



Calian Group Ltd.
Annual Report

2016



Our Core Purpose

We help the world communicate,
innovate, lead healthy lives,
and stay safe.

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Chairman's Letter

Stability through diversity focused on growth is the framework that led Calian to unprecedented success in 2016. Revenues grew to the highest levels in our Company's history, while share price also increased and dividend yields remained strong and stable.

Calian's strength continues to lie in our leadership team, and the strategic execution of our four-pillar growth strategy – customer retention, customer diversification, service line evolution and continuous improvement. As a result of this strategy, we offer our shareholders unique access to both domestic and global markets through five diverse and distinctive service lines. There is great momentum at Calian – our team is working hard, and results of this targeted effort are evident.

Calian is committed to evolving our leadership team to reflect our growing business. This year, we announced the appointment of Jo-Anne Poirier to the Board of Directors. Ms. Poirier brings more than 35 years of executive leadership, and is currently the President and Chief Executive Officer of The Victorian Order of Nurses (VON) Canada. She offers immense value and insight to the Company as we look toward the future.

With the completion of Kevin Ford's first full year as Calian's CEO, the Board of Directors is enthused by his vision and passion for the growth and direction of the Company. The Board of Directors continues to be confident in management's ability to execute Calian's growth strategy

and to increase shareholder value. I remain extremely proud of Calian and of the great achievements we have made in 2016.

“ Achieved over \$250M in revenue for the first time in the history of the company. ”

Kenneth Loeb
Chairman



Calian's Four Pillar Growth Strategy



Kevin Ford
President and CEO, Calian Group

“ We continued to achieve stability through diversity, witnessing unprecedented growth and momentum for Calian. This resulted in the highest revenues in Calian’s history with now over 60 consecutive profitable quarters. ”

CEO’s Letter

To our shareholders,

The opening of the Toronto Stock Exchange earlier this year marked more than just the rebrand to Calian Group Ltd. (formerly Calian Technologies Ltd.). It marked the beginning of a new era for our Company; an era where our corporate brand now aligns to the diverse nature of our services.

With revenues of \$275 million we surpassed the \$250 million level for the first time in our Company’s history. We increased cash earnings by \$4.8 million with EBITDA results of \$22 million. Year-over-year, this is an increase of 28%.

Discretionary operating expenses continued to be managed, ending the year with earnings of \$1.83 per share a 37% improvement over the prior year when earnings per share was \$1.33. Factoring in amortized costs as a result of recent acquisitions, adjusted earnings was \$1.92 per share. With strong cash flows and cash position, the quarterly dividend remained strong at \$1.12 per share. Calian is very proud of the fact that a positive rate of return was maintained at an attractive yield, returning to our shareholders \$8.3 million through dividends this year.

We also invested in telling Calian’s story - sharing with the world the many attributes that make Calian such a stable force in an often volatile marketplace. A few highlights of increased public relations efforts included being named in the top third of the Globe and Mail’s 1000 largest publically traded Canadian corporations list, being listed on several occasions as a top small cap ‘stock to watch’ by the Globe and Mail, and appearing on BNN Television to discuss our growth and vision. We also increased our social media presence, launched a new website that is easier to navigate and more clearly articulates our Company’s vision, and we enhanced our physical presence at trade shows of strategic importance.

Our leadership team remains steadfastly focused on customer satisfaction, while continually assessing and pursuing opportunities for growth. All of our service lines have experienced strong sales having signed over \$321 million in new contracts, renewals and extensions. Just one example is the continuation of a 20+ year relationship with the Department of National Defence for the provision of a range of services – health services, military training, and systems and engineering support.

Calian continues to invest in each of our service lines to ensure all are well-positioned for long-term

\$ 275M
REVENUE
(13% GROWTH)

growth and prosperity. Looking ahead, we remain driven by our vision to be the most desirable Canadian company to work for, buy from, and invest in.

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

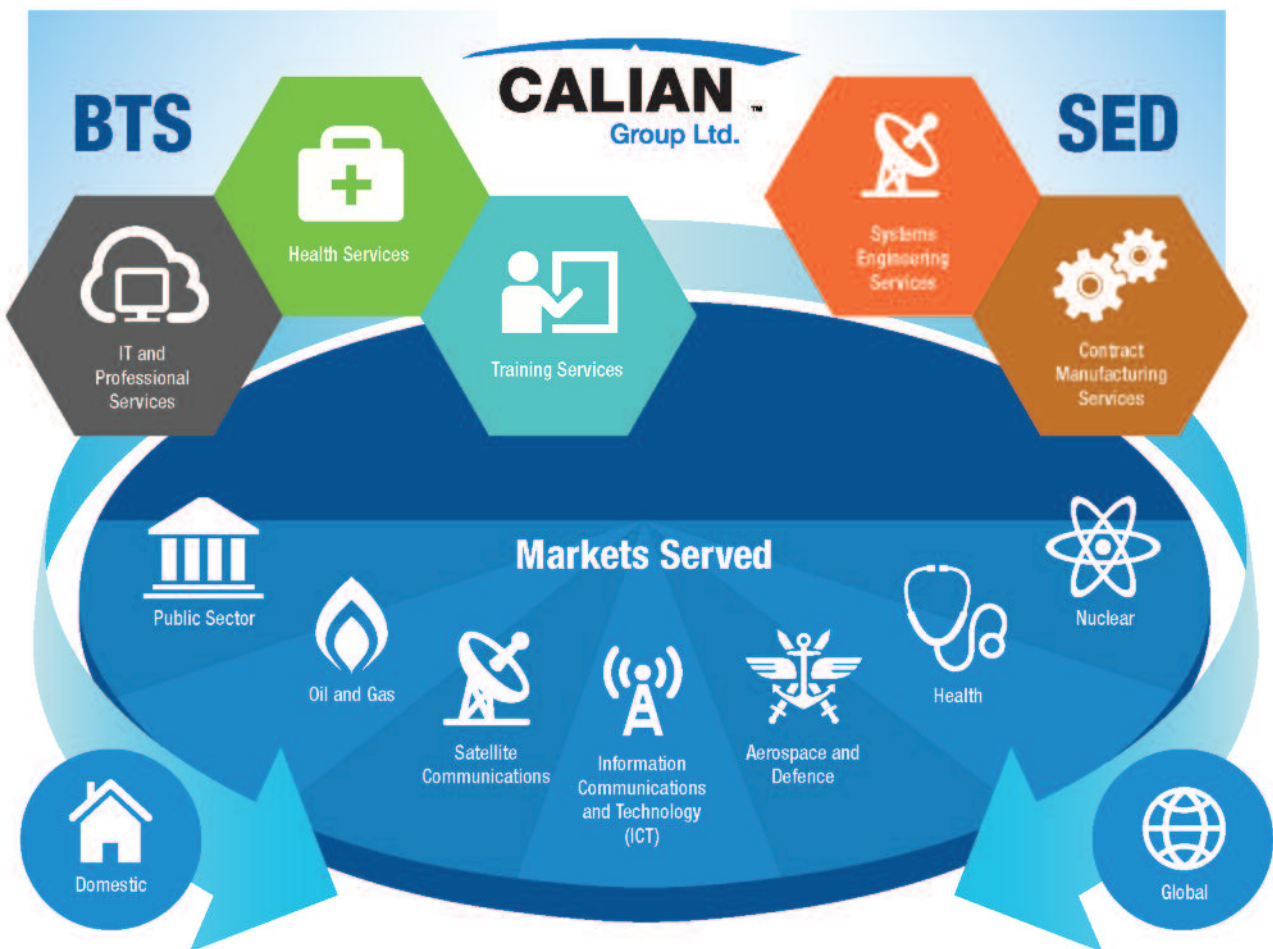
“ Shares continued to yield strong dividends, while we saw the highest recorded revenue in Calian’s history, with numerous factors resulting in a strong increase in our share price. ”

Opening of TSX, April 2016



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.



