



2019



Annual Report
Calian Group Ltd.

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Chairman's Letter

Dear investors,



I was pleased to see that Calian Group's (TSX:CGY) long-term profitable growth strategy has resulted in another year of positive returns for shareholders.

Despite general uncertainty in global markets, CGY reflected growth and

stability, realizing total shareholder return of 20% over the fiscal year. The share price continued to outperform key benchmarks, gaining 17.2% in FY2019 while the S&P/TSX Composite, NASDAQ Composite, and S&P/TSX Small Cap indexes each gained less than 2.5% (or declined) over the same period. Calian's dividends remained steady with a total of \$8.8 million being returned to shareholders.

- CGY
- S&P/TSX Composite
- NASDAQ Composite
- S&P/TSX Small Cap



Taking a longer-term view, the returns are even more positive. CGY's three-year total shareholder return, to October 1, 2019, was 66%. In other words, a \$10,000 investment on September 30, 2016 would have risen to a value of \$16,600 at the end of our 2019 fiscal year. Shareholders derive tremendous value from the knowledge that we are investing in more than financial returns, and it has been heartening to hear about the success of Calian's corporate social responsibility activities. The year was an excellent one for Calian's Military Family Doctor Network, launched in 2016 in partnership with Military Family Services, a division of Canadian Forces Morale and Welfare Services. As of year-end, this valued initiative had referred more than 2,200 military family members to a family physician in their community. This support is important for military families

who relocate frequently and rely on provincial health care systems for medical care. Additionally, the Calian-led program launched a pilot with Ontario Telemedicine Network to provide physician access to even more military families through virtual care in Ontario.

I continue to have confidence in the management team, and was pleased with the addition of Patrick Houston, Chief Financial Officer. He brings a wealth of experience with a strong background in financial planning, international operations, technology, mergers and acquisitions and public markets. Former CFO Jacqueline Gauthier remains a member of the corporate leadership team as Senior Vice-President, Corporate Development, working on M&A and special projects.

As recently announced, Calian's introduction of financial reporting aligned to its four operating segments is a positive development for shareholders. Given the company's growth, the previous two-division structure did not adequately reflect Calian's core business. Going forward, shareholders will have a clearer view of Calian's core businesses across the four segments of Advanced Technologies, Health, Learning and IT.

The management team's growth strategy has my full support. We have observed its execution over the past year with very strong organic growth supported by strategic acquisitions. This year saw two acquisitions. IntraGrain Technologies supports Calian's move into AgTech with advanced technology solutions for the agriculture market. The company also expanded into Europe with its acquisition of SatService, a German provider of turnkey satellite solutions and products.

The year clearly set new highs for Calian, with four consecutive quarters of record revenues backed by solid EBITDA performance. I believe people and the markets are starting to pay attention to the Calian story. Less than five years ago, the company had coverage from a single analyst. Today, CGY has five.

The Calian story continues to evolve and is far from finished. I look forward to seeing it unfold under the leadership of CEO Kevin Ford and the rest of the management team, as they continue to apply their strategy for long-term, profitable growth.

Kenneth Loeb

Chairman

Message from the CEO



Kevin Ford
President and CEO,
Calian Group Ltd.

This has been an exciting year for Calian on many fronts. We reported record annual revenue and earnings, executed two acquisitions, launched innovative products, strengthened our global presence, and gained new customers across all our offerings.

As I have previously stated, Calian is pivoting. The marketplace once perceived Calian as a conservative, stable, dividend-paying company; however today we are pivoting toward an innovative, global growth company. We are shifting our culture, goals, mindset and geographical footprint towards a Calian characterized by growth, innovation, stability, profitability and global markets.

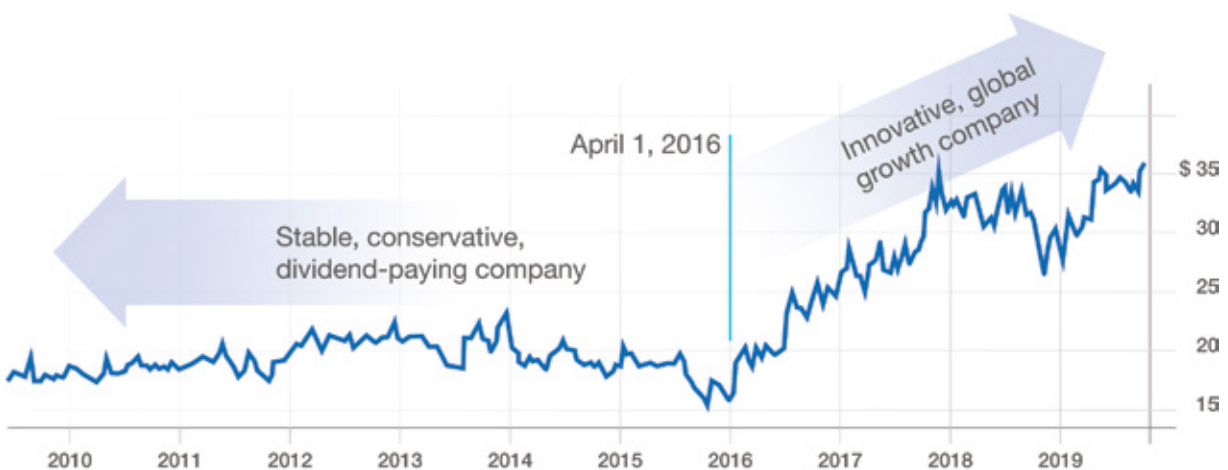
There was a moment in April 2016 that signalled the start of this pivot – it was the day we opened the TSX to announce the renaming of the company to Calian Group Ltd., with the new stock ticker CGY, to better reflected our diverse services and solutions (see chart below). Prior to that point, the markets understood us as a single digit growth company. Today, we continue to offer a strong dividend while aiming for double digit annual growth, leveraging organic and acquisitive

strategies. This was evident in FY2019 with four consecutive quarters of record revenue, representing annual revenue of growth of 12%.

Calian’s four-pillar growth framework starts with customer retention, which remained very strong in 2019 with successful recompetes on major contracts. These included our re-win of the Training and Support Services Contract for the Canadian Army Simulation Centre (CASC)/Department of National Defence (DND), valued at more than \$170 million over the full nine-year period (including optional extensions). Another example was our successful recompete for a contract



Calian's strategic growth framework



to develop and support courseware projects for the Army Learning Support Centre (ALSC)/DND. The contract value is approximately \$17 million over a term of about three years. In support of customer retention, our client satisfaction metrics have remained strong, with excellent feedback indicating our customers continue to see value from our contract delivery.

We successfully diversified our customer base this year, organically and through M&A. The acquisition of SatService in Germany represented our first global acquisition and delivered new customers in the European satellite communications market. IntraGrain Technologies, another acquisition that closed this year, enabled our move into AgTech with new customers in agriculture and construction. Our emergency management and health services diversified organically, with health expanding into policing and emergency management into additional municipalities, including the Region of Peel and City of San Diego.

Evolving our services and solutions is critical to ensuring that we change with the world around us, and that we remain a thought leader in our diverse business lines.

To that end we continued to grow our products business with R&D investments in new product lines in the satellite and cable sectors, and the IntraGrain and SatService acquisitions, which augmented our global product catalogue. We continued to invest in innovation, releasing a new line of carbon fibre satellite antenna systems, remote PHY cable technologies, and a training product, MaestroEDE™. While these initiatives require investment, we view them as critical to unlocking innovation and supporting Calian's long-term growth.

Calian is committed to continuous improvement. We delivered on that front this year at a corporate level and within the divisions. A few examples: This year we recertified with Excellence Canada, at the Gold-level standard for excellence, innovation and wellness. Our Advanced Technologies segment was also certified to the internationally recognized quality standard ISO 9001:2015. In other developments, our IT and technology infrastructure improvements have picked up pace with our Chief Information Officer providing a focal point.

Calian remains focused on our long-term, profitable growth strategy. From my perspective it is important to emphasize our profitability. Our positive cash flow reflects the strength of our management team and provides benefits to the company and our shareholders. Calian's cash generation enables continued investments in innovation and long-term growth, and the millions of dollars annually that we pass on to shareholders via dividends.

Looking forward, I am excited to introduce our shareholders to Calian's new reporting structure aligned to four operating segments: Advanced Technologies, Health, Learning and Information Technology. These four reporting segments will provide investors with a clearer window into Calian's core business. I believe it is an important development for our shareholders as well as the company as we start to shift away from our legacy two-divisional construct.

In the coming years we will be evolving Calian's internal divisions to align with these four operating segments. These businesses have already matured into distinct divisions, with their own growth potential individually as well as opportunities to sell robust solutions through cross-divisional collaboration. As the corporation evolves our internal structure, we anticipate increased communication, collaboration and more efficient utilization of resources.

Overall, this is an exciting period for this company, and my outlook remains positive. With a strong foundation and dedicated team, we will continue our "pivot." I believe we are well-positioned to continue our growth trajectory.



Kevin Ford

President and CEO

2019 Segment Highlights

Advanced Technologies

Advanced Technologies' year was characterized by quality project execution, investments for future growth, the evolution of our products and solutions, the expansion of our engineering services offering, and our industry partnerships.

Our customer retention efforts remained focused on excellence in project delivery. The communications ground systems business completed a series of upgrades to the European Space Agency's (ESA) deep space antenna network and Inmarsat's radio frequency (RF) ground systems infrastructure. Additionally for Inmarsat, we completed development of a next-generation spectrum monitoring system. For long-time customer SiriusXM, we continued several software and hardware upgrades to their base band ground systems. Work continued on the development of a large ground system project for a series of RF antenna systems and associated electronics, to be deployed across North America in 2020. Through superior support to our defence and security clients, the engineering services team expanded their services to cover new programs for Special Operations Forces, the Royal Canadian Navy, the Parliamentary Protective Service, and others.

Thanks to the renewal of Canadian Space Agency (CSA) satellite operations contracts, we were honoured to participate in the successful launch and operation of three satellites for the Radarsat Constellation Mission, spearheaded by the CSA. This mission launched Canada's new generation of Earth observation satellites, which take daily scans of our country and its waters, collecting invaluable information in support of maritime surveillance, disaster management and ecosystem monitoring. Project delivery continued with customer General Dynamics Land Systems-Canada on the manufacturing of control boxes for military vehicles, with funded research and development on new capabilities. Overall, we were pleased with our customer retention focus. Advanced Technologies continued to retain key contracts and customers this year, with excellent scores for "very satisfied."

In support of customer diversification, the Advanced Technologies segment closed two acquisitions this year that further diversified our customers and expanded our geographical presence into Europe. The acquisition of IntraGrain Technologies has led our move into the AgTech market. IntraGrain's products save farmers millions of dollars annually by avoiding grain bin fires and spoilage. With rising global demand straining food supplies, farm technology solutions such as BinSense™ are key to optimizing global food production. The acquisition of satellite communications solutions provider SatService, based in Germany, provides Calian with a foothold in Europe and new customers for satellite communications solutions and products. We anticipate that our complementary capabilities and global reach will increase competitiveness in satellite communication ground systems. Outside of acquisitions, new customers were also gained in custom manufacturing, including North Star Systems and International Road Dynamics.

In support of service line evolution, the Advanced Technologies team continued its involvement in the working groups of CableLabs, a not-for-profit innovation, research and development lab supporting the cable industry. We are involved in the development of leading-edge cable network technology for the DOCSIS 3.1 cable technology standard and are now participating in the emerging DOCSIS 4.0 specifications. These technologies allow cable network operators to cost-effectively provide substantial improvements in the data throughput of their networks.

At Calian, we innovate with our customers and partners. An example is our partnership with the CSA and a Science and Technology Development Program contract to develop next-generation, high bandwidth/multi-channel satellite modem platforms. Amid higher demand for bandwidth, these innovative platforms allow satellite operators to maximize data transfer by aggregating and utilizing unused fragments of spectrum. Advanced Technologies' signature product announcement this year was a new line of large-aperture, carbon fibre satellite communication antennas. These lightweight, high-performance systems provide a cost-effective antenna solution that meets the requirements for next-generation,

high-throughput satellite communications systems relying on higher-frequency bands such as Q and V. To accomplish this we developed our own composite carbon fibre manufacturing facility in Saskatchewan as well as our high-precision antenna control systems. With the help of key industry partners, we created a modern pedestal and mechanical antenna movement system. This strategic investment in our in-house product development supports the customer retention and customer diversification objectives within the growth framework.

In other service line evolution efforts, we introduced the Decimator D4 digital spectrum analyzer, a product used by satellite and teleport operators around the globe to remotely monitor the performance of their satellite communications networks. The engineering technical services team also successfully entered into the autonomous systems domain, with a new program to support the development of intelligent systems for the Department of National Defence (DND) and Canadian Armed Forces (DND/CAF). Calian is leading this project that covers concept development, experimentation, and characterizing human autonomy interaction, with the goal of improving the integration of human operators with complex and intelligent machines for the CAF.

The nuclear services engineering team gained additional projects this year with Ontario Power Generation (OPG), as well as more than 10 other contracts, after securing partnerships with Cavendish Nuclear, CCNuclear and Groupe Démex-Centrem (Démex). Combining our complementary skills and expertise with these companies, on a project-by-project basis, has allowed Calian Nuclear to offer a single point for solutions to support nuclear decommissioning, including prompt dismantling, deferred dismantling or in-situ disposal. The nuclear services team will be increasing its sales and marketing activities for Calian ResponseReady™, a turnkey simulation solution for communications and social media management within a nuclear emergency exercise. The product is fully operational in support of the Romanian Nuclear Power Commission as a launch customer.

In support of continuous improvement, the Advanced Technologies team's certification this year to the ISO 9001:2015 quality standard – known throughout the world – is a testament to our focus on quality. It is a clear message to clients of our commitment to excellence in everything we deliver – from products to services to solutions.



Carbon fibre antenna: Calian now offers high-performance medium- and large-aperture RF composite antennas, for the most demanding applications.

Health

Calian Health continued to demonstrate strength in 2019 with organic growth on our largest program, the Health Care Provider's Requirement (HCPR) contract for the Department of National Defence, Veterans Affairs Canada and the RCMP.

Won in 2017 in partnership with Bayshore Healthcare, Calian's sub-contract provider, delivery officially launched on April 1, 2018. Now in the midst of year two of this contract, we achieved "Superior" customer satisfaction ratings again this year. Including optional extensions, HCPR represents 12 years of health services, with a total value of up to approximately \$1 billion over the full 12-year period.

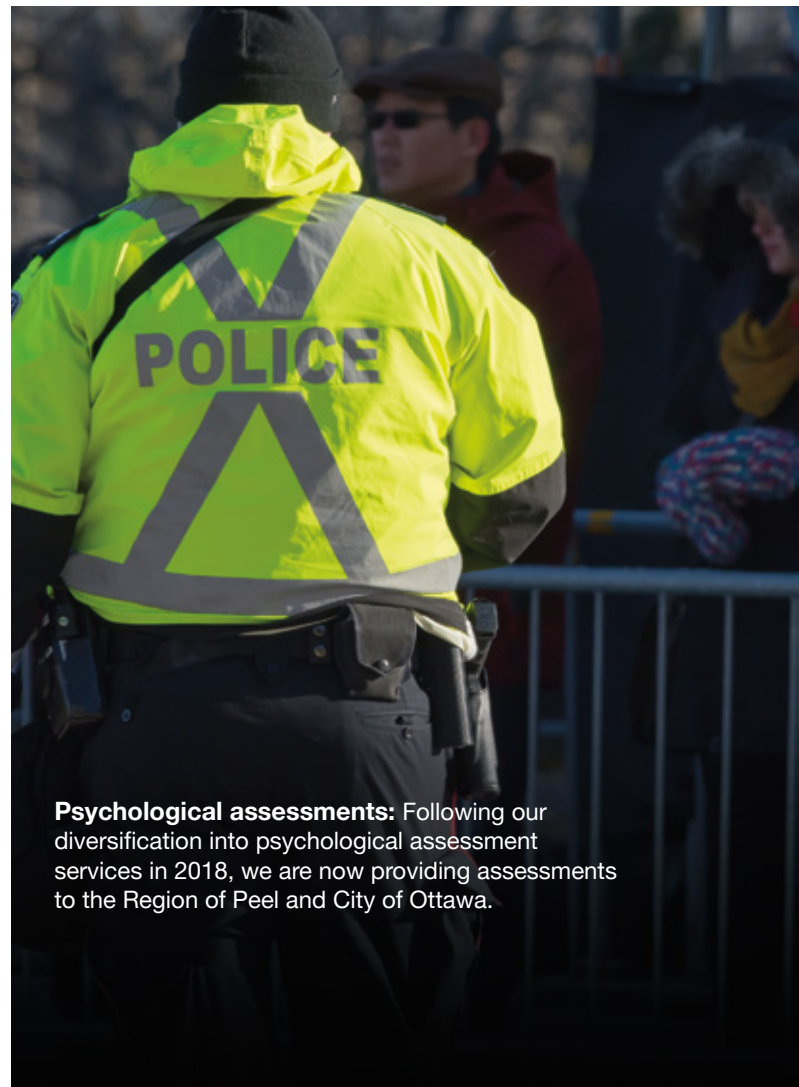
In support of customer diversification, the Health team continued service penetration across the correctional services portfolio, now with approximately 15 contracts with corrections institutions in this target market. Following our diversification into psychological assessment services in 2018, we expanded with contracts for the police services of Region of Peel and City of Ottawa. Our health services for Canada Border Services Agency (CBSA) have also been successful. For this client we are delivering quality and consistency of turnkey medical solutions for its Toronto immigration holding centre. Strong program delivery has led to contract awards for other CBSA facilities at Laval, Quebec and Surrey, BC (starting in 2020), and has enabled the company to expand our health service delivery capability in Quebec. Our work with CBSA has been a strong example of our customer diversification achievements.

The Military Family Doctor Network (MFDN) continued to expand. This signature program within Calian's social responsibility initiatives leverages physicians in our growing Primacy clinic network, as well as non-Primacy doctors. The MFDN is a growing network of doctors who have volunteered to accept military family members as their clients under regular provincial care.

This successful program fulfills an important need

for military families. With deep roots in the military community, Calian launched the MFDN in 2016 in partnership with Military Family Services, a division of Canadian Forces Morale and Welfare Services, to help relocating military family members find family physicians in their new community. As of fiscal year-end, we were pleased to report the network had referred more than 2,200 military family members to a family physician. In September 2019 we also successfully launched an Ontario Telemedicine Network pilot program to connect even more military family members to physicians through virtual care.

As Calian grows, health services remain a focus within the company's innovation agenda. We continue to explore potential health technologies to support the growth and evolution of our client services.



Psychological assessments: Following our diversification into psychological assessment services in 2018, we are now providing assessments to the Region of Peel and City of Ottawa.

