CALIAN

NEWS RELEASE

IMMEDIATE RELEASE

CALIAN REPORTS FIRST QUARTER RESULTS

(All amounts in this release are in Canadian Dollars)

Ottawa, Ontario – February 6, 2019: Calian Group Ltd. (TSX.CGY) today released unaudited results for the first quarter ended December 31, 2018.

The Company reported revenues for the quarter of $79.9 million, representing a 5% increase from the $76.2 million reported in the same quarter of the previous year.

EBITDA (1) for the first quarter was $5.7 million or $0.73 per share basic and diluted, which decreased when compared with the $6.5 million or $0.84 per share basic diluted in the same quarter of the previous year.

Net profit for the first quarter was $3.3 million or $0.43 per share basic and diluted, which decreased when compared with the $4.1 million or $0.54 per share basic diluted in the same quarter of the previous year.

"Results for this first quarter are mixed. Our BTS division saw continued improvements in revenues and EBITDA from strong performance and demand in all its market segments. The SED division reported a slower quarter than the prior year driven by a few projects moving to the right and a slightly less favorable revenue mix in the quarter," stated Jacqueline Gauthier, CFO. "However, these results do not change our outlook for the year as we continue to expect strong performance from both divisions. We also expect contributions from our most recent acquisitions, Intragrain and Secure Tech to increase in the remaining quarters due to seasonality of their business with the first quarter activity typically minimal" continued Ms. Gauthier.

"Despite mixed results this quarter, we've achieved several positive metrics with our largest quarterly revenues in the company history as well as a 20% growth in the profitability with our BTS division. The SED division continues to be very busy in all its segments continuing to push its technology savvy to new heights", stated Kevin Ford, CEO.

"Calian is at a pivot point in the company's history, as we continue to invest in R&D and headcount to drive long term growth from the company. This quarter we invested another $650K in new product development and continue to increase our delivery and go to market resources to ensure we have capacity required to support our growth."

"In support of our customer retention pillar, we were very happy to report this quarter the re-win of our Canadian Army Simulation Centre (CASC) contract with an initial value of $93 million and with options factored in, an aggregate contract value for the full nine-year period of approximately $170 million. With a duration of up to 9 years, this win has helped grow our contracted backlog to $1.3 billion which is a very strong foundation to support our growth agenda" added Ford. "Factoring in CASC, our contract signings exceeded over $200M in the quarter, again another strong sign that our sales efforts are working".

"At 69 consecutive profitable quarters, strong cash flows, a continued focus on our innovation agenda and our dedicated employee base, I am confident we will continue to make progress against all elements of our four-pillar strategic growth framework", stated Ford.

Traditional markets in which Calian operates are stable and management expects organic revenue and earnings growth in most or all of its service lines through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2019 to be in the range of $330 million to $360 million, EBITDA per share in the range of $3.60 to $3.90 and net profit in the range of $2.10 to $2.40 per share.

(1) Caution regarding non-GAAP measures:

This press release is based on reported earnings in accordance with IFRS. Reference to generally accepted accounting principles (GAAP) means IFRS, unless indicated otherwise. This press release is also based on non-GAAP financial measures including EBITDA, adjusted net profit and adjusted net profit per share. These non-GAAP measures are mainly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by IFRS; therefore, others using these terms may calculate them differently. Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our financial reports with enhanced understanding of our results and related trends and increases transparency and clarity into the core results of our business. Refer to the MD&A for definitions of these metrics and reconciliations to the most comparable IFRS measures.

About Calian

Calian employs over 3,200 people with offices and projects that span Canada, U.S. and international markets. The company's capabilities are diverse with services delivered through two divisions. The Business and Technology Services (BTS) Division is headquartered in Ottawa and includes the provision of business and technology services and solutions to industry, public and government in the health, training, engineering and IT services domains. Calian's Systems Engineering Division (SED) located in Saskatoon provides the world's leading space technology companies with innovative solutions for testing, operating and managing their satellite networks. SED provides leading-edge communications products for terrestrial and satellite networks, as well as providing commercial (including agriculture) and defence customers with superior electronics engineering, manufacturing and test services for both private sector and military customers in North America.

For further information, please visit our website at www.calian.com, or contact us at ir@calian.com

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DISCLAIMER

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Calian to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; and the impact of consolidations in the business services industry. Additional risks and uncertainties affecting Calian can be found in Management's Discussion and Analysis of Results of Operations and its Annual Information Form for the fiscal year ended September 30, 2018 on SEDAR at www.sedar.com. If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein and our current objectives or strategies may change. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

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CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2018 and September 30, 2018
(Canadian dollars in thousands)

	NOTES	December 31, 2018	September 30, 2018 *Restated (Note 2)*
ASSETS			
CURRENT ASSETS			
Cash		$ 20,377	$ 21,842
Accounts receivable		65,615	69,096
Work in process		16,617	17,376
Inventory	6	3,758	1,498
Prepaid expenses		3,532	3,879
Derivative assets	13	151	1,021
Total current assets		110,050	114,712
NON-CURRENT ASSETS			
Capitalized research and development		1,941	1,449
Equipment		10,263	9,795
Application software		760	788
Investment and loan receivable		435	435
Acquired intangible assets	15	13,710	6,702
Goodwill	15	25,981	18,236
Total non-current assets		53,090	37,405
TOTAL ASSETS		$ 163,140	$ 152,117
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Line of Credit	8	$ 12,000	$ -
Accounts payable and accrued liabilities		30,084	33,740
Contingent earn-out	15	4,259	2,440
Provisions	7	1,879	1,932
Unearned contract revenue		8,078	10,042
Derivative liabilities	13	230	525
Total current liabilities		56,530	48,679
NON-CURRENT LIABILITIES			
Contingent earn-out	15	3,402	800
Deferred tax liabilities		3,770	2,488
Total non-current liabilities		7,172	3,288
TOTAL LIABILITIES		63,702	51,967
SHAREHOLDERS' EQUITY			
Issued capital	9	28,888	28,647
Contributed surplus		1,013	1,065
Retained earnings		71,730	70,621
Accumulated other comprehensive loss		(2,193)	(183)
TOTAL SHAREHOLDERS' EQUITY		99,438	100,150
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 163,140	$ 152,117

