



# UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED  
DECEMBER 31, 2023



**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at December 31, 2023 and September 30, 2023**  
**(Canadian dollars in thousands, except per share data)**

	NOTES	December 31, 2023	September 30, 2023
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 52,267	\$ 33,734
Accounts receivable		185,150	173,052
Work in process	4	17,478	16,580
Inventory		28,585	21,983
Prepaid expenses		22,128	19,040
Derivative assets	15	40	155
<b>Total current assets</b>		<b>305,648</b>	<b>264,544</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5	38,320	37,223
Right of use assets	6	36,110	34,637
Prepaid expenses		9,690	10,386
Deferred tax asset		1,034	967
Investments		3,673	3,673
Acquired intangible assets	7	118,318	75,160
Goodwill	8	190,485	159,133
<b>Total non-current assets</b>		<b>397,630</b>	<b>321,179</b>
<b>TOTAL ASSETS</b>		<b>\$ 703,278</b>	<b>\$ 585,723</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Debt facility	9	\$ 93,750	\$ 37,750
Accounts payable and accrued liabilities		132,159	105,550
Provisions		2,593	2,848
Unearned contract revenue	4	41,587	32,423
Lease obligations	6	5,156	4,949
Contingent earn-out	17	26,697	11,263
Derivative liabilities	15	141	353
<b>Total current liabilities</b>		<b>302,083</b>	<b>195,136</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease obligations	6	33,571	32,057
Unearned contract revenue	4	14,850	15,592
Contingent earn-out	17	2,603	2,535
Deferred tax liabilities		20,597	12,031
<b>Total non-current liabilities</b>		<b>71,621</b>	<b>62,215</b>
<b>TOTAL LIABILITIES</b>		<b>373,704</b>	<b>257,351</b>
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital	10	227,466	225,540
Contributed surplus		4,279	4,856
Retained earnings		98,234	96,859
Accumulated other comprehensive income (loss)		(405)	1,117
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>329,574</b>	<b>328,372</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 703,278</b>	<b>\$ 585,723</b>
Number of common shares issued and outstanding	10	<u>11,834,924</u>	<u>11,812,650</u>

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

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT**  
For the three months ended December 31, 2023 and 2022  
(Canadian dollars in thousands, except per share data)

	NOTES	Three months ended December 31,	
		2023	2022
Revenue	12	\$ 179,179	\$ 147,543
Cost of revenues		120,961	102,324
<b>Gross profit</b>		<b>58,218</b>	<b>45,219</b>
Selling and marketing		12,351	11,143
General and administration		23,634	17,400
Research and development		2,719	2,421
<b>Profit before under noted items</b>		<b>19,514</b>	<b>14,255</b>
Depreciation of property, plant and equipment	5	2,308	2,297
Depreciation of right of use assets	6	1,463	1,007
Amortization of acquired intangible assets	7	5,235	3,361
Deemed compensation	16, 17	604	97
Changes in fair value related to contingent earn-out	16, 17	726	742
<b>Profit before interest income and income tax expense</b>		<b>9,178</b>	<b>6,751</b>
Interest expense		1,547	123
Income tax expense		2,106	2,052
<b>NET PROFIT</b>		<b>\$ 5,525</b>	<b>\$ 4,576</b>
<b>Net profit per share:</b>			
Basic	13	\$ 0.47	\$ 0.39
Diluted	13	\$ 0.46	\$ 0.39

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

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
For the three months ended December 31, 2023 and 2022  
(Canadian dollars in thousands)

	Three months ended December 31,	
	2023	2022
<b>NET PROFIT</b>	\$ 5,525	\$ 4,576
Cumulative translation adjustment	900	772
Change in deferred gain on derivatives designated as cash flow hedges, net of tax of \$324 (2022 - \$519)	(2,422)	1,441
Other comprehensive income (loss), net of tax	(1,522)	2,213
<b>COMPREHENSIVE INCOME</b>	<b>\$ 4,003</b>	<b>\$ 6,789</b>

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**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
For the three months ended December 31, 2023 and 2022  
(Canadian dollars in thousands, except per share data)

	NOTES	Issued capital	Contributed surplus	Retained earnings	Other comprehensive income (loss)	Total
<b>Balance October 1, 2023</b>		<b>\$ 225,540</b>	<b>\$ 4,856</b>	<b>\$ 96,859</b>	<b>\$ 1,117</b>	<b>\$ 328,372</b>
Net profit and comprehensive income		-	-	5,525	(1,522)	4,003
Dividend paid (\$0.28 per share)		-	-	(3,314)	-	(3,314)
Share repurchase		(520)	-	(836)	-	(1,356)
Shares issued under employee share plans	10	1,818	(1,360)	-	-	458
Shares issued under employee share purchase plan	10	628	-	-	-	628
Share-based compensation expense	11	-	783	-	-	783
<b>Balance December 31, 2023</b>		<b>\$ 227,466</b>	<b>\$ 4,279</b>	<b>\$ 98,234</b>	<b>\$ (405)</b>	<b>\$ 329,574</b>

