



2015

Calian Technologies Ltd.
Annual Report



Table of Contents

1	Message from the Chairman
3	Report on Operations
11	Management's Discussion and Analysis of Financial Condition and Results of Operations
29	Management's Statement of Responsibility
30	Independent Auditors' Report
31	Consolidated Statements of Financial Position
32	Consolidated Statements of Net Profit
33	Consolidated Statements of Comprehensive Income
34	Consolidated Statements of Changes in Equity
35	Consolidated Statements of Cash Flows
36	Notes to the Consolidated Financial Statements

Chairman's Letter



The past year has been a successful year for Calian. We were able to grow revenues year over year, maintain our dividends at an attractive yield and maintain our high levels of customer satisfaction across all of our service offerings - a critical element to our long term success.

Calian continued to invest in its long term growth strategy and saw positive results this year in investments made in new equipment, resources and recent acquisitions to help penetrate new markets and evolve our service offerings.

With the successful transition to a new CEO this year, Kevin Ford is bringing fresh perspectives, high energy and new ideas on Calian's future. The board is excited about his vision for the company and fully supports his goal of embracing the diverse nature of our services and challenging our management team to take the company to new heights.

I am very proud of the Company's achievements this year. The fact that we have achieved positive results is testimony to Calian's ability to navigate through challenging market conditions. Calian has accomplished over 50 consecutive profitable quarters, with attractive returns for our shareholders. The board of directors continues to be

confident in management's ability to execute our growth strategy and increase shareholder value.

A handwritten signature in black ink that reads "Kenneth Loeb". The signature is written in a cursive, flowing style.

Kenneth Loeb
Chairman

50+ CONSECUTIVE
PROFITABLE
QUARTERS



The Calian Strategy.

“Calian is a diverse company. Our growth strategy is to embrace this diversity through management **focus** and the execution of the key components of our strategy - customer **retention**, customer **diversification**, **evolution** of our service lines and continuous **process improvement**. Combined with a strong backlog, a high customer satisfaction rate and an incredibly talented and dedicated team, I am very excited about Calian’s potential” - *Kevin Ford, CEO*

To our shareholders,

Calian has made great strides this year. We achieved our highest revenue in the company's history as well as growth in all of Calian's service lines in both divisions while making progress on our long-term growth strategy. We are proud of these accomplishments, while recognizing that we still have work to do in increasing top and bottom line results.

Calian's mission is to be our customers' program delivery partner by providing value-added systems and services in order to assist them in achieving their business objectives. Despite challenging market conditions, particularly in the federal government and defence markets, we saw strong organic growth and a positive impact from three acquisitions completed in FY2014 resulting in consolidated revenues of \$242M; a 15% increase from the previous year. We also increased cash earnings by more than \$1 million with EBITDA results of \$17.2M versus \$16.2M. However, with competitive pressures faced in both divisions and continued investment in our product development, gross margins attained

\$ 242M
REVENUE
(15% GROWTH)

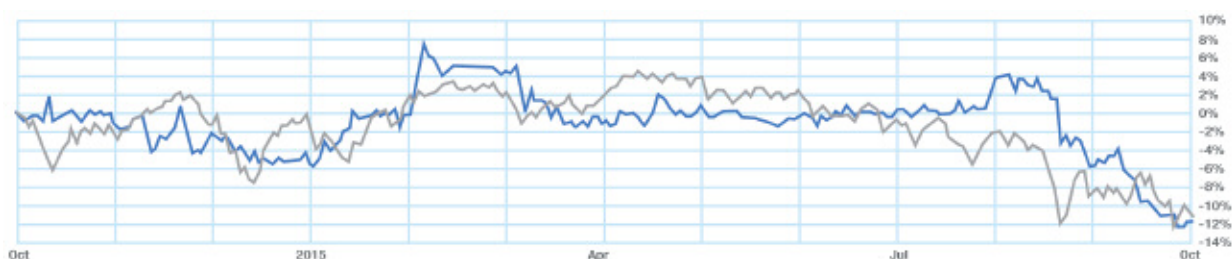
were lower at 17.1% from 18.5% in the prior year. Gross margins were also impacted as we entered new customer markets where the Calian brand was not yet established, requiring lower margin entry points. However, these beach heads are critical to establishing relationships with new customers, and we have

had many wins in support of our diversification strategy that bode well for our future.

While Calian's share price (CTY) mirrored the volatility of the TSX Composite Index as demonstrated below, we tracked well against the TSX Small Cap Index.

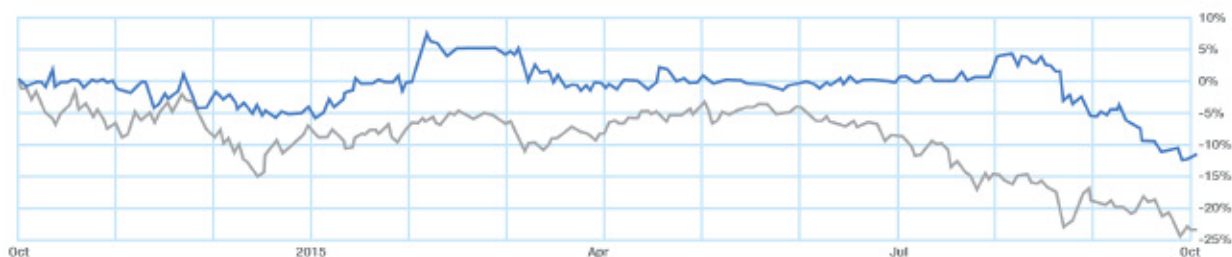
Calian FY2015 Stock Performance against the TSX Composite Index

■ CTY ■ TSX



Calian FY2015 Stock Performance against the TSX Small Cap Index

■ CTY ■ TX20





“ With strong cash flows and cash position, we retained our quarterly dividend at \$0.28 per share. ”

We continued to manage our discretionary operating expenses to help offset gross margin reductions and ended the year with earnings of \$1.33 per share. Factoring in amortized costs as a result of recent acquisitions, our adjusted earnings of \$1.48 per share was improved from previous year's results of \$1.45 per share. With strong cash flows and cash position, we retained our quarterly dividend at \$0.28 per share. We are very proud of the fact we maintained a positive rate of return at an attractive yield, returning to our shareholders \$8.3M through dividends this year.

This year, we also increased our investment in sales and marketing activities in support of our customer diversification strategy. The challenge in being a diverse company is to ensure a focused

message on the services that matter most to a targeted customer base and not dilute the message by expanding on all of the company's capabilities. We have seen success with this approach. We now have customers in each targeted sector and have expanded our presence within those sectors. We have hired additional sales capacity, and with over \$170M in contract signings this year believe we are positioned for sustained long-term success.

In order to effectively manage our diverse offerings and provide management capacity and focus, we operate in two reportable segments, the Systems Engineering Division (SED), and the Business and Technology Services (BTS) divisions defined by primary types of service offerings.

\$ 8.3M

DIVIDEND
RETURN

\$1.33

EARNINGS
PER SHARE

Calian's SED division

celebrated **50 years in business**

this year and achieved a **26% increase in revenues**

SED's growth was primarily based on a significant increase in commercial Radio Frequency (RF) ground systems work. This increase in work for 2015 leaves us well positioned for continued success in the coming year. Our systems engineering group focused on designing and deploying a commercial and government RF ground systems in Canada, United States, Mexico and New Zealand. In addition, we designed and built software systems used for aeronautical communications, digital satellite radio, satellite communications network planning and network monitoring.

We were honoured by the world-wide attention that we received for our role in the European Space Agency's Rosetta mission. The probe was tracked for 10 years by the deep space antenna network that we built, which finally reached its destination



Calian's SED division
Deep Space Antenna

Argentina. We are very proud to have had a major role in such an extraordinary event that occurred for the first time in history, and it is in taking on these difficult engineering challenges that we have built a global reputation for innovative solutions.

The division's manufacturing group continued at a steady pace, producing assemblies for defence programs while continuing to forge a beachhead into contract manufacturing of agricultural circuit boards and cable assemblies. A \$2 million investment in a new surface mount technology line increased our ability to produce more complicated high quality, high reliability board designs required by our customers, and in our own products.

Investment made in our communications product group allowed us to

“ We were honoured by the world-wide attention that we received for our role in the European Space Agency's Rosetta mission. ”

Comet 67P/Churyumov-Gerasimenko. Leading an international team, we designed and built this state-of-the art network consisting of three full motion 35m antennas each rising over 10 stories in height and installed in Australia, Spain and

introduce two new innovative test and measurement products into the market. The development of products is a key component of our growth strategy as we generate IP to facilitate higher margin business.

Our commitment to quality and customer satisfaction remains strong as we maintained our ISO 9001 quality management certification, while continually striving to improve our quality systems. We also strive to be good stewards of our environment with our recycling programs and lead-free manufacturing capabilities. Customers come back to us year-over-year due to their high level of satisfaction in the quality of our work and in our timely deliveries.

In summary, this was a great year for Calian's SED division! Overall, these accomplishments yielded a divisional contribution of \$10 million on revenues of \$70 million.

Looking to the coming year, new high throughput satellite networks and new broadcast standards, such as 4K TV, are increasing satellite operators'

need for bandwidth. Many operators are looking to higher frequency bands in order to fulfill this need. We are well positioned to provide global solutions to these customers with our unique set of products, skills and experience. We still have a significant number of programs in our backlog on which we can continue to grow. Heavy competition continues to be a reality in all aspects of our business, and defence spending remains in a down-swing. As such, we continue to strategically position ourselves in adjacent markets. In addition, our investments in new products will increase our competitive position in current markets, and will help to increase profits for our shareholders in the future. Our management team is committed to profitably executing the work in our backlog, and to growing our business in existing and new markets.



A **\$2 million investment** in a new surface mount technology line increased our ability to produce more complicated high quality, high reliability board designs.

Calian's BTS division

is a leading professional services organization, providing management of projects, facilities, and consultants in

Healthcare, Training, Engineering, and IT Professional Services.

Acquisitions made in 2014, and the realization of organic growth across all service lines allowed the division to report revenue growth of 10% this year to \$172 million and a divisional contribution of \$5.4M.

We reorganized the division at the start of the year to allow for executive focus on each service line, and provide the ability to delve deeper into our service offerings. We are seeing the benefit of this focus, and believe it provides the right strategic organizational alignment for long term growth.

Our health service line's goal is to be one of the largest national health services organizations in Canada, and this year there has been considerable progress in achieving this



medical practitioner network, and to expand our health offerings to a broader range of clients. The opening of an occupational health clinic in Fort McKay, Alberta and an \$11 million contract win in the oil and gas industry, combined with strategic wins in other areas of healthcare helped us to make progress in these goals. Primacy, an acquisition completed in 2012, continued to run strongly; currently operating over 140 medical clinics on behalf of Loblaw across Canada. In addition, leveraging the Primacy clinics, we are very proud of the progress made in working with DND to provide access to medical services for military families with a pilot program in Winnipeg.

Our IT Professional Services (ITPS) service line also made some signifi-

“ Our health service lines goal is to be one of the largest national health services organizations in Canada, and this year there has been considerable progress in achieving this goal. ”

goal. Calian's Department of National Defence (DND) Health Services Support Contract, continues to be successful, with performance ratings of 'superior' by DND in the delivery of the contract. With the latest option period exercised by the customer, revenues are secured through to March 2017. The division made solid progress with our strategic goal to leverage our national

cant strides this year. In support of our service line evolution strategy, ITPS was awarded a \$10 million contract with the City of Toronto to provide a time and attendance solution. This solution based win provides the opportunity to further evolve ITPS from strictly staff augmentation contracts. With the acquisition of DWP

Solutions in 2014, a security and cyber services company, ITPS continued to leverage this experience and background to expand our capability in this high-demand market area. The federal government focus on budget restraint continued to create a very competitive environment, and increased pressure on margins. To offset this trend, ITPS continued to grow its customer base outside the federal government in markets such as telecommunications but as well secured new customers within the federal government where higher margin opportunities exist.

Our Training and Engineering services line experienced a stabilization of training demand from our main customer, DND, and were successful in our customer retention focus with the re-win of our Canadian Forces School of Communications and Electronics support contract as well as our Royal Canadian Air Force Airworthiness support contract with a combined contract value of \$30 million. We diversified our customer base in the nuclear sector winning two new contracts with Bruce Power. These contracts solidify our training relationship with a major nuclear organization,

and serve as a platform to expand our emergency response preparedness training service offering. In addition, we increased marketing efforts this year to raise our profile on our services offering. For example, thought leaders from the service line spoke at two conferences, and we raised our profile through conference advertising at targeted customer events. These combined with our web site re-design promote Calian as a premier training company. We continue to leverage the acquisition of Amtek, completed in 2014, to further expand our engineering support capabilities. Amtek specializes in providing the full-spectrum of engineering and technical services supporting DND and other government departments.