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands, except per share data)

	NOTES	**Three-months ended December 31, 2018**	**Three-months ended December 31, 2017** *Restated (Note 2)*
Revenues	11	$ 79,921	$ 76,169
Cost of revenues		64,200	61,369
Gross profit		15,721	14,800
Selling and marketing		1,543	1,242
General and administration		7,198	5,929
Facilities		1,293	1,137
Profit before under noted items		5,687	6,492
Depreciation		(495)	(412)
Amortization of intangibles		(280)	(299)
Profit before interest and income tax expense		4,912	5,781
Accretion interest expense related to acquisitions		(142)	-
Interest income		32	47
Profit before income tax expense		4,802	5,828
Income tax expense – current		1,356	1,673
Income tax expense – deferred		91	(24)
Total income tax expense		1,447	1,649
NET PROFIT FOR THE PERIOD		**$ 3,355**	**$ 4,179**
NET PROFIT PER SHARE:			
Basic	10	$ 0.43	$ 0.54
Diluted	10	$ 0.43	$ 0.54

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands)

	NOTES	**Three-months ended December 31, 2018**	**Three-months ended December 31, 2017** *Restated (Note 2)*
NET PROFIT FOR THE PERIOD		$ 3,355	$ 4,179
Other comprehensive income, net of tax			
Change in deferred gain or loss on derivatives designated as cash flow hedges, net of tax of $737 (2018 - $66)		(2,010)	(181)
Other comprehensive income (loss), net of tax		(2,010)	(181)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**$ 1,345**	**$ 3,998**

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings *Restated (Note 2)*	Cash flow hedging reserve	Total *Restated (Note 2)*
Balance October 1, 2018		**$ 28,647**	$ 1,065	$ 70,621	$ (183)	$ 100,150
Total comprehensive income		-	-	3,355	(2,010)	1,345
Dividends ($0.28 per share)		-	-	(2,176)	-	(2,176)
Share repurchase		(11)	-	(70)	-	(81)
Issue of shares under the restricted share unit plan	9	252	(252)	-	-	-
Share based compensation expense	9	-	200	-	-	200
Balance December 31, 2018		**$ 28,888**	**$ 1,013**	**$ 71,730**	**$ (2,193)**	**$ 99,438**

	Notes	Issued capital	Contributed surplus	Retained earnings *Restated (Note 2)*	Cash flow hedging reserve	Total *Restated (Note 2)*
Balance October 1, 2017		$ 26,240	$ 541	$ 62,898	$ (70)	$ 89,609
Total comprehensive income		-	-	4,179	(181)	3,998
Dividends ($0.28 per share)		-	-	(2,152)	-	(2,152)
Issue of shares under the option plan and restricted share unit plan	9	1,194	(159)	-	-	1,035
Share based compensation expense	9	-	284	-	-	284
Balance December 31, 2017		**$ 27,434**	**$ 666**	**$ 64,925**	**$ (251)**	**$ 92,774**

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands)

	NOTES	Year ended December 31, 2018	Year ended December 31, 2017 *Restated (Note 2)*
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net profit for the period		$ 3,355	$ 4,179
Items not affecting cash:			
Interest income		(32)	(47)
Accretion interest expense related to acquisitions		142	-
Income tax expense		1,447	1,672
Employee share plans compensation expense		235	304
Depreciation and amortization		775	711
		5,922	6,819
Change in non-cash working capital			
Accounts receivable		4,470	(5,894)
Work in process		759	(2,922)
Inventory		(320)	(499)
Prepaid expenses		401	(340)
Accounts payable and accrued liabilities		(6,511)	(3,659)
Unearned contract revenue		(1,964)	646
		2,757	(5,849)
Interest received		33	70
Income tax paid		(1,812)	(1,630)
		978	(7,409)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Issuance of shares	9	-	1,035
Dividends		(2,176)	(2,152)
Line of credit		12,000	-
Share repurchase		(81)	-
		9,743	(1,117)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Business acquisitions	15	(11,299)	-
Capitalized research and development		(494)	(333)
Equipment and application software		(393)	(513)
		(12,186)	(846)
NET CASH INFLOW (OUTFLOW)		**$ (1,465)**	**$ 9,372**
CASH, BEGINNING OF PERIOD		21,842	28,639
CASH, END OF PERIOD		**$ 20,377**	**$ 19,267**

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

CALIAN GROUP LTD.
NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands, except per share amounts)
(Unaudited)

1. BASIS OF PREPARATION

Calian Group Ltd. ("the Company") is incorporated under the Canada Business Corporations Act. The address of its registered office and principal place of business is 770 Palladium Drive, Ottawa, Ontario K2V 1C8. The Company's capabilities are diverse and include the provision of business and technology services to industry and government in the health, IT services and training domains as well as the design, manufacturing and maintenance of complex systems to the communications and defence sectors.

These unaudited interim condensed consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standard Board ("IASB"). These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with the accounting policies the Company adopted in its annual consolidated financial statements for the year ended September 30, 2018 and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended September 30, 2018. These unaudited interim condensed consolidated financial statements do not include all of the information required in annual financial statements.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on February 5, 2019.

2. CHANGES IN ACCOUNTING POLICIES

IFRS 9 Financial instruments

IFRS 9 was issued by the IASB in November 2009 and October 2010, was amended in 2013 and finalized in July 2014 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The financial assets are subsequently measured at amortized cost, fair value through profit and loss or fair value through other comprehensive income.

IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new 'expected credit loss' model for calculating impairment of financial assets. IFRS 9 specifies different approaches for measuring and recognizing expected credit losses, by considering only defaults in the next 12 months and/or the full remaining life of the financial asset. The expected credit loss model requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired, with subsequent changes in expected credit losses at each reporting date recorded to reflect any change in credit risk. IFRS 9 provides a simplified approach for certain trade receivables and IFRS 15 contract assets. As a result of adopting the new standard, the Company expects earlier recognition of provisions for credit losses which are not yet incurred.

IFRS9 includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. The Company does not expect changes relating to hedging as the types of hedge accounting relationships that the Company currently designates will be capable of meeting the requirements of IFRS 9.

The Company adopted IFRS 9 effective October 1, 2018 with no adjustments.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15 – *Revenue from Contracts with Customers*. The Standard replaces IAS11 *Construction Contracts and* IAS 18 *Revenue*, providing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the new standard is to recognize revenue to depict fulfillment of performance obligations to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 15 was adopted effective October 1, 2018 and the changes have been accounted for retroactively in accordance with the transition rules of IFRS 15 using the retroactive approach. The following practical expedients were used on adoption:

- Completed contracts that begin and end within the same annual reporting period and those completed before October 1, 2018 are not restated
- Contracts modified prior to October 1, 2018 are not restated. The aggregate effect of these modifications is reflected when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations.
- Recognition of revenue in the amount at which the Company has completed services to date for contracts where the Company has the right to consideration for such services.

Revenue recognition

The accounting presentation for most of the Company's broad portfolio of service offerings remain largely unchanged, however, some impacts have been identified. Under the former standard, the Company recognized certain contract revenue in profit or loss in proportion to the stage of completion of the contract using the percentage of completion method. Under IFRS 15, revenue is recognized upon the satisfaction of the Company's performance obligations, which occurs when, or as, control of a good or service transfers to the customer. Control can transfer either at a point in time or over time. A small number of contracts that previously were recognized over time do not meet the criteria set out in the new standard for over time recognition and for those contracts, revenue will be deferred and recognized upon completion of the performance obligation. Costs to manufacture are recognized as inventory until delivery occurs. The impact of these changes resulted in a revenue increase for fiscal 2018 of $118, and a cumulative increase to inventory of $928 at September 30, 2018.

Warranty

Under the former revenue standards, warranty is accounted for as a separate performance obligation where revenue is recognized as costs are incurred during the warranty phase. IFRS 15 classifies warranty into two groups, assurance type and service type. Assurance type warranty is accounted for as part of other performance obligations in the contract, and associated costs are recognized as incurred. Service type warranties are recognized as a separate performance obligation, and as a result the Company estimates the cost for the entire warranty period and records a liability. Previously the Company did not record a liability for anticipated warranty costs and would expense the costs as they were incurred. The Company offers different types of warranties to customers which will be impacted by the classification and treatment under IFRS 15. The impact of warranty changes resulted in a revenue decrease for fiscal 2018 of $7, and cumulative increase to provisions of $1,365 at September 30, 2018.

The Company recognizes revenue from the following major types of contracts:

- Cost-plus contracts
- Fixed price contracts

Cost-plus contracts represent revenue that is recognized as and when services are provided to the customer. These contracts are for professional services delivered over time to customers.

Fixed-Price contracts consist of the development and installation of hardware or software systems, and the sale of product manufactured for a specific customer. Fixed price contracts typically include a warranty which must be assessed as a service type of assurance type on a contract by contract basis. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, and the nature of products sold. Warranties typically range from 6 months to 1 year but could be upwards of 3 years.

Due to the implementation of IFRS 15 in the current quarter, the following accounting policies were also implemented.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

Impact of adopting IFRS 15 changes in accounting policies

The following tables summarize the Company's retroactive restatements to its consolidated financial statements resulting from the adoption of IFRS 15, *Revenue from contracts with customers*, including the impact of reclassification.

The impacts on the consolidated statements of comprehensive income and on the consolidated statement of changed in equity, net of income taxes, are as follows:

	As at September 30, 2018	As at December 31, 2017	As at October 1, 2017
Equity as previously reported			
Cumulative changes to:	$ 99,714	$ 92,544	$ 89,487
Warranty	509	278	220
Performance obligations previously reported over time now recognized at a point in time	(49)	(25)	(53)
Income tax impact	(24)	(23)	(45)
Net change to equity	436	228	122
Equity as restated	$ 100,150	$ 92,774	$ 89,609

The impacts on the consolidated statements of financial position are as follows, as at:

	September 30, 2018			
	As previously reported	**Reclassification**	**Adjustments**	**As restated**
CURRENT ASSETS				
Cash	$ 21,842	$ -	$ -	$ 21,842
Accounts receivable	69,096	-	-	69,096
Work in process	18,217	(570)	(271)	17,376
Inventory	-	570	928	1,498
Prepaid expenses	3,879	-	-	3,879
Derivative assets	1,021	-	-	1,021
Total current assets	114,055	-	657	114,712
Total non-current assets	37,405	-	-	37,405
TOTAL ASSETS	$ 151,460	$ -	$ 657	$ 152,117
Accounts payable and accrued liabilities	$ 34,284	$ (567)	$ 23	$ 33,740
Contingent earn out	2,440	-	-	2,440
Provisions	-	567	1,365	1,932
Unearned contract revenue	11,209	-	(1,167)	10,042
Derivative liabilities	525	-	-	525
Total current liabilities	48,458	-	221	48,679
Total non-current liabilities	3,288	-	-	3,288
TOTAL LIABILITIES	51,746	-	221	51,967
SHAREHOLDERS' EQUITY				
Issued capital	28,647	-	-	28,647
Contributed surplus	1,065	-	-	1,065
Retained earnings	70,185	-	436	70,621
Accumulated other comprehensive loss	(183)	-	-	(183)
TOTAL SHAREHOLDERS' EQUITY	99,714	-	436	100,150
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 151,460	$ -	$ 657	$ 152,117