	NOTES	Issued capital	Contributed surplus	Retained earnings	Other comprehensive income (loss)	Total
<b>Balance October 1, 2022</b>		<b>\$ 213,277</b>	<b>\$ 3,479</b>	<b>\$ 92,198</b>	<b>\$ (3,768)</b>	<b>\$ 305,186</b>
Comprehensive income		-	-	4,576	2,213	6,789
Dividend paid (\$0.28 per share)		-	-	(3,262)	-	(3,262)
Shares issued under employee share plans	10	1,665	(1,264)	-	-	401
Contingent earn-out	17	-	-	-	-	-
Shares issued under employee share purchase plan	10	672	-	-	-	672
Share based compensation expense	11	-	407	-	-	407
<b>Balance December 31, 2022</b>		<b>\$ 215,614</b>	<b>\$ 2,622</b>	<b>\$ 93,512</b>	<b>\$ (1,555)</b>	<b>\$ 310,193</b>

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

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the three months ended December 31, 2023 and 2022  
(Canadian dollars in thousands)

	NOTES	Three months ended December 31,	
		2023	2022
<b>CASH FLOWS GENERATED FROM (USED IN) OPERATING ACTIVITIES</b>			
Net profit		\$ 5,525	\$ 4,576
Items not affecting cash:			
Interest expense		1,098	12
Changes in fair value related to contingent earn-out	17	726	742
Lease obligations interest expense	6	449	111
Income tax expense		2,106	2,052
Employee share purchase plan expense	11	162	163
Share based compensation expense	11	1,013	407
Depreciation and amortization	5, 6, 7	9,006	6,665
Deemed compensation	16, 17	604	97
		20,689	14,825
Change in non-cash working capital			
Accounts receivable		(11,189)	34,714
Work in process		(898)	6,825
Prepaid expenses and other		(74)	3,664
Inventory		(2,590)	(7,965)
Accounts payable and accrued liabilities		15,516	(27,268)
Unearned contract revenue		206	2,429
		21,660	27,224
Interest paid		(1,547)	(123)
Income tax paid		(2,575)	(1,778)
		17,538	25,323
<b>CASH FLOWS GENERATED FROM (USED IN) FINANCING ACTIVITIES</b>			
Issuance of common shares net of costs	10, 11	694	910
Dividends		(3,314)	(3,262)
Draw on debt facility	9	56,000	-
Payment of lease obligations	6	(1,171)	(1,009)
Repurchase of common shares		(1,357)	-
		50,852	(3,361)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Investments		-	(2,689)
Business acquisitions	16	(47,457)	(2,925)
Property, plant and equipment	5	(2,400)	(800)
		(49,857)	(6,414)
<b>NET CASH INFLOW</b>		<b>\$ 18,533</b>	<b>\$ 15,548</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>		<b>33,734</b>	<b>42,646</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>		<b>\$ 52,267</b>	<b>\$ 58,194</b>

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

**CALIAN GROUP LTD.**  
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended December 31, 2023 and 2022**  
**(Canadian dollars in thousands, except per share amounts)**

**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 with services and solutions delivered through four segments: Advanced Technologies, Health, Learning and IT and Cyber Solutions ("ITCS"). Headquartered in Ottawa, Calian provides business services and solutions to both industry and government customers in the areas of health, learning, defence, security, aerospace, engineering, AgTech, satellite communications (satcom), and IT.

Statement of compliance

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, 2023, 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, 2023. 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 14, 2024.

**2. Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

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, 2023.

**3. 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 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.

#### 4. Contract Assets and Liabilities

The following table presents net contract liabilities as at:

	Net Contract Liabilities	
	December 31, 2023	September 30, 2023
Work in process	\$ 17,478	\$ 16,580
Unearned contract revenue (current)	(41,587)	(32,423)
Unearned contract revenue (non-current)	(14,850)	(15,592)
Net contract liabilities	\$ (38,959)	\$ (31,435)

The following table presents changes in net contract liabilities for the period ended:

	Changes in Net Contract Liabilities	
	December 31, 2023	September 30, 2023
Opening balance, October 1	\$ (31,435)	\$ (6,345)
Net additions	24,705	93,592
Billings	(24,645)	(117,805)
Acquisitions (Note 16)	(7,584)	(877)
Ending balance	\$ (38,959)	\$ (31,435)

#### 5. Property, plant and equipment

A continuity of the equipment, application software and capitalized research and development for the three months ended December 31, 2023 is as follows:

	Cost			Total	Depreciation		Carrying Value	
	Cost	Additions/ Disposals	Acquisitions (Note 16)		Depreciation	Accumulated Depreciation	December 31, 2023	September 30, 2023
Leasehold improvements	\$ 5,197	\$ (76)	-	\$ 5,121	\$ (184)	\$ (2,615)	2,506	\$ 2,765
Land and Building	1,321	885	-	2,206	(11)	(22)	2,184	1,309
Equipment	51,909	1,525	898	54,332	(1,498)	(30,596)	23,736	22,635
Application software	15,265	(8)	-	15,257	(314)	(6,129)	9,128	9,446
Capitalized research and development	5,138	-	-	5,138	(301)	(4,372)	766	1,068
Total	78,830	2,326	898	82,054	(2,308)	(43,734)	38,320	37,223

The Company recognized foreign exchange of \$347 in the cost and \$190 in the depreciation of equipment in the three months ended December 31, 2023.



