



# NEWS RELEASE

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## Calian Reports Record First Quarter Results

**Ottawa, Ontario, Wednesday, February 5, 2020** – Calian Group Ltd. (TSX.CGY) today released its quarterly results for the three-month period ended December 31, 2019.

First quarter 2020 highlights:

- Revenue at \$99.2 million, representing Calian's sixth consecutive quarter of record revenue
- Adjusted EBITDA<sup>(1)</sup> at \$8.4 million
- 73rd consecutive profitable quarter
- New contract signings of \$87 million
- Dividend of \$0.28 per share

The Company reported revenues for the quarter of \$99.2 million, representing a 24% increase from the \$79.9 million reported in the same quarter of the previous year.

Adjusted EBITDA<sup>(1)</sup> for the first quarter was \$8.4 million or \$1.04 per share basic and \$1.03 per share diluted, an increase from \$5.7 million or \$0.73 per share basic and diluted in the same quarter of the previous year (Adjusted EBITDA in the first quarter included a favorable impact of \$0.7 million from the adoption of IFRS 16).

Adjusted net profit,<sup>(1)</sup> which excludes non-cash items related to our recent acquisitions, was \$5.3 million or \$0.67 per share basic and diluted for the quarter; this compares to \$3.8 million or \$0.49 per share basic and \$0.48 diluted in the same period of the previous year.

Net profit for the first quarter was \$4.3 million or \$0.55 per share basic and \$0.54 per share diluted, an increase from \$3.4 million or \$0.43 per share basic and diluted in the same period of the prior year.

"It is exciting to report another record quarter of consolidated revenue. Reflecting our growth, this is now our sixth consecutive quarter of achieving record revenue," stated Patrick Houston, CFO. "The stability of our diversified business was evident in the quarter as Advanced Technologies, Health and IT posted solid revenue and EBITDA growth compared to the prior year's first quarter."

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<sup>(1)</sup> 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 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.

“We have received very positive feedback regarding our reporting aligned to four segments, which we introduced at the end of our 2019 Q4 and full-year results. The four segments of Advanced Technologies, Health, Learning and Information Technology are highlighting our focus going forward and have helped simplify the Company for our shareholders,” said Kevin Ford, President and CEO.

“On that note I was pleased to see the results of our diversified engine at work during the quarter. The Advanced Technologies segment posted very positive organic revenue growth of 68% from the same period a year earlier, with top line contributions from our large ground systems project and new mobile wireless product. Health revenues rose 10% from a year earlier as demand increased on our clinician services and psychological assessment services. IT similarly posted 9% revenue growth on stronger sales for our cyber security practice,” Ford said. “Learning revenues declined slightly, reflecting pace of demand on our core training contracts and a focus on securing new business,” continued Ford.

“While first-quarter consolidated revenue grew 24% year-over-year, we also just announced a strategic acquisition for the Health segment in support of our growth objectives. On January 31 we announced the acquisition of health services companies Allphase Clinical Research Services Inc. and Alio Health Services Inc. (collectively, ‘Allphase/Alio’). The companies serve the pharmaceutical and medical device industry and the broader health care sector with clinical trial services, specialty medication support, community care and other services, all enabled by an innovative health care delivery management software application. This acquisition supports all four pillars of our growth framework. It diversifies our customer base into pharmaceuticals, home care and hospitals, and supports Calian’s innovation agenda with services enabled by sophisticated software.”

“Continued investment in R&D, M&A and our own internal innovation will be critical to our long-term profitable growth and continued push into global markets. Our recent filing of a shelf prospectus is an important step in providing flexibility as we continue on our growth agenda,” stated Ford.

Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2020 to be in the range of \$380 million to \$410 million, adjusted EBITDA per share in the range of \$4.25 to \$4.55, and adjusted net profit per share in the range of \$2.50 to \$2.80.

For Calian’s Financial Statements, MD&A and other disclosures, please visit our IR webpage at <https://www.calian.com/en/investor-relations> ; for more information contact us at [ir@calian.com](mailto:ir@calian.com).

## **About Calian**

Calian employs over 3,400 people in its delivery of diverse products and solutions for private sector, government and defence customers in North American and global markets. The Company’s diverse capabilities are delivered through four segments: Advanced Technologies, Health, Learning and Information Technology. The Advanced Technologies segment provides innovative products, technologies and manufacturing services and solutions for the space, communications, defence, nuclear, government and agriculture sectors. The Health segment manages a network of more than 1,800 health care professionals delivering primary care and occupational health services to public and private sector clients across Canada. Learning is a trusted provider of emergency management, consulting and specialized training services and solutions for the Canadian Armed Forces and clients in the defence, health, energy and other sectors. The Information Technology segment supports public- and private-sector customer requirements for subject matter expertise in the delivery of complex IT and cyber security solutions. Headquartered in Ottawa, the Company’s offices and projects span Canada and international markets.

For investor information, please visit our website at [www.calian.com](http://www.calian.com) or contact us at [ir@calian.com](mailto: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; scarce number of qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with major customers; technical risks on fixed price projects; general industry and market conditions and growth rates; international growth and global economic conditions, and including currency exchange rate fluctuations; and the impact of consolidations in the business services industry. For additional information with respect to certain of these and other factors, please see the Company's most recent annual report and other reports filed by Calian with the Ontario Securities Commission. 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. 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, 2019 and September 30, 2019**  
**(Canadian dollars in thousands)**

|   | December 31,<br>2019 | September 30,<br>2019 |
|---|----------------------|-----------------------|
| <b>ASSETS</b>                                     |                      |                       |
| <b>CURRENT ASSETS</b>                             |                      |                       |
| Cash  | \$ 14,395            | \$ 17,135             |
| Accounts receivable                               | 69,576               | 63,977                |
| Work in process                                   | 52,075               | 39,221                |
| Inventory   | 3,691                | 3,147                 |
| Prepaid expenses                                  | 4,958                | 5,403                 |
| Derivative assets                                 | 866                  | 96                    |
| Total current assets                              | 145,561              | 128,979               |
| <b>NON-CURRENT ASSETS</b>                         |                      |                       |
| Capitalized research and development              | 3,875                | 3,216                 |
| Equipment   | 10,820               | 10,965                |
| Application software                              | 1,033                | 1,013                 |
| Right of use asset                                | 18,133               | -                     |
| Investment and loan receivable                    | 670                  | 452                   |
| Acquired intangible assets                        | 15,810               | 16,699                |
| Goodwill  | 33,702               | 33,702                |
| Total non-current assets                          | 84,043               | 66,047                |
| <b>TOTAL ASSETS</b>                               | <b>\$ 229,604</b>    | <b>\$ 195,026</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                      |                       |
| <b>CURRENT LIABILITIES</b>                        |                      |                       |
| Line of Credit                                    | \$ 26,195            | \$ 13,000             |
| Accounts payable and accrued liabilities          | 41,952               | 45,058                |
| Contingent earn-out                               | 6,526                | 800                   |
| Provisions  | 1,201                | 1,129                 |
| Unearned contract revenue                         | 8,754                | 8,778                 |
| Derivative liabilities                            | 354                  | 143                   |
| Lease obligations                                 | 2,549                | -                     |
| Total current liabilities                         | 87,531               | 68,908                |
| <b>NON-CURRENT LIABILITIES</b>                    |                      |                       |
| Lease obligations                                 | 17,470               | -                     |
| Contingent earn-out                               | -                    | 5,519                 |
| Deferred tax liabilities                          | 5,532                | 5,525                 |
| Total non-current liabilities                     | 23,002               | 11,044                |
| <b>TOTAL LIABILITIES</b>                          | <b>110,533</b>       | <b>79,952</b>         |
| <b>SHAREHOLDERS' EQUITY</b>                       |                      |                       |
| Issued capital                                    | 33,727               | 32,515                |
| Contributed surplus                               | 1,595                | 1,817                 |
| Retained earnings                                 | 83,709               | 81,608                |
| Accumulated other comprehensive income (loss)     | 40                   | (866)                 |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 | <b>119,071</b>       | <b>115,074</b>        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$ 229,604</b>    | <b>\$ 195,026</b>     |
| Number of common shares issued and outstanding    | <u>7,970,764</u>     | <u>7,929,238</u>      |

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

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT**  
For the quarters ended December 31, 2019 and 2018  
(Canadian dollars in thousands, except per share data)

|  | Three months ended<br>December 31, |                 |
|--|------------------------------------|-----------------|
|  | 2019                               | 2018            |
| Revenue  |                                    |                 |
| Advanced Technologies                                | \$ 40,043                          | \$ 23,814       |
| Health   | 30,010                             | 27,350          |
| Learning   | 15,108                             | 15,850          |
| Information Technology                               | 14,083                             | 12,907          |
| Total Revenue  | 99,244                             | 79,921          |
| Cost of revenues                                     | 78,989                             | 63,077          |
| Gross profit   | 20,255                             | 16,844          |
| Selling and marketing                                | 2,777                              | 2,463           |
| General and administration                           | 8,658                              | 8,415           |
| Research and development                             | 414                                | 279             |
| Profit before under noted items                      | 8,406                              | 5,687           |
| Depreciation of equipment and application software   | 572                                | 495             |
| Depreciation of right of use asset                   | 671                                | -               |
| Amortization of acquired intangible assets           | 889                                | 280             |
| Other changes in fair value                          | (101)                              | -               |
| Changes in fair value related to contingent earn-out | 207                                | 142             |
| Profit before interest income and income tax expense | 6,168                              | 4,770           |
| Lease interest expense                               | 110                                | -               |
| Interest expense (income)                            | 63                                 | (32)            |
| Profit before income tax expense                     | 5,995                              | 4,802           |
| Income tax expense – current                         | 1,979                              | 1,356           |
| Income tax expense – deferred                        | (317)                              | 91              |
| Total income tax expense                             | 1,662                              | 1,447           |
| <b>NET PROFIT</b>                                    | <b>\$ 4,333</b>                    | <b>\$ 3,355</b> |
| <b>Net profit per share:</b>                         |                                    |                 |
| Basic  | \$ 0.55                            | \$ 0.43         |
| Diluted  | \$ 0.54                            | \$ 0.43         |

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

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the quarters ended December 31, 2019 and 2018  
(Canadian dollars in thousands)

|  | Three months ended<br>December 31, |            |
|--|------------------------------------|------------|
|  | 2019                               | 2018       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>          |                                    |            |
| Net profit   | \$ 4,333                           | \$ 3,355   |
| Items not affecting cash:                            |                                    |            |
| Interest expense (income)                            | 63                                 | (32)       |
| Changes in fair value related to contingent earn-out | 207                                | 142        |
| Lease interest expense                               | 110                                | -          |
| Income tax expense                                   | 1,662                              | 1,447      |
| Employee share purchase plan expense                 | -                                  | 35         |
| Share based compensation expense                     | 273                                | 200        |
| Depreciation and amortization                        | 2,132                              | 775        |
| Other changes in fair value                          | (101)                              | -          |
|  | 8,679                              | 5,922      |
| Change in non-cash working capital                   |                                    |            |
| Accounts receivable                                  | (5,678)                            | 4,470      |
| Work in process                                      | (12,854)                           | 759        |
| Prepaid expenses                                     | 288                                | 401        |
| Inventory  | (544)                              | (320)      |
| Accounts payable and accrued liabilities             | (974)                              | (6,511)    |
| Unearned contract revenue                            | (24)                               | (1,964)    |
|  | (11,107)                           | 2,757      |
| Interest received (paid)                             | (191)                              | 33         |
| Income tax paid                                      | (1,281)                            | (1,812)    |
|  | (12,579)                           | 978        |
| <b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>       |                                    |            |
| Issuance of common shares                            | 717                                | -          |
| Dividends  | (2,232)                            | (2,176)    |
| Draw on line of credit                               | 13,180                             | 12,000     |
| Share repurchase                                     | -                                  | (81)       |
| Payment of lease obligations                         | (614)                              | -          |
|  | 11,051                             | 9,743      |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>       |                                    |            |
| Investments and loan receivable                      | (100)                              | -          |
| Business acquisitions                                | -                                  | (11,299)   |
| Capitalized research and development                 | (658)                              | (494)      |
| Equipment and application software                   | (454)                              | (393)      |
|  | (1,212)                            | (12,186)   |
| <b>NET CASH (OUTFLOW) INFLOW</b>                     | \$ (2,740)                         | \$ (1,465) |
| <b>CASH, BEGINNING OF PERIOD</b>                     | 17,135                             | 21,842     |
| <b>CASH, END OF PERIOD</b>                           | \$ 14,395                          | \$ 20,377  |

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

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

These non-GAAP measures are mainly derived from the 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 nonrecurring. 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.

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. Adjusted EBITDA excludes 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.

### Adjusted EBITDA

|  | Three months ended  |                                    |
|--|---------------------|------------------------------------|
|  | December 31<br>2019 | December 31<br>2018 <sup>(1)</sup> |
| Net profit   | \$ 4,333            | \$ 3,355                           |
| Depreciation of equipment and application software   | 572                 | 495                                |
| Depreciation of right of use asset                   | 671                 | -                                  |
| Amortization of acquired intangible assets           | 889                 | 280                                |
| Lease interest expense                               | 110                 | -                                  |
| Changes in fair value related to contingent earn-out | 207                 | 142                                |
| Interest expense (income)                            | 63                  | (32)                               |
| Other changes in fair value                          | (101)               | -                                  |
| Income tax   | 1,662               | 1,447                              |
| Adjusted EBITDA                                      | \$ 8,406            | \$ 5,687                           |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

### Adjusted Net Profit and Adjusted EPS

|  | Three months ended  |                                    |
|--|---------------------|------------------------------------|
|  | December 31<br>2019 | December 31<br>2018 <sup>(1)</sup> |
| Net profit   | \$ 4,333            | \$ 3,355                           |
| Other changes in fair value                          | (101)               | -                                  |
| Changes in fair value related to contingent earn-out | 207                 | 142                                |
| Amortization of intangibles                          | 889                 | 280                                |
| Adjusted net profit                                  | \$ 5,328            | \$ 3,777                           |
| Adjusted EPS Basic                                   | 0.67                | 0.49                               |
| Adjusted EPS Diluted                                 | 0.67                | 0.48                               |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

The Company uses adjusted net profit and adjusted earnings per share, which remove the impact of our acquisition amortization and gains, resulting in accounting for acquisitions and changes in fair value to measure our performance. These measurements better align the reporting of our results and improve comparability against our peers. We believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and

assess our ability to meet our capital expenditure and working capital requirements. Adjusted profit and adjusted earnings per share are not recognized, defined or standardized measures under the International Financial Reporting Standards. Our definition of adjusted profit and adjusted earnings per share will likely differ from that used by other companies (including our peers) and therefore comparability may be limited. Non-GAAP measures should not be considered a substitute for or be considered in isolation from measures prepared in accordance with International Financial Reporting Standards. Investors are encouraged to review our financial statements and disclosures in their entirety and are cautioned not to put undue reliance on non-GAAP measures and view them in conjunction with the most comparable International Financial Reporting Standards financial measures. The Company has reconciled adjusted profit to the most comparable International Financial Reporting Standards financial measure as shown above.





