

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



“Customers trust us when they can’t fail.”

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Chairman's Letter

It's been another great year to be a Calian shareholder. With strong financials and a strong leadership team focused on long-term growth, shareholders are well-positioned to continue seeing healthy returns.

As shareholders, we've enjoyed total returns over fiscal 2017 that outperformed key market benchmarks. While the S&P/TSX Composite index gained 6% over the 12-month period, and the S&P/TSX SmallCap Index fell 1.3%, Calian's share price climbed 23%.

The company continues to attract income and growth investors with a consistently high dividend yield that was at 4% at fiscal year-end, above the five-year average on the S&P/TSX Composite, which was 3%. Combining dividends and share price growth, we had total shareholder return of 26% in fiscal 2017, meaning that an investor who purchased \$5,000 worth of Calian shares on September 30, 2016, would have seen that investment rise to a value of \$6,300 in just one year.

As shareholders, we are not just stockowners benefitting from returns. We are also participants in Calian's journey towards its core purpose of helping the world communicate, innovate, lead healthy lives, and stay safe. We can be proud of company achievements such as helping more than 850 individuals in 400 military families gain access to a family physician within the past two years.

In shareholder representation, we were pleased to see the addition of a board member this year whose experience supports management's growth plan and M&A strategy. Young Park, a C-level executive with more than 30 years of experience in fintech, insurance, telecommunications and the public sector, joined the board on September 1, 2017. An experienced leader in mergers and acquisitions, Ms. Park has assessed businesses and managed post-acquisition integrations.

In support of the company's focus on the attraction and retention of critical talent, Calian has taken steps to benchmark executive compensation. The company has implemented mechanisms to increase compensation transparency, motivate long-term, profitable growth, and expand executive share ownership in the company. This initiative is designed to better align compensation with the creation of long-term value for Calian and its shareholders.

Personally, I am impressed by the ongoing financial strength of this company. Kevin Ford—who was named the 2017 Ottawa Chamber of Commerce CEO of the Year—has now completed his second full year as chief executive officer, and continues to demonstrate an infectious passion for growth. I remain confident in the executive team and its ability to lead an organization executing the strategic plan—all while maintaining the financial flexibility to deliver high returns for shareholders.

Kenneth Loeb

Chairman

Share price performance FY2017





Kevin Ford
President and CEO, Calian Group Ltd.

Message from the CEO

As we celebrated Calian's 35th anniversary this year, we were reminded that our diverse, high-quality service offerings are key to our growth and continued financial stability.

I was very proud of the dedication of our teams who worked hard to both evolve our service offerings and diversify Calian's customer base. The entire organization is embracing our Four Pillar Growth Strategy of service line evolution, customer retention, customer diversification, and continuous improvement.

Returns for shareholders showed continued strength, as reflected by the 23% rise in the share price and annual net profit of \$2.03 per share, up from \$1.83 the previous year. I was pleased to see double-digit growth in our key service lines, even as consolidated revenues of \$275 million were relatively flat, reflecting a temporary gap between some projects winding down and others ramping up.

We continue to evolve our M&A strategy as we move from opportunistic to strategic acquisitions aligned with the Four Pillar Strategy. To support this shift in direction, a new credit facility of \$40 million was signed in 2017, better positioning the organization to take advantage of strategic opportunities.

The acquisition of International Safety Research Inc. (ISR), a leading Ottawa-based safety and security service provider, was directly aligned with our service line evolution and diversification objectives. Together, we retained the customers we share while diversifying further into national and international nuclear industries and emergency management. We are happy to report the integration is going smoothly and the ISR team is excited about their future with Calian.

Customer retention continued to be strong across all service lines. With many customer relationships lasting 20 years and counting, a key metric for our retention pillar is our excellent customer satisfaction ratings. We recently announced a renewal of the



Health Services contract with our largest customer, the Department of National Defence. This and associated contracts are worth up to \$1 billion over 12 years and demonstrate our ability to recapture business through complex government procurement processes. Calian's training and support services with the Canadian Army Simulation Centre (CASC) were similarly extended for another 12 months.

Our largest Systems Engineering Division (SED) customers—SiriusXM and Inmarsat—are pleased with our commitment to high-quality service delivery and have continued to trust us with additional projects. I am proud of our reputation for superior service delivery—the foundation of our continued growth.

Diversification has been a priority as demonstrated through the addition of new customers. Our Health team grew its roster with the addition of 17 new contracts, including new customers such as Veterans Affairs Canada, the RCMP, the military Cadets, correctional institutions and northern community clients. SED received new customers in the agriculture and cable sectors. The Training Services business gained new municipal customers as well as the National Research Council and the Canadian Coast Guard. Our IT and Professional Services team expanded its client base with customers such as Agriculture Canada, DND and private sector customers.

Calian's service line evolution is really about innovation. It's a challenge for any business to keep up with technology's acceleration—yet the innovations at Calian never fail to amaze me. In a recent visit to our SED facility I saw first-hand how we are investing in next-generation satellite and cable-sector technologies. I am excited about the excellent progress we are making toward our goal of becoming a market leader in the next wave of industry requirements. Notably, this year SED registered an important radio frequency network solution with the U.S. Patent and Trademark Office.

Continuous improvement is not just one of the Four Pillars—it is an attitude at Calian. At SED we are re-certifying to meet the most recent ISO 9001 certification standard, to ensure customers receive consistent, high-quality products and services. We are constantly reviewing processes, technology and investments to seek cost efficiencies. Innovation in operations remains a priority—as recognized in our Excellence Canada gold-level certification. While operating costs increased over the year amid our investment in sales, marketing and service line evolution, we maintained these costs within our target

of 10% to 11% of revenues. Calian will continue to challenge discretionary spending as we invest prudently in our service offerings and market presence.

What's next for Calian? The Calian board has approved our updated, three-year 2020 strategy, which clearly sets out my expectations for the company's growth. Our organizational structure is aligned with the growth objective, with each service line operating under its own senior executive who is a subject matter expert in their respective domain. My role, as CEO, is to set the pace for the organization and help capitalize on unique opportunities that arise frequently in a diverse company setting, serving customers across geographies and markets.

Wherever I travel, I have the honour of telling the Calian success story. From humble beginnings as a small professional services firm in 1982, this publicly listed company today boasts 65 consecutive profitable quarters, a strong financial foundation, excellent shareholder returns, employees numbering more than 2,900, and diverse services and projects spanning international, U.S. and Canadian markets. I am proud to represent the amazing team that is Calian Group.

As Calian expands, we want to continue to be known as nimble, responsive and customer-focused. It's these three characteristics that have helped us find national and international success, and we're just getting started.



Four Pillar Growth Strategy

2017 Service Line Highlights

Health Services

This fiscal year was an exceptional one for Calian Health. In September the Health team received confirmation that it had re-won the Health Care Providers contract with the Department of National Defence. The contract is for an initial term of four years with options to extend for an additional eight years. At the same time, Calian was also awarded new health support services contracts for the RCMP and Veterans Affairs Canada. These contracts are scheduled to begin April 1, 2018, and in aggregate have a value of up to \$1 billion over the full 12-year period.

This year, Canada's military Cadets also selected Calian for our health support services. In the first year of the contract we provided and managed health services for 20,000 military Cadets for the summer training period.

Since expanding its Health Services into the corrections sector in 2015, Calian has won several health services contracts with municipal, provincial and federal corrections institutions. These provide a range of services from dental care to mental health, in Eastern, Western and Central Canada. The quality on-site medical services that we provide save these correctional organizations time and resources while minimizing the strain on local hospitals and health resources.

Our Primacy clinic network continues to see strong growth through the delivery of value added services to our clinics and Loblaw partners. We opened our 150th Primacy clinic location this year.

Calian provides high-quality health services to the men and women working in Canada's oil sands, and continues to expand its onsite services to large oil and gas companies such as Canadian Natural Resources Limited. The Health team also operates an occupational health clinic in Fort McKay to support the health needs of local oil and gas contractors.

Aligned with our belief in innovation, we invested in a company called Cliniconex. This firm has developed software that automates and personalizes patient outreach for medical clinics. We believe technological innovation is a critical enabler to health care delivery and Calian will continue to look for opportunities to support technology in our health service offerings.

IT and Professional Services

The IT and Professional Services (ITPS) business had another successful year. We renewed our technical support agreement for Ericsson Canada's R&D initiatives, continued work with the City of Toronto and won new business with Agriculture Canada. The company leveraged its reputation in health services in the oil and gas industry into new service contracts for ITPS. For instance, Calian won a contract with Indian Oil and Gas Canada, an organization in Alberta that manages and administers oil and gas resources on Indigenous reserve lands. ITPS is now providing IT and business support services to this agency, which manages the natural resources of more than 45 First Nations with active oil and gas agreements.