Systems Engineering Division

Calian's SED division is a **global leader** in **Engineering and Manufacturing** for the **satellite, aerospace** and **defence industries**

Our Systems Engineering Division's (SED) exceptional work in 2016 garnered attention and accolades, both at trade shows, through media coverage, and by the achievement of the 'Exceptional Engineering / Geoscience Project Award' from the Association of Professional Engineering and Geoscientists of Saskatchewan for our involvement in the European Space Agency's Rosetta Mission. This award is the culmination of over 10 years of SED's involvement in the Rosetta mission to rendezvous with a comet.

We remained committed to quality and customer satisfaction in 2016 by sustaining our ISO 9001 quality management certification and by maintaining our reputation of being good stewards of the environment with our recycling programs and lead-free manufacturing capabilities in compliance with Restriction of Hazardous Substances (RoHS) standards.

SED's systems engineering service line had a very strong year with solid revenues from its radio frequency (RF) system projects. The division oversaw over 15 RF system installations globally for customers including Inmarsat, Cobham and Raytheon. We were also awarded several new

contracts and renewals for software gateway and planning systems to customers such as Inmarsat, Star One, SiriusXM and Nav Canada. Other key contracts this year included the provision of in-orbit test and carrier monitoring systems, and recurring product sales, including the division's spectrum analyser and modulator product lines, which provided excellent contribution to the

bottom line. New product development this year included the introduction of three new test and measurement products as well as a strategic partnership with industry giant Xilinx, the world's leading provider of programmable field gate arrays (FPGAs), and 3D integrated circuits (ICs) for the development of key Data Over Cable Service Interface Specifications (DOCSIS) 3.1 remote physical layer interface technologies which enables higher throughput applications over cable networks.



Calian's Deep Space Antenna – Spain

SED's relationship with the Canadian Space Agency thrived in 2016, with a contract renewal to provide the agency with satellite operations support services. We continue to be immensely proud of our 23-year relationship with the Canadian Space Agency, which has fostered the evolution of Canada's capability in low-earth orbit

17%
REVENUE
GROWTH

16%
EBIT
GROWTH

\$72M
BACKLOG

satellite operations, with an enviable record of achievement in maximizing the useful life of supported missions.

The Division's manufacturing group revenues continued at a steady pace, with manufacturing of electronic circuit boards, control boxes and cable assemblies for a number of new, existing and long-term customers. The group saw growth in contract manufacturing for the agricultural sector, taking advantage of its close proximity to industry participants. Contracts with long standing defence customers General Dynamics Land Systems (GDLS) and Kidde Dual Spectrum (KDS) resulted in revenues of \$4.5 million. These customers are excellent examples of the continued trust our customers have in our high quality manufacturing services.

In summary, it was a great year for SED. Overall, these accomplishments yielded a divisional contribution of \$11.6 million on revenues of \$82 million, which represents 17% growth from the previous year.

Looking to 2017, we continue to strategically position ourselves in adjacent markets and invest in new products to increase our competitive position and grow value for our shareholders. An example of this innovation is our newly formed subsidiary, SED Research Inc., which we have established to conduct research and development on the next generation of satellite technologies. The future of Calian's SED is strong and focused, as we remain committed to executing across all segments of our four-pillar growth strategy.



The division oversaw over 15 RF system installations for customers including Inmarsat, Cobham and Raytheon.

BTS Division

Calian's BTS division is a leading professional services organization, providing solutions in

Healthcare, Training, Engineering, and Information Technology.

The Business and Technology Services (BTS) Division continued to reap the benefits of our strategic reorganization completed last fiscal year, which allowed our executive team the ability to delve deeper into our service offerings. This focused approach to growth yielded impressive results for BTS, with a reported revenue growth of 12% to \$192 million, and a divisional contribution of \$9.8 million.

The motivation and hard work by our executive team to implement these changes has certainly paid off. This year, BTS was recognized with a Gold Level certification in the Excellence, Innovation and Wellness (EIW) Standard of Excellence Canada. We are particularly proud of this prestigious achievement, and believe it to be a strong testament to our commitment to quality service delivery.

Health Services

Great strides were made in our journey to be one of Canada's largest national health organizations. The longstanding Health Services Support Contract with the Department of National Defence (DND) was extended for a further 12-month period, with a new completion date of March 31, 2018. The extended contract term

increased the existing ceiling value by \$75 million, and our performance continues to be rated as superior by DND in the delivery of the contract.

The Calian Military Family Doctor Network (MFDN), which helps to connect family members of serving military members with a family physician in our Primacy clinic network, was launched in 2016. The program leverages the more than 400 family physicians located in over 140 Primacy clinics across Canada. The MFDN is now operational in 8 regions nation-wide and has already served over 300 patients in more than 140 military families, with plans for continued expansion over the course of FY 2017. We are immensely proud of this program and the support that it provides to the families of serving military members.

Through our involvement with the Canadian Institute for Military and Veteran Health Research (CIMVHR), we are also proud to have provided Dr. Birtwhistle and the Canadian Primary Care Sentinel Surveillance Network (CPCSSN) with a research grant of \$105,000 in support of the first pan-Canadian electronic medical record surveillance system targeting evidence informed care for military families and veterans.

12%
REVENUE
GROWTH

79%
EBIT
GROWTH

\$416M
BACKLOG

In our drive to continue to diversify our health customer base, correctional services offers an area of growth and momentum at the federal, provincial and municipal levels of government. Contracts recently awarded include the provision of a variety of health services to Canada Border Services Agency (at their Immigration Holding Centre in Toronto, ON) and to a number of facilities across Canada under the purview of Correctional Services Canada (federal), for services at the Toronto South Detention Centre and the Southwest Detention Centre in Windsor, ON, (provincial); and to the City of Surrey, BC (municipal) for services at the local RCMP detention centre.

Training Services

Calian's Training Services line saw significant year-over-year growth in 2016. A number of strategic contracts were secured reinforcing our leadership position in the provision of training services, with a growing footprint in the emergency management sector. Of particular note, was the Emergency Management British Columbia (EMBC) contract, where Calian facilitated in the design and execution of an exercise to test the province's new 'Earthquake Immediate Response Plan' that included more than 880 personnel from 65 different agencies.

