CALIAN

NEWS RELEASE

Calian Reports Record Second Quarter Results

OTTAWA, Tuesday, May 12, 2020 – Calian Group Ltd. (TSX:CGY) today released its quarterly results for the three-month period ended March 31, 2020.

Second quarter 2020 highlights:

- Record quarterly revenue for the seventh consecutive quarter
- Quarterly revenue at $104.5 million, exceeding $100 million for the first time
- Adjusted EBITDA(1) at $10.2 million
- 74th consecutive profitable quarter
- New contract signings of $140 million
- Dividend of $0.28 per share

The Company reported revenues for the quarter of $104.5 million, representing a 25% increase from the $83.4 million reported in the same quarter of the previous year.

Adjusted EBITDA(1) for the second quarter was $10.2 million, an increase of 55% from $6.6 million in the same quarter of the previous year. Net profit for the second quarter was $5.3 million, an increase of 36% from $3.9 million in the same period of the prior year. Adjusted net profit,(1) which excludes non-cash items related to recent acquisitions, was $6.8 million for the quarter; this compares to $4.5 million in the same period of the previous year.

"It is exciting to report another record quarter for both revenue and EBITDA. The execution of profitable growth during these challenging economic times speaks to the criticality of our products and services," stated Patrick Houston, CFO. "We also completed a successful public offering this quarter which strengthens our balance sheet and allows us to pursue new growth oppurtunities."

"First, I would like to thank all of the frontline health and essential service workers for their dedication and courage during these very challenging times," said Kevin Ford, President and CEO. "Frontline health workers, Canadian Armed Forces members and other essential service professionals, including our own dedicated staff at Calian, are serving those in need on a daily basis and as a result encounter exposure risk. From all of us at Calian, we recognize and offer our deepest appreciation for your service."

"Calian has remained resilient through this crisis. We again saw the the results of our diversified engine at work during the quarter. The Advanced Technologies segment posted very positive organic revenue growth of 60%, and 7% from acquisitions, compared to the same period a year earlier, with top line contributions from a new ground systems project and our newly launched mobile wireless product. Health revenues rose 16% from a year earlier as we completed an acquisition and continued to grow organically. Information Technology posted 7% revenue growth on stronger solutions sales for our cyber security practice. Our Learning segment

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(1) Caution regarding non-GAAP measures:

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

had a slight decline due to some delays in major training exercises related to COVID-19 and pace of new business," said Ford. "The Company also posted strong contract signings of $140M in the quarter, increasing our overall contract backlog."

"During the quarter we were very happy to close the acquisition of Allphase Clinical Research Services Inc. and Alio Health Services Inc. (collectively, "Allphase/Alio"), in support of our customer diversification objectives and innovation agenda. Their teams are already making strong contributions," said Ford. "We continue to seek new M&A oppurtunities across all four of our segments."

"While the COVID-19 pandamic has impacted Calian, our delivery of essential services has supported the Company's growth during this extraordinary time. We were pleased to recently announce our successful recompete for a contract from the Department of National Defence (DND), to provide training services for the Canadian Forces School of Aerospace Technology and Engineering (CFSATE). With two optional extension periods of two years each, the aggregate contract value over the full six-year period is approximately $54 million.

"With a solid cash position and access to our debt facility, we have the liquidity we need to carry us through the short-term and financing available to support the Company's continued innovation, and long-term, profitable growth," said Ford.

Guidance

	Previous Guidance Feb 6, 2020		Current Guidance May 12, 2020	
	Low	High	Low	High
Revenue	$ 380,000	$ 410,000	$ 380,000	$ 410,000
Adjusted EBITDA	$ 34,306	$ 36,728	$ 34,306	$ 36,728
Adjusted EBITDA per share	4.25	4.55	3.77	4.03
Adjusted net profit	20,180	22,602	20,180	22,602
Adjusted net profit per share	2.50	2.80	2.21	2.48
Anticipated weighted average shares outstanding		8,072,000		9,110,735

Current per share guidance reflects the equity financing that the Company completed in February 2020. The Company has included the anticipated weighted average shares to give users the ability to compare current guidance to previously issued guidance.

About Calian

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

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

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DISCLAIMER

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as “intend”, “anticipate”, “believe”, “estimate”, “expect” or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; scarce number of qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with major customers; technical risks on fixed price projects; general industry and market conditions and growth rates; international growth and global economic conditions, and including currency exchange rate fluctuations; and the impact of consolidations in the business services industry. For additional information with respect to certain of these and other factors, please see the Company’s most recent annual report and other reports filed by Calian with the Ontario Securities Commission. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

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CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at March 31, 2020 and September 30, 2019
(Canadian dollars in thousands, except per share data)

	March 31, 2020	September 30, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 33,209	$ 17,135
Accounts receivable	79,025	63,977
Work in process	65,456	39,221
Inventory	4,192	3,147
Prepaid expenses	5,517	5,403
Derivative assets	153	96
Total current assets	187,552	128,979
NON-CURRENT ASSETS		
Capitalized research and development	4,331	3,216
Equipment	10,907	10,965
Application software	2,224	1,013
Right of use asset	17,708	-
Investment and loan receivable	670	452
Acquired intangible assets	23,509	16,699
Goodwill	42,268	33,702
Total non-current assets	101,617	66,047
TOTAL ASSETS	$ 289,169	$ 195,026
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of Credit	$ -	$ 13,000
Accounts payable and accrued liabilities	55,666	45,058
Contingent earn-out	6,932	800
Provisions	1,108	1,129
Unearned contract revenue	11,725	8,778
Derivative liabilities	297	143
Lease obligations	2,561	-
Total current liabilities	78,289	68,908
NON-CURRENT LIABILITIES		
Lease obligations	17,085	-
Contingent earn-out	2,438	5,519
Deferred tax liabilities	4,600	5,525
Total non-current liabilities	24,123	11,044
TOTAL LIABILITIES	102,412	79,952
SHAREHOLDERS' EQUITY		
Issued capital	103,248	32,515
Contributed surplus	1,893	1,817
Retained earnings	86,726	81,608
Accumulated other comprehensive income (loss)	(5,110)	(866)
TOTAL SHAREHOLDERS' EQUITY	186,757	115,074
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 289,169	$ 195,026
Number of common shares issued and outstanding	9,638,157	7,929,238

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT
For the three and six month periods ended March 31, 2020 and 2019
(Canadian dollars in thousands, except per share data)

	Three months ended March 31, 2020	Three months ended March 31, 2019	Six months ended March 31, 2020	Six months ended March 31, 2019
Revenue				
Advanced Technologies	$ 39,856	$ 23,903	$ 79,899	$ 47,717
Health	32,241	27,809	62,251	55,159
Learning	17,334	17,637	32,442	33,487
Information Technology	15,060	14,065	29,143	26,972
Total Revenue	104,491	83,414	203,735	163,335
Cost of revenues	80,988	65,278	159,977	128,355
Gross profit	23,503	18,136	43,758	34,980
Selling and marketing	3,344	2,320	6,121	4,783
General and administration	9,528	8,892	18,186	17,307
Research and development	436	361	850	640
Profit before under noted items	10,195	6,563	18,601	12,250
Depreciation of equipment and application software	584	540	1,156	1,035
Depreciation of right of use asset	685	-	1,356	-
Amortization of acquired intangible assets	1,217	422	2,106	702
Other changes in fair value	-	-	(101)	-
Changes in fair value related to contingent earn-out	289	237	496	379
Profit before interest income and income tax expense	7,420	5,364	13,588	10,134
Lease obligations interest expense	122	-	232	-
Interest expense (income)	178	(23)	241	(55)
Profit before income tax expense	7,120	5,387	13,115	10,189
Income tax expense (recovery) – current	2,048	1,649	4,027	3,005
Income tax expense (recovery) – deferred	(204)	(126)	(521)	(35)
Total income tax expense	1,844	1,523	3,506	2,970
NET PROFIT	**$ 5,276**	**$ 3,864**	**$ 9,609**	**$ 7,219**
Net profit per share:				
Basic	$ 0.60	$ 0.50	$ 1.15	$ 0.93
Diluted	$ 0.59	$ 0.49	$ 1.13	$ 0.92

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and six month periods ended March 31, 2020 and 2019
(Canadian dollars in thousands)

	Three months ended March 31, 2020	Three months ended March 31, 2019	Six months ended March 31, 2020	Six months ended March 31, 2019
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES				
Net profit	$ 5,276	$ 3,864	$ 9,609	$ 7,219
Items not affecting cash:				
Interest expense (income)	178	(23)	241	(55)
Changes in fair value related to contingent earn-out	289	237	496	379
Lease interest expense	122	-	232	-
Income tax expense	1,844	1,523	3,506	2,970
Employee share purchase plan expense	46	66	46	101
Share based compensation expense	319	303	592	503
Depreciation and amortization	2,486	962	4,618	1,737
Other changes in fair value	-	-	(101)	-
	10,560	6,932	19,239	12,854
Change in non-cash working capital				
Accounts receivable	(5,044)	610	(10,722)	5,079
Work in process	(13,381)	(3,349)	(26,235)	(2,020)
Prepaid expenses	(480)	(1,374)	(192)	(973)
Inventory	(501)	(147)	(1,045)	(1,036)
Accounts payable and accrued liabilities	4,682	5,173	3,708	(1,338)
Unearned contract revenue	2,877	(44)	2,853	(2,008)
	(1,287)	7,801	(12,394)	10,558
Interest received (paid)	(300)	(69)	(491)	(36)
Income tax paid	(3,550)	(3,547)	(4,831)	(5,359)
	(5,137)	4,185	(17,716)	5,163
CASH FLOWS GENERATED FROM FINANCING ACTIVITIES				
Issuance of common shares	65,695	2,288	66,412	2,288
Dividends	(2,259)	(2,184)	(4,491)	(4,360)
Draw (repayment) on line of credit	(26,180)	5,000	(13,000)	17,000
Share repurchase	-	(37)	-	(118)
Payment of lease obligations	(613)	-	(1,227)	-
	36,643	5,067	47,694	14,810
CASH FLOWS USED IN INVESTING ACTIVITIES				
Investments and loan receivable	-	-	(100)	-
Business acquisitions	(10,433)	-	(10,433)	(11,299)
Capitalized research and development	(457)	(529)	(1,115)	(1,023)
Equipment and application software	(1,802)	(1,312)	(2,256)	(1,705)
	(12,692)	(1,841)	(13,904)	(14,027)
NET CASH (OUTFLOW) INFLOW	$ 18,814	$ 7,411	$ 16,074	$ 5,946
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,395	20,376	17,135	21,841
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 33,209	$ 27,787	$ 33,209	$ 27,787

Reconciliation of non-GAAP measures to most comparable IFRS measures

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

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

The weighted average shares outstanding over the period presented increased largely because of equity of an equity financing in the three-month period ended March 31, 2020. The equity financing closed in February 2020 resulted in an additional 1,568,600 common shares being issued, bringing the total number of issued and outstanding common shares to 9,638,157 as at March 31, 2020. The fully diluted weighted average shares outstanding increased to 8,924,309 for the three-month period and 8,471,985 for the six-month period ended March 31, 2020 when compared to 7,857,934 and 7,870,990, respectively, for the same periods of the previous year.