The Calian ITPS team has been transforming its cyber security practice into a full-service, cyber solutions offering. The practice helps organizations stay safe by providing services that protect, detect, respond and recover from cyberattacks and breaches. Service offerings include cyber strategies, vulnerability privacy and threat assessments, security maturity and architecture reviews. Strategic partnerships with industry-leading security vendors—including Fortinet Technologies, Cylance, Gemalto, Terranova and Forcepoint—have allowed Calian to offer a broader range of solutions that, from 2016, drove double-digit growth in our cyber security practice. Significant consulting wins this year expanded our presence with the federal government and helped us achieve record cyber security revenue.

Training Services

Calian's acquisition of International Safety Research added significantly to Training Services in 2017 by both expanding the business and creating room for synergies.

The addition of ISR broadened Calian's emergency management service offering into chemical, biological, radiological, nuclear and explosive (CBRNE) safety consulting. Through this acquisition Calian retained

customers we share with ISR and gained additional customers in the national and international nuclear industries, such as Ontario Power Generation and Point Lepreau Generating Station.

We are already seeing synergies from the methodologies and tools that ISR brings to the business, as well as from the brand power that Calian offers to ISR's growing presence in nuclear safety and emergency preparedness. This year alone, Calian expanded its emergency management services to additional customers including the City of Ottawa, the National Research Council, the Canadian Coast Guard and the City of Nanaimo. Additionally, Calian is leveraging ISR's deep nuclear engineering skillset to strengthen our engineering services.

For 22 years Calian has worked with the the Canadian Army Simulation Centre (CASC) to offer training methodology, expertise and a framework specifically designed to support a wide range of training exercise requirements for the Army. We are happy to see this partnership continue. This year Calian's existing training and support services contract with CASC was extended for another 12 months, to March 31, 2019. Our team of approximately 600 full and part-time personnel will continue to apply their experience, knowledge and passion to ensure that we create realistic and cost-effective training environments that help prepare Canada's troops for deployment.

Systems Engineering

Calian's Systems Engineering business continued to expand with new contracts and product development projects. Our services for communication gateways and planning systems experienced higher revenues, largely on our technical expertise, reputation for quality and customer satisfaction. One of our largest customers, SiriusXM, continues to return for new solutions to enhance and broaden its services. We launched the Satellite Capacity Planning System, a tool for satellite operators to plan the allocation of network resources and better satisfy their customers' service demands. We are developing a Satellite Load Manager for one of our longstanding customers, Inmarsat, to help the company optimally share network resources among its users. This innovative tool helps balance the customer data load across satellite beams, alleviating network congestion.

One of the service line's longest successful products





comes from a digital spectrum analyzer called the Decimator, a cornerstone communication product offered by SED. Built to assist telecom and broadcast network operators with the cost-effective monitoring and troubleshooting of their radio frequency (RF) communication paths, the Decimator is deployed in hundreds of communication gateways around the world. The product line has maintained popularity with customers, generating record revenue and margin contribution in 2017. We continue to evolve this communications product with the aim of offering deeper measurement and analysis for the same competitive price.

In fiscal 2017, Systems Engineering advanced its plan to evolve our portfolio of communication products. We continue to work on a leading-edge DOCSIS Remote PHY core solution for cable network operability, successfully completing critical progress demonstrations with key potential customers. Work continued on two network test tools branded by Rohde & Schwarz, a global test equipment leader. We are pleased to report that System Engineering's commitment to Rohde & Schwarz and their customers has earned us a top-50 supplier rating. As a part of an ongoing plan to broaden our thought leadership and intellectual property, SED received a patent from the United States Patent and Trademark Office on an Intelligent RF Redundancy Switch, covering a new concept in Radio Frequency signal switching.

Calian's services in communications ground systems had a transition year as we completed several large RF ground systems and signed orders for new systems for both commercial and government customers. The fiscal year successfully marked one of our most demanding RF ground system deployments ever as the service line installed and commissioned more than 20 Ka-band RF ground systems. These deployments enabled the customer to reach its network go-live objective on schedule and without any compromise to technical performance. Additional contracts for new ground systems contributed to an overall healthy backlog heading into 2018.

Contract Manufacturing

In 2017, both commercial and defence customers drove Contract Manufacturing revenue growth. The defence market, which has lagged for several years, provided significant expansion as U.S. and Canadian defence prime contractors placed orders for electronic assemblies used in vehicle electronics and surveillance applications. Our contract manufacturing capabilities are supplemented by our systems engineering expertise, generating notable synergies and increasing our value to these customers.

One of our largest agriculture electronics customers experienced significant growth in market share

this year, further increasing demand for these manufacturing services.

Calian's Contract Manufacturing and Systems Engineering business lines continue to advance a three-year growth agenda led by the Systems Engineering Division. In line with this growth plan, the division increased its staff to 300 in 2017, up from 272 the previous year. These additional resources support all services within the two businesses, including satellite operations and manufacturing.

Stability Through Diversity, Focused on Growth



How we help the world

At Calian, our core purpose is to help the world communicate, innovate, lead healthy lives, and stay safe. This is the shared vision that drives the entire team as we grow the company and deliver exceptional-quality services.

Communicate

Calian helps the world communicate in many ways. We provide critical technologies and infrastructure supporting a range of applications, from emergency and secure communications to the worldwide broadcast of news and entertainment. The infrastructure we provide allows people to communicate in some of the harshest environments in the world.

Our largest contribution to global communications is through the Systems Engineering business, which plans, designs, and implements complex communication systems for land, sea, and outer space. Systems Engineering's services include ground infrastructure systems that deliver programming from the DJ booth to satellites—a communications link allowing broadcasts to more than 15 million subscribers 24 hours a day, seven days a week. Our deep-space networks and earth observation systems help scientists understand and explore the far reaches of space as well as the planet's ecosystems.

Calian's technology services enable customers to transfer massive amounts of data. The IT and Professional Services (ITPS) business at Calian helps global telecommunications companies maintain products that move exabytes of data daily. We help them meet their communications needs and stay abreast of demanding lifecycles. The ITPS team has significant information and communications technology (ICT) contracts supporting Ciena, Ericsson and Genband—three of the largest manufacturers of voice and data communications equipment in the world.



Communicate

Innovate

Innovation is integral to the culture at Calian – it is a vital part of our identity. Team members at Calian think about how to innovate in everything they do. Calian’s ITPS team helps organizations transform their IT environments to keep up with the evolving needs of security and technology. Our deep technical expertise helps our customers solve a range of complex IT challenges on their preferred platforms.

Calian’s Training Services business is constantly innovating with the work of our recently acquired International Safety Research going all the way to the International Space Station (ISS). For instance, in 2015 ISR researched and developed a gel version of a “novel DNA-based dosimeter”—a tool used to measure the effects of radiation exposure for ISS space crews.

Innovation at Calian goes well beyond technology. We are proud of some of the innovations by the Calian Health team, including the Military Family Doctor Network launched in 2015. The initiative leveraged our Primacy clinic network to match family doctors with military families, who due to frequent relocations have more difficulty finding a doctor than the average family. Calian was in a unique position to help and support with this longstanding issue.

Calian employs some of the world’s leading communications experts who create and advance our intellectual property. Our design and development of leading-edge DOCSIS cable network technologies have led to partnerships with some of the world’s largest chip manufacturers, broadcasters and cable networking companies. Calian’s Systems Engineering Division is currently researching core technologies in new RF ranges so that we can maintain our leadership in the next generation of satellite communication network designs.

Innovate

Lead Healthy Lives

As one of the country's largest health services organizations, Calian Health has a network of more than 1,800 health care professionals supporting over six million patient visits per year at over 180 clinic locations in Canada. These include 150 Primacy clinics located in Loblaw stores across Canada.

Our Health team is always working to improve the health of the people we serve—from members of the Canadian Armed Forces (CAF) to oil and gas workers. For the past 13 years, Calian has provided health support services to DND at 32 bases and installations across the country. These services encompass 60 different categories of health practitioners, offering physical and mental health support to all Canadian military members.

We provide similar health services expertise to Correctional Services Canada, northern communities, the military Cadets program and the Canada Border Services Agency. We also operate an occupational health clinic in Fort McKay, Alberta, for workers in the oil and gas sector.

Calian's work in technology and innovation makes important contributions to healthier lives. Our Health Services team has supported innovations such as a hand-held tool for skin cancer screening, and at SED has developed earth observation systems, allowing scientists to monitor the planet's most fragile ecosystems.



Lead Healthy Lives

Stay Safe

Calian helps the world stay safe. One of our longest-running programs is the delivery of mission readiness training for the Canadian Armed Forces. Security and stability missions are more complex than ever, lending new importance to mission rehearsal and operational training. To support this readiness, Calian designs, delivers and evaluates training exercises, many of which employ constructive and virtual simulation systems.

We train organizations and community teams to quickly and effectively respond to potentially catastrophic emergency situations. For over 22 years, Calian Training has provided these emergency management services to military and public sector organizations.

