CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2018 and September 30, 2018
(Canadian dollars in thousands)

	NOTES	December 31, 2018	September 30, 2018 *Restated (Note 2)*
ASSETS			
CURRENT ASSETS			
Cash		$ 20,377	$ 21,842
Accounts receivable		65,615	69,096
Work in process		16,617	17,376
Inventory	6	3,758	1,498
Prepaid expenses		3,532	3,879
Derivative assets	13	151	1,021
Total current assets		110,050	114,712
NON-CURRENT ASSETS			
Capitalized research and development		1,941	1,449
Equipment		10,263	9,795
Application software		760	788
Investment and loan receivable		435	435
Acquired intangible assets	15	13,710	6,702
Goodwill	15	25,981	18,236
Total non-current assets		53,090	37,405
TOTAL ASSETS		$ 163,140	$ 152,117
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Line of Credit	8	$ 12,000	$ -
Accounts payable and accrued liabilities		30,084	33,740
Contingent earn-out	15	4,259	2,440
Provisions	7	1,879	1,932
Unearned contract revenue		8,078	10,042
Derivative liabilities	13	230	525
Total current liabilities		56,530	48,679
NON-CURRENT LIABILITIES			
Contingent earn-out	15	3,402	800
Deferred tax liabilities		3,770	2,488
Total non-current liabilities		7,172	3,288
TOTAL LIABILITIES		63,702	51,967
SHAREHOLDERS' EQUITY			
Issued capital	9	28,888	28,647
Contributed surplus		1,013	1,065
Retained earnings		71,730	70,621
Accumulated other comprehensive loss		(2,193)	(183)
TOTAL SHAREHOLDERS' EQUITY		99,438	100,150
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 163,140	$ 152,117

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands, except per share data)

	NOTES	Three-months ended December 31, 2018	Three-months ended December 31, 2017 *Restated (Note 2)*
Revenues	11	$ 79,921	$ 76,169
Cost of revenues		64,200	61,369
Gross profit		15,721	14,800
Selling and marketing		1,543	1,242
General and administration		7,198	5,929
Facilities		1,293	1,137
Profit before under noted items		5,687	6,492
Depreciation		(495)	(412)
Amortization of intangibles		(280)	(299)
Profit before interest and income tax expense		4,912	5,781
Accretion interest expense related to acquisitions		(142)	-
Interest income		32	47
Profit before income tax expense		4,802	5,828
Income tax expense – current		1,356	1,673
Income tax expense – deferred		91	(24)
Total income tax expense		1,447	1,649
NET PROFIT FOR THE PERIOD		**$ 3,355**	**$ 4,179**
NET PROFIT PER SHARE:			
Basic	10	$ 0.43	$ 0.54
Diluted	10	$ 0.43	$ 0.54

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands)

	NOTES	**Three-months ended December 31, 2018**	**Three-months ended December 31, 2017** *Restated (Note 2)*
NET PROFIT FOR THE PERIOD		$ 3,355	$ 4,179
Other comprehensive income, net of tax			
Change in deferred gain or loss on derivatives designated as cash flow hedges, net of tax of $737 (2018 - $66)		(2,010)	(181)
Other comprehensive income (loss), net of tax		(2,010)	(181)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**$ 1,345**	**$ 3,998**

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings *Restated (Note 2)*	Cash flow hedging reserve	Total *Restated (Note 2)*
Balance October 1, 2018		**$ 28,647**	$ 1,065	$ 70,621	$ (183)	$ 100,150
Total comprehensive income		-	-	3,355	(2,010)	1,345
Dividends ($0.28 per share)		-	-	(2,176)	-	(2,176)
Share repurchase		(11)	-	(70)	-	(81)
Issue of shares under the restricted share unit plan	9	252	(252)	-	-	-
Share based compensation expense	9	-	200	-	-	200
Balance December 31, 2018		**$ 28,888**	**$ 1,013**	**$ 71,730**	**$ (2,193)**	**$ 99,438**

