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

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

IFRS and non-GAAP measures:

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

Forward-Looking Statements

The Company cautions that this 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 November 25, 2019 that are subject to change and to risks and uncertainties, including those set out under the heading "Risks and Uncertainties" below, many of which are outside the Company's control. Actual results may materially differ from such forward-looking information due to factors such as customer demand, customer relationships, new service offerings, delivery schedules, revenue mix, competition, pricing pressure, foreign currency fluctuations and uncertainty in the markets in which the Company conducts business. Additional information identifying risks and uncertainties is contained in the Company's filings with securities regulators. The Company does not assume any intention or obligation to publicly update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. Readers should not place undue reliance on the Company's forward-looking statements.

Business Overview and Strategic Direction

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

Calian's primary operating segments are:

- Advanced Technologies
- Health
- Learning
- Information Technology

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

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

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

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

The growth strategy at Calian can be summarized as follows: winning new contracts, expanding the scope of existing contracts, capitalizing on innovation demonstrated in each of the operating segments, and acquisitions. We have demonstrated our ability to win new contracts each year. For example, in our Health business, we have grown from one contract ten years ago to over 50 contracts for services that span the next ten years. Further, we have demonstrated an ability to expand the scope of services with existing customers through our cross service line pollination and growth. A number of our services are applicable to each and every one of our customers and we have been bringing more value to the table for our customers through the diverse service offerings. Innovation is a key driver for the day-to-day operations at Calian, which has led to our offering of state-of-the-art carbon fiber antenna. Finally, with eight successful acquisitions in as many years, we continue to demonstrate to our customers an ability to grow and expand, both in terms of geography and service offerings. In aggregate, all of the factors contributed to Calian's profitable growth. Revenue grew 11% in fiscal 2018 and 12% in fiscal 2019 on a year-over-year basis while continuing to drive the Company's highest level of profit.

Key attributes of our four operating segments:

	Advanced Technologies	Health	Learning	Information Technology
Customers	European Space Agency, Inmarsat, MDA, Sirius XM, Bruce Power	Department of National Defence, Canadian Border Security, Loblaw, Police agencies across Ontario	Department of National Defence, Canadian Army Simulation Centre, Bruce Power, City of Ottawa and other municipalities across Canada	Shared Services Canada, General Dynamics and other private and public high-tech companies
Business units	Engineering services, products, solutions, software development, manufacturing, training, technical services	Health services, psychological assessment services, medical property management	Custom training, emergency management solutions, software products, consulting, course development	IT consulting, IT and cloud solutions, software development, SAP consulting, cyber security solutions
Customer Geography	Mostly international	Canadian	Primarily Canadian with some customers based in the US	Canada
Government Revenue %	52%	89%	98%	67%
Quality initiatives	Excellence Canada / ISO 9001:2015	Excellence Canada	Excellence Canada	Excellence Canada
Workforce	496	1,119	1,169	472
Backlog ($ 000's)	173,379	761,510	327,850	65,130

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

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

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

Selected Quarterly Financial Data

(Canadian dollars in millions, except per share data)

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

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

Fourth Quarter Financial Summary

Consolidated Statements of Net Profit

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

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

(i) See note 3 of the Financial Statements.

Consolidated Statements of Cash Flows

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

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

(i) See note 3 of the Financial Statements.

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

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

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

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

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

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

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

(i) See note 3 of the Financial Statements.