## 6. Right of Use Assets and Lease Obligations

The following table presents the right of use assets for the Company:

	Three months ended	
	December 31, 2023	December 31, 2022
Balance at October 1	\$ 34,637	\$ 16,678
Additions	2,248	204
Disposals and foreign exchange adjustments	(1,371)	-
Depreciation	(1,463)	(1,007)
Acquisitions (Note 16)	2,059	-
	\$ 36,110	\$ 15,875

The Company's leases are for land, office, and manufacturing space. The Company has included renewal options in the measurement of lease obligations when it is reasonably certain to exercise the renewal option.

The following table presents lease obligations for the Company:

	Three months ended	
	December 31, 2023	December 31, 2022
Balance at October 1	\$ 37,006	\$ 19,035
Additions	2,250	180
Disposals and foreign exchange adjustments	(1,374)	24
Principal payments	(1,171)	(1,009)
Acquisitions (Note 16)	2,016	-
	\$ 38,727	\$ 18,230
Current	\$ 5,156	\$ 3,949
Non-current	33,571	14,281
Total	\$ 38,727	\$ 18,230

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2023:

	Total Undiscounted Lease Obligations
Less than one year	\$ 7,382
One to five years	18,151
More than five years	26,171
Total undiscounted lease obligations	\$ 51,704

Total cash outflow for leases in the three months ended December 31, 2023 (2022) is \$1,620 (\$1,120), including principal payments relating to lease obligations of \$1,171 (\$1,009), interest expense on lease obligations is \$449 (\$111). Expenses relating to short-term leases recognized in general and administration expenses was \$41 (\$69) for the three months ended December 31, 2023 (2022).

## 7. Acquired Intangible Assets

A continuity of the acquired intangible assets for the three months ended December 31, 2023 is as follows:

	December 31, 2023				
	Opening Balance	Additions (Note 16)	Amortization	Foreign Exchange Revaluation	Closing Balance
Customer relationships	\$ 60,624	\$ 49,400	\$ (3,741)	\$ (1,007)	\$ 105,276
Discrete contracts with customers & non-competition agreements	4,016	-	(542)	-	3,474
Technology and trademarks	10,520	-	(952)	-	9,568
	<u>\$ 75,160</u>	<u>\$ 49,400</u>	<u>\$ (5,235)</u>	<u>\$ (1,007)</u>	<u>\$ 118,318</u>

In the three months ended December 31, 2023 the Company recorded a foreign currency revaluation of intangible assets held in foreign subsidiaries which utilize different functional currencies than the Company's presentation currency. These foreign exchange revaluations are reflected in comprehensive income.

A continuity of the acquired intangible assets for the year ended September 30, 2023 is as follows:

	September 30, 2023				
	Opening Balance	Additions (Note 16)	Amortization	Foreign Exchange Revaluation	Closing Balance
Customer relationships	41,598	28,553	(9,850)	323	60,624
Discrete contracts with customers & non-competition agreements	586	4,071	(641)	-	4,016
Technology and trademarks	14,903	-	(4,383)	-	10,520
	<u>\$ 57,087</u>	<u>\$ 32,624</u>	<u>\$ (14,874)</u>	<u>\$ 323</u>	<u>\$ 75,160</u>

## 8. Goodwill

The following table presents the goodwill for the Company for the three months ended December 31, 2023:

	December 31, 2023
Opening balance, October 1	\$ 159,133
Additions:	
Acquisition of Decisive (Note 16)	29,502
Adjustments:	
Acquisition of Hawaii Pacific Teleport (Note 16)	2,767
Foreign Exchange	(917)
	<u>\$ 190,485</u>

In the three months ended December 31, 2023 the Company recorded a foreign currency revaluation of goodwill held in foreign subsidiaries which utilize different functional currencies than the Company's presentation currency. These foreign exchange revaluations are reflected in comprehensive income.

## 8. Goodwill (continued)

The following table presents the goodwill for the Company for the year ended September 30, 2023:

	September 30, 2023	
Opening balance, October 1	\$	145,959
Additions:		
Acquisition of HPT (Note 16)		12,916
Adjustments:		
Foreign Exchange		258
	\$	159,133

## 9. Debt Agreement

On July 21, 2023, the Company signed an amended debt facility that provides the Company with the ability to draw up to \$180,000 CAD and an accordion feature of up to \$75,000 CAD. The agreement has a three-year term, which will mature on July 21, 2026. At December 31, 2023 (September 30, 2023), the Company utilized \$93,750 (\$37,750) of the facility. The facility is secured against the Company's assets and is interest bearing at the Royal Bank of Canada's Prime Rate plus applicable margin. As at December 31, 2023, the Company is in compliance with all applicable covenants under the debt facility.