The contract with Bruce Power to design, develop and support their corporate emergency preparedness exercises was also renewed, building on a successful multi-year relationship. Along with nuclear subject-matter expertise partners, we will continue to assist Bruce Power in the development and implementation of a demanding and sophisticated two-year training, education and exercise cycle. Other emergency management training contracts were won, including airports, federal agencies and provincial and municipal governments.

The Department of National Defence continues to be a primary customer for Training Services. Several training contracts were secured in 2016; totalling over \$125 million. These included new contracts for e-Learning services at the Canadian Forces School of Communications and Electronics, and with the Directorate of General Safety to provide basic and advanced general safety training. Contract renewals were secured with the Army Learning Support Centre; the Canadian Forces School of Aerospace Technology and Engineering; the Royal Military College of Canada, the Royal Canadian Electrical and Mechanical Engineers School; and a contract renewal/expansion in support of a broad range of training services to Military Personnel Generation (formerly the Canadian Defence Academy).

The Calian Military Family Doctor Network (MFDN) which launched in January 2016 helps connect military family members with a family physician through our Primacy clinic network.

MFDN is now operational in 11 regions nation-wide and has already served over 300 patients in more than 140 military families.



These are just a few examples of the many wins and renewals and the excellent work that our training team continues to execute in support of our customer retention strategy.

Amtek managed by this service line, was acquired in 2014. This acquisition further expanded our engineering support capabilities and continued to contribute positively in 2016. Amtek specializes in providing a full-spectrum of engineering and technical services to the Department of National Defence and other government departments and had a strong year in securing new contracts.

IT Professional Services

Calian's IT Professional Services (ITPS) line experienced unprecedented growth in 2016. The ITPS Innovation portfolio helped to fuel this growth with expansion in IT Security Services and more complex enterprise class system integration projects.

Several new projects were integral to this growth, including a major eTime contract win with the City of Toronto, worth \$11 million. The eTime project consisted of three components: a city-wide 'Time and Attendance' solution (SAP CATS) for 35,000 employees, a complex scheduling solution (Kronos Telestaff, and Workforce Scheduler) for 4,000 employees, and SAP modernization

deploying a more standardized SAP Time Management and Payroll solution city-wide. Final delivery of the project is scheduled for completion in early FY2017. This project has already gained significant recognition from senior officials at the City of Toronto who referred to the project as a 'showcase' at a recent industry event.

Calian's presence in the ICT sector grew as we continued to work closely with customers in this sector. As a trusted advisor and partner of Ericsson, Calian worked to design, implement and operate an Engineering Support Service Desk in their new 250,000 square foot Research and Development Centre in Montreal. This Service Desk supports Ericsson's engineering efforts worldwide.

We continue to reap the benefits of our 2014 acquisition of a cyber security services firm known as DWP Solutions, and with the addition of a cyber security service practice leader, we have secured two strategic fixed-price wins in Q4 in support of our innovation agenda. Through his strategic direction, the ITPS team has also established reseller arrangements with key cyber product companies; all creating a strong foundation from which to continue to expand our cyber practice.



In 2016, Calian's Training Services line secured a number of strategic contracts reinforcing our leadership position in the provision of training services, with a growing footprint in the emergency management sector.

Calian's IT Professional Services (ITPS) line experienced unprecedented growth in 2016 with the Innovation portfolio having helped to fuel this growth into IT Security Services and complex enterprise class system integration project.



In Summary

The impact of Calian's growth strategy was evident in 2016. Our divisions and service lines remained focused on a common strategic framework that saw the retention of long-standing customers coupled with the engagement of many new customers, and the evolution of our service lines; laying a solid foundation from which to launch into 2017. With renaming the corporation to Calian Group Ltd., we have aligned our corporate brand to our diverse services of the Company.

Shares continued to yield strong dividends, while we saw the highest recorded revenue in Calian's history, with numerous factors resulting in a strong increase in our share price.

This upcoming year will be Calian's 35th year in business. We are proud of our accomplishments and believe the future is bright for Calian. Our Company is innovative, proudly Canadian, backed by strong leadership with a unified vision and poised for long-term success.

Kevin Ford
CEO

Jacqueline Gauthier
Chief Financial Officer

Patrick Thera
VP and General Manager,
Systems Engineering

60+ CONSECUTIVE
PROFITABLE
QUARTERS

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

The following Management Discussion and Analysis is dated December 2, 2016 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 2, 2016 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 revenues derived from new business in adjacent and non-government markets, balance customer revenue into numerous global and domestic sectors;
- Service Line Evolution: continue investment in service offerings to increase differentiation and improve gross margin attainment;
- Continuous Improvement: leverage innovation to improve how the Company operates with a goal to streamline processes and provide for a scalable back office support capability.

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	2400

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-built 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-built 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 account for a substantial portion of divisional revenues and provide 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 2016, SED continued to perform well, increasing both its revenue and profitability. The divisional revenues grew by 17% over the previous year and SED signed \$94 million in new contracts, ending the year with a backlog of \$72 million of which \$40 million is expected to be earned in fiscal 2017. SED maintained its record for on-time delivery of complex technical solutions keeping customer satisfaction levels high. The successful projects completed this year will lay the ground work for repeat business in the future. The following provides a summary of 2016 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, where Calian provided them with RF ground systems as they expanded their satellite networks. Additional RF systems work continued on Wide-Area Augmentation Systems to assist aeronautical navigation. Communications systems work included the development of a precursor system for the European IRIS aeronautical communications standard as well as network capacity planning systems for Star One and Inmarsat. Sirius/XM continued to procure network enhancements from us to improve their digital satellite radio service offerings.

Our Canadian Space Agency (CSA) satellite operations team continued supporting Canadian earth observation missions with our current team size. SED continues to host and maintain the RF systems for Ligado, formerly LightSquared, as well as Ciel. We continue our growth strategy with the provision and hosting of satellite beacon transmission stations for Hughes in northern Canada.

SED's communications product sales group continued with strong recurring sales of its test and measurement products, three of which are sold by Rhode & Schwarz under their brand name. SED undertook two additional product developments for Rhode & Schwarz which will add to product sales in the future. Steady sales of SED's Decimator spectrum analyser product continued to provide strong margins. SED continued its DOCSIS 3.1 IP Cores product development in partnership with Xilinx with the goal of producing more products and intellectual property cores to increase sales to cable network manufacturers and operators. Additionally, SED continued its research activities into technology to support higher satellite frequency ranges. SED's current intellectual property developments have led to two patent applications. The growing pool of products and intellectual property rights will provide significant opportunities moving forward.

CALIAN Contract Manufacturing Services

Business continued at a steady pace for SED's commercial and defence manufacturing line as we continued to produce modules and cable assemblies for Textron, General Dynamics Land Systems Canada and KIDDE. SED continues to take advantage of its investment in the new surface mount technology line and continuous improvement of manufacturing processes to maintain its competitiveness. 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 in 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 products 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 Excellence, Innovation and Wellness Gold Level award.

