CALIAN®
Group Ltd.

Mananagement’s Discussion and Analysis

For the first quarter ended December 31, 2019

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

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

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

IFRS and non-GAAP measures:

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

Forward-Looking Statements

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

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

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

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

Business Overview and Strategic Direction

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

Calian's primary operating segments are:

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

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

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

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

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

Key attributes of our four operating segments:

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

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

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

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

Selected Quarterly Financial Data

(Canadian dollars in millions, except per share data)

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

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

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

With the implementation of IFRS 16, facilities expenses have decreased significantly since the Company has adopted the standard using the modified retrospective method where prior period statements are not restated. The fixed lease cost portion of previous lease expenses is now depreciation and interest under IFRS 16. Lease costs not capitalized under IFRS 16 have been included in general and administration expenses. The reclassification of facilities to general and admin by quarter was Q1 FY19: $1,293, Q2 FY19: $1,305, Q3 FY19: $1,346 and Q4 FY19: $1,362. The reclassification of research and development from general and administration by quarter was Q1 FY19: $279, Q2 FY19: $361, Q3 FY19: $343 and Q4 FY19: $436. The Company is presenting comparative information for fiscal 2019 with research and development as a separate line item in the statement of profit, whereas previously it was included in general and administration. When reporting comparative information, there is no financial statement that the Company has issued where research and development are presented separately for fiscal year 2018 or previous. The Company maintains that presentation here for 2018 where research and development operating expense costs are included in the general and administration expense line.

Overview of Overall Performance

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

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

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

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

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

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

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

Calian Consolidated Results

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

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

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

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

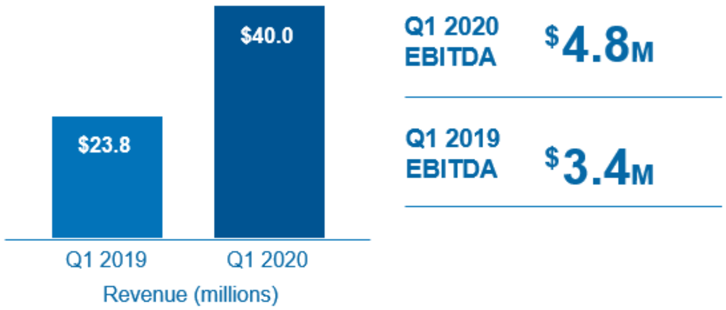
Gross margins in the quarter were 20.4%, this compares to 21.1% in the same period of the previous year. Margin by segment vary greatly from 15% to 28% (see discussion by segment), and the mix of business in turn affects our consolidated gross margin. The large multi year satellite programs bring lower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

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

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

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

Advanced Technologies



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

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

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

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

Financial performance

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

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

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

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

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

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

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

First Quarter 2020 Highlights

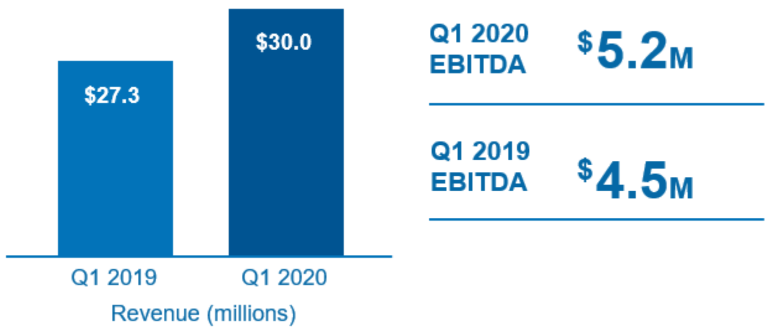
The Advanced Technologies segment commenced deliveries of a new custom telecommunications product for a Tier 1 North American mobile operator. A result of 16 months of R&D, the product enables the customer to maximize its use of existing spectrum assets and supports ongoing development and upgrade of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

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

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

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

Health



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

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

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

Financial performance

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

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

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

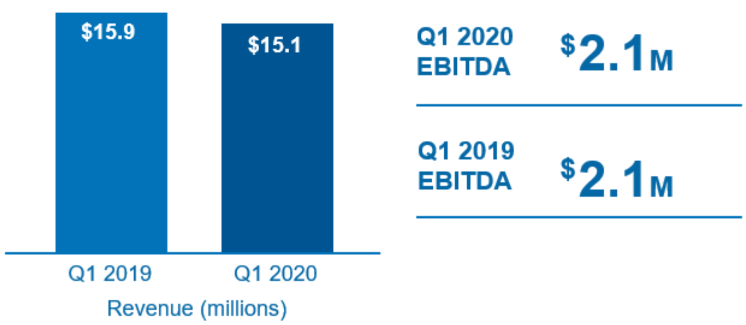
Gross margin percentage increased from 21% to 22% for the three-month period ended December 31, 2019 when compared to the same period of the prior year. This was due in part to higher margin services being provided in our clinician services and psychological assessment revenue growth in the segment.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