	Notes	Issued capital	Contributed surplus	Retained earnings *Restated (Note 2)*	Cash flow hedging reserve	Total *Restated (Note 2)*
Balance October 1, 2017		$ 26,240	$ 541	$ 62,898	$ (70)	$ 89,609
Total comprehensive income		-	-	4,179	(181)	3,998
Dividends ($0.28 per share)		-	-	(2,152)	-	(2,152)
Issue of shares under the option plan and restricted share unit plan	9	1,194	(159)	-	-	1,035
Share based compensation expense	9	-	284	-	-	284
Balance December 31, 2017		**$ 27,434**	**$ 666**	**$ 64,925**	**$ (251)**	**$ 92,774**

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

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands)

	NOTES	Year ended December 31, 2018	Year ended December 31, 2017 *Restated (Note 2)*
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net profit for the period		$ 3,355	$ 4,179
Items not affecting cash:			
Interest income		(32)	(47)
Accretion interest expense related to acquisitions		142	-
Income tax expense		1,447	1,672
Employee share plans compensation expense		235	304
Depreciation and amortization		775	711
		5,922	6,819
Change in non-cash working capital			
Accounts receivable		4,470	(5,894)
Work in process		759	(2,922)
Inventory		(320)	(499)
Prepaid expenses		401	(340)
Accounts payable and accrued liabilities		(6,511)	(3,659)
Unearned contract revenue		(1,964)	646
		2,757	(5,849)
Interest received		33	70
Income tax paid		(1,812)	(1,630)
		978	(7,409)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Issuance of shares	9	-	1,035
Dividends		(2,176)	(2,152)
Line of credit		12,000	-
Share repurchase		(81)	-
		9,743	(1,117)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Business acquisitions	15	(11,299)	-
Capitalized research and development		(494)	(333)
Equipment and application software		(393)	(513)
		(12,186)	(846)
NET CASH INFLOW (OUTFLOW)		**$ (1,465)**	**$ 9,372**
CASH, BEGINNING OF PERIOD		21,842	28,639
CASH, END OF PERIOD		**$ 20,377**	**$ 19,267**

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

CALIAN GROUP LTD.
NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three-month periods ended December 31, 2018 and 2017
(Canadian dollars in thousands, except per share amounts)
(Unaudited)

1. BASIS OF PREPARATION

Calian Group Ltd. ("the Company") is incorporated under the Canada Business Corporations Act. The address of its registered office and principal place of business is 770 Palladium Drive, Ottawa, Ontario K2V 1C8. The Company's capabilities are diverse and include the provision of business and technology services to industry and government in the health, IT services and training domains as well as the design, manufacturing and maintenance of complex systems to the communications and defence sectors.

These unaudited interim condensed consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standard Board ("IASB"). These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with the accounting policies the Company adopted in its annual consolidated financial statements for the year ended September 30, 2018 and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended September 30, 2018. These unaudited interim condensed consolidated financial statements do not include all of the information required in annual financial statements.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on February 5, 2019.

2. CHANGES IN ACCOUNTING POLICIES

IFRS 9 Financial instruments

IFRS 9 was issued by the IASB in November 2009 and October 2010, was amended in 2013 and finalized in July 2014 and will replace IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The financial assets are subsequently measured at amortized cost, fair value through profit and loss or fair value through other comprehensive income.

IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new ‘expected credit loss’ model for calculating impairment of financial assets. IFRS 9 specifies different approaches for measuring and recognizing expected credit losses, by considering only defaults in the next 12 months and/or the full remaining life of the financial asset. The expected credit loss model requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired, with subsequent changes in expected credit losses at each reporting date recorded to reflect any change in credit risk. IFRS 9 provides a simplified approach for certain trade receivables and IFRS 15 contract assets. As a result of adopting the new standard, the Company expects earlier recognition of provisions for credit losses which are not yet incurred.

IFRS9 includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. The Company does not expect changes relating to hedging as the types of hedge accounting relationships that the Company currently designates will be capable of meeting the requirements of IFRS 9.