Learning

Learning concluded a strong year with several wins supporting key pillars within Calian's growth framework.

In customer retention, the Learning team successfully re-competed on several major contracts, contributing more than \$240 million in backlog. These re-wins included an eLearning contract renewal with DND valued at approximately \$17 million over three years; and our successful re-compete for the Training and Support Services Contract for DND and the Canadian Army Simulation Centre, valued at approximately \$170 million over nine years, including optional extensions.

Our emergency management services continued to gain momentum with consulting contracts for clients such as City of Ottawa, City of Victoria, the Canadian Red Cross, the Government of New Brunswick, City of San Diego, and large industrial clients. The Region of Peel selected Calian recently to develop an emergency management program to support its waste water division, including threat and risk assessment, plans and procedures and a training program. We also consulted with some municipalities, including City of Vaughan and City of Markham, to help address challenges related to preparing for enhanced 911 services. As emergency preparedness and disaster mitigation planning becomes a higher priority for communities and organizations around the world, we continue to diversify customers through these critical services, seeking out opportunities with municipal and provincial governments, federal departments and agencies, and the private sector.

The Learning team 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. Our goal is to efficiently help public and private sector clients shorten the student's time-to-competency.

Learning's product offerings continue to expand, with two solutions now available. Calian MaestroEDE™, an innovative exercise management software solution, was showcased at the 14th NATO CA2X2 (Computer

Aided Analysis, Exercise, Experimentation) Forum 2019 in Paris. We will continue to market MaestroEDE and our other major training simulation product, ResponseReady™, as we seek clients within NATO and further expansion into European and global markets.



Emergency Management: Calian continues to diversify customers for these critical services, seeking out opportunities with municipal and provincial governments, federal departments and agencies, and the private sector.

Information Technology

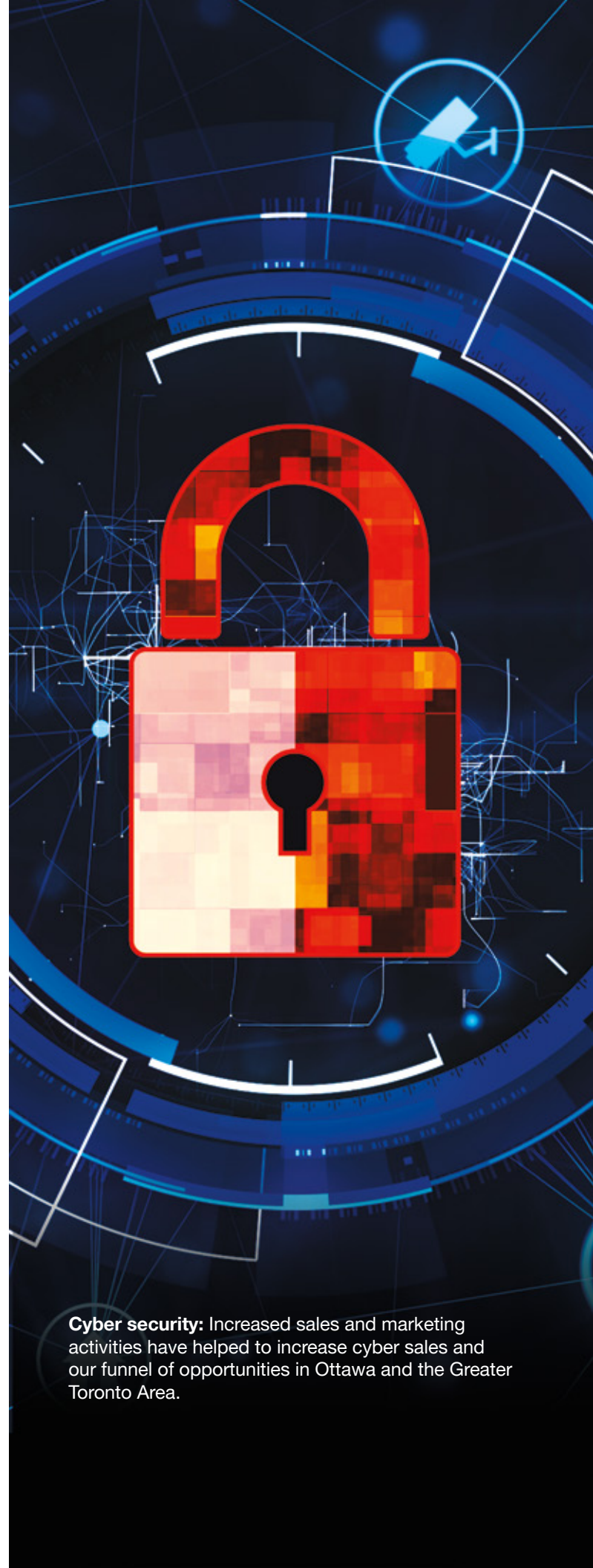
IT continued its growth path in 2019 with new customers and organic growth primarily driven by the cyber security business and software development services.

This year we finalized the integration of Secure Technologies, a cyber security acquisition that closed in 2018. In support of customer diversification, the cyber security team increased its marketing and sales activities, including digital campaigns and targeted events that helped increase cyber sales and our funnel of opportunities in Ottawa and the Greater Toronto Area (GTA). We generated a handful of new key customers that included Shared Services Canada and some private sector firms in the GTA.

New business was also generated through our SAP practice this year, with new clients Canada Revenue Agency (CRA) and Toronto Transit Commission (TTC).

Demand has remained strong on our IT defence contract with General Dynamics Mission Systems–Canada, to deliver Land C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance) systems support for the Canadian Army. This IT and software development contract announced in the second quarter offers the Canadian Army an improved ability to help protect the communications and information systems it depends on while evolving technologies that generate economic impact for Canada.

While contract delivery continued at a steady pace with our other government and defence clients, we successfully closed out the first two phases of a major IT project for a large Canadian municipality. Looking forward, the IT team is continuing our exploration of new business opportunities and service offering evolution through managed services, as well as cloud and cyber solutions.



Cyber security: Increased sales and marketing activities have helped to increase cyber sales and our funnel of opportunities in Ottawa and the Greater Toronto Area.

How our segments performed



Advanced Technologies

Core business: Engineering services, products, solutions, software development, manufacturing, training, technical services

Markets: Satellite communications, aerospace, defence, cable networks, nuclear power, agriculture, government

Customers: Canadian Space Agency, Sirius XM, Ontario Power Generation, DND, Inmarsat

	2019	2018
Revenues:	\$ 109,697	\$ 99,201
Gross margin (%):	28%	29%
EBITDA ⁽¹⁾ :	\$ 16,523	\$ 17,745
EBITDA (%):	15%	18%
Backlog:	\$ 173,400	\$ 204,800



Learning

Core business: Custom training, emergency management solutions, software products, consulting, course development

Markets: Defence, health, energy, government, Indigenous communities

Customers: DND, Province of New Brunswick, City of Victoria, Canadian Red Cross, Interlake Reserves Tribal Council

	2019	2018
Revenues:	\$ 63,098	\$ 61,552
Gross margin (%):	20%	19%
EBITDA ⁽¹⁾ :	\$ 8,787	\$ 8,643
EBITDA (%):	14%	14%
Backlog:	\$ 327,800	\$ 102,600

Canadian dollars in thousands

(1) Excludes corporate costs; see financial statements for reconciliation.



Health

Core business: Health services, psychological assessment services, medical property management

Markets: Defence, law enforcement and security, corrections, energy, occupational safety

Customers: DND, Correctional Service Canada, Canada Border Services Agency, Edmonton Police

	2019	2018
Revenues:	\$ 115,719	\$ 99,458
Gross margin (%):	20%	17%
EBITDA ⁽¹⁾ :	\$ 18,496	\$ 13,266
EBITDA (%):	16%	13%
Backlog:	\$ 764,000	\$ 858,700



Information Technology

Core business: IT consulting, IT and cloud solutions, software development, SAP consulting, cyber security solutions

Markets: Government, defence, private sector

Customers: Shared Services Canada, DND, General Dynamics Mission Systems—Canada, Toronto Transit Commission, Ericsson

	2019	2018
Revenues:	\$ 54,531	\$ 44,857
Gross margin (%):	15%	14%
EBITDA ⁽¹⁾ :	\$ 3,567	\$ 2,571
EBITDA (%):	7%	6%
Backlog:	\$ 65,100	\$ 61,600

At Calian, we help the world communicate, innovate, lead healthy lives and stay safe.

This is our core purpose.

The following are a small sample of some of our people and what they do.



Kyeisha Clayton (Level II Dental Assistant)



Kyeisha supports healthy minds and bodies through her work on oral health for CAF members at the dental clinic at CFB Halifax. A Calian dental assistant focused on patient health, she assists military and Calian dentists, as well as the military oral surgeon, with a host of tasks supporting CAF members' dental visits.



Dr. Mathew Fetzner (PhD, CPsych)




Mathew supports the health of Canadian Armed Forces members. A Calian clinical psychologist and Acting Program Manager at CFB Petawawa for Canadian Forces Health Services, he is a passionate advocate for mental health and for finding simple ways to lead healthy lives.

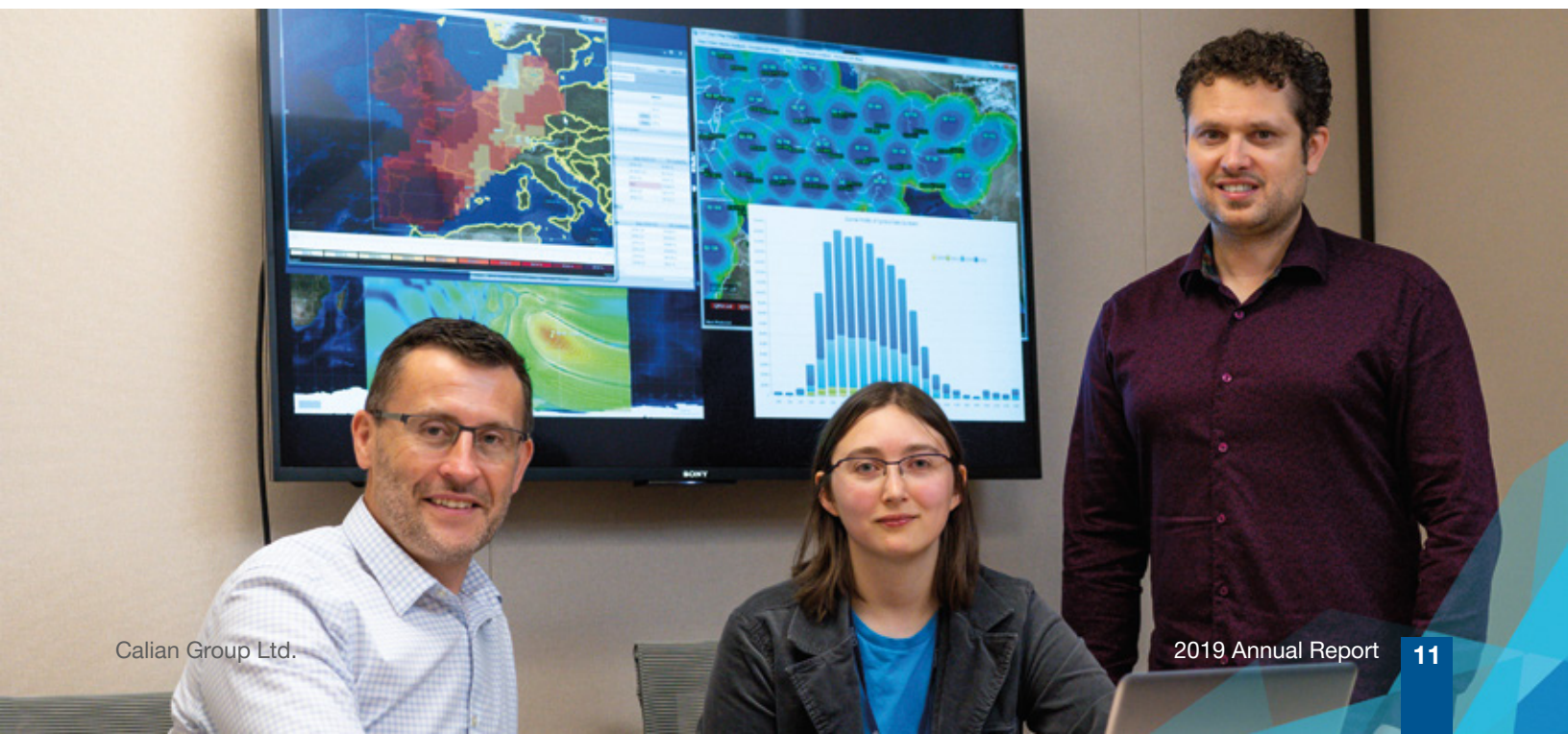


Ulf Wulfert and Michael Ulbricht

 Ulf (left) and Michael deliver satellite communication solutions that help key players in the broadcast and communications industries communicate and stay safe. They are two members of Calian's recently acquired SatService team, based in Steißlingen, Germany. Michael is founder and managing director and Ulf is director of software development and IT services. They are helping to grow Calian's European reach and provision of turnkey satellite communications products and services for the European market.

Russ Palmer (BSc), Stacey Hala (BSc) and Jason Hill (MSc)

 Amid higher demand for transfer of data, a communication satellite's most precious resources are its communication bandwidth and power. Russ, Stacey and Jason (left to right) develop software tools to assist satellite operators in the visualization and optimization of these resources in order to maximize the amount of data relayed over their satellites. They are key members of Calian's Advanced Technologies development team that builds satellite capacity planning and resource management systems.





Bill Dunnion (CISM)



Bill helps keep organizations safe from cyber attacks and breaches. As director of Calian's cyber security practice, he leads a team that helps clients prepare for, prevent, respond to, and recover from cyber security breaches. Passionate about technology and security, Bill seeks to help raise the resilience of companies and federal and provincial governments.

Hani Al Anid (PhD, PEng)



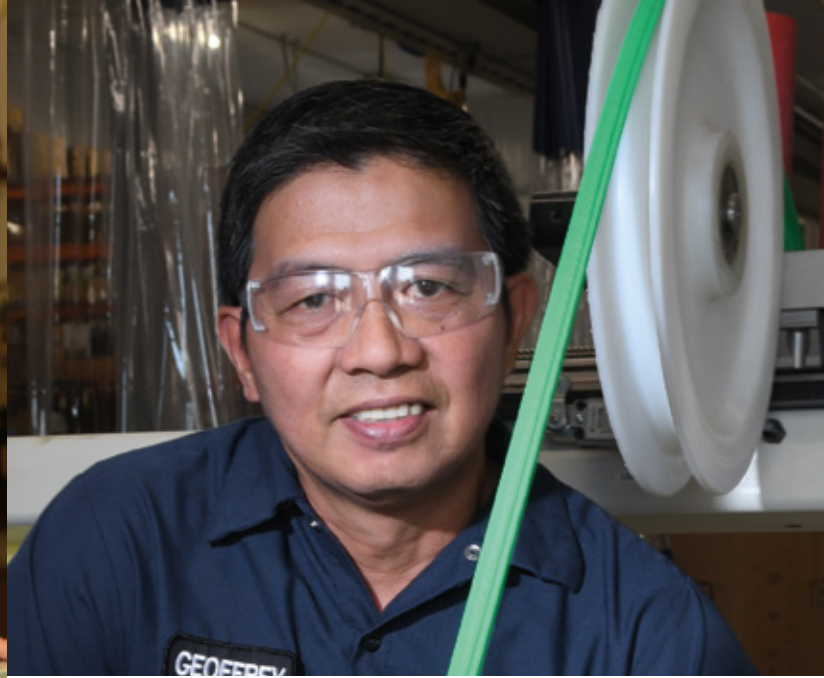
Hani works with space and nuclear engineering partners to help innovate and stay safe. As director of nuclear engineering at Calian, he participates in several research projects with the Canadian Space Agency (CSA) to develop innovative technologies for measuring and quantifying the amount of radiation exposure experienced by astronauts during space missions. Passionate about science and innovation, he is also a member of the CSA's Space Health Topical Team, where he works with specialists in Canada to provide subject matter expertise to the CSA, particularly regarding the radiation environment and hazards in space.




Shawn Corrigan (MA DEM, CEM)



Shawn is passionate about applying emergency management capabilities to real-world issues. A Calian senior consultant and thought leader for emergency management in North America, he has recently been strengthening relationships between Calian and Canada's Indigenous communities and leaders. This effort has helped to improve resilience for First Nations through work such as hazard inventory and risk assessments, community emergency management plans, search and rescue training and custom curriculum.



Estela Miranda and Geoffrey Dacog

 Estela (left) and Geoffrey are helping to feed a growing world population by producing technologies that reduce grain spoilage and secure food supplies. At IntraGrain Technologies, Calian's AgTech solutions provider, Geoffrey operates an extruder that produces cable in 5,000-foot reels for the BIN-SENSE® grain bin monitoring system. Estela solders sensing elements for these temperature and moisture monitoring cables. When installed in bins, the cables transmit data to producers' mobile devices, alerting them about conditions that can lead to crop spoilage. IntraGrain's BIN-SENSE® product helps customers protect their assets stored in grain bins in North America and globally.



Lynn Crawford (RN, MN-NP)

 As a nurse practitioner at CFB Edmonton, Lynn helps to balance both the occupational and primary health care needs of CAF members. With a personal passion for holistic care, she is part of an interdisciplinary team that helps to support CAF members' high levels of health and fitness necessary for domestic and international deployments.

Corporate Social Responsibility

Calian's Corporate Social Responsibility (CSR) is rooted in who we are and what we do as a company, as described in our core purpose: We help the world communicate, innovate, lead healthy lives and stay safe. We are committed to conducting our business with integrity, uncompromising quality and professionalism. Calian's CSR is embedded in our organizational goals, core values and business code of conduct.

Calian's CSR initiatives are informed and governed by our CSR statement, approved by the Board of Directors in 2018. The statement outlines Calian's core CSR principles and our adherence to the seven core subjects of the ISO 26000 social responsibility standard: Organizational Governance, Community Involvement and Development, the Environment, Human Rights, Labour Practices, Fair Operating Practices, and Customers. (For the full statement see Calian.com.)

Calian supports the Government of Canada's Truth and Reconciliation Commission "Calls to Action" and the desire for corporate Canada to build more meaningful, respectful relationships with Canada's Indigenous communities. As such, in 2019 we developed an Indigenous Relations Framework based on three pillars: Listening, Learning and Leveraging. Calian actively seeks to establish meaningful relationships with First Nations, suppliers, advocacy groups, business councils, existing partnerships and potential employees. We seek out Indigenous communities for new partnerships and actively work towards developing a shared vision to meet the needs of our Indigenous partners.