For three months ended September 30, 2019						
	Advanced Technologies	Health	Learning	IT	Corporate	Total
Revenue	$ 31,437	$ 31,286	$ 13,983	$ 14,208	$ -	$ 90,914
Cost of revenues	22,974	24,870	11,025	11,702	-	70,571
Gross profit	8,463	6,416	2,958	2,506	-	20,343
Gross profit %	26%	21%	21%	18%	N/A	22%
Selling and marketing	1,320	191	198	712	348	2,769
General and administration	1,573	917	684	501	4,389	8,064
Facilities	980	85	48	86	163	1,362
Profit before under noted items	$ 4,590	$ 5,223	$ 2,028	$ 1,207	$ (4,900)	$ 8,148
Profit before under noted items %	15%	17%	15%	9%	N/A	9%
Depreciation of equipment and application software						622
Amortization of acquired intangibles						1,460
Gain on change in estimate						(4,522)
Profit before interest and income tax expense						10,588
Accretion interest expense related to acquisitions						297
Interest expense (income)						50
Profit before income tax expense						10,241
Income tax expense – current						1,982
Income tax expense – deferred						(217)
Total income tax expense						1,765
NET PROFIT FOR THE PERIOD						$ 8,476

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

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

(i) See note 3 of the Financial Statements.

Overview of Overall Performance

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

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

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

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

Revenue growth from new contract opportunities will be largely dependent on the issuance of the initial proposal request and the ultimate timing of the related contract award. The Company has significant backlog at $1,330 million with very large contract wins in 2017, 2018 and 2019, that span over 10 years in length. Calian's historical high renewal rate combined with its win strategy provides management confidence in its ability to successfully remain the customer's preferred choice.

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

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

During 2019, the Company made progress on its growth, diversification and innovation agendas while continuing to be successful in managing existing contracts and maintaining service quality and high client satisfaction levels. The realization of organic growth across all service lines combined with new contract wins in new markets allowed the Company to report revenue growth of 12%. In 2019, we also signed $230 million in contracts and ended the year with a backlog of $1,330 million of which $277 million is expected to be earned during fiscal 2020.

Calian Consolidated Results

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

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

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

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

As can be seen in the sections below, gross margins by segment vary between 15% and 28%. The overall gross margin of the Company is dependent on the relative level of revenue generated from each segment. Management will continue to focus on operational execution, diligent negotiation of supplier costs and expansion into new markets driving better margins. The competitive landscape is expected to maintain the pressure on margins in each of our segments. The volatility of the Canadian dollar is always an influencing factor for margins on new work in the Advanced Technologies segment to the extent that work is denominated in foreign currencies.

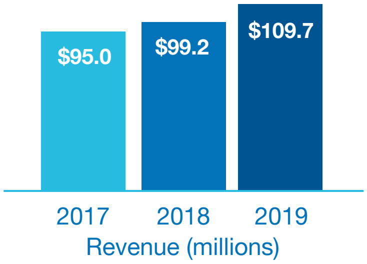
Selling and marketing costs increased 21% for the three months and 14% for the 12 months ended September 30, 2019, compared to the same periods of the prior year. Selling and marketing increases can be attributable to investment in business development, marketing headcount, and new marketing and customer outreach initiatives. These investments by the Company in the current year have shown positive results with increases in both revenue and backlog.

(i) See note 3 of the Financial Statements.

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

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

Advanced Technologies



2019 Segment Revenue **$109.7M**

2019 Segment EBITDA **$16.5M**

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

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

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

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

2019 highlights

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

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

(i) See note 3 of the Financial Statements.

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

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

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

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

Research and development

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

Cable network market

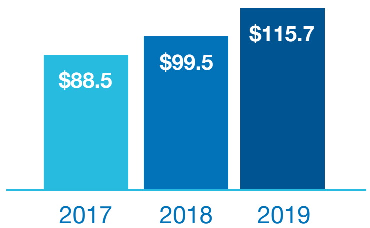
Cable networks have significant RF requirements that fall within a similar engineering skillset as our satellite communications network capability. In this context, we view cable network technologies as a strategic growth market. The Engineering segment identified a market entry opportunity in hybrid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

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

Ground systems market

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

Health



Revenue (millions)

2019 Segment Revenue **$115.7M**

2019 Segment EBITDA **$18.5M**

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

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

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

Financial performance

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

(i) See note 3 of the Financial Statements.