The Company adopted IFRS 9 effective October 1, 2018 with no adjustments.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15 – *Revenue from Contracts with Customers*. The Standard replaces IAS11 *Construction Contracts and* IAS 18 *Revenue*, providing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the new standard is to recognize revenue to depict fulfillment of performance obligations to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

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

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

<u>Revenue recognition</u>

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

<u>Warranty</u>

Under the former revenue standards, warranty is accounted for as a separate performance obligation where revenue is recognized as costs are incurred during the warranty phase. IFRS 15 classifies warranty into two groups, assurance type and service type. Assurance type warranty is accounted for as part of other performance obligations in the contract, and associated costs are recognized as incurred. Service type warranties are recognized as a separate performance obligation, and as a result the Company estimates the cost for the entire warranty period and records a liability. Previously the Company did not record a liability for anticipated warranty costs and would expense the costs as they were incurred. The Company offers different types of warranties to customers which will be impacted by the classification and treatment under IFRS 15. The impact of warranty changes resulted in a revenue decrease for fiscal 2018 of $7, and cumulative increase to provisions of $1,365 at September 30, 2018.

The Company recognizes revenue from the following major types of contracts:

- Cost-plus contracts
- Fixed price contracts

Cost-plus contracts represent revenue that is recognized as and when services are provided to the customer. These contracts are for professional services delivered over time to customers.

Fixed-Price contracts consist of the development and installation of hardware or software systems, and the sale of product manufactured for a specific customer. Fixed price contracts typically include a warranty which must be assessed as a service type of assurance type on a contract by contract basis. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, and the nature of products sold. Warranties typically range from 6 months to 1 year but could be upwards of 3 years.

Due to the implementation of IFRS 15 in the current quarter, the following accounting policies were also implemented.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

Impact of adopting IFRS 15 changes in accounting policies

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

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

	As at September 30, 2018	As at December 31, 2017	As at October 1, 2017
Equity as previously reported			
Cumulative changes to:	$ 99,714	$ 92,544	$ 89,487
Warranty	509	278	220
Performance obligations previously reported over time now recognized at a point in time	(49)	(25)	(53)
Income tax impact	(24)	(23)	(45)
Net change to equity	436	228	122
Equity as restated	$ 100,150	$ 92,774	$ 89,609

The impacts on the consolidated statements of financial position are as follows, as at:

	September 30, 2018			
	As previously reported	**Reclassification**	**Adjustments**	**As restated**
CURRENT ASSETS				
Cash	$ 21,842	$ -	$ -	$ 21,842
Accounts receivable	69,096	-	-	69,096
Work in process	18,217	(570)	(271)	17,376
Inventory	-	570	928	1,498
Prepaid expenses	3,879	-	-	3,879
Derivative assets	1,021	-	-	1,021
Total current assets	114,055	-	657	114,712
Total non-current assets	37,405	-	-	37,405
TOTAL ASSETS	$ 151,460	$ -	$ 657	$ 152,117
Accounts payable and accrued liabilities	$ 34,284	$ (567)	$ 23	$ 33,740
Contingent earn out	2,440	-	-	2,440
Provisions	-	567	1,365	1,932
Unearned contract revenue	11,209	-	(1,167)	10,042
Derivative liabilities	525	-	-	525
Total current liabilities	48,458	-	221	48,679
Total non-current liabilities	3,288	-	-	3,288
TOTAL LIABILITIES	51,746	-	221	51,967
SHAREHOLDERS' EQUITY				
Issued capital	28,647	-	-	28,647
Contributed surplus	1,065	-	-	1,065
Retained earnings	70,185	-	436	70,621
Accumulated other comprehensive loss	(183)	-	-	(183)
TOTAL SHAREHOLDERS' EQUITY	99,714	-	436	100,150
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 151,460	$ -	$ 657	$ 152,117

2. CHANGES IN ACCOUNTING POLICIES (Continued)

The impacts on the consolidated statements of income are as follows, for:

	Three-Month period ended December 31, 2017		
	As previously reported	Adjustments	As restated
Revenues	$ 75,749	$ 420	$ 76,169
Cost of revenues	61,034	335	61,369
Gross profit	14,715	85	14,800
Selling and marketing	1,242		1,242
General and administration	5,929		5,929
Facilities	1,137		1,137
Depreciation	412		412
Amortization of intangibles	299		299
Profit before interest income and income tax expense	5,696	85	5,781
Interest income	47		47
Profit before income tax expense	5,743	85	5,828
Income tax expense – current	1,696	(23)	1,673
Income tax expense – deferred	(24)		(24)
Total income tax expense	1,672	(23)	1,649
NET PROFIT FOR THE PERIOD	**$ 4,071**	**108**	**$ 4,179**
Earnings per share basic	**$ 0.53**	**$ 0.01**	**$ 0.54**
Earnings per share diluted	**$ 0.52**	**$ 0.02**	**$ 0.54**

3. FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 16 Leases

In January 2016, the IASB released IFRS 16 Leases which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. IFRS 16 is effective with the Company's annual periods beginning on October 1, 2019. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

There were no significant changes in estimates or approaches in the current period when compared to the estimates or approaches used to prepare the annual consolidated financial statements for the year ended September 30, 2018.