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, nuclear and numerous others. For example, our health services line includes the administration on behalf of Loblaw of over 140 medical clinics across Canada, as well as the provision of healthcare services 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 healthcare 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' contracts, specifically in the training services line, being renewed in 2016, the division will continue to focus on ensuring appropriate effort is expended to increase its win odds for key renewals. Calian's historical high renewal win rate combined with its win strategy provides management confidence in its ability to successfully remain the customer's preferred choice.

While federal government spending priorities fluctuate, profitable business does exist for companies who have the financial strength to accommodate slowdowns in government spending, and the discipline to adjust costs to declines in revenue. 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 2016 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. As a result, the division renewed 5 major contracts this year representing a 100% win rate of the contracts up for re-compete.

At a consolidated level, 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. The realization of organic growth across all service lines combined with seed wins in new market areas allowed the division to report revenue growth of 12%. In 2016, we also signed \$227 million in contracts and ended the year with a backlog of \$416 million of which \$168 million is expected to be earned during fiscal 2017.

The following provides a summary of 2016 results across the division's primary service lines.

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

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 March 2018. We continue to be rated superior by our DND customer in the delivery of the contract. In supporting DND for over 11 years in 32 bases across Canada with over 60 healthcare practitioner categories, we have developed an extensive national healthcare practitioner network. We continue to focus on expanding our footprint in the healthcare 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. We are also growing our footprint in correctional facilities, a new customer segment to the division, with wins in Surrey, British Columbia, Toronto, Ontario and smaller wins with the Federal Government. Primacy continued to run strong this year currently operating over 140 clinics across Canada. In addition, by 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, and we continue to roll out this program nationally with 8 locations now live.

CALIAN ITPS services

Our IT Professional Services (ITPS) line also made some significant strides with a goal to evolve service offerings. During 2015, ITPS was awarded an \$11 million contract with the City of Toronto to provide a time and attendance solution. The project is progressing well with significant milestones completed on time and on budget. 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, and our recent hire of a Cyber solutions practice lead, ITPS continues to leverage this experience and background to expand our capability in this high-demand market. In addition to securing two small fixed-price wins in Q4 that support our goal to become a solution-based cyber security provider, we have also expanded our cyber security product resale for customers including relationships with Tripwire, Fortinet and Cylance. In the ICT sector, we continue to build upon our subject matter expertise through the delivery of a worldwide Engineering Support Service Desk. The federal government's recent spending patterns have also helped the ITPS service line increase its presence, including an Information Technology Service Management Support Services contract win with the Department of National Defence. However, we continue to experience a very competitive environment, and increased pressure on margins within the federal government. To offset this trend, ITPS continues to grow its customer base outside the Federal Government to target different market areas such as telecommunications where we achieved our largest revenue in this sector this year. Focus on the evolution of IT services to project and solution based business remains a key priority.

CALIAN Training Services

Our training contracts continue to represent a solid base of revenues. In 2016, we experienced an increase in training demand from our main customer, the Department of National Defence, and were successful in our customer retention focus with the re-win of contracts with long-time customers including the Army Learning Support Center (ALSC), the Military Personnel Generation School, the Royal Canadian Electrical and Mechanical Engineers School (RCEME), the Royal Military College of Canada (RMCC) and the Canadian Forces School of Aerospace Technology and Engineering (CFSATE). We have diversified our customer base by successfully securing various seed contracts with Emergency Management British Columbia, Olds College, the National Research Council and the Vancouver Airport. We have also built on our existing experience 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 have successfully integrated Amtek, with the acquisition completed in 2014, and continue 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 Calian as a premier training company.

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

In summary, 2016 was a year where Calian sustained our double digit growth posture; both divisions grew revenue with significant improvements in EBITDA and earnings. As importantly, we made tangible progress in the execution of our long term strategy. The company enters 2017 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 with a focus on proactive social media engagement and targeted marketing campaigns in support of 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 focused on sustaining our positive momentum in 2017.

Backlog

The Company's backlog at September 30, 2016 was \$488 million with terms extending to fiscal 2021. This compares to \$442 million reported at September 30, 2015. 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 2016 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.

- \$75 million extension of the Health Services Contract with DND
- \$35 million contract with DND for research assistance services to its Royal Military College of Canada
- \$35 million contract with DND for training services for its Canadian Forces School of Aerospace Technology and Engineering
- \$21 million contract with DND Military Personnel Generation school
- \$30 million contracts for commercial RF systems and various antennas
- \$15 million contract with ALSC for the provision of courseware production support
- \$ 8 million contract with MacDonald Dettwiler to provide two Earth-observation antenna systems

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

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for 2017, 2018, 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 \$94 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 2017	Fiscal 2018	Beyond 2018	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	\$ 193	\$ 85	\$ 31	\$ 309	\$ 71	\$ 380
Option Renewals	15	33	37	85	23	108
TOTAL	\$ 208	\$ 118	\$ 68	\$ 394	\$ 94	\$ 488
Business and Technology Services	\$ 168	\$ 96	\$ 58	\$ 322	\$ 94	\$ 416
Systems Engineering	40	22	10	72	-	72
TOTAL	\$ 208	\$ 118	\$ 68	\$ 394	\$ 94	\$ 488

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

Selected Annual Information

(dollars in millions, except per share data)

	2016	2015	2014
Revenues	\$ 274.6	\$ 242.3	\$ 211.3
EBITDA ⁽¹⁾	\$ 22.0	\$ 17.2	\$ 16.2
Net profit	\$ 13.6	\$ 9.8	\$ 10.6
Adjusted net profit ⁽¹⁾	\$ 14.2	\$ 10.8	\$ 10.7
Net profit per share, basic and diluted	\$ 1.83	\$ 1.33	\$ 1.44
Adjusted net profit per share, basic and diluted ⁽¹⁾	\$ 1.92	\$ 1.48	\$ 1.45
Total assets	\$ 117.7	\$ 102.3	\$ 100.9
Dividends per share	\$ 1.12	\$ 1.12	\$ 1.12

⁽¹⁾ See reconciliation regarding non-GAAP measures below

2016 Results of Operations

Profit before interest and income taxes were \$18,733 in 2016 compared with \$13,437 in 2015, and net profit was \$13,593 for the year compared with \$9,767 in the previous year. The Company completed the year with \$16,761 of cash compared to \$10,624 at the end of 2015.

Revenues	2016	2015	% change
SED revenues	\$ 82,141	\$ 70,188	17%
BTS revenues	\$192,446	\$172,065	12%
Consolidated revenues	\$274,587	\$242,253	13%

The general business environment in 2016 reflects increases in government spending which primarily benefited the BTS division. SED also benefited from high levels of activity with many of its recurring customers. With a healthy opening backlog of \$190 million consumed in 2016 combined with the win of several contracts in new market segments during 2016 resulted in double digit growth in revenues this fiscal year.

