

CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at June 30, 2019 and September 30, 2018
(Canadian dollars in thousands, except per share data)

	NOTES	June 30, 2019	September 30, 2018 <i>Restated</i> <i>(Note 2)</i>
ASSETS			
CURRENT ASSETS			
Cash		\$ 17,985	\$ 21,842
Accounts receivable		67,011	69,096
Work in process		26,720	17,377
Inventory	6	3,062	1,498
Prepaid expenses		6,576	3,879
Derivative assets	14	84	1,021
Total current assets		<u>121,438</u>	<u>114,713</u>
NON-CURRENT ASSETS			
Capitalized research and development		3,119	1,449
Equipment		11,005	9,795
Application software		1,043	788
Investment and loan receivable		452	435
Acquired intangible assets	16	18,010	6,702
Goodwill	16	33,702	18,236
Total non-current assets		<u>67,331</u>	<u>37,405</u>
TOTAL ASSETS		<u>\$ 188,769</u>	<u>\$ 152,118</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Line of Credit	8	\$ 12,000	\$ -
Accounts payable and accrued liabilities		38,827	33,841
Contingent earn-out	16	5,073	2,440
Provisions	7	1,473	1,932
Unearned contract revenue		11,365	10,042
Derivative liabilities	14	32	525
Total current liabilities		<u>68,770</u>	<u>48,780</u>
NON-CURRENT LIABILITIES			
Contingent earn-out	16	5,321	800
Deferred tax liabilities		5,933	2,488
Total non-current liabilities		<u>11,254</u>	<u>3,288</u>
TOTAL LIABILITIES		<u>80,024</u>	<u>52,068</u>
SHAREHOLDERS' EQUITY			
Issued capital	9	32,114	28,647
Contributed surplus		1,527	1,065
Retained earnings		75,367	70,521
Accumulated other comprehensive loss		(263)	(183)
TOTAL SHAREHOLDERS' EQUITY		<u>108,745</u>	<u>100,050</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>\$ 188,769</u>	<u>\$ 152,118</u>
Number of common shares issued and outstanding		<u>7,912,238</u>	<u>7,764,762</u>

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 and nine-month periods ended June 30, 2019 and 2018
(Canadian dollars in thousands, except per share data)

	NOTES	Three months ended June 30, 2019	Three months ended June 30, 2018 <i>Restated</i> <i>(Note 2)</i>	Nine months ended June 30, 2019	Nine months ended June 30, 2018 <i>Restated</i> <i>(Note 2)</i>
Revenues	11	\$ 88,795	\$ 72,989	\$ 252,130	\$ 226,532
Cost of revenues		70,755	57,966	201,387	181,924
Gross profit		18,040	15,023	50,743	44,608
Selling and marketing		1,907	1,390	4,873	3,890
General and administration		8,039	6,374	22,928	18,562
Facilities		1,346	1,195	3,944	3,525
Profit before under noted items		6,748	6,064	18,998	18,631
Depreciation		563	442	1,598	1,268
Amortization of intangibles		1,006	271	1,708	869
Other income	16	(650)	-	(650)	-
Profit before interest and income tax expense		5,829	5,351	16,342	16,494
Accretion interest expense related to acquisitions		(347)	(23)	(726)	(70)
Interest income (expense)		(41)	69	14	205
Profit before income tax expense		5,441	5,397	15,630	16,629
Income tax expense – current		1,331	1,588	4,336	5,026
Income tax expense – deferred		(187)	(88)	(222)	(351)
Total income tax expense		1,144	1,500	4,114	4,675
NET PROFIT FOR THE PERIOD		\$ 4,297	\$ 3,897	\$ 11,516	\$ 11,954
NET PROFIT PER SHARE:					
Basic	10	\$ 0.54	\$ 0.50	\$ 1.47	\$ 1.55
Diluted	10	\$ 0.54	\$ 0.50	\$ 1.47	\$ 1.54

