



2018

Calian Group Ltd.

ANNUAL REPORT

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# Chairman's Letter

Dear Calian investor,

**It was another impressive year for Calian as the management team made marked progress on the growth strategy and took further steps in the company's ongoing transformation.**



As shareholders, we again benefitted from Calian's performance with solid returns over the 2018 fiscal year. Notably, these returns came despite volatility in global equity markets. It is a reminder of CGY's stability.

Our investment in Calian is not a short-term play, and the past three years reflects this. An investor who purchased \$5,000 worth of

Calian shares on September 30, 2015, would have seen its value increase to more than \$9,200 three years later, representing an increase of 84%. In addition, they would have received more than \$1,000 in dividends over the same period. Calian's TSX dividend yield was 3.64% at year-end, with the company returning a total of \$8.7 million in shareholder dividends over FY2018.

Importantly, Calian returns more than financial rewards. I am proud to hear about Calian's give-back programs and how it is making a real difference in communities, particularly in the lives of military families and veterans. Calian's Military Family Doctor Network, created in partnership with Canadian Forces Morale and Welfare Services in 2015, as of year-end had helped approximately 1,500 military family members find a family physician in their community. This support is critical for military families who relocate frequently and rely on provincial health care systems for medical care.

Calian's potential and the strength of the management team continues to impress me. The corporate office continues to strengthen with new appointments this year in the Chief Human Resources Officer and Chief Information Officer. These appointments support Calian's long-term growth plans. In fact this year we saw how capable this team is when CEO Kevin Ford suffered a health scare that caused a temporary leave from his

full-time duties. With a talented and dedicated team behind him, company performance did not flinch. On a personal note, I was very happy to see Kevin's return to full health and full-time duties with all his impressive energy, passion and creativity.

The board continues to work with Kevin on his plan for organic and acquisitive growth, an exciting strategy that is progressing well. This fiscal year was notable as Calian completed two acquisitions and set more corporate records. For the first time, the company pushed confidently through annual revenues of \$300 million while the BTS Division exceeded \$200 million. The Systems Engineering Division signed its largest-ever ground systems contract which will drive revenues, R&D and further innovation for years to come.

In the time I have been chair, I've had an opportunity to see Kevin's ongoing transformation of this company. I do not expect the pace of activity to slow down. Calian's tremendous management team has the full support of staff and the board to deliver their strategy. From my vantage point, this company is serious about implementing its growth plan. I hope you are as excited as I am to be a part of it.

**Kenneth Loeb**

Chairman

## Share price performance 2015-2018

Nov. 30, 2015 - Nov. 30, 2018



# Message from the CEO

This was a tremendous year for Calian on many fronts. Notably, we exceeded \$300 million in revenues for the first time and closed two acquisitions in line with our growth strategy. Through the fiscal year we made significant progress across our services lines as we continue to rally towards our strategic objectives.



**Kevin Ford**  
*President and CEO,  
Calian Group Ltd.*

Our four pillar growth strategy progressed well with acquisitions that advanced both customer diversification and service line evolution. At Calian IT Professional Services (ITPS), our cyber security practice received an injection of talent, expertise and customers through the purchase of Secure Technologies. This strategic acquisition has helped evolve Calian ITPS from an on-demand organization to an IT consulting services and solutions provider. Second,

we completed a tuck-in purchase of Priority One, a Calgary-based health services firm, which quickens the evolution of our psychological services and diversifies our health services customers. Calian Health has evolved immensely from its early days of delivering a single contract. The service line now delivers more than 40 contracts for private and public-sector customers.

Calian Systems Engineering signed a major contract this year that supported both customer retention and service line evolution. The service line's technology portfolio is wider and deeper than ever while its expertise continues to grow and we look at capturing new projects. This is the service line's largest-ever ground systems contract, valued at over \$100 million. Through its delivery we are leveraging innovations and R&D for years to come. Just following the close of FY2018, we were excited to announce our purchase of IntraGrain, the first acquisition for our Systems Engineering Division (SED). This AgTech acquisition supports Calian's innovation agenda and positions us into a growing, adjacent market space with global potential.

In customer retention, we re-won key contracts including airworthiness engineering services for the Royal Canadian Air Force and e-learning and training services for various branches of the Canadian Armed Forces. On the heels of FY2018 we re-won our largest defence training contract – to support Canadian Forces operational readiness through training and simulation exercise design and delivery for the Canadian Army Simulation Centre. This comes after last year's re-win of the health support contract for DND – a major victory for the company as it removed an element of risk surrounding this large contract. Customers return to Calian because of our process improvement and innovation – and most of all because they trust us to successfully deliver mission-critical services and solutions.

In the continuous improvement pillar, there were several strategic developments this year that support the evolution of our corporate office. For instance, we have filled key executive and corporate support roles. Lynn Stevens, appointed Chief Human Resources Officer, has evolved our talent management strategy to ensure we retain and attract the best and brightest and drive efficient HR operations. Jerry Johnston, appointed Chief Information Officer, is leveraging the latest technologies to support growth while continuing to evolve our enterprise risk management process. We moved our head office team to a larger, more modern corporate headquarters



**Four Pillar Growth Strategy**



**Corporate leadership team:** Jerry Johnston, CIO; Jacqueline Gauthier, CFO; Kevin Ford, President and CEO; Patrick Thera, VP and General Manager, Systems Engineering; Lynn Stevens, CHRO (left to right).

that provides space for future growth and better reflects who we are at Calian – an innovative, growth-oriented, passionate team.

To strengthen our M&A, the executive team has formalized a playbook supporting the service lines, corporate team and the board through the M&A process, including integration. Our new playbook includes several criteria such as cultural fit, strategic alignment and financial targets, ensuring we seek out businesses with high potential for successful integration at reasonable valuations. While these necessary steps support the growth of the company, I am happy to report that we continue to give back to our shareholders. Amid this growth CGY continues to be a stable investment, with \$8.7 million in total dividend return to shareholders in FY2018.

I hope that as shareholders you also recognize our accomplishments in corporate social responsibility (CSR) and the real difference we are making in communities and the lives of military members, veterans and their families.

Calian's CSR is aligned with our core purpose: We help the world communicate, innovate, lead healthy lives and stay safe. In addition to our CSR update, I encourage you to review the core purpose section of this report which highlights some of the incredible work by our team members. Our dedicated people are the core of Calian's four pillar growth strategy, and I remain confident in their commitment and ability to deliver.

For me personally, this year was an amazing journey as I had an incredible leadership team step in to support me and the company following a health scare. I was very pleased to report to shareholders that I had made a complete recovery and that the company did not skip a beat. Looking forward from a strategic perspective, stay tuned as we define "Calian 2.0" and evolve our go-to-market approach. I believe we have outgrown the two-divisional construct we have today and it is time for us to investigate aligning our corporate structure and brand to our main service lines in support of our long-term, strategic growth objectives.

# 2018 Service Line Highlights

## Calian Health

Calian Health's re-win of the Health Care Provider Requirements (HCPR) contract at the end of FY2017 set the tone for the service line in FY2018. Calian began delivering the new contract effective April 1, 2018, providing health care support services to DND at Canadian Forces Health Clinics on all 32 bases across Canada. The new contract also expands the health services to Veterans Affairs Canada and the RCMP.

While the contract win was positive news in terms of removing an element of risk from the outlook and growing our contract backlog, we are pleased to report that the new contract implementation has already succeeded in driving positive results for our DND customer as well as the service line. Through the remainder of FY2018, the scope of Calian's contract delivery grew to more than 600 professionals now serving Canada's military. The HCPR contract implementation marked the beginning of an initial four-year delivery cycle. Including optional extensions, the contract has an aggregate term of 12 years with a total contract value of up to approximately \$1 billion over the full period.

The HCPR contract re-win, combined with several other successes during the year, supported strong revenue and earnings growth. Calian Health's contract wins through FY2018 included on-site health services for Canada Border Services Agency, corrections institutions and Edmonton Police Service. These added multi-year service agreements to Calian's Clinician Services contract base and, with increased client demand, supported expansion of the Calian Health team.