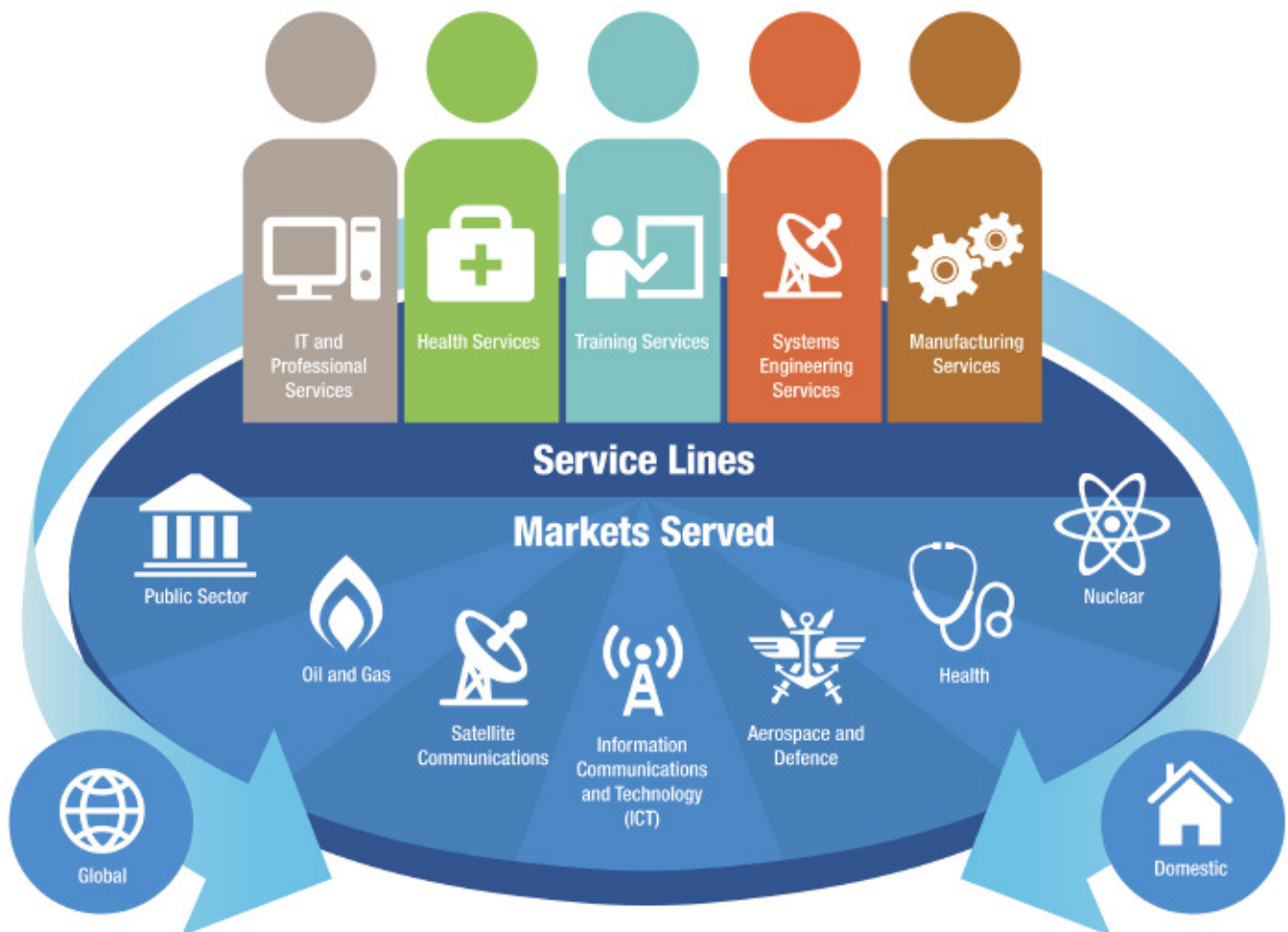
Overall, we were very pleased with the progress of the BTS division this year. Moving forward, the divisional focus is the execution of our growth strategy, and to continue to evolve our service offerings in order to differentiate Calian, and provide the opportunity to increase overall margins. We look to leverage new customer relationships established in 2015 and to increase net-new customers moving forward.



Calian is taking its world-class ability to design, develop and deliver scalable training exercises utilizing synthetic environments, that has been used to support the Department of National Defence for over 20 years, to municipal and private sector clients in the form of Emergency Response Preparedness Training.

Stability through Diversity

The diversity of our operating model is at the heart of our success. Through this diversity comes stability. By serving a number of customers in wide ranging and geographically varied markets, we capitalize on unique opportunities and upturns in a number of markets while at the same time weathering the downturns experienced in others.





In Summary

Calian is a diverse company, which has consistently demonstrated the ability to manage this diversity, and to provide excellent returns for our shareholders. Under the framework of a common strategy, each segment of the company has the ability, capacity and a strong management focus to control and manage their respective business segment. 2015 was a year where Calian returned to a growth position; both divisions grew revenue, and as importantly, made tangible progress in the execution of our long-term strategy. The company enters 2016 with a strong backlog of work and a reasonable expectation of future prospects. In the coming year, we are expecting stability on our existing contracts, and positive results from investments made in research and development and sales

resources. We continue to increase our investment in the marketing function, and have planned initiatives to leverage a new website implemented in 2015. This will be combined with a focus on proactive social media engagement and targeted marketing campaigns in support of the all service lines.

It is exciting times at Calian. We are poised to leverage the investments we have made in the last few years while embracing the diverse services of the organization. We are an innovative company, proudly Canadian, poised for long-term success, and we are looking forward to taking the company to new heights.

Jacqueline Gauthier

Chief Financial Officer

Kevin Ford

CEO

Patrick Thera

*VP and General Manager,
Systems Engineering*

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management Discussion and Analysis is dated December 3, 2015 and should be read in conjunction with the audited consolidated financial statements and notes included in this annual report. The Company's accounting policies are in accordance with IFRS. As in the consolidated financial statements, all dollar amounts in this Management Discussion and Analysis are expressed in thousands of Canadian dollars unless otherwise noted.

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

IFRS and non-GAAP measures:

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

Forward Looking Statements

The Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on certain assumptions made by the Company that may prove to be inaccurate. Forward-looking statements include those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent that they relate to the Company or its management. These forward-looking statements are not historical facts, but reflect the Company's current expectations and assumptions regarding future results or events. Assumptions made include customer demand for the Company's services, the Company's ability to maintain and enhance customer relationships, as well as the Company's ability to bring to market its services. Furthermore, the Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on current expectations as at December 3, 2015 that are subject to change and to risks and uncertainties including those set out in this document under the heading "Risk Factors". Actual results may differ due to facts such as customer demand, customer relationships, new service offerings, delivery schedules, revenue mix, competition, pricing pressure, foreign currency fluctuations and uncertainty in the markets in which the Company conducts business. Additional information identifying risks and uncertainties is contained in the Company's filings with the various provincial securities regulators. Readers should not place undue reliance in the Company's forward-looking statements.

Business Overview and Strategic Direction

Calian is a diverse company. For over 30 years, the company has evolved into an organization that has consistently demonstrated the ability to manage numerous profitable service offerings while earning a high level of customer satisfaction. Our DNA allows us to manage this complexity, and to successfully deliver in domestic and global markets.

Calian's primary services offerings are:

- Systems Engineering
- Contract Manufacturing
- Health Services
- Training Services
- IT Professional Services

While our services are diverse, our growth strategy is anchored in a common four pillar framework. Our four pillar growth strategy is as follows:

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

In order to effectively manage our diverse offerings and provide management capacity and focus, we operate in two reportable segments, the Systems Engineering Division (SED), and the Business and Technology Services Division (BTS) defined by primary types of service offerings.

The diversity of this operating model is at the heart of our success. By serving a number of customers in wide ranging and geographically varied markets, we capitalize on unique opportunities and upturns in a number of markets while at the same time weathering the downturns experienced in others. This diversity is most evident when comparing the business and operating models of the two divisions.

	SED	BTS
Markets Served	Engineering and Manufacturing	Health, Training, Engineering and IT Professional Services
Contracting Model	Mostly Fixed price	Mostly Cost plus
Customer Base	Domestic & International	Domestic
Quality Initiatives	ISO	Excellence Canada
Risk Profile	High risk	Low to Medium risk
Workforce	300	2000

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

Of note, as both of our divisions operate in very specific niche areas within large markets, there exists very little third party data to compare to the Company's performance. Although referring to general market trends provides some insight into the health of those markets and some clarity on the opportunities within those markets, it is not always indicative of the health, demand, and funding of the individual customers of the Company. In order to compensate for this limited insight, and to provide an indication of revenue potential, this annual report provides a detailed overview of the Company's backlog by division showing both contracted backlog and option renewals by fiscal year. In addition, the following discussion that refers to the type of contracts performed by each of the two divisions will provide some insight into the level of customer specific demand for our services.

Calian's System Engineering Division

Calian's SED division, located in Saskatoon, Saskatchewan, designs and manufactures complex systems for satellite manufacturers and operators, and also provides satellite operations services to government and commercial clients. Additionally, the division provides low to medium volume high-end manufacturing in the defence/security and telecommunication industries. In both markets, SED serves a handful of multi-national organizations working on large worldwide projects, where more than 60% of our annual revenues are derived from exports. We now have systems operating on six continents, and we are well versed in the logistics associated with international installations. The division is committed to Quality as evidenced by our ISO 9001:2008 certification.

Our customers require sophisticated, custom-build ground-based infrastructures, and our approach is to fulfill these requirements by integrating advanced internally and externally manufactured commercial equipment and products, and where necessary, custom-build components. We maintain a core set of reusable designs, components and products to reduce development time, costs and technical risks, which increases our competitive advantage. Our core competencies in project management, systems engineering, and high-throughput embedded logic and software development capabilities have allowed us to establish long-term relationships with many industry leaders. Our contract manufacturing capabilities accounts for a substantial portion of divisional revenues and provides an on-going base of business that helps offset the ebb and flow of core project work. The value-added by our technical expertise and our focus on high-reliability, low-volume production of complex systems to military prime contractors and equipment suppliers differentiate our services from those of our competitors.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Contracts in Systems Engineering are technically complex and are typically on a fixed price basis with demanding requirements to meet delivery schedules. Billings are based on achieving well defined milestones, and these can be in advance of, or subsequent to the recognition of revenues. Accordingly, cash flows and working capital requirements can vary significantly from project to project, and over the life of any one project. While the risks are high, the margins are commensurate with the risk.

In 2015, SED celebrated 50 years in business and continued on its path to increase both revenue and profitability. The division performed well; growing revenue by 27% and signing \$51 million in new contracts and ending the year with a backlog of \$61 million, of which \$46 million is expected to be earned during fiscal 2016. Customer satisfaction remains high as many of our customers continue to return to us for repeat business. The following provides a summary of FY2015 results across the division's primary service lines.

CALIAN System Engineering Services

The majority of the systems engineering work during the year came from Hughes and Inmarsat, providing them with RF ground systems as they expand their satellite networks. Additional RF systems work continued on Canada's Centre for Mapping and Earth Observation and Wide-Area Augmentation Systems to assist aeronautical navigation. Systems work included Low-Data Rate Gateway systems and Aeronautical Gateway enhancements, including development of a precursor system for the European IRIS aeronautical communications standard. Sirius/XM procured several enhancements to the subsystems that we support. In addition, SED produced satellite network capacity and planning tools for satellite operators Inmarsat and Star One.

Our Canadian Space Agency (CSA) satellite operations team continued supporting Canadian earth observation missions with our current team size. The Ciel Satellite Operations group was re-purposed as Ciel transitioned to remotely operating their satellites from a central facility via the telemetry tracking and control system located at SED, where we are still under contract to host and maintain this system. SED continues to host and maintain the RF systems for LightSquared as they are now poised to exit bankruptcy protection with a plan for successful operations. We continue our growth strategy with the provision and hosting of satellite beacon transmission stations for Hughes in northern Canada. Research and development into both satellite and cable TV communications have yielded key intellectual property building blocks for 4K TV transmission and reception as well as CableLabs DOCSIS 3.1 downstream and upstream technologies. In addition, SED continued to investigate components for higher frequency satellite communications. These technologies are set to address the future requirements of key customers as they evolve their networks in the next two to five years.

SED's communications product sales group successfully introduced two new test and measurement products to the market; one under contract to Rohde and Schwarz and the other a low cost OEM spectrum analyzer called Spectare. Sales of these products will continue to manifest during the next fiscal year. Continued steady sales of our Decimator spectrum analyzer product as well as our modulator products provided excellent margins. Our growing pool of products and intellectual property rights will provide significant opportunities going forward.

CALIAN Contract Manufacturing Services

Business continued at a steady pace for SED's commercial and defense manufacturing line as we continued to produce modules and cable assemblies for Textron, General Dynamics Land Systems Canada and KIDDE. A nearly \$2 million investment in a new surface mount technology line increased SED's ability to produce more complicated high quality, high reliability board designs required by our customers, and in our own products. The situation for defence sales remains volatile due to constraints on Canadian and US military spending but we countered this volatility through our commercial manufacturing business; gaining a foothold as new agriculture electronics customers like BitStrata and iGrain continued to procure the manufacture of new boards and assemblies.

The markets in which SED operates are currently stable and we expect new opportunities to arise. The continued volatility of the Canadian dollar will also affect our competitive position on international markets. While competition can place considerable pressure on margins in all market sectors, our communications product business countered this through standalone product sales as well as by complementing our systems sales. Continued investment in product will enhance future sales and increase margins. New opportunities exist in the communications systems market as new entrants look to deploy novel satellite communication networks, and existing players look to evolve their networks.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Calian's Business and Technology Services Division

Calian's BTS division, with our principal office in Ottawa, Ontario, is a leading professional services organization, providing management of projects, facilities, and consultants in Healthcare, Training and Engineering, and IT Professional Services. BTS is a continuous improvement organization, is a founding partner of Excellence Canada, and is accredited to Excellence Canada's Progressive Excellence Program Level 4 in quality and healthy workplace.