Adjusted EBITDA

	Three months ended		Six months ended	
	March 31, 2020	March 31, 2019(1)	March 31, 2020	March 31, 2019(1)
Net profit	$ 5,276	$ 3,864	$ 9,609	$ 7,219
Depreciation of equipment and application software	584	540	1,156	1,035
Depreciation of right of use asset	685	-	1,356	-
Amortization of acquired intangible assets	1,217	422	2,106	702
Lease interest expense	122	-	232	-
Changes in fair value related to contingent earn-out	289	237	496	379
Interest expense (income)	178	(23)	241	(55)
Other changes in fair value	-	-	(101)	-
Income tax	1,844	1,523	3,506	2,970
Adjusted EBITDA	$ 10,195	$ 6,563	$ 18,601	$ 12,250

Adjusted Net Profit and Adjusted EPS

	Three months ended		Six months ended	
	March 31, 2020	March 31, 2019(1)	March 31, 2020	March 31, 2019(1)
Net profit	$ 5,276	$ 3,864	$ 9,609	$ 7,219
Other changes in fair value	-	-	(101)	-
Changes in fair value related to contingent earn-out	289	237	496	379
Amortization of intangibles	1,217	422	2,106	702
Adjusted net profit	$ 6,782	$ 4,523	$ 12,110	$ 8,300
Weighted average number of common shares basic	8,824,150	7,803,234	8,383,959	7,785,792
Weighted average number of common shares diluted	8,924,309	7,857,934	8,471,985	7,870,990
Adjusted EPS Basic	0.77	0.58	1.44	1.07
Adjusted EPS Diluted	0.76	0.58	1.43	1.05

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

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

Interim Condensed Consolidated Financial Statements

For the three and six month periods ended March 31, 2020

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at March 31, 2020 and September 30, 2019
(Canadian dollars in thousands, except per share data)

	NOTES	March 31, 2020	September 30, 2019
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	$ 33,209	$ 17,135
Accounts receivable	6	79,025	63,977
Work in process	9	65,456	39,221
Inventory	7	4,192	3,147
Prepaid expenses	8	5,517	5,403
Derivative assets	22	153	96
Total current assets		187,552	128,979
NON-CURRENT ASSETS			
Capitalized research and development	10	4,331	3,216
Equipment	10	10,907	10,965
Application software	10	2,224	1,013
Right of use asset	11	17,708	-
Investment and loan receivable	12	670	452
Acquired intangible assets	13	23,509	16,699
Goodwill		42,268	33,702
Total non-current assets		101,617	66,047
TOTAL ASSETS		$ 289,169	$ 195,026
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Line of Credit	16	$ -	$ 13,000
Accounts payable and accrued liabilities	14	55,666	45,058
Contingent earn-out	24	6,932	800
Provisions	15	1,108	1,129
Unearned contract revenue	9	11,725	8,778
Derivative liabilities	22	297	143
Lease obligations	11	2,561	-
Total current liabilities		78,289	68,908
NON-CURRENT LIABILITIES			
Lease obligations	11	17,085	-
Contingent earn-out	24	2,438	5,519
Deferred tax liabilities		4,600	5,525
Total non-current liabilities		24,123	11,044
TOTAL LIABILITIES		102,412	79,952
SHAREHOLDERS' EQUITY			
Issued capital	17	103,248	32,515
Contributed surplus		1,893	1,817
Retained earnings		86,726	81,608
Accumulated other comprehensive income (loss)		(5,110)	(866)
TOTAL SHAREHOLDERS' EQUITY		186,757	115,074
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 289,169	$ 195,026
Number of common shares issued and outstanding	17	9,638,157	7,929,238

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT
For the three and six month periods ended March 31, 2020 and 2019
(Canadian dollars in thousands, except per share data)

	NOTES	Three months ended March 31, 2020	Three months ended March 31, 2019	Six months ended March 31, 2020	Six months ended March 31, 2019
Revenue					
Advanced Technologies		$ 39,856	$ 23,903	$ 79,899	$ 47,717
Health		32,241	27,809	62,251	55,159
Learning		17,334	17,637	32,442	33,487
Information Technology		15,060	14,065	29,143	26,972
Total Revenue	19	104,491	83,414	203,735	163,335
Cost of revenues		80,988	65,278	159,977	128,355
Gross profit		23,503	18,136	43,758	34,980
Selling and marketing		3,344	2,320	6,121	4,783
General and administration	27	9,528	8,892	18,186	17,307
Research and development	27	436	361	850	640
Profit before under noted items		10,195	6,563	18,601	12,250
Depreciation of equipment and application software	10	584	540	1,156	1,035
Depreciation of right of use asset	11	685	-	1,356	-
Amortization of acquired intangible assets	13	1,217	422	2,106	702
Other changes in fair value	12	-	-	(101)	-
Changes in fair value related to contingent earn-out	24	289	237	496	379
Profit before interest income and income tax expense		7,420	5,364	13,588	10,134
Lease obligations interest expense	11	122	-	232	-
Interest expense (income)		178	(23)	241	(55)
Profit before income tax expense		7,120	5,387	13,115	10,189
Income tax expense (recovery) – current		2,048	1,649	4,027	3,005
Income tax expense (recovery) – deferred		(204)	(126)	(521)	(35)
Total income tax expense		1,844	1,523	3,506	2,970
NET PROFIT		**$ 5,276**	**$ 3,864**	**$ 9,609**	**$ 7,219**
Net profit per share:					
Basic	20	$ 0.60	$ 0.50	$ 1.15	$ 0.93
Diluted	20	$ 0.59	$ 0.49	$ 1.13	$ 0.92

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and six month periods ended March 31, 2020 and 2019
(Canadian dollars in thousands)

	Three months ended March 31, 2020	Three months ended March 31, 2019	Six months ended March 31, 2020	Six months ended March 31, 2019
NET PROFIT	$ 5,276	$ 3,864	$ 9,609	$ 7,219
Other comprehensive income, net of tax				
Items that will be reclassified subsequently to net profit				
Cumulative translation adjustment	220	-	248	-
Change in deferred gain on derivatives designated as cash flow hedges, net of tax of $1,942 and $326 (2019 - $326 and $411)	(5,370)	891	(4,492)	(1,119)
Other comprehensive income (loss), net of tax	(5,150)	891	(4,244)	(1,119)
COMPREHENSIVE INCOME	**$ 126**	**$ 4,755**	**$ 5,365**	**$ 6,100**

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six month periods ended March 31, 2020 and 2019
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained Earnings	Other Comprehensive Income	Total
Balance October 1, 2019		**$ 32,515**	**$ 1,817**	**$ 81,608**	**$ (866)**	**$ 115,074**
Net profit and comprehensive income		-	-	9,609	(4,244)	5,365
Dividend paid ($0.56 per share)		-	-	(4,491)	-	(4,491)
Shares issued under employee share plans	17	1,397	(516)	-	-	881
Shares issued through acquisition	17	2,500	-	-	-	2,500
Shares issued under public offering net of issuance costs	17	65,854	-	-	-	65,854
Shares issued under employee stock purchase plan	17	982	-	-	-	982
Share-based compensation expense	18	-	592	-	-	592
Balance March 31, 2020		**$ 103,248**	**$ 1,893**	**$ 86,726**	**$ (5,110)**	**$ 186,757**

	Notes	Issued capital	Contributed surplus	Retained Earnings	Other Comprehensive Income	Total
Balance October 1, 2018		**$ 28,647**	**$ 1,065**	**$ 70,521**	**$ (183)**	**$ 100,050**
Net profit and comprehensive income		-	-	7,219	(1,119)	6,100
Dividend paid ($0.56 per share)		-	-	(4,360)	-	(4,360)
Share repurchase		-	-	(103)	-	(103)
Shares issued under employee share plans	17	1,908	(350)	-	-	1,558
Shares issued under employee stock purchase plan	17	850	-	-	-	850
Share-based compensation expense	18	-	522	-	-	522
Balance March 31, 2019		**$ 31,405**	**$ 1,237**	**$ 73,277**	**$ (1,302)**	**$ 104,617**

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and six month periods ended March 31, 2020 and 2019
(Canadian dollars in thousands)

	NOTES	Three months ended March 31, 2020	Three months ended March 31, 2019	Six months ended March 31, 2020	Six months ended March 31, 2019
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES					
Net profit		$ 5,276	$ 3,864	$ 9,609	$ 7,219
Items not affecting cash:					
Interest expense (income)		178	(23)	241	(55)
Changes in fair value related to contingent earn-out	26	289	237	496	379
Lease interest expense	11	122	-	232	-
Income tax expense		1,844	1,523	3,506	2,970
Employee share purchase plan expense	18	46	66	46	101
Share based compensation expense	18	319	303	592	503
Depreciation and amortization	10,11,13	2,486	962	4,618	1,737
Other changes in fair value	12	-	-	(101)	-
		10,560	6,932	19,239	12,854
Change in non-cash working capital					
Accounts receivable		(5,044)	610	(10,722)	5,079
Work in process		(13,381)	(3,349)	(26,235)	(2,020)
Prepaid expenses		(480)	(1,374)	(192)	(973)
Inventory		(501)	(147)	(1,045)	(1,036)
Accounts payable and accrued liabilities		4,682	5,173	3,708	(1,338)
Unearned contract revenue		2,877	(44)	2,853	(2,008)
		(1,287)	7,801	(12,394)	10,558
Interest received (paid)		(300)	(69)	(491)	(36)
Income tax paid		(3,550)	(3,547)	(4,831)	(5,359)
		(5,137)	4,185	(17,716)	5,163
CASH FLOWS GENERATED FROM FINANCING ACTIVITIES					
Issuance of common shares	17,18	65,695	2,288	66,412	2,288
Dividends		(2,259)	(2,184)	(4,491)	(4,360)
Draw (repayment) on line of credit	16	(26,180)	5,000	(13,000)	17,000
Share repurchase		-	(37)	-	(118)
Payment of lease obligations	11	(613)	-	(1,227)	-
		36,643	5,067	47,694	14,810
CASH FLOWS USED IN INVESTING ACTIVITIES					
Investments and loan receivable	12	-	-	(100)	-
Business acquisitions	23	(10,433)	-	(10,433)	(11,299)
Capitalized research and development	10	(457)	(529)	(1,115)	(1,023)
Equipment and application software	10	(1,802)	(1,312)	(2,256)	(1,705)
		(12,692)	(1,841)	(13,904)	(14,027)
NET CASH (OUTFLOW) INFLOW		$ 18,814	$ 7,411	$ 16,074	$ 5,946
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		14,395	20,376	17,135	21,841
CASH AND CASH EQUIVALENTS, END OF PERIOD		$ 33,209	$ 27,787	$ 33,209	$ 27,787

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

CALIAN GROUP LTD.
NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and six month periods ended March 31, 2020 and 2019
(Canadian dollars in thousands, except per share amounts)

1. Basis of Preparation

Calian Group Ltd. ("the Company") is incorporated under the Canada Business Corporations Act. The address of its registered office and principal place of business is 770 Palladium Drive, Ottawa, Ontario K2V 1C8. The company's capabilities are diverse with services and solutions delivered through four segments: Advanced Technologies, Health, Learning and Information Technology ("IT"). Headquartered in Ottawa, Calian provides business services and solutions to both industry and government customers in the areas of health, defence, security, aerospace, engineering, and IT.

Statement of compliance

These unaudited interim condensed consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with the accounting policies the Company adopted in its annual consolidated financial statements for the year ended September 30, 2019, except as per note 2 below, and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended September 30, 2019. These unaudited interim condensed consolidated financial statements do not include all of the information required in annual financial statements.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on May 12, 2020.

2. Changes in Accounting Policies

IFRS 16

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

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

2. Changes in Accounting Policies (Continued)

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

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

	Operating leases 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			
Accounts payable and accrued liabilities	$ 2,000	$ (2,000)	$ -
Lease obligation	-	20,259	20,259
Total liabilities	2,000	18,259	20,259
Retained earnings	-	-	-
Total liabilities and equity	$ 2,000	$ 18,259	$ 20,259

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

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

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

Policy Related to Lease Accounting

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

2. Changes in Accounting Policies (Continued)

pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

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

3. Critical Accounting Policies and Judgments

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

Aside from the IFRS 16 changes noted in Note 2, there were no additional significant changes in estimates or approaches in the current period when compared to the estimates or approaches used to prepare the annual consolidated financial statements for the year ended September 30, 2019.

4. Seasonality

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The Company's revenues and earnings have historically been subject to some quarterly seasonality due to the timing of vacation periods, statutory holidays, industry specific seasonal cycles and the timing and delivery of milestones for significant projects. IntraGrain, acquired in the first quarter of the prior fiscal year, generates a significant portion of its revenues during the third and fourth quarter of the Company's fiscal year.

5. Cash and Cash Equivalents

The following table presents the cash and cash equivalents:

	March 31, 2020	September 30, 2019
Cash	$ 18,209	$ 17,135
Cash equivalent (GIC)	15,000	-
Total cash and cash equivalents	$ 33,209	$ 17,135

5. Cash and Cash Equivalents (Continued)

The following table presents cash and cash equivalents by currency:

	Local Currency	Foreign Exchange	Functional Currency
CAD	$ 22,709	1.00	$ 22,709
USD	5,257	1.42	7,458
GBP	13	1.76	23
EUR	1,699	1.56	2,647
CHF	253	1.47	372
Total cash and cash equivalents March 31, 2020			$ 33,209
CAD	$ 7,996	1.00	$ 7,996
US	4,439	1.32	5,879
GBP	5	1.63	8
EUR	2,236	1.44	3,229
CHF	17	1.33	23
Total cash and cash equivalents September 30, 2019			$ 17,135

Cash equivalents are investments that mature in less than 90 days.

6. Accounts Receivable

The following table presents the trade and other receivables:

	March 31, 2020	September 30, 2019
Trade and accounts receivable	$ 76,461	$ 62,507
Tax and Scientific Research and Development receivable	2,537	1,500
Other	80	46
	79,078	64,053
Loss Allowance	(53)	(76)
	$ 79,025	$ 63,977

Bad debt expense recognized in the three-months ended March 31, 2020 is $9. Bad debt recovery recognized in the three-months ended March 31, 2019 is $90.

Bad debt recovery recognized in the six-months ended March 31, 2020 (2019) is $20 ($32).

7. Inventory

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

7. Inventory (Continued)

The following table presents inventories at:

	March 31, 2020	September 30, 2019
Raw materials	$ 1,292	$ 1,391
Work in process inventory	996	275
Finished goods	1,904	1,481
	$ 4,192	$ 3,147

Inventory recognized as cost of sale in the three-months ended March 31, 2020 (2019) is $2,010 ($1,029). Inventory recognized as cost of sale in the six-months ended March 31, 2020 (2019) is $3,110 ($1,342). No inventory provisions have been recognized in the three or six month periods ending March 31, 2020 (2019).