Unaudited Interim Condensed Consolidated Financial Statements

For the three month period ended December 31, 2019

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at December 31, 2019 and September 30, 2019**  
**(Canadian dollars in thousands)**

|   | NOTES | December 31,<br>2019 | September 30,<br>2019 |
|---|-------|----------------------|-----------------------|
| <b>ASSETS</b>                                     |       |                      |                       |
| <b>CURRENT ASSETS</b>                             |       |                      |                       |
| Cash  |       | \$ 14,395            | \$ 17,135             |
| Accounts receivable                               | 5     | 69,576               | 63,977                |
| Work in process                                   |       | 52,075               | 39,221                |
| Inventory   | 6     | 3,691                | 3,147                 |
| Prepaid expenses                                  | 7     | 4,958                | 5,403                 |
| Derivative assets                                 | 22    | 866                  | 96                    |
| Total current assets                              |       | 145,561              | 128,979               |
| <b>NON-CURRENT ASSETS</b>                         |       |                      |                       |
| Capitalized research and development              | 9     | 3,875                | 3,216                 |
| Equipment   | 9     | 10,820               | 10,965                |
| Application software                              | 9     | 1,033                | 1,013                 |
| Right of use asset                                | 10    | 18,133               | -                     |
| Investment and loan receivable                    | 11    | 670                  | 452                   |
| Acquired intangible assets                        | 12    | 15,810               | 16,699                |
| Goodwill  |       | 33,702               | 33,702                |
| Total non-current assets                          |       | 84,043               | 66,047                |
| <b>TOTAL ASSETS</b>                               |       | <b>\$ 229,604</b>    | <b>\$ 195,026</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |       |                      |                       |
| <b>CURRENT LIABILITIES</b>                        |       |                      |                       |
| Line of Credit                                    | 16    | \$ 26,195            | \$ 13,000             |
| Accounts payable and accrued liabilities          | 13    | 41,952               | 45,058                |
| Contingent earn-out                               | 14    | 6,526                | 800                   |
| Provisions  | 15    | 1,201                | 1,129                 |
| Unearned contract revenue                         | 8     | 8,754                | 8,778                 |
| Derivative liabilities                            | 22    | 354                  | 143                   |
| Lease obligations                                 | 10    | 2,549                | -                     |
| Total current liabilities                         |       | 87,531               | 68,908                |
| <b>NON-CURRENT LIABILITIES</b>                    |       |                      |                       |
| Lease obligations                                 | 10    | 17,470               | -                     |
| Contingent earn-out                               | 14    | -                    | 5,519                 |
| Deferred tax liabilities                          |       | 5,532                | 5,525                 |
| Total non-current liabilities                     |       | 23,002               | 11,044                |
| <b>TOTAL LIABILITIES</b>                          |       | <b>110,533</b>       | <b>79,952</b>         |
| <b>SHAREHOLDERS' EQUITY</b>                       |       |                      |                       |
| Issued capital                                    | 17    | 33,727               | 32,515                |
| Contributed surplus                               |       | 1,595                | 1,817                 |
| Retained earnings                                 |       | 83,709               | 81,608                |
| Accumulated other comprehensive income (loss)     |       | 40                   | (866)                 |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 |       | <b>119,071</b>       | <b>115,074</b>        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |       | <b>\$ 229,604</b>    | <b>\$ 195,026</b>     |
| Number of common shares issued and outstanding    | 17    | <u>7,970,764</u>     | <u>7,929,238</u>      |

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

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT**  
**For the quarters ended December 31, 2019 and 2018**  
**(Canadian dollars in thousands, except per share data)**

|  |       | Three months ended<br>December 31, |                 |
|--|-------|------------------------------------|-----------------|
|  | NOTES | 2019                               | 2018            |
| Revenue  |       |                                    |                 |
| Advanced Technologies                                |       | \$ 40,043                          | \$ 23,814       |
| Health   |       | 30,010                             | 27,350          |
| Learning   |       | 15,108                             | 15,850          |
| Information Technology                               |       | 14,083                             | 12,907          |
| Total Revenue  | 19    | 99,244                             | 79,921          |
| Cost of revenues                                     |       | 78,989                             | 63,077          |
| Gross profit   |       | 20,255                             | 16,844          |
| Selling and marketing                                |       | 2,777                              | 2,463           |
| General and administration                           | 26    | 8,658                              | 8,415           |
| Research and development                             | 26    | 414                                | 279             |
| Profit before under noted items                      |       | 8,406                              | 5,687           |
| Depreciation of equipment and application software   | 9     | 572                                | 495             |
| Depreciation of right of use asset                   | 10    | 671                                | -               |
| Amortization of acquired intangible assets           | 12    | 889                                | 280             |
| Other changes in fair value                          | 11    | (101)                              | -               |
| Changes in fair value related to contingent earn-out | 14    | 207                                | 142             |
| Profit before interest income and income tax expense |       | 6,168                              | 4,770           |
| Lease interest expense                               | 10    | 110                                | -               |
| Interest expense (income)                            |       | 63                                 | (32)            |
| Profit before income tax expense                     |       | 5,995                              | 4,802           |
| Income tax expense – current                         |       | 1,979                              | 1,356           |
| Income tax expense – deferred                        |       | (317)                              | 91              |
| Total income tax expense                             |       | 1,662                              | 1,447           |
| <b>NET PROFIT</b>                                    |       | <b>\$ 4,333</b>                    | <b>\$ 3,355</b> |
| <b>Net profit per share:</b>                         |       |                                    |                 |
| Basic  | 20    | \$ 0.55                            | \$ 0.43         |
| Diluted  | 20    | \$ 0.54                            | \$ 0.43         |

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

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the quarters ended December 31, 2019 and 2018**  
**(Canadian dollars in thousands)**

|   | NOTES | Three months ended<br>December 31, |                 |
|---|-------|------------------------------------|-----------------|
|   |       | 2019                               | 2018            |
| <b>NET PROFIT</b>   |       | \$ 4,333                           | \$ 3,355        |
| Other comprehensive income, net of tax  |       |                                    |                 |
| Items that will be reclassified subsequently to net profit  |       |                                    |                 |
| Cumulative translation adjustment   |       | 28                                 | -               |
| Change in deferred gain on derivatives designated as cash flow hedges,<br>net of tax of \$327 (2018 - \$737). |       | 878                                | (2,010)         |
| Other comprehensive income (loss), net of tax   |       | 906                                | (2,010)         |
| <b>COMPREHENSIVE INCOME</b>   |       | <b>\$ 5,239</b>                    | <b>\$ 1,345</b> |

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

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the quarters ended December 31, 2019 and 2018**  
**(Canadian dollars in thousands, except per share data)**

|  | Notes | Issued capital   | Contributed surplus | Retained earnings | Other Comprehensive Income | Total             |
|--|-------|------------------|---------------------|-------------------|----------------------------|-------------------|
| <b>Balance October 1, 2019</b>             |       | <b>\$ 32,515</b> | <b>\$ 1,817</b>     | <b>\$ 81,608</b>  | <b>\$ (866)</b>            | <b>\$ 115,074</b> |
| Comprehensive income                       |       | -                | -                   | 4,333             | 906                        | 5,239             |
| Dividend paid (\$1.12 per share)           |       | -                | -                   | (2,232)           | -                          | (2,232)           |
| Share repurchase                           |       | -                | -                   | -                 | -                          | -                 |
| Issuance of shares under stock option plan | 17    | 1,212            | (495)               | -                 | -                          | 717               |
| Share-based compensation expense           | 18    | -                | 273                 | -                 | -                          | 273               |
| <b>Balance December 31, 2019</b>           |       | <b>\$ 33,727</b> | <b>\$ 1,595</b>     | <b>\$ 83,709</b>  | <b>\$ 40</b>               | <b>\$ 119,071</b> |

|  | Notes | Issued capital   | Contributed surplus | Retained earnings | Other Comprehensive Income | Total             |
|--|-------|------------------|---------------------|-------------------|----------------------------|-------------------|
| <b>Balance October 1, 2018</b>             |       | <b>\$ 28,647</b> | <b>\$ 1,065</b>     | <b>\$ 70,521</b>  | <b>\$ (183)</b>            | <b>\$ 100,050</b> |
| Comprehensive income                       |       | -                | -                   | 3,355             | (2,010)                    | 1,345             |
| Dividend paid (\$1.12 per share)           |       | -                | -                   | (2,176)           | -                          | (2,176)           |
| Share repurchase                           |       | (11)             | -                   | (70)              | -                          | (81)              |
| Issuance of shares under stock option plan | 17    | 252              | (252)               | -                 | -                          | -                 |
| Share-based compensation expense           | 18    | -                | 200                 | -                 | -                          | 200               |
| <b>Balance December 31, 2018</b>           |       | <b>\$ 28,888</b> | <b>\$ 1,013</b>     | <b>\$ 71,630</b>  | <b>\$ (2,193)</b>          | <b>\$ 99,338</b>  |

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

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the quarters ended December 31, 2019 and 2018**  
**(Canadian dollars in thousands)**

|  | NOTES   | Three months ended<br>December 31, |                   |
|--|---------|------------------------------------|-------------------|
|  |         | 2019                               | 2018              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>          |         |                                    |                   |
| Net profit   |         | \$ 4,333                           | \$ 3,355          |
| Items not affecting cash:                            |         |                                    |                   |
| Interest expense (income)                            |         | 63                                 | (32)              |
| Changes in fair value related to contingent earn-out | 14      | 207                                | 142               |
| Lease interest expense                               | 10      | 110                                | -                 |
| Income tax expense                                   |         | 1,662                              | 1,447             |
| Employee share purchase plan expense                 |         | -                                  | 35                |
| Share based compensation expense                     | 18      | 273                                | 200               |
| Depreciation and amortization                        | 9,10,12 | 2,132                              | 775               |
| Other changes in fair value                          | 11      | (101)                              | -                 |
|  |         | 8,679                              | 5,922             |
| Change in non-cash working capital                   |         |                                    |                   |
| Accounts receivable                                  |         | (5,678)                            | 4,470             |
| Work in process                                      |         | (12,854)                           | 759               |
| Prepaid expenses                                     |         | 288                                | 401               |
| Inventory  |         | (544)                              | (320)             |
| Accounts payable and accrued liabilities             |         | (974)                              | (6,511)           |
| Unearned contract revenue                            |         | (24)                               | (1,964)           |
|  |         | (11,107)                           | 2,757             |
| Interest received (paid)                             |         | (191)                              | 33                |
| Income tax paid                                      |         | (1,281)                            | (1,812)           |
|  |         | (12,579)                           | 978               |
| <b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>       |         |                                    |                   |
| Issuance of common shares                            | 17,18   | 717                                | -                 |
| Dividends  |         | (2,232)                            | (2,176)           |
| Draw on line of credit                               | 16      | 13,180                             | 12,000            |
| Share repurchase                                     |         | -                                  | (81)              |
| Payment of lease obligations                         |         | (614)                              | -                 |
|  |         | 11,051                             | 9,743             |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>       |         |                                    |                   |
| Investments and loan receivable                      | 11      | (100)                              | -                 |
| Business acquisitions                                | 23      | -                                  | (11,299)          |
| Capitalized research and development                 | 9       | (658)                              | (494)             |
| Equipment and application software                   | 9       | (454)                              | (393)             |
|  |         | (1,212)                            | (12,186)          |
| <b>NET CASH (OUTFLOW) INFLOW</b>                     |         | <b>\$ (2,740)</b>                  | <b>\$ (1,465)</b> |
| <b>CASH, BEGINNING OF PERIOD</b>                     |         | <b>17,135</b>                      | <b>21,842</b>     |
| <b>CASH, END OF PERIOD</b>                           |         | <b>\$ 14,395</b>                   | <b>\$ 20,377</b>  |

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

**CALIAN GROUP LTD.**  
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the quarters ended December 31, 2019 and 2018**  
**(Canadian dollars in thousands, except per share amounts)**

## **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 with services and solutions delivered through four segments: Advanced Technologies, Health, Learning and Information Technology ("IT"). Headquartered in Ottawa, Calian provides business services and solutions to both industry and government customers in the areas of health, defence, security, aerospace, engineering, and IT.

### **Statement of compliance**

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 Standards 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, 2019, except as per note 2 below, 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, 2019. 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, 2020.

## **2. Changes in Accounting Policies**

### **IFRS 16**

In January 2016, the IASB released *IFRS 16 Leases* which replaces *IAS 17 Leases*. *IFRS 16* set out a single lessee accounting model that requires a lessee to recognize assets and liabilities for all lease agreements unless the underlying asset has a low value or the lease term is twelve months or less. A lessee is required to recognize a right-of-use asset for the underlying leased asset and a lease liability representing the present value of payment obligations for the lease term. *IFRS 16* is effective for the Company's annual periods beginning on October 1, 2019. The Company has elected to use the modified retrospective approach for transition to *IFRS 16* whereby the lease liability is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application and the right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial adoption for leases previously classified as an operating lease.

Effective October 1, 2019, the Company adopted *IFRS 16* using the modified retrospective approach and accordingly the information presented for the comparative fiscal year has not been restated and the presentation remains as previously reported under *IAS 17* and related interpretations. The Company has assessed the new standard and reviewed its portfolio of contracts in order to identify leases under the scope of *IFRS 16*. The review has identified a number of contracts that were previously accounted for as operating leases under the previous accounting standard, all of which represent leases for office space.

## 2. Changes in Accounting Policies (Continued)

The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under *IAS 17* and *IFRIC 4*. The Company applied the definition of a lease under *IFRS 16* to contracts entered into or changed on or after October 1, 2019. The Company has used hindsight where applicable, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Based on management's assessment of these contracts, the balance sheet impact is as follows:

|  | Operating leases<br>as at<br>September 30, 2019 | Transitional<br>adjustments | Leases as at<br>October 1,<br>2019 |
|--|---|-----------------------------|------------------------------------|
| <b>Assets</b>                            |   |                             |                                    |
| Prepaid expenses                         | \$ 157  | \$ (157)                    | \$ -                               |
| Right-of-use asset                       | -   | 18,416                      | 18,416                             |
| <b>Total assets</b>                      | 157   | 18,259                      | 18,416                             |
| <b>Liabilities and equity</b>            |   |                             |                                    |
| Accounts payable and accrued liabilities | \$ 2,000  | \$ (2,000)                  | \$ -                               |
| Lease obligation                         | -   | 20,259                      | 20,259                             |
| <b>Total liabilities</b>                 | 2,000   | 18,259                      | 20,259                             |
| Retained earnings                        | -   | -                           | -                                  |
| <b>Total liabilities and equity</b>      | \$ 2,000  | \$ 18,259                   | \$ 20,259                          |

The weighted average incremental borrowing rate applied to the lease liabilities recognized in the statement of financial position on October 1, 2019 is 2.47%.

The following table reconciles the Company's operating lease obligations at September 30, 2019, as previously disclosed in the Company's consolidated financial statements commitment note, to the lease obligations recognized on initial application of IFRS 16 at October 1, 2019:

| Operating Lease Obligations  |         |
|--|---------|
| Operating lease commitments at September 30, 2019                  | 24,640  |
| Discounted using the incremental borrowing rate at October 1, 2019 | 23,291  |
| Variable lease payments that do not depend on an index or rate     | (7,058) |
| Recognition exemption for short-term leases                        | (27)    |
| Extension options reasonably certain to be exercised               | 4,213   |
| Other  | (160)   |
| Lease obligations recognized at October 1, 2019                    | 20,259  |

### Policy Related to Lease Accounting

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset, or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.



## 2. Changes in Accounting Policies (Continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

## 3. Critical Accounting Policies and Judgments

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.

Aside from the *IFRS 16* changes noted in Note 2, there were no additional 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, 2019.

## 4. 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, industry specific seasonal cycles and the timing and delivery of milestones for significant projects. IntraGrain, acquired in the first quarter of the prior fiscal year, generates a significant portion of its revenues during the third and fourth quarter of the Company's fiscal year.

## 5. Accounts Receivable

The following table presents the trade and other receivables:

|  | December 31, 2019 | September 30, 2019 |
|--|-------------------|--------------------|
| Trade and accounts receivable                          | \$ 67,721         | \$ 62,507          |
| Tax and Scientific Research and Development receivable | 1,862             | 1,500              |
| Other  | 41                | 46                 |
|  | 69,624            | 64,053             |
| Loss Allowance   | (48)              | (76)               |
|  | \$ 69,576         | \$ 63,977          |

Bad debt recovery recognized in the quarter ended December 31, 2019 is \$29. Bad debt expense recognized in the quarter ended December 31, 2018 is \$58

## 6. Inventory

Inventories are recorded at the lower of cost or net realizable value. Cost is calculated based on the weighted average cost 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.