Contracts in Business and Technology Services are typically on a per-diem basis, and can range from short-term assignments to multi-year outsourcing contracts. Our core competencies, common across all service lines, are recruiting and project, contract and workforce management. Each of these competencies is aligned to each service line in the areas of:

- Health – clinic management, occupational health services, clinician services;
- Training – training development and training delivery in the areas of emergency preparedness, trades training, simulation based training, and career development leveraging eLearning and instructor led training delivery methods;
- IT – cyber and security, enterprise resource planning and general IT technologies.

The vast majority of revenues are derived from Canadian sources in the public and private sectors. With a large presence in the Department of National Defence, we have been successful in our diversification strategy, and have developed a well-established private sector customer base across oil and gas, public, nuclear and numerous others. For example, our health care service line includes the administration on behalf of Loblaw of over 140 medical clinics across Canada, as well as the provision of health care services directly to customers through our own managed clinics.

The cost structure of the division is variable as direct labour costs are scalable to match contract requirements. Cash flows are very predictable as the division enjoys the benefit of multi-year contracts that often contain provisions for extensions, offering long-term visibility of future revenues, and most contracts call for monthly billing of work performed. Revenue is also generated via direct billing to provincial health care organizations through health clinics in the health services portfolio. With a reduced risk profile, margins are correspondingly lower.

Revenue growth from new opportunities will be largely dependent on the issuance of the initial proposal request and the ultimate timing of the related contract award. With a significant portion of BTS's contracts subject to renewal during the upcoming year, the division will focus on ensuring appropriate effort is expended to increase its win odds for these opportunities. Calian's historical high renewal win rate combined with its win strategy provides management confidence in its ability to successfully remain the customers preferred choice.

While government spending is under tight controls and has become unpredictable due to the implementation of previously announced budget reductions, profitable business does exist for companies who have the financial strength to accommodate these down periods, and the discipline to adjust costs to declines in revenue. BTS' strong back office capabilities, centered on an SAP based management information system along with our emphasis on continuous improvement and business development ensures that it is able to identify and win new business opportunities and accommodate that new business in a scalable fashion.

Overall, the business environment for the BTS division is stable. The division made progress in 2015 in many areas in all of our service lines. We continue to be very successful in managing existing contracts, and we have maintained high quality and client satisfaction levels. With our focus on the evolution of services and diversification of our customer base, contract wins with new customers have allowed us to penetrate certain market segments previously not available to Calian. Acquisitions made in 2014 and the realization of organic growth across all service lines allowed the division to report revenue growth of 10%. In 2015, we also signed \$120 million in new contracts and ended the year with a backlog of \$381 million of which \$145 million is expected to be earned during fiscal 2016.

The following provides a summary of 2015 results across the division's primary service lines.

CALIAN Health Services

Our goal is to be one of the largest national health services organizations in Canada, and this year there has been progress in achieving this goal. Calian's main health service contract, the DND Health Service Support Contract, continues to be successful, and with the latest option period exercised by the customer, revenues are secured through to

Management's Discussion and Analysis of Financial Condition and Results of Operations

March 2017. We continue to be rated superior by our DND customer in the delivery of the contract. In supporting DND for over 10 years in 32 bases across Canada with over 60 health care practitioner categories, we have developed an extensive national health care practitioner network. We continue to focus on expanding our footprint in the health care market. With the acquisition of Primacy in 2012, the Med-Team Clinic in 2014, the opening of an occupational health clinic in Fort McKay, Alberta in 2015 and an \$11 million contract in the oil and gas industry, combined with strategic wins in other areas of healthcare, the division made solid progress with our strategic goals to leverage our national medical practitioner network and expand our health service offerings to a broader range of clients. Primacy continued to run strong this year currently operating over 140 clinics across Canada. In addition, leveraging the Primacy clinics, we are very proud of the progress made this year working with DND to provide access for military families to medical services with a pilot program in Winnipeg.

CALIAN ITPS services

The IT Professional Services (ITPS) line also made some significant strides with a goal to evolve service offerings. During 2015, ITPS was awarded a \$10 million contract with the City of Toronto to provide a time and attendance solution. This solution based win provides Calian the opportunity to further evolve ITPS away from strictly staff augmentation contracts. With the acquisition of DWP Solutions in 2014, a security and cyber services company, ITPS continues to leverage this experience and background to expand our capability in this high-demand market area. The federal government focus on budget restraint continues to create a very competitive environment, and increased pressure on margins. To offset this trend, ITPS continues to grow its customer base outside the federal government, to target different market areas such as telecommunications, and to focus on the evolution of IT services to project and solution based business.

CALIAN Training and Engineering Services

Our training contracts continue to represent a solid base of revenues. In 2015, we experienced a stabilization of training demand from our main customer, the Department of National Defence, and were successful in our customer retention focus with the re-win of our Canadian Forces School of Communication and Electronics support contract as well as our Royal Canadian Air Force Airworthiness support contract with a combined contract value of \$30 million. We diversified our customer base in the nuclear sector winning two new contracts with Bruce Power. These contracts solidify our training relationship with a major nuclear organization, and serve as a platform to expand our emergency response preparedness training service offering. We continue to leverage the acquisition of Amtek completed in 2014 to further expand our engineering support capabilities. Amtek specializes in providing the full-spectrum of engineering and technical services supporting DND and other government departments. In addition, we increased marketing efforts this year to raise our profile on our services offering. For example, thought leaders from the service line spoke at two conferences, and we raised our profile through conference advertising at targeted customer events. These combined with our web site re-design promote as a premier training company.

In summary, 2015 was a year where Calian returned to a growth position; both divisions grew revenue, and as importantly, made tangible progress in the execution of our long term strategy. The company enters 2016 with a strong backlog of work and a reasonable expectation of future prospects. In the coming year, we are expecting stability on our existing contracts, and positive results from investments made in research and development and sales resources. We continue to increase our investment in the marketing function and have planned initiatives to leverage a new website implemented in 2015 combined with a focus on proactive social media engagement and targeted marketing campaigns in support of the all service lines.

Calian is a diverse company which has consistently demonstrated the ability to manage this diversity and provide excellent returns for our shareholders. Under the framework of a common strategy, each segment of the company has the ability, capacity and management focus to control and manage their respective business segment. We are an innovative company, proudly Canadian, and are looking forward to taking the company to new heights.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Backlog

The Company's backlog at September 30, 2015 was \$442 million with terms extending to fiscal 2018. This compares to \$523 million reported at September 30, 2014. Contracted Backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas Option Renewals represent customers' options to further extend existing contracts under similar terms and conditions.

During 2015 the following contracts were the major contributors to the Company's backlog. These contracts are further described in the business overview section of this Management Discussion and Analysis.

- \$16 million contract with DND for the provision and delivery of technical training
- \$15 million contract with DND to provide air worthiness, engineering and support services
- \$11 million contract for 24/7 nursing services with a major player in the oil and gas sector
- \$10 million contract win with the City of Toronto to implement a time and attendance solution
- \$ 8 million contract win with Hughes for provision and installation of additional RF antenna systems in North America
- \$ 7 million contract win with Hughes for the provision and installation of a feeder-link earth station in Europe

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

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for 2016, 2017 and beyond based on management's current visibility into customers' existing requirements.

Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately \$121 million. The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

(dollars in millions)	Fiscal 2016	Fiscal 2017	Beyond 2017	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	\$ 178	\$ 52	\$ 18	\$ 248	\$ 111	\$ 359
Option Renewals	13	31	29	73	10	83
TOTAL	\$ 191	\$ 78	\$ 47	\$ 321	\$ 121	\$ 442
Business and Technology Services	\$ 145	\$ 115	\$ 37	\$ 260	\$ 121	\$ 381
Systems Engineering	46	5	10	61	-	61
TOTAL	\$ 191	\$ 83	\$ 47	\$ 321	\$ 121	\$ 442

Selected Annual Information

(dollars in millions, except per share data)

	2015	2014	2013
Revenues	\$ 242.3	\$ 211.3	\$ 232.5
EBITDA ⁽¹⁾	\$ 17.2	\$ 16.2	\$ 19.1
Net profit	\$ 9.8	\$ 10.6	\$ 13.1
Adjusted net profit ⁽¹⁾	\$ 10.8	\$ 10.7	\$ 13.1
Net profit per share, basic and diluted	\$ 1.33	\$ 1.44	\$ 1.73
Adjusted net profit per share, basic and diluted ⁽¹⁾	\$ 1.48	\$ 1.45	\$ 1.73
Total assets	\$ 102.3	\$ 100.9	\$ 97.6
Dividends per share	\$ 1.12	\$ 1.12	\$ 1.12

⁽¹⁾ See reconciliation regarding non-GAAP measures below

Management's Discussion and Analysis of Financial Condition and Results of Operations

2015 Results of Operations

Profit before interest and income taxes were \$13,437 in 2015 compared with \$14,116 in 2014 and net profit were \$9,767 for the year compared with \$10,581 in the previous year. The Company completed the year with \$10,624 of cash compared to \$25,200 at the end of 2014.

Revenues	2015	2014	% change
SED revenues	\$ 70,188	\$ 55,413	27%
BTS revenues	\$172,065	\$155,844	10%
Consolidated revenues	\$242,253	\$211,257	15%

The general business environment in 2015 reflected continued contraction in government spending in both of our divisions. Program delays and activity rescheduling within DND and other government departments impacted the company's ability to expand in most of its existing market segment. However, with backlog consumption of \$190 million, the addition of revenues from recent acquisitions combined with the win of several contracts in new market segments during 2015 resulted in a respectable revenue stream for the year.

SED revenues for 2015 were up 27% compared to 2014 revenues. A significant increase in commercial RF ground systems work was a major contributor to the increase in SED revenues over the previous year. The manufacturing group continued at a steady pace, producing assemblies for Defence programs while continuing to forge a beachhead into the agricultural manufacturing sector. Innovations in our communications product group allowed us to introduce two new test and measurement products into the market.

BTS revenues for 2015 were up 10% compared to 2014 revenues. Revenues from the division's traditional business lines showed a slight increase over the prior year supported by a full year of revenues generated from acquisitions made during fiscal 2014. Incremental wins were also achieved with new customers and new markets as the division continues to focus on diversification of its customer base.

The Company derives a significant portion of its revenues from the Government of Canada. During 2015 (2014), 62% (68%) of revenues were related to contracts with various departments and agencies of the Government of Canada with approximately 45% (52%) directly with DND. Both of the Company's divisions conduct business with the Government of Canada.

Management expects that the marketplace for the near term will continue to be unsettled and very competitive and the timing of new contract awards is always subject to delay. Our backlog provides a reasonable level of revenue assurance on existing contracts and new opportunities continue to arise. Although we continue to focus our efforts on the diversification of our customer base outside of government, the nature and extent of future government spending constraints remain uncertain and therefore, future revenues in this sector will ultimately be determined by customer demand on existing contracts as well as the timing of future contract awards.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Cost of revenues and Gross profit	2015	2014	% change
SED gross profit	\$ 16,417	\$ 15,390	7%
As a percentage of SED revenues	23.4%	27.8%	
BTS gross profit	\$ 25,094	\$ 23,720	6%
As a percentage of BTS revenues	14.6%	15.2%	
Consolidated gross profit	\$ 41,511	\$ 39,110	6%
As a percentage of consolidated revenues	17.1%	18.5%	

The Company's cost of revenues includes all direct costs incurred in the provision of its products and services. These costs include all expenses associated with direct full-time staff, contract staff and subcontractors. They also include other direct costs including the landed cost of hardware and software sold as components of a solution, travel and living expenses necessary in the delivery of the services, and warranty costs where applicable.

The consolidated gross margin for 2015 reflects general downward pressure being experienced in both divisions.

Gross Margin in SED also reflects the successful execution of projects offset by investments made in new product development and a project mix biased towards lower-margin materials and subcontracts. Although the mix of revenues will always play a role in the margin ultimately realized, recent investments in new product developments will allow the division to continue to weather the current competitive landscape.

Gross margin in BTS also reflects the impact of lower margins from the acquired Amtek and DWP businesses. While stiff competition on new work is expected to temper any significant near-term improvement, the division continues to evolve its service offering with a goal to increase gross margins realized in the longer term.

Because of the significant difference in gross margin between each of the two divisions, the overall gross margin of the Company is dependent on the relative level of revenue generated from each division. Management will continue to focus on operational execution and diligent negotiation of supplier costs in order to maximize margins. However, increased competition is expected to maintain the pressure on margins in both divisions. The volatility of the Canadian dollar is always an influencing factor for margins on new work in the SED division when denominated in foreign currencies.

Selling and marketing	2015	2014	% change
Selling and marketing	\$ 3,904	\$ 3,379	15.5%
As a percentage of consolidated revenues	1.6%	1.6%	

Selling and marketing expenses increased over the prior year as a result of both adding personnel from its recent acquisitions and investing in additional selling and marketing efforts. Costs for 2016 may continue to increase slightly over the 2015 level as the Company continues to invest in its diversification, evolution and the broadening of its target markets.

General and administration	2015	2014	% change
General and administration	\$ 16,924	\$ 16,141	4.9%
As a percentage of consolidated revenues	7.0%	7.6%	

General and administration costs increased over the prior year as a result of both adding personnel from its recent acquisitions and investing in service line evolution capabilities. However, total costs as a percentage of revenues decreased. Management will continue to challenge discretionary spending; however, prudent investments may be required to support the evolution of the Company's service lines.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Facilities	2015	2014	% change
Facilities	\$ 3,461	\$ 3,374	2.6 %

Facility expenses, which include costs associated with office space, have been relatively stable over the past several years. Overall facility costs are expected to increase slightly in 2016.