8. Prepaid Expenses

The following table presents prepaid expenses as at:

	March 31, 2020	September 30, 2019
Prepaid maintenance	$ 1,306	$ 2,406
Other prepaid expenses	4,211	2,997
	$ 5,517	$ 5,403

9. Contract assets and liabilities

The following table presents net contract assets:

	Net Contract Assets	
	March 31, 2020	March 31, 2019
WIP	$ 65,456	$ 19,397
Unearned contract revenue	(11,725)	(8,034)
Net contract assets	$ 53,731	$ 11,363

The following table presents changes in net contract assets:

	Changes in Net Contract Assets	
	March 31, 2020	March 31, 2019
Opening balance, October 1	$ 30,443	$ 7,335
Net additions	72,999	48,031
Billings	(49,617)	(44,003)
Acquisitions	(94)	-
Ending balance	$ 53,731	$ 11,363

10. Equipment

A continuity of the property and equipment for the six month period ended March 31, 2020 is as follows:

Cost		Leasehold Improvements	Equipment	Total Equipment	Application Software
Opening balance	$	2,437 $	21,379 $	23,816 $	4,311
Additions		-	785	785	1,456
Transfers/disposals		-	(49)	(49)	-
Acquisitions		-	418	418	-
Balance March 31, 2020	$	2,437 $	22,533 $	24,970 $	5,767
Accumulated Depreciation					
Opening balance	$	(388)$	(12,463)$	(12,851)$	(3,298)
Depreciation		(123)	(788)	(911)	(245)
Transfers/disposals		-	41	41	-
Acquisitions		-	(342)	(342)	-
Balance March 31, 2020	$	(511)$	(13,552)$	(14,063)$	(3,543)
Carrying Value					
March 31, 2020	$	1,926 $	8,981 $	10,907 $	2,224

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

Cost		Leasehold Improvements	Equipment	Total Equipment	Application Software
Opening balance	$	3,797 $	18,780 $	22,577 $	3,791
Additions		248	1,117	1,365	343
Transfers/disposals		(1,609)	(470)	(2,079)	-
Acquisitions		-	971	971	3
Balance March 31, 2019	$	2,436 $	20,398 $	22,834 $	4,137
Accumulated Depreciation					
Opening balance	$	(1,751)$	(11,031)$	(12,782)$	(3,003)
Depreciation		(121)	(775)	(896)	(139)
Transfers/disposals		1,609	470	2,079	-
Acquisitions		-	(433)	(433)	(3)
Balance March 31, 2019	$	(263)$	(11,769)$	(12,032)$	(3,145)
Carrying Value					
March 31, 2019	$	2,173 $	8,629 $	10,802 $	992

Capitalized Research and Development

Capitalized R&D balances as at March 31, 2020 (September 30, 2019) totalled $4,331 ($3,216). Respective additions in the three-month period ended March 31, 2020 (March 31, 2019) were $456 ($527). Respective additions in the six-month period ended March 31, 2020 (March 31, 2019) were $1,114 ($1,021). 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.

11. Right-of-Use Assets and Lease Obligations

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

		Total Right-of-Use Assets
Balance October 1, 2019	$	18,416
Additions		648
Depreciation		(1,356)
Balance March 31, 2020	$	17,708

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

The following table presents lease obligations for the Company:

		Total Lease Obligations
Balance October 1, 2019	**$**	20,259
Additions		614
Principal Payments		(1,227)
Balance March 31, 2020	**$**	19,646
Current	$	2,561
Non-current		17,085
Total	$	19,646

The following table presents the contractual undiscounted cash flows for lease obligations as at March 31, 2020:

		Total Undiscounted Lease Obligations
Less than one year	$	3,066
One to five years		11,498
More than five years		7,353
Total undiscounted lease obligations	$	21,917

Total cash outflow for leases in the three month period was $735 and $1,459 for the six month period ended March 31, 2020, including $613 for the three month period and $1,227 for the six month period relating to principal payments on lease obligations. Interest expense on lease obligations was $122 for the three month period and $232 for the six month period ended March 31, 2020. Expenses relating to short-term leases were $25 for the three month period and $55 for the six month period ended March 31, 2020 recognized in general and administration expenses

12. Investment and Loan Receivable

Cliniconex

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

On November 13, 2019, the Company elected to exchange its existing convertible debt, and accrued interest into preferred shares, as well as invest a further $100 in preferred shares. The Company recognizes the investment at fair value, and has adjusted its common and preferred shares to the most recent fair value, resulting in a gain of $101 recognized in Q1 2020.

13. Acquired Intangible Assets

A continuity of the intangible assets for the six month period ended March 31, 2020 is as follows:

	March 31, 2020			
	Opening Balance	Additions	Amortization	Closing Balance
Customer relationship related to Primacy	$ 1,909	$ -	$ -	$ 1,909
Other customer relationships	8,055	5,955	(1,140)	12,870
Contract with customers & Non-competition agreements	1,083	185	(151)	1,117
Technology and trademarks	5,652	2,776	(815)	7,613
	$ 16,699	$ 8,916	$ (2,106)	$ 23,509

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

	March 31, 2019			
	Opening Balance	Additions	Amortization	Closing Balance
Customer relationship related to Primacy	$ 1,909	$ -	$ -	$ 1,909
Other customer relationships	3,083	2,480	(135)	5,428
Contract with customers & Non-competition agreements	1,369	296	(112)	1,553
Technology and trademarks	341	4,512	(33)	4,820
	$ 6,702	$ 7,288	$ (280)	$ 13,710

14. Accounts Payable and Accrued Liabilities

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

	March 31, 2020	September 30, 2019
Trade accounts payable	$ 37,906	$ 24,748
Payroll accruals	10,989	11,387
Income tax payable (receivable)	(512)	256
Other accruals	7,283	8,667
	$ 55,666	$ 45,058

15. Provisions

Changes in provisions for the six month period ended March 31, 2020 were as follows:

	Product Warranties	Severance	Other	Total
Balance at October 1, 2019	$ 801	$ 301	$ 27	$ 1,129
Additions	172	183	83	438
Utilization/Reversals	(375)	(84)	-	(459)
Balance at March 31, 2020	$ 598	$ 400	$ 110	$ 1,108

Changes in provisions for the six month period ended March 31, 2019 were as follows:

	Product Warranties	Severance	Other	Total
Balance at October 1, 2018	$ 1,365	$ 414	$ 153	$ 1,932
Additions	162	261	-	423
Utilization/Reversals	(468)	(205)	(4)	(677)
Balance at March 31, 2019	$ 1,059	$ 470	$ 149	$ 1,678

16. Line of Credit

The Company has a Revolving Credit Facility ("RCF") in the amount of $60,000 CAD available. The RCF is committed for a 364 day term with maturity at June 4, 2021, at which point it can be renewed for another 364 day term. At March 31, 2020 (September 30, 2019), the Company utilized NIL ($13,000) of the RCF. The RCF is secured against the Company's assets and is interest bearing at the Royal Bank of Canada's Prime Rate.

17. Issued Capital and Reserves

Issued capital

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares. The holders of Common Shares are entitled to dividends if, as and when declared by the Board, to one vote per share at the meetings of holders of Common Shares and, upon liquidation, to receive such assets of the Company as are distributable to the holders of the Common Shares. No Preferred Shares are outstanding as of the March 31, 2020.

Common share issued and outstanding:

	March 31, 2020		March 31, 2019	
	Shares	Amount	Shares	Amount
Balance October 1, 2019	7,929,238	$ 32,515	7,764,762	$ 28,647
Shares issued under employee share plans	46,526	1,397	89,414	1,925
Shares issued under employee stock purchase plan	31,739	982	28,941	850
Share repurchases	-	-	(4,279)	(17)
Shares issued through acquisition	62,054	2,500	-	-
Shares issued under public offering	1,568,600	65,854	-	-
Issued capital	9,638,157	$ 103,248	7,878,838	$ 31,405

17. Issued Capital and Reserves (Continued)

On February 25, 2020 the Company completed an upsized bought deal offering, under which a total of 1,568,600 Common Shares were sold at a price of $44.00 per Common Share for aggregate gross proceeds of $69,018, including shares issued pursuant to the exercise in full of the over-allotment option granted to the Underwriters. Net proceeds after commissions, issuance costs and deferred tax relating to issuance costs were $65,854.

Subsequent to the date of the statement of financial position, on May 12, 2020, the date of issuance of these consolidated financial statements, the Company declared a dividend of $0.28 per common share payable on June 9, 2020.

Contributed surplus

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

18. Share-Based Compensation

Employee Share Purchase Plan

During the three and six-month periods ended March 31, 2020 (2019), the Company issued 28,754 (28,941) shares under the Company's previous Employee Share Purchase Plan at an average price of $24.70 ($26.65). The Company received $710 ($714) in proceeds and recorded an expense of $136 ($136).

On February 6, 2020, the Company adopted a new Employee Share Purchase Plan (the "2020 Employee Share Purchase Plan"). This new plan replaces the previous Employee Share Plan. Under the 2020 Employee Share Purchase Plan, shares are issued monthly using the volume weighted average price for the last 5 days of the month for the contributions made by employees in that month. The Company provides matching shares at 25% for all employee contributions each month. Pursuant to the plan, 500,000 Common Shares are reserved for issuance, as of March 31, 2020 the Company can issue 497,612 shares.

During the three and six-month periods ended March 31, 2020 under the 2020 Employee Share Purchase Plan, the Company issued 2,985 shares at an average price of $45.58. The Company received $108 in proceeds to date under the new plan and recorded an expense of $46.

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% (867,380) 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 March 31, 2020, the Company has 296,081 stock options and RSUs outstanding. As a result, the Company could grant up to 571,299 additional stock options or RSU's pursuant to the plan.

The weighted average fair value of options granted during the year-to-date ended March 31, 2020 was $5.18 per option calculated using the Black-Scholes option pricing model. Where relevant, the expected life of the options was based on historical data for similar issuance and adjusted based on management's best estimate for the effects of non-transferability, exercises restrictions and behavioural considerations.

18. Share-Based Compensation (Continued)

Expected volatility is based on historical price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that options would be exercised on average 2 years after vesting.

The following assumptions were used to determine the fair value of the options granted in the six months ended March 31, 2020:

	Weighted Average Options Granted			
	March 31, 2020		March 31, 2019	
Grant date share price	$	36.49	$	29.55
Exercise price	$	36.49	$	29.55
Expected price volatility	%	22.8	%	22.7
Expected option life	yrs	4.00	yrs	4.00
Expected dividend yield	%	2.85	%	3.79
Risk-free interest rate	%	1.50	%	2.28
Forfeiture rate	%	0	%	0

	March 31, 2020			March 31, 2019		
	Number of Options	Weighted Avg. Exercise Price		Number of Options	Weighted Avg. Exercise Price	
Balance October 1	239,400	$	30.57	247,400	$	25.43
Exercised	(32,700)		26.85	(81,200)		19.40
Forfeited	(2,000)		29.55	(5,000)		32.57
Granted	35,000		36.49	128,600		29.52
Outstanding March 31	239,700	$	31.95	289,800	$	28.81

The following share-based payment arrangements are in existence:

Option series:	Number of Options	Grant date	Expiry date	Exercise price		Fair value at grant date	
(1) Issued September 9, 2015	500	September 9, 2015	September 9, 2020	$	17.69	$	0.90
(2) Issued May 17, 2017	15,000	May 17, 2017	May 17, 2022	$	27.30	$	3.42
(3) Issued November 24, 2017	72,600	November 24, 2018	November 17, 2023	$	34.58	$	4.53
(4) Issued March 27, 2018	6,000	March 27, 2018	November 17, 2023	$	31.54	$	4.62
(5) Issued November 19, 2018	101,600	November 19, 2018	November 19, 2023	$	29.55	$	3.96
(6) Issued February 8, 2019	9,000	February 8, 2019	February 8, 2024	$	29.06	$	3.95
(7) Issued November 25, 2019	35,000	November 25, 2019	November 25, 2024	$	36.49	$	5.18

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

At March 31, 2020 (2019) the weighted average remaining contractual life of options outstanding is 3.38 (3.64) years of which 190,700 (179,800) options are exercisable at a weighted average price of $31.95 ($28.81). The Company has recorded $79 of share-based compensation expense in three-month period ended March 31, 2020 (March 31, 2019 - $141) related to the options that have been granted. The Company has recorded $174 of share-based compensation expense in six-month period ended March 31, 2020 (March 31, 2019 - $212) related to the options that have been granted. The Company has total unrecognized compensation expense of $93 (March 31, 2019 - $560) that will be recorded within this 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

18. Share-Based Compensation (Continued)

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 March 31, 2020:

	March 31, 2020		March 31, 2019	
	Number of RSUs	Weighted Avg. Grant Date Fair Value	Number of RSUs	Weighted Avg. Grant Date Fair Value
Balance, October 1	47,736	$ 30.11	20,970	$ 31.40
Exercised	(13,826)	30.26	(8,214)	30.83
Forfeited	(544)	30.70	(964)	30.60
Granted	23,015	36.49	36,693	29.54
Outstanding, March 31	56,381	$ 32.67	48,485	$ 30.11

Of the units issued in the current year under the RSU plan, NIL have vested as of March 31, 2020. The Company has recorded $240 of share-based compensation expense in the three month period ended March 31, 2020 (2019 - $212) related to the RSUs that have been granted. The Company has recorded $419 of share-based compensation expense in the six month period ended March 31, 2020 (2019 - $339) related to the RSUs that have been granted. The Company has total unrecognized compensation expense of $957 at March 31, 2020 (2019 - $957) that will be recorded over the next three years.

