warrants	798	—	—	798	
Contributed surplus	3,051	—	—	3,051	
Translation Reserve	208	—	—	208	
Deficit	(240,046)	(130,090)	130,090	(240,046)	(a)
	<u>\$ 20,821</u>	<u>\$ 74,642</u>	<u>\$ (74,642)</u>	<u>\$ 20,821</u>	
	<u>\$ 148,150</u>	<u>\$ 147,941</u>	<u>\$ 67,897</u>	<u>\$ 363,988</u>	

## DATA COMMUNICATIONS MANAGEMENT CORP.

Pro forma condensed consolidated statements of operations  
For the year ended December 31, 2022

<i>(in thousands of Canadian dollars, except per share amounts, unaudited)</i>	<b>DATA Communications Management Corp. For the Year Ended December 31, 2022</b>	<b>Moore Canada Corporation For the Year Ended December 31, 2022 (Note 4)</b>	<b>Pro Forma Adjustments (Note 2)</b>	<b>DATA Communications Management Corp. Consolidated Pro Forma</b>	<b>Note 2</b>
<b>REVENUES</b>	\$ 273,804	\$ 258,604	\$ (1,796)	\$ 530,612	(e)
<b>COST OF REVENUES</b>	189,580	204,682	(1,744)	394,139	(e)
			673		(b)
			948		(e)
<b>GROSS PROFIT</b>	84,224	53,922	(1,673)	136,473	
<b>EXPENSES</b>					
Selling, general and administrative expenses	57,150	36,004	(1,472)	91,682	(e)
Restructuring and other related items-net	—	1,526	—	1,526	
Acquisition and integration costs	1,870	—	(1,870)	—	(g)
	59,020	37,530	(3,342)	93,208	
<b>INCOME BEFORE FINANCE COSTS AND INCOME TAXES</b>	25,204	16,392	1,669	43,265	
<b>FINANCE COSTS</b>					
Interest expense on long term debt and pensions, net	2,742	740	10,648	14,130	(f)
Interest expense on lease liabilities	2,223	1,508	557	4,288	(h)
Amortization of transaction costs	344	—	502	846	(f)
	5,309	2,248	11,707	19,264	
<b>INCOME BEFORE INCOME TAXES</b>	19,895	14,144	(10,038)	24,001	
<b>INCOME TAX EXPENSE</b>					
Current	5,456	1,913	(2,514)	4,855	(i)
Deferred	473	2,176	(563)	2,086	(i)
	5,929	4,089	(3,077)	6,941	
<b>NET INCOME FOR THE YEAR</b>	\$ 13,966	\$ 10,055	(6,961)	\$ 17,060	
<b>BASIC EARNINGS PER SHARE</b>	\$ 0.32			\$ 0.39	
<b>DILUTED EARNINGS PER SHARE</b>	\$ 0.30			\$ 0.37	

## DATA COMMUNICATIONS MANAGEMENT CORP.

Pro forma condensed interim consolidated statements of operations

For the quarter ended March 31, 2023

<i>(in thousands of Canadian dollars, except per share amounts, unaudited)</i>	<b>DATA Communications Management Corp. for the three months ended March 31, 2023</b>	<b>Moore Canada Corporation for the three months ended March 31, 2023 (Note 4)</b>	<b>Pro Forma Adjustments (Note 2)</b>	<b>DATA Communications Management Corp. Consolidated Pro Forma</b>	<b>Note 2</b>
<b>REVENUES</b>	\$ 76,077	\$ 76,086	\$ (481)	\$ 151,682	(e)
<b>COST OF REVENUES</b>	52,442	56,326	(480)	108,693	(e)
			168		(b)
			237		(h)
<b>GROSS PROFIT</b>	23,635	19,760	(406)	42,989	
<b>EXPENSES</b>					
Selling, general and administrative expenses	18,754	9,410	(278)	27,886	(e)
Restructuring and other related items-net	—	374	—	374	
Acquisition and integration costs	6,118	—	(6,118)	—	(g)
	24,872	9,784	(6,396)	28,260	
<b>(LOSS) INCOME BEFORE FINANCE COSTS AND INCOME TAXES</b>	(1,237)	9,976	5,990	14,729	
<b>FINANCE COSTS</b>					
Interest expense on long term debt and pensions, net	543	162	2,662	3,367	(f)
Net periodic benefit cost	—	—	—	—	
Interest expense on lease liabilities	540	333	143	1,016	(h)
Amortization of transaction costs	72	—	126	198	(f)
	1,155	495	2,931	4,581	
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	(2,392)	9,481	3,059	10,148	
<b>INCOME TAX EXPENSE (RECOVERY)</b>					
Current	1,647	2,101	(649)	3,099	(i)
Deferred	(1,608)	69	(142)	(1,681)	(i)
	39	2,170	(791)	1,418	
<b>NET (LOSS) INCOME FOR THE PERIOD</b>	\$ (2,431)	\$ 7,311	\$ 3,850	\$ 8,730	
<b>BASIC (LOSS) EARNINGS PER SHARE</b>	\$ (0.06)			\$ 0.20	
<b>DILUTED (LOSS) EARNINGS PER SHARE</b>	\$ (0.06)			\$ 0.18	