5. SEASONALITY

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The Company’s revenues and earnings have historically been subject to some quarterly seasonality due to the timing of vacation periods, statutory holidays, and industry specific seasonal cycles. IntraGrain and Secure Tech, two recent acquisitions generate a significant portion of their revenues during the second, third and fourth quarter of the Company’s fiscal year.

6. INVENTORY

Inventories were as follows as at:

	December 31, 2018	September 30, 2018 *Restated*
Raw materials	$ 2,186	$ 440
WIP	895	756
Finished goods	677	302
	$ 3,758	$ 1,498

6. INVENTORY (CONTINUED)

Inventories

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

7. PROVISIONS

Changes in provisions for the three-month period ending December 31, 2018 were as follows:

	Product Warranties (1)	Severance	Other	Total
Balance at October 1, 2018	$ 1,365	$ 414	$ 153	$ 1,932
Additions	-	150	-	150
Utilization/Reversals	(43)	(160)	-	(203)
Balance at December 31, 2018	$ 1,322	$ 404	$ 153	$ 1,879

(1) For description of product warranties, please refer to Note 2 with regards to new accounting pronouncements under IFRS15.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. These liabilities are presented as provisions when they are of uncertain timing or amount. Provisions are measured at their present value.

8. LINE OF CREDIT

The Company has a revolving credit facility ("RCF") in the amount of $40,000 CAD available. The RCF is committed for a 364-day term with upcoming maturity at August 8, 2019, at which point it can be renewed for another 364-day term. At December 31, 2018 (2017), the Company utilized $12,000 (NIL) of the RCF. The RCF is secured against the Company's assets and is interest bearing at the Royal Bank of Canada's Prime Rate.

9. ISSUED CAPITAL

Stock options

The Company has an established stock option plan. Under the plan, eligible directors and employees are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted but in no circumstances below fair market value of the shares at the date of grant. As at December 31, 2018 (2017), 367,000 (279,200) options were outstanding of which 274,000 (207,200) are exercisable. During the quarter ended December 31, 2018 (2017), 119,600 (90,600) options were granted.

The weighted average fair value of options granted during the quarter ending December 31, 2018 was $4.52 per option calculated using the Black-Scholes option pricing model. Where relevant, the expected life of the options was based on historical data for similar issuances and adjusted based on management's best estimate for the effects of non-transferability, exercises restrictions and behavioral considerations. Expected volatility is based on historical price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that options would be exercised on average 2 years after vesting. The following assumptions were used to determine the fair value of the options granted between October 1, 2018 and December 31, 2018:

	Nov 2018
Grant date share price	$ 29.55
Exercise price	$ 29.55
Expected price volatility	22.7%
Expected option life	4 yrs
Expected dividend yield	3.79%
Risk-free interest rate	2.28%
Forfeiture rate	0%

9. ISSUED CAPITAL (continued)

Restricted Stock Units

The Company has established a restricted stock unit ("RSU") plan. Under the plan, eligible employees are granted the right to shares of common stock as remuneration for services rendered to the Company. RSU's are granted by the Board of Directors and at the date of the grant, the market value is used to determine the fair value of the units. The following table depicts the activity for the RSU's during the quarter ended December 31, 2018 (2017).

	Three-months ended December 31	
	2018	**2017**
Beginning balance	20,970	11,345
Vested	(8,176)	(3,741)
Cancelled	(16)	(150)
Issued	36,018	9,852
Closing balance	48,796	17,306

10. NET PROFIT PER SHARE

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

	Three-months ended December 31	
	2018	**2017**
Weighted average number of shares – basic	7,768,350	7,675,384
Addition to reflect the dilutive effect of employee stock options and RSU's	53,188	86,564
Weighted average number of shares – diluted	7,821,538	7,761,948

Options and RSU's that are anti-dilutive because the exercise price was greater than the average market price of the common shares are not included in the computation of diluted earnings per share. For the three-month period ended December 31, 2018 (2017), 210,200 (90,600) options and 36,018 (Nil) RSU's were excluded from the above computation.