The following table presents inventories at:

|                           | December 31, 2019 | September 30, 2019 |
|---------------------------|-------------------|--------------------|
| Raw materials             | \$ 1,337          | \$ 1,391           |
| Work in process inventory | 633               | 275                |
| Finished goods            | 1,721             | 1,481              |
|                           | \$ 3,691          | \$ 3,147           |

Inventory recognized as cost of sale in the quarter ended December 31, 2019 (2018) is \$1,100 (\$312). No inventory provisions have been recognized in the three-month period ending December 31, 2019, or three-month period ending December 31, 2018.

## 7. Prepaid Expenses

The following table presents prepaid expenses as at:

|                        | December 31, 2019 | September 30, 2019 |
|------------------------|-------------------|--------------------|
| Prepaid maintenance    | \$ 1,545          | \$ 2,406           |
| Other prepaid expenses | 3,413             | 2,997              |
|                        | \$ 4,958          | \$ 5,403           |

## 8. Unearned Contract Revenue

The following table presents changes in unearned contract revenue:

|                                 | Contract Liabilities |                   |
|---------------------------------|----------------------|-------------------|
|                                 | December 31, 2019    | December 31, 2018 |
| Opening balance                 | \$ 8,078             | \$ 11,209         |
| Deferral of revenue             | 2,946                | 738               |
| Recognition of deferred revenue | (2,270)              | (3,869)           |
| Acquisitions                    | -                    | -                 |
| Ending balance                  | \$ 8,754             | \$ 8,078          |

## 9. Equipment

A continuity of the property and equipment for the three month period ended December 31, 2019 is as follows:

| <b>Cost</b>               | <b>Leasehold Improvements</b> | <b>Equipment</b> | <b>Total Equipment</b> | <b>Application Software</b> |
|---------------------------|-------------------------------|------------------|------------------------|-----------------------------|
| Opening balance           | \$ 2,437                      | \$ 21,379        | \$ 23,816              | \$ 4,311                    |
| Additions                 | -                             | 267              | 267                    | 180                         |
| Transfers/disposals       | -                             | (27)             | (27)                   | -                           |
| Acquisitions              | -                             | -                | -                      | -                           |
| Balance December 31, 2019 | \$ 2,437                      | \$ 21,619        | \$ 24,056              | \$ 4,491                    |

### Accumulated Depreciation

|                           |          |             |             |            |
|---------------------------|----------|-------------|-------------|------------|
| Opening balance           | \$ (388) | \$ (12,463) | \$ (12,851) | \$ (3,298) |
| Depreciation              | (62)     | (350)       | (412)       | (160)      |
| Transfers/disposals       | -        | 27          | 27          | -          |
| Acquisitions              | -        | -           | -           | -          |
| Balance December 31, 2019 | \$ (450) | \$ (12,786) | \$ (13,236) | \$ (3,458) |

### Carrying Value

|                   |          |          |           |          |
|-------------------|----------|----------|-----------|----------|
| December 31, 2019 | \$ 1,987 | \$ 8,833 | \$ 10,820 | \$ 1,033 |
|-------------------|----------|----------|-----------|----------|

A continuity of the property and equipment for the three month period ended December 31, 2018 is as follows:

| <b>Cost</b>               | <b>Leasehold Improvements</b> | <b>Equipment</b> | <b>Total Equipment</b> | <b>Application Software</b> |
|---------------------------|-------------------------------|------------------|------------------------|-----------------------------|
| Opening balance           | \$ 3,797                      | \$ 18,780        | \$ 22,577              | \$ 3,791                    |
| Additions                 | 246                           | 114              | 360                    | 37                          |
| Transfers/disposals       | (1,609)                       | (212)            | (1,821)                | -                           |
| Acquisitions              | -                             | 971              | 971                    | 3                           |
| Balance December 31, 2018 | \$ 2,434                      | \$ 19,653        | \$ 22,087              | \$ 3,831                    |

### Accumulated Depreciation

|                           |            |             |             |            |
|---------------------------|------------|-------------|-------------|------------|
| Opening balance           | \$ (1,751) | \$ (11,031) | \$ (12,782) | \$ (3,003) |
| Depreciation              | (60)       | (370)       | (430)       | (65)       |
| Transfers/disposals       | 1,609      | 212         | 1,821       | -          |
| Acquisitions              | -          | (433)       | (433)       | (3)        |
| Balance December 31, 2018 | \$ (202)   | \$ (11,622) | \$ (11,824) | \$ (3,071) |

### Carrying Value

|                   |          |          |           |        |
|-------------------|----------|----------|-----------|--------|
| December 31, 2018 | \$ 2,232 | \$ 8,031 | \$ 10,263 | \$ 760 |
|-------------------|----------|----------|-----------|--------|

## Capitalized Research and Development

Capitalized R&D balances as at December 31, 2019 (September 30, 2019) totalled \$3,875 (\$3,216). Respective additions in the three-month period ended December 31, 2019 (December 31, 2018) were \$658 (\$494). Capitalized R&D is measured at cost and depreciated once the assets are available for use. As the assets are not yet available for use, no depreciation has been recorded to date.

## 10. Right-of-Use Assets and Lease Obligations

The following table presents the right-of-use assets for the Company:

|                           | Total<br>Right-of-Use<br>Assets |
|---------------------------|---------------------------------|
| Balance October 1, 2019   | \$ 18,416                       |
| Additions                 | 388                             |
| Depreciation              | (671)                           |
| Balance December 31, 2019 | \$ 18,133                       |

The Company's leases are for office and manufacturing space. The Company has included renewal options in the measurement of lease obligations when it is reasonably certain to exercise the renewal option.

The following table presents lease obligations for the Company:

|                           | Total Lease<br>Obligations |
|---------------------------|----------------------------|
| Balance October 1, 2019   | \$ 20,259                  |
| Additions                 | 374                        |
| Principal Payments        | (614)                      |
| Balance December 31, 2019 | \$ 20,019                  |
| Current                   | \$ 2,549                   |
| Non-current               | 17,470                     |
| Total                     | \$ 20,019                  |

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2019:

|                                      | Total<br>Undiscounted<br>Lease Obligations |
|--------------------------------------|--|
| Less than one year                   | \$ 3,015                                   |
| One to five years                    | 11,509                                     |
| More than five years                 | 7,859                                      |
| Total undiscounted lease obligations | \$ 22,383                                  |

Total cash outflow for leases was \$724, including \$614 of principal payments on lease obligations, and interest expense on lease obligations of \$110. Expenses relating to short-term leases were \$30 recognized in general and administration expenses.

## 11. Investment and Loan Receivable

### Cliniconex

Cliniconex Inc., is an Ottawa-based patient outreach solutions vendor. In 2017, the Company invested \$250K, which included \$100 in common shares, and \$150 in convertible debt, which accrued interest at 12% and matures on June 6, 2021. In 2018, the Company invested an additional \$150 in the form of a convertible loan with interest of 12% and maturing on June 9, 2020.

On November 13, 2019, the Company elected to exchange its existing convertible debt, and accrued interest into preferred shares, as well as invest a further \$100 in preferred shares. The Company recognizes the investment at fair value, and has adjusted its common and preferred shares to the most recent fair value, resulting in a gain of \$101 recognized in the current period.

## 12. Acquired Intangible Assets

A continuity of the intangible assets for the three month period ended December 31, 2019 is as follows:

|  | December 31, 2019 |           |              |                 |
|--|-------------------|-----------|--------------|-----------------|
|  | Opening Balance   | Additions | Amortization | Closing Balance |
| Customer relationship related to Primacy             | \$ 1,909          | \$ -      | \$ -         | \$ 1,909        |
| Other customer relationships                         | 8,055             | -         | (483)        | 7,572           |
| Contract with customers & Non-competition agreements | 1,083             | -         | (31)         | 1,052           |
| Technology and trademarks                            | 5,652             | -         | (375)        | 5,277           |
|  | \$ 16,699         | \$ -      | \$ (889)     | \$ 15,810       |

A continuity of the intangible assets for the three month period ended December 31, 2018 is as follows:

|  | December 31, 2018 |           |              |                 |
|--|-------------------|-----------|--------------|-----------------|
|  | Opening Balance   | Additions | Amortization | Closing Balance |
| Customer relationship related to Primacy             | \$ 1,909          | \$ -      | \$ -         | \$ 1,909        |
| Other customer relationships                         | 3,083             | 2,480     | (135)        | 5,428           |
| Contract with customers & Non-competition agreements | 1,369             | 296       | (112)        | 1,553           |
| Technology and trademarks                            | 341               | 4,512     | (33)         | 4,820           |
|  | \$ 6,702          | \$ 7,288  | \$ (280)     | \$ 13,710       |

## 13. Accounts Payable and Accrued Liabilities

The following table presents the accounts payable and accrued liabilities for the Company:

|                        | December 31, 2019 | September 30, 2019 |
|------------------------|-------------------|--------------------|
| Trade accounts payable | \$ 27,717         | \$ 24,748          |
| Payroll accruals       | 7,534             | 11,387             |
| Income tax payable     | 957               | 256                |
| Other accruals         | 5,744             | 8,667              |
|                        | \$ 41,952         | \$ 45,058          |

## 14. Contingent Earn-Out

The following shows the contingent consideration activity for the three month period ending December 31, 2019 and December 31, 2018 for all acquisitions for which contingent consideration was agreed:

| Company Acquired        | Beginning balance | Addition through acquisition | Payments | Changes in fair value | Ending balance |
|-------------------------|-------------------|------------------------------|----------|-----------------------|----------------|
| ISR                     | \$ -              | \$ -                         | \$ -     | \$ -                  | -              |
| Secure Tech             | 800               | -                            | -        | -                     | 800            |
| IntraGrain Technologies | 2,885             | -                            | -        | 110                   | 2,995          |
| SatService              | 2,634             | -                            | -        | 97                    | 2,731          |
| Total                   | \$ 6,319          | \$ -                         | \$ -     | 207                   | \$ 6,526       |

| Company Acquired        | Beginning balance | Addition through acquisition | Payments | Changes in fair value | Ending balance |
|-------------------------|-------------------|------------------------------|----------|-----------------------|----------------|
| ISR                     | \$ 1,640          | \$ -                         | \$ (410) | \$ -                  | 1,230          |
| Secure Tech             | 1,600             | -                            | -        | -                     | 1,600          |
| IntraGrain Technologies | -                 | 4,689                        | -        | 142                   | 4,831          |
| Total                   | \$ 3,240          | \$ 4,689                     | \$ (410) | \$ 142                | \$ 7,661       |

## 15. Provisions

Changes in provisions for the quarter ended December 31, 2019 were as follows:

|                              | Product Warranties | Severance | Other | Total    |
|------------------------------|--------------------|-----------|-------|----------|
| Opening balance              | \$ 801             | \$ 301    | \$ 27 | \$ 1,129 |
| Additions                    | 89                 | 162       | 23    | 274      |
| Utilization/Reversals        | (113)              | (89)      | -     | (202)    |
| Balance at December 31, 2019 | \$ 777             | \$ 374    | \$ 50 | \$ 1,201 |

Changes in provisions for the quarter ended December 31, 2018 were as follows:

|                              | Product Warranties | Severance | Other  | Total    |
|------------------------------|--------------------|-----------|--------|----------|
| Opening balance              | \$ 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 |

## 16. 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 May 29, 2020, at which point it can be renewed for another 364 day term. At December 31, 2019 (September 30, 2019), the Company utilized \$26,195 (\$13,000) 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.

## 17. Issued Capital and Reserves

### Issued capital

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares. The holders of Common Shares are entitled to dividends if, as and when declared by the Board, to one vote per share at the meetings of holders of Common Shares and, upon liquidation, to receive such assets of the Company as are distributable to the holders of the Common Shares. No Preferred Shares are outstanding as of the December 31, 2019.

Common share issued and outstanding:

|  | December 31, 2019 |           | December 31, 2018 |           |
|--|-------------------|-----------|-------------------|-----------|
|  | Shares            | Amount    | Shares            | Amount    |
| Opening balance                                  | 7,929,238         | \$ 32,515 | 7,764,762         | \$ 28,647 |
| Shares issued under employee share plans         | 41,526            | 1,212     | 8,176             | 252       |
| Shares issued under employee stock purchase plan | -                 | -         | -                 | -         |
| Share repurchases                                | -                 | -         | (3,000)           | (11)      |
| Issued capital                                   | 7,970,764         | \$ 33,727 | 7,769,938         | \$ 28,888 |

### Contributed surplus

Contributed surplus comprises the value of share-based compensation expense related to options granted that have not been exercised or have expired unexercised.

## 18. Share-Based Compensation

### 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. Stock options are issued at market value based on the price at the date preceding the grant, and can have a contractual term of up to ten years and generally vest over 3 years. The maximum number of common shares reserved for issuance under the Plan is equal to 9% of the Company's issued and outstanding shares from time to time less the aggregate number of shares reserved for issuance or issuable under any other security-based compensation arrangement for the Company. As at December 31, 2019, based on the Company's total common shares outstanding, a total of 717,369 stock options and RSU's may be issued and outstanding. Based on this, the Company could grant up to 413,760 additional stock options or RSU's beyond what was issued and outstanding as at December 31, 2019.

The weighted average fair value of options granted during the quarter ended December 31, 2019 was \$5.18 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 issuance and adjusted based on management's best estimate for the effects of non-transferability, exercises restrictions and behavioural 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 in the three months ended December 31, 2019:

|                           | Weighted Average Options Granted |          |
|---------------------------|----------------------------------|----------|
|                           | Q1 2020                          | Q1 2019  |
| Grant date share price    | \$ 36.49                         | \$ 29.55 |
| Exercise price            | \$ 36.49                         | \$ 29.55 |
| Expected price volatility | % 22.8                           | % 22.7   |
| Expected option life      | yrs 4.00                         | yrs 4.00 |
| Expected dividend yield   | % 2.85                           | % 3.79   |
| Risk-free interest rate   | % 1.50                           | % 2.28   |
| Forfeiture rate           | % 0                              | % 0      |

|                                | December 31, 2019 |                              | December 31, 2018 |                              |
|--------------------------------|-------------------|------------------------------|-------------------|------------------------------|
|                                | Number of Options | Weighted Avg. Exercise Price | Number of Options | Weighted Avg. Exercise Price |
| Opening balance                | 239,400           | \$ 30.57                     | 247,400           | \$ 25.43                     |
| Exercised                      | (27,700)          | 25.81                        | -                 | -                            |
| Forfeited                      | -                 | -                            | -                 | -                            |
| Granted                        | 35,000            | 36.49                        | 119,600           | 29.55                        |
| Outstanding, December 31, 2019 | 246,700           | \$ 31.95                     | 367,000           | \$ 26.77                     |

The following share-based payment arrangements are in existence:

| Option series:               | Number of Options | Grant date        | Expiry date       | Exercise price | Fair value at grant date |
|------------------------------|-------------------|-------------------|-------------------|----------------|--------------------------|
| (1) Issued September 9, 2015 | 500               | September 9, 2015 | September 9, 2020 | \$ 17.69       | \$ 0.90                  |
| (2) Issued May 17, 2017      | 15,000            | May 17, 2017      | May 17, 2022      | \$ 27.30       | \$ 3.42                  |
| (3) Issued November 24, 2017 | 75,600            | November 24, 2018 | November 17, 2023 | \$ 34.58       | \$ 4.53                  |
| (4) Issued March 27, 2018    | 6,000             | March 27, 2018    | November 17, 2023 | \$ 31.54       | \$ 4.62                  |
| (5) Issued November 19, 2018 | 105,600           | November 19, 2018 | November 19, 2023 | \$ 29.55       | \$ 3.96                  |
| (6) Issued February 8, 2019  | 9,000             | February 8, 2019  | February 8, 2024  | \$ 29.06       | \$ 3.95                  |
| (7) Issued November 25, 2019 | 35,000            | November 25, 2019 | November 25, 2024 | \$ 36.49       | \$ 5.18                  |



## 18. Share-Based Compensation (Continued)

For the options issued on November 25, 2019, 7,000 options vested immediately with the remaining vesting through to November 25, 2020.