## 10. Issued Capital and Reserves

### Issued Capital

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares. The holders of Common Shares are entitled to dividends if, as and when declared by the Board, to one vote per share at the meetings of holders of Common Shares and, upon liquidation, to receive such assets of the Company as are distributable to the holders of the Common Shares. No Preferred Shares are outstanding as of the December 31, 2023.

Common shares issued and outstanding:

	December 31, 2023		December 31, 2022	
	Shares	Amount	Shares	Amount
Balance October 1	11,812,650	\$ 225,540	11,607,391	\$ 213,277
Shares issued under employee share plans	37,443	1,818	38,525	1,665
Shares issued under employee share purchase plan	12,057	628	10,804	672
Shares repurchased	(27,226)	(520)	-	-
Issued capital	11,834,924	\$ 227,466	11,656,720	\$ 215,614

Subsequent to the date of the statement of financial position, on February 14, 2024, the date of issuance of these interim condensed consolidated financial statements, the Company declared a dividend of \$0.28 per common share payable on March 13, 2024.

### Contributed Surplus

Contributed surplus comprises the value of share-based compensation expense related to options granted that have not been exercised or have expired unexercised.

## 11. Share-Based Compensation

### Employee Share Purchase Plan

Under the Company's Employee Share Purchase Plan, shares are issued monthly using the volume weighted average price for the last 5 days of the month for the contributions made by employees in that month. The Company provides matching shares at 25% for all employee contributions each month. Pursuant to the plan, 500,000 Common Shares are reserved for issuance, as of December 31, 2023 (2022), the Company can issue 353,995 (403,868) shares.

During the three months ended December 31, 2023 (2022) under the 2020 Employee Share Purchase Plan, the Company issued 12,057 (10,804) shares at an average price of \$52.05 (\$58.93). The Company received \$649 (\$510) in proceeds and recorded an expense of \$162 (\$163).

### 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. Stock options are issued at market value based on the price at the date preceding the grant, and can have a contractual term of up to ten years and generally vest over 3 years. The maximum number of common shares reserved for issuance under the plan is equal to an aggregate 9% (1,065,165) of the Company's issued and outstanding shares from time to time less the aggregate number of shares reserved for issuance or issuable under any other security-based compensation arrangement for the Company.

As at December 31, 2023 (2022), the Company has 395,774 (443,821) stock options and restricted share units ("RSUs") outstanding. As a result, the Company could grant up to 669,391 (605,284) additional stock options or RSUs pursuant to the plan.

The weighted average fair value of options granted during the three months ended December 31, 2023 (2022) was \$11.05 (\$14.26) 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 behavioural 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 in the three months ended December 31, 2023:

	Weighted Average Options Granted			
	December 31, 2023		December 31, 2022	
Grant date share price	\$	52.26	\$	60.43
Exercise price	\$	52.26	\$	60.43
Expected price volatility	%	27.21	%	31.80
Expected option life	yrs	3.42	yrs	3.33
Expected dividend yield	%	2.14	%	1.85
Risk-free interest rate	%	4.23	%	3.64
Forfeiture rate	%	0	%	0

## 11. Share-Based Compensation (continued)

	December 31, 2023		December 31, 2022	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Outstanding October 1	212,416	\$ 56.22	220,800	\$ 52.22
Exercised	(15,500)	29.55	(11,000)	31.84
Forfeited	(216)	60.43	-	-
Granted	31,138	52.26	22,356	60.43
Outstanding December 31	227,838	\$ 57.49	232,156	\$ 53.97

The following share-based payment arrangements are in existence:

Option issuance:	Number of Options	Grant date	Expiry date	Exercise price	Fair value at grant date
(1) Issued November 25, 2019	15,000	November 25, 2019	November 25, 2024	\$ 36.49	\$ 5.18
(2) Issued August 13, 2020	94,615	August 13, 2020	August 13, 2025	\$ 60.30	\$ 8.44
(3) Issued November 24, 2020	22,222	November 24, 2020	November 24, 2025	\$ 61.16	\$ 10.24
(4) Issued February 9, 2021	1,817	February 9, 2021	February 9, 2026	\$ 60.35	\$ 9.92
(5) Issued November 24, 2021	39,110	November 24, 2021	November 24, 2026	\$ 58.90	\$ 10.66
(6) Issued March 9, 2022	1,536	March 9, 2022	March 9, 2027	\$ 60.55	\$ 10.33
(7) Issued November 24, 2022	21,214	November 24, 2022	November 24, 2027	\$ 60.43	\$ 14.26
(8) Issued February 15, 2023	1,186	February 15, 2023	February 15, 2028	\$ 60.44	\$ 14.20
(9) Issued November 27, 2023	31,138	November 27, 2023	November 27, 2028	\$ 52.26	\$ 11.05

For the options issued on November 27, 2023, vesting occurs through to November 27, 2025.