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 and nine-month periods ended June 30, 2019 and 2018
(Canadian dollars in thousands)

	NOTES	Three months ended June 30, 2019	Three months ended June 30, 2018 <i>Restated</i> <i>(Note 2)</i>	Nine months ended June 30, 2019	Nine months ended June 30, 2018 <i>Restated</i> <i>(Note 2)</i>
NET PROFIT FOR THE PERIOD		\$ 4,297	\$ 3,897	\$ 11,516	\$ 11,954
Other comprehensive income, net of tax					
Change in deferred gain or loss on derivatives designated as cash flow hedges, net of tax of \$388 and \$22 (2018 - \$94 and \$417)		1,039	(259)	(80)	(1,113)
Other comprehensive income (loss), net of tax		1,039	(259)	(80)	(1,113)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		\$ 5,336	\$ 3,638	\$ 11,436	\$ 10,841

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 nine-month periods ended June 30, 2019 and 2018
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings <i>Restated</i> <i>(Note 2)</i>	Cash flow hedging reserve	Total <i>Restated</i> <i>(Note 2)</i>
Balance October 1, 2018		\$ 28,647	\$ 1,065	\$ 70,521	\$ (183)	\$ 100,050
Total comprehensive income		-	-	11,516	(80)	11,436
Dividends (\$0.84 per share)		-	-	(6,568)	-	(6,568)
Share repurchase		(16)	-	(102)	-	(118)
Issue of shares under the employee share purchase plan	9	850	-	-	-	850
Issue of shares under the employee share option plan	9	2,633	(397)	-	-	2,236
Share based compensation expense	9	-	859	-	-	859
Balance June 30, 2019		\$ 32,114	\$ 1,527	\$ 75,367	\$ (263)	\$ 108,745

	Notes	Issued capital	Contributed surplus	Retained earnings <i>Restated</i> <i>(Note 2)</i>	Cash flow hedging reserve	Total <i>Restated</i> <i>(Note 2)</i>
Balance October 1, 2017		\$ 26,240	\$ 541	\$ 62,898	\$ (70)	\$ 89,609
Total comprehensive income		-	-	11,954	(1,113)	10,841
Dividends (\$0.84 per share)		-	-	(6,482)	-	(6,482)
Issue of shares under the employee share purchase plan	9	551	-	-	-	551
Issue of shares under the employee share option plan	9	1,616	(182)	-	-	1,434
Share based compensation expense	9	-	608	-	-	608
Balance June 30, 2018		\$ 28,407	\$ 967	\$ 68,370	\$ (1,183)	\$ 96,561

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 and nine-month periods ended June 30, 2019 and 2018
(Canadian dollars in thousands)