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

RSU series:	Number of RSUs	Grant date	Vest through	Fair value at grant date
(1) Issued November 24, 2017	2,881	November 24, 2017	November 15, 2022	$ 34.58
(2) Issued February 12, 2018	1,207	February 12, 2018	November 15, 2020	$ 31.01
(3) Issued March 27, 2018	185	March 27, 2018	November 15, 2020	$ 31.54
(4) Issued November 16, 2018	28,643	November 6, 2018	November 15, 2021	$ 29.55
(5) Issued February 7, 2019	450	February 7, 2019	November 15, 2021	$ 29.06
(6) Issued November 25, 2019	23,015	November 25, 2019	November 15, 2022	$ 36.49

Deferred share unit plan

During the six month period ended March 31, 2020 (2019) the Company granted 1,920 (1,957) deferred share units ("DSU"). There are 22,834 (17,791) DSUs outstanding at March 31, 2020 (2019). 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 outstanding at March 31, 2020 (2019) was $31.73 ($26.86) per unit using the fair value of a Common Share at period end. The Company recorded share-based compensation of $29 (2019 – $24) related to the DSUs in the three month period ended March 31, 2020 (2019) and $134 (2019 - $49) in the six month period ended March 31, 2020.

19. Revenue

The following table presents the revenue of the Company for the three and six month periods ended March 31, 2020 and 2019:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Six months ended March 31, 2020	Six months ended March 31, 2019
Product revenue				
Advanced Technologies	$ 28,709	$ 14,291	$ 57,754	$ 26,750
Health	-	-	-	-
Learning	-	-	-	-
Information Technology	2,268	918	4,434	1,214
Service revenue				
Advanced Technologies	11,147	9,612	22,145	20,967
Health	32,241	27,809	62,251	55,159
Learning	17,334	17,637	32,442	33,487
Information Technology	12,792	13,147	24,709	25,758
	$ 104,491	$ 83,414	$ 203,735	$ 163,335

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 March 31, 2020 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:

	March 31, 2020
Less than 24 months	$ 424,785
Thereafter	252,841
Total	$ 677,626

20. Net Profit per Share

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

	Three months ended March 31 2020	Three months ended March 31 2019	Six months ended March 31 2020	Six months ended March 31 2019
Weighted average number of common shares – basic	8,824,150	7,803,234	8,383,959	7,785,792
Additions to reflect the dilutive effect of employee stock options and RSU's	100,159	54,699	88,026	85,198
Weighted average number of common shares – diluted	8,924,309	7,857,933	8,471,985	7,870,990

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 three months ended March 31, 2020 (2019), NIL (211,200) options and NIL (NIL) RSU's were excluded from the above computation. For the six months ended March 31, 2020 (2019), NIL (87,600) options and NIL (37,977) RSU's were excluded from the above computation. Net profit is the measure of profit or loss used to calculate profit per share.

21. Segmented Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, regarding how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer ("CEO)". The Company's segments are categorized as follows: Advanced Technologies, Health, Learning, and Information Technology ("IT"). Shared Services are aggregated and incurred to support all segments. These include, but are not limited to, the Finance, Human Resources, IT support, Corporate development, Legal, Corporate marketing, and administrative functions, facilities costs, costs of operating a public company, and other costs.

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

For three-months ended March 31, 2020:

For the three months ended March 31, 2020	Advanced Technologies	Health	Learning	IT	Shared Services	Total
Revenue	$ 39,856	$ 32,241	$ 17,334	$ 15,060	$ -	$ 104,491
Cost of revenues	29,439	25,511	13,723	12,315	-	80,988
Gross profit	10,417	6,730	3,611	2,745	-	23,503
Gross profit %	26 %	21 %	21 %	18 %	N/A %	22 %
Selling and marketing	1,398	437	252	742	515	3,344
General and administration	1,706	1,642	671	605	4,904	9,528
Research and development	317	119	-	-	-	436
Profit before under noted items	$ 6,996	$ 4,532	$ 2,688	$ 1,398	$ (5,419)	$ 10,195
Profit before under noted items %	18 %	14 %	16 %	9 %	N/A %	10 %
Depreciation of equipment and application software						584
Depreciation of right of use asset						685
Amortization of acquired intangibles						1,217
Other changes in fair value						-
Changes in fair value related to contingent earn-out						289
Profit before interest income and income tax expense						7,420
Lease interest expense						122
Interest expense (income)						178
Profit before income tax expense						7,120
Income tax expense – current						2,048
Income tax expense – deferred						(204)
Total income tax expense						1,844
NET PROFIT FOR THE PERIOD						$ 5,276

21. Segmented Information (Continued)

For three-months ended March 31, 2019:

For the three months ended March 31, 2019	Advanced Technologies	Health	Learning	IT	Shared Services	Total
Revenue	$ 23,903	$ 27,809	$ 17,637	$ 14,065	$ -	$ 83,414
Cost of revenues	16,761	22,346	14,234	11,937	-	65,278
Gross profit	7,142	5,463	3,403	2,128	-	18,136
Gross profit %	30 %	20 %	19 %	15 %	N/A %	22 %
Selling and marketing	1,039	198	241	447	395	2,320
General and administration	1,825	960	674	645	4,788	8,892
Research and development	361	-	-	-	-	361
Profit before under noted items	$ 3,917	$ 4,305	$ 2,488	$ 1,036	$ (5,183)	$ 6,563
Profit before under noted items %	16 %	15 %	14 %	7 %	N/A %	8 %
Depreciation of equipment and application software						540
Amortization of acquired intangibles						422
Changes in fair value related to contingent earn-out						237
Profit before interest income and income tax expense						5,364
Interest expense (income)						(23)
Profit before income tax expense						5,387
Income tax expense – current						1,649
Income tax expense – deferred						(126)
Total income tax expense						1,523
NET PROFIT FOR THE PERIOD						$ 3,864

21. Segmented Information (Continued)

For six-months ended March 31, 2020:

	Advanced Technologies	Health	Learning	IT	Shared Services	Total
Revenue	$ 79,899	$ 62,251	$ 32,442	$ 29,143	$ -	$ 203,735
Cost of revenues	61,461	49,003	25,707	23,806	-	159,977
Gross profit	18,438	13,248	6,735	5,337	-	43,758
Gross profit %	23 %	21 %	21 %	18 %	N/A %	21 %
Selling and marketing	2,678	642	505	1,321	975	6,121
General and administration	3,227	2,774	1,468	1,220	9,497	18,186
Research and development	731	119	-	-	-	850
Profit before under noted items	$ 11,802	$ 9,713	$ 4,762	$ 2,796	$ (10,472)	$ 18,601
Profit before under noted items %	15 %	16 %	15 %	10 %	N/A %	9 %
Depreciation of equipment and application software						1,156
Depreciation of right of use asset						1,356
Amortization of acquired intangibles						2,106
Other changes in fair value						(101)
Changes in fair value related to contingent earn-out						496
Profit before interest income and income tax expense						13,588
Lease interest expense						232
Interest expense (income)						241
Profit before income tax expense						13,115
Income tax expense – current						4,027
Income tax expense – deferred						(521)
Total income tax expense						3,506
NET PROFIT FOR THE PERIOD						$ 9,609

21. Segmented Information (Continued)

For six-months ended March 31, 2019:

	Advanced Technologies	Health	Learning	IT	Shared Services	Total
Revenue	$ 47,717	$ 55,159	$ 33,487	$ 26,972	$ -	$ 163,335
Cost of revenues	34,014	44,087	27,070	23,184	-	128,355
Gross profit	13,703	11,072	6,417	3,788	-	34,980
Gross profit %	29 %	20 %	19 %	14 %	N/A %	21 %
Selling and marketing	2,095	377	508	920	883	4,783
General and administration	3,637	1,910	1,337	1,270	9,153	17,307
Facilities	640	-	-	-	-	640
Profit before under noted items	$ 7,331	$ 8,785	$ 4,572	$ 1,598	$ (10,036)	$ 12,250
Profit before under noted items %	15 %	16 %	14 %	6 %	N/A %	7 %
Depreciation of equipment and application software						1,035
Amortization of acquired intangibles						702
Changes in fair value related to contingent earn-out						379
Profit before interest income and income tax expense						10,134
Interest expense (income)						(55)
Profit before income tax expense						10,189
Income tax expense – current						3,005
Income tax expense – deferred						(35)
Total income tax expense						2,970
NET PROFIT FOR THE PERIOD						$ 7,219

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

	March 31, 2020	March 31, 2019
Canada	73 %	85 %
United States	23 %	12 %
Europe	4 %	3 %

Revenues are attributed to foreign countries based on the location of the customer. Revenues from various departments and agencies of the Canadian federal, provincial and municipal governments for the quarter ended March 31, 2020 and 2019 represented 59% (74%) of the Company's total revenues. All four operating segments conduct business with this category of customer.

22. Financial Instruments and Risk Management

Capital Risk Management

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

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

Foreign currency risk related to contracts

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

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

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

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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at rates prevailing at the reporting dates and are recognized in profit and loss in the period in

22. Financial Instruments and Risk Management (Continued)

which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of preparing consolidated financial statements, the assets and liabilities of the Company's German operations are first expressed in the Company's EUR functional currency using exchange rates prevailing at the reporting date which are then translated into the Company's reporting currency using prevailing rates at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Translation differences are recognized in other comprehensive income and recorded in the "cumulative translation adjustment".

At March 31, 2020, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value March 31, 2020
BUY	$ 57,671	USD	April 2020	$ 81,051	$ 122
SELL	4,847	EURO	April 2020	7,512	29
SELL	253	CHF	April 2020	370	2
Derivative assets					$ 153
SELL	$ 134,509	USD	April 2020	$ 189,039	$ (283)
BUY	907	EURO	April 2020	1,406	(5)
BUY	932	CHF	April 2020	1,361	(9)
Derivative liabilities					$ (297)

A 10% strengthening of the Canadian dollar against the following currencies at March 31, 2020 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

	March 31, 2020
USD	$ 9,817
EURO	555
CHF	(90)
Total	$ 10,282

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):

	March 31, 2020
USD	$ (94)
EURO	354
Total	$ 260

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.

22. Financial Instruments and Risk Management (Continued)

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 March 31, 2020 (September 30, 2019), 62% (62%) of its accounts' receivable were due from various departments and agencies of the Canadian federal government. Over the last five years the Company has not suffered any significant credit related losses.

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

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

	March 31, 2020	September 30, 2019
Cash and cash equivalents	$ 33,209	$ 17,135
Accounts receivable	79,025	63,977
Derivative assets	153	96
Total	$ 112,387	$ 81,208

The aging of accounts receivable at the reporting date was:

	March 31, 2020	September 30, 2019
Current	$ 76,588	$ 60,574
Past due (61-120 days)	1,266	1,249
Past due (> 120 days)	1,171	2,154
Total	$ 79,025	$ 63,977

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as much as possible, that it will always have sufficient liquidity to meet liabilities when due. At March 31, 2020, the company has a secured credit facility, subject to annual renewal, that allows the Company to borrow funds up to an aggregate of $60,000. At as March 31, 2020, NIL was drawn on the facility for current operations, and $335 was drawn to issue letters of credit to meet customer contractual requirements.

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 March 31, 2020 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;

22. Financial Instruments and Risk Management (Continued)

- 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).

	March 31, 2020		
	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 33,209	$ -	$ -
Investment and loan receivable	-	-	670
Derivative financial assets	-	153	-
Contingent earn-out	-	-	(9,370)
Derivative financial liabilities	-	(297)	-
Total	$ 33,209	$ (144)	$ (8,700)

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

There were no transfers between Level 1, Level 2 and level 3 during the three month period ended March 31, 2020.

23. Acquisitions

(D.T.) Secure Technologies International Inc.