Acquisitions continue to represent a component of Calian's growth framework. This year, the Calian Health team acquired Priority One, based in Calgary, as a strategic investment that supports both the customer diversification and service line evolution pillars of Calian's growth strategy. The acquisition closed in September 2018 and supports growing demand for our national mental health services. Priority One provides

specialized psychological assessment and selection services, which encompass candidate selection suitability for firearms issuance and psychological fitness-for-duty assessment, as well as pre-placement mental health assessments for organizations requiring safety-sensitive positions. The acquisition expands Calian Health's national mental health services footprint with regulatory and law enforcement agencies across the country, including customers such as the Government of Alberta and Parks Canada.

Primacy Management Ltd., Calian's subsidiary responsible for the management of health clinic properties, continues to grow. With Primacy's increasing number of health clinics located in Loblaw stores across the country, we celebrated the opening of its 150th clinic in 2018. We are very proud to have successfully leveraged our growing Primacy clinic network over the past three years to help connect military family members with family physicians. In 2015, in partnership with Military Family Services, a division of Canadian Forces Morale and Welfare Services, Calian created the Military Family Doctor Network. This network is part of Calian's social responsibility efforts and is designed to help military family members find a family physician as they relocate to new communities around the country. We are very happy to report that, as of fiscal year-end, the network had connected approximately 1,500 military family members with a family physician in their community.

As Calian looks to expand into the health technology sector, we continued to invest in Cliniconex, a software-as-a-service startup based in Ottawa. We have now invested a total of \$400,000 into the firm as we continue to look for opportunities for growth in this segment. Primacy continues to partner with MedX Health Corp. in a pilot program that offers MedX's unique skin assessment screening solution in select Primacy clinics. This partnership aims to have licensed clinical practitioners facilitate skin scans to help detect melanoma early on, giving affected Canadians the best chance possible in treatment and survival.



**2018 G7 Summit:** Calian supported emergency management preparations for this world leader summit.

## Calian Training

Calian Training demonstrated continued business strength this year with growth and customer diversification in line with its growth strategy. The Calian Emergency Management team has seen increased demand for its consulting, training, learning and readiness services for municipalities, nuclear power operators, public safety agencies, the defence sector and First Nations customers.

Calian Emergency Management reported new service agreements for government, critical infrastructure and private sector clients. Calian has undertaken some of the largest and most complex emergency management projects in Canada – reinforcing that we are the company of choice for customers when failure is not an option. In FY2018 we conducted major training exercises for the Point Lepreau Nuclear Generating Station and Ontario Power Generation. New contracts were won with Bruce Power, Nordion, Chalk River Nuclear Laboratory, the Canadian Air Transport Security Authority and the Department of National Defence CBRNE Directorate. Calian was pleased to support training in this year's Canada-U.S. Enhanced Resiliency Experiment, an exercise that aims to demonstrate how technologies can enable Canadian and U.S. emergency management officials and responders to exchange information as an incident unfolds.

Calian fully amalgamated and integrated International Safety Research (ISR) after acquiring the Ottawa-based firm in FY2017. The amalgamation allows Calian and ISR to combine their experience and offer more robust emergency management and engineering services domestically and internationally. The acquisition of ISR brought more to Calian than PhDs, engineers and nuclear scientists. It also expanded the Calian Training toolset with the addition of innovative platforms and cloud-based tools that help simulate an immersive training environment. Responsive to customer needs, Calian's innovative toolset now includes sophisticated social media modules supporting critical communications during an emergency as well as a real-time polling application for timely post-exercise reviews. The acquisition also provided Calian with a small footprint in the Netherlands, which we plan to use as a launch point into the European market.

In support of the customer retention pillar, Calian Training re-won key contracts with the Royal Canadian Air Force and the Canadian Space Agency, with an aggregate value of more than \$23 million. Calian Training's partnership with the Canadian Armed Forces (CAF) remains strong as we continue to provide the Army Learning Support Centre and other areas of the CAF with training and e-learning services. Our partnerships with learning institutions such as Algonquin College have supported our defence-related training activities, including cyber security officer training for DND. Under Calian Training's ongoing contract with DND and the Canadian Army Simulation Centre, we were proud this year to deliver a high-profile training and simulation exercise for the 2018 G7 Summit in Charlevoix, Quebec. The exercise, involving more than 800 participants and approximately 35 organizations, supported safety and security preparations.

Calian continues to build relationships with Indigenous communities, having developed and delivered an Indigenous Culture Awareness training program for DND. We are also supporting several emergency management projects for the Interlake Reserves Tribal Council (IRTC), a partnership of six First Nations in Manitoba's Interlake region. Additionally, Calian is now part of the Indigenous Relations Supplier Network, a group of industry suppliers led by Bruce Power who are committed to education, business development and engagement within First Nation communities in the Bruce region.

## Calian Systems Engineering

Calian is proud of the continued innovation at our Systems Engineering service line, a global supplier of communication systems solutions and products. In 2018 Calian Systems Engineering signed its largest-ever satellite ground system contract, adding over \$100 million in contract backlog. Under the contract the service line is designing, building and commissioning a state-of-the-art radio frequency (RF) ground system that includes 22 gateways for a high-throughput satellite communications network.

This win would not have been possible without a significant investment in new technologies. The project started in May 2018 and runs into fiscal 2021. Given current successes and market potential, Calian Systems Engineering continues to invest in key technologies to support advanced satellite ground systems.

This has been a busy year for delivery, with 12 RF system installations completed in six different countries. These ground systems mark the successful completion of several programs for Hughes, Inmarsat and the European Space Agency (ESA).

The Communication Gateways unit performed well with our work including the design and build of a software subsystem for real-time management of ground systems resources for one of the new low earth orbit (LEO) constellation communications networks. LEO constellations for communications networks represent a new wave of technology growth in satellite communications aimed at lower latency and higher data rates. In a related area, the engineering team developed software for a LEO satellite collision avoidance system. Long-standing customer SiriusXM continues to use our engineering resources to develop solutions that enhance and broaden its services.

Additionally, we signed satellite flight operations and supported contracts with MDA and the Canadian Space Agency (CSA), extending our satellite operations support through 2020. This work includes support for the Radarsat Constellation Mission, with an expected

launch by the end of 2018. We are proud to maintain our presence as a centre of excellence for satellite mission operations in conjunction with the CSA.

Calian Systems Engineering's R&D continued at a solid pace, particularly in the areas of advanced cable networks and RF systems. Cable networks have significant RF requirements that fall within the same engineering skillset as our satellite communications network capability. In this context we view cable network technologies as a target growth market. In particular, the new DOCSIS 3.1 cable network standards have provided the service line with a market entry opportunity in the area of hybrid cable-fibre networks. We made excellent progress this year on product development of embedded cores for field programmable (FPGA) devices supporting DOCSIS 3.1 and an advanced DOCSIS signal analyzer, sold in an OEM relationship with global test equipment manufacturer Rohde and Schwarz. These FPGA cores, built in partnership with chip manufacturer Xilinx, are the building blocks to a large set of products geared towards modern cable networks. Royalties from the sale of these cores and related products will add to the strength of our product lines in the coming years.

As part of our investments in innovation in FY2018, Calian Systems Engineering introduced a new version of our spectrum analyzer product, the Decimator, capable of faster measurements and more advanced signal analysis. The Decimator is a digital spectrum analyzer that assists telecom and broadcast network operators with cost-effective monitoring and troubleshooting of satellite RF communication paths. It analyzes the health of the communication carriers transmitted or received through a satellite communications gateway and looks for any interference from unauthorized signals. The product is deployed in hundreds of satellite communication gateways around the world. We continued to experience robust demand for the product, driving higher sales.

Across the service line, we are proud to report that we maintained overall customer satisfaction scores in excess of 90%.





Systems Engineering provided the New Norcia antenna system, based in Western Australia, for the European Space Agency.

## Calian ITPS

Calian IT Professional Services performed very strongly in FY2018, helped by the acquisition of Secure Technologies, an Ottawa-based cyber security firm. This strategic acquisition strengthened Calian's position as an expanding cyber security solutions provider in a growth market. The purchase brings Secure Technologies' team and centre of excellence into Calian, along with their pedigree of 30 years' experience in the business.

The acquisition strengthens Calian's relationships with the industry's leading solutions providers, making Calian ITPS a platinum partner for leading solutions

providers such as McAfee and Forcepoint. Strategically, the Secure Technologies acquisition, and the addition of its technical team, accelerates Calian ITPS' objective to provide a full-service cyber security practice nationally, whether on premise or in the cloud. We view this as a growth opportunity aligned with corporate strategy. Organizations are increasingly recognizing the need to be prepared for cyber incidents and attacks, driving a high-growth market. The North American cyber security market is forecast to expand at a compound annual growth rate of approximately 16% through 2020, according to Mordor Intelligence.