Earnings before interest income, income tax expense, depreciation and amortization (EBITDA)⁽¹⁾

EBITDA⁽¹⁾ for fiscal 2015 was \$17,222 compared to EBITDA of \$16,216 in the previous year.

⁽¹⁾ See reconciliation regarding non-GAAP measures below

Depreciation and amortization	2015	2014	% change
Depreciation	\$ 1,285	\$ 1,077	19.3 %
Amortization	\$ 1,431	\$ 924	55.0 %

Depreciation expense increased and reflects an investment in a new Surface Mount Technology (SMT) manufacturing line at the SED division. Depreciation expense is expected to remain stable for 2016.

As a result of the completion of three business acquisitions during fiscal 2014, amortization of intangibles increased to \$1,431 compared to \$924 in fiscal 2014.

Deemed compensation related to acquisition and Bargain Purchase Gain

The deemed compensation results from a portion of the purchase price related to the Amtek and DWP acquisitions being deemed as deferred compensation payable to certain shareholders under IFRS and therefore is excluded from the total consideration of the purchase. In addition, as a result of excluding a significant portion of the purchase price in the Amtek acquisition, the identifiable tangible and intangible assets on acquisition were higher than the consideration allocated which resulted in a bargain purchase gain.

For 2015, deemed compensation related to acquisition amounted to \$1,069 compared to \$429 recorded in 2014. For 2015, bargain purchase gain related to acquisition amounted to \$nil compared to \$330 recorded in 2014. For 2016, the deemed compensation amount is expected to be \$643.

Interest income

Interest income for 2015 represents interest earned on the Company's cash balances and decreased from the prior year as a result of lower cash balances in 2015.

Income tax expense

The Company reports its results on a fully taxed basis. The provision for income taxes for 2015 was \$3,757 or 27.7% of earnings before income taxes compared to \$3,806 or 26.5% of earnings before income taxes in 2014. The increase in tax rate is reflective of the non-deductible nature of the deemed compensation. The effective tax rate for 2016, prior to considering the impact of non-taxable transactions, is expected to be approximately 26.5%.

Net profit

The Company reported net profit of \$9,767 or \$1.33 per share basic and diluted for 2015 compared to \$10,581 or \$1.44 per share basic and diluted in 2014. The Company reported adjusted net profit⁽¹⁾ of \$10,836 or \$1.48 per share basic and diluted for 2015 compared to \$10,680 or \$1.45 per share basic and diluted in 2014.

⁽¹⁾ See reconciliation regarding non-GAAP measures below

Management's Discussion and Analysis of Financial Condition and Results of Operations

Reconciliation of non-GAAP measures to most comparable IFRS measures:

Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of the Company's financial reports with enhanced understanding of the Company's results and related trends and increases transparency and clarity into the core results of the business.

EBITDA, Adjusted net profit and adjusted net profit per share exclude items that do not reflect, in our opinion, the Company's core performance and helps users of our MD&A to better analyze our results, enabling comparability of our results from one period to another. In addition, as a result of significant increases in amortization from of recent acquisitions, the Company believes it is appropriate to explain its result prior to these acquisition charges.

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

Reconciliation of Adjusted Net Profit

	2015	2014
NET PROFIT	\$ 9,767	\$ 10,581
Deemed compensation related to acquisitions	1,069	429
Bargain purchase gain	-	(330)
Adjusted net profit	\$ 10,836	\$ 10,680

Reconciliation of EBITDA

	2015	2014
Profit before interest and income tax expense	\$ 13,437	\$ 14,116
Depreciation	1,285	1,077
Amortization	1,431	924
Deemed compensation related to acquisitions	1,069	429
Bargain purchase gain	-	(330)
EBITDA	\$ 17,222	\$ 16,216

Management's Discussion and Analysis of Financial Condition and Results of Operations

Selected Quarterly Financial Data

(dollars in millions, except per share data)

	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14
Revenues	\$ 60.9	\$ 64.3	\$ 61.0	\$ 56.0	\$ 54.4	\$ 53.8	\$ 51.2	\$ 51.8
EBITDA⁽¹⁾	\$ 4.9	\$ 4.0	\$ 4.0	\$ 4.4	\$ 4.5	\$ 4.1	\$ 3.5	\$ 4.1
Net profit	\$ 2.9	\$ 2.2	\$ 2.2	\$ 2.5	\$ 2.6	\$ 2.9	\$ 2.4	\$ 2.8
Adjusted net profit⁽¹⁾	\$ 3.1	\$ 2.5	\$ 2.5	\$ 2.7	\$ 2.9	\$ 2.7	\$ 2.4	\$ 2.8
Net profit per share								
Basic	\$ 0.39	\$ 0.30	\$ 0.30	\$ 0.34	\$ 0.35	\$ 0.39	\$ 0.32	\$ 0.38
Diluted	\$ 0.39	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.35	\$ 0.39	\$ 0.32	\$ 0.38
Adjusted net profit per share ⁽¹⁾								
Basic	\$ 0.43	\$ 0.34	\$ 0.34	\$ 0.37	\$ 0.38	\$ 0.37	\$ 0.32	\$ 0.38
Diluted	\$ 0.43	\$ 0.34	\$ 0.34	\$ 0.37	\$ 0.38	\$ 0.37	\$ 0.32	\$ 0.38

⁽¹⁾ See reconciliation regarding non-GAAP measures above

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

The full text of the Company's fourth quarter management discussion and analysis can be found on SEDAR at www.SEDAR.com.

Liquidity and Capital Resources

Calian's net cash position was \$10,624 at September 30, 2015, compared to \$25,200 at September 30, 2014.

	2015	2014
Cash flows from operating activities before changes in working capital	\$ 17,409	\$ 16,404
Changes in working capital	(20,264)	(4,966)
Cash flows from (used in) operating activities	\$ (2,855)	\$ 11,438
Cash flows from (used in) financing activities	(7,820)	(9,151)
Cash flows from (used in) investing activities	(3,901)	(6,869)
Decrease in cash	\$ (14,576)	\$ (4,582)

Operating activities

Cash outflows from operating activities for 2015 were \$2,855 compared to cash inflows of \$11,438 in 2014. Although cash earnings were improved over the prior year, the cash flows have been negatively impacted by the increase in work in process with the SED division continuing to perform work on customer contracts in advance of milestone billings. These variations in cash flows are not considered unusual and reflect normal working capital fluctuations associated with the ebbs and flows of the business. The market for the Systems Engineering Division is characterized by contracts with billings tied to milestones achieved, which often results in significant working capital requirements. Conversely, given the nature of this business, it is sometimes possible to negotiate advance payments on contracts. Such advance payments give rise to unearned revenue that will be realized as revenue over the course of the contract. As at September 30, 2015, the Company's total unearned revenue amounted to \$6,980. This compares to \$5,141 at September 30, 2014, with the increase primarily attributable to advance billings for work to be performed in a future period.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financing activities

Dividend

As a result of continuing earnings and a strong cash position, the Company maintained its dividend in 2015. The Company paid quarterly dividends totaling \$8,262 or \$1.12 cents per share compared to 2014 when the Company paid \$8,263 in dividends or \$1.12 cents per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

Shares

During 2015 the Company did not repurchase any shares under the NCIB and during 2014 the Company repurchased 64,500 common shares at an average price of \$19.79 through its normal course issuer bids.

At September 30, 2015 there were 495,000 options outstanding at an average price of \$19.40 expiring at various dates between February 13, 2016 and September 9, 2020.

At September 30, 2015 there were 7,378,298 common shares outstanding and as of the date of this Management Discussion and Analysis, there were 7,378,298 common shares outstanding.

Investing activities

Equipment expenditures

Calian acquired \$2,701 in equipment, furniture and fixtures during 2015, compared to \$1,188 during 2014. The increase in expenditures in the current year reflects an investment in a new Surface Mount Technology manufacturing line at the SED division. At September 30, 2015 there were no significant commitments to expend capital assets.

Acquisitions

During 2015 (2014), the Company paid \$1,200 (\$5,681) for various acquisitions as described in the notes to the consolidated financial statements.

Capital resources

At September 30, 2015 the Company had a short-term credit facility of \$10,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. An amount of \$75 was drawn to issue a letter of credit to meet customer contractual requirements.

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

Contractual obligations

Payments due:	Total	<1 year	1-3 years	4-5 years	>5 years
Operating leases	\$11,507	\$ 2,616	\$ 4,869	\$ 3,571	\$ 451
Purchase obligations	27,603	18,508	9,095	-	-
Total contractual obligations	\$39,110	\$21,124	\$13,964	\$ 3,571	\$ 451

Purchase obligations include agreements to purchase goods and services that are enforceable and legally binding. They do not include agreements that are cancellable without penalty.

Purchase obligations include agreements to purchase goods and services that are enforceable and legally binding. They do not include agreements that are cancellable without penalty.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements at September 30, 2015.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating leases

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

Related party transactions

There were no transactions with related parties during 2015 and 2014.

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the Company's financial condition and results of operations. On an on going basis, management reviews its estimates and assumptions, including those related to revenue recognition on fixed-price projects, provisions and contingencies, estimated timing of reversals of income tax temporary differences, allowance for doubtful accounts, valuation of investment and impairment of goodwill. Management bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances; actual results could differ from those estimates.

Revenue recognition

The Business and Technology Services Division's revenue is derived primarily from per-diem contracts where revenue is recognized when the services are provided. However, a significant portion of the Systems Engineering Division's revenue is derived from fixed price contracts. Revenue from these fixed price projects is recognized using the percentage of completion method using management's best estimate of the costs and related risks associated with completing the projects. The greatest risk on fixed price contracts is the possibility of cost overruns. Management's approach to revenue recognition is tightly linked to detailed project management processes and controls. The information provided by the project management system combined with a knowledgeable assessment of technical complexities and risks are used in estimating the percentage completion.

Contingencies

From time to time the Company is involved in claims in the normal course of business. Management assesses such claims and where considered likely to result in a material exposure and, where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. The Company does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

Income taxes

The Company records future income tax assets and liabilities related to deductible temporary differences. The Company assesses the value of these assets and liabilities based on their probability of being realized given management assessments of future taxable income.

Allowance for doubtful accounts

The Company has extensive commercial history upon which to base its provision for doubtful accounts. Due to the nature of the industry in which the Company operates, the Company does not create a general provision for bad debts but rather determines bad debts on a specific account basis. Due to the blue chip list of customers, the Company's allowance for doubtful accounts at September 30, 2015 and 2014 was minimal.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Goodwill

Goodwill is tested for impairment annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. Testing for impairment is accomplished by determining whether the fair value of the cash generating unit exceeds the net carrying value as of the assessment date. If the fair value is greater than the carrying amount, no impairment is necessary. The determination of fair value is based on management's estimate of future results of operations of the reporting unit using reasonable assumptions relating to growth levels when considering the current and forecasted business environment and each cash-generating unit's discount rate. For purpose of determining fair value, management considered a growth level range of 0% to 3% and a discount rate range of 13% to 16% for its BTS division.

Adoption of New Accounting Rules and Impact on Financial Results

The Company did not adopt any new accounting policies this year.

Impact of Accounting Pronouncements Not Yet Implemented

There were no new accounting pronouncements issued in 2015 which would affect the Company's results of operations or financial conditions.

Management's Conclusion on the Effectiveness of Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's disclosure controls and procedures as of September 30, 2015, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them and that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

Management's Conclusion on the Effectiveness of Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's internal control over financial reporting as of September 30, 2015, have concluded that the Company's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with IFRS.

During the most recent interim quarter ending September 30, 2015, there have been no changes in the design of the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Risk Factors

The Company is subject to a number of risks and uncertainties that could significantly affect the Company's financial condition and future results of operations. Risk management is an integral part of how the Company plans and monitors the business strategies and results and we have embedded risk management activities in the operational responsibilities of management and made them an integral part of our overall governance, organizational and accountability structure. The Company faces some or all of the following risks and uncertainties:

Competition for contracts within key markets

The markets for the Company's services are very competitive, rapidly evolving and subject to technological changes. The principal competitive factors in the Company's markets are quality, performance, price, timeliness, customer support and reputation. The Company has a disciplined approach to management of all aspects of its business. The Company is a proponent of quality management; SED is registered under ISO 9001-2008 standards and BTS is a founding partner of Excellence Canada previously accredited at Level 4 of the Progressive Excellence Program and currently working on attaining Gold certification as per the new Excellence Canada standard. This approach to management, with a focus on quality was developed to help the Company ensure that its employees deliver services consistently according to the Company's high standards and based on strong values underlying its client-focused culture.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Concentration of Revenues

The Company has certain ongoing contracts that account for a significant portion of revenues. Should these contracts not be renewed at expiry or should a competitor win the renewal, the Company's future revenue stream and overall profitability could be significantly reduced. While there is no indication that such contracts will be left to expire, there is a risk that a competitor could win the work at the next renewal point. Our strong historical performance and keen focus on customer requirements puts us in good stead, but winning the renewal is not assured.

The availability of qualified professionals

Competition from other firms has a two-fold impact on the Company. The Company must not only vie for qualified employees for its own operations but must have ready access to a large pool of qualified professionals to satisfy contractual arrangements with customers. The Company mitigates these factors through a number of means. The Company's performance-driven remuneration policies and its favorable working environment are conducive to attracting ambitious, qualified professionals. As a supplier of professional employees through outsourcing contracts, the Company regularly establishes relationships with a significant number of professionals in key markets. While SED revenues are usually predominately export, its labour costs are largely influenced by domestic and regional economic factors. Accordingly, labour costs could become significantly higher than those of foreign competitors, thereby eroding our competitive position.