While no one wants to experience a real emergency, today's communities face complex threats. It's vital that they be prepared. We have trained organizations for responses to possible earthquakes and tornadoes; terror attacks; public disturbances; unexpected shutdowns or system compromises; and transportation accidents such as spills, derailments and crashes. We have also delivered training to multiple agencies to ensure security and public safety for large-scale events such as the 2010 Vancouver Olympics or G8 and G20 meetings.

Calian's Training business helps the world safely use nuclear power. Although we have worked with the nuclear industry for many years, the acquisition of ISR this year deepened Calian's involvement in nuclear safety. ISR provides critical nuclear waste security and safety solutions. For instance, it uses modelling software and field surveys to characterize and protect against radiation hazards, and conducts risk assessments of nuclear facilities for any gaps and plans for corrective actions.

Our Training services also help to ensure the Canadian Air Force flies safely. We train the next generation of Canadian Air Force technicians, who maintain aircraft according to all maintenance standards. The training is essential to ensure that all Royal Canadian Air Force (RCAF) aircraft are properly maintained and safe for flying through the life of the machines. A team of our specialists support the RCAF's Airworthiness Program, which ensures the RCAF fleet remains operational, meets all relevant policies and standards and guarantees the safety of the RCAF air crews.

No organization is safe in today's environment without an excellent cyber security program. Calian's team of cyber security professionals offer expertise, solutions

and tools to protect information systems and assets. They deliver impact assessments, incident response plans in advance of a cyber threat, and governance to support privacy and security obligations.

Calian's Systems Engineering and Contract Manufacturing businesses help the world stay safe through communications, systems engineering and manufacturing. We manufacture components for military equipment, including a fire suppression system for light armoured vehicles. Our communications network infrastructure relays vital aircraft cockpit communications on transoceanic flights. We also provide communications infrastructure for emergency situations when critical communications have been disabled through floods, storms or other events.



Stay Safe

Corporate Social Responsibility

Calian's Corporate Social Responsibility is driven by our core purpose and a strong desire to make a difference in people's lives.

We are proud, for instance, to be making a difference in the lives of military members and their families. For three consecutive years, Calian has received Canada Company's Military Employment Transition (MET) Top Employer Award, recognizing the company as a top employer for Canadian veterans and serving-member spouses. Calian has helped more than 500 retired military personnel transition into civilian employment since 2012, and has provided jobs for more than 100 military spouses since Canada Company's MET Spouse program launched in 2016. In September, the Veterans Affairs Minister called on corporate Canada to recognize the skills of veterans and hire more soldiers who are transitioning to civilian life. Calian welcomes this challenge.

Military families face unique health needs. Relocating frequently, they are less likely to have a family doctor. That's why in 2015 Calian created the Military Family Doctor Network. This innovative program improves access to physicians for CAF members by matching them with one of Calian's physicians within our national network of Primacy clinics. As of October we had placed more than 850 patients from over 400 military families with family doctors.

This year, we were happy to sponsor four young Master Corporals with the CAF so that they could participate in the 100th anniversary of the Battle of Vimy Ridge. With a delegation of veterans, youth, Indigenous organizations and parliamentarians, these four young soldiers had the opportunity to travel to France and participate in a battlefield study tour with the joint Royal Canadian Artillery and Communications and Electronics Branch.





At Calian, we are big believers in research. Aligned with our care for military families, the company has been a major supporter of the Canadian Institute for Military and Veteran Health Research, an organization that focuses on the health and well-being of Canadian military personnel, veterans and their families. Calian is proud to support such research, having also committed a \$105,000 grant to the Canadian Primary Care Sentinel Surveillance Network for research on the specific care requirements of military families.

Calian supported a national symposium this year on the sidelines of the Invictus Games in Toronto. The event, called the Toronto 2017 Invictus Games Multi-National Symposium, hosted by True Patriot Love, discussed the impact of injury on the family and brought together 250 VIPs and thought leaders from government, the military, industry, academia, and the not-for-profit sector—all from the 17 nations competing in the Invictus Games. The forum offered opportunities for stakeholders to connect and discuss the pressing issues facing military members and the veteran community, such as the importance of sport in recovery.

Calian believes companies like ours have a responsibility to make a measurable difference within their communities. We encourage our employees to use paid time to help out in the community—and Calian team members have responded admirably. We have employees who have been regularly involved in the local Women for Mental Health program, the Kanata Food Cupboard, the Shoppers Run for Women and many other laudable initiatives. Each year, Calian has several participants in local charitable activities such as the Canada Army Run and the HOPE Volleyball tournament. Calian is also a significant supporter of campaigns for the United Way, the Ottawa Hospital Foundation and the Ottawa Senators' annual Canadian Armed Forces Appreciation Night.

As part of Calian's commitment to having a positive impact on our community, we remain cognizant of our environmental footprint. Calian's contract manufacturing services are managed so that we maintain a reputation as a good environmental steward. We offer lead-free manufacturing capabilities, for instance, in compliance with Restriction of Hazardous Substances (RoHS) standards.

In Summary

“With a strong financial foundation, cash flows and contract backlog, Calian is well-positioned to execute its long-term growth plan.”

With a strong financial foundation, cash flows and contract backlog, Calian is well-positioned to execute its long-term growth plan. The company entered 2018 with a contract backlog of more than \$1 billion, after re-winning our health services contract with DND while gaining related health contracts for the RCMP and Veterans Affairs Canada. This is a victory we can put behind us as the organization looks forward.

Calian will continue to focus on our long-term growth, both organically and through acquisitions. Our experienced management team is evolving our service lines while the company as a whole

embraces the Calian core purpose: To help the world communicate, innovate, lead healthy lives and stay safe.

With total shareholder return of 26% in 2017 and 65 consecutive profitable quarters over the past 16 years, Calian will continue to leverage our diverse business and reputation for high-quality services. We are proud to have shareholders on this journey with us, celebrating this year's milestones such as 35 years in business. Together, we can look forward to our long-term success.



Kevin Ford
CEO



Jacqueline Gauthier
Chief Financial Officer



Patrick Thera
VP and General Manager,
Systems Engineering

26%

TOTAL SHAREHOLDER
RETURN



STRONG
CASH FLOWS



\$1.3
BILLION
BACKLOG



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

The following Management Discussion and Analysis is dated December 8, 2017 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 8, 2017 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 35 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 and International
Quality Initiatives	ISO	Excellence Canada / ISO
Risk Profile	High Risk	Low to Medium Risk
Workforce	300	2700

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. SED also provides leading-edge communications products for terrestrial and satellite networks. 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 systems engineering capability enables us to build products, systems, networks and infrastructure; to maximize utilization, efficiency and throughput of these systems for our customers. Our primary market is the satellite industry, but we are also applying our capabilities and expertise to broader adjacent markets with needs for similar systems and services. As a systems solution provider, we work with our customers on a project basis to develop custom systems tailored to their specific operational requirements. From one project to the next, we attempt to reuse system architecture, core modules, and custom components to reduce development time, cost and technical risk. The products that we develop help us to be more competitive on systems opportunities and contribute solidly to our overall margins when sold on a recurring basis.

We have an extensive electronic manufacturing capability. Our customers for this market are typically large US defence contractors and wireless communication device manufacturers. We can offer our customers full life cycle support

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

including initial design, prototyping, production, service and long-term product support. The SED products that we build along with the contract manufacturing and satellite operations contracts provide an on-going base of business that helps offset the ebb and flow of core project work.

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 2017, SED continued to grow in profitability in spite of a reduction in revenues. The divisional revenues decreased by 8% over the previous year as a result of significant non-labor throughput included in the 2016 revenues. SED signed \$70 million in new contracts, ending the year with a backlog of \$71 million of which \$53 million is expected to be earned in fiscal 2018. Profitability increased by 7% in spite of lower revenues. The differing margins on the mix of work between projects, products and manufacturing factored into the higher profitability as well as excellent project execution. 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 2017 results across the division's primary service lines.

CALIAN System Engineering Services

The majority of the systems engineering work during the year came from providing RF ground systems for several customers including Hughes, Inmarsat, Cobham, McDonald Detweiller and Associates and Lockheed Martin. The applications ranged from communication systems to earth observation and avionics navigation augmentation. Communications systems work included upgrades to several planning and management systems for Inmarsat as well as studies for future communication systems. 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, Ciel and Hughes.

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 continued its two additional product developments for Rhode & Schwarz to generate and analyze RF signals for DOCSIS 3.1 cable transmissions. Steady sales of SED's Decimator spectrum analyzer 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 one patent approval and one application still pending. 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 defense manufacturing line as we continued to produce modules and cable assemblies for General Dynamics Land Systems Canada, KIDDE and DRS. SED's investment in the new surface mount technology line and continuous improvement of manufacturing processes continues to show through increased capacity and efficiency. The situation for defense sales remains volatile due to constraints on Canadian and US military spending. However, there was an increase in defense related orders in the fourth quarter. We continue to counter the volatility in the defense industry by growing our commercial manufacturing business through customers such as IntraGrain, whose products that we manufacture, continue to grow in popularity.

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.