At December 31, 2019 (2018) the weighted average remaining contractual life of options outstanding is 3.62 (3.26) years of which 183,700 (251,000) options are exercisable at a weighted average price of \$31.70 (\$24.89). The Company has recorded \$95 of share-based compensation expense in three-month period ended December 31, 2019 (December 31, 2018 - \$72) related to the options that have been granted. The Company has total unrecognized compensation expense of \$172 (December 31, 2018 - \$484) that will be recorded within this fiscal year.

### Restricted share units:

The Company has an established restricted stock unit ("RSU") plan. Under the RSU plan, the maximum number of common shares reserved for issuance is equal to 9% of the Company's issued and outstanding shares from time to time less the aggregate number of shares reserved for issuance or issuable under any other security-based compensation arrangement for the Company. Share units may be awarded to any officer or employee of the Company. Each restricted share unit will vest on the date or dates designated for that unit, conditional on any vesting conditions being met. Participants in the RSU plan may elect to redeem their share units either by the Company issuing the participant one common share for each whole vested share unit or, subject to the consent by the Company, elect to receive an amount in cash. The cash amount is equal to the number of vested share units to be redeemed multiplied by the value of the common shares otherwise issuable on redemption of the share units.

The following table summarizes information about the RSU's as of December 31, 2019:

|                                | December 31, 2019 |                                     | December 31, 2018 |                                     |
|--------------------------------|-------------------|-------------------------------------|-------------------|-------------------------------------|
|                                | Number of RSUs    | Weighted Avg. Grant Date Fair Value | Number of RSUs    | Weighted Avg. Grant Date Fair Value |
| Opening balance                | 47,736            | \$ 30.11                            | 20,970            | \$ 31.40                            |
| Exercised                      | (13,826)          | 30.26                               | (8,176)           | 30.83                               |
| Forfeited                      | (16)              | 28.43                               | (16)              | 28.43                               |
| Granted                        | 23,015            | 36.49                               | 36,018            | 29.55                               |
| Outstanding, December 31, 2019 | 56,909            | \$ 32.66                            | 48,796            | \$ 30.13                            |

Of the units issued in the current quarter year under the RSU plan, NIL have vested as of December 31, 2019. The Company has recorded \$179 of share-based compensation expense in the three month period ended December 31, 2019 (2018 - \$127) related to the RSUs that have been granted. The Company has total unrecognized compensation expense of \$898 at December 31, 2019 (2018 - \$1,150) that will be recorded over the next three years.

The following unvested RSU-based payment arrangements are in existence:

| RSU series:                  | Number of RSUs | Grant date        | Vest through      | Fair value at grant date |
|------------------------------|----------------|-------------------|-------------------|--------------------------|
| (1) Issued November 24, 2017 | 3,009          | November 24, 2017 | November 15, 2022 | \$ 34.58                 |
| (2) Issued February 12, 2018 | 1,207          | February 12, 2018 | November 15, 2020 | \$ 31.01                 |
| (3) Issued March 27, 2018    | 185            | March 27, 2018    | November 15, 2020 | \$ 31.54                 |
| (4) Issued November 16, 2018 | 29,043         | November 6, 2018  | November 15, 2021 | \$ 29.55                 |
| (5) Issued February 7, 2019  | 450            | February 7, 2019  | November 15, 2021 | \$ 29.06                 |
| (6) Issued November 25, 2019 | 23,015         | November 25, 2019 | November 15, 2022 | \$ 36.49                 |



## 18. Share-Based Compensation (Continued)

### Deferred share unit plan

During the three month period ended December 31, 2019 (2018) the Company granted 1,034 (911) deferred share units ("DSU"). There are 21,949 (17,779) DSUs outstanding at December 31, 2019 (2018). Each DSU entitles the participant to receive the value of one Common Share. The DSUs vest immediately as the participants are entitled to the shares upon termination of their service. The fair value of the DSUs granted in the three month period ended December 31, 2019 (2018) was \$33.31 (\$25.07) per unit using the fair value of a Common Share at the time of grant. The Company recorded share-based compensation of \$170 (2018 – \$89) related to the DSUs in the three month period ended December 31, 2019 (2018)..

## 19. Revenue

The following table presents the revenue of the Company for the quarter ended December 31, 2019 and 2018:

|                        | Three months ended |                   |
|------------------------|--------------------|-------------------|
|                        | December 31, 2019  | December 31, 2018 |
| Product revenue        |                    |                   |
| Advanced Technologies  | \$ 29,045          | \$ 12,459         |
| Health                 | -                  | -                 |
| Learning               | -                  | -                 |
| Information Technology | 2,166              | 296               |
| Service revenue        |                    |                   |
| Advanced Technologies  | 10,998             | 11,355            |
| Health                 | 30,010             | 27,350            |
| Learning               | 15,108             | 15,850            |
| Information Technology | 11,917             | 12,611            |
|                        | \$ 99,244          | \$ 79,921         |

### Remaining performance obligations

The following table presents the aggregate amount of the revenues expected to be realized in the future from partially or fully unsatisfied performance obligations as at December 31, 2019 for contracts recognized over time. The amounts disclosed below represent the value of the firm orders only. Such orders may be subject to future modifications that might impact the amount and/or timing of revenue recognition. The amounts disclosed below do not include unexercised options or letters of intent.

Revenues expected to be recognized in:

|                     | December 31, 2019 |
|---------------------|-------------------|
| Less than 24 months | 363,320           |
| Thereafter          | 155,561           |
| Total               | 518,881           |

## 20. Net Profit per Share

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

|  | Three months ended<br>December 31 |           |
|--|-----------------------------------|-----------|
|  | 2019                              | 2018      |
| Weighted average number of common shares – basic                             | 7,943,768                         | 7,768,350 |
| Additions to reflect the dilutive effect of employee stock options and RSU's | 60,920                            | 53,188    |
| Weighted average number of common shares – diluted                           | 8,004,688                         | 7,821,538 |

Options 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 net profit per share. For the quarter ended December 31, 2019 (2018), 35,000 (210,200) options and 23,015 (36,018) RSU's were excluded from the above computation. Net profit is the measure of profit or loss used to calculate profit per share.

## 21. 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 ("CEO"). The Company's segments are categorized as follows: Advanced Technologies, Health, Learning, and Information Technology ("IT"). Shared Services are aggregated and incurred to support all segments. These include, but are not limited to, the Finance, Human Resources, IT support, Corporate development, Legal, Corporate marketing, and administrative functions, facilities costs, costs of operating a public company, and other costs.

The Company evaluates performance and allocates resources based on profit before interest and income taxes.

**21. Segmented Information (Continued)**

For the quarter ended December 31, 2019:

| For the three months ended<br>December 31, 2019          | Advanced<br>Technologies | Health | Learning | IT     | Shared<br>Services | Total  |
|--|--------------------------|--------|----------|--------|--------------------|--------|
| <b>Revenue</b>   | 40,043                   | 30,010 | 15,108   | 14,083 | -                  | 99,244 |
| <b>Cost of revenues</b>                                  | 32,022                   | 23,492 | 11,984   | 11,491 | -                  | 78,989 |
| <b>Gross profit</b>                                      | 8,021                    | 6,518  | 3,124    | 2,592  | -                  | 20,255 |
| <b>Gross profit %</b>                                    | 20 %                     | 22 %   | 21 %     | 18 %   | N/A %              | 20 %   |
| Selling and marketing                                    | 1,280                    | 205    | 253      | 579    | 460                | 2,777  |
| General and administration                               | 1,521                    | 1,132  | 797      | 615    | 4,593              | 8,658  |
| Research and development                                 | 414                      | -      | -        | -      | -                  | 414    |
| <b>Profit before under noted items</b>                   | 4,806                    | 5,181  | 2,074    | 1,398  | (5,053)            | 8,406  |
| Profit before under noted items %                        | 12 %                     | 17 %   | 14 %     | 10 %   | N/A %              | 8 %    |
| Depreciation of equipment and<br>application software    |                          |        |          |        |                    | 572    |
| Depreciation of right of use asset                       |                          |        |          |        |                    | 671    |
| Amortization of acquired<br>intangibles                  |                          |        |          |        |                    | 889    |
| Other changes in fair value                              |                          |        |          |        |                    | (101)  |
| Changes in fair value related to<br>contingent earn-out  |                          |        |          |        |                    | 207    |
| <b>Profit before interest and<br/>income tax expense</b> |                          |        |          |        |                    | 6,168  |
| Lease interest expense                                   |                          |        |          |        |                    | 110    |
| Interest expense (income)                                |                          |        |          |        |                    | 63     |
| <b>Profit before income tax<br/>expense</b>              |                          |        |          |        |                    | 5,995  |
| Income tax expense – current                             |                          |        |          |        |                    | 1,979  |
| Income tax expense – deferred                            |                          |        |          |        |                    | (317)  |
| <b>Total income tax expense</b>                          |                          |        |          |        |                    | 1,662  |
| <b>NET PROFIT FOR THE PERIOD</b>                         |                          |        |          |        |                    | 4,333  |

**21. Segmented Information (Continued)**

For the quarter ended December 31, 2018:

| For the three months ended<br>December 31, 2018          | Advanced<br>Technologies | Health | Learning | IT     | Shared<br>Services | Total  |
|--|--------------------------|--------|----------|--------|--------------------|--------|
| <b>Revenue</b>   | 23,814                   | 27,350 | 15,850   | 12,907 | -                  | 79,921 |
| <b>Cost of revenues</b>                                  | 17,253                   | 21,741 | 12,836   | 11,247 | -                  | 63,077 |
| <b>Gross profit</b>                                      | 6,561                    | 5,609  | 3,014    | 1,660  | -                  | 16,844 |
| <b>Gross profit %</b>                                    | 28 %                     | 21 %   | 19 %     | 13 %   | N/A %              | 21 %   |
| Selling and marketing                                    | 1,056                    | 179    | 267      | 473    | 488                | 2,463  |
| General and administration                               | 1,812                    | 950    | 663      | 625    | 4,365              | 8,415  |
| Research and development                                 | 279                      | -      | -        | -      | -                  | 279    |
| <b>Profit before under noted items</b>                   | 3,414                    | 4,480  | 2,084    | 562    | (4,853)            | 5,687  |
| Profit before under noted items %                        | 14 %                     | 16 %   | 13 %     | 4 %    | N/A %              | 7 %    |
| Depreciation of equipment and<br>application software    |                          |        |          |        |                    | 495    |
| Amortization of acquired<br>intangibles                  |                          |        |          |        |                    | 280    |
| Changes in fair value related to<br>contingent earn-out  |                          |        |          |        |                    | 142    |
| <b>Profit before interest and<br/>income tax expense</b> |                          |        |          |        |                    | 4,770  |
| Interest expense (income)                                |                          |        |          |        |                    | (32)   |
| <b>Profit before income tax<br/>expense</b>              |                          |        |          |        |                    | 4,802  |
| Income tax expense – current                             |                          |        |          |        |                    | 1,356  |
| Income tax expense – deferred                            |                          |        |          |        |                    | 91     |
| Total income tax expense                                 |                          |        |          |        |                    | 1,447  |
| <b>NET PROFIT FOR THE PERIOD</b>                         |                          |        |          |        |                    | 3,355  |

The Company operates in Canada but provides services to customers in various countries. Revenues from external customers are attributed as follows:

|               | December 31,<br>2019 | December 31,<br>2018 |
|---------------|----------------------|----------------------|
| Canada        | 70 %                 | 81 %                 |
| United States | 26 %                 | 16 %                 |
| Europe        | 4 %                  | 3 %                  |

Revenues are attributed to foreign countries based on the location of the customer. Revenues from various departments and agencies of the Canadian federal, provincial and municipal governments for the quarter ended December 31, 2019 and 2018 represented 58% (70%) of the Company's total revenues. All four operating segments conduct business with this category of customer.

## 22. Financial Instruments and Risk Management

### Capital Risk Management

The Company's objective is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity excluding accumulated other comprehensive income relating to cash flow hedges. The Company uses debt to fund working capital and its investment initiatives. Net profits generated from operations are available to repay debt and reinvestment in the Company or distribution to the Company's shareholders. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year-over-year sustainable profitable growth. The Board of Directors also reviews on a quarterly basis the level of dividends paid to the Company's shareholders and monitors the share repurchase program activities. The Company does not have a defined share repurchase plan and buy and sell decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its holding of financial instruments.

### *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, contingent earn-out 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 the majority 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 the majority 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.

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.

The functional currency of each of the Company's entities is determined using the currency of the primary economic environment in which that entity operates. The Company's functional currency is the Canadian dollar while the functional currency of its German subsidiary is the EUR. The presentation currency of these financial statements is the Canadian dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at rates prevailing at the reporting dates and are recognized in profit and loss in the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of preparing consolidated financial statements, the assets and liabilities of the Company's German operations are first expressed in the Company's EUR functional currency using exchange rates

## 22. Financial Instruments and Risk Management (Continued)

prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Translation differences are recognized in other comprehensive income and recorded in the “cumulative translation adjustment”.

At December 31, 2019, the Company had the following forward foreign exchange contracts:

| Type                   | Notional   | Currency | Maturity     | Equivalent Cdn. Dollars | Fair Value December 31, 2019 |
|------------------------|------------|----------|--------------|-------------------------|------------------------------|
| SELL                   | \$ 108,686 | USD      | January 2020 | \$ 141,107              | \$ 848                       |
| SELL                   | 5,566      | EURO     | January 2020 | 8,119                   | 18                           |
| SELL                   | 18         | CHF      | January 2020 | 24                      | -                            |
| Derivative assets      |            |          |              |                         | \$ 866                       |
| BUY                    | \$ 44,932  | USD      | January 2020 | \$ 58,335               | \$ (351)                     |
| BUY                    | 692        | EURO     | January 2020 | 1,009                   | (2)                          |
| BUY                    | 875        | CHF      | January 2020 | 1,176                   | (1)                          |
| Derivative liabilities |            |          |              |                         | \$ (354)                     |

A 10% strengthening of the Canadian dollar against the following currencies at December 31, 2019 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

|       | December 31, 2019 |
|-------|-------------------|
| USD   | \$ 7,525          |
| EURO  | 646               |
| CHF   | (105)             |
| Total | \$ 8,066          |

A 10% strengthening against the Canadian dollar of the currencies to which the Company had exposure that is not related to forward foreign exchange contracts would have had the following effects (a 10% weakening against the USD would have had the opposite effect):

|       | December 31, 2019 |
|-------|-------------------|
| USD   | \$ 85             |
| EURO  | 228               |
| Total | \$ 313            |

## 22. Financial Instruments and Risk Management (Continued)

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and its foreign exchange contracts.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, federal and provincial government departments and large private companies. A significant portion of the Company's accounts receivable is from long-time customers. At December 31, 2019 (September 30, 2019), 62% (62%) of its accounts' receivable were due from various departments and agencies of the Canadian federal government. Over the last five years the Company has not suffered any significant credit related losses.