## **DATA COMMUNICATIONS MANAGEMENT CORP.**

Notes to pro forma condensed consolidated financial statements

For the three months ended March 31, 2023 and the year ended December 31, 2022

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

### **1 General information and basis of preparation**

DATA Communications Management Corp. ("DCM" or the "Company") is a marketing and business communications partner that helps companies simplify the complex ways they communicate and operate, so they can accomplish more with fewer steps and less effort. For over 60 years, DCM has been serving major brands in vertical markets including financial services, retail, healthcare, energy, other regulated industries, and the public sector. We integrate seamlessly into our clients' businesses thanks to our deep understanding of their needs, transformative tech-enabled solutions, and end-to-end service offering. Whether we're running technology platforms, sending marketing messages, or managing print workflows, our goal is to make everything surprisingly simple.

On April 24, 2023, DCM completed the acquisition of the outstanding shares of Moore Canada Corporation ("MCC"), the Canadian operations of R.R. Donnelley & Sons, for a total cash purchase price of \$130,800, subject to final working capital and other customary post-closing adjustments ("the Acquisition"). The purchase price was determined on the basis that MCC had: (i) no Indebtedness (as defined in the Purchase Agreement); (ii) no available Cash (as defined in the Purchase Agreement); and (iii) Closing Date Working Capital of \$41.792 million, in each case as at the date of the Acquisition. In accordance with the terms of the Purchase Agreement, a post-closing, dollar-for-dollar adjustment to the purchase price will be made, with the result that the purchase price will be increased or decreased, as applicable, if Indebtedness or Cash is greater than zero or Closing Date Working Capital is greater or less than \$41.792 million, in each case as at the date of the Acquisition. With the completion of the acquisition, MCC is a wholly-owned subsidiary of DCM. The acquisition of MCC provides a strategic opportunity to accelerate DCM's growth agenda. Bringing together two similar sized businesses, DCM will have a significantly larger presence in the Canadian market, an enhanced portfolio of products and services, and an expanded customer base across a broad range of industry verticals.

The accompanying unaudited pro forma condensed consolidated statement of financial position as at March 31, 2023 and the unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2022 and for the three months ended March 31, 2023, including the pro forma notes thereon (collectively, the "Pro Forma Financial Information"), were prepared in connection with the Acquisition.

The unaudited pro forma condensed consolidated statement of financial position as at March 31, 2023 gives effect to the Acquisition as if it had occurred as at March 31, 2023. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2022 and for the three months ended March 31, 2023 gives effect to the Acquisition as if it had occurred as at January 1, 2022.

This Pro Forma Financial Information is not necessarily indicative of the results of operations that would have occurred had the Acquisition been completed on the dates noted above, nor is it indicative of the financial results that may be obtained in the future. The underlying assumptions for the pro forma adjustments, made in preparing the Pro Forma financial information, provide a reasonable basis for presenting the significant financial effect directly attributable to the Acquisition. These pro forma adjustments are tentative and are based on currently available financial information and certain estimates and assumptions. The actual adjustments to the consolidated financial statements will depend on a number of factors. Therefore, it is expected that the actual adjustments will differ from the pro forma adjustments, and the differences may be material.