NOTES	Three months ended June 30, 2019	Three months ended June 30, 2018 <i>Restated</i> <i>(Note 2)</i>	Nine months ended June 30, 2019	Nine months ended June 30, 2018 <i>Restated</i> <i>(Note 2)</i>
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net profit for the period	\$ 4,297	\$ 3,897	\$ 11,516	\$ 11,954
Items not affecting cash:				
Interest expense (income)	41	(69)	(14)	(205)
Accretion interest expense related to acquisitions	347	23	726	70
Income tax expense	1,144	1,500	4,114	4,675
Employee share plans compensation expense	35	20	136	69
Share based compensation expense	357	149	860	608
Depreciation and amortization	1,569	713	3,306	2,137
Other income	16 (650)	-	(650)	-
	<u>7,140</u>	<u>6,233</u>	<u>19,994</u>	<u>19,308</u>
Change in non-cash working capital				
Accounts receivable	(1,885)	(14,646)	3,194	(17,423)
Work in process	(6,452)	4,056	(8,472)	(1,523)
Prepaid expenses	(1,595)	215	(2,568)	(211)
Inventory	2,337	(215)	1,301	(468)
Accounts payable and accrued liabilities	5,027	5,007	3,688	2,960
Unearned contract revenue	2,789	4,600	781	3,476
	<u>7,361</u>	<u>5,250</u>	<u>17,918</u>	<u>6,119</u>
Interest received (paid)	(41)	69	(77)	204
Income tax paid	384	(911)	(4,975)	(5,232)
	<u>7,704</u>	<u>4,408</u>	<u>12,866</u>	<u>1,091</u>
CASH FLOWS FROM (USED IN)				
FINANCING ACTIVITIES				
Issuance of shares	9 662	374	2,950	1,895
Dividends	(2,208)	(2,165)	(6,568)	(6,482)
Financing from line of credit	-	-	17,000	-
Repayment of line of credit	(5,000)	-	(5,000)	-
Share repurchase	-	-	(118)	-
	<u>(6,546)</u>	<u>(1,791)</u>	<u>8,264</u>	<u>(4,587)</u>
CASH FLOWS USED IN INVESTING				
ACTIVITIES				
Business acquisitions	16 (9,550)	(3,534)	(20,849)	(3,700)
Capitalized research and development	(649)	(197)	(1,672)	(712)
Equipment and application software	(761)	(1,390)	(2,466)	(2,311)
Investment	-	(150)	-	(150)
	<u>(10,960)</u>	<u>(5,271)</u>	<u>(24,987)</u>	<u>(6,873)</u>
NET CASH INFLOW (OUTFLOW)	\$ (9,802)	\$ (2,654)	\$ (3,857)	\$ (10,369)
CASH, BEGINNING OF PERIOD	27,787	20,924	21,842	28,639
CASH, END OF PERIOD	\$ 17,985	\$ 18,270	\$ 17,985	\$ 18,270

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 and nine-month periods ended June 30, 2019 and 2018
(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 and solutions 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, agriculture 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 Standards Board ("IASB"). These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with the accounting policies the Company adopted in its annual consolidated financial statements for the year ended September 30, 2018, except as per note 2 below, and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended September 30, 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 August 7, 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. IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new 'expected credit loss' model for calculating impairment of financial assets. As a result of adopting the new standard, the Company expects earlier recognition of provisions for credit losses which are not yet incurred. IFRS 9 includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. 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 IAS 11 *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 recognizing 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.

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.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

- 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.

Revenue recognition

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.

Warranty

Under the former revenue standards, for contracts having revenue recognized based on the stage of completion method, warranty costs were accounted for in a consistent manner with other costs incurred. As a result, costs were recognized as incurred and were included in the measure of progress of the contract. IFRS 15 classifies warranty into two groups, assurance type and service type.

Assurance type warranties are those that promise to the customer that the delivered product will function as intended and will comply with agreed-upon specifications. Assurance type warranty costs are recognized as a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, based on the progress of the other performance obligations in the contract, and the provision recognized is reduced as costs are incurred or reversed if no longer required.

Service type warranties are those which the customer has the option to purchase the warranty separately or those which contain a service in addition to a standard assurance type warranty. Service type warranties give rise to a separate performance obligation within a contract and as a result, the Company recognizes revenue as the service is provided and incurs warranty costs over the satisfaction of the performance obligation.

The Company offers both types of warranties to customers which carry an impact to 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 two types of contracts; cost-plus contracts and 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.

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.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

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 June 30, 2018	As at October 1, 2017
Equity as previously reported	\$ 99,714	\$ 96,291	\$ 89,487
Cumulative changes to:			
Warranty	509	386	220
Performance obligations previously reported over time now recognized at a point in time	(49)	(16)	(53)
Income tax impact	(124)	(100)	(45)
Net change to equity	336	270	122
Equity as restated	\$ 100,050	\$ 96,561	\$ 89,609