Performance on fixed-price contracts

A large percentage of SED's contracts are based on a fixed price for the provision of a specified service or system against an agreed delivery schedule. These fixed-price contracts at times involve the completion of large-scale system engineering projects. There is a risk in all fixed-price contracts that the Company will be unable to deliver the system within the time specified and at the expected cost. The Company employs sophisticated design and testing processes and practices, which include a wide range of stringent factory and on-site acceptance tests with criteria and requirements jointly developed with the customer. However, non-performance could result in a customer being in a position to terminate the contract for default, or to demand repayments or penalties. Program management methodologies have been implemented to adequately manage each project and any customer change, and to identify and mitigate potential technical risks and related cost overruns. In addition, the Company employs procedures to ensure accurate estimating of costs and performs regular detailed reviews of progress on each project.

Non-performance of a key supplier or contractor

The Company's business is often dependent on performance by third parties and subcontractors for completion of contracts for which the Company is the prime contractor. Subcontractors for large systems are selected in concurrence with the customer's requirements, and if not directed by the customer, are selected through a competitive bid or negotiated process. Most major development subcontracts are established as fixed-price contracts. The Company believes that these subcontractors have an economic incentive to perform such subcontracts for the Company. However, no company can protect itself against all material breaches, particularly those related to financial insolvency of the subcontractors or to cost overruns by subcontractors. Risks include a significant price increase in those few subcontracts that are not fixed-price, delay in performance, failure of any major subcontractor to perform or the inability of the Company to obtain replacement subcontractors at a reasonable price. The performance of key subcontracts is closely monitored as part of the Company's project management process to promptly identify potential issues and develop remedial actions.

Rapidly changing technologies and customer demands

The markets in which the Company operates are characterized by changing technology and evolving industry standards. The Company keeps pace with developments in the industries it serves and actively monitors the evolution of these markets, thus ensuring that it can meet the evolving needs of its clients. The Company achieves this by continually recruiting professionals in high demand positions and providing regular training to ensure employee skills remain current. The Company's ability to anticipate changes in technology, technical standards and service offerings will be a significant factor in the Company's ability to compete or expand into new markets.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Customer's ability to retain market share

The Company performs manufacturing services for a number of customers, whereby we build their products to meet their market demands. While these relationships are long-standing, the Company is susceptible to overall shifts in market demand for such products as well as our customers' share of such markets. While the Company has regular discussions with customers regarding upcoming requirements, an erosion of a customer's market share for a particular product could have a direct impact on the Company's revenues and profitability.

Government contracts

During fiscal 2015, approximately 62% of the Company's total revenues were derived from contracts with the Canadian government and its agencies. The government may change its policies, priorities or funding levels through agency or program budget reductions or impose budgetary constraints. Furthermore, contracts with governments, including the Canadian government, may be terminated or suspended by the government at any time, with or without cause, and may be subject to certain audits or other claims. Although in the past the Company has rarely experienced cancellations of previously awarded significant contracts by the Canadian government, there can be no assurance that any contract with the government will not be terminated or suspended in the future.

Backlog

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. At September 30, 2015 the Company's backlog included \$121 million of contract value in excess of the current estimated utilization levels. Should additional customer requirements for the Company's services under these contracts not materialize, this excess will not be realized.

Credit risk concentration with respect to accounts receivable

As the Company grows, it monitors the concentration of its business in its various segments and with particular customers. In management's opinion, the fact that the Company operates in two segments that provide some diversification of its customer base mitigates the potential impact on earnings and cash flow of problems related to an individual sector or customer.

Insufficient or inappropriate mix of work for fixed labour resources

Virtually all employees of SED are full time staff and represent a broad spectrum of unique skill sets. Accordingly, SED strives to secure sufficient labour sales that adequately match the skill sets. SED's business development practices are designed to dynamically adjust pursuits of contracts to address the sufficiency and mix of available resources. In the event SED cannot secure the required workforce, it may not be in a position to bid on or secure certain contracts.

Operational risk

Operational risk is managed through the establishment of effective infrastructure and controls. Key elements of the infrastructure are qualified, well-trained personnel, clear authorization levels and reliable technology. Controls established by documented policies and procedures include the regular examination of internal controls by internal employees as well as our auditors, segregation of duties, and financial management and reporting. In addition, the Company maintains insurance coverage and contingency plans for systems failures or catastrophic events.

Foreign currency risk

The Company operates internationally with approximately 23% of its business derived from non-Canadian sources. A substantial portion of this international business is denominated in major foreign currencies and therefore the Company's results from operations are affected by exchange rate fluctuations of these currencies relative to the Canadian dollar. The Company uses financial instruments, principally in the form of forward exchange contracts, in its management of foreign currency exposures. At September 30, 2015 the Company had various forward exchange contracts, which are explained in Note 19 to the Company's consolidated financial statements for the year ended September 30, 2015. The strengthening of the Canadian dollar relative to other foreign currencies may negatively impact the Company's competitiveness and increase pressure on margins for new work.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Sufficiency of insurance

The Company carries various forms of insurance to protect itself from a variety of insurable risks. However, such coverage may not be sufficient in extreme circumstances and accordingly there exists a risk to the Company. While the Company cannot reasonably insure itself for all events, it regularly reviews the availability, scope and amounts of coverage with its professional advisors and implements an approach balancing both cost and risk.

Medical malpractice

As a result of the Company executing health services for numerous customers, the Company is subject to risks associated with the medical profession. In order to mitigate such risks to the degree possible, the Company has obtained medical malpractice and professional liability insurance. In addition, it is a condition of employment for doctors, dentists and other medical professionals to maintain appropriate credentials, be in good standing with their medical associations and obtain medical malpractice insurance from their respective association.

Political and trade barriers

Revenues on certain projects are derived from customers in foreign jurisdictions and are subject to trade and political barriers relating to the protection of national interests. These barriers could have an adverse effect on our ability to win repeat business and attract new customers. In addition there is a risk that economic sanctions imposed by Canada against aggressive countries could limit pursuits of new business with those countries.

Consolidation of customer base

Certain markets and industries can experience both restructuring and consolidation from time to time. As the newly formed entities focus on optimizing cash flows and gaining economies of scale, opportunities may be diminished or work currently performed by the Company could be repatriated, resulting in a loss of revenue or the creation of a very competitive environment with commensurate pressure on margins.

Long term Outlook

Management is confident that the Company is well positioned for sustained growth in the long term. The Company's strong contract backlog provides a solid base for the realization of future revenues. Leveraging the Company's diverse services offerings, the Company operates in global and domestic markets that will continue to require the services that the Company offers. To ensure the Company is positioned to respond to market requirements, the Company will focus on the execution of its four pillar growth strategy:

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

The company has completed four acquisitions in the past 3 years, and will proactively look for companies that can accelerate its growth strategy with a focus on customer diversification and service line evolution.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The SED Division has been working within a sustainable satellite sector and is expecting opportunities to continue to arise as systems adopting the latest technologies will be required by customers wishing to maintain and improve their service offerings and react to an increasing demand for bandwidth. SED continues to invest in communications products, software development and manufacturing equipment to strengthen its competitive position. However in the short-term, activity levels in custom manufacturing will continue to be directly dependent upon SED's customers' requirements and continuing volatility in orders is anticipated as both government and commercial customers continue to re-examine their traditional spending patterns. The recent delays, deferrals and cancellations of DND capital procurements have created intense competition for available manufacturing work. Finally, changes in the relative value of the Canadian dollar may negatively or positively impact the Systems Engineering Division's competitiveness on projects denominated in foreign currencies.

The BTS Division's services are adaptable to many different markets. Currently, its strength lies in providing program management and delivery services across Canada with a significant portion of this work currently with the Department of National Defence. Recently the division has been successful in diversifying its customer base and evolving its service offerings. As an example the division now provides direct to customer health services through the operation of managed medical clinics as well as onsite health practitioners in the oil and gas sector. Management believes that for the long term, the public and private sector will continue to require health, IT, and training services from private enterprises to achieve their business outcomes. Looking at the current outlook, the results of the recent election and budget balancing initiatives in the federal government may create uncertainty as to the extent of demand from this customer, at least in the short term. With recent investments in sales, marketing, acquisitions and success in new markets outside of the federal government, the division is better positioned to manage through these downturns. Recent acquisitions have also bolstered the division's performance and it is expected that overall, the acquired companies will continue to meet and exceed the financial targets established as part of the acquisitions.

Additional Information

Additional information about the Company such as the Company's 2015 Annual Information Form and Management Circular can be found on SEDAR at www.SEDAR.com

Dated: December 3, 2015

Management's Statement of Responsibility

The accompanying consolidated financial statements of Calian Technologies Ltd. and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements include some amounts that are based on management's best estimates that have been made using careful judgment.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling its responsibilities, management of Calian has developed and continues to maintain systems of internal accounting controls including written policies and procedures and segregation of duties and responsibilities.

Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this report through its Audit Committee. The Audit Committee meets periodically with management to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the financial statements and financial reporting matters. The Audit Committee also meets periodically with the external auditors to review and discuss the financial statements and financial reporting matters.

The financial statements have been audited by Deloitte LLP, Chartered Professional Accountants, who have full access to the Audit Committee with and without the presence of management.



Kevin Ford

*President and CEO
Ottawa, Ontario
November 10, 2015*



Jacqueline Gauthier

Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Calian Technologies Ltd.

We have audited the accompanying consolidated financial statements of Calian Technologies Ltd., which comprise the consolidated statements of financial position as at September 30, 2015 and September 30, 2014, and the consolidated statements of net profit, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Calian Technologies Ltd. as at September 30, 2015 and September 30, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



**Chartered Professional Accountants
Licensed Public Accountants**

November 10, 2015
Ottawa, Ontario

Calian Technologies Ltd.
Consolidated Statements of Financial Position

As at September 30, 2015 and 2014

(Canadian dollars in thousands)

	NOTES	September 30, 2015	September 30, 2014
ASSETS			
CURRENT ASSETS			
Cash		\$ 10,624	\$ 25,200
Accounts receivable		50,494	39,249
Work in process		17,431	12,590
Prepaid expenses		1,449	1,700
Derivative assets	19	424	191
Total current assets		80,422	78,930
NON-CURRENT ASSETS			
Equipment	6	5,245	3,615
Application software	7	377	518
Acquired intangible assets	8	4,246	5,750
Goodwill	9	12,037	12,037
Total non-current assets		21,905	21,920
TOTAL ASSETS		\$ 102,327	\$ 100,850
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 25,582	\$ 24,013
Unearned contract revenue	15	6,980	5,141
Derivative liabilities	19	751	473
Total current liabilities		33,313	29,627
NON-CURRENT LIABILITIES			
Deferred tax liabilities	14	299	1,672
Total non-current liabilities		299	1,672
TOTAL LIABILITIES		33,612	31,299
SHAREHOLDERS' EQUITY			
Issued capital	10	20,673	20,161
Contributed surplus		458	336
Retained earnings		50,633	49,128
Accumulated other comprehensive loss		(3,049)	(74)
TOTAL SHAREHOLDERS' EQUITY		68,715	69,551
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 102,327	\$ 100,850

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board
on November 10, 2015:



Kenneth Loeb
Chairman



Richard Vickers
Director

Calian Technologies Ltd.
Consolidated Statements of Net Profit
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share data)

	NOTES	2015	2014
Revenues		\$ 242,253	\$ 211,257
Cost of revenues		200,742	172,147
Gross profit		41,511	39,110
Selling and marketing		3,904	3,379
General and administration		16,924	16,141
Facilities		3,461	3,374
Depreciation of equipment and application software		1,285	1,077
Amortization of acquired intangible assets		1,431	924
Deemed compensation related to acquisitions	20	1,069	429
Bargain purchase gain	20	-	(330)
Profit before interest income and income tax expense		13,437	14,116
Interest income	13	87	271
Profit before income tax expense		13,524	14,387
Income tax expense – current		4,068	4,085
Income tax expense – deferred		(311)	(279)
Total income tax expense	14	3,757	3,806
NET PROFIT		\$ 9,767	\$ 10,581
Net profit per share:			
Basic	12	\$ 1.33	\$ 1.44
Diluted	12	\$ 1.33	\$ 1.44

The accompanying notes are an integral part of the consolidated financial statements.

Calian Technologies Ltd.
Consolidated Statements of Comprehensive Income
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands)

	NOTES	2015	2014
NET PROFIT		\$ 9,767	\$ 10,581
Other comprehensive income, net of tax			
Items that will be reclassified subsequently to net profit:			
Change in deferred gain (loss) on derivatives designated as cash flow hedges, net of tax of \$1,081 (2014 - \$65).		(2,975)	180
Other comprehensive income (loss), net of tax		(2,975)	180
COMPREHENSIVE INCOME		\$ 6,792	\$ 10,761

The accompanying notes are an integral part of the consolidated financial statements.