On May 31, 2018, the Company acquired all of the outstanding shares of Secure Tech for a purchase price of up to $4,188. Of this amount, $2,588 was paid on the date of closing and $1,600 is payable contingently. Secure Tech is a dedicated partner in IT and Information Security. Secure Tech was acquired to expand the Company's information technology cyber offering and is reported as part of the IT operating segment.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Secure Tech an additional $800 and $800 if Secure Tech attains specified levels of EBITDA for the years ending May 31, 2019 and 2020, respectively. Secure Tech did not achieve the level of EBITDA required for the year 1 earn-out. This resulted in a reduction of the first year earn out liability in the amount of $800 which was recognized in fiscal year 2019. At March 31, 2020, $800 is included in contingent earn-out liability for anticipated achievement of the second year target.

IntraGrain Technologies Inc. ("IntraGrain")

On November 1, 2018, the Company acquired all of the outstanding shares of IntraGrain for a purchase price of up to $17,000. Of this amount, $11,000 was paid on the date of closing and $6,000 is payable contingently. IntraGrain is the maker of the BIN-SENSE® grain storage solution. The technology combines Internet of Things (connectivity with bin sensors to protect grain quality and eliminate the risk of stored grain spoilage and is reported as part of the Advanced Technologies operating segment.

23. Acquisitions (Continued)

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of IntraGrain an additional $2,500 and $3,500 if IntraGrain attains specified levels of EBITDA for the years ending October 31, 2019 and 2020, respectively. IntraGrain did not achieve the level of EBITDA required for the year 1 earn-out. This resulted in a decrease of the first year earn out liability in the amount of $2,447 which was recognized in fiscal year 2019. At March 31, 2020, $3,105 is included in contingent earn-out liability for anticipated achievement of the second-year target.

Sat Service, Gesellschaft für Kommunikationssysteme mbH. (“SatService”)

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

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of SatService an additional $2,014 and $3,282 (1,350 EURO and 2,200 EURO) if SatService attains specified levels of EBITDA for the nine-month period ended December 31, 2019 and for the twelve-month period ending December 31, 2020. SatService did not achieve the level of EBITDA required for the year 1 earn-out. This resulted in a decrease of the first year earn out liability in the amount of $1,925 which was recognized in fiscal year 2019. At March 31, 2020, $2,828 is included in contingent earn-out liability for anticipated achievement of the second-year target.

Allphase Clinical Research Services Inc. and Alio Health Services Inc. (collectively “Alio/Allphase”)

Alio/Allphase serve the pharmaceutical and medical device industry and the broader health care sector with clinical trial services, specialty medication support and community care and other services, all enabled by an innovative health care delivery management software application. Alio/Allphase is reported as part of the Health operating segment.

On January 30, 2020, the Company acquired all of the outstanding shares of Alio/Allphase for a purchase price of up to $25,056. Of this amount, $10,500 was paid in cash on the date of closing, $56 is to be paid in cash on settlement of net equity, $2,500 was paid in common shares, and $12,000 is payable contingently, of which $3,000 is included in the purchase price.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Alio/Allphase an additional $6,000 and $6,000 if Alio/Allphase attains specified levels of EBITDA for the years ending January 30, 2021 and 2022, respectively. This contingent consideration is recognized at its present and risk adjusted value of $2,355 at the date of acquisition and will be accreted to face value over the term of the earn-out. This represents the second year earn out amount only, as the first year earn out is currently estimated not to be achieved. To date, $82 in change in fair value related to contingent earn out has been recognized.

A portion of the first and second year contingent payment totaling $3,000 respectively is subject to the retention of the principal shareholder and executive, this is in addition to the specified levels of EBITDA. If the specified levels of EBITDA are attained, these amounts will be deemed to represent deferred compensation payable to the principal shareholder and executive, and therefore is excluded from the total consideration of the purchase. If targets are achieved, the cost will be expensed in the Company's consolidated statement of net profit as deemed compensation related to acquisitions in the period in which the payments are made.

23. Acquisitions (Continued)

The following are the assets acquired and liabilities recognized at the date of the acquisitions of Alio/Allphase:

	Assets Acquired	Purchase Price Allocation	Total Assets Acquired
Cash and equivalents	$ 67	$	$ 67
Receivables	3,227		3,227
WIP	-		-
Inventory	-		-
Prepaids and other	79		79
	$ 3,373	$ -	$ 3,373
Fixed assets (net)	$ 76	$ -	$ 76
Intangible assets	361	8,555	8,916
Goodwill	498	8,068	8,566
	$ 4,307	$ 16,623	$ 20,931
Payables and accrued liabilities	$ 1,814	$ -	$ 1,814
Long term payable	1,022	-	1,022
Deferred income	94	-	94
Taxes payable	-	-	-
Contingent earn-out	200	-	200
Deferred tax liability	122	2,267	2,389
	$ 3,251	$ 2,267	$ 5,519
Net purchase price			$ 15,412
Discount on contingent consideration			645
Total purchase price			$ 16,056

	Alio/Allphase
Consideration paid in cash	$ 10,500
Less- cash balance acquired	(67)
	$ 10,433

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

24. Contingent Earn-Out

The following shows the contingent consideration activity for the six month period ending March 31, 2020:

Company Acquired	Beginning balance	Addition through acquisition	Payments	Changes in fair value	Ending balance
ISR	$ -	$ -	$ -	$ -	$ -
Secure Tech	800	-	-	-	800
IntraGrain Technologies	2,885	-	-	220	3,105
SatService	2,634	-	-	194	2,828
Alio/Allphase	-	2,555	-	82	2,637
Total	$ 6,319	$ 2,555	$ -	$ 496	$ 9,370

As at March 31, 2020, the total gross value of all contingent consideration and deemed compensation payable outstanding is $19,582.

24. Contingent Earn-Out (Continued)

The following shows the contingent consideration activity for the six month period ending March 31, 2019:

Company Acquired	Beginning balance	Addition through acquisition	Payments	Changes in fair value	Ending balance
ISR	$ 1,566	$ -	$ (410)	$ 74	$ 1,230
Secure Tech	1,600	-	-	-	1,600
IntraGrain Technologies	-	4,689	-	305	4,994
Total	$ 3,166	$ 4,689	$ (410)	$ 379	$ 7,824

25. Related Party Transactions

During the three month period ended March 31, 2020 (2019), the Company had sales of $88 (106) to GrainX in which Calian holds a non-controlling equity investment. For the six month period ended March 31, 2020 (2019) the company had sales of $240 ($106). At March 31, 2020 (2019), the Company had an accounts receivable balance with GrainX of $89 ($72) which is included in accounts receivable. The terms and conditions of the related party sales are within the Company's normal course of operations and are measured at the exchange amounts agreed to by both parties.

The Company has certain office space leases with employees of the Company. The total amount of expense due to leases with related parties is $46 ($46) for the three months and $92 ($101) for the six months ended March 31, 2020 (2019).

26. Contingencies

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

27. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation whereby facilities expense of $1,304 for the three month period, and $2,598 for the six month period ending March 31, 2019 have been reclassified from a stand-alone line in the statement of net profit into general and administration expense, and research and development expense of $361 for the three month period and $640 for the six month period ended March 31, 2019 has been separated from general and administration expense into research and development expenses.

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

Management's Discussion and Analysis

For the second quarter ended March 31, 2020

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

The following Management's Discussion and Analysis is dated May 12, 2020 (this "MD&A") and should be read in conjunction with the unaudited interim condensed consolidated financial statements. The Company's accounting policies are in accordance with IFRS. As in the unaudited interim condensed consolidated financial statements, all dollar amounts in this MD&A are expressed in thousands of Canadian dollars unless otherwise noted.

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

IFRS and non-GAAP measures:

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

Forward-Looking Statements

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

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

- customer demand for the Company's services;
- the Company's ability to maintain and enhance customer relationships;
- the Company's ability to successfully execute customer contracts;
- market conditions;
- levels of government spending;
- the Company's ability to bring to market products and services;
- the Company's ability to execute on its acquisition program including successful integration of previously acquired businesses; and
- the Company's ability to delivery to customers throughout the COVID-19 pandemic, and any government regulations limiting business activities.

The Company cautions that the forward-looking statements in this MD&A are based on current expectations as at May 12, 2020 that are subject to change and to risks and uncertainties, including those set out under the heading "Risks and Uncertainties" below, many of which are outside the Company's control. Actual results may materially differ from such forward-looking information due to factors such as customer demand, customer relationships, new service offerings, delivery schedules, revenue mix, competition, pricing pressure, foreign currency fluctuations and uncertainty in the markets in which the Company conducts business. Additional information identifying risks and uncertainties is contained in the Company's filings with securities regulators. The Company does not assume any intention or obligation to publicly update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. Readers should not place undue reliance on the Company's forward-looking statements.

The recent outbreak of the coronavirus, or COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020 has spread across the globe and is impacting worldwide economic activity. A public health pandemic, including COVID-19, poses the risk that the Company and its employees, contractors, suppliers, and other partners may be prevented from conducting business activities. This can especially be the case where government authorities mandate shutdowns. To date, the majority of the Company’s activities have been deemed an essential service which has allowed operations to continue, but this is subject to change based on government decisions. Certain countries may also be more heavily impacted where travel restrictions continue for longer periods and full quarantines are in effect. The extent to which the COVID-19 outbreak impacts the Company’s results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain its impact. The Company and its employees have transitioned to working remotely and customer delivery has not been materially impacted. The Company is reliant on this alternative work arrangements in order to minimize the impact of outbreak on its financial results. Furthermore, the Company has sufficient liquidity to meet all operating requirements for the foreseeable future.

Business Overview and Strategic Direction

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

Calian’s primary operating segments are:

- Advanced Technologies
- Health
- Learning
- Information Technology (“IT”)

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

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

- **Customer retention:** through continued delivery excellence, maintain a valued relationship with current customer base;
- **Customer diversification:** through increasing the percentage of revenues derived from new business in adjacent and non-government markets, balance customer revenue into numerous global and domestic sectors;
- **Service line innovation:** 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 Mergers and Acquisitions. We have continued to demonstrate our ability to win new contracts; for example, in our Health business, we have grown from one contract ten years ago to over 50 contracts. . 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 for example has led to our offering of a state-of-the-art carbon fiber antenna and new products for other customer requirements.

Finally, with ten successful acquisitions in the last nine 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 25% in the three and six-month periods ended March 31, 2020 when compared to the same periods of the prior fiscal year which continues to drive profitability of the Company.

Key attributes of our four operating segments:

	Advanced Technologies	Health	Learning	Information Technology
Customers	European Space Agency, Inmarsat, MDA, Sirius XM, Bruce Power, Agtech	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	19%	83%	98%	72%
Quality Initiatives	Excellence Canada / ISO 9001:2015	Excellence Canada	Excellence Canada	Excellence Canada
Backlog ($ 000's)	182,620	993,308	315,393	63,317

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

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

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

Selected Quarterly Financial Data

(Canadian dollars in millions, except per share data)

	Q2/20	Q1/20	Q4/19(1)	Q3/19(1)	Q2/19(1)	Q1/19(1)	Q4/18(1)	Q3/18(1)
Revenues								
Advanced Technologies	$ 39.9	$ 40.0	$ 31.4	$ 30.5	$ 23.9	$ 23.8	$ 24.1	$ 21.0
Health	32.2	30.0	31.3	29.3	27.8	27.3	26.8	25.4
Learning	17.3	15.1	14.0	15.6	17.6	15.9	14.0	15.0
Information Technology	15.1	14.1	14.2	13.4	14.1	12.9	13.6	11.6
Total Revenue	$ 104.5	$ 99.2	$ 90.9	$ 88.8	$ 83.4	$ 79.9	$ 78.5	$ 73.0
Cost of revenue	81.0	79.0	70.6	69.5	65.3	63.1	62.0	57.0
Gross profit	23.5	20.2	20.3	19.3	18.1	16.8	16.5	16.0
Selling and marketing	3.3	2.8	2.8	2.9	2.3	2.4	2.3	2.4
General and administration	9.5	8.6	9.1	9.3	8.9	8.3	7.5	7.6
Research and development	0.4	0.4	0.3	0.4	0.3	0.4	-	-
Profit before under noted items	10.3	8.4	8.1	6.7	6.6	5.7	6.7	6.0
Depreciation of equipment and application software	0.6	0.5	0.6	0.6	0.6	0.5	0.6	0.4
Depreciation of right of use asset	0.7	0.7	-	-	-	-	-	-
Amortization of acquired intangible assets	1.2	0.9	1.4	1.0	0.4	0.3	0.3	0.3
Other changes in fair value	-	(0.1)	(4.5)	(0.7)	-	-	-	-
Changes in fair value related to contingent earn-out	0.3	0.2	0.4	0.4	0.2	0.1	-	-
Profit before interest and income tax expense	7.5	6.2	10.2	5.4	5.4	4.8	5.8	5.3
Lease interest expense	0.1	0.1	-	-	-	-	-	-
Interest expense (income)	0.2	0.1	-	-	-	-	(0.1)	(0.1)
Profit before income tax expense	7.2	6.0	10.2	5.4	5.4	4.8	5.9	5.4
Income tax expense	1.8	1.7	1.7	1.1	1.5	1.5	1.6	1.5
Net profit	$ 5.4	$ 4.3	$ 8.5	$ 4.3	$ 3.9	$ 3.3	$ 4.3	$ 3.9
Weighted average shares outstanding - Basic	8.8	7.9	7.9	7.9	7.8	7.8	7.8	7.7
Weighted average shares outstanding - Diluted	8.9	8.0	8.0	7.9	7.9	7.8	7.8	7.8
Net profit per share								
Basic	$ 0.60	$ 0.55	$ 1.08	$ 0.54	$ 0.50	$ 0.43	$ 0.56	$ 0.50
Diluted	$ 0.59	$ 0.54	$ 1.08	$ 0.54	$ 0.49	$ 0.43	$ 0.55	$ 0.50
Adjusted EBITDA per share								
Basic	$ 1.16	$ 1.04	$ 1.03	$ 0.86	$ 0.84	$ 0.73	$ 0.87	$ 0.79
Diluted	$ 1.14	$ 1.03	$ 1.02	$ 0.85	$ 0.84	$ 0.73	$ 0.86	$ 0.78