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 services and solutions in Healthcare, Training and Engineering, and IT Professional Services. BTS is a continuous improvement organization, 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. Historically our core competencies, common across all service lines, are recruiting and project, contract and workforce management; however the division continues to evolve its services to incorporate technology in order to offer full solutions to our customers. Each of these competencies is aligned to each service line in the areas of:

- Health – clinic management, occupational health services, clinician services;
- Training and Engineering – 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 service line includes the administration on behalf of Loblaw of over 150 medical clinics across Canada, as well as the provision of health care 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 health care organizations through health clinics in the health services portfolio. With a reduced risk profile, margins are correspondingly lower.

Revenue growth from new opportunities will be largely dependent on the issuance of the initial proposal request and the ultimate timing of the related contract award. The Health Services contract was renewed in 2017 for up to 12 years and with most of the training and engineering service line contracts being renewed in 2016, the division has visibility into at least \$171 million of contract value to be generated in fiscal 2018. 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 2017 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 all of its major contracts that were up for renewal in 2017, 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 contract wins in new markets areas allowed the division to report revenue growth of 4%. In 2017, we also signed \$973 million in contracts and ended the year with a backlog of \$1,190 million of which \$171 million is expected to be earned during fiscal 2018.

The following provides a summary of 2017 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 the largest national health services organization in Canada, and this year there was significant progress towards achieving this goal. Calian's largest health services contract with DND, the Health Services Support Contract (HSSC), was re-won for another 4-year term with options for up to an additional 8 years. Two additional contracts with similar terms were simultaneously awarded for the provision of health support services to RCMP and Veterans Affairs Canada (VAC), with a total aggregate contract value for the three contracts over 12 years of up to \$1 billion. We are thrilled to be able to continue to provide our 'superior'-rated health services to DND (and now RCMP and VAC). We have been supporting DND's delivery of health services for over 12 years at all 32 bases across Canada with a network of over 1,500 health practitioners in over 60 different categories. In addition, our diversification efforts continued to see success with new contracts being won in the oil and gas industry in Alberta, with strategic wins in both federal and provincial corrections, and with our first wins in northern nursing and dental services in Nunavut and Northern Ontario. Primacy also continued to run strong this year opening our 150th clinic. In addition, we were very proud of the progress Primacy made this year working with DND's Military Family Services (MFS) and local MFRCs on our Military Family Doctor Network (MFDN) to improve access for military families to family doctors across Canada. This year we opened our 11th MFDN location and to date have helped over 850 patients in over 400 different families.

CALIAN ITPS services

Our IT Professional Services (ITPS) line also made some significant strides with a goal to evolve service offerings. 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. 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 this year, 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. Focus on the evolution of IT services to project and solution based business remains a key priority.

CALIAN Training and Engineering Services

For Calian Training, 2017 was characterized by steady performance in traditional contracts as well as a number of opportunities with new customers and capped off by the acquisition of International Safety Research. All of our major contracts continue to do well, with noticeable growth in the work we do at the Canadian Army Simulation Centre and significant growth in the work we do on our Military Personnel Generation contract, which allows us to provide instruction in a number of new military school houses. In addition we have won new contracts in the public and private sector which will expand our training reach. In Emergency Management we have expanded our customer base with work with the City of Ottawa, National Research Council, Coast Guard and the City of Nanaimo. We continue to raise our profile through conferences, presentations and thought leadership pieces (radio, TV news) from our subject matter experts. Finally, with the acquisition of International Safety Research, we have enhanced our overall position in Emergency Management and significantly increased our connection to nuclear customers, such as Bruce Power, Ontario Power Generation and Point Lepreau Generating Station as well as the ability to leverage ISR's global footprint in Europe and UAE. With the acquisition of International Safety Research, the Calian-ISR synergies will create additional growth opportunities in the coming years.

In summary, 2017 was a year of continued growth for Calian with significant improvements in EBITDA and earnings. As importantly, we made tangible progress in the execution of our long term strategy. The company enters 2018 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 2018.

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

Backlog

The Company's backlog at September 30, 2017 was \$1,261 million with terms extending to fiscal 2030. This compares to \$488 million reported at September 30, 2016. 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 2017 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.

- up to \$1 Billion contract with DND, RCMP and VAC for Health for health care provider requirements
- \$22 million contracts for RF ground systems
- \$30 contract extension with Canadian Army Simulation Center for training and support services

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 2018, 2019, 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 \$113 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 2018	Fiscal 2019	Beyond 2019	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	\$ 215	\$ 115	\$ 169	\$ 499	\$ 88	\$ 587
Option Renewals	9	31	609	649	25	674
TOTAL	\$ 224	\$ 146	\$ 778	\$ 1,148	\$ 113	\$ 1,261
Business and Technology Services	\$ 171	\$ 136	\$ 770	\$ 1,077	\$ 113	\$ 1,190
Systems Engineering	53	10	8	71	-	71
TOTAL	\$ 224	\$ 146	\$ 778	\$ 1,148	\$ 113	\$ 1,261

Selected Annual Information

(dollars in millions, except per share data)

	2017	2016	2015
Revenues	\$ 275.4	\$ 274.6	\$ 242.3
EBITDA ⁽¹⁾	\$ 23.5	\$ 22.0	\$ 17.2
Net profit	\$ 15.4	\$ 13.6	\$ 9.8
Adjusted net profit ⁽¹⁾	\$ 15.4	\$ 14.2	\$ 10.8
Net profit per share, basic	\$ 2.03	\$ 1.83	\$ 1.33
Net profit per share, diluted	\$ 2.01	\$ 1.83	\$ 1.33
Adjusted net profit per share, basic ⁽¹⁾	\$ 2.03	\$ 1.92	\$ 1.48
Adjusted net profit per share, diluted ⁽¹⁾	\$ 2.01	\$ 1.92	\$ 1.48
Total assets	\$ 133.6	\$ 117.7	\$ 102.3
Dividends per share	\$ 1.12	\$ 1.12	\$ 1.12

⁽¹⁾ See reconciliation regarding non-GAAP measures below

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

2017 Results of Operations

Profit before interest and income taxes were \$20,888 in 2017 compared with \$18,733 in 2016 and net profit was \$15,390 for the year compared with \$13,593 in the previous year. The Company completed the year with \$28,639 of cash compared to \$16,761 at the end of 2016.

Revenues	2017	2016	% change
SED revenues	\$ 75,634	\$ 82,141	(8%)
BTS revenues	\$ 199,789	\$ 192,446	4%
Consolidated revenues	\$ 275,423	\$ 274,587	0%

The general business environment in 2017 reflects continued strong demand with our government customers which primarily benefited the BTS division. SED also benefited from high levels of activity with many of its recurring customers; with the drop of revenues attributed mostly to a decrease in the material and subcontractor component of revenues this year. Despite the impact of this reduction, the Company's healthy backlog combined with the win of several contracts in new market segments during 2017 allowed the Company to maintain revenues at the same level as in the prior fiscal year.

SED revenues for 2017 were down 8% compared to 2016 revenues with several large system implementations which generated significant revenues in 2016 entering the close-out phase in early 2017. However, work continued at a steady state in all areas of the division including systems engineering, defense related and commercial contract manufacturing. As well, activities this year continued to reflect a higher amount of labor based revenue in comparison to the revenues dominated by the RF Systems in the same periods of last year which had a higher non-labor content.

BTS revenues for 2017 were up 4% compared to 2016 revenues. Revenues from the division's traditional business lines showed a steady state with the prior year, with increases in the newly acquired ISR contributing to growth in revenues. The Company experiences 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 2017 (2016), 66% (61%) of revenues were related to contracts with various departments and agencies of the Government of Canada with approximately 60% (53%) 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 strong 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.

Cost of revenues and Gross profit	2017	2016	% change
SED gross profit	\$ 20,398	\$ 18,995	7%
As a percentage of SED revenues	27.0%	23.1%	
BTS gross profit	\$ 32,506	\$ 29,839	9%
As a percentage of BTS revenues	16.3%	15.5%	
Consolidated gross profit	\$ 52,904	\$ 48,834	8%
As a percentage of consolidated revenues	19.2%	17.8%	

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

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 2017 reflects mix improvements and solid execution on contracts.

Improvements in SED gross margin in comparison to the previous year is due to the successful completion of several projects allowing the retirement of end of project risks, solid product sales and a higher labor component in the current mix of projects which yields higher margins. Although the mix of revenues plays a significant role in the margin ultimately realized, product sales and excellent project execution helped the division maintain a solid level of margins.

Gross margin in BTS reflects improved revenue mix from increased activity with mainstay customers and solid execution across its portfolios. While competition on new work continues to be fierce, the division continues to evolve its service offering with a goal to increase differentiation and 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	2017	2016	% change
Selling and marketing	\$ 4,396	\$ 4,124	6.6%
As a percentage of consolidated revenues	1.6%	1.5%	

Selling and marketing expenses increased over the prior year as a result of increased focus on diversification, evolution of its service lines and the broadening of its target markets. Costs for 2018 may continue to increase slightly over the 2017 level as the Company continues to invest to support its growth objectives.