2. CHANGES IN ACCOUNTING POLICIES (Continued)

The impacts on the consolidated statements of income are as follows, for:

	Three-Month period ended December 31, 2017		
	As previously reported	Adjustments	As restated
Revenues	$ 75,749	$ 420	$ 76,169
Cost of revenues	61,034	335	61,369
Gross profit	14,715	85	14,800
Selling and marketing	1,242		1,242
General and administration	5,929		5,929
Facilities	1,137		1,137
Depreciation	412		412
Amortization of intangibles	299		299
Profit before interest income and income tax expense	5,696	85	5,781
Interest income	47		47
Profit before income tax expense	5,743	85	5,828
Income tax expense – current	1,696	(23)	1,673
Income tax expense – deferred	(24)		(24)
Total income tax expense	1,672	(23)	1,649
NET PROFIT FOR THE PERIOD	**$ 4,071**	**108**	**$ 4,179**
Earnings per share basic	**$ 0.53**	**$ 0.01**	**$ 0.54**
Earnings per share diluted	**$ 0.52**	**$ 0.02**	**$ 0.54**

3. FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 16 Leases

In January 2016, the IASB released IFRS 16 Leases which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. IFRS 16 is effective with the Company's annual periods beginning on October 1, 2019. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates:

The preparation of financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates.

There were no significant changes in estimates or approaches in the current period when compared to the estimates or approaches used to prepare the annual consolidated financial statements for the year ended September 30, 2018.

5. SEASONALITY

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The Company’s revenues and earnings have historically been subject to some quarterly seasonality due to the timing of vacation periods, statutory holidays, and industry specific seasonal cycles. IntraGrain and Secure Tech, two recent acquisitions generate a significant portion of their revenues during the second, third and fourth quarter of the Company’s fiscal year.

6. INVENTORY

Inventories were as follows as at:

	December 31, 2018	September 30, 2018 *Restated*
Raw materials	$ 2,186	$ 440
WIP	895	756
Finished goods	677	302
	$ 3,758	$ 1,498

6. INVENTORY (CONTINUED)

Inventories

Inventories are recorded at the lower of cost or net realizable value. Cost is calculated based on the weighted average method. Write-downs are taken for excess and obsolete inventory and for a reduction in the carrying value of inventory to reflect realizable value based on current cost, production and sales estimates. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

7. PROVISIONS

Changes in provisions for the three-month period ending December 31, 2018 were as follows:

	Product Warranties (1)	Severance	Other	Total
Balance at October 1, 2018	$ 1,365	$ 414	$ 153	$ 1,932
Additions	-	150	-	150
Utilization/Reversals	(43)	(160)	-	(203)
Balance at December 31, 2018	$ 1,322	$ 404	$ 153	$ 1,879

(1) For description of product warranties, please refer to Note 2 with regards to new accounting pronouncements under IFRS15.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. These liabilities are presented as provisions when they are of uncertain timing or amount. Provisions are measured at their present value.

8. LINE OF CREDIT

The Company has a revolving credit facility (“RCF”) in the amount of $40,000 CAD available. The RCF is committed for a 364-day term with upcoming maturity at August 8, 2019, at which point it can be renewed for another 364-day term. At December 31, 2018 (2017), the Company utilized $12,000 (NIL) of the RCF. The RCF is secured against the Company’s assets and is interest bearing at the Royal Bank of Canada’s Prime Rate.

9. ISSUED CAPITAL

Stock options

The Company has an established stock option plan. Under the plan, eligible directors and employees are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted but in no circumstances below fair market value of the shares at the date of grant. As at December 31, 2018 (2017), 367,000 (279,200) options were outstanding of which 274,000 (207,200) are exercisable. During the quarter ended December 31, 2018 (2017), 119,600 (90,600) options were granted.

The weighted average fair value of options granted during the quarter ending December 31, 2018 was $4.52 per option calculated using the Black-Scholes option pricing model. Where relevant, the expected life of the options was based on historical data for similar issuances and adjusted based on management’s best estimate for the effects of non-transferability, exercises restrictions and behavioral considerations. Expected volatility is based on historical price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that options would be exercised on average 2 years after vesting. The following assumptions were used to determine the fair value of the options granted between October 1, 2018 and December 31, 2018:

	Nov 2018
Grant date share price	$ 29.55
Exercise price	$ 29.55
Expected price volatility	22.7%
Expected option life	4 yrs
Expected dividend yield	3.79%
Risk-free interest rate	2.28%
Forfeiture rate	0%

9. ISSUED CAPITAL (continued)

Restricted Stock Units

The Company has established a restricted stock unit ("RSU") plan. Under the plan, eligible employees are granted the right to shares of common stock as remuneration for services rendered to the Company. RSU's are granted by the Board of Directors and at the date of the grant, the market value is used to determine the fair value of the units. The following table depicts the activity for the RSU's during the quarter ended December 31, 2018 (2017).

	Three-months ended December 31	
	2018	**2017**
Beginning balance	20,970	11,345
Vested	(8,176)	(3,741)
Cancelled	(16)	(150)
Issued	36,018	9,852
Closing balance	48,796	17,306

10. NET PROFIT PER SHARE

The diluted weighted average number of shares has been calculated as follows:

	Three-months ended December 31	
	2018	**2017**
Weighted average number of shares – basic	7,768,350	7,675,384
Addition to reflect the dilutive effect of employee stock options and RSU's	53,188	86,564
Weighted average number of shares – diluted	7,821,538	7,761,948

Options and RSU's that are anti-dilutive because the exercise price was greater than the average market price of the common shares are not included in the computation of diluted earnings per share. For the three-month period ended December 31, 2018 (2017), 210,200 (90,600) options and 36,018 (Nil) RSU's were excluded from the above computation.