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

	As previously reported	Reclassification	September 30, 2018 Adjustments	As restated
CURRENT ASSETS				
Cash	\$ 21,842	\$ -	\$ -	\$ 21,842
Accounts receivable	69,096	-	-	69,096
Work in process	18,217	(570)	(270)	17,377
Inventory	-	570	928	1,498
Prepaid expenses	3,879	-	-	3,879
Derivative assets	1,021	-	-	1,021
Total current assets	114,055	-	658	114,713
Total non-current assets	37,405	-	-	37,405
TOTAL ASSETS	\$ 151,460	\$ -	\$ 658	\$ 152,118
LIABILITIES				
Accounts payable and accrued liabilities	\$ 34,284	\$ (567)	\$ 124	\$ 33,841
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	-	322	48,780
Total non-current liabilities	3,288	-	-	3,288
TOTAL LIABILITIES	51,746	-	322	52,068
SHAREHOLDERS' EQUITY				
Issued capital	28,647	-	-	28,647
Contributed surplus	1,065	-	-	1,065
Retained earnings	70,185	-	336	70,521
Accumulated other comprehensive loss	(183)	-	-	(183)
TOTAL SHAREHOLDERS' EQUITY	99,714	-	336	100,050
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 151,460	\$ -	\$ 658	\$ 152,118

2. CHANGES IN ACCOUNTING POLICIES (Continued)

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

	Three-Month period ended June 30, 2018		
	As previously reported	Adjustments	As restated
Revenues	\$ 73,379	\$ (390)	\$ 72,989
Cost of revenues	58,389	(423)	57,966
Gross profit	14,990	33	15,023
Selling and marketing	1,390	-	1,390
General and administration	6,374	-	6,374
Facilities	1,195	-	1,195
Depreciation	442	-	442
Amortization of intangibles	271	-	271
Profit before interest income and income tax expense	5,318	33	5,351
Interest income	69	-	69
Interest accretion expense	(23)	-	(23)
Profit before income tax expense	5,364	33	5,397
Income tax expense – current	1,579	9	1,588
Income tax expense – deferred	(88)	-	(88)
Total income tax expense	1,491	9	1,500
NET PROFIT FOR THE PERIOD	\$ 3,873	\$ 24	\$ 3,897
Earnings per share basic	\$ 0.50	\$ -	\$ 0.50
Earnings per share diluted	\$ 0.50	\$ -	\$ 0.50

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

	Nine-Month period ended June 30, 2018		
	As previously reported	Adjustments	As restated
Revenues	\$ 226,231	\$ 301	\$ 226,532
Cost of revenues	181,826	98	181,924
Gross profit	44,405	203	44,608
Selling and marketing	3,890	-	3,890
General and administration	18,562	-	18,562
Facilities	3,525	-	3,525
Depreciation	1,268	-	1,268
Amortization of intangibles	869	-	869
Profit before interest income and income tax expense	16,291	203	16,494
Interest income	205	-	205
Interest accretion expense	(70)	-	(70)
Profit before income tax expense	16,426	203	16,629
Income tax expense – current	4,971	55	5,026
Income tax expense – deferred	(351)	-	(351)
Total income tax expense	4,620	55	4,675
NET PROFIT FOR THE PERIOD	\$ 11,806	\$ 148	\$ 11,954
Earnings per share basic	\$ 1.53	\$ 0.02	\$ 1.55
Earnings per share diluted	\$ 1.52	\$ 0.02	\$ 1.54

3. FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 16 Leases

In January 2016, the IASB released IFRS 16 Leases which replaces IAS 17 Leases. IFRS 16 set out a single lessee accounting model that requires a lessee to recognize assets and liabilities for all lease agreements unless the underlying asset has a low value or the lease term is twelve months or less. A lessee is required to recognize a right-of-use asset for the underlying leased asset and a lease liability representing the present value of payment obligations for the lease term. IFRS 16 is effective for the Company's annual periods beginning on October 1, 2019. The Company has elected to use the modified retrospective approach for transition to IFRS 16 whereby the lease liability and right-of-use asset values are calculated using a present value at transition, but prior year comparative information will not be restated and continues to be reported under IAS 17.