SED revenues for 2016 were up 17% compared to 2015 revenues. Work continued at a steady state in both defence related and commercial contract manufacturing. 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 2016 were up 12% compared to 2015 revenues. Revenues from the division's traditional business lines showed a healthy increase over the prior year from continued recovery with federal government spending supported with incremental wins with new customers and within 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 2016 (2015), 61% (62%) of revenues were related to contracts with various departments and agencies of the Government of Canada with approximately 53% (45%) 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 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	2016	2015	% change
SED gross profit	\$ 18,995	\$ 16,417	16%
As a percentage of SED revenues	23.1%	23.4%	
BTS gross profit	\$ 29,839	\$ 25,094	19%
As a percentage of BTS revenues	15.5%	14.6%	
Consolidated gross profit	\$ 48,834	\$ 41,511	18%
As a percentage of consolidated revenues	17.8%	17.1%	

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 2016 reflects mix improvements and the solid execution on contracts.

Lower gross margin in SED in comparison to the previous year is indicative of competitive pressures and the higher number of RF system projects which have a much larger non-labour component. Although the mix of revenues always plays a role in the margin ultimately realized, results demonstrate solid execution in all of SED's business areas. As a whole, the division realized positive outputs from its sales initiatives and its new product investments.

Gross margin in BTS reflects improved revenue mix from increased activity with mainstay customers. In addition, with increased revenues we benefited from economies of scale as it pertains to fixed payroll costs. The traditional BTS business which is concentrated within the federal government has stabilized in recent quarters. 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	2016	2015	% change
Selling and marketing	\$ 4,124	\$ 3,904	5.6%
As a percentage of consolidated revenues	1.5%	1.6%	

Selling and marketing expenses increased over the prior year as a result of increased focus on selling and marketing efforts. Costs for 2017 may continue to increase slightly over the 2016 level as the Company continues to invest in its diversification, evolution and the broadening of its target markets.

General and administration	2016	2015	% change
General and administration	\$ 18,893	\$ 16,924	11.6%
As a percentage of consolidated revenues	6.9%	7.0%	

General and administration costs increased over the prior year as a result of investing in service line evolution capabilities in addition to recognizing additional variable compensation stemming from increased profitability and performance. 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	2016	2015	% change
Facilities	\$ 3,804	\$ 3,461	9.9%

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 2017.

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

EBITDA⁽¹⁾ for fiscal 2016 was \$22,013 compared to EBITDA of \$17,222 in the previous year.

⁽¹⁾ See reconciliation regarding non-GAAP measures below

Depreciation and amortization	2016	2015	% change
Depreciation	\$ 1,290	\$ 1,285	0.4%
Amortization	\$ 1,348	\$ 1,431	(5.8%)

Depreciation expense is in line with prior year and is expected to remain stable for 2017. Amortization expense has begun to decrease. Further decreases in amortization expense are expected for 2017.

Deemed compensation related to acquisitions

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 excluded from the total consideration of the purchase. For 2016, the remaining portion of the deemed compensation related to acquisitions was expensed in the amount of \$642 compared to \$1,069 recorded in 2015.

Income tax expense

The Company reports its results on a fully taxed basis. The provision for income taxes for 2016 was \$5,177 or 27.6% of earnings before income taxes compared to \$3,757 or 27.8% of earnings before income taxes in 2015. The decrease in tax rate is reflective of the reduction in the deemed compensation recognized in 2016. The effective tax rate for 2017, prior to considering the impact of non-taxable transactions, is expected to be approximately 26.9%.

Net profit

The Company reported net profit of \$13,593 or \$1.83 per share basic and diluted for 2016 compared to \$9,767 or \$1.33 per share basic and diluted in 2015. The Company reported adjusted net profit⁽¹⁾ of \$14,235 or \$1.92 per share basic and diluted for 2016 compared to \$10,836 or \$1.48 per share basic and diluted in 2015.

⁽¹⁾ See reconciliation regarding non-GAAP measures below

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.

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

Reconciliation of Adjusted Net Profit	2016	2015
NET PROFIT	\$ 13,593	\$ 9,767
Deemed compensation related to acquisitions	642	1,069
Adjusted net profit	\$ 14,235	\$ 10,836

Reconciliation of EBITA	2016	2015
Profit before interest and income tax expense	\$ 18,733	\$ 13,437
Depreciation	1,290	1,285
Amortization	1,348	1,431
Deemed compensation related to acquisitions	642	1,069
EBITDA	\$ 22,013	\$ 17,222

Selected Quarterly Financial Data

(dollars in millions, except per share data)

	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15
Revenues	\$ 68.8	\$ 73.2	\$ 68.1	\$ 64.5	\$ 60.9	\$ 64.3	\$ 61.0	\$ 56.0
EBITDA⁽¹⁾	\$ 5.3	\$ 6.1	\$ 5.4	\$ 5.2	\$ 4.9	\$ 4.0	\$ 4.0	\$ 4.4
Net profit	\$ 3.4	\$ 3.9	\$ 3.2	\$ 3.1	\$ 2.9	\$ 2.2	\$ 2.2	\$ 2.5
Adjusted net profit⁽¹⁾	\$ 3.4	\$ 4.0	\$ 3.5	\$ 3.3	\$ 3.1	\$ 2.5	\$ 2.5	\$ 2.7
Net profit per share								
Basic	\$ 0.45	\$ 0.52	\$ 0.44	\$ 0.42	\$ 0.39	\$ 0.30	\$ 0.30	\$ 0.34
Diluted	\$ 0.45	\$ 0.52	\$ 0.44	\$ 0.42	\$ 0.39	\$ 0.30	\$ 0.30	\$ 0.34
Adjusted net profit per share ⁽¹⁾								
Basic	\$ 0.45	\$ 0.54	\$ 0.48	\$ 0.45	\$ 0.43	\$ 0.34	\$ 0.34	\$ 0.37
Diluted	\$ 0.45	\$ 0.54	\$ 0.48	\$ 0.45	\$ 0.43	\$ 0.34	\$ 0.34	\$ 0.37

(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.

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

Liquidity and Capital Resources

Calian's net cash position was \$16,761 at September 30, 2016, compared to \$10,624 at September 30, 2015.

	2016	2015
Cash flows from operating activities before changes in working capital	\$ 22,191	\$ 17,409
Changes in working capital	(6,783)	(20,264)
Cash flows from (used in) operating activities	\$ 15,408	\$ (2,855)
Cash flows from (used in) financing activities	(6,325)	(7,820)
Cash flows from (used in) investing activities	(2,946)	(3,901)
Increase (decrease) in cash	\$ 6,137	\$ (14,576)

Operating activities

Cash inflows from operating activities for the year ended September 30, 2016 were \$15,408 compared to cash outflows of \$2,855 in 2015. Cash flows for the recent year reflect the increase in cash earnings with working capital elements moving in line with the business activities. The aging of the accounts receivable remains in excellent health at 98% current. Variations in working capital 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, 2016, the Company's total unearned revenue amounted to \$11,271. This compares to \$6,980 at September 30, 2015.

Financing activities

Dividend

As a result of continuing earnings and a strong cash position, the Company maintained its dividend in 2016. The Company paid quarterly dividends totalling \$8,320 or \$1.12 cents per share compared to 2015 when the Company paid \$8,262 in dividends or \$1.12 cents per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

Shares

At September 30, 2016 there were 351,500 options outstanding at an average price of \$19.38 expiring at various dates between August 13, 2017 and September 9, 2020.