General and administration	2017	2016	% change
General and administration	\$ 20,718	\$ 18,893	9.7%
As a percentage of consolidated revenues	7.5%	6.9%	

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. Management will continue to challenge discretionary spending; however, prudent investments may be required to support the evolution of the Company's service lines.

Facilities	2017	2016	% change
Facilities	\$ 4,319	\$ 3,804	13.5%

Facility expenses, which include costs associated with office space, have been relatively stable over the past several years. However they have increased in the current year with the renewal of leases at increased market rates. With other spaces renewing in 2019, costs are expected to increase as well into 2019.

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

EBITDA⁽¹⁾ for fiscal 2017 was \$23,471 compared to EBITDA of \$22,013 in the previous year.

⁽¹⁾ See reconciliation regarding non-GAAP measures below

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

Depreciation and amortization	2017	2016	% change
Depreciation	\$ 1,490	\$ 1,290	15.5%
Amortization	\$ 1,093	\$ 1,348	(18.9%)

Depreciation expense has increased due to significant equipment investment in fiscal 2016 at SED. Depreciation will increase somewhat during 2018 based on the levels of spending in recent past. Amortization expense has decreased as the intangibles acquired during 2014 have been substantially amortized. However in 2018, this decrease will be offset by the amortization of intangibles acquired as part of the ISR acquisition.

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. The remaining portion of the deemed compensation related to these acquisitions was fully expensed in 2016.

Income tax expense

The Company reports its results on a fully taxed basis. The provision for income taxes for 2017 was \$5,663 or 26.9% of earnings before income taxes compared to \$5,177 or 27.6% of earnings before income taxes in 2016. The decrease in tax rate is reflective of the reduction in the deemed compensation recognized in 2017. The effective tax rate for 2018, prior to considering the impact of non-taxable transactions, is expected to be approximately 26.9%.

Net profit

The Company reported net profit of \$15,390 or \$2.03 per share basic and \$2.01 diluted for 2017 compared to \$13,593 or \$1.83 per share basic and diluted in 2016. The Company reported adjusted net profit(1) of \$15,390 or \$2.03 per share basic and \$2.01 diluted for 2017 compared to \$14,235 or \$1.92 per share basic and diluted in 2016.

⁽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.

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	2017	2016
NET PROFIT	\$ 15,390	\$ 13,593
Deemed compensation related to acquisitions	-	642
Adjusted net profit	\$ 15,390	\$ 14,235

Reconciliation of EBITA	2017	2016
Profit before interest and income tax expense	\$ 20,888	\$ 18,733
Depreciation	1,490	1,290
Amortization	1,093	1,348
Deemed compensation related to acquisitions	-	642
EBITDA	\$ 23,471	\$ 22,013

Selected Quarterly Financial Data

(dollars in millions, except per share data)

	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16
Revenues	\$ 72.3	\$ 67.3	\$ 67.1	\$ 68.7	\$ 68.8	\$ 73.2	\$ 68.1	\$ 64.5
EBITDA⁽¹⁾	\$ 6.6	\$ 5.5	\$ 6.2	\$ 5.2	\$ 5.3	\$ 6.1	\$ 5.4	\$ 5.2
Net profit	\$ 4.3	\$ 3.5	\$ 4.2	\$ 3.4	\$ 3.4	\$ 3.9	\$ 3.2	\$ 3.1
Adjusted net profit⁽¹⁾	\$ 4.3	\$ 3.5	\$ 4.2	\$ 3.4	\$ 3.4	\$ 4.0	\$ 3.5	\$ 3.3
Net profit per share								
Basic	\$ 0.57	\$ 0.46	\$ 0.55	\$ 0.45	\$ 0.45	\$ 0.52	\$ 0.44	\$ 0.42
Diluted	\$ 0.56	\$ 0.45	\$ 0.55	\$ 0.45	\$ 0.45	\$ 0.52	\$ 0.44	\$ 0.42
Adjusted net profit per share ⁽¹⁾								
Basic	\$ 0.57	\$ 0.46	\$ 0.55	\$ 0.45	\$ 0.45	\$ 0.54	\$ 0.48	\$ 0.45
Diluted	\$ 0.56	\$ 0.45	\$ 0.55	\$ 0.45	\$ 0.45	\$ 0.54	\$ 0.48	\$ 0.45

⁽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 \$28,639 at September 30, 2017, compared to \$16,761 at September 30, 2016.

	2017	2016
Cash flows from operating activities before changes in working capital	\$ 23,777	\$ 22,191
Changes in working capital	1,394	(6,783)
Cash flows from (used in) operating activities	\$ 25,171	\$ 15,408
Cash flows from (used in) financing activities	(5,325)	(6,325)
Cash flows from (used in) investing activities	(7,968)	(2,946)
Increase in cash	\$ 11,878	\$ 6,137

Operating activities

Cash inflows from operating activities for the period ended September 30, 2017 were \$25,171 compared to cash inflows of \$15,408 in 2016. Cash flows have been positively impacted the decrease in accounts receivable commensurate the close off of certain large projects at SED. The aging of the accounts receivable remain in excellent health. These variations in cash flows are not considered unusual and reflect normal working capital fluctuations associated with the ebbs and flows of the business. The market for the Systems Engineering Division is characterized by contracts with billings tied to milestones achieved, which often results in significant working capital requirements. Conversely, given the nature of this business, it is sometimes possible to negotiate advance payments on contracts. Such advance payments give rise to unearned revenue that will be realized as revenue over the course of the contract. As at September 30, 2017, the Company's total unearned revenue amounted to \$8,831 compared to \$11,271 at September 30, 2016, with the decrease attributable to work progressing on certain contracts that had previously benefited from advance payments.

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

Financing activities

Dividend

As a result of continuing earnings and a strong cash position, the Company maintained its dividend in 2017. The Company paid quarterly dividends totaling \$8,520 or \$1.12 cents per share compared to 2016 when the Company paid \$8,320 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, 2017 there were 240,600 options outstanding at an average price of \$20.10 expiring at various dates between December 4, 2017 and May 17, 2022.

At September 30, 2017 there were 7,655,713 common shares outstanding and as of the date of this Management Discussion and Analysis, there were 7,706,454 common shares outstanding.

Investing activities

Equipment expenditures

Calian acquired \$2,374 in equipment and application software during 2017 compared to \$1,751 during 2016. The Company continues to invest in innovation projects that will allow the Company to scale and grow operations in the future. At September 30, 2017 there were no significant commitments to expend capital assets.

Acquisitions

During 2017 (2016), the Company paid \$5,344 (\$1,195) for various acquisitions as described in the notes to the consolidated financial statements.

Investments

During 2017 (2016), the Company paid \$100 (\$Nil) for an equity investment in Cliniconex as described in the notes to the consolidated financial statements. The Company also provided \$150 (\$Nil) to Cliniconex Inc. in the form of a convertible loan.

Capital resources

At September 30, 2017 the Company had a short-term credit facility of \$40,000 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	\$ 28,704	\$ 3,106	\$ 6,345	\$ 6,400	\$ 12,853
Purchase obligations	18,519	17,289	1,227	3	-
Total contractual obligations	\$ 47,223	\$ 20,395	\$ 7,572	\$ 6,403	\$ 12,853

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, 2017.

Operating leases

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

Related party transactions

There were no transactions with related parties during 2017 and 2016.

Critical Accounting Estimates

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

Revenue recognition

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

Contingencies

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

Income taxes

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

Allowance for doubtful accounts

The Company has extensive commercial history upon which to base its provision for doubtful accounts. Due to the nature of the industry in which the Company operates, the Company does not create a general provision for bad debts but rather determines bad debts on a specific account basis. Due to the blue chip list of customers, the Company's allowance for doubtful accounts at September 30, 2017 and 2016 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.

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

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 2017 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, 2017, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them and that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

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

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's internal control over financial reporting as of September 30, 2017, 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, 2017, 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.

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.

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

Government contracts

During fiscal 2017, approximately 66% of the Company's total revenues were derived from contracts with the Canadian government and its agencies. The government may change its policies, priorities or funding levels through agency or program budget reductions or impose budgetary constraints. Furthermore, contracts with governments, including the Canadian government, may be terminated or suspended by the government at any time, with or without cause, and may be subject to certain audits or other claims. Although in the past the Company has rarely experienced cancellations of previously awarded significant contracts by the Canadian government, there can be no assurance that any contract with the government will not be terminated or suspended in the future.

Backlog

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. At September 30, 2017 the Company's backlog included \$113 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 20% 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, 2017, the Company had various forward exchange contracts, which are explained in Note 19 to the Company's consolidated financial statements for the year ended September 30, 2017. 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.

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 five 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. The recent delays, deferrals and cancellations of DND capital

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

procurements have created intense competition for available manufacturing work. Finally, changes in the relative value of the Canadian dollar may negatively or positively impact the Systems Engineering Division's competitiveness on projects denominated in foreign currencies.