Profit for the period is the measure of profit or loss used to calculate Net profit per share.

11. REVENUE

The following table presents the revenue of the Company for the three-months ended December 31, 2018:

	December 31, 2018	**December 31, 2017** *Restated*
Fixed price contracts	$ 17,581	$ 20,953
Cost-plus contracts	62,340	55,216
	$ 79,921	$ 76,169

12. SEGMENTED INFORMATION

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, regarding how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company operates in two reportable segments described below, defined by their primary type of service offering, namely Systems Engineering and Business and Technology Services.

- Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector.
- Business and Technology Services provides business and technology services and solutions to industry and government in the health, IT services, training, and engineering domains.

The Company evaluates performance and allocates resources based on earnings before interest income and income taxes. The accounting policies of the segments are the same as those described in Note 2 – Summary of significant accounting policies to the consolidated financial statements for the year ended September 30, 2018.

12. SEGMENTED INFORMATION (continued)

Three-months ended December 31, 2018	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	$ 18,268	$ 61,653	$ -	$ 79,921
Profit before interest income and income tax expense	1,545	4,616	(1,249)	4,912
Interest income				32
Accretion expense				(142)
Income tax expense				(1,447)
Net profit for the period				$ 3,355
Equipment, application software and capitalized R&D expenditures	$ 605	$ 281	$ -	$ 886
Business acquisitions	$ 10,899	$ 410	$ -	$ 11,299
Total assets other than cash and goodwill	$ 48,899	$ 67,737	$ 146	$ 116,782
Goodwill	7,745	18,236	-	25,981
Cash	-	-	20,377	20,377
Total assets	$ 56,644	$ 85,973	$ 20,523	$ 163,140

Three-months ended December 31, 2017 *Restated*	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	$ 21,738	$ 54,431	$ -	$ 76,169
Profit before interest income and income tax expense	2,976	3,841	(1,036)	5,781
Interest income				47
Income tax expense				(1,673)
Net profit for the period				$ 4,179
Equipment, application software and capitalized R&D expenditures	$ 846	$ -	$ -	$ 846

As at September 30, 2018 *Restated*	Systems Engineering	Business and Technology Services	Corporate	Total
Total assets other than cash and goodwill	$ 38,968	$ 72,926	$ 145	$ 112,039
Goodwill	-	18,236	-	18,236
Cash	-	-	21,842	21,842
Total assets	$ 38,968	$ 91,162	$ 21,987	$ 152,117

13. HEDGING

Foreign currency risk related to contracts

The Company is exposed to foreign currency exchange fluctuations on its cash balance, accounts receivable, accounts payable and accrued liabilities and future cash flows related to contracts denominated in a foreign currency. Future cash flows will be realized over the life of the contracts. The Company utilizes derivative financial instruments, principally in the form of forward exchange contracts, in the management of its foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and therefore, the Company's policy is to hedge 100% of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met.

13. HEDGING (continued)

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm contractually related commitments on projects.

The Company also formally assesses, both at the hedge's inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge ineffectiveness has historically been insignificant.

The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At December 31, 2018, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value December 31, 2018
BUY	$ 59,994	USD	January 2019	$ 81,844	$ 120
SELL	7,647	EURO	January 2019	11,939	28
SELL	368	CHF	January 2019	510	3
Derivative assets					$ 151
SELL	$ 106,400	USD	January 2019	$ 145,151	$ 213
BUY	1,643	EURO	January 2019	2,565	6
BUY	1,278	CHF	January 2019	1,770	11
Derivative liabilities					$ 230

A 10% strengthening of the Canadian dollar against the following currencies at December 31, 2018 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

	December 31, 2018
USD	$ 5,755
EURO	852
CHF	115
	$ 6,722

14. CONTINGENCIES

In the normal course of business, the Company is party to business and employee-related claims. The potential outcomes related to existing matters faced by the Company are not determinable at this time. The Company intends to defend these actions, and management believes that the resolution of these matters will not have a material adverse effect on the Company's financial condition.

15. ACQUISITION

Acquired intangible assets

Acquired intangible assets are measured at cost less accumulated amortization. Amortization is recognized in net profit over the value derived from the underlying assets.

International Safety Research Inc. ("ISR")

ISR provides radiation and nuclear safety engineering, and emergency preparedness and response services to both government and private sector customers. ISR was acquired to expand the Company's emergency preparedness service offering and will be reported as part of the Business and Technology Services operating segment.

15. ACQUISITION (continued)

On May 9, 2017, the Company acquired all of the outstanding shares of ISR for a purchase price of up to $8,979. Of this amount, $4,879 was paid on the date of closing, $820 was placed in escrow and $3,280 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of ISR an additional $1,640 and $1,640 if ISR attains specified levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") for the years ending April 30, 2018 and 2019, respectively. During the year ended September 30, 2018 the Company paid the full $1,640 related to the first year earn-out. There are no changes in management's assessment that ISR can achieve its earn-out target in its second year based on the level of contracts and market share expectations, and in the quarter, the Company has paid $410 of the remaining balance for the achievement of one criteria related to the second year earn-out.

(D.T.) Secure Technologies International Inc. ("Secure Tech")

Secure Tech, a Canadian IT and cyber security firm based in Ottawa, Ontario provides cyber security solutions to a wide variety of customers. Secure Tech was acquired to expand the Company's information technology cyber offering and will be reported as part of the Business and Technology ("BTS") operating segment.