The Pro Forma Financial Information has been derived from historical financial information of DCM and MCC contained in:

- the audited annual consolidated financial statements of DCM as at December 31, 2022 and for the year then ended, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board; and
- the interim condensed consolidated financial statements of DCM as at March 31, 2023 and for the three months then ended prepared in accordance with IFRS;

## **DATA COMMUNICATIONS MANAGEMENT CORP.**

Notes to pro forma condensed consolidated financial statements

For the three months ended March 31, 2023 and the year ended December 31, 2022

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

- the audited annual financial statements of MCC as at December 31, 2022 and for the year then ended, prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and including a note reconciling US GAAP to IFRS; and
- the interim condensed financial statements of MCC as at March 31, 2023 and for the three months then ended, prepared in accordance with US GAAP and including a note reconciling US GAAP to IFRS.

The Pro Forma Financial Information has been determined based on available limited financial information and significant estimates and assumptions were made by management, all of which are preliminary and have been made solely for the purpose of preparing the unaudited pro forma condensed consolidated financial statements. The actual adjustments to DCM's consolidated financial statements upon the closing of the Acquisition will depend on a number of factors, including additional information available and the net assets of MCC on the closing date of the Acquisition. Therefore, the actual adjustments will differ from the pro forma adjustments, and the differences may be material. For example, the final purchase price allocation is dependent on, among other things, the finalization of asset and liability valuations. This final valuation will be based on the actual net tangible and intangible assets and liabilities of MCC that exist as of the closing date of the Acquisition. Changes are expected as valuations of assets acquired and liabilities assumed are completed and as additional information becomes available. Accordingly, the final fair value determination may differ from those set forth in the Pro Forma Financial Information and the differences may be material.

The Pro Forma Financial Information does not include all the information and disclosures required by IFRS for annual financial statements and should be read in conjunction with the historical consolidated financial statements of DCM and the historical consolidated financial statements of MCC from which they were derived. The Pro Forma Financial Information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve or any costs that will be incurred to achieve these cost savings, operating synergies or revenue enhancements or to otherwise integrate the MCC business with DCM.

## **2 Pro-forma assumptions and adjustments**

The unaudited pro forma condensed consolidated statement of financial position as at March 31, 2023 and the unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2022 and for the three months ended March 31, 2023 give effect to the following transactions, assumptions and adjustments:

### **(a) Preliminary allocation of purchase price:**

The Acquisition will be accounted for as a business combination in accordance with IFRS 3, Business Combinations. The following table summarizes the preliminary purchase price allocation representing the consideration paid and the preliminary estimate of fair value of the assets acquired and liabilities assumed that are currently identifiable. The purchase price allocation is preliminary, and significant changes are expected (for example relating to the valuation of intangible assets acquired separately from goodwill) as additional analysis is completed. Such changes may be material. Consequently, the excess purchase price paid over the assets acquired and liabilities assumed that has been presented as goodwill in these unaudited pro forma condensed consolidated statements is preliminary and any subsequent adjustments may change the allocation of the purchase price and could affect the fair value assigned to the assets and liabilities (including the residual goodwill) and the related amortization included in these unaudited pro forma condensed consolidated statements.

Any subsequent adjustments may change the allocation of the purchase price and could affect the fair value assigned to the assets and liabilities and the related amortization included in these unaudited pro forma condensed consolidated statements.

## DATA COMMUNICATIONS MANAGEMENT CORP.

Notes to pro forma condensed consolidated financial statements

For the three months ended March 31, 2023 and the year ended December 31, 2022

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

### 2 Pro-forma assumptions and adjustments (continued)

Purchase Price	\$	123,000
Adjustments for working capital		7,800
	\$	130,800
Net assets acquired and liabilities assumed identifiable currently:		
Cash	\$	8,199
Trade receivables		57,852
Inventories		24,644
Prepaid expenses and other current assets		1,510
Property, plant and equipment		59,698
Right-of-use assets		34,140
Intangible assets		900
Other non-current assets		701
Deferred income tax asset		1,533
Trade payables and accrued liabilities		(29,462)
Income taxes payable		(2,032)
Deferred revenue		(2,601)
Lease liabilities		(34,653)
Other non-current liabilities		(318)
Pension obligations		(15,654)
Excess Purchase Price		26,343
	\$	130,800

Goodwill on the acquisition of MCC will be recognized on closing once the preliminary purchase price allocation is complete. DCM assumes that the intangible assets recognized on the condensed consolidated balance sheet of MCC will meet the definition of separately identifiable assets. The fair value of these intangible assets, and any additional identifiable intangible assets acquired through the Acquisition, and related incremental amortization will be recognized once the preliminary purchase price allocation is completed.