At December 31, 2023 (2022) the weighted average remaining contractual life of options outstanding is 2.51 (3.33) years of which 193,856 (169,154) options are exercisable at a weighted average price of \$58.16 (\$51.92). The Company has recorded \$114 (\$90) of share-based compensation expense in the three months ended December 31, 2023 (2022) related to the options that have been granted. At December 31, 2023 (2022) the Company has total unrecognized compensation expense of \$300 (\$313) that will be recorded in the next two fiscal years.

### Restricted Share Units:

Under the Company's restricted stock unit ("RSU") plan, share units may be awarded to any officer or employee of the Company. Each restricted share unit will vest on the date or dates designated for that unit, conditional on any vesting conditions being met. At the discretion of the Board, the Company may issue one common share to participants for each whole vested share unit or a cash payment. The cash amount is equal to the number of vested share units to be redeemed multiplied by the value of the common shares otherwise issuable on redemption of the share units. Under the above RSU plan, the Company issued performance share units ("PSUs") which will vest on the date or dates designated for that unit, conditional on any vesting conditions being met. Vesting conditions for performance share units are tied to the Company's performance over time.

## 11. Share-Based Compensation (continued)

The following table summarizes information about the RSUs as of December 31, 2023:

	December 31, 2023		December 31, 2022	
	Number of RSUs	Weighted Avg. Grant Date Fair Value	Number of RSUs	Weighted Avg. Grant Date Fair Value
Balance at October 1	191,413	\$ 59.18	56,517	\$ 49.40
Exercised	(21,943)	59.19	(27,525)	46.04
Forfeited	(1,534)	59.12	(5,958)	25.46
Granted	-	-	188,631	59.18
Outstanding December 31	167,936	\$ 59.18	211,665	\$ 59.23

Of the units issued in the current year under the RSU plan, \$Nil has vested as of December 31, 2023. The Company has recorded \$669 (\$317) of share-based compensation expense in the three months ended December 31, 2023 (2022) related to the RSUs that have been granted. At December 31, 2023 (2022) the Company has total unrecognized compensation expense of \$2,282 (\$2,230) that will be recorded over the next three years.

The following unvested RSU-based payment arrangements are in existence:

RSU issuance:		Number of units	Grant date	Vest through	Fair value at grant date
(1) Issued November 24, 2021	RSU	6,432	November 24, 2021	November 15, 2024	\$ 58.90
(2) Issued Feb 9, 2022	RSU	26	February 9, 2022	November 15, 2024	\$ 57.18
(3) Issued May 10, 2022	RSU	280	May 10, 2022	November 15, 2024	\$ 67.34
(4) Issued Aug 10, 2022	RSU	40	August 10, 2022	November 15, 2024	\$ 66.60
(5) Issued September 14, 2022	RSU	326	September 14, 2022	November 15, 2024	\$ 56.10
(6) Issued November 24, 2022	RSU	18,047	November 24, 2022	November 15, 2025	\$ 59.18
	PSU	142,785	November 24, 2022	November 15, 2025	\$ 59.18

### Deferred Share Unit Plan

At December 31, 2023 (2022) the Company has 84,117 (17,640) Deferred Share Units ("DSU") outstanding, of which 22,203 (17,640) have vested, and the remainder will vest until November 2026. The Company recorded share-based compensation of \$558 (\$164) related to the DSUs in the three months ended December 31, 2023 (2022). Each DSU entitles the participant to receive the value of one Common Share at the time of vesting. Vesting of the share units are based on service intervals or held until termination of service.

There are 22,203 (17,640) vested DSUs outstanding at December, 2023 (2022). The fair value of the DSUs outstanding at December 31, 2023 (2022) was \$51.96 (\$61.43) per unit using the fair value of a Common Share at period end.

## 12. Revenue

The following table presents the revenue of the Company for three months ended December 31, 2023 and 2022:

	Three months ended	
	December 31, 2023	December 31, 2022
Product revenue		
Advanced Technologies	\$ 34,007	\$ 18,374
Health	166	-
Learning	2,087	1,140
ITCS	14,332	8,754
Total product revenue	\$ 50,592	\$ 28,268
Service revenue		
Advanced Technologies	\$ 17,122	\$ 15,893
Health	49,928	40,455
Learning	25,028	25,300
ITCS	36,509	37,627
Total service revenue	\$ 128,587	\$ 119,275
Total revenue	\$ 179,179	\$ 147,543

### Remaining Performance Obligations

The following table presents the aggregate amount of the revenues expected to be realized in the future from partially or fully unsatisfied performance obligations as at December 31, 2023 for contracts recognized over time. The amounts disclosed below represent the value of the firm orders only. Such orders may be subject to future modifications that might impact the amount and/or timing of revenue recognition. The amounts disclosed below do not include unexercised options or letters of intent.