Diversity in our people is one of Calian's core strengths. For Calian, diversity refers to race and gender as well as family status, ethnicity, religious beliefs, education, age, sexual orientation or physical abilities. It is the collective mix of people's differences and similarities. Building teams with widely different ethnic, racial, social and other backgrounds is an aspect of our pursuit of excellence. Managing diversity means fostering an environment that lets Calian employees fully contribute to our collective success as well as their own. It is nurturing a culture where everyone is valued for the unique qualities they offer.

Calian is a passionate supporter of the Canadian Armed Forces and military families. In June 2019 we reached a significant milestone: more than 2,200 military family members had been referred to a family doctor through the company's Military Family Doctor Network (MFDN). We created the MFDN, in partnership with Military Family Services, a division of Canadian Forces Morale and Welfare Services, to facilitate Canadian military families' access to provincial medical care. While the CAF provides serving members with complete health care, their family members rely on the provincial health systems. This presents a unique challenge for military families who relocate frequently due to postings. MFDN helps connect military family members to participating

physicians after the families relocate to communities around the country – which can happen as often as every two-to-three years. To help even more families, Calian launched a pilot in 2019 with Ontario Telemedicine Network to expand the MFDN program in Ontario through virtual care.

The MFDN is just one way that Calian is a passionate supporter of the military community. We are proud

of our related efforts to make a difference in the lives of transitioning military members, Veterans and their families. For many serving members, transitioning to civilian life is not easy. It often represents a radical shift from the culture, daily structure and skills application they've known for their entire career. Calian is committed to being one of the country's top Veteran-friendly employers, helping military members find high-quality jobs as they transition to civilian life. We are pleased to report that at the end of FY2019 we had hired more than 350 former military personnel since January 2012, and approximately 95 military spouses since January 2016.

In FY2019 Calian announced the establishment of Innovation to Impact, a multi-disciplinary working group that is making the growing body of military family research available to health care providers in the MFDN network and military families across Canada. The group is comprised of Calian; Military Family Services (MFS); the Canadian Institute for Military and Veteran Health Research (CIMVHR), and the Vanier Institute of the Family. Sharing this research will empower

2,200+

Military family members referred to a family physician through MFDN, as of October 2019



physicians and other healthcare professionals to make evidence-based decisions to advance the healthcare experience and well-being of military family members.

Also aligned with our care for military families, Calian once again supported Canadian Institute for Military and Veteran Health Research (CIMVHR), an organization focused on research in support of the health and well-being of Canadian military personnel, Veterans and their families. We again sponsored the Ottawa Senators' annual Canadian Armed Forces Appreciation Night, welcoming and honouring thousands of CAF members and their families at the Canadian Tire Centre in Ottawa.

Another initiative we led this year related to women in cybersecurity. One recent workforce study found that women comprise just 24% of the global cybersecurity profession even though these skilled workers are in high demand and well-paid. To understand how and why this is the case, Calian partnered with Willis College's Veteran Friendly Transition Program to conduct a study for the Department of National Defence. The goal was to identify barriers to the cyber defence profession for women. We conducted the resulting project, Engaging Women in Cyber Defence, with Willis College, reporting our survey and consultation findings to DND to help increase female participation in this important, high-demand career path.

At Calian we take pride in our national footprint. We have more than 3,000 employees across the country and have expanded our footprint into Germany. Calian and its employees believe we have a responsibility to give back to the communities we work and live in. We support community involvement and work hard to ensure our resources have the most impact. Employees are encouraged to take paid time off to volunteer in activities of their choice and participate in company-led activities.

In addition to our volunteer and community support activities, Calian believes investment in innovation is foundational to our continued growth and purpose within Canada. We make significant annual contributions to support research on military family and Veteran health.

As part of Calian's commitment to making a positive impact in our communities, we remain cognizant of our environmental footprint. Calian's excellence framework includes leadership and governance drivers that emphasize social and environmental factors. We are committed to protecting the environment and reducing waste. In partnership with our property managers, we support energy efficiency, renewable energy and waste diversion programs.

Wherever possible, Calian promotes the efficient use of energy and natural resources and supports environmentally friendly disposal. To this end, Calian's contract manufacturing services are managed to maintain our reputation as a good environmental steward. We meet or exceed all of our environmental laws and regulations, in addition to offering lead-free manufacturing capabilities in compliance with Restriction of Hazardous Substances (RoHS) standards. We continuously look for ways to reduce our environmental footprint through new processes and materials.

We are committed to equal employment opportunity and to complying with all laws related to workplace opportunity. Our Equal Employment Opportunity practice applies to all phases of employment and we strive for a workplace free of discrimination, hostility and physical or verbal harassment with respect to personal characteristics protected by human rights legislation. Calian's respect for human rights extends internationally. Our Advanced Technologies segment, for example, refuses to support the use of minerals linked to conflicts or human rights abuses.

Calian remains committed to our CSR efforts. We are honoured that, as this company continues to grow, Calian is making a tangible difference in our communities as well as the lives of the military members, Veterans and their families.

Supporting Charitable Campaigns

Some charitable organizations Calian provided financial support to in FY2019

- HealthPartners Canada
- Royal Ottawa Foundation
- The Ottawa Hospital Foundation
- United Way
- Alzheimer Society of Canada
- Canadian Blood Services
- Kids Up Front Ottawa
- Team Diabetes
- Marianne Wilkinson's community health initiative (Kanata)
- Stars Air Ambulance
- Saskatoon Food Bank
- Holiday Hamper Program (Saskatoon)
- Canadian International Rover Challenge
- University of Saskatchewan Space Design Team
- Space Camp for Kids (Saskatoon)
- University of Saskatchewan, University of Regina and Saskatchewan Polytechnic (scholarships)

Summary

Stability through diversity, focused on growth: This continues to be Calian's investment proposition. With 72 consecutive profitable quarters under our belt, and record annual revenues of \$343 million in FY2019, the management team continues to demonstrate our focus on profitable growth. While Calian was traditionally perceived by markets as a conservative, stable, dividend-paying company, we are in the midst of a pivot toward growth, innovation and global markets. Amid this pivot, Calian continues to present stability, cash generation, a healthy dividend, and a diversified, solid foundation built on four segments.

FY2019 demonstrated the results of our organic and acquisitive growth strategy. The company closed two acquisitions supporting customer diversification and our access to new markets. SatService in Germany was

our first global acquisition while IntraGrain Technologies enabled our move into the AgTech market. We gained new business organically and customer retention was again strong in 2019 with key customers maintained in defence, government and other sectors across the four segments. On top of these financial results, we are honoured to run a corporate social responsibility program that is making a tangible difference in communities and the lives of military members and their families.

FY2019 demonstrated progress on our strategy. Growth, profitability and our new four-segment reporting structure are indications to shareholders and the markets that this company is serious about executing our strategy. As we look at 2020 and beyond, we remain well-positioned to continue Calian's growth trajectory.



Kevin Ford,
President and
CEO

Patrick Houston,
CFO and
Corporate
Secretary

Sue Ivay,
Chief Human
Resources Officer

Jerry Johnston,
Chief Information
Officer

Jacqueline
Gauthier, Senior
VP, Corporate
Development

Patrick Thera,
VP and General
Manager,
Advanced
Technologies

Corporate leadership team

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

The following Management's Discussion and Analysis is dated November 25, 2019 (this "MD&A") and should be read in conjunction with the audited consolidated financial statements and notes included in this annual report. The Company's accounting policies are in accordance with IFRS. As in the 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 MD&A 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 November 25, 2019 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

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.

The current view of Calian's service offerings is how the Company assesses its operating segments. This has changed in the current year from the view of the former Business Technology Services ("BTS") and Systems Engineering Division ("SED") to the new operating segments noted above. We refer readers to the end of the MD&A document where a reconciliation of operating segments can be observed. We also refer readers to note 26 of the fiscal year 2019 financial statements for further information.

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 eight successful acquisitions in as many 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 11% in fiscal 2018 and 12% in fiscal 2019 on a year-over-year basis while continuing to drive the Company's highest level of profit.

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

Key attributes of our four operating segments:

	Advanced Technologies	Health	Learning	Information Technology
Customers	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
Business units	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
Customer Geography	Mostly international	Canadian	Primarily Canadian with some customers based in the US	Canada
Government Revenue %	52%	89%	98%	67%
Quality initiatives	Excellence Canada / ISO 9001:2015	Excellence Canada	Excellence Canada	Excellence Canada
Workforce	496	1,119	1,169	472
Backlog (\$ 000's)	173,379	761,510	327,850	65,130

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 annual report 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.

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

Selected Quarterly Financial Data

(Canadian dollars in millions, except per share data)

	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
Revenues								
Advanced Technologies	\$ 31.4	\$ 30.5	\$ 23.9	\$ 23.8	\$ 24.1	\$ 21.0	\$ 26.4	\$ 27.8
Health	31.3	29.3	27.8	27.3	26.8	25.4	23.8	23.5
Learning	14.0	15.6	17.6	15.9	14.0	15.0	17.2	15.4
Information Technology	14.2	13.4	14.1	12.9	13.6	11.6	10.0	9.5
Total revenue	\$ 90.9	\$ 88.8	\$ 83.4	\$ 79.9	\$ 78.5	\$ 73.0	\$ 77.4	\$ 76.2
Cost of revenue	70.6	69.5	65.3	63.1	62.0	57.0	61.6	60.4
Gross profit	20.3	19.3	18.1	16.8	16.5	16.0	15.8	15.8
Selling and marketing	2.8	2.9	2.3	2.4	2.3	2.4	2.3	2.2
General and administration	8.0	8.4	7.9	7.4	6.2	6.3	6.3	6.0
Facilities	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.1
Profit before under noted items	8.1	6.7	6.6	5.7	6.7	6.0	6.0	6.5
Depreciation of equipment and application software	0.6	0.6	0.6	0.5	0.6	0.4	0.4	0.4
Amortization of acquired intangible assets	1.4	1.0	0.4	0.3	0.3	0.3	0.3	0.3
Gain on change in estimate	(4.5)	(0.7)	-	-	-	-	-	-
Profit before interest and income tax expense	10.6	5.8	5.6	4.9	5.8	5.3	5.3	5.8
Accretion interest expense related to acquisitions	(0.4)	(0.4)	(0.2)	(0.1)	-	-	-	-
Interest income (expense)	-	-	-	-	0.1	0.1	0.1	-
Profit before income tax expense	10.2	5.4	5.4	4.8	5.9	5.4	5.4	5.8
Income tax expense	1.7	1.1	1.5	1.5	1.6	1.5	1.5	1.7
Net profit	\$ 8.5	\$ 4.3	\$ 3.9	\$ 3.3	\$ 4.3	\$ 3.9	\$ 3.9	\$ 4.1
Net profit per share								
Basic	\$ 1.08	\$ 0.54	\$ 0.50	\$ 0.43	\$ 0.56	\$ 0.50	\$ 0.51	\$ 0.54
Diluted	\$ 1.08	\$ 0.54	\$ 0.49	\$ 0.43	\$ 0.55	\$ 0.50	\$ 0.50	\$ 0.53
EBITDA per share								
Basic	\$ 1.03	\$ 0.86	\$ 0.84	\$ 0.73	\$ 0.87	\$ 0.79	\$ 0.79	\$ 0.85
Diluted	\$ 1.02	\$ 0.85	\$ 0.84	\$ 0.73	\$ 0.86	\$ 0.78	\$ 0.78	\$ 0.84

Certain comparative figures have been reclassified to conform to the current year's presentation whereby certain cost of sales, general and administrative expenses, and sales and marketing expenses in certain segments of the Company have been reclassified to properly align the company both internally, and with International Financial Reporting Standards. This resulted in a reduction of cost of sales with a corresponding increase in operating expenses of \$4,948 in fiscal year 2019 (2018: \$4,091). The reclassification by quarter was Q1 FY19: \$1,123 (FY18: \$1,016), Q2 FY19: \$1,155 (\$1,024), Q3 FY19: \$1,293 (\$969) and Q4 FY19: \$1,377 (\$1,082).

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

Fourth Quarter Financial Summary

Consolidated Statements of Net Profit

For the years ended September 30, 2019 and 2018 (Canadian dollars in thousands, except per share data):

	Three months ended September 30,		Year ended September 30,	
	2019	Restated (i) 2018	2019	Restated (i) 2018
Revenue				
Advanced Technologies	\$ 31,437	\$ 24,098	\$ 109,697	\$ 99,201
Health	31,286	26,777	115,718	99,458
Learning	13,983	13,988	63,098	61,552
Information Technology	14,208	13,672	54,531	44,857
Total Revenue	90,914	78,535	343,044	305,068
Cost of revenues	70,571	62,081	268,387	240,995
Gross profit	20,343	16,454	74,657	64,073
Selling and marketing	2,769	2,295	10,499	9,188
General and administration	8,064	6,259	31,706	24,829
Facilities	1,362	1,197	5,306	4,721
Profit before under noted items	8,148	6,703	27,146	25,335
Depreciation of equipment and application software	622	539	2,220	1,807
Amortization of acquired intangible assets	1,460	324	3,168	1,193
Gain on change in estimate	(4,522)	-	(5,172)	-
Profit before interest income and income tax expense	10,588	5,840	26,930	22,335
Accretion interest expense related to acquisitions	297	23	1,023	93
Interest expense (income)	50	(115)	36	(320)
Profit before income tax expense	10,241	5,932	25,871	22,562
Income tax expense – current	1,982	1,619	6,318	6,645
Income tax expense – deferred	(217)	(23)	(439)	(374)
Total income tax expense	1,765	1,596	5,879	6,271
NET PROFIT	\$ 8,476	\$ 4,336	\$ 19,992	\$ 16,291
Net profit per share:				
Basic	\$ 1.08	\$ 0.56	\$ 2.55	\$ 2.11
Diluted	\$ 1.08	\$ 0.55	\$ 2.54	\$ 2.10

(i) See note 3 of the Financial Statements.

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

Consolidated Statements of Cash Flows

For the years ended September 30, 2019 and 2018 (Canadian dollars in thousands):

	Three months ended September 30,		Year ended September 30,	
	2019	2018	2019	2018
		Restated (i)		Restated (i)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit	\$ 8,476	\$ 4,336	\$ 19,992	\$ 16,291
Items not affecting cash:				
Interest expense (income)	50	(115)	36	(320)
Accretion interest expense related to acquisitions	297	23	1,023	93
Income tax expense	1,765	1,596	5,879	6,271
Employee share purchase plan	37	64	173	133
Share based compensation	322	112	1,182	720
Depreciation and amortization	2,082	863	5,388	3,000
Gain on change in estimate	(4,522)	-	(5,172)	-
	8,507	6,879	28,501	26,188
Change in non-cash working capital				
Accounts receivable	3,140	4,556	6,334	(12,868)
Work in process	(12,501)	3,067	(20,973)	1,544
Prepaid expenses	1,173	(607)	(1,395)	(818)
Inventory	(85)	(461)	1,216	(929)
Accounts payable and accrued liabilities	4,479	2,605	8,167	5,563
Unearned contract revenue	(2,587)	(3,888)	(1,806)	(412)
	2,126	12,151	20,044	18,268
Interest received (paid)	(50)	81	(127)	285
Income tax paid	(1,409)	(1,939)	(6,384)	(7,170)
	667	10,293	13,533	11,383
CASH FLOWS USED IN FINANCING ACTIVITIES				
Issuance of common shares	366	226	3,316	2,122
Dividends	(2,235)	(2,186)	(8,803)	(8,668)
Draw on line of credit	1,000	-	13,000	-
Share repurchase	-	-	(118)	-
	(869)	(1,960)	7,395	(6,546)
CASH FLOWS USED IN INVESTING ACTIVITIES				
Investments and loan receivable	-	-	-	(150)
Business acquisitions	-	(1,275)	(20,849)	(4,975)
Capitalized research and development	(96)	(437)	(1,768)	(1,149)
Equipment and application software	(552)	(3,049)	(3,018)	(5,360)
	(648)	(4,761)	(25,635)	(11,634)
NET CASH (OUTFLOW) INFLOW	\$ (850)	\$ 3,572	\$ (4,707)	\$ (6,797)
CASH, BEGINNING OF PERIOD	17,985	18,270	21,842	28,639
CASH, END OF PERIOD	\$ 17,135	\$ 21,842	\$ 17,135	\$ 21,842

(i) See note 3 of the Financial Statements.

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

The impacts on the consolidated statement of income relating to IFRS 15 can be observed in the 'Adjustments' column in the table below for September 30, 2018; for details of the 'Reclassification' column see note 31 of the Financial Statements.

Three months ended September 30, 2018					
	As previously reported	Reclassification	Adjustments	As restated	
Revenues	\$ 78,727	\$ -	\$ (192)	\$ 78,535	
Cost of revenues	63,440	(1,078)	(281)	62,081	
Gross profit	15,287	1,078	89	16,454	
Selling and marketing	1,264	1,031	-	2,295	
General and administration	6,212	47	-	6,259	
Facilities	1,197	-	-	1,197	
Depreciation	539	-	-	539	
Amortization of intangibles	324	-	-	324	
Profit before interest income and income tax expense	5,751	-	89	5,840	
Interest income	92	-	-	92	
Interest accretion expense	-	-	-	-	
Profit before income tax expense	5,843	-	89	5,932	
Income tax expense – current	1,595	-	24	1,619	
Income tax expense – deferred	(23)	-	-	(23)	
Total income tax expense	1,572	-	24	1,596	
NET PROFIT FOR THE PERIOD	\$ 4,271	\$ -	\$ 65	\$ 4,336	
Earnings per share basic	\$ 0.55	\$ -	\$ 0.01	\$ 0.56	
Earnings per share diluted	\$ 0.55	\$ -	\$ -	\$ 0.55	

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

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

	Three months ended September 30		Year ended September 30	
	2019	2018	2019	2018
Weighted average number of common shares – basic	7,915,071	7,756,512	7,843,265	7,722,937
Additions to reflect the dilutive effect of employee stock options and RSU's	43,722	73,419	20,096	44,140
Weighted average number of common shares – diluted	7,958,793	7,829,931	7,863,361	7,767,077

The following table presents the revenue of the Company for the three months ended and the year ended September 30, 2019 and 2018 (Canadian dollars in thousands):

	Three months ended		Year ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
		<i>Restated (i)</i>		<i>Restated (i)</i>
Product revenue				
Advanced Technologies	\$ 19,985	\$ 14,808	\$ 66,204	\$ 51,578
Health	-	-	-	-
Learning	-	-	-	-
Information Technology	1,713	1,518	3,549	1,862
Service revenue				
Advanced Technologies	11,452	9,291	43,493	47,623
Health	31,286	26,777	115,718	99,458
Learning	13,983	13,988	63,098	61,552
Information Technology	12,495	12,154	50,982	42,995
	\$ 90,914	\$ 78,536	\$ 343,044	\$ 305,068

Segmented information is as follows for three months ended September 30, 2019 (Canadian dollars in thousands):

(i) See note 3 of the Financial Statements.