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

Additional Information

Additional information about the Company such as the Company's 2017 Annual Information Form and Management Circular can be found on SEDAR at www.SEDAR.com

Dated: December 8, 2017

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.

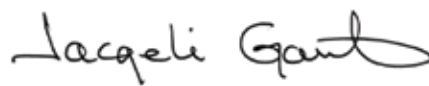
The Board of Directors carries out its responsibility for the financial statements in this report through its Audit Committee. The Audit Committee meets periodically with management to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss 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 15, 2017*



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, 2017 and September 30, 2016, and the consolidated statements of net profit, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Calian Group Ltd. as at September 30, 2017 and September 30, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



**Chartered Professional Accountants
Licensed Public Accountants**

*November 15, 2017
Ottawa, Ontario*

Calian Group Ltd.

Consolidated Statements of Financial Position

As at September 30, 2017 and 2016
(Canadian dollars in thousands)

	NOTES	September 30, 2017	September 30, 2016
ASSETS			
CURRENT ASSETS			
Cash		\$ 28,639	\$ 16,761
Accounts receivable		54,884	61,032
Work in process		19,490	17,269
Prepaid expenses		1,650	1,044
Derivative assets	19	123	534
Total current assets		104,786	96,640
NON-CURRENT ASSETS			
Equipment	6	6,503	5,472
Application software	7	766	612
Investments and loan receivable	8	530	-
Acquired intangible assets	9	5,586	2,898
Goodwill	10	15,383	12,037
Total non-current assets		28,768	21,019
TOTAL ASSETS		\$ 133,554	\$ 117,659
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 32,584	\$ 26,671
Unearned contract revenue	15	8,831	11,271
Derivative liabilities	19	360	484
Total current liabilities		41,775	38,426
NON-CURRENT LIABILITIES			
Deferred tax liabilities	14	2,292	912
Total non-current liabilities		2,292	912
TOTAL LIABILITIES		44,067	39,338
SHAREHOLDERS' EQUITY			
Issued capital	11	26,240	22,820
Contributed surplus		541	472
Retained earnings		62,776	55,906
Accumulated other comprehensive loss		(70)	(877)
TOTAL SHAREHOLDERS' EQUITY		89,487	78,321
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 133,554	\$ 117,659

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

Approved by the Board
on November 15, 2017:



Kenneth Loeb
Chairman



Richard Vickers
Director

Calian Group Ltd.
Consolidated Statements of Net Profit

For the years ended September 30, 2017 and 2016
(Canadian dollars in thousands, except per share data)

	NOTES	2017	2016
Revenues		\$ 275,423	\$ 274,587
Cost of revenues		222,519	225,753
Gross profit		52,904	48,834
Selling and marketing		4,396	4,124
General and administration		20,718	18,893
Facilities		4,319	3,804
Depreciation of equipment and application software		1,490	1,290
Amortization of acquired intangible assets		1,093	1,348
Deemed compensation related to acquisitions		-	642
Profit before interest income and income tax expense		20,888	18,733
Interest income		165	37
Profit before income tax expense		21,053	18,770
Income tax expense – current		5,613	5,343
Income tax expense – deferred		50	(166)
Total income tax expense	14	5,663	5,177
NET PROFIT		\$ 15,390	\$ 13,593

Net profit per share:

Basic	13	\$ 2.03	\$ 1.83
Diluted	13	\$ 2.01	\$ 1.83

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, 2017 and 2016
(Canadian dollars in thousands)

	NOTES	2017	2016
NET PROFIT		\$ 15,390	\$ 13,593
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 \$296 (2016 - \$780).		807	2,172
Other comprehensive income, net of tax		807	2,172
COMPREHENSIVE INCOME		\$ 16,197	\$ 15,765

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, 2017 and 2016
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2016		\$ 22,820	\$ 472	\$ 55,906	\$ (877)	\$78,321
Comprehensive income		-	-	15,390	807	16,197
Dividend paid (\$1.12 per share)		-	-	(8,520)	-	(8,520)
Issue of shares under employee stock purchase plan	11,12	476	-	-	-	476
Issue of shares under stock option plan	11	2,944	(147)	-	-	2,797
Share-based compensation expense	12	-	216	-	-	216
Balance September 30, 2017		\$ 26,240	\$ 541	\$ 62,776	\$ (70)	\$89,487

	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	11,12	388	-	-	-	388
Issue of shares under stock option plan	11	1,759	(89)	-	-	1,670
Share-based compensation expense	12	-	103	-	-	103
Balance September 30, 2016		\$ 22,820	\$ 472	\$ 55,906	\$ (877)	\$78,321

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

Calian Group Ltd. Consolidated Statements of Cash Flows

As at September 30, 2017 and 2016
(Canadian dollars in thousands)

	NOTES	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		\$ 15,390	\$ 13,593
Items not affecting cash:			
Interest income		(165)	(37)
Income tax expense	14	5,663	5,177
Employee share plans compensation expense		306	178
Depreciation and amortization expense		2,583	2,638
Deemed compensation related to acquisitions		-	642
		23,777	22,191
Change in non-cash working capital			
Accounts receivable		8,066	(10,848)
Work in process		(2,011)	162
Prepaid expenses		(557)	405
Accounts payable and accrued liabilities		3,643	3,710
Unearned contract revenue		(2,440)	4,291
		30,478	19,911
Interest received		204	37
Income tax paid		(5,511)	(4,540)
		25,171	15,408
CASH FLOWS USED IN FINANCING ACTIVITIES			
Issuance of common shares	11,12	3,195	1,995
Dividends		(8,520)	(8,320)
		(5,325)	(6,325)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Investment	8	(250)	-
Equipment and application software expenditures	6,7	(2,374)	(1,751)
Acquisitions	20	(5,344)	(1,195)
		(7,968)	(2,946)
NET CASH INFLOW		\$ 11,878	\$ 6,137
CASH, BEGINNING OF PERIOD		16,761	10,624
CASH, END OF PERIOD		\$ 28,639	\$ 16,761

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, 2017 and 2016
(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.

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, 2017. 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, 2017 were authorized for issuance by the Board of Directors on November 15, 2017.

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, DWP Solutions Inc., located in Ottawa, Ontario and International Safety Research 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, 2017 and 2016
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Time and material contracts

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

Share-based compensation

The Company has a stock option plan for executives and other key employees. The Company measures and recognizes compensation expense based on the grant date fair-value of the stock options issued using the Black-Scholes pricing model. The offsetting credit is recorded in contributed surplus. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense for each tranche is recorded on a straight-line basis over the vesting period based on the Company's estimate of share 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 a restricted share unit plan for executives and other key employees. The Company measures and recognizes compensation expense based on the grant date fair-value of the units issued using the market value based on the price at the date preceding the grant. The offsetting credit is recorded in contributed surplus. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense for each tranche is recorded on a straight-line basis over the vesting period based on the Company's estimate of units that will ultimately vest. At each reporting period, the Company revises its estimate of the units expected to vest. The impact on the change in estimate, if any, is recognized over the remaining vesting period.

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.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

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.

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 furniture and computer equipment, along with leasehold improvements, is stated at cost less accumulated depreciation and impairment losses, if any. The carrying value is net of any 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: | 5 years |
| • Trademarks & software: | 5 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 of disposal 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.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
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2. Summary of significant accounting policies (continued)

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.

Impairment of goodwill

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

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

Business acquisition

Acquisition of businesses 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.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Financial instruments

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

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

Financial assets

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

Cash	Loans and receivables
Accounts receivable and loan receivable	Loans and receivables
Investments	Cost and equity method
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.

Loans and receivables

Accounts receivable and loan 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.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
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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.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
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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 19 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the 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 October 1, 2018. Assessment of the impact is currently underway by the Company but at this time the impact is not yet known.

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 October 1, 2018. Assessment of the impact is currently underway by the Company but at this time the impact is not yet known.

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 October 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.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
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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 intangibles assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit, and a suitable discount rate in order to calculate present value.

Income taxes

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

Contingent liabilities

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

Allowance for doubtful accounts receivable

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

For the years ended September 30, 2017 and September 30, 2016, no material changes in estimates have been made

Judgments:

Financial instruments

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

Accounting policy for equipment and intangible assets

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

Deferred income taxes

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

Percentage complete methodology

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

Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
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6. Equipment

	September 30, 2017			September 30, 2016		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Leasehold improvements	\$ 1,753	\$ 1,480	\$ 273	\$ 1,608	\$ 1,270	\$ 338
Equipment	16,432	10,202	6,230	14,421	9,287	5,134
	\$ 18,185	\$ 11,682	\$ 6,503	\$ 16,029	\$ 10,557	\$ 5,472

7. Application software

	September 30, 2017			September 30, 2016		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Application software	\$ 3,483	\$ 2,717	\$ 766	\$ 3,067	\$ 2,455	\$ 612

8. Investments and loan receivable

During the year, the Company invested \$100 to acquire a 4% 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 is measured at cost. The Company also provided \$150 to Cliniconex Inc. in the form of a convertible loan. The loan has a stated interest rate of 12% and matures on June 9, 2020. The loan contains an optional conversion feature that allows the Company to convert the principal and interest owing on maturity to common shares of Cliniconex Inc. The loan is measured at amortized cost.