Calian ITPS reported a significant year-over-year increase in top-line revenue and earnings growth in FY2018, largely generated from strong cyber services expansion. The service line gained new cyber security and IT service customers in contract wins with Shared Services Canada, Canada Revenue Agency, Citizenship and Immigration and Transport Canada. Under these contracts Calian is developing and implementing a wide range of IT solutions including: cyber strategies and solutions and IT services in the areas of business transformation, IT architecture, SAP and systems. We continue to advance our workforce management IT project for the City of Toronto after gaining a contract extension through to 2021. As a result of these service agreements and others, Calian ITPS continues to evolve its IT practice in the growth area of cloud service delivery.

The service line's recent partnership with PerfectMind, creators of the innovative membership management, activity registration and facility-booking platform, continues to yield business and other service line opportunities for Calian in the municipal market. Calian established this partnership in 2017 to provide scalability for PerfectMind as the company experiences accelerated demand from excellent North American sales success. The Calian team's expertise in professional IT services and their experience with complex IT initiatives helps PerfectMind ensure successful and timely delivery of each project for a fast-growing client base. With PerfectMind, we launched more than 30 projects in FY2018 and at fiscal year-end Calian ITPS professionals were engaged in or supporting the delivery of more than 40 PerfectMind projects.



## Calian Contract Manufacturing

Demand for our contract manufacturing services remained strong in FY2018 as the service line continued to supply defence, agriculture and other commercial customers with reliable, high-quality products and solutions. We provide our customers with superior electronics engineering, manufacturing and test capabilities for the products they design.

The service line was proud this year to continue our long-term defence-related manufacturing agreement with our customer DRS Land Systems in support of its ground surveillance radar. This Manportable Surveillance and Target Acquisition Radar (MSTAR) is a highly versatile, low-power, high-performance ground radar that provides wide-area surveillance at a range of 42 kilometres, day or night. The system is simple to operate and install and has been proven in applications across the Balkans, Afghanistan and Iraq. There are more than 1,400 MSTAR units deployed around the world. This year, Calian Contract Manufacturing was pleased to win a DRS build order for 23 new MSTAR Aerial Head Assemblies and upgrades to 100 units.

The Canadian defence sector has been slower than anticipated to launch new programs requiring the manufacturing services we provide. In response we are seeking opportunities by marketing our capabilities to specific commercial growth markets. One area where we have gained traction is in agriculture technology companies. Our success in this market is enhanced by our Saskatchewan presence and close proximity to the product developers. Calian Contract Manufacturing is excited about our increasing share of commercial work in this sector, particularly through our acquisition of IntraGrain Technologies just following the close of FY2018. AgTech provides us with exposure to a growth market, domestically and globally. The global smart agriculture market is projected to expand at a compound annual growth rate of more than 13% through 2025, according to Zion Market Research.



# 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. Meet some of our amazing team members, a small sample of our more than 3,000 dedicated people across Canada.



## Nancy Clune Lefler

Nancy helps the world **lead healthy lives** and **stay safe**. She is a leader on the Calian health team who is focused on driving positive outcomes for customers, health care providers and their clients. Fostering communication and collaboration, she plays a key role in the management of more than 1,800 health care professionals and works with a dedicated team of Calian professionals to provide optimal mental and physical health care results for public and private sector customers, including DND. Nancy and the Calian Health team contribute to the operational readiness of the CAF by providing health support services on all 32 DND sites across Canada.



## Jack Reid (LCol Ret'd)

Jack Reid helps the world **stay safe**. Having spent more than 26 years in uniform as a Signal Officer, he is proud to give back some of that expertise through Calian's training and services for the CAF. One of his projects is managing an eLearning team for the Canadian Forces School of Communications and Electronics (CFSCE), which trains soldiers, sailors and aviators in the operation, maintenance and management of military and commercial communication and information systems. Working with CFSCE, Jack helps leverage education technologies and distance learning tools to evolve training and education methods and increase student throughput while providing a superior training experience. Many military missions, domestically and overseas, would not be possible without training on these systems.

**Tom Thalheimer (MScEng), John Franz (EET) and Dwain Stensrud (MScEng) (left to right)**

Tom, John and Dwain help the world **communicate**, **innovate** and **stay safe**. They are key members of our large systems engineering group, capable of delivering our world-class communications systems and services around the globe. They are part of the team that supplies satellite manufacturers, operators and service providers with radio frequency systems and services for communications, earth observation as well as telemetry, tracking and control systems. The team takes on the ever-increasing challenges of higher communication frequencies and higher bandwidths to meet our customer's needs for reliable communications – anywhere in the world. These communications systems have helped scientists understand and explore the far reaches of space as well as the planet's ecosystems. Some of our network infrastructure relays vital aircraft cockpit communications on transoceanic flights, or makes communication possible in emergency situations when critical communications systems have been disabled through floods, storms or other events.



**Melanie Holek**

Melanie helps the world **lead healthy lives**. Manager of Calian's Primacy network of more than 150 health clinic properties located in Loblaw stores across the country, she and her team are helping to improve Canadians' access to provincially funded medical doctors and family physicians. Primacy medical clinics are located in all 10 provinces, providing health care to more than six million Canadians annually.

**Ron Smith (CD, PhD, Maj Ret'd)**

Ron helps the world **innovate** and **stay safe**. A specialist for Calian who spent 27 years in the Royal Canadian Air Force, he takes a slightly different tack than that of Calian's cyber security solutions, which are actively helping governments and organizations protect themselves from the evolving threats of cyber attacks and breaches. Ron is training the next generation. He serves as an adjunct professor at Royal Military College of Canada in Kingston, Ontario, where he has been helping to build a unique, innovative program of short courses to train network defence analysts for DND and other government departments. Students cover a range of areas including enterprise network security, traffic analysis, attack theory and malware analysis.





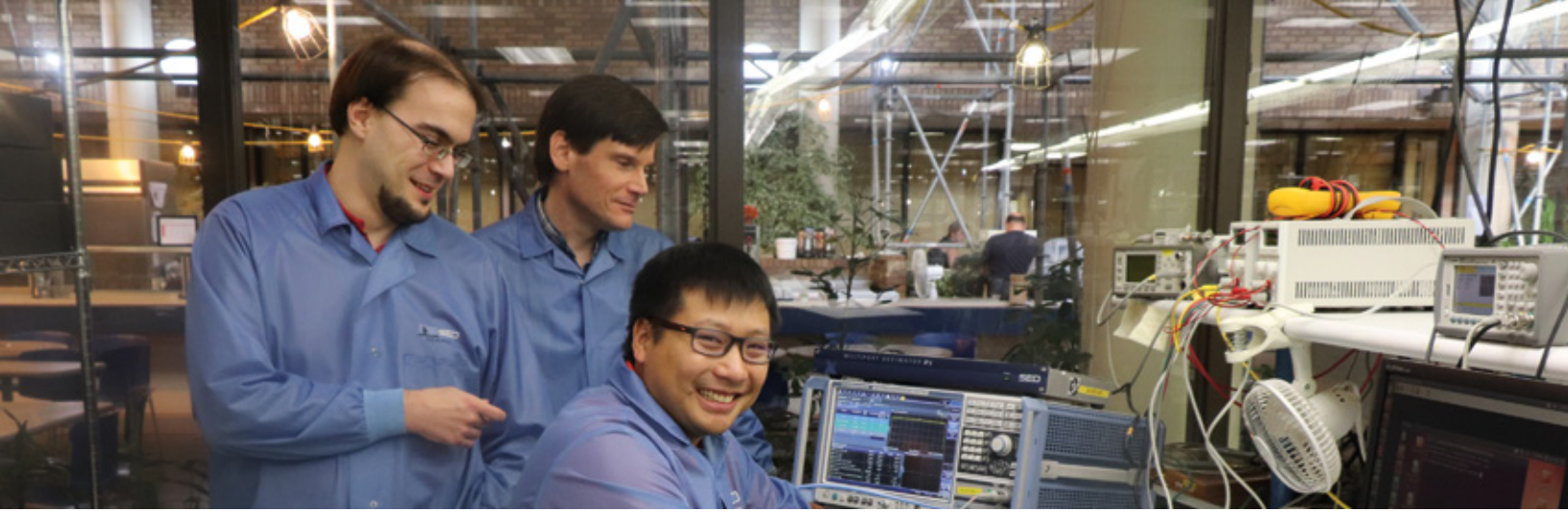
**Ray Wlasichuk (Col Ret'd)  
and Steve Fritz-Millett (LCol Ret'd) (left to right)**

Steve and Ray help the world **stay safe** and **communicate**. In their work with the Canadian Army Simulation Centre (CASC), a world-class training organization managed by the Canadian Army in partnership with Calian, they help to deliver simulated training exercises. Ray and Steve have helped design, develop and deliver operational readiness exercises for the Canadian Armed Forces and NATO as well as safety and security preparation exercises for large events such as the Vancouver Olympics and world leader summits in Canada. Leveraging an advanced technology toolset, these exercises help people and organizations ensure effective communications and response during operations or emergencies. Shared situational awareness within and between organizations is critical to the successful management of a military operation or crisis. Ultimately, these training and simulation exercises support the operational readiness of the CAF and help to keep all Canadians safe.