At September 30, 2016 there were 7,483,599 common shares outstanding and as of the date of this Management Discussion and Analysis, there were 7,503,849 common shares outstanding.

Investing activities

Equipment expenditures

Calian acquired \$1,751 in equipment, furniture and fixtures during 2016, compared to \$2,701 during 2015 when the SED division invested in a new Surface Mount Technology manufacturing line. At September 30, 2016 there were no significant commitments to expend capital assets.

Acquisitions

During 2016 (2015), the Company paid \$1,195 (\$1,200) for various acquisitions as described in the notes to the consolidated financial statements.

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

Capital resources

At September 30, 2016 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	\$20,251	\$ 3,419	\$ 5,015	\$ 4,183	\$ 7,634
Purchase obligations	12,071	10,415	1,470	187	-
Total contractual obligations	\$32,322	\$13,834	\$ 6,485	\$ 4,370	\$ 7,634

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, 2016.

Operating leases

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

Related party transactions

There were no transactions with related parties during 2016 and 2015.

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.

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

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, 2016 and 2015 was minimal.

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 12% to 15% 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 2016 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, 2016, 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 Discussion and Analysis of Financial Condition and Results of Operations

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, 2016, 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, 2016, 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. The company continues to evolve its risk management processes and risk management is an integral part of how the Company plans and monitors the business strategies and results. 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 recently re-accredited at the Gold Level. 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.

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.

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

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. At times these fixed-price contracts 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 sub-contractors 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.

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 2016, approximately 61% 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.

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

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, 2016 the Company's backlog included \$94 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 25% 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, 2016, the Company had various forward exchange contracts, which are explained in Note 18 to the Company's consolidated financial statements for the year ended September 30, 2016. 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.

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.

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

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.

Reliance on information systems

Unauthorized access to our or our customers' information and systems could negatively impact our business. We face certain security threats, including threats to the confidentiality, availability and integrity of our data and systems. While management supervises and maintains what it considers to be appropriate control, enforcement and monitoring systems designed to prevent, detect and respond to unauthorized activity in our systems, no system is failsafe and certain types of attacks or system failures could result in significant financial or information losses and/or reputational harm.

Long term Outlook

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

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

The Company has completed four acquisitions in the past 5 years, and will proactively look for companies that can accelerate its growth strategy with a focus on customer diversification and service line evolution.

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. Continued delays 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.

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

The BTS Division's professional 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. 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 enterprise to achieve their business outcomes. Looking at the current outlook, the current economic climate, the new federal government agenda may create uncertainty as to the extent of demand from this customer, at least in the short term. With continued investments in sales, marketing and success in new markets outside of the federal government, the division is better positioned to manage through these downturns. Acquisitions have also bolstered the division's performance and we will continue to look at acquisition opportunities to support our growth strategy.

Additional Information

Additional information about the Company such as the Company's 2016 Annual Information Form and Management Circular can be found on SEDAR at www.SEDAR.com

Dated: December 2, 2016

Management's Statement of Responsibility

The accompanying consolidated financial statements of Calian Group 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 9, 2016*



Jacqueline Gauthier

Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Calian Group Ltd.

We have audited the accompanying consolidated financial statements of Calian Group Ltd., which comprise the consolidated statements of financial position as at September 30, 2016 and September 30, 2015, 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 controls. 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 Group Ltd. as at September 30, 2016 and September 30, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized, cursive script followed by "LLP" in a simpler, sans-serif font.

**Chartered Professional Accountants
Licensed Public Accountants**

*November 9, 2016
Ottawa, Ontario*

Calian Group Ltd.
Consolidated Statements of Financial Position
As at September 30, 2016 and 2015
(Canadian dollars in thousands)

	NOTES	September 30, 2016	September 30, 2015
ASSETS			
CURRENT ASSETS			
Cash		\$ 16,761	\$ 10,624
Accounts receivable		61,032	50,494
Work in process		17,269	17,431
Prepaid expenses		1,044	1,449
Derivative assets	18	534	424
Total current assets		96,640	80,422
NON-CURRENT ASSETS			
Equipment	6	5,472	5,245
Application software	7	612	377
Acquired intangible assets	8	2,898	4,246
Goodwill	9	12,037	12,037
Total non-current assets		21,019	21,905
TOTAL ASSETS		\$ 117,659	\$ 102,327
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 26,671	\$ 25,582
Unearned contract revenue	14	11,271	6,980
Derivative liabilities	18	484	751
Total current liabilities		38,426	33,313
NON-CURRENT LIABILITIES			
Deferred tax liabilities	13	912	299
Total non-current liabilities		912	299
TOTAL LIABILITIES		39,338	33,612
SHAREHOLDERS' EQUITY			
Issued capital	10	22,820	20,673
Contributed surplus		472	458
Retained earnings		55,906	50,633
Accumulated other comprehensive loss		(877)	(3,049)
TOTAL SHAREHOLDERS' EQUITY		78,321	68,715
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 117,659	\$ 102,327

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

Approved by the Board
on November 9, 2016:



Kenneth Loeb
Chairman



Richard Vickers
Director

Calian Group Ltd.
Consolidated Statements of Net Profit
For the years ended September 30, 2016 and 2015
(Canadian dollars in thousands, except per share data)

	NOTES	2016	2015
Revenues		\$ 274,587	\$ 242,253
Cost of revenues		225,753	200,742
Gross profit		48,834	41,511
Selling and marketing		4,124	3,904
General and administration		18,893	16,924
Facilities		3,804	3,461
Depreciation of equipment and application software		1,290	1,285
Amortization of acquired intangible assets		1,348	1,431
Deemed compensation related to acquisitions	19	642	1,069
Profit before interest income and income tax expense		18,733	13,437
Interest income		37	87
Profit before income tax expense		18,770	13,524
Income tax expense – current		5,343	4,068
Income tax expense – deferred		(166)	(311)
Total income tax expense	13	5,177	3,757
NET PROFIT		\$ 13,593	\$ 9,767
Net profit per share:			
Basic	12	\$ 1.83	\$ 1.33
Diluted	12	\$ 1.83	\$ 1.33

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

Calian Group Ltd.
Consolidated Statements of Comprehensive Income
For the years ended September 30, 2016 and 2015
(Canadian dollars in thousands)

	NOTES	2016	2015
NET PROFIT		\$ 13,593	\$ 9,767
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 \$780 (2015 - \$1,062).		2,172	(2,975)
Other comprehensive income (loss), net of tax		2,172	(2,975)
COMPREHENSIVE INCOME		\$ 15,765	\$ 6,792

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

Calian Group Ltd.
Consolidated Statements of Changes in Equity
For the years ended September 30, 2016 and 2015
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2015		\$ 20,673	\$ 458	\$ 50,633	\$ (3,049)	\$ 68,715
Comprehensive income		-	-	13,593	(2,172)	15,765
Dividend paid (\$1.12 per share)		-	-	(8,320)	-	(8,320)
Issue of shares under employee stock purchase plan	10,11	388	-	-	-	388
Issue of shares under stock option plan	10	1,759	(89)	-	-	1,670
Share-based compensation expense	11	-	103	-	-	103
Balance September 30, 2016		\$ 22,820	\$ 472	\$ 55,906	\$ (877)	\$ 78,321