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

11. REVENUE

The following table presents the revenue of the Company for the three-months ended December 31, 2018:

	December 31, 2018	**December 31, 2017** *Restated*
Fixed price contracts	$ 17,581	$ 20,953
Cost-plus contracts	62,340	55,216
	$ 79,921	$ 76,169

12. SEGMENTED INFORMATION

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, regarding how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company operates in two reportable segments described below, defined by their primary type of service offering, namely Systems Engineering and Business and Technology Services.

- Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector.
- Business and Technology Services provides business and technology services and solutions to industry and government in the health, IT services, training, and engineering domains.

The Company evaluates performance and allocates resources based on earnings before interest income and income taxes. The accounting policies of the segments are the same as those described in Note 2 – Summary of significant accounting policies to the consolidated financial statements for the year ended September 30, 2018.

12. SEGMENTED INFORMATION (continued)

Three-months ended December 31, 2018	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	$ 18,268	$ 61,653	$ -	$ 79,921
Profit before interest income and income tax expense	1,545	4,616	(1,249)	4,912
Interest income				32
Accretion expense				(142)
Income tax expense				(1,447)
Net profit for the period				$ 3,355
Equipment, application software and capitalized R&D expenditures	$ 605	$ 281	$ -	$ 886
Business acquisitions	$ 10,899	$ 410	$ -	$ 11,299
Total assets other than cash and goodwill	$ 48,899	$ 67,737	$ 146	$ 116,782
Goodwill	7,745	18,236	-	25,981
Cash	-	-	20,377	20,377
Total assets	$ 56,644	$ 85,973	$ 20,523	$ 163,140

Three-months ended December 31, 2017 *Restated*	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	$ 21,738	$ 54,431	$ -	$ 76,169
Profit before interest income and income tax expense	2,976	3,841	(1,036)	5,781
Interest income				47
Income tax expense				(1,673)
Net profit for the period				$ 4,179
Equipment, application software and capitalized R&D expenditures	$ 846	$ -	$ -	$ 846

As at September 30, 2018 *Restated*	Systems Engineering	Business and Technology Services	Corporate	Total
Total assets other than cash and goodwill	$ 38,968	$ 72,926	$ 145	$ 112,039
Goodwill	-	18,236	-	18,236
Cash	-	-	21,842	21,842
Total assets	$ 38,968	$ 91,162	$ 21,987	$ 152,117

13. HEDGING

Foreign currency risk related to contracts

The Company is exposed to foreign currency exchange fluctuations on its cash balance, accounts receivable, accounts payable and accrued liabilities and future cash flows related to contracts denominated in a foreign currency. Future cash flows will be realized over the life of the contracts. The Company utilizes derivative financial instruments, principally in the form of forward exchange contracts, in the management of its foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and therefore, the Company's policy is to hedge 100% of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met.

13. HEDGING (continued)

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

The Company also formally assesses, both at the hedge's inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge ineffectiveness has historically been insignificant.

The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At December 31, 2018, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value December 31, 2018
BUY	$ 59,994	USD	January 2019	$ 81,844	$ 120
SELL	7,647	EURO	January 2019	11,939	28
SELL	368	CHF	January 2019	510	3
Derivative assets					$ 151
SELL	$ 106,400	USD	January 2019	$ 145,151	$ 213
BUY	1,643	EURO	January 2019	2,565	6
BUY	1,278	CHF	January 2019	1,770	11
Derivative liabilities					$ 230

A 10% strengthening of the Canadian dollar against the following currencies at December 31, 2018 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

	December 31, 2018
USD	$ 5,755
EURO	852
CHF	115
	$ 6,722

14. CONTINGENCIES

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

15. ACQUISITION

Acquired intangible assets

Acquired intangible assets are measured at cost less accumulated amortization. Amortization is recognized in net profit over the value derived from the underlying assets.

International Safety Research Inc. ("ISR")

ISR provides radiation and nuclear safety engineering, and emergency preparedness and response services to both government and private sector customers. ISR was acquired to expand the Company's emergency preparedness service offering and will be reported as part of the Business and Technology Services operating segment.