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

For three months ended September 30, 2019

	Advanced Technologies	Health	Learning	IT	Corporate	Total
Revenue	\$ 31,437	\$ 31,286	\$ 13,983	\$ 14,208	\$ -	\$ 90,914
Cost of revenues	22,974	24,870	11,025	11,702	-	70,571
Gross profit	8,463	6,416	2,958	2,506	-	20,343
Gross profit %	26%	21%	21%	18%	N/A	22%
Selling and marketing	1,320	191	198	712	348	2,769
General and administration	1,573	917	684	501	4,389	8,064
Facilities	980	85	48	86	163	1,362
Profit before under noted items	\$ 4,590	\$ 5,223	\$ 2,028	\$ 1,207	\$ (4,900)	\$ 8,148
Profit before under noted items %	15%	17%	15%	9%	N/A	9%
Depreciation of equipment and application software						622
Amortization of acquired intangibles						1,460
Gain on change in estimate						(4,522)
Profit before interest and income tax expense						10,588
Accretion interest expense related to acquisitions						297
Interest expense (income)						50
Profit before income tax expense						10,241
Income tax expense – current						1,982
Income tax expense – deferred						(217)
Total income tax expense						1,765
NET PROFIT FOR THE PERIOD						\$ 8,476

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

Segmented information is as follows for three months ended September 30, 2018 (Canadian dollars in thousands):

For three months ended September 30, 2018						
	Advanced Technologies	Health	Learning	IT	Corporate	Total Restated (i)
Revenue	\$ 24,098	\$ 26,777	\$ 13,988	\$ 13,672	\$ -	\$ 78,535
Cost of revenues	17,193	22,180	11,175	11,533	-	62,081
Gross profit	6,905	4,597	2,813	2,139	-	16,454
Gross profit %	28%	17%	20%	16%	N/A	21%
Selling and marketing	1,011	180	215	522	367	2,295
General and administration	961	714	488	508	3,588	6,259
Facilities	858	72	53	58	156	1,197
Profit before under noted items	\$ 4,075	\$ 3,631	\$ 2,057	\$ 1,051	\$ (4,111)	\$ 6,703
Profit before under noted items %	17%	14%	15%	8%	N/A	9%
Depreciation of equipment and application software						539
Amortization of acquired intangibles						324
Profit before interest and income tax expense						5,840
Accretion interest expense related to acquisitions						23
Interest expense (income)						(115)
Profit before income tax expense						5,932
Income tax expense – current						1,619
Income tax expense – deferred						(23)
Total income tax expense						1,596
NET PROFIT FOR THE PERIOD						\$ 4,336

(i) See note 3 of the Financial Statements.

Overview of Overall Performance

Calian operates at locations across Canada (ranging from British Columbia to Nova Scotia), as well as Europe (in Amsterdam, 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 segments is variable, as contracts in Health, IT and Learning segments 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 \$1,330 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.

Current year acquisitions of Intragrain Technologies Inc. ("Intragrain") along with SatService, Gesellschaft für Kommunikationssysteme mbH. ("SatService") have enabled the Company to quickly expand its service offerings and geographical customer base in our Advanced Technologies segment in areas complementary to the Company's existing service offerings.

During 2019, the Company made 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 revenue growth of 12%. In 2019, we also signed \$230 million in contracts and ended the year with a backlog of \$1,330 million of which \$277 million is expected to be earned during fiscal 2020.

Calian Consolidated Results

	Three months ended		Year ended	
	September 30, 2019	September 30, 2018 <i>Restated (i)</i>	September 30, 2019	September 30, 2018 <i>Restated (i)</i>
Revenue	\$ 90,914	\$ 78,535	\$ 343,044	\$ 305,068
Gross profit	20,343	16,454	74,657	64,074
Selling and marketing	2,769	2,295	10,499	9,188
General and administration	8,064	6,259	31,706	24,829
Facilities	1,362	1,197	5,306	4,722
Profit before under noted items	\$ 8,148	\$ 6,703	\$ 27,146	\$ 25,335

Demand from our government customers continued to expand during 2019. The Company also benefited from high levels of activity with many of its recurring customers and continued to push technology advancements targeting new markets. Revenue growth in both the three-month period and year-end period ending September 30, 2019 can be attributable to 6% growth from acquisitions, along with a higher volume of services and products sold and delivered when compared to the same period in the prior year.

The results in the current year are strong for Calian with double-digit growth in revenue and gross profit percentage improvement. This is a result of a customer-focused approach in which both customer retention and customer diversification are key. We are building on these results with an innovation mindset and focus on new products and services released in the current year. Our new carbon fiber antennas are a direct result of the research and development investments in engineering and providing customers with optimized price and performance. The Company will remain focused on these initiatives in the coming years to remain ahead of the curve, while delivering satisfaction to customers.

Provision of services under large contracts with the government is an important feature of the Company's business. Management expects that the market for these services will continue to be competitive. Government spending constraints can be uncertain and the timing of new contract awards can be subject to delays. While our backlog provides a reasonable level of revenue assurance on existing contracts, we are also leveraging our diverse services capabilities to create new opportunities and diversify our customer base both domestically and globally. While we execute our diversification strategy, our revenues will continue to be significantly influenced by customer demand within the scope of existing contracts as well as the timing of future contract awards.

As can be seen in the sections below, gross margins by segment vary between 15% and 28%. The overall gross margin of the Company is dependent on the relative level of revenue generated from each segment. 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 21% for the three months and 14% for the 12 months ended September 30, 2019, compared to the same periods 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. These investments by the Company in the current year have shown positive results with increases in both revenue and backlog.

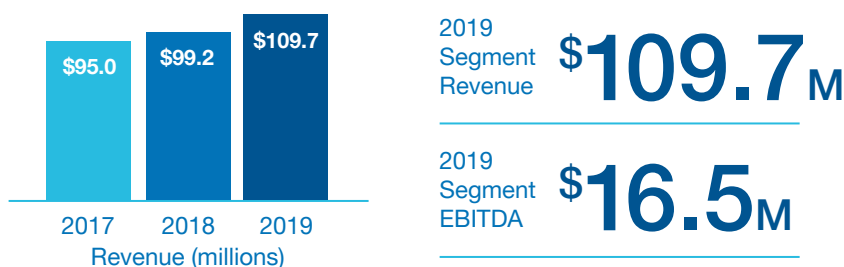
(i) See note 3 of the Financial Statements.

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

General and administration expenses increased by 29% for the three months and 28% for the 12 months ended September 30, 2019, compared to the same periods in the prior year. This is a result of increased administrative functions across the organization to support long-term growth, along with increased acquisition costs, share-based compensation, and general and administration costs from the recently acquired companies.

Facilities costs increased 14% in the three months and 12% in the 12 months ended September 30, 2019, compared to the same periods in the prior year. The increase was a result of new locations added through the acquisitions of Intragrain and SatService, as well as the expansion of production facilities used to support internally developed products.

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 wide-ranging, 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.

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

Financial performance

	Three months ended		Year ended	
	September 30, 2019	September 30, 2018 <i>Restated (i)</i>	September 30, 2019	September 30, 2018 <i>Restated (i)</i>
Revenue	\$ 31,437	\$ 24,098	\$ 109,697	\$ 99,201
Gross profit	8,463	6,905	30,628	28,796
Selling and marketing	1,320	1,011	4,934	3,905
General and administration	1,573	961	5,419	3,676
Facilities	980	858	3,752	3,471
Profit before under noted items	\$ 4,590	\$ 4,075	\$ 16,523	\$ 17,744

In 2019, Advanced Technologies' revenues increased 30% for the three months and 11% for the 12 months ended September 30, 2019, compared to the same periods in the previous year. This reflected increased ground systems projects, custom software developments for Sirius XM, and defence contract manufacturing projects. Internally developed product sales continue to be a focus for the Company, contributing positively to revenue growth. Acquisitive revenue growth amounted to 6% for the three months and 9% for the 12 months ended September 30, 2019 which is attributable to the addition of both IntraGrain and SatService. This, combined with other sales, resulted in a year-end backlog of \$173 million.

Profitability slightly decreased year-over-year which is a direct result of one-time acquisition costs incurred in the current year of \$831. Margins were affected by the increase in revenue from large ground system projects, offset by the higher gross margins from our AgTech products (Intragrain). Customer satisfaction remains high for both our products and services.

Selling and marketing expenses increased 31% for the three months and 26% for the 12 months ended September 30, 2019, compared to the same periods in the year prior, due to additional sales efforts across the segment. General and administration expenses increased 64% for the three months and 47% for the 12 months ended September 30, 2019, compared to the same periods in the prior year. This is due to expenditures related to acquiring both IntraGrain and SatService, along with additional costs incurred for headcount to support the growth of Engineering, and additional research and development spend in the current periods ended September 30, 2019. Facilities expenses increased by \$122 for the three months and \$281 for the 12 months ended September 30, 2019, compared to the same periods of the prior year. This is primarily due to additional costs from acquisitions, which have also increased costs across all expense categories for both the three-month period and 12-month period ended September 30, 2019.

2019 highlights

The communications ground systems business completed a series of upgrades to the European Space Agency's (ESA) deep space antenna network and Inmarsat's radio frequency (RF) ground systems infrastructure. Additionally for Inmarsat, we completed development of a next-generation spectrum monitoring system. For long-time customer SiriusXM, we continued several software and hardware upgrades to their base band ground systems. Work continued on the development of a large ground system project for a series of RF antenna systems and associated electronics, to be deployed across North America in 2020. Project delivery continued with customer General Dynamics Land Systems-Canada on the manufacturing of control boxes for military vehicles, with funded research and development on new capabilities.

Through superior support to our defence and security clients, the Engineering services team expanded its services to cover new programs for Special Operations Forces, the Parliamentary Protective Service, and others.

(i) See note 3 of the Financial Statements.

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

The acquisition of IntraGrain Technologies has led our move into the AgTech market. IntraGrain's products save farmers millions of dollars annually by avoiding grain bin fires and spoilage. With rising global demand straining food supplies, farm technology solutions such as BinSense™ are key to optimizing global food production. The acquisition of satellite communications solutions provider SatService, based in Germany, provides Calian with a foothold in Europe and new customers for satellite communications solutions and products. The Company anticipates that our complementary capabilities and global reach will increase competitiveness in satellite communication ground systems. Outside of acquisitions, new customers were also gained in custom manufacturing, including North Star Systems and International Road Dynamics.

Advanced Technologies' signature product announcement this year was a new line of large-aperture, carbon fiber satellite communication antennas. These lightweight, high-performance systems provide a cost-effective antenna solution that meets the requirements for next-generation, high-throughput satellite communications systems relying on higher-frequency bands such as Q and V. To accomplish this we developed our own composite carbon fiber manufacturing facility in Saskatchewan as well as high-precision antenna control systems. With the help of key industry partners, the segment created a modern pedestal and mechanical antenna movement system. This strategic investment in our in-house product development supports the customer retention and customer diversification objectives within the growth framework.

We also introduced the Decimator D4 digital spectrum analyzer, a product used by satellite and teleport operators around the globe to remotely monitor the performance of their satellite communications networks. The engineering technical services team also successfully entered into the autonomous systems domain, with a new program to support the development of intelligent systems for the Department of National Defence (DND) and Canadian Armed Forces (DND/CAF). Calian is leading this project, which covers concept development, experimentation, and characterizing human autonomy interaction, with the goal of improving the integration of human operators with complex and intelligent machines for the CAF.

The nuclear services engineering team gained additional projects this year with Ontario Power Generation (OPG), as well as more than 10 other contracts, after securing partnerships with Cavendish Nuclear, CCNuclear and Groupe Démex-Centrem (Démex). Combining their complementary skills and expertise with these companies on a project-by-project basis has allowed Calian Nuclear to offer a single point for solutions to support nuclear decommissioning, including prompt dismantling, deferred dismantling or in-situ disposal. The nuclear services team will be increasing its sales and marketing activities for Calian ResponseReady™, a turnkey simulation solution for communications and social media management within a nuclear emergency exercise. The product is fully operational in support of the Romanian Nuclear Power Commission as a launch customer.

Research and development

Calian funds research and development in a number of ways. Where possible, we have customer-funded projects where there is shared IP; we capitalize projects such as the carbon fiber antennas where we will receive benefit over a number of years, and we also incur costs directly to our consolidated statement of net profit. Over and above customer funding and available grants, in each of the last two years, the Advanced Technologies segment has invested approximately \$4 million to support its service line evolution and ensure it remains relevant in an industry that is continually evolving its technologies. Advanced Technologies' current intellectual property developments have led to one patent approval and one application pending.

Cable network market

Cable networks have significant RF requirements that fall within a similar engineering skillset as our satellite communications network capability. In this context, we view cable network technologies as a strategic growth market. The Engineering segment identified a market entry opportunity in hybrid cable-fiber networks and in concert with various customers, over the last few years, has been developing DOCSIS 3.1 cable network standards.

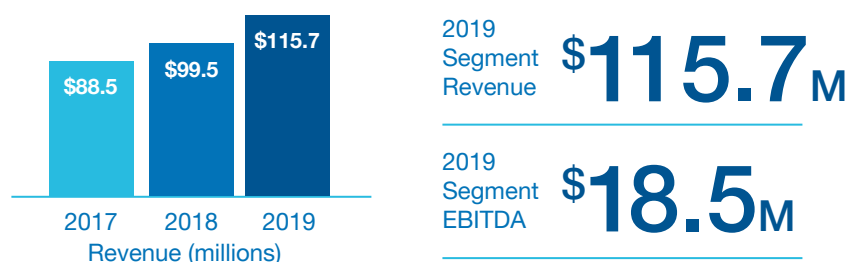
The global equipment market for DOCSIS 3.1 technology is very large and features many competing players such as cable operators, cable network equipment providers and technology developers. Calian's share of this market is currently very small, with our technology being developed to play at a variety of levels in this space.

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

Ground systems market

To capture additional market share in the satellite network equipment market, Engineering has made investments in advanced satellite communications technology capable of operating in higher frequency bands. In the current year we unveiled our higher-performance composite carbon fiber satellite communication antennas. The technical challenges in satellite RF ground systems are increasing as satellite communication networks move to higher-frequency ranges like Q and V bands.

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		Year ended	
	September 30, 2019	September 30, 2018 <i>Restated (i)</i>	September 30, 2019	September 30, 2018 <i>Restated (i)</i>
Revenue	\$ 31,286	\$ 26,777	\$ 115,718	\$ 99,458
Gross profit	6,416	4,597	23,211	17,160
Selling and marketing	191	180	767	836
General and administration	917	714	3,615	2,795
Facilities	85	72	333	263
Profit before under noted items	\$ 5,223	\$ 3,631	\$ 18,496	\$ 13,266

(i) See note 3 of the Financial Statements.

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

Revenues increased 17% for the three months and 16% for the 12 months ended September 30, 2019, compared to the same periods of the previous year, as a result of focused growth across the segment. The Company has seen positive growth in relation to strong execution and customer demand on the health services contract won in 2017; higher demand from clinician services from new business and expanded scope; and a strong focus on delivery and meeting the needs of customers across the segment. A broader range of health services being delivered to a larger group of customers in the current year, and 2% acquisition growth, contributed to positive revenue growth.

Gross margin percentage increased from 17% to 20.5% for the three months and from 17.3% to 20% for the 12 months ended September 30, 2019, compared to the same periods of the prior year. This was due in part to higher margin services being provided as a result of the Priority One acquisition in late fiscal 2018, accompanied by more efficient delivery across current and new contracts. General and administration expenses increased by \$203 for the three months and \$820 for the 12 months ended September 30, 2019, compared to the same periods 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. Facilities expenses increased \$70 in the 12 months ended September 30, 2019 as a result of the additional geographies required to deliver on the current contracts, and contracts won in the current year.

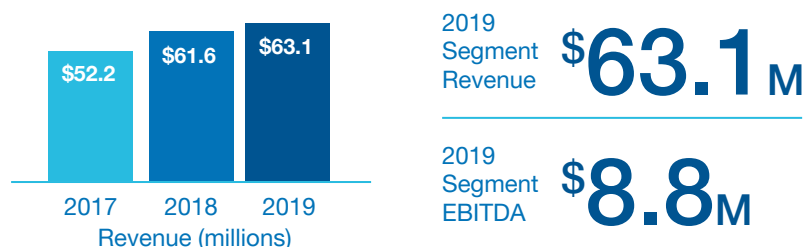
2019 highlights

The Health segment continued organic growth on our largest program, the Health Care Provider's Requirement (HCPR) contract for the Department of National Defence, Veterans Affairs Canada and the RCMP. Calian won the HCPR contract in 2017 in partnership with Bayshore Healthcare, Calian's sub-contract provider, and delivery officially launched on April 1, 2018. We are now in year two of this contract and we again achieved "Superior" customer satisfaction ratings this year. Including optional extensions, HCPR represents 12 years of health services, with a total value of up to approximately \$1 billion in revenue over the full 12-year period.

Health continued service penetration across the corrections portfolio, now with approximately 15 contracts with corrections institutions in this target market. Following our diversification into psychological assessment services in 2018, we expanded with contracts for the police services of Region of Peel and City of Ottawa. For Canada Border Services Agency (CBSA), the segment is delivering quality and consistency of turnkey medical solutions for its Toronto immigration holding centre. Strong program delivery has led to contract awards for other CBSA facilities at Laval, Quebec and Surrey, BC (starting in 2020), and has enabled the segment to expand its health service delivery capability in Quebec. Our work with CBSA has been a strong example of our customer diversification achievements.

As Calian grows, health services remain a focus within the company's innovation agenda. The segment continues to explore potential health technologies to support the growth and evolution of our client services.

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.

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

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		Year ended	
	September 30, 2019	September 30, 2018 <i>Restated (i)</i>	September 30, 2019	September 30, 2018 <i>Restated (i)</i>
Revenue	\$ 13,983	\$ 13,988	\$ 63,098	\$ 61,552
Gross profit	2,958	2,813	12,535	11,893
Selling and marketing	198	215	910	850
General and administration	684	488	2,642	2,203
Facilities	48	53	196	197
Profit before under noted items	\$ 2,028	\$ 2,057	\$ 8,787	\$ 8,643

Revenue was consistent for the three-month period and increased 3% for the 12 months ended September 30, 2019, compared to the same periods of the prior year. General and administration expenses increased by \$196 for the three months and \$439 for the 12 months ended September 30, 2019, compared to the same periods of the prior year, due to increases in headcount. This is the result of additional resources in business development and sales who are seeking new customers for our emergency management and custom training solutions.