The Company limits its exposure to credit risks from counter-parties to derivative financial instruments by dealing only with major Canadian financial institutions. Management does not expect any counter-parties to fail to meet their obligations.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

|                     | December 31,<br>2019 | September 30,<br>2019 |
|---------------------|----------------------|-----------------------|
| Cash                | \$ 14,395            | \$ 17,135             |
| Accounts receivable | 69,576               | 63,977                |
| Derivative assets   | 866                  | 96                    |
| Total               | \$ 84,837            | \$ 81,208             |

The aging of accounts receivable at the reporting date was:

|                        | December 31,<br>2019 | September 30,<br>2019 |
|------------------------|----------------------|-----------------------|
| Current                | \$ 61,954            | \$ 60,574             |
| Past due (61-120 days) | 5,207                | 1,249                 |
| Past due (> 120 days)  | 2,415                | 2,154                 |
| Total                  | \$ 69,576            | \$ 63,977             |

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as much as possible, that it will always have sufficient liquidity to meet liabilities when due. At December 31, 2019, the company has an unsecured credit facility, subject to annual renewal, that allows the Company to borrow funds up to an aggregate of \$40,000. At as December 31, 2019, an amount of \$26,195 was drawn on the facility for current operations, and \$50 was drawn to issue a letter of credit to meet customer contractual requirements.

## 22. Financial Instruments and Risk Management (Continued)

### Fair Value

The fair value of accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity. Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place on December 31, 2019 and represent the difference between the hedge rate and the exchange rate at the end of the reporting period.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 of the fair value hierarchy based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

|                                  | December 31, 2019 |         |            |
|----------------------------------|-------------------|---------|------------|
|                                  | Level 1           | Level 2 | Level 3    |
| Cash                             | \$ 14,395         | \$ -    | \$ -       |
| Investment and loan receivable   | -                 | -       | 670        |
| Derivative financial assets      | -                 | 866     | -          |
| Contingent earn-out              | -                 | -       | (6,526)    |
| Derivative financial liabilities | -                 | (354)   | -          |
| Total                            | \$ 14,395         | \$ 512  | \$ (5,856) |

|                                  | September 30, 2019 |         |            |
|----------------------------------|--------------------|---------|------------|
|                                  | Level 1            | Level 2 | Level 3    |
| Cash                             | \$ 17,135          | \$ -    | \$ -       |
| Investment and loan receivable   | -                  | -       | 452        |
| Derivative financial assets      | -                  | 96      | -          |
| Contingent earn-out              | -                  | -       | (6,319)    |
| Derivative financial liabilities | -                  | (143)   | -          |
| Total                            | \$ 17,135          | \$ (47) | \$ (5,867) |

There were no transfers between Level 1, Level 2 and level 3 during the three month period ended December 31, 2019.



## 23. Acquisitions

### (D.T.) Secure Technologies International Inc.

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, \$2,588 was paid on the date of closing and \$1,600 is payable contingently. Secure Tech is a dedicated partner in IT and Information Security. Secure Tech was acquired to expand the Company's information technology cyber offering and is reported as part of the IT operating segment.

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 EBITDA for the years ending May 31, 2019 and 2020, respectively. Secure Tech did not achieve the level of EBITDA required for the year 1 earn-out. This resulted in a reduction of the first year earn out liability in the amount of \$800 which was recognized in fiscal year 2019. At December 31, 2019, \$800 is included in contingent earn-out liability for anticipated achievement of the second year target.

### IntraGrain Technologies Inc. ("IntraGrain")

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, \$11,000 was paid on the date of closing and \$6,000 is payable contingently. IntraGrain is the maker of the BIN-SENSE® grain storage solution. The technology combines Internet of Things (connectivity with bin sensors to protect grain quality and eliminate the risk of stored grain spoilage and is reported as part of the Advanced Technologies operating segment.

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 EBITDA for the years ending October 31, 2019 and 2020, respectively. IntraGrain did not achieve the level of EBITDA required for the year 1 earn-out. This resulted in a decrease of the first year earn out liability in the amount of \$2,447 which was recognized in fiscal year 2019. At December 31, 2019, \$2,995 is included in contingent earn-out liability for anticipated achievement of the second-year target.

### Sat Service, Gesellschaft für Kommunikationssysteme mbH. ("SatService")

On April 1, 2019, the Company acquired all of the outstanding shares of SatService for a purchase price of \$16,036. Of this amount, \$9,810 (6,450 EURO) was paid on the date of closing, \$931 (618 EURO) was paid upon settlement of net equity and \$5,295 (3,550 EURO) is payable contingently. SatService offers innovative engineering solutions and products for the satellite communications market and is reported as a part of the Advanced Technologies operating segment.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of SatService an additional \$2,014 and \$3,282 (1,350 EURO and 2,200 EURO) if SatService attains specified levels of EBITDA for the nine-month period ending December 31, 2019 and for the twelve-month period ending December 31, 2020. SatService did not achieve the level of EBITDA required for the year 1 earn-out. This resulted in a decrease of the first year earn out liability in the amount of \$1,925 which was recognized in fiscal year 2019. At December 31, 2019, \$2,731 is included in contingent earn-out liability for anticipated achievement of the second-year target.

## 24. Related Party Transactions

During the quarter ended December 31, 2019 (2018), the Company had sales of \$152 (NIL) to GrainX in which Calian holds a non-controlling equity investment. At December 31, 2019 (2018), the Company had an accounts receivable balance with GrainX of \$103 (NIL) which is included in accounts receivable. The terms and conditions of the related party sales are within the Company's normal course of operations and are measured at the exchange amounts agreed to by both parties.

The Company has certain office space leases with employees of the Company. The total amount of expense due to leases with related parties is \$46 (\$55) for the quarter ended December 31, 2019 (2018).

## 25. 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.

## 26. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation whereby facilities expense of \$1,293 have been reclassified from a stand alone line in the statement of net profit into general and administration expense, and research and development expense of \$279 has been separated from general and administration expense into research and development expenses.

With the implementation of IFRS16, facilities expense have decreased significantly. This is due to the fact that the fixed lease cost portion of previous lease expenses is now depreciation and interest under IFRS16. Without the fixed portion of the lease costs, the facilities line is not significant enough to separate from general and administration expense on the statement of net profit.

Previously noted interest accretion has been reclassified as changes in fair value related to contingent earn-out in the current period to conform with IFRS 9 requirements of disclosing such amounts. These amounts relate to the contingent earn out payable amounts as described in note 23.

## 27. Subsequent Events

On January 31, 2020, the Company increased its Revolving Credit Facility to \$60,000 and extended the maturity date of the facility to June 4, 2021.

Effective January 31, 2020, the Company acquired the outstanding shares of Allphase Clinical Research Services Inc. and Alio Health Service Inc. (collectively "Allphase/Alio"), for purchase consideration of up to \$26,500 of which, \$24,000 is in cash and \$2,500 is in common shares of the Company. Of the total consideration, \$14,500 was paid on closing, and \$12,000 is payable contingently. Allphase/Alio was acquired to expand the Company's medical practice through integrated service offerings for in home patient care, and pharmaceutical trial execution and management. Allphase/Alio will be reported as part of the Health operating segment and fully consolidated as of February 1, 2020.

Subsequent to the date of the statement of financial position, on February 5, 2020, the date of issuance of these consolidated financial statements, the Company declared a dividend of \$0.28 per common share payable on March 4, 2020.



Mananagement's Discussion and Analysis

For the first quarter ended December 31, 2019

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis is dated February 5, 2020 (this "MD&A") and should be read in conjunction with the unaudited interim condensed consolidated financial statements. The Company's accounting policies are in accordance with IFRS. As in the unaudited interim condensed consolidated financial statements, all dollar amounts in this MD&A are expressed in thousands of Canadian dollars unless otherwise noted.

**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 management fulfills its 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.**

### Forward-Looking Statements

The Company cautions that this M&DA contains forward-looking statements. These forward-looking statements are based on certain assumptions made by the Company that may prove to be inaccurate. Forward-looking statements includes those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions. Forward-looking statements are not historical facts, but reflect the Company's current intentions, plans, expectations and assumptions regarding future results or events. Forward-looking statements are intended to assist readers in understanding management's expectations as of the date of this MD&A and may not be suitable for other purposes.

Forward-looking statements are based on assumptions, including assumptions as to the following factors:

- customer demand for the Company's services;
- the Company's ability to maintain and enhance customer relationships;
- market conditions;
- levels of government spending;
- the Company's ability to bring to market products and services; and
- the Company's ability to execute on its acquisition program including successful integration of previously acquired businesses.

The Company cautions that the forward-looking statements in this MD&A are based on current expectations as at February 5, 2020 that are subject to change and to risks and uncertainties, including those set out under the heading "Risks and Uncertainties" below, many of which are outside the Company's control. Actual results may materially differ from such forward-looking information due to factors such as customer demand, customer relationships, new service offerings, delivery schedules, revenue mix, competition, pricing pressure, foreign currency fluctuations and uncertainty in the markets in which the Company conducts business. Additional information identifying risks and uncertainties is contained in the Company's filings with securities regulators. The Company does not assume any intention or obligation to publicly update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. Readers should not place undue reliance on the Company's forward-looking statements.

## Business Overview and Strategic Direction

Calian is a diverse company. For over 35 years, the Company has evolved into an organization that has consistently demonstrated the ability to manage numerous profitable service offerings while earning a high level of customer satisfaction. Our DNA allows us to manage this complexity, and to successfully deliver in domestic and global markets.

Calian's primary operating segments are:

- Advanced Technologies
- Health
- Learning
- Information Technology ("IT")

The diversity of this operating model is pivotal to the Company's success. By serving many customers in wide ranging and geographically varied markets, Calian is able to capitalize on unique opportunities and upturns in a number of markets while at the same time weathering the downturns experienced in others. This diversity is most evident when comparing the business and operating models of the four segments.

While our services are diverse, our growth strategy is anchored in a common four- pillar framework which can be described as follows:

- **Customer retention:** through continued delivery excellence, maintain a valued relationship with current customer base;
- **Customer diversification:** through increasing the percentage of 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 margins; and
- **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 growth strategy at Calian can be summarized as follows: winning new contracts, expanding the scope of existing contracts, capitalizing on innovation demonstrated in each of the operating segments, and acquisitions. We have demonstrated our ability to win new contracts each year. For example, in our Health business, we have grown from one contract ten years ago to over 50 contracts for services that span the next ten years. Further, we have demonstrated an ability to expand the scope of services with existing customers through our cross service line pollination and growth. A number of our services are applicable to each and every one of our customers and we have been bringing more value to the table for our customers through the diverse service offerings. Innovation is a key driver for the day-to-day operations at Calian, which has led to our offering of state-of-the-art carbon fiber antenna. Finally, with nine successful acquisitions in the last eight years, we continue to demonstrate to our customers an ability to grow and expand, both in terms of geography and service offerings. In aggregate, all of the factors contributed to Calian's profitable growth. Revenue grew 24% in the three month period ended December 31, 2019 when compared to the same period of the prior fiscal year continuing to drive profitability of the Company.

Key attributes of our four operating segments:

|                            | Advanced Technologies  | Health   | Learning  | Information Technology  |
|----------------------------|--|--|---|---|
| <b>Customers</b>           | European Space Agency, Inmarsat, MDA, Sirius XM, Bruce Power   | Department of National Defence, Canadian Border Security, Loblaw, Police agencies across Ontario | Department of National Defence, Canadian Army Simulation Centre, Bruce Power, City of Ottawa and other municipalities across Canada | Shared Services Canada, General Dynamics and other private and public high-tech companies             |
| <b>Business units</b>      | Engineering services, products, solutions, software development, manufacturing, training, technical services | Health services, psychological assessment services, medical property management                  | Custom training, emergency management solutions, software products, consulting, course development                                  | IT consulting, IT and cloud solutions, software development, SAP consulting, cyber security solutions |
| <b>Customer Geography</b>  | Mostly international   | Canada   | Primarily Canadian with some customers based in the US  | Canada  |
| <b>Government Revenue</b>  | 20%  | 86%  | 98%   | 67%   |
| <b>Quality Initiatives</b> | Excellence Canada / ISO 9001:2015  | Excellence Canada  | Excellence Canada   | Excellence Canada   |
| <b>Backlog (\$ 000's)</b>  | 174,127  | 745,767  | 332,807   | 65,216  |

Overall, the diversity in markets, customers and business models provides Calian with a balance in our consolidated business.

Of note, as our segments operate in niche areas within large markets, there exists minimal third-party data to compare with the Company's performance. While analyzing general market trends provides some insight on the strength and potential opportunities within those markets, it is not always indicative of the health, demand, and funding of the individual customers of the Company. To compensate for the limited amount of information, and to provide an indication of future revenue potential, this MD&A provides a detailed overview of the Company's backlog by segment showing both contracted backlog and option renewals by fiscal year. In addition, the following discussion, which refers to the type of contracts performed by each of the four segments will provide some insight into the level of customer specific demand for our services.

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. This is slightly offset in the summer months with IntraGrain having higher sales in this period, but further adds to the seasonality in the first quarter results.

## Selected Quarterly Financial Data

(Canadian dollars in millions, except per share data)

|  | Q1/20   | Q4/19 <sup>(1)</sup> | Q3/19 <sup>(1)</sup> | Q2/19 <sup>(1)</sup> | Q1/19 <sup>(1)</sup> | Q4/18 <sup>(1)</sup> | Q3/18 <sup>(1)</sup> | Q2/18 <sup>(1)</sup> |
|--|---------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Revenues</b>                                      |         |                      |                      |                      |                      |                      |                      |                      |
| Advanced Technologies                                | \$ 40.0 | \$ 31.4              | \$ 30.5              | \$ 23.9              | \$ 23.8              | \$ 24.1              | \$ 21.0              | \$ 26.4              |
| Health   | 30.0    | 31.3                 | 29.3                 | 27.8                 | 27.3                 | 26.8                 | 25.4                 | 23.8                 |
| Learning   | 15.1    | 14.0                 | 15.6                 | 17.6                 | 15.9                 | 14.0                 | 15.0                 | 17.2                 |
| Information Technology                               | 14.1    | 14.2                 | 13.4                 | 14.1                 | 12.9                 | 13.6                 | 11.6                 | 10.0                 |
| Total Revenue  | \$ 99.2 | \$ 90.9              | \$ 88.8              | \$ 83.4              | \$ 79.9              | \$ 78.5              | \$ 73.0              | \$ 77.4              |
| Cost of revenue                                      | 79.0    | 70.6                 | 69.5                 | 65.3                 | 63.1                 | 62.0                 | 57.0                 | 61.6                 |
| Gross profit   | 20.2    | 20.3                 | 19.3                 | 18.1                 | 16.8                 | 16.5                 | 16.0                 | 15.8                 |
| Selling and marketing                                | 2.8     | 2.8                  | 2.9                  | 2.3                  | 2.4                  | 2.3                  | 2.4                  | 2.3                  |
| General and administration                           | 8.6     | 9.1                  | 9.3                  | 8.9                  | 8.3                  | 7.5                  | 7.6                  | 7.5                  |
| Research and development                             | 0.4     | 0.3                  | 0.4                  | 0.3                  | 0.4                  | -                    | -                    | -                    |
| Profit before under noted items                      | 8.4     | 8.1                  | 6.7                  | 6.6                  | 5.7                  | 6.7                  | 6.0                  | 6.0                  |
| Depreciation of equipment and application software   | 0.5     | 0.6                  | 0.6                  | 0.6                  | 0.5                  | 0.6                  | 0.4                  | 0.4                  |
| Depreciation of right of use asset                   | 0.7     | -                    | -                    | -                    | -                    | -                    | -                    | -                    |
| Amortization of acquired intangible assets           | 0.9     | 1.4                  | 1.0                  | 0.4                  | 0.3                  | 0.3                  | 0.3                  | 0.3                  |
| Other changes in fair value                          | (0.1)   | (4.5)                | (0.7)                | -                    | -                    | -                    | -                    | -                    |
| Changes in fair value related to contingent earn-out | 0.2     | 0.4                  | 0.4                  | 0.2                  | 0.1                  | -                    | -                    | -                    |
| Profit before interest and income tax expense        | 6.2     | 10.2                 | 5.4                  | 5.4                  | 4.8                  | 5.8                  | 5.3                  | 5.3                  |
| Lease interest expense                               | 0.1     | -                    | -                    | -                    | -                    | -                    | -                    | -                    |
| Interest expense (income)                            | 0.1     | -                    | -                    | -                    | -                    | (0.1)                | (0.1)                | (0.1)                |
| Profit before income tax expense                     | 6.0     | 10.2                 | 5.4                  | 5.4                  | 4.8                  | 5.9                  | 5.4                  | 5.4                  |
| Income tax expense                                   | 1.7     | 1.7                  | 1.1                  | 1.5                  | 1.5                  | 1.6                  | 1.5                  | 1.5                  |
| Net profit   | \$ 4.3  | \$ 8.5               | \$ 4.3               | \$ 3.9               | \$ 3.3               | \$ 4.3               | \$ 3.9               | \$ 3.9               |
| Net profit per share                                 |         |                      |                      |                      |                      |                      |                      |                      |
| Basic  | \$ 0.55 | \$ 1.08              | \$ 0.54              | \$ 0.50              | \$ 0.43              | \$ 0.56              | \$ 0.50              | \$ 0.51              |
| Diluted  | \$ 0.54 | \$ 1.08              | \$ 0.54              | \$ 0.49              | \$ 0.43              | \$ 0.55              | \$ 0.50              | \$ 0.50              |
| Adjusted EBITDA per share                            |         |                      |                      |                      |                      |                      |                      |                      |
| Basic  | \$ 1.04 | \$ 1.03              | \$ 0.86              | \$ 0.84              | \$ 0.73              | \$ 0.87              | \$ 0.79              | \$ 0.85              |
| Diluted  | \$ 1.03 | \$ 1.02              | \$ 0.85              | \$ 0.84              | \$ 0.73              | \$ 0.86              | \$ 0.78              | \$ 0.84              |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

Certain comparative figures have been reclassified to conform to the current year's presentation whereby facilities expense have been reclassified into general and administration expense, and research and development expense in operating expenses have been separated from general and administration expense.

