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		Six months ended	
	March 31, 2020	March 31, 2019(1)	March 31, 2020	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.

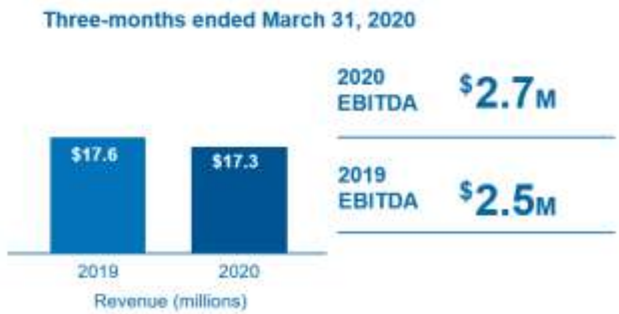
Health also won additional business to assist clients with health and safety through this pandemic. The Government of Nunavut increased its nursing services demand and new business was won in the natural resource sector for companies requiring COVID-19 screening services for employees. These revenue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

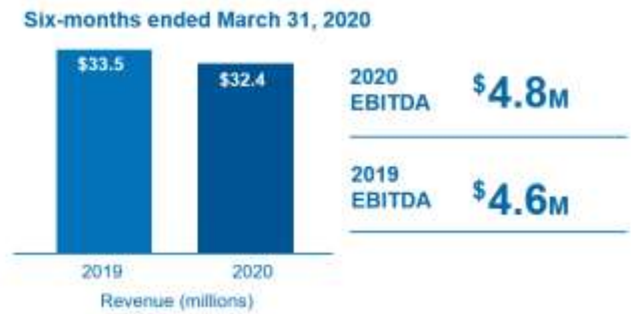
During the quarter, our Health division began serving a third CBSA service center in Surrey, British Columbia. This is in addition to our co-operation with CBSA at their Laval, Quebec and Toronto, Ontario service centers. Calian provides a turnkey health solution at each site to service CBSA and adjust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

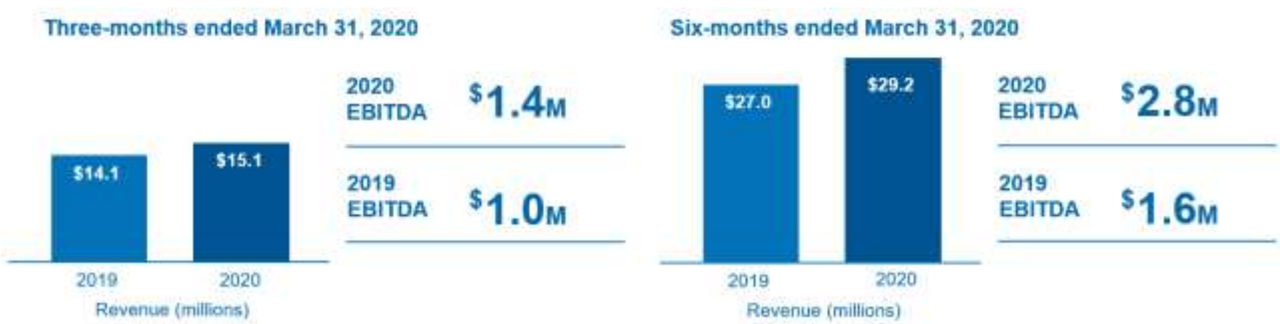
Second Quarter 2020 Highlights

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		Six months ended	
	March 31, 2020	March 31, 2019(1)	March 31, 2020	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		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.

Consolidated Net Income and Other Selected Financial Information

	Three months ended		Six months ended	
	March 31, 2020	March 31, 2019(1)	March 31, 2020	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.