2019 highlights

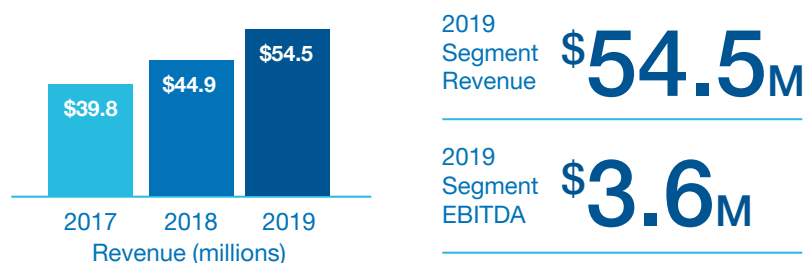
The Learning segment successfully recompleted on several major contracts, contributing more than \$240 million in backlog. These re-wins included an eLearning contract renewal with DND valued at approximately \$17 million over three years; and our successful re-compete for the Training and Support Services Contract for DND and the Canadian Army Simulation Centre, valued at approximately \$170 million over nine years, including optional extensions.

Emergency management services continued to gain momentum with consulting contracts for clients such as City of Ottawa, City of Victoria, the Canadian Red Cross, the Government of New Brunswick, City of San Diego, and large industrial clients. The Region of Peel selected Calian recently to develop an emergency management program to support its waste water division, including threat and risk assessment, plans and procedures and a training program. We also consulted with some municipalities, including City of Vaughan and City of Markham, to help address challenges related to preparing for enhanced 911 services. As emergency preparedness and disaster mitigation planning becomes a higher priority for communities and organizations around the world, we continue to diversify customers through these critical services, seeking out opportunities with municipal and provincial governments, federal departments and agencies, and the private sector.

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™.

(i) See note 3 of the Financial Statements.

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		Year ended	
	September 30, 2019	September 30, 2018 <i>Restated (i)</i>	September 30, 2019	September 30, 2018 <i>Restated (i)</i>
Revenue	\$ 14,208	\$ 13,672	\$ 54,531	\$ 44,857
Gross profit	2,506	2,139	8,283	6,224
Selling and marketing	712	522	2,219	1,958
General and administration	501	508	2,133	1,453
Facilities	86	58	364	242
Profit before under noted items	\$ 1,207	\$ 1,051	\$ 3,567	\$ 2,571

Revenues increased 22% for the 12 months ended September 30, 2019 compared to the previous year. The revenue growth was the result of multiple initiatives implemented during the year, including: increased demand from existing customers for resources in Eastern Canada; the acquisition of Secure Technologies which enabled us to enter the cyber product resale market; development of a cyber security practice which provides customers with services and solutions to meet their cyber requirements.

The acquisition of Secure Technologies contributed revenue growth of 14% and 12% to the three-month and twelve-month periods, respectively, ended September 30, 2019. Selling and marketing expense increased by \$173 for the three months and \$261 for the 12 months ended September 30, 2019, compared to the same periods of the previous year, as a result of additional sales professionals as we enter new geographical areas. General and administration costs increased by \$680 for the year ended September 30, 2019, compared to the prior year, due to greater administration efforts required to maintain the growth of the segment; and a full-year effect from general and administration costs related to the acquisition that occurred part-way through the prior year. Facilities costs increased by \$122 in the year ended September 30, 2019, compared to the prior year, with a larger facility required to manage current IT operations, accompanied by facilities costs for a full-year of acquisition where the prior period only beared four months.

(i) See note 3 of the Financial Statements.

2019 highlights

The IT segment finalized the integration of Secure Technologies, a cyber security acquisition that closed in 2018. 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). We generated a handful of new key customers that included Shared Services Canada and some private sector firms in the GTA.

New business was also generated through our SAP practice this year, with new clients Canada Revenue Agency (CRA) and Toronto Transit Commission (TTC).

Demand has remained strong on our IT defence contract with General Dynamics Mission Systems–Canada, to deliver Land C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance) systems support for the Canadian Army. This IT and software development contract announced in the second quarter offers the Canadian Army an improved ability to help protect the communications and information systems it depends on while evolving technologies that generate economic impact for Canada.

While contract delivery continued at a steady pace with our other government and defence clients, we successfully closed out the first two phases of a major IT project for a large Canadian municipality. Looking forward, the IT team is continuing exploration of new business opportunities and service offering evolution through managed services, as well as cloud and cyber solutions.

Summary

In summary, 2019 was a year of continued growth and innovation for Calian with significant improvements in revenue, EBITDA and earnings. Importantly, we made tangible progress in the execution of our long-term strategy. The company enters 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 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 non-recurring. From time to time, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities may define the above measures differently than we do. In those cases, it may be difficult to use similarly named non-GAAP measures of other entities to compare performance of those entities to the Company's performance.

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

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

Reconciliation of EBITDA

	Three months ended		Twelve months ended	
	September 30, 2019	September 30, 2018 <i>Restated (i)</i>	September 30, 2019	September 30, 2018 <i>Restated (i)</i>
Net profit	\$ 8,476	\$ 4,336	\$ 19,992	\$ 16,290
Depreciation	622	539	2,220	1,807
Amortization	1,460	324	3,168	1,193
Interest expense (income)	50	(115)	36	(320)
Accretion interest expense related to acquisitions	297	23	1,023	93
Gain on change in estimate	(4,522)	-	(5,172)	-
Income tax	1,765	1,596	5,879	6,271
EBITDA	8,148	6,703	27,146	25,335

Adjusted EPS (Non-GAAP)

	Three months ended		Twelve months ended	
	September 30, 2019	September 30, 2018 <i>Restated (i)</i>	September 30, 2019	September 30, 2018 <i>Restated (i)</i>
Net profit	\$ 8,476	\$ 4,336	\$ 19,992	\$ 16,291
Change in estimate	(4,522)	-	(5,172)	-
Interest accretion	297	23	1,023	93
Intangible amortization	1,460	324	3,168	1,193
Adjusted net profit	5,711	4,683	19,011	17,577
Adjusted EPS Basic	0.74	0.61	2.43	2.27
Adjusted EPS Diluted	0.73	0.60	2.41	2.25

The Company uses adjusted profit and adjusted earnings per share, which remove the impact of our acquisition amortization and gains, resulting in accounting for acquisitions and interest accretion 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-IFRS 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

(i) See note 3 of the Financial Statements.

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

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-IFRS 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

	Three months ended		Year ended	
	September 30, 2019	September 30, 2018 <i>Restated (i)</i>	September 30, 2019	September 30, 2018 <i>Restated (i)</i>
Profit before under noted items	\$ 8,148	\$ 6,703	\$ 27,146	\$ 25,334
Depreciation	(622)	(539)	(2,220)	(1,807)
Amortization of intangibles	(1,460)	(324)	(3,168)	(1,193)
Gain on change in estimate	4,522	-	5,172	-
EBIT	10,588	5,840	26,930	22,334
Interest accretion (expense)	(297)	(23)	(1,023)	(93)
Interest income (expense)	(50)	115	(36)	320
Income tax expense	1,765	1,596	5,879	6,271
Net profit	8,476	4,336	19,992	16,290
Net profit per share, basic	\$ 1.08	\$ 0.56	\$ 2.55	\$ 2.11
Total assets	\$ 195,026	\$ 152,118	\$ 195,026	\$ 152,118
Dividends per share	\$ 0.28	\$ 0.28	\$ 1.12	\$ 1.12

For the three-month period ended September 30, 2019, depreciation increased by 15% compared to the same period in the year prior, due to increases from acquired companies in year, along with an office relocation for head office. The same factors have caused the depreciation to increase by 23% for the 12-month period ended September 30, 2019. Amortization has increased in the three-month period and year-to-date basis ending September 30, 2019 by 351% and 166%, respectively, due to acquisitions of IntraGrain and SatService in the current year as described in note 26 of the financial statements. Other income has increased in the current year due to change in estimates of contingent earnout payments as described in note 26 of the financial statements.

(i) See note 3 of the Financial Statements.

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

Interest expense increased for both the three-month and 12-month periods ended September 30, 2019, due to interest incurred on the loan balance outstanding which was not used in prior years. Accretion expense increased significantly in both the three-month and 12-month periods ended September 30, 2019, due to current year acquisitions of IntraGrain and SatService for the contingent earnout payments. For further information please see note 26 of the Financial Statements.

Finally, the Company reports its results on a fully taxed basis. The provision for income taxes for 2019 was \$5,815, or 26.7% of earnings before income taxes adjusted for other income compared to the \$6,271, or 27.8% of earnings before income taxes in 2018. The difference in effective tax rates is primarily due to the increase in share based compensation and interest accretion which are not tax deductible.

Backlog

The Company's backlog at September 30, 2019 was \$1,330 million with terms extending to fiscal 2030. This compares to \$1,228 million reported at September 30, 2018. Contracted backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas option renewals represent customers' options to further extend existing contracts under similar terms and conditions.

During 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.

- \$133 million contract re-win providing exercise-based training services for DND and the Canadian Army Simulation Center
- \$27 million contract amendment with Royal Military College
- \$18 million contract re-win under DND for training services at Military Personnel Generation schools
- \$15 million contract re-win for learning production at Army Learning Support Center
- \$10 million contract re-win e-learning course delivery to Canadian Forces School of Communications and Electronics
- \$5 million contract with CBSA Surrey onsite medical services at Surrey Immigration Holding Centre
- \$6 million contract with Defence Research and Development Canada Toronto supporting introduction of robotics and autonomous systems into the Canadian Armed forces
- \$4 million contract with CBSA Laval onsite medical services at Laval Immigration Holding Centre
- \$4 million extension with DND at the Directorate Information Management Engineering and Integration providing technical and operational IT services
- \$4 million contract with Inmarsat in satellite testing systems

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 2020, 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 \$145 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.

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

(dollars in millions)	Fiscal 2020	Fiscal 2021	Beyond 2021	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	\$ 265	\$ 114	\$ 74	\$ 453	\$ 101	\$ 554
Option Renewals	12	21	699	732	44	776
TOTAL	\$ 277	\$ 135	\$ 773	\$ 1,185	\$ 145	\$ 1,330
Advanced Technologies	\$ 89	\$ 55	\$ 11	\$ 155	\$ 18	\$ 173
Health	\$ 108	\$ 33	\$ 579	\$ 720	\$ 44	\$ 764
Learning	\$ 51	\$ 38	\$ 179	\$ 268	\$ 60	\$ 328
IT	\$ 29	\$ 9	\$ 4	\$ 42	\$ 23	\$ 65
TOTAL	\$ 277	\$ 135	\$ 773	\$ 1,185	\$ 145	\$ 1,330

Liquidity and Capital Resources

Calian's cash position was \$17,135 at September 30, 2019, compared to \$21,842 at September 30, 2018, where net cash position was \$4,135 at September 30, 2019 when compared to the \$21,842 at September 30, 2018.

	2019	2018
Cash flows from operating activities before changes in working capital	\$ 28,501	\$ 26,188
Changes in (increase) working capital	(14,968)	(14,805)
Cash flows from (used in) operating activities	\$ 13,533	\$ 11,383
Cash flows from (used in) financing activities	7,395	(6,546)
Cash flows from (used in) investing activities	(25,635)	(11,634)
Increase (decrease) in cash	\$ (4,707)	\$ (6,797)

Operating Activities

Cash inflows from operating activities for the period ended September 30, 2019 were \$13,533 compared to cash inflows of \$11,383 in 2018. Cash flows have been positively impacted by the Company's positive performance, a decrease in accounts receivable, and the increase of accounts payable and accrued liabilities due to timing of payments and invoice receipt. This is offset by a significant increase in work in process. The aging of the accounts receivable remains stable and overdue accounts remain consistent with prior years, and are mostly from delays for administrative reasons rather than due to the inability to collect. These variations in cash flows are not considered unusual and reflect normal working capital fluctuations associated with the ebbs and flows of the business. The market for the Advanced Technologies segment is characterized by contracts with billings tied to milestones achieved, which often results in significant working capital requirements. Conversely, given the nature of this business, it is sometimes possible to negotiate advance payments on contracts. Such advance payments give rise to unearned revenue that will be realized as revenue over the course of the contract. As at September 30, 2019, the Company's total unearned revenue amounted to \$8,778 compared to \$10,042 at September 30, 2018.

Financing Activities

Dividend

As a result of continuing earnings and a strong cash position, the Company maintained its dividend in 2019. The Company paid quarterly dividends totaling \$8,803 or \$1.12 cents per share compared to 2018 when the Company paid \$8,668 in dividends or \$1.12 cents per share. The Company does not currently anticipate any change to its dividend policy.

Debt

In the 12-month period ended September 30, 2019, the Company utilized its Revolving Credit Facility for current operations resulting in an inflow of cash of \$13,000, where no utilization was used on the Facility in the prior year.

Shares

Exercises of stock options, along with employee participation in the employee share purchase plan, has resulted in cash inflows of \$366 for the three-month period ended September 30, 2019, compared to inflows of \$226 for the same period of the previous year. The same activities resulted in cash inflows of \$3,316 for the year ended September 30, 2019 compared to the inflow of \$2,125 in the prior year.

Investing activities

Equipment expenditures and Capitalized Research and Development

During the three-month period ending September 30, 2019, the Company invested \$552 in capital assets compared to \$3,049 the same period ending September 30, 2018. Along with this, the Company invested \$96 in the three month period ending September 30, 2019 when compared to \$437 in the same period of the prior year.

During the year ended September 30, 2019, the Company invested \$3,018 in capital assets compared to \$5,455 in the prior period, in addition to the \$1,768 invested in capitalized R&D compared to the \$1,055 in the previous year. The increase is attributable to additional manufacturing equipment purchases and the move to the new Calian head office in Ottawa.

Acquisitions

The Company acquired IntraGrain and SatService, with additional payment for ISR earnouts resulting in cash outflows relating to acquisitions of \$20,849 compared to the \$4,975 outflow relating to acquisitions in the prior year, as explained in note 26 to the financial statements.

Investments

No investing cash flows are noted in 2019, where the Company had provided \$150 to Cliniconex Inc. in the form of a convertible loan in 2018.

Capital resources

At September 30, 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. The Company has drawn \$13,000 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.

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

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

Contractual obligations

Payments due:	Total	<1 year	1-3 years	4-5 years	>5 years
Operating leases	\$ 24,640	\$ 3,709	\$ 7,458	\$ 6,563	\$ 6,910
Purchase obligations	68,657	47,191	21,466	-	-
Total contractual obligations	\$ 93,297	\$ 50,900	\$ 28,924	\$ 6,563	\$ 6,910

Purchase obligations include agreements to purchase goods and services related to existing customer agreements.

Off-balance sheet arrangements

There were no off-balance sheet arrangements at September 30, 2019.

Operating leases

The Company leases various premises and office equipment through operating leases.

Related-party transactions

During the three- and twelve-month period ended September 30, 2019 (2018), the Company had sales of \$231 (NIL) and \$1,552 (NIL) to GrainX in which Calian holds a non-controlling equity investment. At September 30, 2019 (2018), the Company had an accounts receivable balance with GrainX of \$90 (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 \$192 (\$108) for the period ended September 30, 2019 (2018).

Adoption of new accounting rules and impact on financial results

In 2019 the Company adopted IFRS 9 Financial Instruments, and IFRS 15 Contracts with Customers. The accounting policies and impacts to the financial statements are expressed in note 2 to the financial statements.

Impact of accounting pronouncements not yet implemented

There were no new accounting pronouncements issued in 2018 which would affect the Company's results of operations or financial conditions.

For fiscal 2019, the Company will implement IFRS 16 – Leases as described in note 4 to the Annual financial statements included in this Annual Report.

The Company has assessed IFRS 16 and reviewed its portfolio of contracts in order to identify leases that would be under the scope of the new standard. 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 which will be impacted by the transition to IFRS 16. Based on management's preliminary assessment of contracts in existence at September 30, 2019, the following impacts are expected on its consolidated statement of net profit for the 2020 fiscal year:

	IAS 17	IFRS 16	Change
Operating Expenses	\$ 5,306	\$ 2,396	\$ (2,910)
Depreciation	\$ -	\$ 2,634	\$ 2,634
Interest Expense	\$ -	\$ 472	\$ 472
EBITDA			\$ 2,910
Net Income			\$ (196)

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

The existing operating leases are included in operating expenses under facilities. Under IFRS 16, the resulting change would result in an increase in EBITDA of \$2,910 and a decrease in net income of \$196 in the first year of implementation. These estimates are for the existing operating leases, any changes in the quantity of leases, or in the modification of their terms would result in a different estimate.

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 September 30, 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 September 30, 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 September 30, 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.

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

- 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.

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

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

Reconciliation of Operating Segments

Dated: November 25, 2019

Independent Auditor's Report

To the Shareholders and the Board of Directors of Calian Group Ltd.

Opinion

We have audited the consolidated financial statements of Calian Group Ltd. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2019 and September 30, 2018, and the consolidated statements of net profit, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Amy deRidder.

The logo for Deloitte LLP, featuring the company name in a stylized, handwritten-style font.