With the implementation of IFRS 16, facilities expenses have decreased significantly since the Company has adopted the standard using the modified retrospective method where prior period statements are not restated. The fixed lease cost portion of previous lease expenses is now depreciation and interest under IFRS 16. Lease costs not capitalized under IFRS 16 have been included in general and administration expenses. The reclassification of facilities to general and admin by quarter was Q1 FY19: \$1,293, Q2 FY19: \$1,305, Q3 FY19: \$1,346 and Q4 FY19: \$1,362. The reclassification of research and development from general and administration by quarter was Q1 FY19: \$279, Q2 FY19: \$361, Q3 FY19: \$343 and Q4 FY19: \$436. The Company is presenting comparative information for fiscal 2019 with research and development as a separate line item in the statement of profit, whereas previously it was included in general and administration. When reporting comparative information, there is no financial statement that the Company has issued where research



and development are presented separately for fiscal year 2018 or previous. The Company maintains that presentation here for 2018 where research and development operating expense costs are included in the general and administration expense line.

## Overview of Overall Performance

Calian operates at locations across Canada (ranging from British Columbia to Nova Scotia), as well as Europe (in Netherlands and Germany). Calian is headquartered in Ottawa, Ontario, and is recognized as a leading professional services organization, providing services and solutions in Advanced Technologies, Health, Learning and IT. We are a continuous improvement organization, a founding partner of Excellence Canada, and accredited to Excellence Canada's Excellence, Innovation and Wellness Gold-Level certification.

The cost structure of Calian's Health, Learning and Information Technology segments is for the most part variable, as contracts are typically on a per-diem basis with a majority being multi-year outsourcing assignments. This allows for predictable cash flows over long periods of time. With a reduced risk profile, margins are correspondingly lower.

Historically our core competencies, common across all operating segments, are project, contract and workforce management; however, the segments continue to evolve its services to incorporate technology to offer full solutions to our customers. Each of these competencies is aligned to each of our segments.

A large portion of our revenues are derived from Canadian sources in the public and private sectors, with a large presence in the Department of National Defence. We have been successful in our diversification strategy, and have developed a well-established private sector customer base across Indigenous communities, oil and gas, nuclear, aerospace, defence and numerous others. For example, our health service line includes the administration on behalf of Loblaw of over 150 medical clinics across Canada, as well as the provision of health care services to oil and gas customers. Our Learning segment, which historically was predominantly revenue generated from the Canadian Government, has expanded its customer base to include municipalities, First Nations, healthcare, and private industry.

Revenue growth from new contract opportunities will be largely dependent on the issuance of the initial proposal request and the ultimate timing of the related contract award. The Company has significant backlog at \$1,318 million with very large contract wins in 2017, 2018 and 2019, that span over 10 years in length. Calian's historical high renewal rate combined with its win strategy provides management confidence in its ability to successfully remain the customer's preferred choice.

While federal government spending priorities fluctuate, profitable business does exist for companies who have the financial strength to accommodate slowdowns in government spending, and the discipline to adjust costs to declines in revenue. Calian's strong back office capabilities, along with our emphasis on continuous improvement and business development, ensures that we are able to identify and win new business opportunities and accommodate that new business in a scalable fashion.

During the three-month period ended December 31, 2019, the Company continued to make progress on its growth, diversification and innovation agendas while continuing to be successful in managing existing contracts and maintaining service quality and high client satisfaction levels. The realization of organic growth across all service lines combined with new contract wins in new markets allowed the Company to report organic revenue growth of 22% in the three-month period ended December 31, 2019 when compared to the same period of the previous year. In the three-month period ended December 31, 2019, we also signed \$87 million in contracts and ended the period with a backlog of \$1,318 million of which \$252 million is expected to be earned during the remainder of fiscal 2020.



## Calian Consolidated Results

|                                 | Three months ended |                                  |
|---------------------------------|--------------------|----------------------------------|
|                                 | December 31, 2019  | December 31, 2018 <sup>(1)</sup> |
| Revenues                        | \$ 99,244          | \$ 79,921                        |
| Gross profit                    | 20,255             | 16,844                           |
| Selling and marketing           | 2,777              | 2,463                            |
| General and administration      | 8,658              | 8,415                            |
| Research and development        | 414                | 279                              |
| Profit before under noted items | \$ 8,406           | \$ 5,687                         |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

High levels of activity on a large multi year satellite ground system project for a North American satellite provider contributed to the significant growth in revenues in our Advanced Technology segment. Demand across our other segments continued to grow from existing and new contracts. Revenue growth in the three-month period ended December 31, 2019 was 24% compared to the same period in the previous year. Organic growth attributed for 22%, while growth from acquisitions was 2%.

We measure our growth through acquisition on trailing twelve month basis; once the acquisition has been included in our results for 12 months, we include their contribution in our organic growth metric.

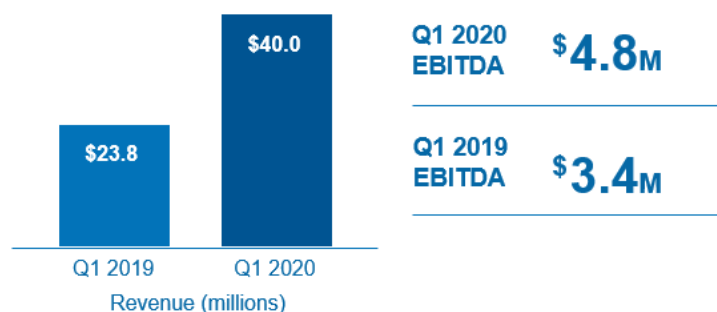
Gross margins in the quarter were 20.4%, this compares to 21.1% in the same period of the previous year. Margin by segment vary greatly from 15% to 28% (see discussion by segment), and the mix of business in turn affects our consolidated gross margin. The large multi year satellite programs bring lower margins in the early stages of the project, and as a result negatively impacted our Advanced technology and consolidated gross margins. Management will continue to focus on operational execution, diligent negotiation of supplier costs and expansion into new markets driving better margins. The competitive landscape is expected to maintain the pressure on margins in each of our segments. The volatility of the Canadian dollar is always an influencing factor for margins on new work in the Advanced Technologies segment to the extent that work is denominated in foreign currencies.

Selling and marketing costs increased 13% for the three-month period ended December 31, 2019, compared to the same period of the prior year. Selling and marketing increases can be attributable to investment in business development, marketing headcount, and new marketing and customer outreach initiatives.

General and administration costs increased by 2% compared to the previous year. Implementation of IFRS 16 in the current period resulted in a reduction of facilities cost of \$727, with a similar increase in depreciation and interest expense. After adjusting for this modification, general and admin expenses were up 12% when compared to the same period in the previous year. This is the result of investments in our human resource, information technology and delivery capabilities.

Research and development costs increased \$135 in the three-month period ended December 31, 2019, compared to the same period in the prior year. The increase is primarily due to increases in spend in Agtech product development.

## Advanced Technologies



Calian's Advanced Technologies segment offers internally developed products, engineering services and solutions for the space, communications, nuclear, agriculture, defence and government sectors. Our capabilities are wideranging, covering software development, product development, custom manufacturing, full life-cycle support, studies, requirements analysis, project management, multi-discipline engineered system solutions, and training. With a presence across Canada and in Europe, the Advanced Technologies segment is a full-service organization offering turnkey solutions for industry-leading customers in North American, European and global markets.

A supplier of communication systems and products for terrestrial and satellite networks, Calian operates a centre of excellence in communication ground systems for satellite and cable network operators around the world. We provide satellite gateways which can include large aperture radio frequency ("RF") antennas, telemetry tracking and control, as well as high-availability software solutions for managing and monitoring these networks. The segment's software tools enable network operators to manage, plan and analyze network resources, including satellite power and frequencies. With an international reputation for supporting space missions, we deliver custom communication solutions and systems engineering capabilities to customers in Canada and around the world.

Calian's manufacturing capability includes a surface mount electronics manufacturing line with automated inspection and X-ray. We offer a composite carbon fiber manufacturing capability as well as an extruded cable manufacturing line. These are complemented by engineering capabilities that support custom build-to-print manufacturing services for commercial and defence clients. Calian's AgTech products and solutions are manufactured in-house for the agriculture sector, helping to protect assets such as stored crops, fuel and water.

Calian's engineering and technical services support clients across the system engineering process, including concept development for the design and implementation of next-generation critical systems and full life-cycle support for propulsion, electrical and electronic systems, computer systems, naval architecture, and aerospace and nuclear systems. Associated services are provided in integrated logistics support, drafting, and other technical services. Our nuclear services team develops and executes comprehensive and cost-effective waste management and decommissioning solutions, and provides a systematic approach to identifying hazards, determining their consequences, and providing recommendations to mitigate identified risks. The scope of our nuclear services includes decommissioning programs, radioactive waste management programs and remediation.

## Financial performance

|                                 | Three months ended |                                  |
|---------------------------------|--------------------|----------------------------------|
|                                 | December 31, 2019  | December 31, 2018 <sup>(1)</sup> |
| Revenues                        | \$ 40,043          | \$ 23,814                        |
| Gross profit                    | 8,021              | 6,561                            |
| Selling and marketing           | 1,280              | 1,056                            |
| General and administration      | 1,521              | 1,812                            |
| Research and development        | 414                | 279                              |
| Profit before under noted items | \$ 4,806           | \$ 3,414                         |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

In the three-month period ended December 31, 2019, Advanced Technologies' revenues increased by 68% compared to the same period in the previous year. This reflected significant increases in revenue attributable to ongoing ground systems projects, custom software developments for Sirius XM, and contract manufacturing for various Defence projects. Internally developed product sales continue to be a focus for the Company, contributing positively to revenue growth. Acquisitive revenue growth amounted to 7% for the three-month period ended December 31, 2019 which is attributable to revenue from acquisitions made in the last 12 month period from December 31, 2019. Backlog at December 31, 2019 was \$174 million.

Gross margin percentage has decreased from 28% to 20% for the three-month period ended December 31, 2019 when compared to the same period of the prior year due to the increased mix of larger ground system revenues.

Selling and marketing expenses increased by \$224 for the three-month period ended December 31, 2019, compared to the same period in the year prior, due to additional sales efforts across the segment focused on customer diversification. General and administration expenses decreased 16% due to changes in estimate on amounts payable.

Research and development expenses increased by \$135 for the three-month period ended December 31, 2019 compared to the same period of the prior year. The increase is primarily due to increased activity in Agtech product advancement.

Profitability increased year-over-year for the three-month period ended December 31, 2019 which is a result of the overall increase in volume.

## First Quarter 2020 Highlights

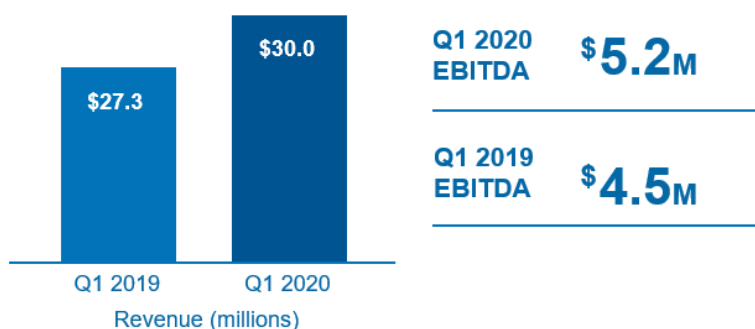
The Advanced Technologies segment commenced deliveries of a new custom telecommunications product for a Tier 1 North American mobile operator. A result of 16 months of R&D, the product enables the customer to maximize its use of existing spectrum assets and supports ongoing development and upgrade of its mobile network. It is Calian's first deployment of telecom equipment for a Tier 1 mobile operator, supporting the Company's customer diversification objectives. The multimillion-dollar commitment is expected to span multiple quarters.

The Communication Systems business continued its execution of several radio frequency (RF) antenna ground systems projects, including a large RF systems project. These projects will contribute to Advanced Technologies' revenues as the systems are deployed throughout the current year and subsequent fiscal year.

In support of the segment's continued development of its new line of carbon fibre antenna products, Advanced Technologies appointed a new Director, Satellite Ground Antenna Systems. The new position, based in San Jose, California, was created to lead the sales activities for the company's new line of high performance composite carbon fiber antennas, designed to meet the demanding operational requirements of Ka/Q/V-band frequencies and beyond.

The nuclear consulting team has won a contract with an existing nuclear power customer to conduct a large-scale, interoperable emergency preparedness exercise.

## Health



Calian's health services team is one of Canada's largest national health services organizations. The segment manages a network of more than 1,800 health care professionals delivering primary care and occupational health services to public and private sector clients across Canada.

The Department of National Defence is our largest customer, with health and psychological services also provided to police, correctional institutions and border services agencies in the Canadian market.

Primacy, Calian's medical property management brand, supports over six million patient visits per year at over 150 clinic locations across Canada. Primacy clinics are located in Loblaw grocery stores across the country (including Real Canadian Superstore®, Zehrs®, Loblaws® and No Frills®).

## Financial performance

|                                 | Three months ended |                                  |
|---------------------------------|--------------------|----------------------------------|
|                                 | December 31, 2019  | December 31, 2018 <sup>(1)</sup> |
| Revenues                        | \$ 30,010          | \$ 27,350                        |
| Gross profit                    | 6,518              | 5,609                            |
| Selling and marketing           | 205                | 179                              |
| General and administration      | 1,132              | 950                              |
| Research and Development        | -                  | -                                |
| Profit before under noted items | \$ 5,181           | \$ 4,480                         |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

Revenues increased 10% for the three-month period ended December 31, 2019 when compared to the same period of the previous year as a result of focused growth across the segment. This growth is all attributed to organic revenue growth. The Company has seen positive growth in relation to strong execution and customer demand on the health services contract won in 2017, increased demand from new and existing opportunities in our clinician services, and continued expansion of the psychological services across Canada.