#### (b) Fair value adjustment on property and buildings

The property, plant and equipment have been adjusted to reflect the preliminary fair market values of the owned properties acquired based on an independent, third party appraisal. This adjustment increased property, plant and equipment by \$39,018. The incremental depreciation expense for the year ended December 31, 2022 and for the three months ended March 31, 2023 was \$673 and \$168, respectively.

#### (c) Income taxes receivable and deferred tax assets

The fair value adjustment on property and buildings in (b) above results in a corresponding decrease in deferred tax assets acquired of \$4,319 as of March 31, 2023

A receivable amount of \$735 was removed from income taxes payable for an amount owing from the tax authorities that was not included in the purchase price allocation.

An amount of \$855 was removed from the deferred tax asset related to the remaining tax basis of legacy goodwill in MCC.

## DATA COMMUNICATIONS MANAGEMENT CORP.

Notes to pro forma condensed consolidated financial statements

For the three months ended March 31, 2023 and the year ended December 31, 2022

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

### (d) Assets held for sale

On April 17, 2023, the Company sold its Cowansville, Quebec property to a third party for \$6,889 (net of transaction expenses). The carrying value reported as assets held for sale for a total of \$1,168 and related taxes payable of \$742 was removed as an adjustment. The proceeds from the sale were not included as part of the acquisition.

### (e) Existing Entities:

DCM did not assume certain assets of MCC (collectively referred to as "spin-off entities") as part of the Acquisition. Consequently, these spin-off entities have been adjusted from the pro forma condensed consolidated statement of financial position and pro forma condensed consolidated statement of operations.

### (f) Financing:

The Acquisition was funded through a revolving, floating rate credit facility from a Canadian chartered bank, which includes up to a \$90,000, 3-year committed senior secured asset based revolving credit facility ("Bank Credit Facility"); a \$30,000, 1-year committed senior secured credit facility ("Real Estate Bridge") which is intended to be repaid from the proceeds of the sale and leaseback of the acquired real estate properties or at the first anniversary of the acquisition date; and a new \$50,000, 5-year committed term loan with Fiera Private Debt VI L.P. These new credit facilities would result in incremental acquisition debt, less any transaction costs in an amount equal to \$130,383.

Anticipated incremental interest expense associated with the credit facilities and amortization of debt issuance cost has been calculated using interest rates ranging from 7.95% to 8.20% per annum. During the year ended December 31, 2022 and three months ended March 31, 2023, the pro forma incremental finance cost is \$11,150 and \$2,788, respectively. This incremental finance cost is based on the assumption that the Bank Credit Facility is drawn at an incremental amount of \$52,170 (consistent with acquisition date) and that the Real Estate Bridge has not yet been repaid.

### (g) Acquisition costs:

This represents the elimination of acquisition and integration costs incurred and recognized during the year ended December 31, 2022 and three months ended March 31, 2023 of \$1,870 and \$6,118, respectively, that are directly related to the MCC acquisition and integration costs. This amount has been removed from the pro forma condensed consolidated statements of operations because the unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2022 and three months ended March 31, 2023 gives effect to the Acquisition as if it had occurred as at January 1, 2022.

### (h) Leases - extension options:

In accordance with IFRS 16, extension options are only included in the lease term if the lease is reasonably certain to be extended. The assessment was reviewed as of March 31, 2023 for the statement of financial position and as of January 1, 2022 for the statement of operations and it was determined that for three leased properties of MCC, DCM has the intent to exercise its' extension options. DCM re-measured its' lease liability to include the extension option. As of March 31, 2023, this resulted in an incremental increase to its lease liability and right-of-use asset of \$12,120. For the year ended December 31, 2022, and for the three

## DATA COMMUNICATIONS MANAGEMENT CORP.

Notes to pro forma condensed consolidated financial statements

For the three months ended March 31, 2023 and the year ended December 31, 2022

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

months ended March 31, 2023, the incremental depreciation expense was \$948 and \$237, respectively, and the incremental interest expense was \$557 and \$143, respectively,

(i) Current and deferred income tax expense (recovery)

The consequential tax impact of the above adjustments has been reflected in the Pro Forma Financial Information at DCM's average tax rate of 25.84%. The pro forma costs of the spin-off entities and the incremental interest expense on the credit facilities have been tax effected and reflected as current tax expense. The pro forma costs of the lease extension options and the fair value adjustment of the property have been tax effected and reflected as deferred tax expense. During the year ended December 31, 2022 and three months ended March 31, 2023, the pro forma adjustment to tax expense is a tax recovery of \$3,077 and a tax expense of \$791, respectively.