On May 31, 2018, the Company acquired all of the outstanding shares of Secure Tech for a purchase price of up to $4,188. Of this amount, $2,200 was paid on the date of closing, $200 was placed in escrow, $188 was paid upon settlement of final net equity and $1,600 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Secure Tech an additional $800 and $800 if Secure Tech attains specified levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") for the years ending May 31, 2019 and 2020, respectively. With the current level of contracts signed by Secure Tech and the ability to grow in its selected market segment, management believes that Secure Tech can achieve its earn-out target in both years. Therefore, the amount of $1,600 represents the estimated fair value of the Company's obligation at the acquisition date. Secure Tech is a dedicated partner in IT and Information Security.

Priority One Workplace Health Inc. and William J Barker Clinical Psychologist Ltd. (together "Priority One")

Priority One provides specialized psychological assessment and selection services. Priority One was acquired to expand the Company's health care footprint and will be reported as part of the Business and Technology ("BTS") operating segment.

On July 31, 2018, the Company acquired all of the outstanding shares of Priority One for a purchase price of $1,128. Of this amount, $800 was paid on the date of closing, $50 was placed in escrow, and $278 was paid upon settlement of net equity.

IntraGrain Technologies Inc. ("IntraGrain")

IntraGrain is the maker of the BIN-SENSE® grain storage solution. The technology combines Internet of Things (IoT) connectivity with bin sensors to protect grain quality and eliminate the risk of stored grain spoilage and will be reported as part of the Systems Engineering Division ("SED") operating segment.

On November 1, 2018, the Company acquired all of the outstanding shares of IntraGrain for a purchase price of up to $17,000. Of this amount, $10,000 was paid on the date of closing, $1,000 was placed in escrow, and $6,000 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of IntraGrain an additional $2,500 and $3,500 if IntraGrain attains specified levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") for the years ending October 31, 2019 and 2020, respectively. This contingent consideration is recognized at its present and risk adjusted value of $4,689 at the date of acquisition and will be accreted to face value over the term of the earn out. To date, $142 in accretion expense has been recognized. With the current level of operation and sales strategy in place at IntraGrain and the ability to grow in its selected market segment, management believes that IntraGrain can achieve its earn-out target in both years. Therefore, the amount of $6,000 represents the estimated fair value of the Company's obligation at the acquisition date.

Acquisition-related costs amounting to $75 have been excluded from the consideration and have been recognized as a general and administration expense in the quarter ended December 31, 2018.

15. ACQUISITION (continued)

The following are the assets acquired and liabilities recognized at the date of the acquisition of IntraGrain:

Cash	$ 111
Accounts receivable and tax receivable	521
Prepaid expenses and other	54
Inventory	1,940
	$ 2,626

Equipment	$ 541
Goodwill	7,745
Intangible assets	7,288
	$ 18,200

Accounts payable and accrued liabilities	$ 581
Deferred tax liability	1,931
	$ 2,512

Net purchase price	$ 15,688
Discount on contingent consideration	1,312
Total purchase price	$ 17,000

None of the goodwill arising on the acquisitions is expected to be deductible for tax purposes.

Net cash outflow during the current quarter-to-date related to the acquisitions:

	IntraGrain
Consideration paid in cash	$ 11,000
Less- cash balance acquired	(111)
	$ 10,889

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

Management Discussion and Analysis – December 31, 2018:

(Canadian dollars in thousands, except per share data)

This MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors of the Company. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. The Board of Directors is responsible for ensuring that we fulfill our responsibilities for financial reporting and is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

IFRS and non-GAAP measures:

This MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure.

RESULTS OF OPERATIONS

Revenues:

For the first quarter of 2019, revenues were $79,921 compared to $76,169 reported for the same period in 2018 representing a 5% increase from the prior year.

The general business environment in 2019 is strong in both divisions. The Company's healthy backlog and its recent acquisitions is expected to provide a solid year.

Systems Engineering's (SED) revenues were $18,268 in the quarter representing a 16% decrease when compared to the $21,738 recorded for the same period in the previous year. Although the division continues to work with a solid backlog of work, some ground system contracts are still ramping up in comparison to several contracts in full swing, resulting in lower revenues this year compared to the prior year's Q1. Product sales continue to provide solid recurring revenues and interest continues to grow with some of our newer products with new customers entering the mix. SED's other business units continue to be busy in a range of activities including custom software development projects, and contract manufacturing for commercial and defence customers. As well, IntraGrain activities did not play a major role in revenues this quarter as the IntraGrain business is seasonal and most of its activities will be reflected in the third and fourth quarter.

Business and Technology Services (BTS) revenues were $61,653 in the quarter representing a 13% increase when compared to the $54,431 recorded for the same period in the previous year. The acquisitions for the quarter and year-to-date account for 4% of the growth in the respective periods with the remainder achieved through organic growth. All services lines showed significant increase in demand for their services with existing customers and saw the benefit of various new wins.

Management expects that the marketplace for the near term will continue to be competitive and the timing of new contract awards is always difficult to predict. Our backlog provides a strong level of revenue assurance on existing contracts and new opportunities continue to arise. Although we continue to focus our efforts on the diversification of our customer base outside of government, the nature and extent of future government spending remain uncertain and therefore, future revenues in this sector will ultimately be determined by customer demand on existing contracts as well as the timing of future contract awards.

Gross margin

Gross margin was 19.7% for the first quarter of 2019 compared to the 19.4% recorded for the same period in the previous year.

Gross margin in Systems Engineering was 22.9% in the first quarter of 2019 compared to the 23.7% recorded for the same period in the previous year. Gross margin in the quarter reflects solid execution across all business units impacted by customer driven development projects that, until fully developed, result in lower margins. In addition, the influx of new resources to fulfil project requirements continue to have an impact on margins as these resources were trained and ramped up on projects. Although the mix of revenues plays a significant role in the margin ultimately realized, product sales and excellent project execution helped the division maintain a solid level of margins.