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

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

With the implementation of IFRS 16, facilities expenses have decreased significantly since the Company has adopted the standard using the modified retrospective method where prior period statements are not restated. The fixed lease cost portion of previous lease expenses is now depreciation and interest under IFRS 16. Lease costs not capitalized under IFRS 16 have been included in general and administration expenses. The reclassification of facilities to general and admin by quarter was Q1 FY19: $1,293, Q2 FY19: $1,305, Q3 FY19: $1,346 and Q4 FY19: $1,362. The reclassification of research and development from general and administration by quarter was Q1 FY19: $279, Q2 FY19: $361, Q3 FY19: $343 and Q4 FY19: $436. The

Company is presenting comparative information for fiscal 2019 with research and development as a separate line item in the statement of profit. In previous years, it was presented in research and development. When reporting comparative information, there is no financial statement that the Company has issued where research and development are presented separately for fiscal year 2018 or previous. The Company maintains that presentation here for 2018 where research and development operating expense costs are included in the general and administration expense.

Overview of Overall Performance

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

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

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

A large portion of our revenues are derived from Canadian sources in the public and private sectors, with a large presence in the Department of National Defence. We have been successful in our diversification strategy, and have developed a well-established private sector customer base across Indigenous communities, oil and gas, nuclear, aerospace, agriculture, 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 realizable backlog at $1,314 million with very large contract wins in 2017, 2018 and 2019, that span over 10 years in length. Calian's historical high renewal rate combined with its win strategy provides management confidence in its ability to successfully remain the customer's preferred choice.

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

During the three-month period ended March 31, 2020, the Company continued to make progress on its growth, diversification and innovation agendas while continuing to be successful in managing existing contracts and maintaining service quality and high client satisfaction levels. The realization of organic growth across all service lines combined with new contract wins in new markets allowed the Company to report organic revenue growth of 20% in the three-month period ended March 31, 2020 when compared to the same period of the previous year and 21% in the six-month period ended March 31, 2020 when compared to the same period of the previous year. In the three-month period ended March 31, 2020, we also signed $140 million in contracts and ended the period with a realizable backlog of $1,314 million of which $186 million is expected to be earned during the remainder of fiscal 2020.

On February 25, 2020, the Company announced that it had completed a bought deal public offering, under which, a total of 1,568,600 common shares were sold at a price of $44.00 per common share for aggregage gross proceeds of $69,018,400, including common shares issued pursuant to the exercise in full of the over-allotment option granted to the Underwriters. The Offering was conducted by a sybdicate of underwriters led by Desjardins Capital Markets and including Acument Capital Finance Partners Limited, Canaccord Genuity Corp., Stifel Nicolaus Canada Inc., TD Securities Inc. and RBC Dominion Securities Inc.

Calian Consolidated Results

	Three months ended		Six months ended	
	March 31, 2020	March 31, 2019[(1)]	March 31, 2020	March 31, 2019[(1)]
Revenues	$ 104,491	$ 83,414	$ 203,735	$ 163,335
Gross profit	$ 23,503	$ 18,136	43,758	34,980
Selling and marketing	3,344	2,320	6,121	4,783
General and administration	9,528	8,892	18,186	17,307
Research and development	$ 436	$ 361	850	640
Profit before under noted items	$ 10,195	$ 6,563	$ 18,601	$ 12,250

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

High levels of activity on a large multi-year satellite ground system project for a North American satellite provider continue to contribute to the significant growth in revenues in our Advanced Technology segment. Demand across our other segments continued to grow from existing and new contracts. Revenue growth in the three and six-month periods ended March 31, 2020 increased 25% compared to the same periods in the previous year. The increase in revenue for the three-month period ended March 31, 2020 can be attributed to 20% from organic growth, and 5% from acquisitions. Revenue increase for the six-month period ended March 31, 2020 can be attributed to 21% organic growth, and 4% from acquisitions.

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

During the three-month period ended March 31, 2020, the Company has been impacted by the COVID-19 pandemic through a decrease in on site delivery of some services throughout the operating segments. This has resulted in a revenue decrease of $1,214, and a corresponding gross profit decrease of $274.

Gross profits for the three-month period was 22.5%, and 21.5% for the six-month period ended March 31, 2020, which has increased from the 21.7% and 21.4% in the same periods of the previous year. Margin by segment vary greatly from 15% to 28% (see discussion by segment), and the mix of business in turn affects our consolidated gross margin. The large multi-year satellite programs bring lower margins in the early stages of the project, and as a result negatively impacted our Advanced technology and consolidated gross margins. Management will continue to focus on operational execution, diligent negotiation of supplier costs and expansion into new markets driving better margins. The competitive landscape is expected to maintain the pressure on margins in each of our segments. The volatility of the Canadian dollar is always an influencing factor for margins on new work in the Advanced Technologies segment to the extent that work is denominated in foreign currencies.

Selling and marketing costs increased 44% for the three-month period and 28% for the six-month period ended March 31, 2020, compared to the same periods of the prior year. The growth is in line with general growth in revenue, new costs from our acquisition of Alio & Allphase, and strategic investments in business development, sales team headcount in our IT segment, marketing headcount, selling and marketing costs from Alio & Allphase and new marketing and customer outreach initiatives.

General and administration costs increased by 7% for the three-month period and 5% for the six-month period ended March 31, 2020 compared to the previous year. Implementation of IFRS 16 in the current period resulted in a reduction of facilities cost of $749 for the three-month period and $1,475 for the six-month period ended March 31, 2020, with a similar increase in depreciation and interest expense. After adjusting for this modification, general and admin expenses increased by 16% for the three-month period and 14% when compared to the same period in the previous year. Approximately half the increase is a result of investments within the four operating segments to enable project delivery, as well as cost acquired through the recent acquisitions. The balance of the increase is the result of investments in our corporate capabilities in human resource and information technology.

Research and development costs increased $75 in the three-month period, and $210 for the six-month period ended March 31, 2020, compared to the same periods in the prior year. The increase is primarily due to increased activity in Agtech product development along with software development costs at Alio & Allphase.

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.

Financial performance

	Three months ended		Six months ended	
	March 31, 2020	March 31, 2019(1)	March 31, 2020	March 31, 2019(1)
Revenues	$ 39,856	$ 23,903	$ 79,899	$ 47,717
Gross profit	10,417	7,142	18,438	13,703
Selling and marketing	1,398	1,039	2,678	2,095
General and administration	1,706	1,825	3,227	3,637
Research and development	317	361	731	640
Profit before under noted items	$ 6,996	$ 3,917	$ 11,802	$ 7,331

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

Advanced Technologies' revenues increased by 67% in the three and six-month periods ended March 31, 2020 compared to the same periods in the previous year. This reflected significant increases in revenue attributable to ongoing ground systems projects, increases in volumes of a new mobile wireless product to the Tier 1 North American mobile, and contract manufacturing for various defence projects. Internally developed product sales continue to be a focus for the Company, contributing positively to revenue growth.

Acquisitive revenue growth amounted to 7% for the three and six-month periods ended March 31, 2020 which is attributable to revenue from acquisitions made in the last 12 month period from March 31, 2020. Realizable backlog at March 31, 2020 was $183 million. During the quarter, the Advanced Technologies segment saw delays in certain projects due to the impact of COVID-19. This resulted in revenue decrease of $65 and $36 of gross profit.

Gross margin percentage has decreased from 30% to 26% for the three-month period, and from 29% to 23% in the six-month period ended March 31, 2020 when compared to the same periods of the prior year. This is primarily due to the revenue mix being impacted by a higher proportion of revenues coming from a large ground system project.

Selling and marketing expenses increased by $358 for the three-month period, and $583 for the six-month period ended March 31, 2020, compared to the same periods in the year prior, due to additional sales efforts across the segment focused on customer diversification. General and administration expenses decreased by $119 for the three-month period, and $409 for the six-month period ended March 31, 2020, compared to the same periods in the year prior due to changes in estimates of amounts payable, and reductions from streamlining certain processes.

Profitability increased for the three and six-month period ended March 31, 2020 which is a result of the overall increase in volume.

Second Quarter 2020 Highlights

On January 27, the Company commenced deliveries of a new custom telecommunications product for a Tier 1 North American mobile operator. The product comes as a result of research and development efforts undertaken by Calian's Advanced Technologies segment over the past 16 months. The product enables the customer to maximize its use of existing spectrum assets and supports ongoing development and upgrade of its mobile network. This is the company's first deployment of telecom equipment for a Tier 1 mobile operator, demonstrating the company's ability to satisfy the demanding performance and certification requirements of such customers.

On Feb 12, the Company announced it had been selected by a global satellite communications operator for the provision and installation of new radio frequency (RF) satellite ground systems. This initiative will support the satellite operator's existing systems as well as future deployments. Delivery on the contract, valued at over CAD $30M, starts in the current fiscal year and is expected to be completed within approximately two years.

The Advanced Technologies segment focused on ensuring business continuity of service for our customers in light of significant changes in the business environment due to COVID-19 as most services provided are considered essential. Efforts to maintain workflow and minimize service interruptions included enhanced close contact with supply chains, remote working for most staff, and implementation of health and safety measures at the manufacturing facilities (staggered shifts, dispersed workstations, increased cleaning and sanitation, among other measures). The majority of work continued relatively unabated. Any project disruptions are expected to be recovered in future quarters. Limitations on travel will continue to be a factor in our ability to deliver and complete system implementations.

Wireless and satellite communications product deliveries continued, providing strong contribution to margin. The large contract for satellite ground stations progressed into the deployment phase, with work started on site installations and solid revenue contribution in the quarter. Engineering project productivity remained high despite modifications to work environments. SatService continued project delivery with some impacts on revenue due to disruptions at work sites. AgTech solutions provider IntraGrain increased its sales as anticipated, as its seasonal sales cycle ramped up.

The Engineering Technical Services unit worked with minimal impacts to project delivery, despite a closure to most work sites. Efforts continue toward a full recovery of projects and revenue contribution. The team has established extensions and/or renewals to all major programs, ensuring work continues unabated for the next four quarters.

Calian Nuclear's work continued on existing contracts without disruption. The nuclear consulting team has started delivery on a new contract to conduct a large-scale, interoperable emergency preparedness exercise and safety analysis work with a nuclear power station.

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 March 31, 2020	Three months ended March 31, 2019(1)	Six months ended March 31, 2020	Six months ended March 31, 2019(1)
Revenues	$ 32,241	$ 27,809	$ 62,251	$ 55,159
Gross profit	6,730	5,463	13,248	11,072
Selling and marketing	437	198	642	377
General and administration	1,642	960	2,774	1,910
Research and Development	119	-	119	-
Profit before under noted items	$ 4,532	$ 4,305	$ 9,713	$ 8,785

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

Revenues increased 16% for the three-month and 13% for the six-month periods ended March 31, 2020 when compared to the same periods of the previous year as a result of focused growth across the segment. Acquisitive growth represented a 9% increase for the three-month and 4% for the six month periods ended March 31, 2020 when compared to the same periods of the prior year. The Company has seen positive growth in relation to strong execution and customer demand on the health services contract won in 2017, increased demand from new and existing opportunities in our clinician services, and continued expansion of the psychological services across Canada. During the quarter, the Health segment saw delays in certain projects due to the impact of COVID-19. This resulted in revenue decrease of $530 and $99 of gross profit

Gross margin percentage increased from 20% to 21% for the three and six-month periods ended March 31, 2020 when compared to the same periods of the prior year. This was due in part to higher margin services being provided in our clinician services and psychological assessment revenue growth in the segment, along with an increased margin percentage in the current quarter acquisition of Alio & Allphase. General and administration expenses increased by $682 for the three-month and $863 for the six-month periods ended March 31, 2020 when compared to the same periods of the prior year, due to increases in headcount to support new contracts across more customers and industries, costs relating to the acquisition of Alio and Allphase, and general and administrative costs incurred by Alio & Allphase to support their business. The Health segment has been growing and has been structuring the growth such that it is sustainable.