### **Miles Clark**

Miles helps **innovate**. As enterprise software workforce management becomes more intelligent and undergoes a rapid transformation, Miles is a project executive on Calian ITPS' delivery of the latest generation of workforce management software to the public sector. He has been at the forefront of two Calian projects for one of the largest cities in North America. One was the seamless replacement of a complex, custom payroll solution, supporting over 35,000 employees and involving a number of employment and union agreements. A separate, parallel project transformed outdated manual scheduling and time collection processes running on disparate systems. The project achieved this with an enterprise workforce management platform that focuses on schedules, tracks time and attendance, administers absence and leave, and respects collective agreement obligations. With these two projects, Miles has helped Calian ITPS innovate an enhanced employee experience and improve the customer's use of data assets.





**Phillip Desautels (MScPhys), David Young (PhD), and Cinnati Loi (PhD) (left to right)**

Phillip, David and Cinnati help the world **communicate** and **innovate**. These specialists build Calian Systems Engineering's communications products such as spectrum analyzers, test generators, modulators and receivers for customers in the satellite, cable and wireless industries. This team creates and advances our intellectual property and takes on the industry's toughest challenges, producing leading products and solutions such as the service line's DOCSIS 3.1 remote-PHY cable technology. These innovations enable increased performance of hybrid coaxial-fibre cable networks and have led to business relationships with some of world's largest chip manufacturers, broadcasters and cable networking companies. SED continues to research core technologies such as new radio frequency (RF) ranges for satellite communications to maintain our leadership in next-generation network designs.



**Agnes Magdziak**

Agnes helps the world **innovate** and **lead healthy lives**. She has been lead coordinator on the Military Family Doctor Network (MFDN), an innovative program created by Calian in 2015 in partnership with Canadian Forces Morale and Welfare Services. This network leverages doctors in Primacy's national network of clinics, and reaches out to non-Primacy doctors, to help military family members find a family physician after they relocate to new communities around the country. Removing this unnecessary stress for military families provides the serving member with the comfort of knowing their family has access to high-quality health care at home. Agnes' dedicated work on this program has been key to its success. As of fiscal year-end, the MFDN had connected approximately 1,500 military family members with a family physician in their community.

**Tim Mahilrajan (PEng)**

Tim helps the world **stay safe**. A leader in Calian's Engineering and Technical Services, he specializes in environmental and radiation protection. His team works alongside nuclear facilities in Canada to ensure workers, the public and the environment are protected from the effects of radiation. Recently, he has taken the lead on proving operational safety for a planned Near Surface Disposal Facility in Chalk River, Ontario; ensuring environmental protection on and around the Bruce Power site in Tiverton, Ontario; and developing environmental action levels for Ontario Power Generation's nuclear facilities.



# Corporate Social Responsibility

Calian's Corporate Social Responsibility (CSR) is driven by our strong desire to make a difference in people's lives and give back to communities. It is rooted in who we are and what we do as a company, as described in Calian's core purpose: To help the world communicate, innovate, lead healthy lives and stay safe. We are committed to conducting our business with integrity, uncompromising quality and professionalism. Calian's CSR is embedded in our organizational goals, core values and business code of conduct.

In 2018 we advanced our CSR program by updating our CSR statement, approved by the board. This statement outlines Calian's core CSR principles and our adherence to the seven core subjects of the ISO 26000 social responsibility standard: Organizational Governance, Community Involvement and Development, the Environment, Human Rights, Labour Practices, Fair Operating Practices, and Customers. (For the full statement see Calian.com.)

Diversity in our people is one of Calian's core strengths. Diversity is the collective mix of people's differences and similarities. For Calian, diversity refers to race

and gender as well as family status, ethnicity, religious beliefs, education, age, sexual orientation and physical abilities. Building teams with widely different ethnic, racial, social and other backgrounds has accelerated our pursuit of excellence. Managing diversity means fostering an environment that lets Calian employees fully contribute to our collective success as well as their own. It is nurturing a culture where everyone is valued for the unique qualities they provide.

Calian is committed to equal employment opportunity and to complying with all laws related to workplace opportunity. Our Equal Employment Opportunity practice applies to all phases of employment – selection, promotion and demotion, transfer, compensation and benefits, layoff and recall and termination. Calian strives for a workplace free of discrimination, hostility, and physical or verbal harassment with respect to personal characteristics protected by human rights legislation. Calian's respect for human rights extends internationally. For example, our Systems Engineering Division refuses to support the use of minerals linked to conflicts or human rights abuses.



**Military family health:** The Canadian Forces recognized Calian for its dedicated work on the Military Family Doctor Network.





**This program has been delivered as part of Calian's corporate social responsibility program and has been offered at no cost to military families or the Canadian Armed Forces. The program speaks to the power of partnerships, and how partner collaboration can help trigger positive change for military families. Many thanks to CEO Kevin Ford and the entire Calian Group team for their ongoing support of the military family constituency."**

*– Todd Stride, Senior Manager, Community Development, Military Family Services, a division of Canadian Forces Morale and Welfare Services*

Calian is currently developing an Indigenous Strategy to support the government's Truth and Reconciliation Commission "Calls to Action" and the desire for corporate Canada to build more meaningful, respectful relationships with Canada's Indigenous communities. Through our emergency management and health services engagements we are learning from our Indigenous partners and hope to continue to foster positive collaborations.

In our CSR programs this year the Calian team was proud to contribute to our communities in multiple ways – particularly to the military community. One of our largest CSR projects is the Calian Military Family Doctor Network. Over the past three years Calian's dedicated staff have successfully leveraged our growing network of Primacy health clinics to help connect military family members with a family physician. Coordinating with our more-than 150 Primacy clinics in Loblaw stores across the country, we created the Military Family Doctor Network (MFDN) in 2015 in partnership with Canadian Forces Morale and Welfare Services. This innovative program is designed to help military family members find a family physician as they relocate to new communities around the country.

Removing this unnecessary stress for military families provides the serving member with the comfort of knowing their family has access to high-quality health care at home, allowing the CAF member to better focus on their assigned task. As we grow the MFDN program with doctors working in Primacy health clinics, this year Calian began expanding the MFDN to physicians outside the Primacy network. Calian is happy to draw on all doctors who have an interest in participating as we believe growth in this network is making a real difference in the lives of military families. Indeed, we are very pleased to report that, as of fiscal year-end, the MFDN had connected approximately 1,500 military family members with a family physician in their community.

The MFDN is just one way that Calian is a passionate supporter of the military community. We are proud of our related efforts to make a difference in the lives of transitioning military members, Veterans and their families. For many serving members, transitioning to civilian life is not easy. It often represents a radical shift from the culture, daily structure and skills application that they've known for their entire career. Calian is

committed to being one of the country's top Veteran-friendly employers, helping military members find high-quality jobs as they transition to civilian life. We are pleased to report that at the end of FY2018 we had hired more than 650 former military personnel since 2012, and approximately 150 military spouses since 2016.