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

Gross margin percentage increased from 17% to 20.5% for the three months and from 17.3% to 20% for the 12 months ended September 30, 2019, compared to the same periods of the prior year. This was due in part to higher margin services being provided as a result of the Priority One acquisition in late fiscal 2018, accompanied by more efficient delivery across current and new contracts. General and administration expenses increased by $203 for the three months and $820 for the 12 months ended September 30, 2019, compared to the same periods of the prior year, due to increases in headcount to support new contracts across more customers and industries. The Health segment has been growing and has been structuring the growth such that it is sustainable. Facilities expenses increased $70 in the 12 months ended September 30, 2019 as a result of the additional geographies required to deliver on the current contracts, and contracts won in the current year.

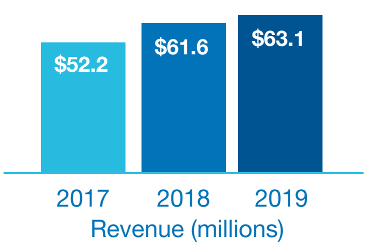
2019 highlights

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

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

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

Learning



2019 Segment Revenue **$63.1M**

2019 Segment EBITDA **$8.8M**

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

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

2019 highlights

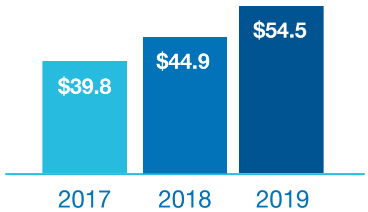
The Learning segment successfully recompeted on several major contracts, contributing more than $240 million in backlog. These re-wins included an eLearning contract renewal with DND valued at approximately $17 million over three years; and our successful recompete for the Training and Support Services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

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

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

(i) See note 3 of the Financial Statements.

Information Technology



Revenue (millions)

2019 Segment Revenue **$54.5M**

2019 Segment EBITDA **$3.6M**

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

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

Financial performance

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

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

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

(i) See note 3 of the Financial Statements.

2019 highlights

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

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

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

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

Summary

In summary, 2019 was a year of continued growth and innovation for Calian with significant improvements in revenue, EBITDA and earnings. Importantly, we made tangible progress in the execution of our long-term strategy. The company enters 2020 with a strong backlog of work and a reasonable expectation of future growth. In the coming year, we are expecting stability on our existing contracts, and positive results from investments made in research and development and sales resources. We continue to increase our investment in the marketing function with a focus on proactive social media engagement and targeted marketing campaigns in support of products and services across the four segments.

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

Reconciliation of non-GAAP measures to most comparable IFRS measures

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

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

Reconciliation of EBITDA

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

Adjusted EPS (Non-GAAP)

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

The Company uses adjusted profit and adjusted earnings per share, which remove the impact of our acquisition amortization and gains, resulting in accounting for acquisitions and interest accretion to measure our performance. These measurements better align the reporting of our results and improve comparability against our peers. We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our capital expenditure and working capital requirements. Adjusted profit and adjusted earnings per share are not recognized, defined or standardized measures under the International Financial Reporting Standards. Our definition of adjusted profit and adjusted earnings per share will likely differ from that used by other companies (including our peers) and therefore comparability may be limited. Non-GAAP measures should not be considered a substitute for or be considered in

(i) See note 3 of the Financial Statements.

isolation from measures prepared in accordance with International Financial Reporting Standards. Investors are encouraged to review our financial statements and disclosures in their entirety and are cautioned not to put undue reliance on non-IFRS measures and view them in conjunction with the most comparable International Financial Reporting Standards financial measures. The Company has reconciled adjusted profit to the most comparable International Financial Reporting Standards financial measure as shown above.

Consolidated Net Income

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

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

(i) See note 3 of the Financial Statements.

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

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

Backlog

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

During 2019 the following contracts were the major contributors to the Company's backlog. These contracts are further described in the business overview section of this Management Discussion and Analysis.