Research and development increased in the Health segment with the acquisition of Alio & Allphase where research and development has been a focus for the technological capabilities to support patient support program growth and delivery to customers.

Second Quarter 2020 Highlights

During the quarter the Health segment experienced increased demand in the provision of essential primary care services, largely related to COVID-19 health care needs. Non-primary health services workload were adjusted to comply with social distancing guidelines.

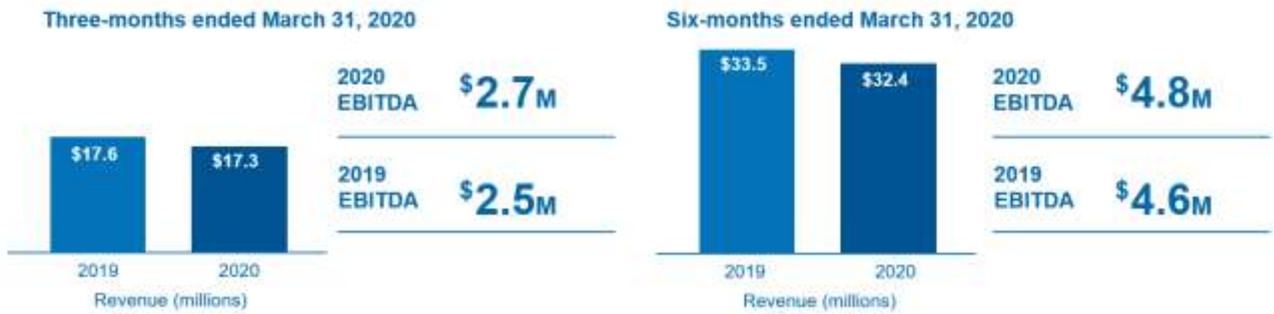
Health also won additional business to assist clients with health and safety through this pandemic. The Government of Nunavut increased its nursing services demand and new business was won in the natural resource sector for companies requiring COVID-19 screening services for employees. These revenue contributions offset other areas in the segment that experienced a temporary decline, such as psychological assessments and dental services.

During the quarter, our Health division began serving a third CBSA service center in Surrey, British Columbia. This is in addition to our co-operation with CBSA at their Laval, Quebec and Toronto, Ontario service centers. Calian provides a turnkey health solution at each site to service CBSA and adjust resources as their needs evolve.

On January 30, 2020, the Health segment expanded with the acquisition of two Ottawa-based health companies, Allphase Clinical Research Services Inc. and Alio Health Services Inc. (collectively, “Allphase & Alio”). The companies serve the pharmaceutical and medical device industry and the broader health care sector with clinical trial services, specialty medication support and community care and other services, all enabled by an innovative health care delivery management software application. The transaction provides the Health segment with access to innovative services and new customer segments in pharmaceuticals, hospital care and patient support at home.

Primacy, Allphase Clinical Research Services, and Alio Health Services continued to provide essential services with steady demand and minimal disruptions to operations.

Learning



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

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

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

Financial performance

	Three months ended		Six months ended	
	March 31, 2020	March 31, 2019(1)	March 31, 2020	March 31, 2019(1)
Revenues	$ 17,334	$ 17,637	$ 32,442	$ 33,487
Gross profit	3,611	3,403	6,735	6,417
Selling and marketing	252	241	505	508
General and administration	671	674	1,468	1,337
Research and development	-	-	-	-
Profit before under noted items	$ 2,688	$ 2,488	$ 4,762	$ 4,572

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

Revenue decreased by 2% for the three-month and 3% for the six-month periods ended March 31, 2020 when compared to the same period of the prior year due to a slight reduction in demand on certain existing contracts. For that same periods, gross margin has increased from 19% to 21% due to a focus on profitable project execution. General and administration expenses increased by $130 for the six-month period ended March 31, 2020 when compared to the same period of the prior year due to increases in headcount to support operations. During the quarter, the Learning segment saw delays in certain projects due to the impact of COVID-19. This resulted in revenue decrease of $152 and $73 of gross profit.

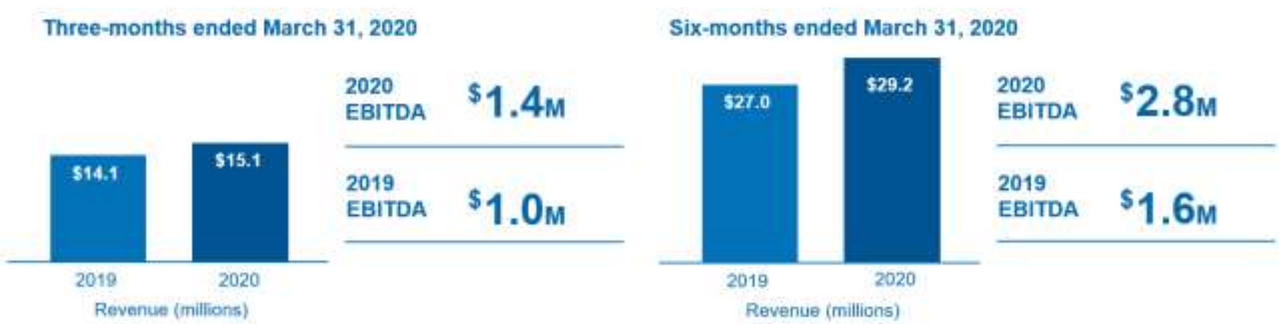
Second Quarter 2020 Highlights

In the Learning segment, some training projects have been disrupted due to physical distancing measures. As much as possible, the team has worked with customers to find alternative approaches to maintaining continuity of service.

Subsequent to quarter end, the Company was awarded a contract renewal for custom training with the Canadian Forces School of Aerospace Technology and Engineering. The contract is valued at $54 million over a six-year period. This continues the engagement from our previous contract which began in 2016.

The Emergency Management Solutions business ran at a slightly higher pace as the team identified opportunities and solidified some new business in emergency management and other planning for Indigenous communities. At the close of Q2, the Emergency Management team was seeing several opportunities as potential clients recognize Calian's capabilities to support coronavirus crisis and emergency management operations, particularly as many areas of the country concurrently prepare for flood and wildfire seasons. Work continued without disruption on contract delivery for the Region of Peel, to develop a wastewater emergency response plan and a flood response plan.

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 March 31, 2020	Three months ended March 31, 2019(1)	Six months ended March 31, 2020	Six months ended March 31, 2019(1)
Revenues	$ 15,060	$ 14,065	$ 29,143	$ 26,972
Gross profit	2,745	2,128	5,337	3,788
Selling and marketing	742	447	1,321	920
General and administration	605	645	1,220	1,270
Research and development	-	-	-	-
Profit before under noted items	$ 1,398	$ 1,036	$ 2,796	$ 1,598

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

Revenues increased 7% for the three-month period and 8% in the six-month periods ended March 31, 2020 compared to the same periods of the previous year which is all organic. The revenue growth is the result of increased demand from existing customers for cyber security products, increase revenue attributable to maintenance revenue in relation to higher product sales from the previous year, and an increase in service delivery for IT professional services across a number of existing customers.

Gross margin increased from 15% to 18% in the three-month period and from 14% to 18% in the six-month period ended March 31, 2020 when compared to the same period of the previous year due to higher product sales which contribute higher margins. During the quarter, the Information Technology segment saw delays in certain projects due to the impact of COVID-19. This resulted in revenue decreases of $467 and $65 of gross profit.

Selling and marketing expense increased by $296 for the three-month and $401 for the six-month period ended March 31, 2020 when compared to the same period of the previous year. This was the result of increased investment in our sales headcount and business development in existing and new geographies.

Second Quarter 2020 Highlights

The majority of Information Technology's revenues comes from large, stable customers. Some projects were scaled back during the quarter due to work-from-home measures and school closures, which impacted billings. The team subsequently worked with customers to successfully make work-from-home arrangements for many staff and projects, recapturing some revenue contribution in coming quarters. Work continues on these efforts.

The cyber security business continued at a steady pace as the team focused on product sales. Digital marketing and sales efforts have been relevant in the current environment, where cyber risks are elevated due to the sudden increase in work-from-home workforces. The team has continued to invest in delivery of services and implementation of best-in-breed cyber security solutions, with minimal disruptions.

The IT team continued its relationship with Ontario Education Collaborative Marketplace (OECM), a not-for-profit collaborative sourcing partner for Ontario's education sector, broader public sector and other not-for-profit organizations.

Summary

In summary, the second quarter of fiscal 2020 has demonstrated the Company's consistent ability to grow revenues profitably through turbulent market conditions while continuing investments in new innovations to help propel future growth. The Company entered 2020 with a strong backlog of work and has continued to add new contract wins and renewals to maintain its backlog position. We continue to invest in research and development and sales in order to support future organic growth.

The Company experienced both revenue and gross profit impacts of $1,413 and $274, respectively, in our second quarter due to the impacts of COVID-19. We expect these impacts to continue in the following months as government regulations have not yet been relaxed and these regulations can impede us in delivering services to our customers.

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

Reconciliation of non-GAAP measures to most comparable IFRS measures

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

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

The weighted average shares outstanding over the period presented increased largely because of equity of an equity financing in the three-month period ended March 31, 2020. The equity financing closed in February 2020 resulted in an additional 1,568,600 common shares being issued, bringing the total number of issued and outstanding common shares to 9,638,157 as at March 31, 2020. The fully diluted weighted average shares outstanding increased to 8,924,309 for the three-month period and 8,471,985 for the six-month period ended March 31, 2020 when compared to 7,857,934 and 7,870,990, respectively, for the same periods of the previous year.

Adjusted EBITDA

	Three months ended		Six months ended	
	March 31, 2020	March 31, 2019(1)	March 31, 2020	March 31, 2019(1)
Net profit	$ 5,276	$ 3,864	$ 9,609	$ 7,219
Depreciation of equipment and application software	584	540	1,156	1,035
Depreciation of right of use asset	685	-	1,356	-
Amortization of acquired intangible assets	1,217	422	2,106	702
Lease interest expense	122	-	232	-
Changes in fair value related to contingent earn-out	289	237	496	379
Interest expense (income)	178	(23)	241	(55)
Other changes in fair value	-	-	(101)	-
Income tax	1,844	1,523	3,506	2,970
Adjusted EBITDA	$ 10,195	$ 6,563	$ 18,601	$ 12,250

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

Adjusted Net Profit and Adjusted EPS

	Three months ended March 31, 2020	Three months ended March 31, 2019(1)	Six months ended March 31, 2020	Six months ended March 31, 2019(1)
Net profit	$ 5,276	$ 3,864	$ 9,609	$ 7,219
Other changes in fair value	-	-	(101)	-
Changes in fair value related to contingent earn-out	289	237	496	379
Amortization of intangibles	1,217	422	2,106	702
Adjusted net profit	$ 6,782	$ 4,523	$ 12,110	$ 8,300
Weighted average number of common shares basic	8,824,150	7,803,234	8,383,959	7,785,792
Weighted average number of common shares diluted	8,924,309	7,857,934	8,471,985	7,870,990
Adjusted EPS Basic	0.77	0.58	1.44	1.07
Adjusted EPS Diluted	0.76	0.58	1.43	1.05

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

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

Consolidated Net Income and Other Selected Financial Information

	Three months ended March 31, 2020	Three months ended March 31, 2019(1)	Six months ended March 31, 2020	Six months ended March 31, 2019(1)
Profit before under noted items	$ 10,195	$ 6,563	$ 18,601	$ 12,250
Depreciation of equipment and application software	$ 584	$ 540	1,156	1,035
Depreciation of right of use asset	685	-	1,356	-
Amortization of acquired intangible assets	1,217	422	2,106	702
Other changes in fair value	-	-	(101)	-
Changes in fair value related to contingent earn-out	289	237	496	379
Profit before interest income and income tax expense	$ 7,420	$ 5,364	$ 13,588	$ 10,134
Lease interest expense	122	-	232	-
Interest expense (income)	178	(23)	241	(55)
Income tax expense	1,844	1,523	3,506	2,970
Net profit	$ 5,276	$ 3,864	$ 9,609	$ 7,219
Net profit per share, basic	0.60	0.50	1.15	0.93
Total assets	289,169	175,428	289,169	175,428
Dividends per share	0.28	0.28	0.56	0.56

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

Depreciation increased by 8% in the three-month and 12% in the six-month periods ended March 31, 2020 when compared to the same periods in the year prior due to additions in assets in the prior year, and current quarter.

Depreciation of right of use assets is the result of adopting IFRS16 at the beginning of the current period. Further information regarding the lease accounting and depreciation can be found in the first quarter 2020 financial statements in notes 2 and 11.

Amortization of acquired intangible assets has increased by 188% in the three-month and 200% in the six-month periods ending March 31, 2020 due to acquisitions in the prior year of Intragrain and SatService, along with the current quarter acquisition of Alio and Allphase as described in note 23 to the financial statements. Other changes in fair value for the six-month period ended March 31, 2020 represent a gain on fair value of the Cliniconex investment as described in note 11 of the Financial Statements.