Aligned with our care for military families, Calian again supported the Canadian Institute for Military and Veteran Health Research (CIMVHR). We are proud to support an organization focused on the health and well-being of Canadian military personnel, Veterans and their families. Calian also previously committed a \$105,000 grant to the Canadian Primary Care Sentinel Surveillance Network for research on the specific care requirements of military families. In other activities, we again sponsored the Ottawa Senators' annual Canadian Armed Forces Appreciation Night, and our employees organized and supported a golf tournament that raised \$10,000 for Support Our Troops. In 2018 we were also very happy to sponsor the 100th anniversary of the Lord Strathcona's Horse, an historic regiment of the Canadian Army whose membership includes some of our Veteran employees.

At Calian we take great pride in our national footprint with more than 3,000 employees across the country and our largest office locations in Ottawa, Saskatoon, Kingston and Mississauga. Calian and its employees believe we have a responsibility to give back to the communities we work and live in. We support community involvement and work hard to ensure our resources have the most impact. Employees are encouraged to take paid time off to volunteer in activities of their choice and participate in company activities organized by our Spirit Crew.

As a result, the company is a significant supporter of local charitable campaigns and we have employees who are regularly involved in several community programs.

In Ottawa, we provided donations or took part in campaigns for the United Way, the Ottawa Hospital Foundation, the Royal Ottawa Mental Health Centre, Kids Up Front Ottawa and HealthPartners. Calian employees again supported the annual Army Run, a charitable race weekend. The tornado that struck the Ottawa-Gatineau area in September 2018 resonated with many of Calian's head office employees who live and work near or in the affected areas. Luckily, no fatalities were reported as a result of the storm; however approximately 60 buildings and homes were fully or partially destroyed, leaving next to nothing behind for many families. Calian was pleased to respond quickly with a \$10,000 donation, with portions to the Canadian Red Cross, the Kanata Food Cupboard and Moisson Outaouais.

Calian's Systems Engineering Division in Saskatoon is actively involved in the community supporting fundraisers for cancer research, Stars Air Ambulance, Saskatoon Food Bank, Holiday Hamper Program, Core Neighborhood Youth Co-op and Care & Share Saskatoon. SED supports the growth of the Saskatoon technical community by sponsoring events such as the Canadian International Rover Challenge, University of Saskatchewan Space Design Team, Space Camp for Kids and regional science fairs. Additionally, we offer scholarships with the University of Saskatchewan, University of Regina and Saskatchewan Polytechnique.

In addition to our volunteer and community support activities, Calian believes investment in innovation is foundational to our continued growth and purpose within Canada. As mentioned above, we make significant annual contributions to support research on military family and Veteran health. Our Systems and Engineering Division is at the forefront of ground communications systems in Canada and internationally, and we continually invest in advanced communications and space technologies.

As part of Calian's commitment to have positive impacts in our communities, we remain cognizant of our environmental footprint. Calian's excellence framework includes leadership and governance drivers that emphasize social and environmental factors. We are committed to protecting the environment and reducing waste. In partnership with our property managers, we support energy efficiency, renewable energy and waste diversion programs.

Wherever possible, Calian promotes the efficient use of energy and natural resources and supports environmentally friendly disposal. To this end, Calian's contract manufacturing services are managed to maintain our reputation as a good environmental steward. We meet or exceed all of our environmental laws and regulations, in addition to offering lead-free manufacturing capabilities in compliance with Restriction of Hazardous Substances (RoHS) standards. We continuously look for ways to reduce our environmental footprint through new processes and materials.

Calian remains committed to our CSR efforts. We are very proud that, as this company continues to grow, Calian is able to make a tangible difference in our communities as well as the lives of the military members, Veterans and their families.

## Awards and recognition

- **Veteran Friendly Employer Recognition (2018, presented by True Patriot Love, Canada Company and Members of Parliament)**
- **Military Employment Transition Employer of the Year Award (2017, 2016, 2015, presented by Canada Company)**
- **Special Recognition (February 2018, presented by Major-General Wayne Eyre, Deputy Commander of Military Personnel Command, who specifically thanked and recognized Calian for its work on the MFDN and its support for military families)**
- **Top 25 Canadian ICT Professional Services Companies (2018, 2017, 2016, presented by Branham Group)**
- **Top 10 Canadian ICT Security Companies (2018, presented by Branham Group)**
- **Top 75 Defence Companies (2018, 2017, 2016, presented by Canadian Defence Review)**
- **CEO of the Year (2018, CEO Kevin Ford, presented by the Ottawa Chamber of Commerce and Ottawa Business Journal)**

# In Summary

The return of volatility to global equity markets this year was a reminder of Calian's investment value proposition: Stability through diversity, focused on growth. Calian has five distinct service lines, access to domestic and global markets, more than \$1 billion in contract backlog, cash in the bank, and an attractive dividend offering. At the end of FY2018 we had the pleasure of reporting our 68th consecutive profitable quarter; very few companies can boast such an achievement.

On top of our financial stability, we give back more than financial returns, with a corporate social responsibility program that is making a tangible difference in communities, and in the lives of military members and their families.

In FY2018 we demonstrated progress on our strategy and reached new milestones in the company's history, reporting healthy earnings on top of record revenues for both Calian and our BTS Division. Calian's 2018 results demonstrate we are on the right track with our organic and acquisitive growth strategies. Closing two acquisitions this year, we have formalized an M&A playbook to streamline this process. With a strong financial foundation and dedicated team, Calian continues to be well-positioned to execute our four pillar strategy.

Looking ahead, the company will continue to be characterized by service delivery excellence while we place additional focus on technology and solutions, our innovation agenda and global opportunities.



A handwritten signature in black ink, appearing to read 'Kevin Ford'.

**Kevin Ford**  
President and CEO



A handwritten signature in black ink, appearing to read 'Jacqueline Gauthier'.

**Jacqueline Gauthier**  
Chief Financial Officer



A handwritten signature in black ink, appearing to read 'Patrick Thera'.

**Patrick Thera**  
VP and General Manager,  
Systems Engineering

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

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The following Management Discussion and Analysis is dated December 10, 2018 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 10, 2018 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. It's in our DNA 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 and Engineering Services
- IT Professional Services

## Management’s Discussion and Analysis of Financial Condition and Results of Operations

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. 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 many 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  |
|----------------------------|-------------------------------|--|
| <b>Markets Served</b>      | Engineering and Manufacturing | Health, Training, Engineering and IT Professional Services |
| <b>Contracting Model</b>   | Primarily Fixed Price         | Primarily Cost Plus  |
| <b>Customer Base</b>       | Domestic & International      | Primarily Domestic   |
| <b>Quality Initiatives</b> | ISO                           | Excellence Canada / ISO                                    |
| <b>Risk Profile</b>        | High Risk                     | Low to Medium Risk   |
| <b>Workforce</b>           | 350                           | 2900   |

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. 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.

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

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### Calian's System Engineering Division

Calian's SED division, located in Saskatoon, Saskatchewan, designs and manufactures complex systems for satellite manufacturers and operators, and 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 to both commercial and defence customers. In both markets, SED serves a handful of multinational organizations working on large worldwide projects, where more than 75% of its 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 9001:2015 certification. The division's research and development work continues in the areas of advanced cable network standards and new RF systems technologies with assistance from SED customers and the Canadian Space Agency as further described later in the research and development section.

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.

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. We support both commercial and defence customers with a requirement to produce low-to-medium volume, high quality products. We can offer our customers full life cycle support including initial design, prototyping, production, service and long-term product support. The SED products built 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.

On November 1, 2018, Calian acquired IntraGrain, based in Regina, Alberta, a growing Canadian AgTech firm delivering advanced technology solutions to the agriculture market. Its BIN-SENSE® technologies give producers the necessary tools to ensure that their stored grain and other assets are secure; and its Fuel Lock™ solution provides for digital locking of on-site fuel pumps with a keypad PIN applicable in many industries such as agriculture, construction and energy. IntraGrain's leading solutions and staff will strengthen Calian's innovation agenda and provide additional exposure to AgTech and ancillary markets, with excellent potential in domestic, U.S. and global markets.

In 2018, SED revenues grew by 2% over the previous fiscal year which is reflective of the increased software development projects for Hughes, Inmarsat and SiriusXM, defence contract manufacturing projects that ran strong through the year and product sales achieving record revenues; with our Decimator product continuing to sell at a greater rate. In May of 2018, the Company announced that it had won its largest satellite ground system contract for the delivery of RF ground systems. This is a multi-year delivery that will represent approximately 10% of fiscal 2019 consolidated revenues. This combined with other sales resulted in a year-end back log of \$153 million.