Chartered Professional Accountants
Licensed Public Accountants
Ottawa, Canada
November 25, 2019

Calian Group Ltd. Consolidated Statements of Financial Position

As at September 30, 2019 and 2018
(Canadian dollars in thousands)

	NOTES	September 30, 2019	September 30, 2018 Restated (Note 3)
ASSETS			
CURRENT ASSETS			
Cash		\$ 17,135	\$ 21,842
Accounts receivable	7	63,977	69,096
Work in process	10	39,221	17,377
Inventory	8	3,147	1,498
Prepaid expenses	9	5,403	3,879
Derivative assets	27	96	1,021
Total current assets		128,979	114,713
NON-CURRENT ASSETS			
Capitalized research and development	11	3,216	1,449
Equipment	11	10,965	9,795
Application software	11	1,013	788
Investment and loan receivable	12	452	435
Acquired intangible assets	13	16,699	6,702
Goodwill	14	33,702	18,236
Total non-current assets		66,047	37,405
TOTAL ASSETS		\$ 195,026	\$ 152,118
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Line of Credit	18	\$ 13,000	\$ -
Accounts payables and accrued liabilities	15	45,058	33,915
Contingent earn-out	16	800	3,166
Provisions	17	1,129	1,932
Unearned contract revenue	10	8,778	10,042
Deferred tax liabilities	23	922	297
Derivative liabilities	27	143	525
Total current liabilities		69,830	49,877
NON-CURRENT LIABILITIES			
Contingent earn-out	16	5,519	-
Deferred tax liabilities	23	4,603	2,191
Total non-current liabilities		10,122	2,191
TOTAL LIABILITIES		79,952	52,068
SHAREHOLDERS' EQUITY			
Issued capital	19	32,515	28,647
Contributed surplus		1,817	1,065
Retained earnings		81,608	70,521
Accumulated other comprehensive loss		(866)	(183)
TOTAL SHAREHOLDERS' EQUITY		115,074	100,050
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 195,026	\$ 152,118
Number of common shares issued and outstanding	19	7,929,238	7,764,762

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

Approved by the Board on November 25, 2019:



Kenneth Loeb
Chairman



Richard Vickers
Director

Calian Group Ltd. Consolidated Statements of Net Profit

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands, except per share data)

	NOTES	Year ended September 30,	
		2019	Restated (Note 3) 2018
Revenue			
Advanced Technologies		\$ 109,697	\$ 99,201
Health		115,718	99,458
Learning		63,098	61,552
Information Technology		54,531	44,857
Total Revenue	21	343,044	305,068
Cost of revenues		268,387	240,994
Gross profit		74,657	64,074
Selling and marketing		10,499	9,188
General and administration		31,706	24,829
Facilities		5,306	4,722
Profit before under noted items		27,146	25,335
Depreciation of equipment and application software	11	2,220	1,807
Amortization of acquired intangible assets	13	3,168	1,193
Gain on change in estimate	28	(5,172)	-
Profit before interest income and income tax expense		26,930	22,335
Accretion interest expense related to acquisitions	16	1,023	93
Interest expense (income)		36	(320)
Profit before income tax expense		25,871	22,562
Income tax expense – current		6,318	6,645
Income tax expense – deferred		(439)	(374)
Total income tax expense	23	5,879	6,271
NET PROFIT		\$ 19,992	\$ 16,291
Net profit per share:			
Basic	22	\$ 2.55	\$ 2.11
Diluted	22	\$ 2.54	\$ 2.10

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

Calian Group Ltd. Consolidated Statements of Comprehensive Income

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

	NOTES	Year ended September 30,	
		2019	Restated (Note 3) 2018
NET PROFIT		\$ 19,992	\$ 16,291
Other comprehensive income, net of tax			
Items that will be reclassified subsequently to net profit			
Change in deferred gain on derivatives designated as cash flow hedges, net of tax of \$217 (2018 - \$52).		(683)	(113)
Other comprehensive income (loss), net of tax		(683)	(113)
COMPREHENSIVE INCOME		\$ 19,309	\$ 16,178

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

Calian Group Ltd. Consolidated Statements of Changes in Equity

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2018		\$ 28,647	\$ 1,065	\$ 70,521	\$ (183)	\$ 100,050
Comprehensive income		-	-	19,992	(683)	19,309
Dividend paid (\$1.12 per share)		-	-	(8,803)	-	(8,803)
Share repurchase		(16)	-	(102)	-	(118)
Issuance of shares under employee stock purchase plan	19,20	850	-	-	-	850
Issuance of shares under stock option plan	19	3,034	(430)	-	-	2,604
Share-based compensation expense	20	-	1,182	-	-	1,182
Balance September 30, 2019		\$ 32,515	\$ 1,817	\$ 81,608	\$ (866)	\$ 115,074

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2017		\$ 26,240	\$ 541	\$ 62,898	\$ (70)	\$ 89,609
Comprehensive income		-	-	16,291	(113)	16,178
Dividend paid (\$1.12 per share)		-	-	(8,668)	-	(8,668)
Issuance of shares under employee stock purchase plan	19,20	551	-	-	-	551
Issuance of shares under stock option plan	19	1,856	(196)	-	-	1,660
Share-based compensation expense	20	-	720	-	-	720
Balance September 30, 2018		\$ 28,647	\$ 1,065	\$ 70,521	\$ (183)	\$ 100,050

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

Calian Group Ltd. Consolidated Statements of Cash Flows

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

	NOTES	September 30,	
		2019	Restated (Note 3) 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		\$ 19,992	\$ 16,291
Items not affecting cash:			
Interest expense (income)		36	(320)
Accretion interest expense related to acquisitions	16	1,023	93
Income tax expense	23	5,879	6,271
Employee share purchase plan	20	173	133
Share based compensation	20	1,182	720
Depreciation and amortization	11,13	5,388	3,000
Gain on change in estimate	28	(5,172)	-
		28,501	26,188
Change in non-cash working capital			
Accounts receivable		6,334	(12,868)
Work in process		(20,973)	1,544
Prepaid expenses		(1,395)	(818)
Inventory		1,216	(929)
Accounts payable and accrued liabilities		8,167	5,563
Unearned contract revenue		(1,806)	(412)
		20,044	18,268
Interest received (paid)		(127)	285
Income tax paid		(6,384)	(7,170)
		13,533	11,383
CASH FLOWS USED IN FINANCING ACTIVITIES			
Issuance of common shares	19,20	3,316	2,122
Dividends		(8,803)	(8,668)
Draw on line of credit	18	13,000	-
Share repurchase		(118)	-
		7,395	(6,546)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Investments and loan receivable	12	-	(150)
Business acquisitions	28	(20,849)	(4,975)
Capitalized research and development	11	(1,768)	(1,149)
Equipment and application software	11	(3,018)	(5,360)
		(25,635)	(11,634)
NET CASH (OUTFLOW) INFLOW		\$ (4,707)	\$ (6,797)
CASH, BEGINNING OF PERIOD		21,842	28,639
CASH, END OF PERIOD		\$ 17,135	\$ 21,842

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

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 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 consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board (“IASB”) and in place for September 30, 2019. These consolidated financial statements were prepared using the accounting policies as described in Note 2 – Summary of significant accounting policies.

These consolidated financial statements for the year ended September 30, 2019 were authorized for issuance by the Board of Directors on November 25, 2019.

2. Summary of Significant Accounting Policies

The accounting policies below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise stated.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Calian Ltd. located in Ottawa, Ontario, Primacy Management Inc., located in Burlington, Ontario, DWP Solutions Inc., located in Ottawa, Ontario, PriorityOne Workplace Health Inc. and William J Barker Clinical Psychologists Ltd. (collectively “Priority One”), located in Calgary, Alberta, Secure Technologies International Inc. (“Secure Tech”), located in Ottawa, Ontario, IntraGrain Technologies Inc. (“IntraGrain”) located in Regina, Saskatchewan, SatService Gesellschaft für Kommunikationssysteme mbH (“SatService”) located in Steisslingen, Germany. All transactions and balances between these companies have been eliminated on consolidation.

Basis of presentation

The consolidated financial statements are presented at historical cost unless otherwise noted. Historical cost is generally based on the fair value of the consideration given in exchange for the asset or liability.

Revenue recognition

The Company recognizes revenue from the following sources, although this list is not exhaustive:

Service revenue

- Advanced Technologies support services across a number of industries, and product development
- Healthcare services including clinic management, healthcare practitioner support and psychological assessments
- Learning services including, Custom Training for the military, emergency preparedness and simulation training
- IT services including IT support services, systems implementation services, and cyber security consulting services

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

Product revenue

- Sale of internally developed hardware and software products
- Resale of radio frequency communications product
- Resale of IT product which can include hardware and software
- Manufacturing and installation of large satellite antennae ground systems

(a) Revenue recognition:

Revenue is recognized in profit or loss in accordance with the pattern of satisfying the Company's performance obligations under a contract. This satisfaction occurs when control of a good or service transfers to the customer. In the majority of the Company's contracts, the customer controls the work in process as evidenced by the right to payment for work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to the Company. Based on the nature of these contractual arrangements, control is transferred over time and revenue is recognized over time.

For each performance obligation satisfied over time, the Company will recognize revenue by measuring progress toward complete satisfaction of that performance obligation using the input method. In this way, the Company recognizes revenue in a pattern that reflects the transfer of control of the promised goods or services to the customer. Fixed price contracts are recognized using the input method with reference to costs incurred. If the outcome of a contract cannot be estimated reliably for management to estimate the ultimate profitability of the contract with a reasonable degree of certainty, no profit is recognized. When further clarity is gained throughout the progression of the contract, the constrained margin and associated revenue will be reassessed. Revenue from cost plus arrangements is recognized as services are performed and costs are incurred.

Revenue from generic product sales, or product that does not meet criteria for over time recognition is measured at a point in time following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts.

Revenue from contract modifications, commonly referred to as change orders or purchase orders issued on contracts, will be recognized to the extent that the contract modifications have been approved by the customer and the amount can be measured reliably. In cases where the contract modification is approved, but the price has not been finalized, the Company will account for the contract modification using variable consideration guidance described below.

For a portion of customer arrangements, the customer contracts with the Company to provide a significant service of integrating a complex set of tasks and components into a single project or capability (even if that single project results in the delivery of multiple units). The Company therefore considers that the entire contract results in the delivery of a single performance obligation. Less commonly, the Company may promise to provide distinct goods or services within a contract in which case the contract is separated into the associated performance obligations as assessed from the customer's perspective. If a contract contains multiple performance obligations, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. When the Company is contracted to construct customer specific projects, the budgets and overall transaction prices are built up using the Company's best estimate of costs associated to complete the customized project using the appropriate overhead and subcontractor rates for a given project and location. This approach to estimate the overall costs and associated revenues is considered the most appropriate assessment of the standalone selling price for the associated performance obligations.

In certain contracts for products, the Company may agree to provide warranty and maintenance services for periods that can extend up to 5 years. Warranty and maintenance is often included in the transaction price and is an after-sales service. Upon expiration, the warranty period may be extended at the customer's option. Regardless of whether

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

a renewal option exists in a contract, the Company does not account for a renewal option until this option is agreed upon. This is subsequently accounted for at the agreed upon price on renewal. Consequently, the option to extend the renewal period does not provide customers with any advantage when they enter into the initial contract and therefore no revenue has been deferred relating to this renewal option.

The maintenance or warranty service is considered to be a distinct service when it is both regularly supplied by the Company to other customers on a stand-alone basis and is available for customers from other providers in the market. When these criteria are met, the warranty is considered a service type warranty where a portion of the transaction price is allocated to the maintenance services based on the stand-alone selling price of those services. Revenue relating to the maintenance services is recognized over time as the service is provided and incurs warranty costs over the satisfaction of the performance obligation. Assurance type warranties are those that promise to the customer that the delivered product will function as intended and will comply with agreed-upon specifications. Assurance type warranty costs are recognized as a provision in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, based on the progress of the other performance obligations in the contract, and the provision recognized is reduced as costs are incurred or reversed if no longer required.

If estimated total costs on any contract, including any inefficient costs, are greater than the net contract revenues, IFRS 15, Revenue from Contracts with Customers indicates IAS37, Provisions, Contingent Liabilities and Contingent Assets, should be applied as the contract is considered onerous. IAS37 however contains no further requirements as to the measurement of onerous contracts. On adoption of IFRS15, all loss provisions for contracts with customers follow the same policy for the definition of unavoidable costs to fulfilling the contract. The Company defines unavoidable costs as the costs that the Company cannot avoid because it has the contract (for example, this would include an allocation of overhead costs if those costs are incurred for activities required to complete the contract).

(b) Contract assets and liabilities

Any excess of costs and estimated earnings over progress billings on construction contracts is carried as a contract asset in the financial statements. Any excess of progress billings over earned revenue on construction contracts is carried as a contract liability in the financial statements.

Contract assets and liabilities (or “work in process” and “unearned contract revenue”, respectively) are reported in a net position on a contract-by-contract basis at the end of each reporting period. All contract assets and liabilities are classified as current in the financial statements as they are expected to be settled within the Company’s normal operating cycle.

(c) Provisions:

Provisions are recognized when, at the financial statement date, the Company has a present obligation as a result of a past event, and it is more likely than not that the Company will be required to settle that obligation and the cash outflow can be estimated reliably. The amount recognized for provisions is the best estimate of the expenditure to be incurred. Provisions are measured at their present value.

Provisions include:

- i. Provisions for potential warranty claims relating to construction projects. These claims are usually settled during the project’s warranty period. A provision is recognized when it is more likely than not that a warranty claim will arise. The amount recognized is the best estimate of the amount required to settle the warranty issue.
- ii. Provisions for loss contracts are recorded when costs are determined to be greater than total revenues for the contract. Losses from any construction contracts are recognized in full in the period the loss becomes apparent. The loss provision will be net of management’s estimate of probable expected recoveries, which differs from the criterion used for revenue recognition.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

Share-based compensation

The Company has a stock option plan for executives and other key employees. The Company measures and recognizes compensation expense based on the grant date fair-value of the stock options issued using the Black-Scholes pricing model. The offsetting credit is recorded in contributed surplus. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense for each tranche is recorded on a straight-line basis over the vesting period based on the Company's estimate of share options that will ultimately vest. At each reporting period, the Company revises its estimate of the stock options expected to vest. The impact on the change in estimate, if any, is recognized over the remaining vesting period. Consideration paid by employees on the exercise of options and related amounts of contributed surplus are recorded as issued capital when the shares are issued.

The Company has a restricted share unit plan for executives and other key employees. The Company measures and recognizes compensation expense based on the grant date fair-value of the units issued using the market value based on the price at the date preceding the grant. The offsetting credit is recorded in contributed surplus. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense for each tranche is recorded on a straight-line basis over the vesting period based on the Company's estimate of units that will ultimately vest. At each reporting period, the Company revises its estimate of the units expected to vest. The impact on the change in estimate, if any, is recognized over the remaining vesting period.

The Company has an employee stock purchase plan available to all employees of the Company. The plan provides for a discount to the fair market value at the date the shares are issued. Compensation expense representing the discount is recorded as general and administration expenses with an offsetting amount to issued capital.

Leases

Leases entered into are classified as either finance or operating leases. Leases that transfer substantially all of the risks and rewards of ownership of property to the Company are accounted for as finance leases. For leases which are classified as operating leases, lease payments are recognized as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis. The Company does not have any finance leases. Refer to Note 4, Future Changes in Accounting Policies for the Company's analysis on the implementation of IFRS 16, Leases for the next fiscal year.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net profit, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current tax

The tax currently payable is based on taxable income for the period using tax rates enacted or substantively enacted as at each reporting period and any adjustments to tax payable related to previous years. Taxable profit differs from profit as reported in the consolidated statement of net profit because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is recognized using the balance sheet method, providing for differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used for taxation purposes calculated using the tax rates in effect when the differences are expected to reverse.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences, and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted at each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Capitalized Research and Development (“R&D”)

Research costs are expensed as incurred. Internally developed internal-use asset costs incurred in the development phase of a project are capitalized. Certain costs incurred in connection with the development of assets to be used internally are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of development. Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Company are recognized as assets when the following criteria are met:

- it is technically feasible to complete the asset so that it will be available for use;
- there is an ability and management intends to complete the asset for use or sale;
- it can be demonstrated how the asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- the expenditure attributable to the asset during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in net profit over the estimated useful life of the underlying assets.

Capitalized R&D is measured at cost and depreciated once the assets are available for use. Costs include expenditures that are directly attributable to its construction.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

Equipment

Equipment, comprising furniture and computer equipment, along with leasehold improvements, is stated at cost less accumulated depreciation and impairment losses, if any. The carrying value is net of any related government assistance and investment tax credits. Depreciation is recognized in net profit on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the term of the leases. The estimated useful lives are as follows:

- Leasehold improvements: over the term of each lease
- Equipment: 5 to 10 years

The estimated useful lives, residual values and depreciation methods are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

Application software

Application software is measured at cost less accumulated depreciation and is amortized on a straight-line basis over its estimated useful life not exceeding five years. The amortization method and estimate of useful lives are reviewed annually.

Acquired intangible assets

Acquired intangible assets are measured at cost less accumulated amortization. Amortization is recognized in net profit over the estimated useful lives of the underlying assets. The estimated useful lives are as follows:

- Customer relationship Primacy: indefinite
- Other customer relationships: 3 to 5 years
- Contracts with customers: 3 to 5 years
- Non-competition agreements: 2 to 5 years
- Technology and Trademarks: 2 to 5 years

The customer relationship from the Primacy acquisition, representing expected renewals of the acquired contract, is considered to have an indefinite life based on the fact that the contract is renewable on an annual basis indefinitely. The amortization method and estimate of useful life for all other intangible assets is reviewed annually.

Impairment of equipment, application software and intangible assets

At each reporting period, management reviews the carrying amounts of its equipment, application software and acquired intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with an indefinite life are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, management estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units. The Company performs its annual review of acquired intangible assets with an indefinite life on September 30th each year.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

Current year impairment testing occurred due to triggering events relating to intangible assets described in Note 27 where the triggering event was the change in estimate on the contingent earn out payable. In order to calculate the value in use of the intangible assets, the Company calculated the present value of discounted cash flows that relate specifically to these cash generating units for which the intangibles relate. Assumptions were made on the forecasted cash flows for the cash generating units, and discount rates used in the present value.

Impairment of goodwill

Goodwill arising on the acquisition of a business represents the excess of the purchase price over the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired businesses recognized at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the synergies of the combination. Cash-generating units or groups of cash generating units to which goodwill has been allocated are tested for impairment annually or more frequently if events or changes in circumstances indicate that the unit might be impaired. For purposes of impairment testing of goodwill, cash-generating units or groups of cash generating units correspond to the Company's reporting segments as disclosed in Note 26.

When the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the cash-generating unit on a pro-rata basis. An impairment loss recognized for goodwill is not reversed in a subsequent period. The Company performs its annual review of goodwill on September 30th each year.

At September 30, 2019 and 2018, management assessed the recoverable amount of goodwill and concluded that a goodwill impairment charge was not required. The recoverable amount of the cash-generating units or groups of cash generating units was assessed by reference to value in use.

For the years ended September 30, 2019 and 2018, a discount factor assumption of 12% to 15% and a growth rate assumption of 0% to 5% were used in arriving at value in use for the segments. Outlook for the next fiscal year was used as the basis for the future cash flow estimates and the future estimated growth rates were validated by comparing to average growth levels for the previous 3 years.

Business acquisition

Acquisition of businesses is accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are generally expensed in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes a payment subject to the retention of the principal shareholders, the amount is deemed to represent deferred compensation payable to such shareholders and therefore is excluded from the total consideration of the purchase, and is expensed on a straight-line basis over the retention period in the Company's consolidated statement of net profit as deemed compensation related to acquisitions.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Foreign currency translation

Transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. 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. At each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at each reporting period. Non-monetary items which are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in net profit in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currencies (see note below for hedging policy).

The functional currency of the parent company and its subsidiaries is the Canadian dollar, except for SatService which is in Euro.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All financial assets are recognized and de-recognized on trade date. The classification of financial assets depends on the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets are classified as follows:

- | | |
|----------------------------------|-------------------------------------------------------|
| • Cash | Amortized cost |
| • Accounts receivable | Amortized cost |
| • Investment and loan receivable | Amortized cost |
| • Derivative assets | Fair value through other comprehensive income ("OCI") |

Amortized cost

Subsequent to initial recognition, financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate except for accounts receivable, where the interest revenue would be immaterial. Interest income, foreign exchange gains and losses, and impairment and any gain or loss on de-recognition are recognized in profit and loss.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization. Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are as follows:

- | | |
|--------------------------------------------|------------------------|
| • Line of credit | Amortized cost |
| • Accounts payable and accrued liabilities | Amortized cost |
| • Contingent earn-out | Amortized cost |
| • Provisions | Amortized cost |
| • Derivative liabilities | Fair value through OCI |

Fair value hierarchy

The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

Level 1 values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within more than one level of the hierarchy, the level within which the fair value measurement is categorized is based on the Company's assessment of the lowest level input that is the most significant to the fair value measurement.