Calian Technologies Ltd.
Consolidated Statements of Changes in Equity

For the years ended September 30, 2015 and 2014

(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2014		\$ 20,161	\$ 336	\$ 49,128	\$ (74)	\$ 69,551
Comprehensive income		-	-	9,767	(2,975)	6,792
Dividend paid (\$1.12 per share)		-	-	(8,262)	-	(8,262)
Issue of shares under employee stock purchase plan	10,11	413	-	-	-	413
Issue of shares under stock option plan	10	99	(6)	-	-	93
Share-based compensation expense	11	-	128	-	-	128
Balance September 30, 2015		\$ 20,673	\$ 458	\$ 50,633	\$ (3,049)	\$ 68,715

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2013		\$ 19,746	\$ 216	\$ 47,089	\$ (254)	\$ 66,797
Comprehensive income		-	-	10,581	180	10,761
Dividend paid (\$1.12 per share)		-	-	(8,263)	-	(8,263)
Issue of shares under employee stock purchase plan	10,11	465	-	-	-	465
Share-based compensation expense	11	-	120	-	-	120
Share repurchase	10	(174)	-	(1,102)	-	(1,276)
Share repurchase obligation change	10	124	-	823	-	947
Balance September 30, 2014		\$ 20,161	\$ 336	\$ 49,128	\$ (74)	\$ 69,551

The accompanying notes are an integral part of the consolidated financial statements.

Calian Technologies Ltd.
Consolidated Statements of Cash Flows
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands)

	NOTES	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		\$ 9,767	\$ 10,581
Items not affecting cash:			
Interest income	13	(87)	(271)
Income tax expense	14	3,757	3,806
Employee stock purchase plan and share-based compensation expense		187	188
Depreciation and amortization expense		2,716	2,001
Deemed compensation related to acquisitions		1,069	429
Bargain purchase gain		-	(330)
		17,409	16,404
Change in non-cash working capital			
Accounts receivable		(10,445)	3,252
Work in process		(4,840)	(2,826)
Prepaid expenses		251	570
Accounts payable and accrued liabilities		(3,072)	(3,496)
Unearned contract revenue		1,838	1,083
		1,141	14,987
Interest received		87	287
Income tax paid		(4,083)	(3,836)
		(2,855)	11,438
CASH FLOWS USED IN FINANCING ACTIVITIES			
Issuance of common shares	10,11	442	388
Dividends		(8,262)	(8,263)
Repurchase of shares	10	-	(1,276)
		(7,820)	(9,151)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Equipment and application software expenditures	6,7	(2,701)	(1,188)
Acquisitions	20	(1,200)	(5,681)
		(3,901)	(6,869)
NET CASH OUTFLOW		\$ (14,576)	\$ (4,582)
CASH, BEGINNING OF PERIOD		25,200	29,782
CASH, END OF PERIOD		\$ 10,624	\$ 25,200

The accompanying notes are an integral part of the consolidated financial statements.

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2015 and 2014

(Canadian dollars in thousands, except per share amounts)

1. Basis of preparation

Calian Technologies Ltd. ("the Company") is incorporated under the Canada Business Corporations Act. The address of its registered office and principal place of business is 340 Legget Drive, Ottawa, Ontario K2K 1Y6. The Company's capabilities 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.

Statement of compliance

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board ("IASB") and in place for September 30, 2015. These consolidated financial statements were prepared using the accounting policies as described in Note 2 – Summary of significant accounting policies.

These consolidated financial statements for the year ended September 30, 2015 were authorized for issuance by the Board of Directors on November 10, 2015.

2. Summary of significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise stated.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Calian Ltd. located in Ottawa, Ontario, Primacy Management Inc. located in Burlington, Ontario, Med-Team Clinic Inc., located in Ottawa, Ontario, Amtek Engineering Services Ltd, located in Ottawa, Ontario and DWP Solutions Inc., located in Ottawa, Ontario. The results of the subsidiaries acquired in 2014 are included from the date of acquisition and onward. All transactions and balances between these companies have been eliminated on consolidation.

Basis of presentation

The consolidated financial statements are presented at historical cost unless otherwise noted. Historical cost is generally based on the fair value of the consideration given in exchange for the asset or liability.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

Fixed price contracts

Where the outcome of fixed-price construction contracts can be estimated reliably, revenue is recognized by reference to the completed activity of the contract as at each reporting period, measured based on the proportion of the costs incurred for work performed to date relative to the estimated total contract costs including warranty costs where applicable, except where this would not be representative of the stage of completion. As some contracts extend over more than one year, any revision in cost and profit estimates made during the course of the work is reflected in the accounting period in which the facts indicating a need for the revision become known. Variations in contract work, claims and incentive payments if any, are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of fixed-price construction contracts cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as work in process. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as unearned contract revenue. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as unearned contract revenue. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under accounts receivable.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Time and material contracts

Revenue derived from time and material contracts is recognized at the contractual rates as labour hours are delivered and direct expenses are incurred. Variations in revenue incentive payments if any are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Share-based compensation

The Company has a stock option plan for executives and other key employees. The Company measures and recognizes compensation expense based on the grant date fair-value of the stock options issued using the Black-Scholes pricing model. The offsetting credit is recorded in contributed surplus. Compensation expense is recorded on a straight-line basis over the vesting period, based on the Company's estimate of stock options that will ultimately vest. At each reporting period, the Company revises its estimate of the stock options expected to vest. The impact on the change in estimate, if any, is recognized over the remaining vesting period. Consideration paid by employees on the exercise of options and related amounts of contributed surplus are recorded as issued capital when the shares are issued.

The Company has an employee stock purchase plan available to all employees of the Company. The plan provides for a discount to the fair market value at the date the shares are issued. Compensation expense representing the discount is recorded as general and administration expenses with an offsetting amount to issued capital.

Leases

Leases entered into are classified as either finance or operating leases. Leases that transfer substantially all of the risks and rewards of ownership of property to the Company are accounted for as finance leases. For leases which are classified as operating leases, lease payments are recognized as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis. The Company does not have any finance leases.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net profit, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current tax

The tax currently payable is based on taxable income for the period using tax rates enacted or substantively enacted as at each reporting period and any adjustments to tax payable related to previous years. Taxable profit differs from profit as reported in the consolidated statement of net profit because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is recognized using the balance sheet method, providing for differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used for taxation purposes calculated using the tax rates in effect when the differences are expected to reverse.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted at each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Equipment

Equipment, comprising leasehold improvements, furniture and computer equipment is stated at cost less accumulated depreciation and impairment losses, if any. The carrying value is net of related government assistance and investment tax credits. Depreciation is recognized in net profit on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the term of the leases. The estimated useful lives are as follows:

- Leasehold improvements: over the term of each lease
- Furniture: 10 years
- Computer equipment: 5 years

The estimated useful lives, residual values and depreciation methods are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

Application software

Application software is measured at cost less accumulated depreciation and is amortized on a straight-line basis over its estimated useful life not exceeding five years. The amortization method and estimate of useful lives are reviewed annually.

Acquired intangible assets

Acquired intangible assets are measured at cost less accumulated amortization. Amortization is recognized in net profit on a straight-line basis over the estimated useful lives of the underlying assets. The estimated useful lives are as follows:

- Customer relationship Primacy: indefinite
- Other customer relationships: 3 to 5 years
- Contracts with customers: 3 to 5 years
- Non-competition agreements: 7 years

The customer relationship from the Primacy acquisition, representing expected renewals of the acquired contract, is considered to have an indefinite life based on the fact that the contract is renewable on an annual basis indefinitely. The amortization method and estimate of useful life for all other intangible assets is reviewed annually.

Impairment of equipment, application software and intangible assets

At each reporting period, management reviews the carrying amounts of its equipment, application software and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with an indefinite life are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, management estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units. The Company performs its annual review of intangible assets with an indefinite life on September 30th each year.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Impairment of goodwill

Goodwill arising on the acquisition of a business represents the excess of the purchase price over the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired businesses recognized at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the synergies of the combination. Cash-generating units or groups of cash generating units to which goodwill has been allocated are tested for impairment annually or more frequently if events or changes in circumstances indicate that the unit might be impaired. For purposes of impairment testing of goodwill, cash-generating units or groups of cash generating units correspond to the Company's reporting segments as disclosed in Note 18.

When the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the cash-generating unit on a pro-rata basis. An impairment loss recognized for goodwill is not reversed in a subsequent period. The Company performs its annual review of goodwill on September 30th each year.

Business acquisition

Acquisition of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes a payment subject to the retention of the principal shareholders, the amount is deemed to represent deferred compensation payable to such shareholders and therefore is excluded from the total consideration to the purchase and is expensed on a straight-line basis over the retention period in the Company's consolidated statement of net profit as deemed compensation related to acquisitions.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Foreign currency translation

Transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. At each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at each reporting period. Non-monetary items which are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in net profit in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currencies (see note below for hedging policy).

The functional currency of the parent company and its subsidiaries is the Canadian dollar.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company's financial assets are classified as follows:

Cash	Fair value through profit or loss
Accounts receivable	Loans and receivables
Derivative assets	Fair value through profit or loss

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets at FVTPL are measured at fair value. Derivative assets are classified as FVTPL. Changes in fair value of financial assets other than derivatives are recognized in net profit and changes in fair values of derivatives are recognized in Other Comprehensive Income ("OCI").

Loans and receivables

Accounts receivable are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of financial assets have been impacted. Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Accounts receivable are assessed for impairment individually. Objective evidence of impairment could include the Company's past experience of collecting payments and an increase in the number of delayed payments past the average credit period.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Impairment losses, if any, are recognized in net profit. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in net profit, if any. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net profit to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Company's accounts payable and accrued liabilities and share purchase obligations are classified as other financial liabilities. Accounts payable and accrued liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Derivative liabilities are classified as FVTPL. The share purchase obligation is based on the fair value of the Company's shares at the end of each period.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset (or financial liability) and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (cash disbursements), including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

Fair value hierarchy

The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

Level 1 values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within more than one level of the hierarchy, the level within which the fair value measurement is categorized is based on the Company's assessment of the lowest level input that is the most significant to the fair value measurement.

Derivative financial instruments and risk management

The Company enters into derivative financial instruments, mainly foreign exchange forward contracts to manage its foreign exchange rate risk. The Company's policy does not allow management to enter into derivative financial instruments for trading or speculative purposes. Foreign exchange forward contracts are entered into to manage the foreign exchange rate risk on foreign denominated financial assets and liabilities and foreign denominated forecasted transactions.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into with transaction costs recognized in profit and loss. Derivatives are subsequently re-measured to their fair value at each reporting period. The resulting gain or loss is recognized in net profit immediately unless the derivative is designated and effective as a hedging instrument, in which event the effective portion of changes in the fair value of the derivative is recorded in other comprehensive income and is recognized in net profit when the hedged item affects net profit. The Company expenses transaction costs related to its foreign exchange contracts. Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place at the end of the period. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months.

Hedge accounting

Management designates its foreign exchange forward contracts as either hedges of the fair value of recognized assets or liabilities (fair value hedges) or hedges of highly probable forecast transactions and firm commitments (cash flow hedges).

At the inception of the hedge relationship, the Company documents the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Furthermore, both at the hedge's inception and on an ongoing basis, the Company also assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in net profit immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in net profit, and is included in other gains and losses, if any. Amounts deferred in other comprehensive income are recycled in net profit in the periods when the hedged item is recognized in net profit, in the same line of the statement of net profit as the recognized hedged item.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Hedge accounting is discontinued when management revokes the hedging relationship; the hedging instrument is terminated or no longer qualifies for hedge accounting. For fair value hedges, the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net profit from that date. For cash flow hedges, any cumulative gain or loss deferred in other comprehensive income at that time remains in other comprehensive income and is recognized when the forecast transaction is ultimately recognized in net profit. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in other comprehensive income is recognized immediately in net profit.

Note 19 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

3. Changes in accounting policies

During the current year, the Company has made no changes to its accounting policies.

4. Future changes in accounting policies

IFRS 15 Revenue from Contracts with Customers

In April 2014, the IASB released IFRS 15 – Revenue from Contracts with Customers. The Standard replaces IAS11 Construction Contracts and IAS18 Revenue, providing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

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 uses a single approach to determine whether a financial instrument is measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of those financial instruments. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

5. Critical accounting judgments and key sources of estimation uncertainty

Estimates:

The preparation of financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates.

Purchase price allocation

As described in Note 20 of these financial statements, the Company acquired several companies during the year ended September 30, 2014. As a result of these acquisitions, management was required to estimate the fair values of each identifiable asset and liability acquired through the acquisitions. Fair value of cash, accounts receivable, accounts payable and equipment were estimated to approximate their carrying values at the date of the transaction. The fair values of the intangible assets were valued using the excess earnings method under the income approach.

Contingent consideration

As described in Note 20 of these financial statements, the Company acquired several companies during the year ended September 30, 2014. As a result of these acquisitions, management is required to estimate the fair value of the contingent consideration by assessing the likelihood of each business meeting the earn-out targets required for the contingent consideration to be paid.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

5. Critical accounting judgments and key sources of estimation uncertainty (continued)

Percentage completion on revenue

A significant portion of the Systems Engineering Division's revenue is derived from fixed-price contracts which can extend over more than one reporting period. Revenue from these fixed-price projects is recognized using the percentage of completion method using management's best estimate of the costs and related risks associated with completing the projects. The greatest risk on fixed-price contracts is the possibility of cost overruns. Management's approach to revenue recognition is tightly linked to detailed project management processes and controls. The information provided by the project management system combined with a knowledgeable assessment of technical complexities and risks are used in estimating the percentage complete.

Impairment of goodwill and intangible assets

Determining whether goodwill or intangibles assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Income taxes

The Company records deferred income tax assets and liabilities related to deductible or taxable temporary differences. The Company assesses the value of these assets and liabilities based on the likelihood of the realization as well as the timing of reversal given management assessments of future taxable income.

Contingent liabilities

From time to time the Company is involved in claims in the normal course of business. Management assesses such claims and where considered probable to result in an exposure and, where the amount of the claim can be measured reliably, provisions for loss are made based on management's assessment of the likely outcome.