Gross margin in Business and Technology Services was 18.7% for the first quarter of 2019 compared to the 17.7% recorded for the same periods in the previous year. The inclusion of the Secure Tech and PriorityOne acquisitions account for approximately 0.2% improvement for the year with the remaining uplift being attributed to solid execution on existing contracts. The division continues to evolve its service offering with a goal to increase gross margins realized in the longer term.

Because of the significant difference in gross margin between each of the two divisions, the overall gross margin of the Company is dependent on the relative level of revenue generated from each division. Management will continue to focus on operational execution, diligent negotiation of supplier costs and expansion into new markets driving better margins in order to maximize margins. However, the competitive landscape is expected to maintain the pressure on margins in both divisions. The volatility of the Canadian dollar is always an influencing factor for margins on new work in the SED division when denominated in foreign currencies.

Operating expenses:

For the period ended December 31, 2018, selling and marketing, general and administration and facilities totalled $10,034 or 12.6% of revenues compared to $8,308 or 11.0% of revenues reported in 2018. Operating costs increased over the prior year due to the inclusion of operating costs related to the Secure Tech, PriorityOne and IntraGrain acquisitions, continued focus on selling and marketing efforts and service line evolution capabilities, improvements and expansion of our facilities, the expensing of share-based compensation in addition to certain one-time costs. Management will continue to challenge discretionary spending; however, continued prudent investments are required to support the evolution of the Company's service lines.

EBITDA (1):

EBITDA (1) for the first quarter was $5,687 compared to $6,492 in the same quarter of the previous year. EBITDA decreased from a combination of timing and mix in revenues in the SED division and the seasonality of our recent acquisitions; where most of the revenues and profits from the Secure Tech and IntraGrain businesses are generated in the second and third fiscal quarters.

Depreciation:

For the period ended December 31, 2018, depreciation was $495 which is higher than the $412 recorded in fiscal 2018 due to increased capital spending and assets acquired through acquisition in recent past.

Amortization of intangibles:

For the period ended December 31, 2018, amortization of intangibles remained stable at $280 compared to $299 in the same period of fiscal 2018.

Income taxes:

The provision for income taxes was $1,447 or 30.1% of earnings before tax compared to $1,649 in 2018 or 28.3% of earnings before tax. The difference in effective tax rates is primarily due to the increase in non-tax-deductible items such as the acquisition interest accretion. The effective tax rate for 2019, prior to considering the impact of non-taxable transactions and adjustments to reflect actual tax provision as filed, is expected to be approximately 27.0%.

Net profit:

As a result of the foregoing, in the first quarter of 2019 the Company recorded net profit of $3,355 or $0.43 per share basic and diluted, compared to $4,179 or $0.54 per share basic diluted in the same quarter of the prior year.

(1) See reconciliation regarding non-GAAP measures below

Reconciliation of non-GAAP measures to most comparable IFRS measures:

Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of the Company's financial reports with enhanced understanding of the Company's results and related trends and increases transparency and clarity into the core results of the business. EBITDA exclude items that do not reflect, in our opinion, the Company's core performance and helps users of our MD&A to better analyze our results, enabling comparability of our results from one period to another.

These non-GAAP measures are mainly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by IFRS; therefore, others using these terms may calculate them differently. The exclusion of certain items from non-GAAP performance measures does not imply that these are necessarily non-recurring. From time to time, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities may define the above measures differently than we do. In those cases, it may be difficult to use similarly named non-GAAP measures of other entities to compare performance of those entities to the Company's performance.

Reconciliation of EBITDA	First Quarter 2019	First Quarter 2018
Profit before interest and income tax expense	$ 4,912	$ 5,781
Depreciation	495	412
Amortization of intangibles	280	299
EBITDA	$ 5,687	$ 6,492

BACKLOG

The Company's backlog at December 31, 2018 was $1,354 million with terms extended to fiscal 2030. This compares to $1,228 million reported at September 30, 2018. Contracted Backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas Option Renewals represent customers' options to further extend existing contracts under similar terms and conditions.

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for 2019, 2020 and beyond based on management's current visibility into customers' existing requirements. Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately $92 million. The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

(dollars in millions)	Fiscal 2019	Fiscal 2020	Beyond 2020	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	$ 184	$ 189	$ 155	$ 528	$ 68	$ 596
Option Renewals	10	29	695	734	24	758
TOTAL	$ 194	$ 218	$ 850	$ 1,262	$ 92	$ 1,354
Business and Technology Services	$ 148	$ 148	$ 822	$ 1,118	$ 92	$ 1,210
Systems Engineering	46	70	28	144	-	144
TOTAL	$ 194	$ 218	$ 850	$ 1,262	$ 92	$ 1,354

FINANCIAL CONDITION AND CASHFLOWS

Operating activities:

Cash inflows from operating activities for the period ended December 31, 2018 were $978 compared to cash outflows of $7,410 in 2018. Cash flows have been positively impacted by the decrease in accounts receivable offset by large payments made on accounts payable. The aging of the accounts receivable remains in excellent health. These variations in cash flows are not considered unusual and reflect normal working capital fluctuations associated with the ebbs and flows of the business.

Financing activities:

During the period ended December 31, 2018 (2017), the Company paid dividends of $0.28 ($0.28) per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

During the period ending December 31, 2018, the Company utilized its short-term credit facility and held a balance of $12,000 at period end compared to NIL in same period of the previous year.

Investing activities:

During the period ended December 31, 2018, the Company invested $393 in capital assets compared to $513 in the same quarter of the prior year, in addition to the $494 invested in capitalized R&D compared to the $333 in the previous year. The increase is attributable to additional manufacturing equipment purchased at SED and the move to the new Calian head office in Ottawa.

The Company also acquired IntraGrain as explained in Note 13 to the financial statements.