First Quarter 2020 Highlights

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

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

Learning



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

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

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

Financial performance

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

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

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

First Quarter 2020 Highlights

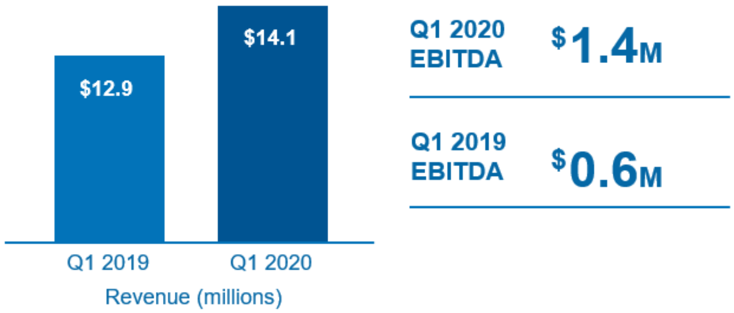
Within the Learning segment, Calian announced it has partnered with Saulteaux Tribal Nation L.P., a First Nations-owned and operated company in Manitoba, to deliver emergency management services and best practices to other First Nations in the province. Calian and Saulteaux formalized the partnership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

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

The Learning segment remains focused on service line evolution, with continued exploration of new learning

solutions and learning consultation services, including advanced training technologies and learning management systems. Training's product offerings continue to expand, with two solutions now available: Calian MaestroEDE™ and ResponseReady™.

Information Technology



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

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

Financial performance

	Three months ended December 31, 2019	December 31, 2018[1]
Revenues	$ 14,083	$ 12,907
Gross profit	2,592	1,660
Selling and marketing	579	473
General and administration	615	625
Research and development	-	-
Profit before under noted items	$ 1,398	$ 562

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

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

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

First Quarter 2020 Highlights

In support of customer diversification, the cyber team increased its marketing and sales activities, including digital campaigns and targeted events that helped increase cyber sales and the funnel of opportunities in Ottawa and the Greater Toronto Area (GTA). In the first quarter the cyber security practice won a substantial contract with Shared Services Canada to support the expansion of the customer's data centre consolidation initiative. We continue to generate new customers and business in existing customers across the service line, but especially in the cyber security offerings. Information Technology signed in excess of $14 million in new contract wins in the first quarter of 2020, enhancing its backlog position which the majority will be recognized in revenue during the remainder of fiscal 2020. The segment continues to invest in delivery of services, implementing best-in-breed cyber security solutions in new geographies and with new customers.

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

Summary

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

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

Reconciliation of non-GAAP measures to most comparable IFRS measures

These non-GAAP measures are mainly derived from the consolidated financial statements, but do not have a standardized meaning prescribed by IFRS; therefore, others using these terms may calculate them differently. The exclusion of certain items from non-GAAP performance measures does not imply that these are necessarily nonrecurring. From time to time, we may exclude additional items if we believe doing so would result in a more

transparent and comparable disclosure. Other entities may define the above measures differently than we do. In those cases, it may be difficult to use similarly named non-GAAP measures of other entities to compare performance of those entities to the Company’s performance.

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

Adjusted EBITDA

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

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

Adjusted Net Profit and Adjusted EPS

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

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

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

Consolidated Net Income and Other Selected Financial Information

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

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

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

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

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

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

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

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

Backlog

The Company's backlog at December 31, 2019 was $1,318 million with terms extending to fiscal 2030. This compares to $1,330 million reported at September 30, 2019. Contracted backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas option renewals represent customers' options to further extend existing contracts under similar terms and conditions.

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

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

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

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

Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately $118 million. The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

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

Liquidity and Capital Resources

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

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

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

Operating Activities

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

Financing Activities

Dividend

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

Debt

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

Shares

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

Investing activities

Equipment expenditures and Capitalized Research and Development

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

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

Acquisitions

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

Investments

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

Capital resources

At December 31, 2019, the Company had a short-term credit facility of $40,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. To date, the Company has drawn $26,195 against the credit facility and an amount of $50 was used to issue a letter of credit to meet customer contractual requirements. This credit facility will be paid down with results of operations and net short term assets. Subsequent to quarter end, the facility was increased to $60,000.

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

Off-balance sheet arrangements

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

Related-party transactions

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

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

Adoption of new accounting standards and impact on financial results

Current quarter ended December 31, 2019 impact:

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

Estimates:

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

Project completion for revenue

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

Impairment of goodwill and intangible assets

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

Income taxes

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

Contingent liabilities

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

Loss allowance

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

Judgments:

Financial instruments

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

Accounting policy for equipment and intangible assets

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

Deferred income taxes

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

Input methodology for project completion

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

Management's conclusion on the effectiveness of disclosure controls

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

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

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

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

Risk and Uncertainties

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

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

A comprehensive discussion of risks, including risks not specifically listed above, can be found in our most recently filed Annual Information Form. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of our shares to decline. If any of the noted risks actually occur, our business may be harmed and our financial condition and results of operations may suffer significantly.

Long-term outlook

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

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

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

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

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

Additional Information

Additional information about the Company such as the Company's 2019 Annual Information Form and Management Circular can be found on SEDAR at www.SEDAR.com

Dated: February 5, 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
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.