Allowance for doubtful accounts receivable

The Company has extensive commercial history upon which to base its provision for doubtful accounts receivable. Due to the nature of the industry in which the Company operates, the Company does not create a general provision for bad debts but rather determines bad debts on a specific account basis.

For the years ended September 30, 2015, September 30, 2014, no material changes in estimates have been made.

Judgments:

Financial instruments

The Company's accounting policy with regards to financial instruments is described in Note 2. In applying this policy, judgments are made in applying the criteria set out in IAS 39 – Financial instruments: recognition and measurement, to record financial instruments at fair value through profit or loss, and the assessments of the classification of financial instruments and effectiveness of hedging relationships.

Accounting policy for equipment and intangible assets

Management makes judgments in determining the most appropriate methodology for amortizing long-lived assets over their useful lives. The method chosen is intended to mirror, to the best extent possible, the consumption of the asset.

Deferred income taxes

The Company's accounting policy with regards to income taxes is described in Note 2. In applying this policy, judgments are made in determining the probability of whether deductions or tax credits can be utilized and related timing of such items.

Percentage complete methodology

The Company uses judgment in determining the most appropriate basis on which to determine percentage of completion. Options available to the Company include the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, surveys of work performed and completion of a physical proportion of the contract work. While the Company considers the costs to complete, the stage of completion is assessed based upon the assessment of the proportion of the contract completed. Judgments are also made in determining what costs are project costs for determining the percentage complete.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

6. Equipment

	September 30, 2015			September 30, 2014		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Leasehold improvements	\$ 1,609	\$ 1,094	\$ 515	\$ 1,510	\$ 926	\$ 584
Equipment and furniture	13,601	8,871	4,730	11,251	8,220	3,031
	\$ 15,210	\$ 9,965	\$ 5,245	\$ 12,761	\$ 9,146	\$ 3,615

7. Application software

	September 30, 2015			September 30, 2014		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Application software	\$ 2,686	\$ 2,309	\$ 377	\$ 2,655	\$ 2,137	\$ 518

8. Acquired intangible assets

Acquired intangible assets are allocated to the Business and Technology Services Division segment.

	September 30, 2015			September 30, 2014		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Customer relationship related to Primacy	\$ 1,909	\$ -	\$ 1,909	\$ 1,909	\$ -	\$ 1,909
Other customer relationships	3,815	2,144	1,671	3,815	1,400	2,415
Contract with customers	1,485	958	527	1,485	292	1,193
Non-competition agreements	249	134	115	249	78	171
Trademarks	78	54	24	78	16	62
	\$ 7,536	\$ 3,290	\$ 4,246	\$ 7,536	\$ 1,786	\$ 5,750

9. Goodwill

	September 30, 2015			September 30, 2014		
	Cost	Impairment	Carrying Amount	Cost	Impairment	Carrying Amount
Business and Technology Services	\$ 12,037	\$ -	\$ 12,037	\$ 12,037	\$ -	\$ 12,037
	\$ 12,037	\$ -	\$ 12,037	\$ 12,037	\$ -	\$ 12,037

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

9. Goodwill (continued)

Annual test for impairment

Goodwill recorded is allocated in its entirety to the Business and Technology Services division. At September 30, 2015 and 2014, management assessed the recoverable amount of goodwill and concluded that a goodwill impairment charge was not required. The recoverable amount of the cash-generating units or groups of cash generating units was assessed by reference to value in use.

For the years ended September 30, 2015 and 2014, the discount factor assumption range of 13% to 16% and growth rate assumption range of 0% to 3% were used in arriving at value in use for the Business and Technology Services segment. Outlooks for the next three years were used as the basis for the future cash flow estimates and the future estimated growth rates were validated by comparing to average growth levels for the previous 5 years.

10. Issued capital and reserves

Issued capital

Authorized: Unlimited number of common shares, no par value
Unlimited number of preferred shares issuable in series, no par value

Issued: Common shares as follows:

	September 30, 2015		September 30, 2014	
	Shares	Amount	Shares	Amount
Balance, beginning of year	7,353,908	\$ 20,161	7,396,333	\$ 19,746
Shares issued under stock option plan	5,000	99	-	-
Shares issued under employee stock purchase plan	19,390	413	22,075	465
Shares repurchased for cash	-	-	(64,500)	(174)
Balance, end of year	7,378,298	\$ 20,673	7,353,908	\$ 20,037
Share purchase obligation	-	-	-	124
Issued capital	7,378,298	\$ 20,673	7,353,908	\$ 20,161

Share repurchase

During 2015 the Company did not acquire any of its outstanding common shares. During 2014, the Company acquired 64,500 of its outstanding common shares at an average price of \$19.79 per share for a total of \$1,276 including related expenses, through normal course issuer bids in place during the year. The excess of the purchase price over the stated capital of the shares has been charged to retained earnings.

Subsequent to the date of the statement of financial position, on November 10, 2015, the date of issuance of these consolidated financial statements, the Company declared a dividend of \$0.28 per common share payable on December 8, 2015.

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.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

11. Share-based compensation

Stock Options

The Company has an established stock option plan, which provides that the Board of Directors may grant stock options to eligible directors and employees. 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 plan provides for a 10% rolling maximum number of options available for grant. As at September 30, 2015 (2014), a total of 737,830 (735,390) common shares are reserved for issuance under the plan with 495,000 (415,000) options currently outstanding of which 391,100 (290,600) are exercisable. During the period ended September 30, 2015 (2014), 95,000 (175,000) options were issued.

No consideration is payable on the grant of an option.

The following share-based payment arrangements are in existence:

Option series:	Number	Grant date	Expiry date price	Exercise	Fair value at grantdate
(1) Issued February 14, 2011	95,000	February 14, 2011	February 13, 2016	\$ 18.65	\$ 1.27
(2) Issued August 13, 2012	155,000	August 13, 2012	August 12, 2017	\$ 20.54	\$ 0.99
(3) Issued September 3, 2014	175,000	September 3, 2014	September 3, 2019	\$ 19.70	\$ 1.18
(4) Issued September 9, 2015	95,000	September 9, 2015	September 9, 2020	\$ 17.69	\$ 0.90

For the option issuance dated February 14, 2011, 28,000 options vested immediately with the remaining vesting through to February 14, 2013. For the option issuance dated August 13, 2012, 49,000 options vested immediately with the remaining vesting through to August 13, 2014. For the option issuance dated September 3, 2014, 50,600 options vested immediately with the remaining vesting through to September 3, 2016. For the option issuance dated September 9, 2015, 29,000 options vested immediately with the remaining vesting through to September 9, 2017.

The weighted average fair value of options granted during the year ended September 30, 2015 was \$0.90 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 issuance and adjusted based on management's best estimate for the effects of non-transferability, exercises 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 4.0 years after vesting. The following assumptions were used to determine the fair value of the options granted in 2015 and 2014:

	2015	2014
Grant date share price	\$ 17.69	\$ 19.70
Exercise price	\$ 17.69	\$ 19.70
Expected price volatility	17.6%	17.4%
Expected option life	4.0 yrs	4.0 yrs
Expected dividend yield	6.4%	5.7%
Risk-free interest rate	1.0%	1.4%
Forfeiture rate	0%	0%

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

11. Share-based compensation (continued)

	September 30, 2015		September 30, 2014	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	415,000	\$ 19.80	240,000	\$ 19.87
Exercised	(5,000)	\$ 18.65	-	\$ -
Expired	(10,000)	\$ 20.12	-	\$ -
Granted	95,000	\$ 17.69	175,000	\$ 19.70
Outstanding, end of year	495,000	\$ 19.40	415,000	\$ 19.80

At September 30, 2015 (2014) there were 495,000 (415,000) options outstanding with a weighted average remaining contractual life of 2.9 (3.4) years of which 391,100 (290,600) were exercisable at a weighted average price of \$19.65 (\$19.84).

Employee stock purchase plan

The Company has an Employee Stock Purchase Plan ("ESPP") under which most full-time employees may register once a year to participate in one of two offering periods. Eligible employees may purchase common shares by payroll deduction throughout the year at a price of 80% of the fair market value at the beginning of the initial offering period or may purchase common shares at a price of 90% of the fair market value at the beginning of the interim offering period. Such shares are issued from treasury once a year at the end of the offering periods. A total of 500,000 common shares have been authorized for issuance under the plan. During 2015 (2014), the Company issued 19,390 (22,075) shares under the ESPP at an average price of \$17.99 (\$17.54) for a total of \$349 (\$388) and employees subscribed to approximately 22,000 common shares, which will be issued during fiscal 2016 at an average price of \$14.90. Since inception and including the issuance of shares in 2015, 408,923 shares have been issued under the plan. During 2015 (2014), the Company recorded compensation expense of \$64 (\$68) relating to its ESPP.

12. Net profit per share

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

	2015	2014
Weighted average number of common shares – basic	7,366,652	7,367,517
Additions to reflect the dilutive effect of employee stock options	-	-
Weighted average number of common shares – diluted	7,366,652	7,367,517

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 2015 (2014), 495,000 (155,000) options were excluded from the above computation of diluted weighted average number of common shares because they were anti-dilutive.

Net profit is the measure of profit or loss used to calculate net profit per share.

13. Interest income

Interest income is comprised of the following amounts:

	2015	2014
Interest earned on cash balances	\$ 87	\$ 255
Accreted interest on contingent consideration	-	16
Interest income	\$ 87	\$ 271

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

14. Income taxes

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the reported income tax expenses:

	2015	2014
Profit before income taxes	\$ 13,524	\$ 14,387
Tax provision at the combined basic Canadian federal and provincial income tax rate of 26.7% (2014: 26.7%)	3,604	3,834
Increase (decrease) resulting from:		
Effect of expenses that are not deductible in determining taxable profits	323	101
Impact of rate reductions on valuation of deferred income tax assets	20	8
Other	(190)	(137)
Income tax expense	\$ 3,757	\$ 3,806

The effective income tax rate in the year was 26.7% compared to 26.6% in the prior year.

The movements of deferred tax assets and liabilities are shown below:

Deferred tax assets (liabilities)	Equipment and Software application	Acquired intangible assets	Cash flow hedging reserve	Other	Total
Deferred tax liability at September 30, 2014	\$ (178)	\$ (1,524)	\$ (48)	\$ 78	\$ (1,672)
Credited (debited) to statement of net profit	(81)	379	-	13	311
Credited (debited) to other comprehensive income	-	-	1,062	-	1,062
Deferred tax liability at September 30, 2015	\$ (259)	\$ (1,145)	\$ 1,014	\$ 91	\$ (299)

Deferred tax assets (liabilities)	Equipment and Software application	Acquired intangible assets	Cash flow hedging reserve	Other	Total
Deferred tax liability at September 30, 2013	\$ (240)	\$ (1,009)	\$ 22	\$ 106	\$ (1,121)
Acquired intangibles	-	(760)	-	-	(760)
Credited (debited) to income statement of net profit	62	245	-	(28)	279
Credited (debited) to other comprehensive income	-	-	(70)	-	(70)
Deferred tax liability at September 30, 2014	\$ (178)	\$ (1,524)	\$ (48)	\$ 78	\$ (1,672)

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

15. Construction contracts

Construction contract revenues recorded during the period ended September 30, 2015 is \$71,218 (2014: \$55,413) substantially all of which is from the Systems Engineering Division.

Contracts in progress at the balance sheet date:

	September 30 2015	September 30 2014
Construction costs incurred plus recognized profits		
less recognized losses to date	\$ 203,581	\$ 149,087
Less: progress billings	(188,742)	(142,352)
	\$ 14,839	\$ 6,735

Recognized and included in the financial statements as amounts due:

	September 30 2015	September 30 2014
From customers under construction contracts	\$ 19,939	\$ 11,605
To customers under construction contracts	(5,100)	(4,870)
	\$ 14,839	\$ 6,735

At September 30, 2015 (2014), advances received from customers for contract work amounted to \$6,980 (\$5,141).

As at September 30, 2015 (2014), the Company had \$1,952 (\$2,266) in holdbacks receivable. Holdbacks are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. The entire amount for 2015 and 2014 is considered to be a short-term receivable.

16. Commitments

The Company has non-cancellable lease agreements for office space and equipment with terms extending to the year 2020. The aggregate minimum rental payments under these arrangements are as follows:

2016	\$ 2,616
2017	2,465
2018	2,404
2019	1,800
2020	1,771
thereafter	451
<u>Total</u>	<u>\$ 11,507</u>

17. 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.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements

For the years ended September 30, 2015 and 2014

(Canadian dollars in thousands, except per share amounts)

18. 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 involves short and long-term placements of personnel to augment customers' workforces as well as the long-term management of projects, facilities and customer business processes. This segment includes the recent acquisitions: Med-Team, Amtek and DWP as explained in Note 20.

The Company evaluates performance and allocates resources based on profit before interest and income taxes. The accounting policies of the segments are the same as those described in Note 2. Revenues reported below represents revenue generated from external customers. There were no significant inter-segment sales in the year.