Revenues expected to be recognized in:

	December 31, 2023
Less than 24 months	\$ 492,768
Thereafter	38,719
Total	\$ 531,487

### 13. Net Profit per Share

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

	Three months ended December 31	
	2023	2022
Weighted average number of common shares – basic	11,812,574	11,630,180
Additions to reflect the dilutive effect of employee stock options and RSUs	136,313	59,995
<b>Weighted average number of common shares – diluted</b>	<b>11,948,887</b>	<b>11,690,175</b>

Options 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 net profit per share. For the three months ended December 31, 2023 (2022), 212,838 (46,114) options and NIL (30,048) RSUs were excluded from the above computation.

### 14. 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's segments are categorized as follows: Advanced Technologies, Health, Learning, and ITCS. Shared Services are aggregated and incurred to support all segments. These include, but are not limited to, the Finance, Human Resources, IT support, Corporate development, Legal, Corporate marketing and administrative functions, facilities costs, costs of operating a public company, and other costs.

The Company evaluates performance and allocates resources based on profit before undernoted items.

For the three months ended December 31, 2023:

For the three months ended December 31, 2023	Advanced Technologies	Health	Learning	ITCS	Shared Services	Total
<b>Revenue</b>	\$ 51,129	\$ 50,094	\$ 27,115	\$ 50,841	\$ -	\$ 179,179
<b>Cost of revenues</b>	32,661	36,745	20,541	31,014	-	120,961
<b>Gross profit</b>	18,468	13,349	6,574	19,827	-	58,218
<b>Gross profit %</b>	36 %	27 %	24 %	39 %	N/A %	32 %
Operating expenses	9,310	3,909	2,610	12,668	10,207	38,704
<b>Profit before under noted items</b>	\$ 9,158	\$ 9,440	\$ 3,964	\$ 7,159	\$ (10,207)	\$ 19,514
Profit before under noted items %	18 %	19 %	15 %	14 %	N/A %	11 %
Depreciation of property, plant and equipment						2,308
Depreciation of right of use asset						1,463
Amortization of acquired intangibles						5,235
Deemed compensation						604
Changes in fair value related to contingent earn-out						726
<b>Profit before interest income and income tax expense</b>						9,178
Interest expense						1,547
Income tax expense						2,106
<b>NET PROFIT FOR THE PERIOD</b>					\$	<b>5,525</b>



#### 14. Segmented Information (continued)

For the three months ended December 31, 2022:

For the three months ended December 31, 2022	Advanced Technologies	Health	Learning	ITCS	Shared Services	Total
<b>Revenue</b>	\$ 34,267	\$ 40,455	\$ 26,440	\$ 46,381	\$ -	\$ 147,543
<b>Cost of revenues</b>	22,399	30,899	19,876	29,150	-	102,324
<b>Gross profit</b>	11,868	9,556	6,564	17,231	-	45,219
<b>Gross profit %</b>	35 %	24 %	25 %	37 %	N/A %	31 %
Operating expenses	7,443	3,105	2,386	10,070	7,960	30,964
<b>Profit before under noted items</b>	\$ 4,425	\$ 6,451	\$ 4,178	\$ 7,161	\$ (7,960)	\$ 14,255
Profit before under noted items %	13 %	16 %	16 %	15 %	N/A %	10 %
Depreciation of property, plant and equipment						2,297
Depreciation of right of use asset						1,007
Amortization of acquired intangibles						3,361
Deemed compensation						97
Changes in fair value related to contingent earn-out						742
<b>Profit before interest income and income tax expense</b>						6,751
Interest expense						123
Income tax expense						2,052
<b>NET PROFIT FOR THE PERIOD</b>						\$ 4,576

The Company operates in Canada but provides services to customers in various countries. Revenues from external customers for the three months ended December 31, 2023 (2022) are attributed as follows:

	December 31, 2023	December 31, 2022
Canada	63 %	71 %
United States	27 %	20 %
Europe	9 %	8 %
Other	1 %	1 %

Revenues are attributed to foreign countries based on the location of the customer. Revenues from various departments and agencies of the Canadian federal, provincial and municipal governments for the three months ended December 31, 2023 (2022) represented 47% (48%) of the Company's total revenues. All four operating segments conduct business with this category of customer.

## 15. Financial Instruments and Risk Management

### Capital Risk Management

#### *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, contingent earn-out 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 within entities operating in currencies outside of their functional currencies. The Company's objective is to manage and control exposure and secure the Company's profitability on existing contracts and therefore, the Company's policy is to hedge its foreign currency exposure where it is most practical to do so. The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met.

At December 31, 2023, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value December 31, 2023
BUY	\$ 7,896	USD	January 2024	\$ 10,448	\$ 19
SELL	4,082	EURO	January 2024	5,970	21
Derivative assets					\$ 40
SELL	\$ 46,377	USD	January 2024	\$ 61,364	\$ (109)
BUY	6,086	EURO	January 2024	8,901	(32)
Derivative liabilities					\$ (141)

### Credit Risk

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are diverse, however a significant portion of them are federal or provincial government agencies, or large private entities. A significant portion of the Company's accounts receivable is from long-time customers. At December 31, 2023 (2022), 41% (36%) of its accounts' receivable were due from various departments and agencies of the Canadian federal government. Over the last five years the Company has not incurred any significant credit related losses.