On May 9, 2017, and included as part of the acquisition of ISR (Note 20), Calian acquired a 49% equity position in International Safety Research Europe for \$280. The investment is measured using the equity method.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
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9. Acquired intangible assets

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

	September 30, 2017			September 30, 2016		
	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	5,600	3,611	1,989	3,815	3,031	784
Contract with customers	2,703	1,720	983	1,485	1,333	152
Non-competition agreements	543	272	271	249	196	53
Trademarks and software assets	562	128	434	78	78	-
	<u>\$ 11,317</u>	<u>\$ 5,731</u>	<u>\$ 5,586</u>	<u>\$ 7,536</u>	<u>\$ 4,638</u>	<u>\$ 2,898</u>

10. Goodwill

	September 30, 2017			September 30, 2016		
	Cost	Impairment	Carrying Value	Cost	Impairment	Carrying Value
Business and Technology Services	\$ 15,383	\$ -	\$ 15,383	\$ 12,037	\$ -	\$ 12,037
	<u>\$ 15,383</u>	<u>\$ -</u>	<u>\$ 15,383</u>	<u>\$ 12,037</u>	<u>\$ -</u>	<u>\$ 12,037</u>

Annual test for impairment

Goodwill recorded is allocated in its entirety to the Business and Technology Services division. At September 30, 2017 and 2016, 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, 2017 and 2016, 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.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

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11. 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, 2017		September 30, 2016	
	Shares	Amount	Shares	Amount
Balance, beginning of year	7,483,599	\$ 22,820	7,378,298	\$ 20,673
Shares issued under stock option plan	140,900	2,944	83,500	1,759
Shares issued under employee stock purchase plan	31,214	476	21,801	388
Issued capital	7,655,713	\$ 26,240	7,483,599	\$ 22,820

Subsequent to the date of the statement of financial position, on November 15, 2017, the date of issuance of these consolidated financial statements, the Company declared a dividend of \$0.28 per common share payable on December 13, 2017.

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.

12. Share-based compensation

Stock Options

The Company has an established stock option plan. Under the plan, eligible directors and employees are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted but in no circumstances below fair market value of the shares at the date of grant. Stock options are issued at market value based on the price at the date preceding the grant, and can have a contractual term of up to ten years and generally vest over 3 years. The maximum number of common shares reserved for issuance under the Plan is equal to 9% of the Company's issued and outstanding shares from time to time less the aggregate number of shares reserved for issuance or issuable under any other security-based compensation arrangement for the Company. As at September 30, 2017, based on the Company's total common shares outstanding, a total of 689,014 stock options and RSU's may be issued and outstanding. Based on this, the Company could grant up to 437,069 additional stock options beyond what was issued and outstanding as at September 30, 2017.

At September 30, 2017 (2016) there were 240,600 (351,500) options outstanding with a weighted average remaining contractual life of 1.94 (2.1) years of which 222,600 (331,500) were exercisable at a weighted average price of \$19.52 (\$19.49). During the years ended September 30, 2017 (2016), 30,000 (NIL) options were granted and 140,900 (83,500) options were exercised. The Company has total unrecognized compensation expense of \$28 (2016 - \$NIL) that will be recorded in the next fiscal year.

The following share-based payment arrangements are in existence:

Option series:	Number	Grant date	Expiry date	Exercise price	Fair value at grantdate
(1) Issued August 13, 2012	22,000	August 13, 2012	December 4, 2017	\$ 20.54	\$ 0.99
(2) Issued September 3, 2014	113,600	September 3, 2014	September 3, 2019	\$ 19.70	\$ 1.18
(3) Issued September 9, 2015	75,000	September 9, 2015	September 9, 2020	\$ 17.69	\$ 0.90
(4) Issued May 17, 2017	30,000	May 17, 2017	May 17, 2022	\$ 27.30	\$ 3.42

For the option issuance dated September 9, 2015, 29,000 options vested immediately with the remaining vested through to September 9, 2017. For the option issuance dated May 17, 2017, 6,000 options vested immediately with the remaining vesting through to May 17, 2018.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

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12. Share-based compensation (continued)

The weighted average fair value of options granted during the year ended September 30, 2017 was \$3.42 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 2 years after vesting. The following assumptions were used to determine the fair value of the options granted in 2017:

	2017
Grant date share price	\$ 27.30
Exercise price	\$ 27.30
Expected price volatility	24.3%
Expected option life	4.2 yrs
Expected dividend yield	4.01%
Risk-free interest rate	0.91%
Forfeiture rate	0%

	2017		2016	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	351,500	\$ 19.38	495,000	\$ 19.40
Exercised	(140,900)	\$ 19.85	(83,500)	\$ 20.00
Expired	-	\$ -	(60,000)	\$ 18.65
Granted	30,000	\$ 27.30	-	\$ -
Outstanding, end of year	240,600	\$ 20.10	351,500	\$ 19.38

Restricted share units:

The Company has established a restricted stock unit ("RSU") plan as of February 3, 2017. Under the RSU plan, the maximum number of common shares reserved for issuance is equal to 9% of the Company's issued and outstanding shares from time to time less the aggregate number of shares reserved for issuance or issuable under any other security-based compensation arrangement for the Company. Share units may be awarded to any officer or employee of the Company. Each restricted share unit will vest on the date or dates designated for that unit, conditional on any vesting conditions being met. Participants in the RSU plan may elect to redeem their share units either by the Company issuing the participant one common share for each whole vested share unit or, subject to the consent by the Company, elect to receive an amount in cash. The cash amount is equal to the number of vested share units to be redeemed multiplied by the value of the common shares otherwise issuable on redemption of the share units.

The following table summarizes information about the RSU's as of September 30, 2017 and 2016:

	2017		2016	
	RSU	Weighted Avg. Exercise Price	RSU	Weighted Avg. Exercise Price
Outstanding, beginning of year	-	\$ -	-	\$ -
Transferred to common shares	-	\$ -	-	\$ -
Expired	-	\$ -	-	\$ -
Granted	11,345	\$ 27.43	-	\$ -
Outstanding, end of year	11,345	\$ 27.43	-	\$ -

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
(Canadian dollars in thousands, except per share amounts)

12. Share-based compensation (continued)

In 2017, the Company issued 11,345 RSU's, with a weighted average fair value of \$27.43 per RSU. Of the entire units issued to date under the RSU plan, NIL have vested as of September 30, 2017. The Company has recorded \$142 of share-based compensation expense in 2017 (2016 - NIL) related to the RSUs that have been granted. The Company has total unrecognized compensation expense of \$169 (2016 - \$NIL) that will be recorded over the next three years.

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 2017 (2016), the Company issued 31,214 (21,801) shares under the ESPP at an average price of \$12.73 (\$14.92) for a total cash of \$398 (\$325) and total non-cash of \$78 (\$63). Employees subscribed to approximately 22,260 common shares, which will be issued during fiscal 2018 at an average price of \$21.57. Since inception and including the issuance of shares in 2017, 461,938 shares have been issued under the plan.

13. Net profit per share

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

	2017	2016
Weighted average number of common shares – basic	7,586,899	7,411,361
Additions to reflect the dilutive effect of employee stock options and RSU's	76,353	7,499
Weighted average number of common shares – diluted	7,663,252	7,418,860

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 2017 (2016), Nil (257,750) options and NIL (NIL) RSU's 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.

14. Income taxes

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

	2017	2016
Profit before income taxes	\$ 21,053	\$ 18,770
Tax provision at the combined basic Canadian federal and provincial income tax rate of 26.9% (2016: 26.9%)	5,673	5,053
Increase (decrease) resulting from:		
Effect of expenses that are not deductible in determining taxable profits	160	217
Impact of rate reductions on valuation of deferred income tax assets	(126)	14
Other	(44)	(107)
Income tax expense	\$ 5,663	\$ 5,177

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
(Canadian dollars in thousands, except per share amounts)

14. Income taxes (continued)

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

Deferred tax assets (liabilities)	Equipment and application software	Acquired intangible assets	Cash flow hedging reserve	Other	Total
Deferred tax liability at September 30, 2016	\$ (548)	\$ (768)	\$ 234	\$ 170	\$ (912)
Current year acquisition	-	(1,032)	-	-	(1,032)
Credited (debited) to statement of net profit	(277)	369	-	(144)	(52)
Credited (debited) to other comprehensive income	-	-	(296)	-	(296)
Deferred tax liability at September 30, 2017	\$ (825)	\$ (1,431)	\$ (62)	\$ 26	\$ (2,292)

Deferred tax assets (liabilities)	Equipment and application software	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)

15. Construction contracts

Construction contract revenues recorded during the period ended September 30, 2017 are \$78,569 (2016: \$89,037) substantially all of which is from the Systems Engineering Division.