15. ACQUISITION (continued)

On May 9, 2017, the Company acquired all of the outstanding shares of ISR for a purchase price of up to $8,979. Of this amount, $4,879 was paid on the date of closing, $820 was placed in escrow and $3,280 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of ISR an additional $1,640 and $1,640 if ISR attains specified levels of earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the years ending April 30, 2018 and 2019, respectively. During the year ended September 30, 2018 the Company paid the full $1,640 related to the first year earn-out. There are no changes in management’s assessment that ISR can achieve its earn-out target in its second year based on the level of contracts and market share expectations, and in the quarter, the Company has paid $410 of the remaining balance for the achievement of one criteria related to the second year earn-out.

(D.T.) Secure Technologies International Inc. ("Secure Tech")

Secure Tech, a Canadian IT and cyber security firm based in Ottawa, Ontario provides cyber security solutions to a wide variety of customers. Secure Tech was acquired to expand the Company's information technology cyber offering and will be reported as part of the Business and Technology (“BTS”) operating segment.

On May 31, 2018, the Company acquired all of the outstanding shares of Secure Tech for a purchase price of up to $4,188. Of this amount, $2,200 was paid on the date of closing, $200 was placed in escrow, $188 was paid upon settlement of final net equity and $1,600 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Secure Tech an additional $800 and $800 if Secure Tech attains specified levels of earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the years ending May 31, 2019 and 2020, respectively. With the current level of contracts signed by Secure Tech and the ability to grow in its selected market segment, management believes that Secure Tech can achieve its earn-out target in both years. Therefore, the amount of $1,600 represents the estimated fair value of the Company's obligation at the acquisition date. Secure Tech is a dedicated partner in IT and Information Security.

Priority One Workplace Health Inc. and William J Barker Clinical Psychologist Ltd. (together "Priority One")

Priority One provides specialized psychological assessment and selection services. Priority One was acquired to expand the Company's health care footprint and will be reported as part of the Business and Technology (“BTS”) operating segment.

On July 31, 2018, the Company acquired all of the outstanding shares of Priority One for a purchase price of $1,128. Of this amount, $800 was paid on the date of closing, $50 was placed in escrow, and $278 was paid upon settlement of net equity.

IntraGrain Technologies Inc. ("IntraGrain")

IntraGrain is the maker of the BIN-SENSE® grain storage solution. The technology combines Internet of Things (IoT) connectivity with bin sensors to protect grain quality and eliminate the risk of stored grain spoilage and will be reported as part of the Systems Engineering Division (“SED”) operating segment.

On November 1, 2018, the Company acquired all of the outstanding shares of IntraGrain for a purchase price of up to $17,000. Of this amount, $10,000 was paid on the date of closing, $1,000 was placed in escrow, and $6,000 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of IntraGrain an additional $2,500 and $3,500 if IntraGrain attains specified levels of earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the years ending October 31, 2019 and 2020, respectively. This contingent consideration is recognized at its present and risk adjusted value of $4,689 at the date of acquisition and will be accreted to face value over the term of the earn out. To date, $142 in accretion expense has been recognized. With the current level of operation and sales strategy in place at IntraGrain and the ability to grow in its selected market segment, management believes that IntraGrain can achieve its earn-out target in both years. Therefore, the amount of $6,000 represents the estimated fair value of the Company's obligation at the acquisition date.

Acquisition-related costs amounting to $75 have been excluded from the consideration and have been recognized as a general and administration expense in the quarter ended December 31, 2018.

15. ACQUISITION (continued)

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

Cash	$ 111
Accounts receivable and tax receivable	521
Prepaid expenses and other	54
Inventory	1,940
	$ 2,626

Equipment	$ 541
Goodwill	7,745
Intangible assets	7,288
	$ 18,200

Accounts payable and accrued liabilities	$ 581
Deferred tax liability	1,931
	$ 2,512

Net purchase price	$ 15,688
Discount on contingent consideration	1,312
Total purchase price	$ 17,000

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

Net cash outflow during the current quarter-to-date related to the acquisitions:

	IntraGrain
Consideration paid in cash	$ 11,000
Less- cash balance acquired	(111)
	$ 10,889

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year’s presentation.