The Company limits its exposure to credit risks from counterparties to derivative financial instruments by dealing only with major Canadian financial institutions. Management does not expect any counterparties to fail to meet their obligations. Bad debt expense recognized in the three months ended December 31, 2023 (2022) is \$2 (\$75).

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31, 2023	September 30, 2023
Cash and cash equivalents	\$ 52,267	\$ 33,734
Accounts receivable	185,150	173,052
Derivative assets	40	155
Total	\$ 237,457	\$ 206,941

## 15. Financial Instruments and Risk Management (continued)

The aging of accounts receivable at the reporting date was:

	December 31, 2023	September 30, 2023
Current	\$ 171,017	\$ 161,985
Past due (61-120 days)	9,349	7,905
Past due (> 120 days)	4,784	3,162
Total	\$ 185,150	\$ 173,052

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At December 31, 2023, the Company has a secured debt facility that matures on July 21, 2026 that allows the Company to draw up to \$180,000 CAD. As at December 31, 2023, the Company had \$52,267 cash on hand and \$93,750 was drawn on the facility for current operations and for temporary use through acquisitions, and \$Nil was drawn to issue letters of credit to meet customer contractual requirements.

### Fair Value

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are recorded at amortized cost and approximate fair value due to the short-term maturity of these investments. The debt facility is on a revolver and is recorded at amortized cost. Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place on December 31, 2023 and represents the difference between the hedge rate and the exchange rate at the end of the reporting period.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 of the fair value hierarchy based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Investments are made in companies that do not have directly an observable market. These are fair valued when market participant data becomes available or if financings for the investments are completed. The fair value of contingent earn-out amounts has been determined by applying a discounted cash flow technique on the expected future value of a settlement amount along with Black-Scholes if applicable.

	December 31, 2023		
	Level 1	Level 2	Level 3
Investments	\$ -	\$ -	\$ 3,673
Derivative assets	-	40	-
Debt facility	-	(93,750)	-
Contingent earn-out	-	-	(29,300)
Derivative liabilities	-	(141)	-
Total	\$ -	\$ (93,851)	\$ (25,627)

## 15. Financial Instruments and Risk Management (continued)

	September 30, 2023		
	Level 1	Level 2	Level 3
Investments	\$ -	\$ -	\$ 3,673
Derivative assets	-	155	-
Debt facility	-	(37,750)	-
Contingent earn-out	-	-	(13,798)
Derivative liabilities	-	(353)	-
Total	\$ -	\$ (37,948)	\$ (10,125)

There were no transfers between Level 1, Level 2 and level 3 during the three months ended December 31, 2023.

## 16. Acquisitions

### Hawaiian Pacific Teleport (“HPT”)

On August 1, 2023, the Company acquired the outstanding shares of HPT, for total cash consideration of up to \$50,393 USD (\$66,978 CAD) of which, \$28,474 USD (\$37,845 CAD) was paid in cash on the date of closing, \$681 USD (\$905 CAD) is estimated owing back to Calian for the settlement of net working capital, \$3,500 USD (\$4,562 CAD) was placed in escrow, \$3,000 USD (\$3,964 CAD) was paid through the issuance of common shares and \$16,100 USD (\$21,399 CAD) is payable contingently, of which \$8,905 USD (\$11,835 CAD) is included in the purchase price. The difference between the amount payable contingently that is included in the purchase price and the total potential liability is deemed compensation and an adjustment for the likelihood of achievement of earn out amounts. HPT operates as a US-based provider of independent teleport and satellite communications solutions. HPT has service locations across the Hawaiian Islands and Guam, and HPT provides connectivity through the Asia Pacific region. HPT is reported as part of the Advanced Technologies operating segment.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of HPT an additional \$8,050 USD (\$10,699 CAD) and \$8,050 USD (\$10,699 CAD) if HPT attains specific levels of EBITDA for the years ended July 31, 2024 and July 31, 2025, respectively. \$3,816 USD (\$5,072 CAD) of the first and second year earn out payable amounts is subject to the retention of the principal shareholders for a period of two years from the date of acquisition. This amount is deemed to represent deferred compensation payable to such shareholders and therefore is excluded from the total consideration of the purchase price and will be expensed in the Company’s consolidated statement of net profit as deemed compensation related to acquisitions on a straight-line basis over the retention period.

There was a change in the purchase price from September 30, 2023 due to final adjustments to the closing balance sheet resulting in an increase to goodwill of \$2,767 in the three months ended December 31, 2023. Final valuation of the acquisition and the allocation between intangible assets and goodwill will be completed during the remainder of the 2024 fiscal year, the numbers presented below represent management’s best estimate pending finalization of closing procedures with the selling party. The Company recognized \$417 in the three months ended December 31, 2023 related to changes in fair value of contingent earn out and recorded deemed compensation expense of \$604.