Contracts in progress at the balance sheet date:

	2017	2016
Construction costs incurred plus recognized profits less recognized losses to-date	\$ 231,600	\$ 254,607
Less: progress billings	(219,607)	(248,017)
	\$ 11,993	\$ 6,590

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

	2017	2016
From customers under construction contracts	\$ 18,914	\$ 17,311
To customers under construction contracts	(6,921)	(10,721)
	\$ 11,993	\$ 6,590

At September 30, 2017 (2016), advances received from customers for contract work amounted to \$8,831 (\$11,271).

As at September 30, 2017 (2016), the Company had \$2,224 (\$2,323) 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 2017 and 2016 is considered to be a short-term receivable.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
(Canadian dollars in thousands, except per share amounts)

16. Commitments

The Company has non-cancellable lease agreements for office space and equipment with terms extending to the year 2029. The aggregate minimum rental payments under these arrangements are as follows:

2018	\$ 3,106
2019	3,208
2020	3,137
2021	3,214
2022	3,186
thereafter	12,853
Total	\$ 28,704

17. Contingencies

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

18. Segmented information

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

- Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector.
- Business and Technology Services involves short and long-term placements of personnel to augment customers' workforces as well as the long-term management of projects, facilities and customer business processes. This segment includes the recent acquisition of ISR, as explained in Note 20.

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

For the year ended September 30, 2017	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 75,634	\$ 199,789	\$ -	\$ 275,423
Profit before interest income and income tax	12,381	11,822	(3,315)	20,888
Interest income				165
Income tax expense (Note 14)				(5,663)
Net profit				\$ 15,390
Total assets other than cash and goodwill	\$ 35,257	\$ 54,145	\$ 130	\$ 89,532
Goodwill	-	15,383	-	15,383
Cash	-	-	28,639	28,639
Total assets	\$ 35,257	\$ 69,528	\$ 28,769	\$ 133,554
Equipment and application software expenditures	\$ 1,924	\$ 565	\$ -	\$ 2,489
Acquired intangible assets (Note 20)	\$ -	\$ 3,896	\$ -	\$ 3,896
Acquired goodwill (Note 20)	\$ -	\$ 3,346	\$ -	\$ 3,346

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
(Canadian dollars in thousands, except per share amounts)

18. Segmented information (continued)

For the year ended September 30, 2016	Systems Engineering	Business and Technology Services	Corporate	Total
Revenue	\$ 82,141	\$ 192,446	\$ -	\$ 274,587
Profit before interest income and income tax expense	11,638	9,792	(2,697)	18,733
Interest income				37
Income tax expense (Note 14)				(5,177)
Net profit				\$ 13,593
<hr/>				
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
<hr/>				
Equipment and application software expenditures	\$ 1,147	\$ 604	\$ -	\$ 1,751

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

	2017	2016
Canada	80%	75%
United States	14%	19%
Europe	6%	6%

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, 2017 and 2016 represented 66% (61%) of the Company's total revenues. Both operating segments conduct business with this major customer. In addition for the year ended September 30, 2017 and 2016 revenues from Hughes Networks represented 5% (11%) of the Company's total revenues, all generated from the SED division.

19. Financial instruments and risk management

Capital Risk Management

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

Calian Group Ltd.

Notes to the Consolidated Financial Statements

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(Canadian dollars in thousands, except per share amounts)

19. Financial instruments and risk management (continued)

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.

Market Risk

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, 2017, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, 2017
BUY	16,481	USD	October 2017	\$ 20,568	\$ 49
BUY	3,250	EURO	October 2017	\$ 4,791	\$ 72
BUY	112	GBP	October 2017	187	2
Derivative assets					\$ 123
SELL	42,265	USD	October 2017	\$ 52,747	\$ 127
SELL	10,516	EURO	October 2017	15,503	231
SELL	114	GBP	October 2017	191	2
Derivative liabilities					\$ 360

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

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
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19. Financial instruments and risk management (continued)

A 10% strengthening of the Canadian dollar against the following currency at September 30, 2017 would have increased (decreased) other comprehensive income by the amounts shown below.

	September 30, 2017	
USD	\$	2,925
EURO		974
	\$	3,899

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, 2017 (2016), 62% (61%) of its accounts receivable were due from various departments and agencies of the Canadian federal government. Over the last five years the Company has not 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, 2017	September 30, 2016
Cash	\$ 28,639	\$ 16,761
Accounts receivable	54,884	61,032
Derivative assets	123	534
	\$ 83,646	\$ 78,327

The aging of accounts receivable at the reporting date was:

	September 30, 2017	September 30, 2016
Current	\$ 50,548	\$ 59,790
Past due (61-120 days)	3,055	971
Past due (> 120 days)	1,281	271
	\$ 54,884	\$ 61,032

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, 2017, the Company has a cash balance of \$28,639 and has an unsecured credit facility, subject to annual renewal. The credit facility permits the Company to borrow funds up to an aggregate of \$40,000. As at September 30, 2017 an amount of \$75 was drawn to issue a letter of credit to meet customer contractual requirements. All of the Company's financial liabilities have contractual maturities of less than 30 days.

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
(Canadian dollars in thousands, except per share amounts)

19. Financial instruments and risk management (continued)

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, 2017, 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).

	2017 Level 1	2017 Level 2
Cash	\$ 28,639	\$ -
Derivative financial assets	-	123
Derivative financial liabilities	-	(360)
Total	\$ 28,639	\$ (237)

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

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2017 and 2016.

20. Acquisitions

Amtek Engineering Services Ltd. (“Amtek”)

During the years ended September 30, 2017 (2016), under the contingent consideration agreement the Company paid NIL (\$830) related to the earn-outs.

DWP Solutions Inc. (DWP)

During the years ended September 30, 2017 (2016), under the contingent consideration agreement the Company paid NIL (\$365) related related to the earn-outs.

International Safety Research Inc. (“ISR”)

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

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
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20. Acquisitions (continued)

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of ISR an additional \$1,640 and \$1,640 if ISR attains specified levels of earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the years ended April 30, 2018 and 2019 respectively. With the current levels of contracts signed by ISR and the ability to grow in its selected market segment, management believes that ISR can achieve its earn-out target in both years. Therefore, the amount of \$3,074 represents the estimated fair value of the Company’s obligation at the acquisition date. ISR specializes in nuclear safety and emergency preparedness and response nationally and internationally. ISR was acquired to expand the Company’s emergency preparedness service offering and will be reported as part of the Business and Technology Services operating segment.

Acquisition-related costs amounting to \$92 have been excluded from the consideration and have been recognized as an expense during 2017, within the general and administration line item in the consolidated statement of net profit. The acquisition is a business combination to which IFRS 3 Business Combination applies.

Consideration:

Cash	\$	5,699
Contingent payments		3,074
Consideration to allocate	\$	8,773

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

Current assets:

Cash	\$	355
Accounts receivable		2,960
Work in progress		210
Prepaid expenses and other		49
	\$	3,574

Non-current assets:

Equipment	\$	186
Investment		280
Intangible assets		3,896
	\$	7,936

Current Liabilities:

Accounts payable and accrued liabilities	\$	1,430
Deferred income		47
Deferred tax liability		1,032
	\$	2,509

Net assets acquired

\$ 5,427

Goodwill arising on acquisitions:

Total consideration allocated	\$	8,773
Net assets acquired		(5,427)
	\$	3,346

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes. The allocation of the purchase price is final as at September 30, 2017.

Net cash outflow during the current year related to the acquisitions:

Consideration paid in cash	\$	5,699
Less: cash balance acquired		(355)
	\$	5,344

Calian Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016
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20. Acquisitions (continued)

Impact of the acquisitions on the consolidated result of the Company:

Had the business combinations been effected at October 1, 2016, the revenue and net profit of the Company for the year ended September 30, 2017 would have been higher by \$6,383 and \$757, respectively. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group for the year ended September 30, 2017 and provide a reference point for comparison in future periods.

21. Pension Plan

The Company sponsors a defined contribution pension plan for certain of its employees. Required contributions have been fully funded to September 30, 2017. For fiscal 2017 (2016), an amount of \$945 (\$843) was expensed related to this pension plan.

22. Related Party Transactions

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

Compensation of key management personnel:

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

	2017	2016
Short-term benefits	\$ 2,015	\$ 1,937
Share-based payments	309	140
Total	\$ 2,324	\$ 2,077

Corporate Information

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Board of Directors

Kenneth J. Loeb

President, Mystic Investments Inc.
Chairman, Calian Group Ltd.
Chair of the Nominating Committee

Richard Vickers, FCA

Consultant
Chair of the Audit Committee

George Weber

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

Jo-Anne Poirier

President and CEO, VON Canada
Chair of the Governance Committee

Ray Basler

Consultant

Young Park

Consultant

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 9, 2018 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
Focused on Growth

2017 Calian Group Ltd.
Annual Report



CELEBRATING
35
YEARS