The Company has assessed its portfolio of contracts in order to identify leases under the scope of IFRS16. The review has identified a number of contracts that were previously accounted for as operating leases under previous accounting standards, all of which represent leases for office space. The review is still underway, and the Company has not yet concluded on the monetary impact of the adoption of this standard on its consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ 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, industry specific seasonal cycles and the timing and delivery of milestones for significant projects. 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 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.

Inventories were as follows as at:

	June 30, 2019	September 30, 2018 <i>Restated</i>
Raw materials	\$ 1,645	\$ 440
Work in process	681	756
Finished goods	737	302
	\$ 3,062	\$ 1,498

7. 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.

Changes in provisions for the nine-month period ending June 30, 2019 were as follows:

	Product			Total
	Warranties ⁽¹⁾	Severance	Other	
Balance at October 1, 2018	\$ 1,365	\$ 414	\$ 153	\$ 1,932
Additions	289	365	-	654
Utilization/Reversals	(730)	(379)	(4)	(1,113)
Balance at June 30, 2019	\$ 924	\$ 400	\$ 149	\$ 1,473

(1) For description of product warranties, please refer to Note 2 with regards to changes in accounting policies due to IFRS 15.

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 May 29, 2020, at which point it can be renewed for another 364-day term. At June 30, 2019 (2018), 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

Employee Share Purchase Plan

During the nine-month period ended June 30, 2019 (2018), the Company issued 28,941 (21,508) shares under the Company's Employee Share Purchase Plan at an average price of \$24.65 (\$21.50). The Company received \$714 (\$462) in proceeds and recorded an expense of \$136 (\$89).

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.

The weighted average fair value of options granted during the nine-month period ending June 30, 2019 was \$3.96 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, exercise restrictions and behavioral considerations. Expected volatility is based on historical price volatility over the expected option life. 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 June 30, 2019:

	November 2018	February 2019
Expected price volatility	22.7 %	23.7 %
Expected option life	4 yrs	4 yrs
Expected dividend yield	3.79 %	3.71 %
Risk-free interest rate	2.28 %	1.78 %
Forfeiture rate	0 %	0 %

9. ISSUED CAPITAL (Continued)

The following table depicts the activity for the options during the nine-month period ended June 30, 2019 and 2018.

	June 30, 2019		June 30, 2018	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	247,400	\$ 25.43	240,600	\$ 20.10
Exercised	(114,600)	19.52	(72,300)	19.82
Forfeited	(5,000)	32.57	-	-
Granted	128,600	29.52	96,600	34.39
Outstanding, end of year	256,400	\$ 28.81	264,900	\$ 25.39

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 of the Company is used to determine the fair value of the units. The RSUs vest over time in three equal annual tranches. The following table depicts the activity for the RSU's during the three and nine-months ended June 30, 2019 and 2018.

	Three months ended		Nine months ended	
	June 30		June 30	
	2019	2018	2019	2018
Beginning balance	48,485	21,961	20,970	11,345
Vested	-	-	(8,214)	(3,741)
Cancelled	(300)	(66)	(1,264)	(216)
Issued	-	-	36,693	14,507
Closing balance	48,185	21,895	48,185	21,895

10. NET PROFIT PER SHARE

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

	Three months ended		Nine months ended	
	June 30		June 30	
	2019	2018	2019	2018
Weighted average number of shares – basic	7,886,405	7,737,429	7,819,330	7,711,746
Addition to reflect the dilutive effect of employee stock options and RSU's	94,691	69,101	33,998	54,120
Weighted average number of shares – diluted	7,981,095	7,806,530	7,853,328	7,765,866