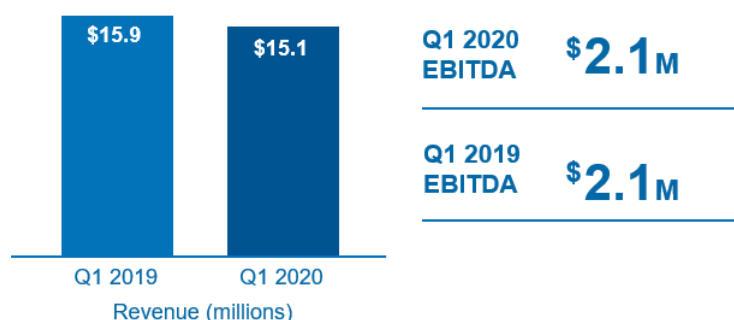
Gross margin percentage increased from 21% to 22% for the three-month period ended December 31, 2019 when compared to the same period of the prior year. This was due in part to higher margin services being provided in our clinician services and psychological assessment revenue growth in the segment. General and administration expenses increased by \$182 for the three-month period ended December 31, 2019 when compared to the same period of the prior year, due to increases in headcount to support new contracts across more customers and industries. The Health segment has been growing and has been structuring the growth such that it is sustainable.

## First Quarter 2020 Highlights

Primacy signed a new master license agreement with Loblaw Properties Limited and Loblaw Properties West Inc. (collectively "Loblaw") on November 18, 2019. This new master license agreement has a five-year initial term with a three-year renewal option. This agreement replaces the previous agreement that Primacy had with Loblaw, and represents progress forward in the services that Primary delivers to Loblaw.

Subsequent to the quarter ended December 31, 2019 period, the Health segment expanded with the acquisition of two Ottawa-based health companies, Allphase Clinical Research Services Inc. and Alio Health Services Inc. (collectively, "Allphase/Alio"). The companies serve the pharmaceutical and medical device industry and the broader health care sector with clinical trial services, specialty medication support and community care and other services, all enabled by an innovative health care delivery management software application. The transaction provides the Health segment with access to innovative services and new customer segments in pharmaceuticals, hospital care and patient support at home. The amount paid on closing of \$14.5 million was comprised \$12 million cash and 62,054 common shares. Additionally, the agreement contains two earnout payments on the first- and second-year anniversaries, of \$6 million and \$6 million respectively, based on the achievement of a certain level of EBITDA in each of those periods. Allphase/Alio's results will be consolidated and reported within Calian's Health segment beginning February 1, 2020.

## Learning



Calian is a trusted provider of specialized training services and solutions for the Canadian Armed Forces and clients in the defence, health, energy and other sectors. We enable clients to reach competency and validate learning plans and team performance. Calian provides consulting services in emergency management, training and advanced training technologies to federal and provincial governments, municipalities, Indigenous communities, and the private sector, primarily in domestic markets.

Learning offers full-service training programs and services ranging from needs analysis and program design, development and delivery to administration and evaluation. Our goal for clients is to shorten the student's time-to-competency. Calian's training consulting services help clients achieve learning outcomes and optimize their workforce.

Complementing our training services are our products and technology. Calian MaestroEDE™ is a tool used to design, develop and deliver high-fidelity, collective training exercises for military customers; Calian ResponseReady™ is an online platform and simulation tool that supports emergency management training exercise delivery and evaluation.

## Financial performance

|                                 | Three months ended |                                  |
|---------------------------------|--------------------|----------------------------------|
|                                 | December 31, 2019  | December 31, 2018 <sup>(1)</sup> |
| Revenues                        | \$ 15,108          | \$ 15,850                        |
| Gross profit                    | 3,124              | 3,014                            |
| Selling and marketing           | 253                | 267                              |
| General and administration      | 797                | 663                              |
| Research and development        | -                  | -                                |
| Profit before under noted items | \$ 2,074           | \$ 2,084                         |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

Revenue decreased by 5% for the three-month period ended December 31, 2019 when compared to the same period of the prior year due to a slight reduction in demand on certain existing contracts. For that same period, gross margin has increased from 19% to 21% due to a focus on profitable project execution. General and administration expenses increased by \$134 for the three-month period ended December 31, 2019 when compared to the same period of the prior year due to increases in headcount.

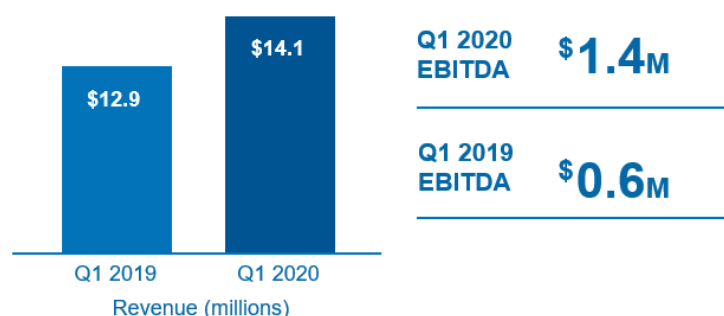
## First Quarter 2020 Highlights

Within the Learning segment, Calian announced it has partnered with Saulteaux Tribal Nation L.P., a First Nations-owned and operated company in Manitoba, to deliver emergency management services and best practices to other First Nations in the province. Calian and Saulteaux formalized the partnership at a signing ceremony on December 13 in Winnipeg, Manitoba. The unique agreement is designed to help Manitoba's First Nations increase resilience and emergency management independence, and to build community capacity and economic opportunity. Communities in remote or isolated areas can be disproportionately affected by emergencies or disasters. They can face logistical difficulties in their access to emergency services, for instance. After a flood or storm, infrastructure like roads, electricity and telecommunications networks can take longer to bring back online than communities in less isolated areas. In recent years, First Nations in Alberta, British Columbia, and Manitoba have faced evacuations and states of emergency due to wildfires, storms and floods, highlighting a need to increase local resilience and preparedness.

The Learning segment won a contract for the Region of Peel to develop a wastewater emergency response plan and a flood response plan. Calian Emergency Management Solutions will provide the Region of Peel with engineering, security and emergency management expertise and lead a team of specialists to conduct risk and vulnerability assessments, develop site-specific, facility-based response plans and procedures, and design and facilitate a comprehensive training program. In similar recent projects, Learning segment experts have assisted the Province of New Brunswick, City of Ottawa and City of Nanaimo with after-action reviews, and City of Whitehorse with a hazard, risk and vulnerability assessment.

The Learning segment remains focused on service line evolution, with continued exploration of new learning solutions and learning consultation services, including advanced training technologies and learning management systems. Training's product offerings continue to expand, with two solutions now available: Calian MaestroEDE™ and ResponseReady™.

## Information Technology



Calian's IT services support customer requirements for subject matter expertise in the delivery of their complex IT solutions. With a primary focus on cloud migration, IT development, support services, SAP consulting and cyber security solutions, Calian supports customers at all levels of government and the private sector in the domestic market.

Calian Cyber Security Solutions provides public and private sector organizations with the right people, processes and technology to build actionable plans and keep their environments safe and secure.

## Financial performance

|                                 | Three months ended |                                  |
|---------------------------------|--------------------|----------------------------------|
|                                 | December 31, 2019  | December 31, 2018 <sup>(1)</sup> |
| Revenues                        | \$ 14,083          | \$ 12,907                        |
| Gross profit                    | 2,592              | 1,660                            |
| Selling and marketing           | 579                | 473                              |
| General and administration      | 615                | 625                              |
| Research and development        | -                  | -                                |
| Profit before under noted items | \$ 1,398           | \$ 562                           |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

Revenues increased 9% for the three-month period ended December 31, 2019 compared to the same period of the previous year which is all organic. The revenue growth is the result of increased demand from existing customers for cyber security products, increase revenue attributable to maintenance revenue in relation to higher product sales from the previous year, and an increase in service delivery for IT professional services across a number of existing customers. Gross margin increased from 13% to 18% in the three-month period ended December 31, 2019 when compared to the same period of the previous year due to higher product sales which contribute higher margins.

Selling and marketing expense increased by 22% for the three-month period ended December 31, 2019 when compared to the same period of the previous year. This was the result of increased investment in our sales and business development in existing and new geographies.

## First Quarter 2020 Highlights

In support of customer diversification, the cyber team increased its marketing and sales activities, including digital campaigns and targeted events that helped increase cyber sales and the funnel of opportunities in Ottawa and the Greater Toronto Area (GTA). In the first quarter the cyber security practice won a substantial contract with Shared Services Canada to support the expansion of the customer's data centre consolidation initiative. We continue to generate new customers and business in existing customers across the service line, but especially in the cyber security offerings. Information Technology signed in excess of \$14 million in new



contract wins in the first quarter of 2020, enhancing its backlog position which the majority will be recognized in revenue during the remainder of fiscal 2020. The segment continues to invest in delivery of services, implementing best-in-breed cyber security solutions in new geographies and with new customers.

Through a competitive re-bid process, the segment is continuing its relationship with Ontario Education Collaborative Marketplace (OECM), a not-for-profit collaborative sourcing partner for Ontario's education sector, broader public sector and other not-for-profit organizations.

## Summary

In summary, the first quarter of fiscal 2020 has demonstrated the Company's consistent ability to grow revenues profitably while still continuing investments in new innovations to help propel future growth. The Company entered 2020 with a strong backlog of work and a reasonable expectation of future growth. In the coming year, we are expecting stability on our existing contracts, and positive results from investments made in research and development and sales resources. We continue to increase our investment in the marketing function with a focus on proactive social media engagement and targeted marketing campaigns in support of products and services across the four segments.

Calian is a diverse company which has consistently demonstrated the ability to manage this diversity and provide excellent returns for our shareholders. Under the framework of a common strategy, each segment of the company has the ability, capacity and management focus to control and manage their respective business segment. We are an innovative company, proudly Canadian, and are focused on sustaining our positive momentum in the remaining quarters of 2020.

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

These non-GAAP measures are mainly derived from the 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 nonrecurring. 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.

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. Adjusted EBITDA excludes 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.



## Adjusted EBITDA

|  | Three months ended  |                                    |
|--|---------------------|------------------------------------|
|  | December 31<br>2019 | December 31<br>2018 <sup>(1)</sup> |
| Net profit   | \$ 4,333            | \$ 3,355                           |
| Depreciation of equipment and application software   | 572                 | 495                                |
| Depreciation of right of use asset                   | 671                 | -                                  |
| Amortization of acquired intangible assets           | 889                 | 280                                |
| Lease interest expense                               | 110                 | -                                  |
| Changes in fair value related to contingent earn-out | 207                 | 142                                |
| Interest expense (income)                            | 63                  | (32)                               |
| Other changes in fair value                          | (101)               | -                                  |
| Income tax   | 1,662               | 1,447                              |
| Adjusted EBITDA                                      | \$ 8,406            | \$ 5,687                           |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

## Adjusted Net Profit and Adjusted EPS

|  | Three months ended  |                                    |
|--|---------------------|------------------------------------|
|  | December 31<br>2019 | December 31<br>2018 <sup>(1)</sup> |
| Net profit   | \$ 4,333            | \$ 3,355                           |
| Other changes in fair value                          | (101)               | -                                  |
| Changes in fair value related to contingent earn-out | 207                 | 142                                |
| Amortization of intangibles                          | 889                 | 280                                |
| Adjusted net profit                                  | \$ 5,328            | \$ 3,777                           |
| Adjusted EPS Basic                                   | 0.67                | 0.49                               |
| Adjusted EPS Diluted                                 | 0.67                | 0.48                               |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

The Company uses adjusted net profit and adjusted earnings per share, which remove the impact of our acquisition amortization and gains, resulting in accounting for acquisitions and changes in fair value to measure our performance. These measurements better align the reporting of our results and improve comparability against our peers. We believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our capital expenditure and working capital requirements. Adjusted profit and adjusted earnings per share are not recognized, defined or standardized measures under the International Financial Reporting Standards. Our definition of adjusted profit and adjusted earnings per share will likely differ from that used by other companies (including our peers) and therefore comparability may be limited. Non-GAAP measures should not be considered a substitute for or be considered in isolation from measures prepared in accordance with International Financial Reporting Standards. Investors are encouraged to review our financial statements and disclosures in their entirety and are cautioned not to put undue reliance on non-GAAP measures and view them in conjunction with the most comparable International Financial Reporting Standards financial measures. The Company has reconciled adjusted profit to the most comparable International Financial Reporting Standards financial measure as shown above.

## Consolidated Net Income and Other Selected Financial Information

|  | Three months ended |                                  |
|--|--------------------|----------------------------------|
|  | December 31, 2019  | December 31, 2018 <sup>(1)</sup> |
| Profit before under noted items                      | \$ 8,406           | \$ 5,687                         |
| Depreciation of equipment and application software   | 572                | 495                              |
| Depreciation of right of use asset                   | 671                | -                                |
| Amortization of acquired intangible assets           | 889                | 280                              |
| Other changes in fair value                          | (101)              | -                                |
| Changes in fair value related to contingent earn-out | 207                | 142                              |
| Profit before interest income and income tax expense | \$ 6,168           | \$ 4,770                         |
| Lease interest expense                               | 110                | -                                |
| Interest expense (income)                            | 63                 | (32)                             |
| Income tax expense                                   | 1,662              | 1,447                            |
| Net profit   | \$ 4,333           | \$ 3,355                         |
| Net profit per share, basic                          | 0.55               | 0.43                             |
| Total assets   | 229,604            | 163,140                          |
| Dividends per share                                  | 0.28               | 0.28                             |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

For the three-month period ended December 31, 2019, depreciation increased by 16% when compared to the same period in the year prior due to additions in assets over the prior fiscal year, and current quarter.

Depreciation of right of use assets is the result of adopting IFRS16 at the beginning of the current period. Further information regarding the lease accounting and depreciation can be found in the first quarter 2020 financial statements in notes 2 and 10, respectively.

Amortization of acquired intangible assets has increased in the three-month period ending December 31, 2019 by 218% due to acquisitions of IntraGrain and SatService in the prior fiscal year. Other changes in fair value for the three-month period ended December 31, 2019 represent a gain on fair value of the Cliniconex investment as described in note 11 of the Financial Statements.

Changes in fair value related to contingent earn-out expenses increased in the three-month period ended December 31, 2019 which relates to increasing the present valued contingent earn-out payable to face value of the total liability in relation to earn-out liabilities for IntraGrain and SatService. For further information refer to notes 14 and 23 of the Financial Statements.

Interest expense increased in the three-month period ended December 31, 2019 when compared to the same period of the previous year due to current borrowings on the debt facility whereas there were no borrowings in the same period of the previous fiscal year.

Finally, the Company reports its results on a fully taxed basis. The provision for income taxes for the three-month period ended December 31, 2019 was \$1,662, or 27.7% of earnings before income taxes adjusted for non taxable items compared to the \$1,447, or 30.1% of earnings before income taxes in the same period of the previous fiscal year. The difference in effective tax rates is primarily due to the increase in share based compensation and decreases in future income tax amounts.

## Backlog

The Company's backlog at December 31, 2019 was \$1,318 million with terms extending to fiscal 2030. This compares to \$1,330 million reported at September 30, 2019. 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.

During the three-month period ended December 31, 2019 the following contracts were the major contributors to the Company's backlog. These contracts are further described in the business overview section of this Management Discussion and Analysis.