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

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

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

Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately $145 million. The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

(dollars in millions)	Fiscal 2019	Fiscal 2020	Beyond 2020	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	$ 265	$ 114	$ 74	$ 453	$ 101	$ 554
Option Renewals	12	21	699	732	44	776
TOTAL	$ 277	$ 135	$ 773	$ 1,185	$ 145	$ 1,330
Advanced Technologies	$ 89	$ 55	$ 11	$ 155	$ 18	$ 173
Health	$ 108	$ 33	$ 579	$ 720	$ 44	$ 764
Learning	$ 51	$ 38	$ 179	$ 268	$ 60	$ 328
IT	$ 29	$ 9	$ 4	$ 42	$ 23	$ 65
TOTAL	$ 277	$ 135	$ 773	$ 1,185	$ 145	$ 1,330

Liquidity and Capital Resources

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

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

Operating Activities

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

Financing Activities

Dividend

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

Debt

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

Shares

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

Investing activities

Equipment expenditures and Capitalized Research and Development

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

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

Acquisitions

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

Investments

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

Capital resources

At September 30, 2019, the Company had a short-term credit facility of $40,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. The Company has drawn $13,000 against the credit facility and an amount of $50 was used to issue a letter of credit to meet customer contractual requirements. This credit facilty will be paid down with results of operations and net short term assets.

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

Contractual obligations

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

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

Off-balance sheet arrangements

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

Operating leases

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

Related-party transactions

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

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

Adoption of new accounting rules and impact on financial results

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

Impact of accounting pronouncements not yet implemented

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

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

The Company has assessed IFRS 16 and reviewed its portfolio of contracts in order to identify leases that would be under the scope of the new standard. The review has identified a number of contracts that were previously accounted for as operating leases under the previous accounting standard, all of which represent leases for office space which will be impacted by the transition to IFRS 16. Based on management's preliminary assessment of contracts in existence at September 30, 2019, the following impacts are expected on its consolidated statement of net profit for the 2020 fiscal year:

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

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

Management's conclusion on the effectiveness of disclosure controls

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's disclosure controls and procedures as of September 30, 2019, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them and that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

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

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's internal control over financial reporting as of September 30, 2019, have concluded that the Company's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with IFRS.

During the most recent interim quarter ending September 30, 2019, there have been no changes in the design of the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Risk and Uncertainties

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

- The markets for the Company's services are very competitive, rapidly evolving and subject to technological changes.
- The Company has certain ongoing contracts that account for a significant portion of the Company's revenues and if these contracts are not renewed at expiry or should a competitor win the renewal, the Company's future revenue stream and overall profitability could be significantly reduced.
- The Company must compete for qualified employees for its own operations and must have ready access to a large pool of qualified professionals to satisfy contractual arrangements with customers.
- There is a risk in all fixed-price contracts that the Company will be unable to deliver the system within the time specified and at the expected cost.
- The Company's business is often dependent on performance by third parties and subcontractors in connection with contracts for which the Company is the prime contractor.
- The markets in which the Company operates are characterized by changing technology and evolving industry standards and the Company's ability to anticipate changes in technology, technical standards and service offerings will be a significant factor in the Company's ability to compete or expand into new markets.
- Erosion of our customers' market share for a particular product could have a direct impact on the Company's revenues and profitability.
- The government may change its policies, priorities or funding levels through agency or program budget reductions or impose budgetary constraints, which could have a direct impact on the Company's revenues and profitability.
- Most fee-for-service contracts provide the applicable customer with the ability to adjust the timing and level of effort throughout the contract life so the amount actually realized by the Company could be materially different from the original contract value.

- 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

Reconciliation of Operating Segments

Dated: November 25, 2019

Corporate Information

Corporate Head Office

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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, WRBX Consulting Ltd.
Chair of the Compensation Committee

Jo-Anne Poirier

President and CEO, VON Canada
Chair of the Governance Committee

Ray Basler

Consultant

Young Park

Consultant

Kevin Ford

President and CEO, Calian Group Ltd.

Common Share Information

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

Dividend Policy

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

Annual Meeting of Shareholders

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