	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

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

Calian Group Ltd.
Consolidated Statements of Cash Flows
For the years ended September 30, 2016 and 2015
(Canadian dollars in thousands)

	NOTES	2016	2015
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net profit		\$ 13,593	\$ 9,767
Items not affecting cash:			
Interest income		(37)	(87)
Income tax expense	13	5,177	3,757
Employee stock purchase plan and share-based compensation expense		178	187
Depreciation and amortization expense		2,638	2,716
Deemed compensation related to acquisitions		642	1,069
		22,191	17,409
Change in non-cash working capital			
Accounts receivable		(10,848)	(10,445)
Work in process		162	(4,840)
Prepaid expenses		405	251
Accounts payable and accrued liabilities		3,710	(3,072)
Unearned contract revenue		4,291	1,838
		19,911	1,141
Interest received		37	87
Income tax paid		(4,540)	(4,083)
		15,408	(2,855)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Issuance of common shares	10,11	1,995	442
Dividends		(8,320)	(8,262)
		(6,325)	(7,820)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Equipment and application software expenditures	6,7	(1,751)	(2,701)
Acquisitions	19	(1,195)	(1,200)
		(2,946)	(3,901)
NET CASH INFLOW (OUTFLOW)		\$ 6,137	\$ (14,576)
CASH, BEGINNING OF PERIOD		10,624	25,200
CASH, END OF PERIOD		\$ 16,761	\$ 10,624

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

Calian Group Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2016 and 2015
(Canadian dollars in thousands, except per share amounts)

1. Basis of preparation

Calian Group Ltd. ("the Company") is incorporated under the Canada Business Corporations Act. The address of its registered office and principal place of business is 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 and engineering domains as well as the design, manufacturing and maintenance of complex systems to the communications and defence sectors.

On April 1, 2016, the Company changed its name from Calian Technologies Ltd. to Calian Group Ltd. The Company name change was done to better reflect the diversity of its services in light of the expansion into areas such as healthcare and training.

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, 2016. 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, 2016 were authorized for issuance by the Board of Directors on November 9, 2016.

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. 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 Group Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2016 and 2015
(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 had in place for periods up to February 5, 2016 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 Group Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2016 and 2015
(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
- 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 acquired 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 acquired intangible assets with an indefinite life on September 30th each year.

The 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 Group Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2016 and 2015
(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 17.

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 is 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.

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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 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.

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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 on-going 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 consolidated statement of net profit as the recognized hedged item.

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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 18 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 consolidated 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, 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.

IFRS 16 Leases

In January 2016, the IASB released IFRS 16 Leases which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. 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.

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

Percentage completion on revenue

A significant portion of the 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 acquired intangible 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, 2016 and September 30, 2015, 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.

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6. Equipment

	September 30, 2016			September 30, 2015		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Leasehold improvements	\$ 1,608	\$ 1,270	\$ 338	\$ 1,609	\$ 1,094	\$ 515
Equipment	14,421	9,287	5,134	13,601	8,871	4,730
	<u>\$ 16,029</u>	<u>\$ 10,557</u>	<u>\$ 5,472</u>	<u>\$ 15,210</u>	<u>\$ 9,965</u>	<u>\$ 5,245</u>

7. Application software

	September 30, 2016			September 30, 2015		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Application software	\$ 3,067	\$ 2,455	\$ 612	\$ 2,686	\$ 2,309	\$ 377

8. Acquired intangible assets

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

	September 30, 2016			September 30, 2015		
	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	3,031	784	3,815	2,144	1,671
Contract with customers	1,485	1,333	152	1,485	958	527
Non-competition agreements	249	196	53	249	134	115
Trademarks	78	78	-	78	54	24
	<u>\$ 7,536</u>	<u>\$ 4,638</u>	<u>\$ 2,898</u>	<u>\$ 7,536</u>	<u>\$ 3,290</u>	<u>\$ 4,246</u>

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9. Goodwill

	September 30, 2016			September 30, 2015		
	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

Annual test for impairment

Goodwill recorded is allocated in its entirety to the Business and Technology Services division. At September 30, 2016 and 2015, 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, 2016 and 2015, the discount factor assumption of 12% to 15% and the growth rate assumption 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, 2016		September 30, 2015	
	Shares	Amount	Shares	Amount
Balance, beginning of year	7,378,298	\$ 20,673	7,353,908	\$ 20,161
Shares issued under stock option plan	83,500	1,759	5,000	99
Shares issued under employee stock purchase plan	21,801	388	19,390	413
Issued capital	7,483,599	\$ 22,820	7,378,298	\$ 20,673

Subsequent to the date of the statement of financial position, on November 9, 2016, the date of issuance of these consolidated financial statements, the Company declared a dividend of \$0.28 per common share payable on December 7, 2016.

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.

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11. Share-based compensation

Stock Options

The Company had an established stock option plan which expired on February 5, 2016 when the shareholders elected not to renew the plan. Under the plan, eligible directors and employees were granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options were granted but in no circumstances below fair market value of the shares at the date of grant. Effective February 5, 2016, no further grants can be made under the plan. As at September 30, 2016 (2015), 351,500 (495,000) options are outstanding of which 331,500 (391,100) are exercisable. During the years ended September 30, 2016 (2015), NIL (95,000) options were granted and 83,500 (NIL) options were exercised.

The following share-based payment arrangements are in existence:

Option series:	Number	Grant date	Expiry date price	Exercise	Fair value at grantdate
(1) Issued August 13, 2012	92,500	August 13, 2012	August 12, 2017	\$ 20.54	\$ 0.99
(2) Issued September 3, 2014	165,250	September 3, 2014	September 3, 2019	\$ 19.70	\$ 1.18
(3) Issued September 9, 2015	93,750	September 9, 2015	September 9, 2020	\$ 17.69	\$ 0.90

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:

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

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11. Share-based compensation (continued)

	2016		2015	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	495,000	\$ 19.40	415,000	\$ 19.80
Exercised	(83,500)	\$ 20.00	(5,000)	\$ 18.65
Expired	(60,000)	\$ 18.65	(10,000)	\$ 20.12
Granted	-	\$ -	95,000	\$ 17.69
Outstanding, end of year	351,500	\$ 19.38	495,000	\$ 19.40

At September 30, 2016 (2015) there were 351,500 (495,000) options outstanding with a weighted average remaining contractual life of 2.1 (2.9) years of which 331,500 (391,100) were exercisable at a weighted average price of \$19.49 (\$19.65).

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 750,000 common shares have been authorized for issuance under the plan. During 2016 (2015), the Company issued 21,801 (19,390) shares under the ESPP at an average price of \$14.92 (\$17.99) for a total cash of \$325 (\$349) and total non-cash of \$63 (\$64). Employees subscribed to approximately 32,200 common shares, which will be issued during fiscal 2017 at an average price of \$12.83. Since inception and including the issuance of shares in 2016, 430,724 shares have been issued under the plan.