## 16. Acquisitions (continued)

### Decisive Group Inc. (“Decisive”)

On December 1, 2023, the Company acquired all outstanding shares of Decisive, for total maximum consideration of \$74,700. Of this amount, \$49,882 was paid in cash on close, \$900 was put in escrow, \$356 is to be settled once the working capital is finalized for closing and there is one potential earnout with maximum value to be paid of \$24,725 of which \$17,880 is included in the purchase price. Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Decisive an additional \$24,725 if Decisive attains specific levels of EBITDA for the year ended December 1, 2024. The difference between the amount payable contingently that is included in the purchase price and the total potential liability is deemed compensation and an adjustment for the likelihood of achievement of the earn out amount. Decisive is an Ottawa-based IT infrastructure and cyber security services business and is reported as part of the ITCS operating segment. The Company uses the multi-period excess earnings method to value acquired intangible assets, including the customer relationships. This method calculates the estimated fair value of an intangible asset based on the estimated future cash flows that the asset can be expected to generate over its remaining useful life, and isolates the cash flows attributable to the customer relationships by utilizing a forecast of expected cash flows for existing customers alone. The valuation involves significant estimation uncertainty, including assumptions relating to forecasted revenues and forecasted earnings before interest and tax (“EBIT”) margins attributable to the customer relationships, customer attrition rate, and discount rate.

Final valuation of the acquisition and the allocation between intangible assets and goodwill will be completed during the remainder of the 2024 fiscal year, the numbers presented below represent management’s best estimate pending finalization of closing procedures with the selling party.

The Company recognized \$309 in the three months ended December 31, 2023 related to changes in fair value of contingent earn out.

	Net Assets Acquired	Goodwill and Intangibles Accounting	Total Net Assets Acquired
Cash	\$ 3,326	\$ -	\$ 3,326
Accounts receivable	3,148	-	3,148
Inventory	4,012	-	4,012
Prepaid expenses	1,509	-	1,509
Deferred tax asset	4,045	-	4,045
	\$ 16,040	\$ -	\$ 16,040
Prepaid expenses	\$ 611	\$ -	\$ 611
Property, plant and equipment	898	-	898
Right of use asset	2,059	-	2,059
Acquired intangible assets	-	49,400	49,400
Goodwill	-	29,502	29,502
	\$ 19,608	\$ 78,902	\$ 98,510
Accounts payable and accrued liabilities	\$ 11,221	\$ -	\$ 11,221
Lease obligation	2,016	-	2,016
Unearned contract revenue	7,584	-	7,584
Deferred tax liability	-	13,091	13,091
	\$ 20,821	\$ 13,091	\$ 33,912
Net purchase price			\$ 64,598
Discount on contingent consideration			3,708
Total purchase price			\$ 68,306

## 16. Acquisitions (continued)

Cash consideration paid for the acquisition activity during the three months ended December 31, 2023:

	<b>Decisive</b>
Consideration paid in cash	\$ 50,782
Less- cash balance acquired	(3,325)
	<u>\$ 47,457</u>

## 17. Contingent Earn-Out

The following shows the contingent consideration activity for the three months ended December 31, 2023:

<b>Company Acquired</b>	<b>Beginning balance</b>	<b>Acquisition</b>	<b>Payments</b>	<b>Change in Fair Value</b>	<b>Adjustments</b>	<b>Ending balance</b>
Alio/Alphase	\$ 841	\$ -	\$ -	\$ -	\$ -	841
SimFront	3,240	-	-	-	-	3,240
Hawaii Pacific Teleport	9,717	-	-	417	604	10,738
Decisive	-	14,172	-	309	-	14,481
<b>Total</b>	<b>\$ 13,798</b>	<b>\$ 14,172</b>	<b>\$ -</b>	<b>\$ 726</b>	<b>\$ 604</b>	<b>\$ 29,300</b>

As at December 31, 2023, the total gross value of all contingent consideration outstanding is \$50,100. Included in the adjustments column in the table are deemed compensation, along with changes in estimated payment amounts to make under contingent earn out estimates.

The following shows the contingent consideration activity for the year ended September 30, 2023:

<b>Company Acquired</b>	<b>Beginning balance</b>	<b>Acquisition</b>	<b>Payments</b>	<b>Change in Fair Value</b>	<b>Adjustments</b>	<b>Ending balance</b>
Alio/Alphase	\$ 1,860	\$ -	\$ (3,350)	\$ 59	\$ 2,272	\$ 841
Tallysman Wireless	5,411	-	(5,613)	102	100	-
Cadence	75	-	(287)	165	47	-
Dapasoft	15,758	-	(16,187)	429	-	-
SimFront	5,446	-	(2,760)	554	-	3,240
Hawaii Pacific Teleport	-	9,037	-	277	403	9,717
<b>Total</b>	<b>\$ 28,550</b>	<b>\$ 9,037</b>	<b>\$ (28,197)</b>	<b>\$ 1,586</b>	<b>\$ 2,822</b>	<b>\$ 13,798</b>

## 18. Related Party Transactions

At December 31, 2023 (September 30, 2023) the Company had a related party note outstanding to an employee as a result of a recent acquisition included in Accounts Payable of \$463 (\$473). This is measured at the exchange amounts agreed upon by both parties.