- \$8 million of combined signings for new contracts and contract amendments for the provision of custom training and systems engineering services within the Department of National Defence
- \$5M combined signings for IntraGrain to be delivered in the spring and summer months
- \$5M contract amendment to increase assessments and add an option year under Canadian Border Services for psychological services
- \$4 million Canadian Space Agency Satellite Flight Operations Support
- \$4 million contract amendment to accommodate increased demand at Canada Revenue Agency for IT consulting services
- \$3 million in combined signings related to our recent acquisition of SatServe
- \$3 million in contract amendments to accommodate increased demand for IT consulting services at General Dynamics
- \$3 million from the utilization of option periods to Correctional Services psychological assessments contracts
- \$3M Ericsson IT support services contract extension

There were no contracts which were cancelled unexpectedly that would have resulted in a significant decrease in our backlog.

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 actually realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for the remainder of 2020, fiscal year 2021, 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 \$118 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.

|                        | Remainder<br>of Fiscal<br>2020 | Fiscal 2021       | Beyond<br>2021    | Estimated<br>realizable<br>portion of<br>Backlog | Excess over<br>estimated<br>realizable<br>portion | TOTAL               |
|------------------------|--------------------------------|-------------------|-------------------|--|---|---------------------|
| Contracted Backlog     | \$ 237,809                     | \$ 125,512        | \$ 73,094         | \$ 436,415                                       | \$ 82,468   | \$ 518,883          |
| Option Renewals        | 16,591                         | 35,438            | 711,049           | 763,078  | 36,015  | 799,093             |
| <b>TOTAL</b>           | <b>\$ 254,400</b>              | <b>\$ 160,950</b> | <b>\$ 784,143</b> | <b>\$ 1,199,493</b>                              | <b>\$ 118,483</b>                                 | <b>\$ 1,317,976</b> |
| Advanced Technologies  | \$ 89,720                      | \$ 53,510         | \$ 17,726         | \$ 160,956                                       | \$ 13,171   | \$ 174,127          |
| Health                 | 81,714                         | 38,250            | 584,047           | 704,011  | 41,814  | 745,825             |
| Learning               | 55,668                         | 58,655            | 179,064           | 293,387  | 39,421  | 332,808             |
| Information Technology | 27,298                         | 10,535            | 3,306             | 41,139   | 24,077  | 65,216              |
| <b>TOTAL</b>           | <b>\$ 254,400</b>              | <b>\$ 160,950</b> | <b>\$ 784,143</b> | <b>\$ 1,199,493</b>                              | <b>\$ 118,483</b>                                 | <b>\$ 1,317,976</b> |

## Liquidity and Capital Resources

Calian's cash position was \$14,395 at December 31, 2019, compared to \$17,135 at September 30, 2019, and our net cash position is (\$11,800) at December 31, 2019 when compared to \$4,135 at September 30, 2019.

|  | Three months ended<br>December 31, 2019    December 31, 2018 <sup>(1)</sup> |            |
|--|---|------------|
| Cash flows from operating activities before changes in working capital | \$ 7,207  | \$ 5,922   |
| Changes in working capital   | (19,786)  | (4,944)    |
| Cash flows from (used in) operating activities                         | (12,579)  | 978        |
| Cash flows from (used in) financing activities                         | 11,051  | 9,743      |
| Cash flows from (used in) investing activities                         | (1,212)   | (12,186)   |
| Increase (decrease) in cash  | \$ (2,740)  | \$ (1,465) |

(1) No restatement performed in Fiscal 2019 or 2018 figures due to the entity applying the modified retrospective approach on implementation of IFRS 16 which occurred in fiscal 2020.

## Operating Activities

Cash outflows from operating activities for the three-month period ended December 31, 2019 were \$12,578 compared to cash inflows of \$978 in the same period of the prior year. Cash flows have been impacted by working capital requirements for certain large projects, and the Company's overall growth. Working capital (accounts receivable, work in process, inventory, prepaid expenses and other, accounts payable and accrued liabilities, provisions and unearned contract revenue) has increased in the three-month period ended December 31, 2019 by \$21,436 to a total of \$78,219. Of this amount, \$16,140 relates to ground systems implementation projects where milestone billing is more significant towards the end of the project. The remainder of the working capital increase can be attributed to general business growth. The working capital impact would be offset by cash income from the statement of profit and loss.

## Financing Activities

### Dividend

The Company has maintained its dividend for the three-month period ended December 31, 2019. The Company paid dividends totaling \$2,232 or \$0.28 cents per share compared to the same period of the prior year when the Company paid \$2,176 in dividends or \$0.28 cents per share. The Company does not currently anticipate any change to its dividend policy.

## Debt

In the three-month period ended December 31, 2019, the Company continued to utilize its Revolving Credit Facility for current operations resulting in an inflow of cash of \$13,180, this compares to a draw of \$12,000 in the same period of the prior year.

## Shares

Exercises of stock options has resulted in cash inflows of \$717 for the three-month period ended December 31, 2019, compared to no exercises for the same period of the prior year

## Investing activities

### *Equipment expenditures and Capitalized Research and Development*

During the three-month period ending December 31, 2019, the Company invested \$454 in capital assets which is in line with the investment of \$393 the same period of the prior year.

During the three-month period ended December 31, 2019, the Company invested \$658 in capitalized R&D compared to \$494 the same period of the prior year.

### *Acquisitions*

No acquisition payments were made in the three-month period ended December 31, 2019 whereas in the same period of the prior year the Company acquired IntraGrain and had additional payment for ISR earnouts resulting in cash outflows relating to acquisitions of \$11,299.

### *Investments*

A \$100 investment was made in the three-month period ended December 31, 2019 in Cliniconex as described in Note 11 of the Financial Statements, whereas there were no investment outflows for the same period of the prior year.

### *Capital resources*

At December 31, 2019, 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. To date, the Company has drawn \$26,195 against the credit facility and an amount of \$50 was used to issue a letter of credit to meet customer contractual requirements. This credit facility will be paid down with results of operations and net short term assets. Subsequent to quarter end, the facility was increased to \$60,000.

Management believes that the company has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

## Off-balance sheet arrangements

There were no off-balance sheet arrangements at December 31, 2019.

## Related-party transactions

During the three-month period ended December 31, 2019 (2018), the Company had sales of \$152 (NIL) to GrainX in which Calian holds a non-controlling equity investment. At December 31, 2019 (2018), the Company had an accounts receivable balance with GrainX of \$103 (NIL) which is included in accounts receivable.

The Company has certain office space leases with employees of the Company. The total amount of expense due to leases with related parties is \$46 (\$55) for the quarter ended December 31, 2019 (2018).

## Adoption of new accounting standards and impact on financial results

### Current quarter ended December 31, 2019 impact:

In 2020 the Company adopted *IFRS 16 – Leases*. The accounting policies and impacts to the financial statements are expressed in note 2 to the financial statements.

Had the Company not adopt *IFRS16 – Leases* in the current period, the Statement of Net Profit would be impacted in the following way:

|  | IAS 17     | IFRS 16    | Change   |
|--|------------|------------|----------|
| Operating Expenses                                   | \$ 1,347   | \$ 620     | \$ (727) |
| Profit before under noted items                      | (1,347)    | (620)      | 727      |
| Depreciation of right of use assets                  | -          | 671        | 671      |
| Profit before interest income and income tax expense | (1,347)    | (1,291)    | 56       |
| Lease interest expense                               | -          | 110        | (110)    |
| Net profit impact                                    | \$ (1,347) | \$ (1,401) | \$ (54)  |

## Critical accounting judgements and key sources of estimation uncertainty

### 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.

#### *Project completion for revenue*

A significant portion of the revenue is derived from fixed-price contracts which can extend over more than one reporting period. Revenue from these fixed-price projects is recognized over time using the input method using management's best estimate of the costs and related risks associated with completing the projects. The greatest risk on fixed-price contracts is the possibility of cost overruns. Management's approach to revenue recognition is tightly linked to detailed project management processes and controls. The information provided by the project management system combined with a knowledgeable assessment of technical complexities and risks are used in estimating the percentage complete.

#### *Impairment of goodwill and intangible assets*

Determining whether goodwill or acquired intangibles assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit, and a suitable discount rate in order to calculate present value.

#### *Income taxes*

The Company records deferred income tax assets and liabilities related to deductible or taxable temporary differences. The Company assesses the value of these assets and liabilities based on the likelihood of the realization as well as the timing of reversal given management assessments of future taxable income.

#### *Contingent liabilities*

From time-to-time the Company is involved in claims in the normal course of business. Management assesses such claims and where considered probable to result in an exposure and, where the amount of the claim can be measured reliably, provisions for loss are made based on management's assessment of the likely outcome.

### *Loss allowance*

The Company has extensive commercial history upon which to base its provision for doubtful accounts receivable. Due to the nature of the industry in which the Company operates, the Company does not create a general provision for bad debts but rather determines bad debts on a specific account basis.

### **Judgments:**

#### *Financial instruments*

The Company's accounting policy with regards to financial instruments is described in Note 2 of the September 30, 2019 annual financial statements. In applying this policy, judgments are made in applying the criteria set out in IFRS 9 – *Financial instruments*, to record financial instruments at fair value through profit or loss, and the assessments of the classification of financial instruments and effectiveness of hedging relationships.

#### *Accounting policy for equipment and intangible assets*

Management makes judgments in determining the most appropriate methodology for amortizing long-lived assets over their useful lives. The method chosen is intended to mirror, to the best extent possible, the consumption of the asset.

#### *Deferred income taxes*

The Company's accounting policy with regards to income taxes is described in Note 2 of the September 30, 2019 annual financial statements. In applying this policy, judgments are made in determining the probability of whether deductions or tax credits can be utilized and related timing of such items.

#### *Input methodology for project completion*

The Company uses judgment in determining the most appropriate basis on which to determine percentage of completion. Options available to the Company include the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, surveys of work performed, and completion of a physical proportion of the contract work. While the Company considers the costs to complete, the stage of completion is assessed based upon the assessment of the proportion of the contract completed. Judgments are also made in determining what costs are project costs for determining the percentage complete.

### **Management's conclusion on the effectiveness of disclosure controls**

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's disclosure controls and procedures as of December 31, 2019, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them and that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

### **Management's conclusion on the effectiveness of internal control over financial reporting**

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, have concluded that the Company's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with IFRS.

During the most recent interim quarter ending December 31, 2019, there have been no changes in the design of the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.



## Risk and Uncertainties

We are exposed to risks and uncertainties in our business, including the risk factors set forth below:

- The markets for the Company's services are very competitive, rapidly evolving and subject to technological changes.
- The Company has certain ongoing contracts that account for a significant portion of the Company's revenues and if these contracts are not renewed at expiry or should a competitor win the renewal, the Company's future revenue stream and overall profitability could be significantly reduced.
- The Company must compete for qualified employees for its own operations and must have ready access to a large pool of qualified professionals to satisfy contractual arrangements with customers.
- There is a risk in all fixed-price contracts that the Company will be unable to deliver the system within the time specified and at the expected cost.
- The Company's business is often dependent on performance by third parties and subcontractors in connection with contracts for which the Company is the prime contractor.
- The markets in which the Company operates are characterized by changing technology and evolving industry standards and the Company's ability to anticipate changes in technology, technical standards and service offerings will be a significant factor in the Company's ability to compete or expand into new markets.
- Erosion of our customers' market share for a particular product could have a direct impact on the Company's revenues and profitability.
- The government may change its policies, priorities or funding levels through agency or program budget reductions or impose budgetary constraints, which could have a direct impact on the Company's revenues and profitability.
- Most fee-for-service contracts provide the applicable customer with the ability to adjust the timing and level of effort throughout the contract life so the amount actually realized by the Company could be materially different from the original contract value.
- There is a risk that as the Company grows, credit risk increases with respect to accounts receivable.
- In the event that an operating segment cannot secure an appropriate workforce, such operating segment may not be in a position to bid on or secure certain contracts.
- The Company is subject to foreign exchange risk in that approximately 19% of the Company's revenues are derived from non-Canadian sources, which can have a direct impact on the profitability of the Company.
- The Company is exposed to a range of risk related to its foreign operations.
- The Company conducts acquisitions and faces risks associated with those acquisitions and the integration of the acquired businesses.
- The Company's insurance policies may not be sufficient to insure itself for all events that could arise in the course of the Company's business and operations.
- The Company operates in the health services sector and faces the risks inherent in that sector.
- As newly formed entities in certain markets and industries are restructured and consolidated from time to time, opportunities for the Company may be diminished or work currently performed by the Company could be repatriated, resulting in a loss of revenue.
- Any fraudulent, malicious or accidental breach of our data security could result in unintentional disclosure of, or unauthorized access to, third party, customer, vendor, employee or other confidential or sensitive data or information, which could potentially result in additional costs to the Company to enhance security or to respond to occurrences, lost sales, violations of privacy or other laws, penalties, fines, regulatory action or litigation.
- The Company is dependent upon information technology systems in the conduct of our operations and we collect, store and use certain sensitive data, intellectual property, our proprietary business information and certain personally identifiable information of our employees and customers on our networks.
- The Company is exposed to environmental and health and safety regulations associated with its manufacturing activities.

A comprehensive discussion of risks, including risks not specifically listed above, can be found in our most recently filed Annual Information Form. Additional risks and uncertainties not presently known to us or that we



currently consider immaterial also may impair our business and operations and cause the price of our shares to decline. If any of the noted risks actually occur, our business may be harmed and our financial condition and results of operations may suffer significantly.

## Long-term 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 nine acquisitions in the past eight 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 Advanced Technologies segment 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. We continue to invest in communications products, software development and manufacturing equipment to strengthen the segment's competitive position and diversify 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 the segment's customer requirements and continuing volatility in orders is anticipated as both government and commercial customers continue to re-examine their traditional spending patterns. The delays, deferrals and cancellations of DND capital procurements have created intense competition for available manufacturing work. Finally, changes in the relative value of the Canadian dollar may negatively or positively impact the segment's competitiveness on projects denominated in foreign currencies.

The Health, Learning and IT segments' professional services are adaptable to many different markets. Currently, the strength of these segments 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. Recently these segments have been successful in diversifying their customer base and evolving their service offerings. Management believes that for the long term, the public and private sector will continue to require Health, Learning and IT services from private enterprise to achieve their business outcomes. As to 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, these segments are better positioned to manage through any potential government spending downturns. Recent acquisitions have also bolstered the performance of these segments and it is expected that, overall, the acquired companies will continue to meet and exceed the financial targets established as part of the acquisitions.

## Additional Information

Additional information about the Company such as the Company's 2019 Annual Information Form and Management Circular can be found on SEDAR at [www.SEDAR.com](http://www.SEDAR.com)

Dated: February 5, 2020

## Corporate Information

### Corporate Head Office

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Ottawa, Ontario, Canada K2V 1C8  
Phone: 613.599.8600  
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Web: [www.calian.com](http://www.calian.com)

### Board of Directors

**Kenneth J. Loeb**  
President, Mystic Investments Inc.  
Chairman, Calian Group Ltd.  
Chair of the Nominating Committee

**Richard Vickers, FCA**  
Consultant  
Chair of the Audit Committee

**George Weber**  
President, WebX Consulting Ltd.  
Chair of the Compensation Committee

**Jo-Anne Poirier**  
President and CEO, VON Canada  
Chair of the Governance Committee

**Ray Basler**  
Consultant

**Young Park**  
Consultant

**Kevin Ford**  
President and CEO, Calian Group Ltd.

### Common Share Information

The Company's common shares are listed for trading on the Toronto Stock Exchange under the symbol CGY.

### Dividend Policy

The Company intends to continue to declare a quarterly dividend in line with its overall financial performance and cash flow generation. Decisions on dividend payments are made on a quarterly basis by the Board of Directors. There can be no assurance as to the amount of such dividends in the future.