12. Net profit per share

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

	2016	2015
Weighted average number of common shares – basic	7,411,361	7,366,652
Additions to reflect the dilutive effect of employee stock options	7,499	-
Weighted average number of common shares – diluted	7,418,860	7,366,652

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 2016 (2015), 257,750 (495,000) 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 profit per share.

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13. 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:

	2016	2015
Profit before income taxes	\$ 18,770	\$ 13,524
Tax provision at the combined basic Canadian federal and provincial income tax rate of 26.9% (2015: 26.7%)	5,053	3,604
Increase (decrease) resulting from:		
Effect of expenses that are not deductible in determining taxable profits	217	323
Impact of rate reductions on valuation of deferred income tax assets	14	20
Other	(107)	(190)
Income tax expense	\$ 5,177	\$ 3,757

The effective income tax rate in the year was 26.9% (2015 - 26.7%).

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, 2015	\$ (259)	\$ (1,145)	\$ 1,014	\$ 91	\$ (299)
Credited (debited) to statement of net profit	(289)	377	-	79	167
Credited (debited) to other comprehensive income	-	-	(780)	-	(780)
Deferred tax liability at September 30, 2016	\$ (548)	\$ (768)	\$ 234	\$ 170	\$ (912)

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 income 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)

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14. Construction contracts

Construction contract revenues recorded during the period ended September 30, 2016 are \$89,037 (2015: \$71,218) substantially all of which is from the Systems Engineering Division.

Contracts in progress at the balance sheet date:

	2016	2015
Construction costs incurred plus recognized profits		
less recognized losses to-date	\$ 254,607	\$ 203,581
Less: progress billings	(248,017)	(188,742)
	\$ 6,590	\$ 14,839

Recognized and included in the consolidated financial statements as amounts due:

	2016	2015
From customers under construction contracts	\$ 17,311	\$ 19,939
To customers under construction contracts	(10,721)	(5,100)
	\$ 6,590	\$ 14,839

At September 30, 2016 (2015), advances received from customers for contract work amounted to \$11,271 (\$6,980).

As at September 30, 2016 (2015), the Company had \$2,323 (\$1,952) 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 2016 and 2015 is considered to be a short-term receivable.

15. Commitments

The Company has non-cancellable lease agreements for office space and equipment with terms extending to the year 2026. The aggregate minimum rental payments under these arrangements are as follows:

2017	\$ 3,419
2018	2,785
2019	2,230
2020	2,083
2021	2,100
thereafter	7,634
Total	\$ 20,251

16. 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.

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17. 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 19.

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, 2016

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 82,141	\$ 192,446	\$ -	\$ 274,587
Profit before interest income and income tax	11,638	9,792	(2,697)	18,733
Interest income				37
Income tax expense (Note 13)				(5,177)
Net profit				\$ 13,593
Total assets other than cash and goodwill	\$ 40,245	\$ 48,485	\$ 131	\$ 88,861
Goodwill	-	12,037	-	12,037
Cash	-	-	16,761	16,761
Total assets	\$ 40,245	\$ 60,522	\$ 16,892	\$ 117,659
Equipment and application software expenditures	\$ 1,147	\$ 604	\$ -	\$ 1,751

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				87
Income tax expense (Note 13)				(3,757)
Net profit				\$ 9,767

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17. Segmented information (continued)

	Systems Engineering	Business and Technology Services	Corporate	Total
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
<hr/>				
Equipment and application software expenditures	\$ 2,275	\$ 426	\$ -	\$ 2,701

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

	2016	2015
Canada	75%	77%
United States	19%	18%
Europe	6%	5%

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, 2016 and 2015 represented 61% (62%) of the Company's total revenues. Both operating segments conduct business with this major customer. In addition for the year ended September 30, 2016 and 2015 revenues from Hughes Networks represented 11% (12%) of the Company's total revenues, all generated from the SED division.

18. 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 are subject to externally imposed capital requirements.

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18. Financial instruments and risk management (continued)

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.

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, 2016, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, 2016
SELL	39,789	USD	October 2016	\$ 52,191	\$ 450
SELL	10,201	EURO	October 2016	15,032	84
Derivative assets					\$ 534
BUY	17,127	USD	October 2016	\$ 22,465	\$ 194
SELL	1,000	USD	September 2017	1,312	254
BUY	4,385	EURO	October 2016	6,462	36
Derivative liabilities					\$ 484

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18. Financial instruments and risk management (continued)

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

A 10% strengthening of the Canadian dollar against the following currency at September 30, 2016 would have increased (decreased) other comprehensive income by the amounts shown below.

September 30, 2016	
USD	\$ 2,822
EURO	780
	\$ 3,602

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, 2016 (2015), 61% (62%) 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, 2016	September 30, 2015
Cash	\$ 16,761	\$ 10,624
Accounts receivable	61,032	50,494
Derivative assets	534	424
	\$ 78,327	\$ 61,542

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18. Financial instruments and risk management (continued)

The aging of accounts receivable at the reporting date was:

	September 30, 2016	September 30, 2015
Current	\$ 59,790	\$ 47,891
Past due (61-120 days)	971	2,409
Past due (> 120 days)	271	194
	<u>\$ 61,032</u>	<u>\$ 50,494</u>

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, 2016 the Company has a cash balance of \$16,761 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, 2016 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.

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, 2016, 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).

	2016 Level 1	2016 Level 2
Cash	\$ 16,761	\$ -
Derivative financial assets	-	534
Derivative financial liabilities	-	(484)
Total	<u>\$ 16,761</u>	<u>\$ 50</u>

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

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2016 and 2015.

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19. Acquisitions

Amtek Engineering Services Ltd. (“Amtek”)

Under the contingent consideration 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 years ended September 30, 2015 (2016), the Company paid \$900 (\$830) related to the first (second) year earn-outs.

DWP Solutions Inc. (DWP)

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 June 30, 2015 and 2016 respectively. During the years ended September 30, 2015 (2016) the Company paid \$300 (\$365) related to the first (second) year earn-outs.

20. Pension Plan

The Company sponsors a defined contribution pension plan for certain number of its employees. Required contributions have been fully funded to September 30, 2016. For fiscal 2016 (2015), an amount of \$843 (\$804) was expensed related to this pension plan.

21. 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.

	2016	2015
Short-term benefits	\$ 1,937	\$ 1,950
Share-based payments	140	134
	\$ 2,077	\$ 2,084

22. Subsequent Event

On October 31, 2016, the Company invested \$100 to acquire a non-controlling interest in common shares of Cliniconex Inc., an Ottawa-based patient outreach solutions vendor. As part of the investment, a member of the Company’s management team has been appointed to the Cliniconex Inc. Board of Directors. The investment will be measured at cost.

Corporate Information

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Board of Directors

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President, Mystic Investment Inc.
Chairman, Calian Group 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

Jo-Anne Poirier

President and CEO EO, VON Canada

Kevin Ford

President and CEO, Calian Group Ltd.

Common Share Information

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

Dividend Policy

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

Annual Meeting of Shareholders

The Annual General Meeting of the Shareholders of Calian will be held on February 3, 2017 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.



Stability Through Diversity
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Calian Group Ltd.
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