Profitability has decreased by 9% in the current year impacted by investments in development projects and the influx of new resources. These investments are already leading to sales of products and services which will generate additional revenue and margin in the coming years. Customer satisfaction remains high for both our products and services. We have maintained our reputation for doing the tough jobs on time and on budget. The following provides a summary of 2018 results across the division's primary service lines.

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

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### CALIAN Systems Engineering

A significant portion 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 avionic 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 grew in preparation for the upcoming launch of the Radarsat Constellation Mission. 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, five of which are sold by Rohde & Schwarz under their brand name. 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 and has already solidified new product development and intellectual property sales to cable network manufacturers in association with these developments. Additionally, SED continued its research activities into technology for RF systems that 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

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. Defence sales for 2018 had improved over 2017 with the production of new Aerial Head Assemblies for DRS. However, the situation for defence sales remains volatile due to uncertainty in timing of Canadian and US military spending. We continue to counter the volatility in the defence industry by growing our commercial manufacturing business through new customers such as AgTech product supplier IntraGrain (recently acquired by Calian), whose products 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 is well positioned to counter with its higher margins and ability to complement 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, headquartered in Ottawa, Ontario, is a leading professional services organization, providing services and solutions in Healthcare, Training, Engineering, and IT Professional Services. BTS is a continuous improvement organization, is a founding partner of Excellence Canada, and is accredited to Excellence Canada's Excellence, Innovation and Wellness Gold Level award.

The cost structure of the division is variable as contracts in Business and Technology Services are typically on a per-diem basis with a majority being multi-year outsourcing assignments. This allows for predictable cash flows over long periods of time. With a reduced risk profile, margins are correspondingly lower.

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

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Historically our core competencies, common across all service lines, are project, contract and workforce management; however, the division continues to evolve its services to incorporate technology 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 – 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;
- Engineering – services in the areas of radiation and nuclear safety, air worthiness and other technical skill areas;
- IT – cyber and IT security, enterprise resource planning and general IT technologies and solutions.

Most of the 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 Indigenous communities, oil and gas, nuclear and numerous other segments. For example, our health service line includes the administration on behalf of Loblaw of over 150 medical clinic properties across Canada, as well as the provision of health care services to oil and gas customers.

Revenue growth from new contract opportunities will be largely dependent on the issuance of the initial proposal request and the ultimate timing of the related contract award. In the prior fiscal year, the Health Services DND contract was renewed for up to 12 years and, although some contracts are up for renewal in 2019, the division has visibility into at least \$178 million of contract value to be generated in fiscal 2019. 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, centred 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.

Current year acquisitions of Secure Technologies International Inc. ("Secure Tech") along with Priority One Workplace Health Inc. and William J Barker Clinical Psychologist Ltd. (together "Priority One") have enabled the Company to quickly expand its service offerings in both of our ITPS and Health services in areas complementary to Calian's existing service offerings. With these service offerings, the Company continues to deliver on its four-pillar strategy for customer diversity and service line evolution.

Overall, the business environment for the BTS division is stable. The division made progress in 2018 in many areas and it continues to be very successful in managing existing contracts and maintaining high-quality services and high client satisfaction levels. The realization of organic growth across all service lines combined with new contract wins in new market areas allowed the division to report revenue growth of 14%. In 2018, we also signed \$112 million in contracts and ended the year with a backlog of \$1,075 million of which \$178 million is expected to be earned during fiscal 2019.

The following provides a summary of 2018 results across the division's primary service lines.



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

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### CALIAN Health

Our goal is to be the largest national health services organization in Canada, and with the transition to the renewed Health Care Provider Requirements (HCPR) contract on April 1, 2018 for an initial 4-year delivery cycle and a possible 12-year contract period, once options are exercised, the service line can now focus entirely on new growth opportunities. We have been supporting DND's delivery of health services for over 13 years at all 32 sites across Canada with a network of over 1,800 health practitioners in over 60 different categories. The transition to the new contract was very successful, resulting in growth in both revenues and earnings. In addition, our diversification efforts continued to see success with new contracts being awarded to Calian in the oil and gas industry in Alberta, strategic wins with federal and provincial corrections agencies, and with our first two wins in northern nursing and dental services in Nunavut and Northern Ontario. Primacy also continued to run strong this year opening our 151st clinic and the amazing progress made this year working with DND's Military Family Services (MFS) and local Military Family Resource Centres (MFRC) on our Military Family Doctor Network (MFDN) to improve access for military families to family doctors across Canada. At fiscal year end the MFDN had helped over 1,480 patients in over 668 different families across Canada. As well, Calian Health's acquisition of PriorityOne in July of 2018 expands its mental health assessment capacity with a national team of psychologists serving new clients. Although a modest acquisition, Priority One adds significant expertise and access to psychologists to assist in the growth and expansion of the Health Service line offerings.

### CALIAN ITPS

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, our recent hire of a cyber solutions practice lead and the recent acquisition of Secure Tech, ITPS continues to leverage this experience and background to expand its capability in this high-demand market. As a result, we have now expanded our cyber security product resale for customers including relationships with Tripwire, Fortinet and Cylance. In the Information and communications technology 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 focus on growth opportunities outside the federal government to target different market areas with a focus on the evolution of IT services to project and solution-based business remains a key priority.

Our focus on cyber security is showing positive results with significant year-over-year growth which now represents 25% of the ITPS business. Through the acquisition of Secure Tech, an award-winning provider of world class cyber security solutions from the best providers in the industry, we have added eight additional cyber security experts to our team to support and build out our practice. As we look to the future, we will focus on developing Calian's capability to deliver cyber resilience to our customer through an "as a service" business model.

### CALIAN Training and Engineering

Calian Training had a solid 2018 with most of the major contracts experiencing solid growth. This year also brought an interesting expansion in the client base through the CASC contract resulting in work with clients such as the RCAF Aerospace Warfare Centre and the Canadian Forces School of Military Intelligence. The Military Personnel Generation (MPG) contract also had a banner year with strong demand.

The Emergency Management and Custom Training Solutions groups have added several new label customers with new contracts with Canada Post, Canadian Red Cross, Department of Fisheries and Oceans, Humber College and Interlake Reserves Tribal Council which are all key to our growth plan and represent evolution beyond our traditional client base.

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

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The integration of International Safety Research Inc. ("ISR") was also completed in 2018. This 2017 acquisition which greatly expanded Calian's capability and capacity in Emergency Management also brings deep expertise in engineering, radiation and nuclear and CBRN. In 2018 ISR also outpaced its projections with record revenues and earnings. Finally, we've acquired 100% of ISR Europe, which has been set up to serve the European and Middle Eastern markets and is already established with signed contracts.

### Research and development

Over and above customer funding and available grants, in each of the last two years, Calian's SED division has invested approximately \$3 million to \$4 million to support its service line evolution and ensure it remains relevant in an industry that is continually evolving its technologies. 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.

### Cable network market

Cable networks have significant RF requirements that fall within a similar engineering skillset as our satellite communications network capability. In this context, we view cable network technologies as a strategic growth market. The SED division identified a market entry opportunity in hybrid cable-fibre networks and in concert with various customers, over the last few years, has been developing DOCSIS 3.1 cable network standards.

The global equipment market for DOCSIS 3.1 technology is estimated between \$5 billion to \$15 billion over a period of seven to 10 years with various players such as cable operators, cable network equipment providers and technology developers. Calian's technology is being developed to play at a variety of levels in this space. The growing excitement in the market affirms that our development will lead to growth opportunities in the coming years.

### Ground systems market

According to the Satellite Industry Association State of the Industry Report 2017, the satellite industry grew by 2% in the last year in comparison to 3% in the previous year. However, the satellite network equipment market which most closely resembles SED's satellite communications markets, grew by 7%.

To capture additional market share in the satellite network equipment market, the SED division has made investments in advanced satellite communications technology capable of operating in higher frequency bands. We have received significant interest in this technology and expect the interest to continue to grow as satellite operators seek new frequency bands to host higher throughput networks and reduce interference from existing ground systems.

We expect to formally announce these new technologies later in 2019.

### Summary

In summary, 2018 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 2019 with a strong backlog of work and a reasonable expectation of future growth. 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 a common strategic framework, 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 2019.