Capital resources:

At December 31, 2018 the Company had a short-term credit facility of $40,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. The Company has drawn $12,000 against the credit facility and an amount of $50 was used to issue a letter of credit to meet customer contractual requirements. Management believes that Calian has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

ADOPTION OF NEW ACCOUNTING RULES AND IMPACT ON FINANCIAL RESULTS

In the current Quarter the Company adopted IFRS 9 Financial Instruments, and IFRS 15 Contracts with Customers. The accounting policies and impacts to the financial statements are expressed in note 2 to the financial statements.

SELECTED QUARTERLY FINANCIAL DATA

	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17
REVENUES	$ 79,921	$ 78,536	$ 72,989	$ 77,375	$ 76,169	$ 72,321	$ 67,332	$ 67,063
EBITDA [1]	$ 5,687	$ 6,704	$ 6,064	$ 6,076	$ 6,492	$ 6,572	$ 5,504	$ 6,190
Net profit	$ 3,355	$ 4,385	$ 3,915	$ 3,971	$ 4,179	$ 4,327	$ 3,498	$ 4,186
EBITDA per share								
Basic	$ 0.73	$ 0.87	$ 0.79	$ 0.79	$ 0.85	$ 0.86	$ 0.72	$ 0.82
Diluted	$ 0.73	$ 0.86	$ 0.78	$ 0.78	$ 0.84	$ 0.85	$ 0.72	$ 0.81
Net profit per share								
Basic	$ 0.43	$ 0.57	$ 0.51	$ 0.51	$ 0.54	$ 0.57	$ 0.46	$ 0.55
Diluted	$ 0.43	$ 0.56	$ 0.50	$ 0.50	$ 0.54	$ 0.56	$ 0.45	$ 0.55

SEASONALITY

The Company’s operations are subject to some quarterly seasonality due to the timing of vacation periods and statutory holidays. Typically, the Company’s first and last quarter will be negatively impacted because of the Christmas season and summer vacation period. During these periods, the Company can only invoice for work performed and is also required to pay for statutory holidays. This results in reduced levels of revenues and in a drop in gross margins. This seasonality may not be apparent in the overall results of the Company depending on the impact of the realized sales mix of its various projects.

As well, recent acquisitions, specifically Secure Tech and IntraGrain generate most of their revenue in the second and third quarter of the Company’s fiscal year.

OUTLOOK

Management is confident that the Company is well positioned for sustained growth in the long term. The Company’s strong contract backlog provides a solid base for the realization of future revenues. Leveraging the Company's diverse services offerings; the Company operates in global and domestic markets that will continue to require the services that the Company offers. To ensure the Company is positioned to respond to market requirements, the Company will focus on the execution of its four-pillar growth strategy:

- Customer retention: through continued delivery excellence, maintain a valued relationship with current customer base;
- Customer diversification: through increasing the percentage of its revenues derived from new business in adjacent and non-government markets, balance customer revenue into numerous global and domestic sectors;
- Service Line Evolution: continue investment in service offerings to increase differentiation and improve gross margin attainment;
- Continuous Improvement: leverage innovation to improve how the company operates with a goal to streamline processes and provide for a scalable back office support capability.

The company has completed seven acquisitions in the past 6 years and will proactively look for companies that can accelerate its growth strategy with a focus on customer diversification and service line evolution.

Calian’s SED Division has been working within a sustainable satellite sector and is expecting opportunities to continue to arise as systems adopting the latest technologies will be required by customers wishing to maintain and improve their service offerings and react to an increasing demand for bandwidth. SED continues to invest in communications products, software development and manufacturing equipment to strengthen its competitive position and is diversifying its customer base in the agriculture, cable and defence sectors. In the short-term, activity levels in custom manufacturing will continue to be directly dependent upon SED’s customers’ requirements and continuing volatility in orders is anticipated as both government and commercial customers continue to re-examine their traditional spending patterns. Any delays, deferrals and cancellations of DND capital procurements will create intense competition for available manufacturing work. Finally, changes in the relative value of the Canadian dollar may negatively or positively impact the Systems Engineering Division’s competitiveness on projects denominated in foreign currencies.

The BTS Division's professional services are adaptable to many different markets. Currently, its strength lies in providing professional services, solutions, and delivery services across Canada with a significant portion of this work currently with the Department of National Defence. The division continues to be successful in diversifying its customer base and evolving its service offerings. As an example, the division now provides emergency management engineering services in the nuclear sector as well as onsite health practitioners in the oil and gas sector. Management believes that for the long term, the public and private sector will continue to require health, IT, training and engineering services from private enterprise to achieve their business outcomes. Looking at the current outlook, the federal government continues to spend on priority programs and while there is general uncertainty as to the extent of demand from this customer, at least in the short-term spending seems to have stabilized. With recent investments in sales, marketing, acquisitions and success in new markets outside of the federal government, the division is better positioned to manage through any potential government spending downturns. Recent acquisitions have also bolstered the division’s performance and it is expected that overall, the acquired companies will continue to meet and exceed the financial targets established as part of the acquisitions.

GUIDANCE

Traditional markets in which Calian operates are stable and management expects organic revenue and earnings growth in most or all of its service lines through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2019 to be in the range of $330 million to $360 million, EBITDA per share in the range of $3.60 to $3.90 and net profit in the range of $2.10 to $2.40 per share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim quarter ended December 31, 2018, the Company adopted additional controls to ensure contracts are recognized under IFRS 15 appropriately. These additional controls entail review of contracts to ensure proper recognition. There have been no other changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

FORWARD-LOOKING STATEMENT

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Calian to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; and the impact of consolidations in the business services industry. Additional risks and uncertainties affecting Calian can be found in Management’s Discussion and Analysis of Results of Operations and its Annual Information Form for the fiscal year ended September 30, 2018 on SEDAR at www.sedar.com. If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein and our current objectives or strategies may change. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

Date: February 5, 2019