Derivative financial instruments and risk management

The Company enters into derivative financial instruments, mainly foreign exchange forward contracts to manage its foreign exchange rate risk. The Company's policy does not allow management to enter into derivative financial instruments for trading or speculative purposes. Foreign exchange forward contracts are entered into to manage the foreign exchange rate risk on foreign denominated financial assets and liabilities and foreign denominated forecasted transactions.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into with transaction costs recognized in profit and loss. Derivatives are subsequently re-measured to their fair value at each reporting period. The resulting gain or loss is recognized in net profit immediately unless the derivative is designated and effective as a hedging instrument, in which event the effective portion of changes in the fair value of the derivative is recorded in other comprehensive income and is recognized in net profit when the hedged item affects net profit. The Company expenses transaction costs related to its foreign exchange contracts. Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place at the end of the period. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

Hedge accounting

Management designates its foreign exchange forward contracts as either hedges of the fair value of recognized assets or liabilities (fair value hedges) or hedges of highly probable forecast transactions and firm commitments (cash flow hedges).

At the inception of the hedge relationship, the Company documents the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Furthermore, both at the hedge's inception and on an on-going basis, the Company also assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in net profit immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in net profit, and is included in other gains and losses, if any. Amounts deferred in other comprehensive income are recycled in net profit in the periods when the hedged item is recognized in net profit, in the same line of the consolidated statement of net profit as the recognized hedged item.

Hedge accounting is discontinued when management revokes the hedging relationship; the hedging instrument is terminated or no longer qualifies for hedge accounting. For fair value hedges, the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net profit from that date. For cash flow hedges, any cumulative gain or loss deferred in other comprehensive income at that time remains in other comprehensive income and is recognized when the forecast transaction is ultimately recognized in net profit. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in other comprehensive income is recognized immediately in net profit.

Note 26 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the consolidated statement of changes in equity.

3. Changes in Accounting Policies

IFRS 9 Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments ("IFRS 9") and as permitted by the transitional provisions in IFRS 9, the Company elected not to restate comparative figures. IFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment for financial assets and hedge accounting. IFRS 9 replaces the 'incurred loss' model in IAS 39, Financial Instruments, with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost and under IFRS 9, credit losses are recognized earlier than under IAS 39.

- Cash, trade and other receivables classified as Loans and receivables are now classified as Amortized cost.
- Financial liabilities classified as Amortized cost under IAS 39 continue to be classified as such under IFRS 9.

The adoption of IFRS 9 did not have a significant impact on the financial position and/or financial performance of the Company.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

3. Changes in Accounting Policies (continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15 Revenue from Contracts with Customers. The Standard replaces IAS 11 Construction Contracts and IAS 18 Revenue, providing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the new standard is recognizing revenue to depict fulfilment of performance obligations to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services.

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

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

Revenue recognition

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

Warranty

Under the former revenue standards, for contracts having revenue recognized based on the stage of completion method, warranty costs were accounted for in a consistent manner with other costs incurred. As a result, costs were recognized as incurred and were included in the measure of progress of the contract. IFRS 15 classifies warranty into two groups, assurance type and service type.

Assurance type warranties are those that promise to the customer that the delivered product will function as intended and will comply with agreed-upon specifications. Assurance type warranty costs are recognized as a provision in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, based on the progress of the other performance obligations in the contract, and the provision recognized is reduced as costs are incurred or reversed if no longer required.

Service type warranties are those which the customer has the option to purchase the warranty separately or those which contain a service in addition to a standard assurance type warranty. Service type warranties give rise to a separate performance obligation within a contract and as a result, the Company recognizes revenue as the service is provided and incurs warranty costs over the satisfaction of the performance obligation.

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3. Changes in Accounting Policies (continued)

The Company offers both types of warranties to customers which carry an impact to the classification and treatment under IFRS 15. The impact of warranty changes resulted in a revenue decrease for fiscal 2018 of \$7, and cumulative increase to provisions of \$1,365 at September 30, 2018.

When assessing results, the Company disaggregates its revenues into two categories; revenue from services and revenue from products. Revenue from products is typically fixed price contracts for the development and installation of hardware or software systems, and the sale of products. These sales typically include a warranty which must be assessed as a service type or assurance type warranty on a contract by contract basis. Revenue from services are typically in the form of cost-plus arrangements but from time to time involve fixed price arrangements as well. These contracts represent revenue that is recognized as and when services are provided to the customer. These contracts are for professional services delivered over time to customers through either medical and healthcare services, IT support and implementation services, training exercises and simulations, and engineering services where customers are looking for engineers to support their initiatives and not a manufactured product.

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

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

	As at September 30, 2018	As at October 1, 2017
Equity as previously reported	\$ 99,714	\$ 89,487
Cumulative changes to:		
Warranty	509	220
Performance obligations previously reported over time now recognized at a point in time	(49)	(53)
Income tax impact	(124)	(45)
Net change to equity	336	122
Equity as restated	\$ 100,050	\$ 89,609

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3. Changes in Accounting Policies (continued)

The impacts on the consolidated statement of financial position is as follows, as at:

	As previously reported	Reclassification	September 30, 2018 Adjustments	As restated
CURRENT ASSETS				
Cash	\$ 21,842	\$ -	\$ -	\$ 21,842
Accounts receivable	69,096	-	-	69,096
Work in process	18,217	(570)	(270)	17,377
Inventory	-	570	928	1,498
Prepaid expenses	3,879	-	-	3,879
Derivative assets	1,021	-	-	1,021
Total current assets	114,055	-	658	114,713
Total non-current assets	37,405	-	-	37,405
TOTAL ASSETS	\$ 151,460	\$ -	\$ 658	\$ 152,118
LIABILITIES				
Accounts payable and accrued liabilities	\$ 34,284	\$ (567)	\$ 124	\$ 33,841
Contingent earn out	2,440	-	-	2,440
Provisions	-	567	1,365	1,932
Unearned contract revenue	11,209	-	(1,167)	10,042
Derivative liabilities	525	-	-	525
Total current liabilities	48,458	-	322	48,780
Total non-current liabilities	3,288	-	-	3,288
TOTAL LIABILITIES	51,746	-	322	52,068
SHAREHOLDERS' EQUITY				
Issued capital	28,647	-	-	28,647
Contributed surplus	1,065	-	-	1,065
Retained earnings	70,185	-	336	70,521
Accumulated other comprehensive loss	(183)	-	-	(183)
TOTAL SHAREHOLDERS' EQUITY	99,714	-	336	100,050
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 151,460	\$ -	\$ 658	\$ 152,118

Calian Group Ltd. Notes to the Consolidated Financial Statements

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3. Changes in Accounting Policies (continued)

The impacts on the consolidated statement of income relating to IFRS 15 can be observed in the 'Adjustments' column in the table below for September 30, 2018, for details of the 'Reclassification' column please see Note 31 as follows:

	As previously reported	Reclassification	September 30, 2018 Adjustments	As restated
Revenues	\$ 304,958	\$ -	\$ 110	\$ 305,068
Cost of revenues	245,266	(4,089)	(183)	240,994
Gross profit	59,692	4,089	293	64,074
Selling and marketing	5,154	4,034	-	9,188
General and administration	24,774	55	-	24,829
Facilities	4,722	-	-	4,722
Depreciation	1,807	-	-	1,807
Amortization of intangibles	1,193	-	-	1,193
Profit before interest income and income tax expense	22,042	-	293	22,335
Interest income	320	-	-	320
Interest accretion expense	(93)	-	-	(93)
Profit before income tax expense	22,269	-	293	22,562
Income tax expense – current	6,566	-	79	6,645
Income tax expense – deferred	(374)	-	-	(374)
Total income tax expense	6,192	-	79	6,271
NET PROFIT FOR THE PERIOD	\$ 16,077	\$ -	\$ 214	\$ 16,291
Earnings per share basic	\$ 2.08	\$ -	\$ 0.03	\$ 2.11
Earnings per share diluted	\$ 2.07	\$ -	\$ 0.03	\$ 2.10

4. Future Changes in Accounting Policies

IFRS 16 Leases

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 and right-of-use asset values are calculated using a present value at transition, but prior year comparative information will not be restated and continues to be reported under IAS 17.

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 previous accounting standard, all of which represent leases for office space.

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4. Future Changes in Accounting Policies (continued)

Based on management's preliminary assessment of these contracts, the following balance sheet impact is expected:

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

5. Critical Accounting Judgments 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.

Calian Group Ltd. Notes to the Consolidated Financial Statements

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5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

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. In applying this policy, judgments are made in applying the criteria set out in IFRS9, 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. 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 the completion of projects. 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.

6. 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 this fiscal year, generates a significant portion of its revenues during the third and fourth quarter of the Company's fiscal year.

Calian Group Ltd. Notes to the Consolidated Financial Statements

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7. Accounts Receivable

The following table presents the trade and other receivables:

	September 30, 2019	September 30, 2018
Trade and accounts receivable	\$ 62,507	\$ 68,405
Tax and Scientific Research and Development receivable	1,500	788
Other	46	3
	64,053	69,196
Loss Allowance	(76)	(100)
	\$ 63,977	\$ 69,096

Bad debt recovery recognized in the year ended September 30, 2019 (2018) is \$79 (\$85).

8. Inventory

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

The following table presents inventories at:

	September 30, 2019	September 30, 2018 Restated (Note 3)
Raw materials	\$ 1,391	\$ 440
Work in process	275	756
Finished goods	1,481	302
	\$ 3,147	\$ 1,498

Inventory recognized as cost of sale in the year ended September 30, 2019 (2018) is \$5,529 (\$852). No inventory provisions have been recognized in this fiscal year, or the prior fiscal year.

9. Prepaid Expenses

The following table presents prepaid expenses as at:

	September 30, 2019	September 30, 2018
Prepaid maintenance	\$ 2,406	\$ 2,529
Other prepaid expenses	2,997	1,350
	\$ 5,403	\$ 3,879

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10. Contract Assets and Liabilities

For the years ended September 30, 2019 (2018), contract assets opening balances were \$17,377 (\$19,611). In the 2019 fiscal year, Calian acquired \$871 in contract assets through the acquisition of Sat Service. For the years ended September 30, 2019 (2018), contract assets closing balances were \$39,221 (\$17,377).

The following table presents changes in contract liabilities:

	Contract Liabilities	
	September 30, 2019	September 30, 2018 Restated (Note 3)
Opening balance, October 1	\$ 10,042	\$ 7,840
Deferral of revenue	5,030	4,372
Recognition of deferred revenue	(6,836)	(3,793)
Acquisitions	542	1,623
Ending balance, September 30	\$ 8,778	\$ 10,042

11. Equipment

A continuity of property, plant and equipment for the years ended September 30, 2019 and September 30, 2018 are as follows:

	Leasehold Improvements	Equipment	Total Equipment	Application Software
Cost				
Balance September 30, 2017	\$ 1,753	\$ 16,123	\$ 17,876	\$ 3,493
Additions	2,021	3,272	5,293	277
Transfers/disposals	-	(1,770)	(1,770)	-
Acquisitions	23	1,175	1,198	2
Balance September 30, 2018	\$ 3,797	\$ 18,800	\$ 22,597	\$ 3,772
Additions	249	2,284	2,533	538
Transfers/disposals	(1,609)	(726)	(2,335)	(2)
Acquisitions	-	1,021	1,021	3
Balance September 30, 2019	\$ 2,437	\$ 21,379	\$ 23,816	\$ 4,311
Accumulated Depreciation				
Balance September 30, 2017	\$ (1,480)	\$ (10,192)	\$ (11,672)	\$ (2,727)
Depreciation	(238)	(1,314)	(1,552)	(255)
Transfers/disposals	(10)	1,562	1,552	-
Acquisitions	(23)	(1,107)	(1,130)	(2)
Balance September 30, 2018	\$ (1,751)	\$ (11,051)	\$ (12,802)	\$ (2,984)
Depreciation	(246)	(1,663)	(1,909)	(311)
Transfers/disposals	1,609	682	2,291	-
Acquisitions	-	(431)	(431)	(3)
Balance September 30, 2019	\$ (388)	\$ (12,463)	\$ (12,851)	\$ (3,298)
Carrying Value				
September 30, 2018	\$ 2,046	\$ 7,749	\$ 9,795	\$ 788
September 30, 2019	\$ 2,049	\$ 8,916	\$ 10,965	\$ 1,013

Calian Group Ltd. Notes to the Consolidated Financial Statements

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11. Equipment (continued)

Capitalized Research and Development

Capitalized R&D balances as at September 30, 2019 (2018) totalled \$3,216 (\$1,449). Respective additions in the 2019 (2018) fiscal years were \$1,767 (\$1,149). 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.

12. Investment and Loan Receivable

During fiscal years ended 2017, and 2018, the Company invested \$250 and \$150, respectively, in Cliniconex Inc., an Ottawa-based patient outreach solutions vendor. The investment in 2017 is \$100 in common shares, and \$150 in the form of a convertible loan bearing interest at a rate of 12% maturing on June 6, 2021. The 2018 investment is in the form of a \$150 convertible loan bearing interest at a rate of 12% and maturing June 9, 2020. The loan is measured at amortized cost. As part of the investment, a member of the Company's management team has been appointed to the Cliniconex Inc. Board of Directors. The investment is measured at cost.

13. Acquired Intangible Assets

A continuity of the intangible assets for the fiscal year ended September 30 are as follows:

	September 30, 2019			
	Opening Balance	Additions	Amortization	Closing Balance
Customer relationship related to Primacy	\$ 1,909	\$ -	\$ -	\$ 1,909
Other customer relationships	3,083	6,353	(1,381)	8,055
Contract with customers	1,157	-	(387)	770
Non-competition agreements	212	296	(195)	313
Technology and trademarks	341	6,516	(1,205)	5,652
	\$ 6,702	\$ 13,165	\$ (3,168)	\$ 16,699

	September 30, 2018			
	Opening Balance	Additions	Amortization	Closing Balance
Customer relationship related to Primacy	\$ 1,909	\$ -	\$ -	\$ 1,909
Other customer relationships	1,989	1,539	(445)	3,083
Contract with customers	983	770	(596)	1,157
Non-competition agreements	271	-	(59)	212
Technology and trademarks	434	-	(93)	341
	\$ 5,586	\$ 2,309	\$ (1,193)	\$ 6,702

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14. Goodwill

The following table presents the goodwill for the Company:

	September 30, 2019		September 30, 2018	
Opening balance	\$	18,236	\$	15,383
Acquisitions		15,466		2,853
Ending balance	\$	33,702	\$	18,236

15. Accounts Payable and Accrued Liabilities

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

	September 30, 2019		September 30, 2018	
			Restated (Note 3)	
Trade accounts payable	\$	24,748	\$	17,907
Payroll accruals		11,387		10,220
Income tax payable		256		450
Other accruals		8,667		5,338
	\$	45,058	\$	33,915

16. Contingent Earn-Out

The following shows the contingent consideration activity for the year ending September 30, 2019 for all acquisitions for which contingent consideration was agreed:

Company Acquired	Beginning balance	Addition through acquisition	Payments	Change in Estimate (Note 28)	Interest accretion	Ending balance
ISR	\$ 1,566	\$ -	\$ (1,640)	\$ -	\$ 74	\$ -
Secure Tech	1,600	-	-	(800)	-	800
IntraGrain Technologies	-	4,688	-	(2,447)	644	2,885
SatService	-	4,254	-	(1,925)	305	2,634
Total	\$ 3,166	\$ 8,942	\$ (1,640)	\$ (5,172)	\$ 1,023	\$ 6,319

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17. Provisions

Changes in provisions for the year ended September 30, 2019 were as follows:

	Product Warranties ⁽¹⁾	Severance	Other	Total Restated (Note 3)
Balance at October 1, 2018	\$ 1,365	\$ 414	\$ 153	\$ 1,932
Additions	425	471	-	896
Utilization/Reversals	(989)	(584)	(126)	(1,699)
Balance at September 30, 2019	\$ 801	\$ 301	\$ 27	\$ 1,129

⁽¹⁾For description of product warranties, please refer to Note 2 with regards to changes in accounting policies due to IFRS 15.

18. 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 September 30, 2019 (2018), the Company utilized \$13,000 (NIL) of the RCF. The RCF is secured against the Company’s assets and is interest bearing at the Royal Bank of Canada’s Prime Rate.

19. 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 September 30, 2019.

Common share issued and outstanding:

	September 30, 2019		September 30, 2018	
	Shares	Amount	Shares	Amount
Balance, beginning of year	7,764,762	\$ 28,647	7,655,713	\$ 26,240
Shares issued under employee share plans	139,814	3,034	87,541	1,856
Shares issued under employee stock purchase plan	28,941	850	21,508	551
Share repurchases	(4,279)	(16)	-	-
Issued capital	7,929,238	\$ 32,515	7,764,762	\$ 28,647

Subsequent to the date of the statement of financial position, on November 25, 2019, the date of issuance of these consolidated financial statements, the Company declared a dividend of \$0.28 per common share payable on December 23, 2019.

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.

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20. 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 September 30, 2019, based on the Company's total common shares outstanding, a total of 713,631 stock options and RSU's may be issued and outstanding. Based on this, the Company could grant up to 426,495 additional stock options beyond what was issued and outstanding as at September 30, 2019. The weighted average fair value of options granted during the year ended September 30, 2019 was \$3.96 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 2019:

	November 2018	February 2019
Grant date share price	\$ 29.55	\$ 29.06
Exercise price	\$ 29.55	\$ 29.06
Expected price volatility	% 22.7	% 23.7
Expected option life	yrs 4.00	yrs 4.00
Expected dividend yield	% 3.79	% 3.71
Risk-free interest rate	% 2.28	% 1.78
Forfeiture rate	% 0	% 0

	2019		2018	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	247,400	\$ 25.43	240,600	\$ 20.10
Exercised	(131,600)	19.79	(83,800)	19.80
Forfeited	(5,000)	32.57	(6,000)	34.58
Granted	128,600	29.52	96,600	34.39
Outstanding, end of year	239,400	\$ 30.57	247,400	\$ 25.43

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20. Share-Based Compensation (continued)

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	11,200	September 9, 2015	September 9, 2020	\$ 17.69	\$ 0.90
(2) Issued May 17, 2017	18,000	May 17, 2017	May 17, 2022	\$ 27.30	\$ 3.42
(3) Issued November 24, 2017	81,600	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	\$ 4.37
(5) Issued November 19, 2018	113,600	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

For the option issuance dated November 19, 2018, 35,600 options vested immediately with the remaining vesting through to November 19, 2020. For the option issuance dated February 8, 2019, 3,000 options vested immediately with the remaining vesting through to February 8, 2021.