For the year ended September 30, 2015

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenue	\$ 70,188	\$172,065	\$ -	\$ 242,253
Profit before interest income and income tax expense	10,077	5,461	(2,101)	13,437
Interest income (Note 13)				87
Income tax expense (Note 14)				(3,757)
Net profit				\$ 9,767
Total assets other than cash and goodwill	\$ 37,488	\$ 42,073	\$ 105	\$ 79,666
Goodwill	-	12,037	-	12,037
Cash	-	-	10,624	10,624
Total assets	\$ 37,488	\$ 54,110	\$ 10,729	\$ 102,327
Equipment and application software expenditures	\$ 2,275	\$ 426	\$ -	\$ 2,701

For the year ended September 30, 2014

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenue	\$ 55,413	\$155,844	\$ -	\$ 211,257
Profit before interest income and income tax expense	9,451	6,833	(2,168)	14,116
Interest income (Note 13)				271
Income tax expense (Note 14)				(3,806)
Net profit				\$ 10,581

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

18. Segmented information (continued)

For the year ended September 30, 2014

	Systems Engineering	Business and Technology Services	Corporate	Total
Total assets other than cash and goodwill	\$ 23,048	\$ 40,463	\$ 102	\$ 63,613
Goodwill	-	12,037	-	12,037
Cash	-	-	25,200	25,200
Total assets	\$ 23,048	\$ 52,500	\$ 25,302	\$ 100,850
Equipment and application software expenditures	\$ 978	\$ 210	\$ -	\$ 1,188
Acquired intangible assets (Note 20)	\$ -	\$ 2,865	\$ -	\$ 2,865
Acquired goodwill (Note 20)	\$ -	\$ 1,256	\$ -	\$ 1,256

The Company operates in Canada but provides services to customers in various countries. Revenues from external customers are attributed as follows:

	2015	2014
Canada	77%	84%
United States	18%	12%
Europe	5%	4%

Revenues are attributed to foreign countries based on the location of the customer. No assets are held outside of Canada. Revenues from various departments and agencies of the Canadian federal government for the year ended September 30, 2015 and 2014 represented 62% (68%) of the Company's total revenues. Both operating segments conduct business with this major customer. In addition for the year ended September 30, 2015 and 2014 revenues from Hughes Networks represented 12% (3%) of the Company's total revenues, all generated from the SED division.

19. Financial instruments and risk management

Capital Risk Management

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity excluding accumulated other comprehensive income relating to cash flow hedges. The Company does not have any debt and therefore net profit generated from operations are available for reinvestment in the Company or distribution to the Company's shareholders. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Board of Directors also reviews on a quarterly basis the level of dividends paid to the Company's shareholders and monitors the share repurchase program activities. The Company does not have a defined share repurchase plan and buy and sell decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

19. Financial instruments and risk management (continued)

Foreign currency risk related to contracts

The Company is exposed to foreign currency fluctuations on its cash balance, accounts receivable, accounts payable 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. 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 ongoing 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 September 30, 2015, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, 2015
SELL	53,291	USD	October 2015	\$ 71,117	\$ 394
SELL	3,391	EURO	October 2015	5,070	30
Derivative assets					\$ 424
BUY	26,423	USD	October 2015	\$ 35,261	\$ 196
SELL	1,000	USD	September 2016	1,335	300
SELL	1,000	USD	September 2017	1,335	254
BUY	63	EURO	October 2015	94	1
Derivative liabilities					\$ 751

At September 30, 2014, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, 2014
BUY	36,434	USD	October 2014	\$ 40,806	\$ 189
SELL	2,322	EURO	October 2014	3,285	1
BUY	78	GBP	October 2014	142	1
Derivative assets					\$ 191
SELL	54,764	USD	October 2014	\$ 61,336	\$ 286
SELL	1,000	USD	September 2015	1,120	62
SELL	1,000	USD	September 2016	1,120	62
SELL	1,000	USD	September 2017	1,120	62
SELL	51	GBP	October 2014	93	1
Derivative liabilities					\$ 473

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

19. Financial instruments and risk management (continued)

A 10% strengthening of the Canadian dollar against the following currency at September 30, 2015 would have increased (decreased) other comprehensive income by the amounts shown below.

September 30, 2015	
USD	\$ 3,502
EURO	452
GDP	(1)
	\$ 3,953

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and its foreign exchange contracts.

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 for the most part, federal and provincial government departments and large private companies. A significant portion of the Company's accounts receivable is from long-time customers. At September 30, 2015 (2014), 60% (68%) of its accounts receivable were due from the Government of Canada. Over the last five years the Company has not suffered any significant credit related losses.

The Company limits its exposure to credit risks from counter-parties to derivative financial instruments by dealing only with major Canadian financial institutions. Management does not expect any counter-parties to fail to meet their obligations

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

	September 30, 2015	September 30, 2014
Cash	\$ 10,624	\$ 25,200
Accounts receivable	50,494	39,249
Derivative assets	424	191
	\$ 61,542	\$ 64,640

19. Financial instruments and risk management (continued)

The aging of accounts receivable at the reporting date was:

	September 30, 2015	September 30, 2014
Current	\$ 47,891	\$ 38,431
Past due (61-120 days)	2,409	741
Past due (> 120 days)	194	77
	\$ 50,494	\$ 39,249

Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At September 30, 2015 the Company has a cash balance of \$10,624 and has an unsecured credit facility, subject to annual renewal. The credit facility permits the Company to borrow funds up to an aggregate of \$10,000. As at September 30, 2015 an amount of \$75 was drawn to issue a letter of credit to meet customer contractual requirements. All of the Company's financial liabilities have contractual maturities of less than 30 days.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

Fair Value

The fair value of accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity. Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place on September 30, 2015 and represent 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).

	2015	2015
	Level 1	Level 2
Cash	\$ 10,624	\$ -
Derivative financial assets	-	424
Derivative financial liabilities	-	(751)
Total	\$ 10,624	\$ (327)

	2014	2014
	Level 1	Level 2
Cash	\$ 25,200	\$ -
Derivative financial assets	-	191
Derivative financial liabilities	-	(473)
Total	\$ 25,200	\$ (282)

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2015 and 2014.

20. Acquisitions

Med-Team Clinic Inc. (“Med-Team”)

On December 31, 2013, the Company acquired all of the outstanding shares of Med-Team for a purchase price of up to \$795 of which \$661 was paid on the date of closing. A discounted amount of \$134 is payable contingently if Med-Team attains specified levels of EBITDA for the year ended December 31, 2016. The acquisition is a business combination to which IFRS3 Business Combinations applies. Acquisition-related costs amounting to \$37 have been excluded from the consideration and have been recognized as an expense in the year ended September 30, 2014, within the general and administration line item in the consolidated statement of net profit.

Amtek Engineering Services Ltd. (“Amtek”)

Effective April 30, 2014, the Company acquired all of the outstanding shares of Amtek for a purchase price of up to \$5,890. Of this amount \$3,490 was paid on the date of closing, \$600 was placed in escrow and \$1,800 was payable contingently.

Under the contingent payment arrangement, the Company is required to pay the former shareholders of Amtek an additional \$900 and \$900 if Amtek attains specified levels of earnings before interest, taxes, depreciation and amortization (EBITDA) for the years ended April 30, 2015 and 2016 respectively. During the year ended September 30, 2015, the Company paid the full \$900 related to the first year earn-out. There are no changes in management’s assessment that Amtek can achieve its earn-out target in its second year based on the level of contracts and market share expectations. Amtek’s principal business activity relates to the provision of engineering services mainly within the Federal Government. Amtek was acquired to expand the Company’s training and support service offerings.

A portion of the amount placed in escrow and a portion of the contingent payment totaling \$1,914 are subject to the retention of the principal shareholders for a period of two years. These amounts are deemed to represent deferred compensation payable to such shareholders and therefore are excluded from the total consideration of the purchase 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.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

Acquisition-related costs amounting to \$65 have been excluded from the consideration and have been recognized as an expense in the year ended September 30, 2014, within the general and administration line item in the consolidated statement of net profit.

DWP Solutions Inc. (DWP)

Effective June 30, 2014, the Company acquired all of the outstanding shares of DWP for a purchase price of up to \$1,759. Of this amount \$859 was paid during the current year ended September 30, 2014, \$225 was placed in escrow and \$675 was payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of DWP an additional \$300 and \$375 if DWP attains specified levels of earnings before interest, taxes, depreciation and amortization (EBITDA) for the years ended September 30, 2015 and 2016 respectively. During the year ended September 30, 2015, the Company paid the full \$300 related to the first year earn-out. There are no changes in management's assessment that DWP can achieve its earn-out target in its second year based on the level of contracts and market share expectations. DWP's principal business activity relates to the provision of IT cyber security professionals mainly within the Federal Government. DWP was acquired to expand the Company's IT service offerings.

The amount placed in escrow totaling \$225 is subject to the retention of the principal shareholders for a period of two years. This amount is deemed to represent deferred compensation payable to such shareholders and therefore is excluded from the total consideration to the purchase 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.

Acquisition-related costs amounting to \$50 have been excluded from the consideration and have been recognized as an expense in the year ended September 30, 2014, within the general and administration line item in the consolidated statement of net profit.

Net cash outflow 2015 related to the acquisitions:

	Primacy	Med-Team	Amtek	DWP
Contingent consideration paid in cash	\$ -	\$ -	\$ 900	\$ 300

Net cash outflow 2014 related to the acquisitions:

	Primacy	Med-Team	Amtek	DWP
Consideration paid in cash	\$ 600	\$ 661	\$ 4,090	\$ 1,084
Less: cash balances acquired or overdraft assumed		(56)	(818)	120
	\$ 600	\$ 605	\$ 3,272	\$ 1,204

These acquisitions are business combination to which IFRS 3 Business Combination applies.

Consideration:	Med-Team	Amtek	DWP
Cash	\$ 661	\$ 3,490	\$ 859
Prepaid	-	600	225
Contingent consideration	134	486	675
Contingent payments	-	1,314	-
Total purchase price	\$ 795	\$ 5,890	\$ 1,759
Less: deemed compensation	-	1,914	225
Consideration to allocate	\$ 795	\$ 3,976	\$ 1,534

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

Current assets:	Med-Team	Amtek	DWP
Cash	\$ 56	\$ 818	\$ (120)
Accounts receivable	171	3,274	1,345
Prepaid expenses	-	4	-
	\$ 227	\$ 4,096	\$ 1,225

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2015 and 2014
(Canadian dollars in thousands, except per share amounts)

20. Acquisitions (continued)

Current assets:	Med-Team	Amtek	DWP
Non-current assets:			
Equipment	\$ 4	\$ 14	\$ -
Intangibles assets	246	1,720	765
	<u>\$ 250</u>	<u>\$ 1,734</u>	<u>\$ 765</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ (125)	\$ (1,068)	\$ (965)
Deferred tax liability	(100)	(456)	(204)
	<u>\$ (225)</u>	<u>\$ (1,524)</u>	<u>\$ (1,169)</u>
Net assets acquired	\$ 252	\$ 4,306	\$ 821
Goodwill arising on acquisitions:			
Total consideration allocated	\$ 795	\$ 3,976	\$ 1,534
Net assets acquired	(252)	(4,306)	(821)
Bargain purchase gain	-	330	-
	<u>\$ 543</u>	<u>\$ -</u>	<u>\$ 713</u>

Substantially all of the goodwill that arose on acquisitions relates to the value of the taxable temporary differences attributable to the acquired intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for tax purposes. The bargain purchase gain on the Amtek acquisition relates to the fact that a significant portion of the purchase price was deemed to be compensation as described above. As a result, the identifiable tangible and intangible assets on acquisition were higher than the consideration allocated which resulted in a bargain purchase gain.

21. Pension Plan

The Company sponsors a defined contribution pension plan for certain of its employees. Required contributions have been fully funded to September 30, 2015. For the year 2015 (2014), an amount of \$804 (\$772) was expensed related to this pension plan.

22. Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Other than transactions related to the compensation of key management personnel as described below, there have been no other transactions between the Company and other related parties.

Compensation of key management personnel:

The compensation for directors and other members of key management during the year was as follows. The compensation of directors and key executives is determined by the compensation committee having regards to the performance of individuals and market trends. The key executives are the Chief Executive Officer, the Chief Financial Officer and the Vice-President, Systems Engineering Division.

	September 30, 2015	September 30, 2014
Short-term benefits	\$ 1,950	\$ 2,173
Share-based payments	134	184
	<u>\$ 2,084</u>	<u>\$ 2,357</u>

Corporate Information

Corporate & Business and Technology Services

340 Legget Drive, Suite 101,
Ottawa, Ontario, Canada K2K 1Y6
Phone: 613.599.8600
Fax: 613.599.8650
Web: www.calian.com

Systems Engineering (SED)

18 Innovation Blvd.
Saskatoon, Saskatchewan, Canada
S7N 3R1
Phone: 306.931.3425
Fax: 306.933.1486
Web: www.sedsystems.ca

Primacy Management Inc.

2321 Fairview Street, Suite 100
Burlington, Ontario
L7R 2E3
Phone: 905.637.2888

Board of Directors

Kenneth J. Loeb

President, Mystic Investment Inc.
Chairman, Calian Technologies Ltd.
Chair of the Nominating Committee

David Tkachuk

Senator
Chair of the Compensation Committee

Richard Vickers, FCA

Consultant
Chair of the Audit Committee

George Weber

President and CEO,
Royal Ottawa Health Care Group
Chair of the Governance Committee

Ray Basler

Consultant

Kevin Ford

President and CEO, Calian Technologies Ltd.

Common Share Information

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

Dividend Policy

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

Annual Meeting of Shareholders

The Annual General Meeting of the Shareholders of Calian will be held on February 5, 2016 at 10:00 a.m. at the Brookstreet Hotel, Ottawa, Ontario, Canada. All shareholders are invited to attend. The telephone number of the Brookstreet Hotel is 613.271.1800.



Calian Technologies Ltd.
2015 Annual Report