### 3 Pro Forma Earnings per share

	For the year ended December 31, 2022	For the three months ended March 31, 2023
<b>BASIC EARNINGS PER SHARE</b>		
Pro forma income for the period attributable to common shareholders	\$ 17,060	\$ 8,730
Weighted average shares	44,062,831	44,062,831
Basic earnings per share	\$ 0.39	\$ 0.20
<b>DILUTED EARNINGS PER SHARE</b>		
Pro forma income for the period attributable to common shareholders	\$ 17,060	\$ 8,730
Weighted average shares	44,062,831	44,062,831
Adjustments for calculation of diluted earnings per share:		
Options	1,235,008	2,284,627
Warrants	1,274,227	1,302,746
Weighted average number of shares in calculating diluted earnings per share	46,572,066	47,650,204
Diluted earnings per share	\$ 0.37	\$ 0.18

For the year ended December 31, 2022, options to purchase up to 671,886 common shares, where the average market price of the common shares was less than the exercise price were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. Warrants to purchase up to nil common shares were excluded from the computation of diluted earnings per share as they were out-of-the-money as at December 31, 2022.

For the three months ended March 31, 2023, options to purchase up to nil common shares, where the average market price of the common shares was less than the exercise price were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. Warrants to purchase up to nil common shares were excluded from the computation of diluted earnings per share as they were out-of-the-money as at March 31, 2023.

### 4 Adjustments to historical financial statements of MCC:

The financial information below illustrates the impact of estimated adjustments made to MCC's historical consolidated financial statements that were originally prepared in accordance with US GAAP to reconcile those statements to IFRS, as described in Note 12 to the December 31, 2022 MCC annual financial statements and Note 13 to the March

## **DATA COMMUNICATIONS MANAGEMENT CORP.**

Notes to pro forma condensed consolidated financial statements

For the three months ended March 31, 2023 and the year ended December 31, 2022

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

31, 2023 MCC interim financial statements included in this document. In preparing the Pro Forma Financial Information, management conducted a preliminary review of MCC's accounting policies under US GAAP and the US GAAP - IFRS reconciliation and determined that the accounting policies are generally aligned with those described in the audited consolidated financial statements of DCM for the year ended December 31, 2022. However, reclassification adjustments have been made to MCC's historical financial statements to provide a consistent basis of presentation and classification with the consolidated financial statements of DCM. The Pro Forma Financial Information has been prepared based on information known to date. DCM will continue to review MCC's accounting policies during its integration in an effort to determine if there are any additional material differences that require reclassification of MCC's revenues, expenses, assets or liabilities to conform to DCM's accounting policies and classifications. As a result of that review, DCM may identify further differences between the respective accounting policies of the two companies that, when conformed, could have a material impact on the Pro Forma Financial Information.

**DATA COMMUNICATIONS MANAGEMENT CORP.**

Condensed interim consolidated statements of financial position

As at March 31, 2023

The following table summarizes these adjustments and reclassifications of the historical balance sheets as at March 31, 2023:

<i>(in thousands of Canadian dollars, unaudited)</i>	<b>MCC US GAAP</b>	<b>Reconciliation to IFRS</b>	<b>Reclassificati ons</b>	<b>MCC IFRS</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 8,982	\$ —	\$ —	8,982
Trade receivables	59,028	—	—	59,028
Inventories	24,876	—	—	24,876
Prepaid expenses and other current assets	1,510	—	—	1,510
Assets held for sales	1,168	—	—	1,168
	<b>95,564</b>	<b>—</b>	<b>—</b>	<b>95,564</b>
<b>NON-CURRENT ASSETS</b>				
Other non-current assets	701	—	—	701
Deferred income tax assets	8,076	—	—	8,076
Property, plant and equipment	20,680	—	—	20,680
Right-of-use assets	22,020	—	—	22,020
Intangible assets	900	—	—	900
	<b>\$ 147,941</b>	<b>\$ —</b>	<b>\$ —</b>	<b>147,941</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Trade payables and accrued liabilities	\$ 14,221	\$ —	\$ 16,682	\$ 30,903
Accrued liabilities and others	17,972	—	(17,972)	—
Current portion of lease liabilities	5,084	—	—	5,084
Income taxes payable	—	—	1,290	1,290
Deferred revenue	2,601	—	—	2,601
	<b>39,878</b>	<b>—</b>	<b>—</b>	<b>39,878</b>
<b>NON-CURRENT LIABILITIES</b>				
Lease liabilities	17,449	—	—	17,449
Pension obligations	15,654	—	—	15,654
Other non-current liabilities	318	—	—	318
	<b>\$ 73,299</b>	<b>\$ —</b>	<b>\$ —</b>	<b>73,299</b>
<b>EQUITY</b>				
<b>SHAREHOLDERS' EQUITY</b>				
Shares	\$ 204,732	—	—	\$ 204,732
Accumulated other comprehensive loss	(18,266)	18,266	—	—
Deficit	(111,824)	(18,266)	—	(130,090)
	<b>\$ 74,642</b>	<b>\$ —</b>	<b>\$ —</b>	<b>74,642</b>
	<b>\$ 147,941</b>	<b>\$ —</b>	<b>\$ —</b>	<b>147,941</b>