At September 30, 2019 (2018) the weighted average remaining contractual life of options outstanding is 3.53 (2.75) years of which 143,400 (187,400) options are exercisable at a weighted average price of \$30.30 (\$22.56). The Company has recorded \$491 of share-based compensation expense in 2019 (2018 - \$360) related to the options that have been granted. The Company has total unrecognized compensation expense of \$86 (2018 - \$87) that will be recorded in the next fiscal year.

Restricted share units:

The Company has an established a 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 September 30, 2019 and 2018:

	2019		2018	
	Number of RSUs	Weighted Avg. Grant Date Fair Value	Number of RSUs	Weighted Avg. Grant Date Fair Value
Outstanding, beginning of year	20,970	\$ 31.40	11,345	\$ 27.43
Transferred to common shares	(8,214)	30.83	(3,741)	27.42
Cancelled/forfeited	(1,713)	30.24	(1,141)	31.03
Granted	36,693	29.54	14,507	33.45
Outstanding, end of year	47,736	\$ 30.11	20,970	\$ 31.40

In 2019, the Company issued 36,693 RSU's, with a weighted average grant date fair value of \$29.54 per RSU. Of the units issued in the fiscal year under the RSU plan, NIL have vested as of September 30, 2019. The Company has recorded \$691 of share-based compensation expense in 2019 (2018 - \$360) related to the RSUs that have been granted. The Company has total unrecognized compensation expense of \$579 (2018 - \$265) that will be recorded over the next three years.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
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20. Share-Based Compensation (continued)

The following RSU-based payment arrangements are in existence:

RSU series:	Number of RSUs	Grant date	Vest through	Fair value at grant date
(1) Issued February 17, 2017	2,890	February 17, 2017	November 15, 2019	\$ 27.22
(2) Issued May 12, 2017	539	May 12, 2017	November 15, 2019	\$ 28.43
(3) Issued November 24, 2017	6,018	November 24, 2017	November 15, 2022	\$ 34.58
(4) Issued February 12, 2018	2,426	February 12, 2018	November 15, 2020	\$ 31.01
(5) Issued March 27, 2018	370	March 27, 2018	November 15, 2020	\$ 31.54
(6) Issued November 16, 2018	34,818	November 6, 2018	November 15, 2021	\$ 29.55
(7) Issued February 7, 2019	675	February 7, 2019	November 15, 2021	\$ 29.06

Employee stock purchase plan

The Company has an Employee Stock Purchase Plan (“ESPP”) under which most full-time employees may register once a year to participate in one of two offering periods. Eligible employees may purchase common shares by payroll deduction throughout the year at a price of 80% of the fair market value at the beginning of the initial offering period or may purchase common shares at a price of 90% of the fair market value at the beginning of the interim offering period. Such shares are issued from treasury once a year at the end of the offering periods. A total of 750,000 common shares have been authorized for issuance under the plan. During 2019 (2018), the Company issued 28,941 (21,508) shares under the ESPP at an average price of \$24.65 (\$21.50) for which the company received \$714 (\$462) in cash. Employees subscribed to approximately 30,270 common shares, which will be issued during fiscal 2019 at an average price of \$24.74. Since inception and including the issuance of shares in 2019, 512,387 shares have been issued under the plan. During 2019 (2018) the Company recorded an ESPP expense of \$136 (\$89).

Deferred share unit plan

During the year ended September 30, 2019 (2018) the Company granted 4,046 (3,530) deferred share units (“DSU”). There are 20,914 (16,868) DSUs outstanding at September 30, 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 2019 (2018) was \$29.94 (\$25.02) per unit using the fair value of a Common Share at the time of grant. The Company recorded share-based compensation of \$207 (2018 – \$112) related to the DSUs in the year ended September 30, 2019.

Calian Group Ltd. Notes to the Consolidated Financial Statements

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21. Revenue

The following table presents the revenue of the Company for the year ended September 30, 2019 and 2018:

	Year ended	
	September 30, 2019	September 30, 2018 Restated (Note 3)
Product revenue		
Advanced Technologies	\$ 66,204	\$ 51,578
Health	-	-
Learning	-	-
Information Technology	3,549	1,862
Service revenue		
Advanced Technologies	43,493	47,623
Health	115,718	99,458
Learning	63,098	61,552
Information Technology	50,982	42,995
	\$ 343,044	\$ 305,068

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 September 30, 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:

	September 30, 2019
Less than 24 months	378,820
Thereafter	175,303
Total	554,123

Calian Group Ltd. Notes to the Consolidated Financial Statements

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22. Net Profit per Share

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

	Year ended September 30	
	2019	2018
Weighted average number of common shares – basic	7,843,265	7,722,937
Additions to reflect the dilutive effect of employee stock options and RSU's	20,096	44,140
Weighted average number of common shares – diluted	7,863,361	7,767,077

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 year ended September 30, 2019 (2018), 204,200 (96,600) options and Nil (Nil) RSU's were excluded from the above computation.

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

23. Income Taxes

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the reported income tax expenses:

	2019	2018
		Restated (Note 3)
Profit before income taxes	\$ 25,871	\$ 22,562
Tax provision at the combined basic Canadian federal and provincial income tax rate of 26.9% (2018: 26.9%)	6,959	6,076
Increase (decrease) resulting from:		
Effect of expenses that are not deductible in determining taxable profits	707	331
Impact of rate reductions on valuation of deferred income tax assets	(327)	(131)
Other income not taxable in determining net profit	(1,381)	-
Other	(79)	(5)
Income tax expense	\$ 5,879	\$ 6,271

Investments in subsidiaries

As at September 30, 2019 (2018), the Company had temporary differences of \$5,172 associated with investments in subsidiaries for which no deferred tax liabilities have been recognized as it is not probable that these differences will reverse in the foreseeable future.

Calian Group Ltd. Notes to the Consolidated Financial Statements
For the years ended September 30, 2019 and 2018
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23. Income Taxes (continued)

Reconciliation of deferred tax assets and liabilities are shown below:

Deferred tax assets (liabilities)	Equipment and application software	Acquired intangible assets	Cash flow hedging reserve	Other	Total
Deferred tax liability at September 30, 2017	\$ (835)	\$ (1,431)	\$ (62)	\$ 26	\$ (2,302)
Current year acquisition	-	(612)	-	-	(612)
Recovery (expensed) to statement of net profit	107	267	-	-	374
Recovery (expensed) to other comprehensive income	-	-	52	-	52
Deferred tax liability at September 30, 2018	\$ (728)	\$ (1,776)	\$ (10)	\$ 26	\$ (2,488)
Current year acquisition	-	(3,693)	-	-	(3,693)
Recovery (expensed) to statement of net profit	(574)	861	-	152	439
Recovery (expensed) to other comprehensive income	-	-	217	-	217
Deferred tax liability at September 30, 2019	\$ (1,302)	\$ (4,608)	\$ 207	\$ 178	\$ (5,525)

24. Commitments

The Company has non-cancellable lease agreements for office space and equipment with terms extending to the year 2029. The aggregate minimum rental payments under these arrangements are as follows:

2020	\$ 3,708
2021	3,822
2022	3,636
2023	3,289
2024	3,274
thereafter	6,911
Total	\$ 24,640

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 has accrued cost related to these claims where it estimates a payment will be required. 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. 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"). During the year ended September 30, 2019, the Company re-evaluated the organization of its business and reporting segments. As a result, the CEO now evaluates performance and allocates resources based on four key business units; Advanced Technologies, Health, Learning, and Information Technology ("IT"). Therefore, the Company will report its financial performance based on the new segments. Corporate costs are incurred for the shared services of the company.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
(Canadian dollars in thousands)

26. Segmented Information (continued)

These include, but are not limited to, the Finance, Human Resources, IT support, Corporate development, Legal, Corporate marketing, and administrative functions. Additional costs incurred by the corporate segment are facilities costs, costs of operating a public company, and various other costs. Prior year amounts have been presented on the same basis.

The Company evaluates performance and allocates resources based on profit before interest and income taxes. The accounting policies of the segments are the same as those described in Note 2. Revenues reported below represents revenue generated from external customers. There were no significant inter-segment sales in the year.

For the year ended September 30, 2019:

	Advanced Technologies	Health	Learning	IT	Corporate	Total
Revenue	\$ 109,697	\$ 115,718	\$ 63,098	\$ 54,531	\$ -	\$ 343,044
Cost of revenues	79,069	92,507	50,563	46,248	-	268,387
Gross profit	30,628	23,211	12,535	8,283	-	74,657
Gross profit %	28%	20%	20%	15%	N/A	22%
Selling and marketing	4,934	767	910	2,219	1,669	10,499
General and administration	5,419	3,615	2,642	2,133	17,897	31,706
Facilities	3,752	333	196	364	660	5,306
Profit before under noted items	\$ 16,523	\$ 18,496	\$ 8,787	\$ 3,567	\$ (20,226)	\$ 27,146
Profit before under noted items %	15%	16%	14%	7%	N/A	8%
Depreciation of equipment and application software						2,220
Amortization of acquired intangibles						3,168
Gain on change in estimate						(5,172)
Profit before interest and income tax expense						26,930
Accretion interest expense related to acquisitions						1,023
Interest expense (income)						36
Profit before income tax expense						25,871
Income tax expense – current						6,318
Income tax expense – deferred						(439)
Total income tax expense						5,879
NET PROFIT FOR THE PERIOD						\$ 19,992

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
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26. Segmented Information (continued)

For the year ended September 30, 2018:

	Advanced Technologies	Health	Learning	IT	Corporate	Total Restated (Note 3)
Revenue	\$ 99,201	\$ 99,458	\$ 61,552	\$ 44,857	\$ -	\$ 305,068
Cost of revenues	70,404	82,298	49,659	38,633	-	240,994
Gross profit	28,797	17,160	11,893	6,224	-	64,074
Gross profit %	29%	17%	19%	14%	N/A	21%
Selling and marketing	3,905	836	850	1,958	1,639	9,188
General and administration	3,676	2,795	2,203	1,453	14,702	24,829
Facilities	3,471	263	197	242	549	4,722
Profit before under noted items	\$ 17,745	\$ 13,266	\$ 8,643	\$ 2,571	\$ (16,890)	\$ 25,335
Profit before under noted items %	18%	13%	14%	6%	N/A	8%
Depreciation of equipment and application software						1,807
Amortization of acquired intangibles						1,193
Profit before interest and income tax expense						22,335
Accretion interest expense related to acquisitions						93
Interest expense (income)						(320)
Profit before income tax expense						22,562
Income tax expense – current						6,645
Income tax expense – deferred						(374)
Total income tax expense						6,271
NET PROFIT FOR THE PERIOD						\$ 16,291

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
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26. Segmented Information (continued)

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

	2019	2018
Canada	81%	80%
United States	15%	15%
Europe	4%	5%

Revenues are attributed to foreign countries based on the location of the customer. Revenues from various departments and agencies of the Canadian federal government for the year ended September 30, 2019 and 2018 represented 69% (68%) of the Company's total revenues. All four operating segments conduct business with this major customer.

27. 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.

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
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27. Financial Instruments and Risk Management (continued)

The Company also formally assesses, both at the hedge's inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge ineffectiveness has historically been insignificant. The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At September 30, 2019, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, 2019
BUY	\$ 53,184	USD	October 2019	\$ 70,410	\$ 64
SELL	4,776	EURO	October 2019	6,908	32
SELL	18	CHF	October 2019	24	-
Derivative assets					\$ 96
SELL	\$ 109,418	USD	October 2019	\$ 144,858	\$ (131)
BUY	618	EURO	October 2019	894	(4)
BUY	875	CHF	October 2019	1,164	(8)
Derivative liabilities					\$ (143)

A 10% strengthening of the Canadian dollar against the following currencies at September 30, 2019 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

	September 30, 2019
USD	\$ 6,768
EURO	547
CHF	(104)
	\$ 7,211

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):

	September 30, 2019	September 30, 2018
USD	\$ 181	\$ 17
EURO	203	-
	\$ 384	\$ 17

Calian Group Ltd. Notes to the Consolidated Financial Statements
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27. Financial Instruments and Risk Management (continued)

At September 30, 2018, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, 2018
SELL	116,409	USD	October 2018	\$ 150,691	\$ 838
SELL	7,994	EURO	October 2018	12,007	183
SELL	18	CHF	October 2018	24	-
Derivative assets					\$ 1,021
BUY	64,946	USD	October 2018	\$ 84,073	\$ 468
BUY	1,176	EURO	October 2018	1,766	27
BUY	1,457	CHF	October 2018	1,930	30
Derivative liabilities					\$ 525

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 September 30, 2019 (2018), 71% (66%) 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:

	September 30, 2019	September 30, 2018
Cash	\$ 17,135	\$ 21,842
Accounts receivable	63,977	69,096
Derivative assets	96	1,021
	\$ 81,208	\$ 91,959

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2019 and 2018
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27. Financial Instruments and Risk Management (continued)

The aging of accounts receivable at the reporting date was:

	September 30, 2019	September 30, 2018
Current	\$ 60,574	\$ 61,528
Past due (61-120 days)	1,249	4,556
Past due (> 120 days)	2,154	3,012
	\$ 63,977	\$ 69,096

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 September 30, 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 September 30, 2019, an amount of \$13,000 was drawn on the facility for current operations, and \$50 was drawn to issue a letter of credit to meet customer contractual requirements. The Company has a positive current ratio that can be used to repay any current obligations.

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 September 30, 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).

	2019 Level 1	2019 Level 2
Cash	\$ 17,135	\$ -
Derivative financial assets	-	96
Derivative financial liabilities	-	(143)
Total	\$ 17,135	\$ (47)

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27. Financial Instruments and Risk Management (continued)

	2018 Level 1	2018 Level 2
Cash	\$ 21,842	\$ -
Derivative financial assets	-	1,021
Derivative financial liabilities	-	(525)
Total	\$ 21,842	\$ 496

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2019 and 2018.

28. Acquisitions

International Safety Research Inc. (“ISR”)

On May 9, 2017, the Company acquired all of the outstanding shares of ISR for a purchase price of up to \$8,979. Of this amount, \$5,699 was paid on the date of closing and \$3,280 is payable contingently. In the year ended September 30, 2019, the remaining \$1,640 of contingent payments were made and at September 30, 2019, no additional amount remains payable. ISR specializes in nuclear safety and emergency preparedness and response nationally and internationally. ISR was acquired to expand the Company’s emergency preparedness service offering and is reported as part of the Advanced Technologies operating segment.

On February 22, 2018, Calian acquired the remaining 51% of International Safety Research Europe B.V. (“ISRE”) for \$166, 49% ownership was initially acquired through the acquisition of ISR. The initial investment in ISRE was accounted for as an equity investment. With 100% ownership of ISRE, it is now fully consolidated.

(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. At September 30, 2019, \$800 is included in contingent earn-out liability for anticipated achievement of the second year target.

PriorityOne Workplace Health Inc. and William J Barker Clinical Psychologist Ltd.

On July 31, 2018, the Company acquired all of the outstanding shares of Priority One for a purchase price of \$1,128. Priority One provides specialized psychological assessment and selection services. Priority One was acquired to expand the Company’s health care footprint and is reported as part of the Health operating segment.

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28. Acquisitions (continued)

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, \$10,000 was paid on the date of closing, \$1,000 was placed in escrow, 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. As at September 30, 2019, the Company has determined that IntraGrain will 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. At September 30, 2019, \$2,885 is included in contingent earn-out liability for anticipated achievement of the second-year target.

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

	IntraGrain
Cash	\$ 111
Accounts receivable and tax receivable	521
Prepaid expenses and other	54
WIP	-
Inventory	1,940
	\$ 2,626
Equipment	\$ 541
Goodwill	7,745
Intangible assets	7,288
	\$ 18,200
Accounts payable and accrued liabilities	\$ 581
Deferred tax liability	1,931
Provisions	-
Deferred Income	-
Taxes Payable	-
	\$ 2,512
Net purchase price	\$ 15,688
Discount on contingent consideration	1,312
Total purchase price	\$ 17,000

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.

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28. Acquisitions (continued)

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. As at September 30, 2019, the Company has determined that SatServe is unlikely to achieve the level of EBITDA required for payment of the first year earn-out. This resulted in a decrease of the first year earn out liability in the amount of \$1,925. At September 30, 2019, \$2,634 is included in contingent earn-out liability for anticipated achievement of the second-year target.

The following are the assets acquired and liabilities recognized at the date of the acquisitions of SatService:

	SatService
Cash	\$ 2,421
Accounts receivable and tax receivable	650
Prepaid expenses and other	76
WIP	871
Inventory	925
	\$ 4,943
Equipment	\$ 55
Goodwill	7,721
Intangible assets	5,877
	\$ 18,596
Accounts payable and accrued liabilities	\$ 38
Deferred tax liability	1,763
Provisions	1,004
Deferred Income	542
Taxes Payable	255
	\$ 3,602
Net purchase price	\$ 14,994
Discount on contingent consideration	1,042
Total purchase price	\$ 16,036

29. Pension Plan

The Company sponsors a defined contribution pension plan for certain of its employees. Required contributions have been fully funded to September 30, 2019. For fiscal 2019 (2018), an amount of \$1,172 (\$1,127) was expensed related to this pension plan.

30. Related Party Transactions

During the year ended September 30, 2019 (2018), the Company had sales of \$1,552 (NIL) to GrainX in which Calian holds a non-controlling equity investment. At September 30, 2019 (2018), the Company had an accounts receivable balance with GrainX of \$90 (NIL) which is included in accounts receivable.

Calian Group Ltd. Notes to the Consolidated Financial Statements

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30. Related Party Transactions (continued)

The Company has certain office space leases with employees of the Company. The total amount of expense due to leases with related parties is \$192 (\$108) for the year ended September 30, 2019 (2018).

The compensation for directors and other members of key management during the year was as follows. The compensation of directors and key executives is determined by the compensation committee having regards to the performance of individuals and market trends. The key executives are the Chief Executive Officer, the Chief Financial Officer, Chief Information Officer, Chief Human Resource Officer and Vice-President, Systems Engineering Division.

Compensation of key management personnel:

	2019	2018
Short-term benefits	\$ 2,699	\$ 2,239
Share-based payments	536	443
	\$ 3,235	\$ 2,682

31. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation whereby certain cost of sales, general and administrative expenses, and sales and marketing expenses in certain segments of the Company have been reclassified to properly align the company both internally, and with IFRS standards. Comparative adjustments can be observed in Note 3.

32. Subsequent Event

On November 13, 2019, the Company converted the convertible debt held in Cliniconex to preferred shares. In addition, on November 13, 2019, the Company invested \$100 in preferred shares.

Corporate Information

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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, WRBX 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.

Annual Meeting of Shareholders

The Annual General Meeting of the Shareholders of Calian will be held on February 6, 2020 at 9:45 a.m. ET at the TMX Broadcast Centre in Toronto, Ontario, Canada. All shareholders are invited to attend.

Notes

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