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 June 30, 2019 (2018), 81,600 (96,600) options and NIL (NIL) RSU's were excluded from the above computation. For the nine-month period ending June 30, 2019 (2018), 210,200 (96,600) options and NIL (4,100) 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 and nine-months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018 <i>Restated</i>	2019	2018 <i>Restated</i>
Fixed price contracts	\$ 24,646	\$ 15,584	\$ 59,885	\$ 55,669
Cost-plus contracts	64,149	57,405	192,245	170,863
	\$ 88,795	\$ 72,989	\$ 252,130	\$ 226,532

12. RELATED PARTY TRANSACTIONS

During the three and nine month period ended June 30, 2019 (2018), the Company had sales of \$1,077 (NIL) and \$1,321 (NIL) to GrainX in which Calian holds a non-controlling equity investment. At June 30, 2019 (2018), the Company had an accounts receivable balance with GrainX of \$778 (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 \$147 (\$108) for the period ended June 30, 2019 (2018).

13. 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.

Three months ended June 30, 2019	Business and Technology Services		Corporate	Total
	Systems Engineering			
<i>Income Statement</i>				
Revenues	\$ 25,177	\$ 63,618	\$ -	\$ 88,795
Gross margin percentage	24.6%	18.6%	-	20.3%
Profit before interest income and income tax expense	2,033	5,391	(1,595)	5,829
Interest income & accretion (expense)				(388)
Income tax expense				(1,144)
Net profit for the period				\$ 4,297

13. SEGMENTED INFORMATION (Continued)

Three months ended June 30, 2018 Restated	Systems Engineering	Business and Technology Services	Corporate	Total
<i>Income Statement</i>				
Revenues	\$ 16,148	\$ 56,841	\$ -	\$ 72,989
Gross margin percentage	31.7%	17.40%		20.4%
Profit before interest income and income tax expense	2,764	3,595	(1,008)	5,351
Interest income & accretion (expense)				46
Income tax expense				(1,500)
Net profit for the period				\$ 3,897

Nine months ended June 30, 2019	Systems Engineering	Business and Technology Services	Corporate	Total
<i>Income Statement</i>				
Revenues	\$ 61,625	\$ 190,505	\$ -	\$ 252,130
Gross margin percentage	24.7%	18.6%	-	20.1%
Profit before interest income and income tax expense	5,038	15,478	(4,174)	16,342
Interest income & accretion (expense)				(712)
Income tax expense				(4,114)
Net profit for the period				\$ 11,516

<i>Cash Flow</i>				
Equipment, application software and capitalized R&D expenditures	\$ 3,637	\$ 501	\$ -	\$ 4,138
Acquisitions	\$ 19,209	\$ 1,640	\$ -	\$ 20,849

<i>Balance Sheet</i>				
Net assets other than cash and goodwill	\$ 35,486	\$ 35,513	\$ (13,941)	\$ 57,058
Goodwill	15,466	18,236	-	33,702
Cash	-	-	17,985	17,985
Total net assets	\$ 50,952	\$ 53,749	\$ 4,044	\$ 108,745

Nine months ended June 30, 2018 Restated	Systems Engineering	Business and Technology Services	Corporate	Total
<i>Income Statement</i>				
Revenues	\$ 57,938	\$ 168,594	\$ -	\$ 226,532
Gross margin percentage	26.5%	17.4%		19.7%
Profit before interest income and income tax expense	8,745	10,788	(3,039)	16,494
Interest income & accretion (expense)				135
Income tax expense				(4,675)
Net profit for the period				\$ 11,954
<i>Cash Flow</i>				
Equipment, application software and capitalized R&D expenditures	\$ 1,750	\$ 1,273	\$ -	\$ 3,023
Acquisitions	\$ -	\$ 3,700	\$ -	\$ 3,700

13. SEGMENTED INFORMATION (Continued)

As at September 30, 2018 Restated	Systems Engineering	Business and Technology Services	Corporate	Total
<i>Balance Sheet</i>				
Net assets other than cash and goodwill	\$ 23,286	\$ 36,541	\$ 145	\$ 59,972
Goodwill	-	18,236	-	18,236
Cash	-	-	21,842	21,842
Total net assets other than cash and goodwill	\$ 23,286	\$ 54,777	\$ 21,987	\$ 100,050

14. 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 the majority of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met.