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

### Backlog

The Company's backlog at September 30, 2018 was \$1,228 million with terms extending to fiscal 2030. This compares to \$1,261 million reported at September 30, 2017. 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 2018 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.

- \$109 million contract with a commercial satellite manufacturer for the provision and installation of satellite RF ground systems
- \$20 million contract renewal to provide specialized engineering support to DND for Military Airworthiness
- \$6 million contract with CBSA Toronto onsite medical services at the Toronto Immigration Holding Centre
- \$8 million contract with Paramedics City of Edmonton to provide 24/7 Advanced Paramedic Services to detainees of the Edmonton Police
- \$5 million contract extension with the Royal Canadian Air Force for support services
- \$18 million dollar contract vehicle with Shared Services Canada and Canada Revenue Agency

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 2019, 2020, 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 \$91 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<br>2019 | Fiscal<br>2020 | Beyond<br>2020 | Estimated<br>realizable<br>portion of<br>Backlog | Excess over<br>estimated<br>realizable<br>portion | TOTAL           |
|----------------------------------|----------------|----------------|----------------|--|---|-----------------|
| Contracted Backlog               | \$ 226         | \$ 161         | \$ 88          | \$ 475   | \$ 67   | \$ 542          |
| Option Renewals                  | 13             | 31             | 618            | 662  | 24  | 686             |
| <b>TOTAL</b>                     | <b>\$ 239</b>  | <b>\$ 192</b>  | <b>\$ 706</b>  | <b>\$ 1,137</b>                                  | <b>\$ 91</b>                                      | <b>\$ 1,228</b> |
| Business and Technology Services | \$ 178         | \$ 124         | \$ 682         | \$ 984   | \$ 91   | \$ 1,075        |
| Systems Engineering              | 61             | 68             | 24             | 153  | -   | 153             |
| <b>TOTAL</b>                     | <b>\$ 239</b>  | <b>\$ 192</b>  | <b>\$ 706</b>  | <b>\$ 1,137</b>                                  | <b>\$ 91</b>                                      | <b>\$ 1,228</b> |

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

### Selected Annual Information

(dollars in millions, except per share data)

|                               | 2018     | 2017     | 2016     |
|-------------------------------|----------|----------|----------|
| Revenues                      | \$ 305.0 | \$ 275.4 | \$ 274.6 |
| EBITDA <sup>(1)</sup>         | \$ 25.0  | \$ 23.5  | \$ 22.0  |
| Net profit                    | \$ 16.1  | \$ 15.4  | \$ 13.6  |
| Net profit per share, basic   | \$ 2.08  | \$ 2.03  | \$ 1.83  |
| Net profit per share, diluted | \$ 2.07  | \$ 2.01  | \$ 1.83  |
| Total assets                  | \$ 151.5 | \$ 133.6 | \$ 117.7 |
| Dividends per share           | \$ 1.12  | \$ 1.12  | \$ 1.12  |

<sup>(1)</sup> See reconciliation regarding non-GAAP measures below

### 2018 Results of Operations

Profit before interest and income taxes were \$22,042 in 2018 compared with \$20,888 in 2017 and net profit was \$16,077 for the year compared with \$15,390 in the previous year. The Company completed the year with \$21,842 of cash compared to \$28,639 at the end of 2017.

| Revenues              | 2018       | 2017       | % change |
|-----------------------|------------|------------|----------|
| SED revenues          | \$ 76,940  | \$ 75,634  | 2%       |
| BTS revenues          | \$ 228,018 | \$ 199,789 | 14%      |
| Consolidated revenues | \$ 304,958 | \$ 274,423 | 11%      |

The general business environment in 2018 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 and continued to push technology advancements targeting new markets. The Company's healthy backlog, its acquisition strategy and the win of several contracts in new market segments during 2018 allowed the Company to grow its revenue base in 2018.

SED revenues for 2018 were up only 2% compared to 2017 due to the completion of several ground system projects early in 2018 with new ones not ramping up as quickly as expected. Work related to the major RF ground systems contract won in the third quarter is beginning to ramp-up. As well, product sales continue to provide solid recurring revenues and interest continues to grow with some of our newer products with new customers entering the mix. SED's other business units continue to be busy in a range of activities including RF system projects, and contract manufacturing for commercial and defence customers.

BTS revenues for 2018 were up 14% compared to 2017. Revenues from the division's traditional business lines showed strong organic growth compared to the prior year due to increased demand with existing clients in addition to the win of several new contracts. As well, revenues were positively impacted from a full year of ISR revenues, and the Secure Tech and Priority One acquisitions closed in the fourth quarter of this year, adding to the current year growth. The Company experiences continued strong performance with the federal government supported with several important wins with new customers and within new markets as the division continues to focus on the diversification of its customer base and the evolution of its services.

The Company derives a significant portion of its revenues from the Government of Canada. During 2018 (2017), 68% (66%) of revenues were related to contracts with various departments and agencies of the Government of Canada with approximately 61% (60%) directly with DND. Both divisions conduct business with the Government of Canada.

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

Management expects that the marketplace in the near-term will continue to be competitive and the timing of new contract awards is always difficult to predict. 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 remains 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        | 2018      | 2017      | % change |
|--|-----------|-----------|----------|
| SED gross profit                         | \$ 19,937 | \$ 20,398 | (2%)     |
| As a percentage of SED revenues          | 25.9%     | 27.0%     |          |
| BTS gross profit                         | \$ 39,755 | \$ 32,506 | 22%      |
| As a percentage of BTS revenues          | 17.4%     | 16.3%     |          |
| Consolidated gross profit                | \$ 59,692 | \$ 52,904 | 13%      |
| As a percentage of consolidated revenues | 19.6%     | 19.2%     |          |

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 2018 reflects improvements in the Company's contract margin profiles and solid execution on contracts.

SED margin reflects solid execution across all business units. The slight decrease in gross margin percentage this year reflects customer driven development projects that, until fully developed, result in lower margins. In addition, the influx of new resources to fulfill our project requirements resulted in lower utilization during the year as these resources were trained and ramped up on projects. 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. The inclusion of the ISR, Secure Tech and PriorityOne acquisitions account for approximately 0.9% improvement for the year with the remaining uplift being attributed to solid execution on existing contracts and increased margins attached to new contracts. 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, diligent negotiation of supplier costs and expansion into new markets in order to maximize margins. However, the competitive landscape 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.

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

| Selling and marketing                    | 2018     | 2017     | % change |
|--|----------|----------|----------|
| Selling and marketing                    | \$ 5,154 | \$ 4,396 | 17.2%    |
| As a percentage of consolidated revenues | 1.7%     | 1.6%     |          |

Selling and marketing expenses increased over the prior year as a result of increased focus on diversification, evolution of the service lines and the broadening of target markets compounded by the addition of costs from the 2017 and 2018 acquisitions. Costs for 2019 will continue to increase slightly over the 2018 level as the Company continues to invest to support its growth objectives and incurs full-year costs related to the acquisitions closed in 2018.

| General and administration               | 2018      | 2017      | % change |
|--|-----------|-----------|----------|
| General and administration               | \$ 24,774 | \$ 20,718 | 19.6%    |
| As a percentage of consolidated revenues | 8.1%      | 7.5%      |          |

General and administration costs increased over the prior year due to the inclusion of costs related to the 2017 and 2018 acquisitions, continued focus on service line evolution capabilities, improvements and expansion of our facilities, the expensing of share-based compensation in addition to certain one-time costs. Management will continue to challenge discretionary spending; however, prudent investments may be required to support the evolution of the Company's service lines.

| Facilities | 2018     | 2017     | % change |
|------------|----------|----------|----------|
| Facilities | \$ 4,722 | \$ 4,319 | 9.3%     |

Facility expenses have increased in the current year with the renewal of leases at increased market rates, and expansion of certain premises. With the move to the new head office in 2019, costs are expected to increase as well into 2019.

### Earnings before interest income, income tax expense, depreciation and amortization (EBITDA)<sup>(1)</sup>

EBITDA<sup>(1)</sup> for fiscal 2018 was \$25,042 compared to EBITDA of \$23,471 in the previous year.

<sup>(1)</sup> See reconciliation regarding non-GAAP measures below

| Depreciation and amortization | 2018     | 2017     | % change |
|-------------------------------|----------|----------|----------|
| Depreciation                  | \$ 1,807 | \$ 1,490 | 21.3%    |
| Amortization                  | \$ 1,193 | \$ 1,093 | 9.1%     |

Depreciation expense has increased due to large purchases of manufacturing equipment over the past three years. Depreciation will increase during 2019 based on the levels of spending in 2018 with SED investing in new technology equipment and BTS investing in new office space.