Changes in fair value related to contingent earn-out expenses increased by $52 in the three-month and $117 in the six-month periods ended March 31, 2020 which relates to increasing the present valued contingent earn-out payable to face value of the total liability in relation to earn-out liabilities for IntraGrain, SatService and Alio & Allphase. For further information refer to notes 23 and 24 of the Financial Statements.

Interest expense increased in the three and six-month periods ended March 31, 2020 when compared to the same period of the previous year due to current borrowings on the debt facility whereas there were no borrowings in the same period of the previous fiscal year. The debt was repaid in the current quarter but interest accrued up until the point of repayment.

Finally, the Company reports its results on a fully taxed basis. The provision for income taxes for the three-month period ended March 31, 2020 was $1,884, or 25.9% of earnings before income taxes adjusted for non-taxable items compared to the $1,523, or 28.3% of earnings before income taxes in the same period of the previous fiscal year. The provision for income taxes for the six-month period ended March 31, 2020 was $3,506, or 26.7% of earnings before income taxes adjusted for non-taxable items compared to the $2,970, or 29.1% of earnings before income taxes in the same period of the previous fiscal year. The difference in effective tax rates is primarily due to the increase in share based compensation and decreases in future income tax amounts.

Backlog

The Company's realizable backlog at March 31, 2020 was $1,314 million with terms extending to fiscal 2030. Contracted backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas option renewals represent customers' options to further extend existing contracts under similar terms and conditions.

During the three-month period ended March 31, 2020 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.

- $33M Satellite Communications Operator contract win for the provision and installation of new radio frequency (RF) satellite ground system
- $62M Increase in backlog due to acquisition of Alio & Allphase
- $7M Canadian Border Services health services contract win with Surrey, BC location
- $6M PSPC Cyber consulting services contract win
- $6M contract amendment to accommodate increased demand for IT consulting services at General Dynamics

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

Most fee-for-service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for the remainder of 2020, fiscal year 2021, and beyond based on management's current visibility into customers' existing requirements.

Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately $241 million. The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

(dollars in millions)	Remainder of Fiscal 2020	Fiscal 2022	Beyond 2022	TOTAL	Excess over estimated realizable portion	Estimated realizable portion of Backlog
Contracted Backlog	$ 179,843	$ 247,586	$ 332,772	$ 760,201	$ (194,118)	$ 566,083
Option Renewals	5,779	23,704	764,954	794,437	(47,000)	747,437
TOTAL	$ 185,622	$ 271,290	$ 1,097,726	$1,554,638	$ (241,118)	$ 1,313,520
Advanced Technologies	$ 63,212	$ 80,256	$ 39,152	$ 182,620	$ (19,399)	$ 163,221
Health	72,214	136,690	784,404	993,308	(129,234)	864,074
Learning	26,589	42,426	246,378	315,393	(74,135)	241,258
Information Technology	23,607	11,918	27,792	63,317	(18,350)	44,967
TOTAL	$ 185,622	$ 271,290	$ 1,097,726	$1,554,638	$ (241,118)	$ 1,313,520

Statement of Cash Flows

	Three months ended March 31, 2020	Three months ended March 31, 2019(1)	Six months ended March 31, 2020	Six months ended March 31, 2019(1)
Cash flows from operating activities before changes in working capital	$ 6,710	$ 3,316	$ 13,917	$ 12,854
Changes in working capital	$ (11,847)	$ 869	(31,633)	(7,691)
Cash flows from (used in) operating activities	(5,137)	4,185	(17,716)	5,163
Cash flows from (used in) financing activities	36,643	5,067	47,694	14,810
Cash flows from (used in) investing activities	$ (12,692)	$ (1,841)	(13,904)	(14,027)
Increase (decrease) in cash	$ 18,814	$ 7,411	$ 16,074	$ 5,946

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

Operating Activities

Cash outflows from operating activities for the three-month period ended March 31, 2020 were $5,137 compared to cash inflows of $4,185 in the same period of the prior year. On a six-month basis, cash outflows total $17,716 for the period ended March 31, 2020 when compared to inflows of $5,162 for the same period in the prior year.

Changes in working capital were the result of: an overall increase in our revenue levels of approximately 5%, project specific working capital requirements for our larger ground system contract, and the change in the USD/CAD exchange rate in the month of March which resulted in our net assets held in US dollars to increase. These working capital pressures were offset by efficiencies and collections from multiple customers.

Working capital (accounts receivable, work in process, inventory, prepaid expenses and other, accounts payable and accrued liabilities, provisions and unearned contract revenue) has increased in the three-month period ended March 31, 2020 by $11,847, and $31,633 in the six-month period there ended, to a total of $85,690.

Relating to these amounts, $9,543 in the three-month and $25,000 in the six-month periods relates to increases in working capital due to ground systems implementation projects where milestone billing is more significant towards the end of the project.

Financing Activities

Lease payments

The Company has made payments of $616 for the three-month and $1,230 for the six-month periods ended March 31, 2020 due to the implementation of IFRS16 in the current year.

Dividend

The Company has maintained its dividend for the three and six-month periods ended March 31, 2020. The Company paid dividends totaling $2,232 for the three-month period ended March 31, 2020 or $0.28 cents per share, and $4,490 for the six-month period then ended, or $0.56 cents per share compared to the same periods of the prior year when the Company paid $2,184 and $4,360, respectively, in dividends or the same amount per share as the current periods.

Debt

In the three-month period ended March 31, 2020, the Company repaid its Revolving Credit resulting in an outflow of cash of $26,180, this compares to a draw of $5,000 in the same period of the prior year. In the six-month period ended March 31, 2020, the Company repaid the Revolving Credit Facility in its entirety, which amounted to a cash outflow of $13,000, when compared to a cash inflow from utilizing the facility in the same period of the previous year.

Shares

On February 25, 2020 the Company completed an upsized public offering, under which a total of 1,568,600 Common Shares were sold at a price of $44.00 per Common Share for aggregate gross proceeds of $69,018, including shares issued pursuant to the exercise in full of the over-allotment option granted to the Underwriters. Net cash proceeds after commissions and issuance costs were $64,713.

Exercises of stock options and issuances of shares under the employee share purchase plan has resulted in cash inflows of $1,699 for the six-month period ended March 31, 2020, compared to $2,288 from exercises for the same period of the prior year.

Investing activities

Equipment expenditures and Capitalized Research and Development

The Company invested $1,802 in the three-month and $2,256 in the six-month periods ending March 31, 2020, when compared to $1,312 and $1,705, respectively, for the same periods of the prior year. Acquisitions of equipment in the current period are mainly attributed to the beginning stages of the Company’s ERP implementation and general capital expenditures.

The Company invested $456 in capitalized research and development in the three-month and $1,114 in the six-month periods ending March 31, 2020, when compared to $529 and $1,023, respectively, for the same periods of the prior year.

Acquisitions

The company acquired Alio & Allphase on January 30, 2020, which resulted in a cash outflow of $10,433. For the same period of the six-month period to March 31, 2019 the Company acquired IntraGrain and earn out payments to ISR resulting in cash outflows relating to acquisitions of $11,299.

Investments

A $100 minority investment was made in the six-month period ended March 31, 2020 in Cliniconex as described in Note 11 of the Financial Statements, whereas there were no investment outflows for the same period of the prior year.

Liquidity and Capital Resources

Cash

Calian's cash and cash equivalent position was $33,209 at March 31, 2020, compared to $17,135 at September 30, 2019, with a net cash position of $33,209 at March 31, 2020 when compared to $4,135 at September 30, 2019.

Capital resources

At March 31, 2020, the Company had a short-term credit facility of $60,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. To date, the Company has drawn NIL against the credit facility and an amount of $335 was used to issue letters of credit to meet customer contractual requirements.

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

Off-balance sheet arrangements

There were no off-balance sheet arrangements at March 31, 2020.

Related-party transactions

During the three month period ended March 31, 2020 (2019), the Company had sales of $88 (106) to GrainX in which Calian holds a non-controlling equity investment. For the six month period ended March 31, 2020 (2019) the company had sales of $240 ($106). At March 31, 2020 (2019), the Company had an accounts receivable balance with GrainX of $89 ($72) which is included in accounts receivable. The terms and conditions of the related party sales are within the Company's normal course of operations and are measured at the exchange amounts agreed to by both parties.

The Company has certain office space leases with employees of the Company. The total amount of expense due to leases with related parties is $46 ($46) for the three months and $92 ($101) for the six months ended March 31, 2020 (2019).

Adoption of new accounting standards and impact on financial results

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

Had the Company not adopt *IFRS16 – Leases* in the current period, the Statement of Net Profit would be impacted in the following way for the six-months ended March 31, 2020:

	IAS 17	IFRS 16	Change
Operating Expenses	$ 2,695	$ 1,240	$ (1,455)
Profit before under noted items	(2,695)	(1,240)	1,455
Depreciation of right of use assets	-	1,356	1,356
Profit before interest income and income tax expense	(2,695)	(2,596)	99
Lease interest expense	-	232	(232)
Net profit impact	$ (2,695)	$ (2,828)	$ (133)

Critical accounting judgements and key sources of estimation uncertainty

Estimates:

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

Project completion for revenue

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

Impairment of goodwill and intangible assets

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

Income taxes

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

Contingent liabilities

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

Loss allowance

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

Judgments:

Financial instruments

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

Accounting policy for equipment and intangible assets

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

Deferred income taxes

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

Input methodology for project completion

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

Management's conclusion on the effectiveness of disclosure controls

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's disclosure controls and procedures as of March 31, 2020, 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 March 31, 2020, 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 March 31, 2020, there have been no changes in the design of the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Risk and Uncertainties

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

- The markets for the Company's services are very competitive, rapidly evolving and subject to technological changes.
- The Company has certain ongoing contracts that account for a significant portion of the Company's revenues and if these contracts are not renewed at expiry or should a competitor win the renewal, the Company's future revenue stream and overall profitability could be significantly reduced.
- The Company must compete for qualified employees for its own operations and must have ready access to a large pool of qualified professionals to satisfy contractual arrangements with customers.
- There is a risk in all fixed-price contracts that the Company will be unable to deliver the system within the time specified and at the expected cost.
- The Company's business is often dependent on performance by third parties and subcontractors in connection with contracts for which the Company is the prime contractor.
- The markets in which the Company operates are characterized by changing technology and evolving industry standards and the Company's ability to anticipate changes in technology, technical standards and service offerings will be a significant factor in the Company's ability to compete or expand into new markets.
- Erosion of our customers' market share for a particular product could have a direct impact on the Company's revenues and profitability.
- The government may change its policies, priorities or funding levels through agency or program budget reductions or impose budgetary constraints, which could have a direct impact on the Company's revenues and profitability.
- Most fee-for-service contracts provide the applicable customer with the ability to adjust the timing and level of effort throughout the contract life so the amount actually realized by the Company could be materially different from the original contract value.
- There is a risk that as the Company grows, credit risk increases with respect to accounts receivable.
- In the event that an operating segment cannot secure an appropriate workforce, such operating segment may not be in a position to bid on or secure certain contracts.
- The Company is subject to foreign exchange risk in that approximately 27% 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.
- The Company faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions.
- The international response to the spread of COVID-19 has led to significant restrictions on travel; temporary business closures; quarantines; global stock market and financial market volatility; declining trade and market sentiment; all of which have and could further effect on interest rates, credit ratings and credit risk. The continued spread of the coronavirus in Canada, and Globally, could adversely impact the Company's business including without limitation, employee health, workforce productivity, increased insurance premiums, limitations on travel, the availability of industry experts and personnel, and other factors that will depend on future developments beyond the Company's control, which may have a material and adverse effect on the its business, financial condition and results of operations

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.

Short-term outlook

	Previous Guidance		Current Guidance	
	Low	High	Low	High
Revenue	$ 380,000	$ 410,000	$ 380,000	$ 410,000
Adjusted EBITDA	$ 34,306	$ 36,728	$ 34,306	$ 36,728
Adjusted EBITDA per share	4.25	4.55	3.77	4.03
Adjusted net profit	20,180	22,602	20,180	22,602
Adjusted net profit per share	2.50	2.80	2.21	2.48
Anticipated weighted average shares outstanding		8,072,000		9,110,735

The Company experienced both revenue and gross profit impacts of $1,412 and $274 in our second quarter due to the impacts of Covid-19. We currently estimate a further revenue impact of $6,000 to $8,000 for the remainder of the fiscal year, assuming isolation restrictions are significantly reduced by June 1, 2020. If restrictions extend further, we expect to continue to see impacts on our ability to deliver services.

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 innovation:** 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 ten acquisitions in the past nine 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

Dated: May 12, 2020

Corporate Information

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Board of Directors

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

Richard Vickers, FCA
Consultant
Chair of the Audit Committee

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

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

Ray Basler, CPA, CA
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.