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

The Company also formally assesses, both at the hedge's inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge ineffectiveness has historically been insignificant. The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At June 30, 2019, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value June 30, 2019
BUY	\$ 57,489	USD	July 2019	\$ 75,236	\$ 6
SELL	6,520	EURO	July 2019	9,706	78
SELL	18	CHF	July 2019	24	-
Derivative assets					\$ 84
SELL	\$ 110,651	USD	July 2019	\$ 144,809	\$ (11)
BUY	799	EURO	July 2019	1,189	(10)
BUY	875	CHF	July 2019	1,173	(11)
Derivative liabilities					\$ (32)

14. HEDGING (Continued)

A 10% strengthening of the Canadian dollar against the following currencies at June 30, 2019 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

	June 30, 2019
USD	\$ 6,325
EURO	774
CHF	(104)
	<u>\$ 6,995</u>

15. 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.

16. 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 is reported as part of the Business and Technology Services ("BTS") operating segment.

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, \$5,699 was paid on closing and \$3,280 is payable contingently. The contingent earn-out was paid in full in the 2018 and 2019 fiscal years. No further consideration remains payable.

(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 is 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, \$2,400 was paid on closing, \$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 EBITDA for the years ending May 31, 2019 and 2020, respectively. Secure Tech did not achieve the level of EBITDA required for the year 1 earn-out. This resulted in a write-off of the first year earn out liability in the amount of \$800. This was offset by an impairment to the intangible asset acquired of \$150. At June 30, 2019, \$800 is included in contingent earn-out liability for anticipated achievement of the second year target.

16. ACQUISITION (Continued)**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 is 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, \$850 was paid on closing 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 is 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 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, \$305 in accretion expense has been recognized.

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

	IntraGrain
Cash	\$ 111
Accounts receivable and tax receivable	521
Prepaid expenses and other	54
WIP	-
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
Provisions	-
Deferred Income	-
Taxes Payable	-
	\$ 2,512
Net purchase price	\$ 15,688
Discount on contingent consideration	1,312
Total purchase price	\$ 17,000

16. ACQUISITION (Continued)**Sat Service, Gesellschaft für Kommunikationssysteme mbH. ("SatService")**

SatService offers innovative engineering solutions and products for the satellite communications market and is reported as a part of the Systems Engineering Division ("SED") operating segment.

On April 1, 2019, the Company acquired all of the outstanding shares of SatService for a purchase price of \$16,036. Of this amount, \$9,810 (6,450 EURO) was paid on the date of closing, \$931 (618 EURO) was paid upon settlement of net equity and \$5,295 (3,550 EURO) is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of SatService an additional \$5,295 (3,550 EURO) if SatService attains specified levels of EBITDA for the nine-month period ending December 31, 2019 and for the twelve-month period ending December 31, 2020. This contingent consideration is recognized at its present and risk adjusted value of \$4,417 at the date of acquisition and will be accreted to face value over the term of the earn-out. To date, \$164 in accretion expense has been recognized.

The following are the assets acquired and liabilities recognized at the date of the acquisitions of SatService:

	SatService
Cash	\$ 2,421
Accounts receivable and tax receivable	651
Prepaid expenses and other	76
WIP	871
Inventory	925
	\$ 4,943
Equipment	\$ 55
Goodwill	7,721
Intangible assets	5,877
	\$ 18,596
Accounts payable and accrued liabilities	\$ 38
Deferred tax liability	1,763
Provisions	1,004
Deferred Income	542
Taxes Payable	255
	\$ 3,602
Net purchase price	\$ 14,994
Discount on contingent consideration	1,042
Total purchase price	\$ 16,036

17. COMPARATIVE FIGURES

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