**DATA COMMUNICATIONS MANAGEMENT CORP.**

Consolidated statements of operations

For the year ended December 31, 2022

The following tables summarize these adjustments and reclassifications of the historical statements of operations of MCC for the year ended December 31, 2022:

<i>(in thousands of Canadian dollars, unaudited)</i>				
	<b>MCC US GAAP</b>	<b>Reconciliatio n to IFRS</b>	<b>Reclassificati ons</b>	<b>MCC IFRS</b>
<b>REVENUES</b>	\$ 258,604	\$ —	\$ —	\$ 258,604
<b>COST OF REVENUES</b>	206,190	(1,508)	—	204,682
<b>GROSS PROFIT</b>	52,414	1,508	—	53,922
<b>EXPENSES</b>				
Selling, general and administrative expenses	35,442	562	—	36,004
Restructuring and other related items-net	1,526	—	—	1,526
	36,968	562	—	37,530
<b>INCOME BEFORE FINANCE COSTS AND INCOME TAXES</b>	15,446	946	—	16,392
<b>FINANCE COSTS</b>				
Interest expense on long term debt and pensions, net	(96)	836	—	740
Net periodic benefit (credit) cost	(5,488)	5,488	—	—
Interest expense on lease liabilities	—	1,508	—	1,508
	(5,584)	7,832	—	2,248
<b>INCOME BEFORE INCOME TAXES</b>	21,030	(6,886)	—	14,144
<b>INCOME TAX EXPENSE</b>				
Current	3,903	(1,990)	—	1,913
Deferred	2,176	—	—	2,176
	6,079	(1,990)	—	4,089
<b>NET INCOME FOR THE PERIOD</b>	\$ 14,951	\$ (4,896)	\$ —	\$ 10,055

**DATA COMMUNICATIONS MANAGEMENT CORP.**

Condensed interim consolidated statements of operations

For the three months ended March 31, 2023

The following tables summarize these adjustments and reclassifications of the historical statements of operations of MCC for the three months ended March 31, 2023:

<i>(in thousands of Canadian dollars, unaudited)</i>	<b>MCC US GAAP</b>	<b>Reconciliatio n to IFRS</b>	<b>Reclassificati ons</b>	<b>MCC IFRS</b>
<b>REVENUES</b>	\$ 76,086	\$ —	\$ —	76,086
<b>COST OF REVENUES</b>	56,659	(333)	—	56,326
<b>GROSS PROFIT</b>	19,427	333	—	19,760
<b>EXPENSES</b>				
Selling, general and administrative expenses	9,315	95	—	9,410
Restructuring and other related items-net	374	—	—	374
	9,689	95	—	9,784
<b>INCOME BEFORE FINANCE COSTS AND INCOME TAXES</b>	9,738	238	—	9,976
<b>FINANCE COSTS</b>				
Interest expense on long term debt and pensions, net	(55)	217	—	162
Net periodic benefit cost	(1,204)	1,204	—	—
Interest expense on lease liabilities	—	333	—	333
	(1,259)	1,754	—	495
<b>INCOME BEFORE INCOME TAXES</b>	10,997	(1,516)	—	9,481
<b>INCOME TAX EXPENSE</b>				
Current	2,448	(347)	—	2,101
Deferred	69	—	—	69
	2,517	(347)	—	2,170
<b>NET INCOME FOR THE PERIOD</b>	\$ 8,480	\$ (1,169)	\$ —	7,311