Amortization expense has increased due to the acquisition of ISR in 2017 and Secure Tech and Priority One in 2018, offset by a reduction from fully amortized acquisitions. For 2019, amortization will increase from a full year of amortization for intangibles acquired from Secure Tech, Priority One and IntraGrain (acquired in early 2019).

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

### Income tax expense

The Company reports its results on a fully taxed basis. The provision for income taxes for 2018 was \$6,192 or 27.8% of earnings before income taxes compared to \$5,663 or 26.9% of earnings before income taxes in 2017. The difference in effective tax rates is primarily due to the increase in share-based compensation which is not tax deductible. The effective tax rate for 2018, prior to considering the impact of non-taxable transactions and adjustments to reflect actual tax provision as filed, is expected to be approximately 27.0%.

### Net profit

The Company reported net profit of \$16,077 or \$2.08 per share basic and \$2.07 diluted for 2018 compared to \$15,390 or \$2.03 per share basic and \$2.01 diluted in 2017.

<sup>(1)</sup> 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 excludes 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.

| Reconciliation of EBITA                       | 2018      | 2017      |
|---|-----------|-----------|
| Profit before interest and income tax expense | \$ 22,042 | \$ 20,888 |
| Depreciation                                  | 1,807     | 1,490     |
| Amortization                                  | 1,193     | 1,093     |
| EBITDA  | \$ 25,042 | \$ 23,471 |

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

### Selected Quarterly Financial Data

(dollars in millions, except per share data)

|                                     | Q4/18   | Q3/18   | Q2/18   | Q1/18   | Q4/17   | Q3/17   | Q2/17   | Q1/17   |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Revenues</b>                     | \$ 78.7 | \$ 73.4 | \$ 77.1 | \$ 75.8 | \$ 72.3 | \$ 67.3 | \$ 67.1 | \$ 68.7 |
| <b>EBITDA<sup>(1)</sup></b>         | \$ 6.6  | \$ 6.0  | \$ 6.0  | \$ 6.4  | \$ 6.6  | \$ 5.5  | \$ 6.2  | \$ 5.2  |
| EBITDA per share                    |         |         |         |         |         |         |         |         |
| Basic                               | \$ 0.85 | \$ 0.78 | \$ 0.78 | \$ 0.83 | \$ 0.86 | \$ 0.72 | \$ 0.82 | \$ 0.69 |
| Diluted                             | \$ 0.84 | \$ 0.77 | \$ 0.77 | \$ 0.83 | \$ 0.85 | \$ 0.72 | \$ 0.81 | \$ 0.69 |
| <b>Net profit</b>                   | \$ 4.3  | \$ 3.9  | \$ 3.9  | \$ 4.1  | \$ 4.3  | \$ 3.5  | \$ 4.2  | \$ 3.4  |
| Net profit per share <sup>(1)</sup> |         |         |         |         |         |         |         |         |
| Basic                               | \$ 0.55 | \$ 0.50 | \$ 0.50 | \$ 0.53 | \$ 0.57 | \$ 0.46 | \$ 0.55 | \$ 0.45 |
| Diluted                             | \$ 0.55 | \$ 0.50 | \$ 0.50 | \$ 0.52 | \$ 0.56 | \$ 0.45 | \$ 0.55 | \$ 0.45 |

<sup>(1)</sup> 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 because 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 in 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](http://www.SEDAR.com).

### Liquidity and Capital Resources

Calian's net cash position was \$21,842 at September 30, 2018, compared to \$28,639 at September 30, 2017.

|  | 2018       | 2017      |
|--|------------|-----------|
| Cash flows from operating activities before changes in working capital | \$ 25,895  | \$ 23,777 |
| Changes in working capital   | (14,512)   | 1,394     |
| Cash flows from (used in) operating activities                         | \$ 11,383  | \$ 25,171 |
| Cash flows from (used in) financing activities                         | (6,546)    | (5,325)   |
| Cash flows from (used in) investing activities                         | (11,634)   | (7,968)   |
| Increase (decrease) in cash  | \$ (6,797) | \$ 11,878 |



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

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### Operating activities

Cash inflows from operating activities for the period ended September 30, 2018 were \$11,383 compared to cash inflows of \$25,171 in 2017. Cash flows have been negatively impacted by the increase in accounts receivable. The aging of the accounts receivable remains in excellent health and overdue accounts remain stable and are mostly from delays for administrative reasons rather than due to the inability to collect. These variations in cash flows are not considered unusual and reflect normal working capital fluctuations associated with the ebb and flow 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, 2018, the Company's total unearned revenue amounted to \$11,209 compared to \$8,831 at September 30, 2017.

### Financing activities

#### Dividend

As a result of continuing earnings and a strong cash position, the Company maintained its dividend in 2018. The Company paid dividends totaling \$8,668 or \$1.12 cents per share compared to 2017 when the Company paid \$8,520 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, 2018 there were 247,400 options outstanding at an average price of \$25.43 expiring at various dates between September 3, 2019 and March 27, 2023.

At September 30, 2018 there were 20,970 restricted share units outstanding with average value of \$31.40 and vest through November 15, 2020.

At September 30, 2018 there were 7,764,762 common shares outstanding and as of the date of this Management Discussion and Analysis, there were 7,772,938 common shares outstanding.

### Investing activities

#### Equipment expenditures and capitalized research and development

During the year ended September 30, 2018, the Company invested \$5,360 in capital assets compared to \$2,074 in the prior period, in addition to the \$1,149 invested in capitalized R&D compared to the \$300 in the previous year. The increase is attributable to additional manufacturing equipment purchased at SED and the move to the new Calian head office in Ottawa. At September 30, 2018 there were no significant commitments to expend capital assets.

#### Acquisitions

During 2018 (2017), the Company paid \$4,975 (\$5,344) for various acquisitions as described in the notes to the consolidated financial statements.

#### Investments

During 2018 (2017), the Company paid NIL (\$100) for an equity investment in Cliniconex as described in the notes to the consolidated financial statements. The Company also provided \$150 (\$150) to Cliniconex Inc. in the form of a convertible loan.

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

### Capital resources

At September 30, 2018 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 \$50 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              | \$ 26,668 | \$ 3,352  | \$ 6,886  | \$ 6,482  | \$ 9,948 |
| Purchase obligations          | 75,095    | 38,058    | 37,037    | -         | -        |
| Total contractual obligations | \$101,763 | \$ 41,410 | \$ 43,923 | \$ 6,482  | \$ 9,948 |

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, 2018.

### Operating leases

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

### Related party transactions

There were no transactions with related parties during 2018 and 2017.

### Critical accounting estimates

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

### Revenue recognition

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

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

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### 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 deferred 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, 2018 and 2017 was minimal.

### Goodwill

Goodwill is tested for impairment annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. Testing for impairment is accomplished by determining whether the fair value of the cash generating unit exceeds the net carrying value as of the assessment date. If the fair value is greater than the carrying amount, no impairment is necessary. The determination of fair value is based on management's estimate of future results of operations of the reporting unit using reasonable assumptions relating to growth levels when considering the current and forecasted business environment and each cash-generating unit's discount rate. For purpose of determining fair value, management considered a growth level range of 0% to 3% and a discount rate range of 12% to 15% for its BTS division.

### Adoption of new accounting rules and impact on financial results

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

### Impact of accounting pronouncements not yet implemented

There were no new accounting pronouncements issued in 2018 which would affect the Company's results of operations or financial conditions.

For fiscal 2019, the Company will implement IFRS 15 – Revenue from Contracts with Customers and IFRS 9 Financial instruments as described in Note 4 to the annual financial statements included in this Annual Report.

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

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### 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, 2018, 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, 2018, 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, 2018, 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 9001-2015 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.

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

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### **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 favourable 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.

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

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### Customer's ability to retain market share

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

### Government contracts

During fiscal 2018, approximately 68% 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 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, 2018 the Company's backlog included \$91 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 certain 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, 2018, 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, 2018. The strengthening of the Canadian dollar relative to other foreign currencies may negatively impact the Company's competitiveness and increase pressure on margins for new work.

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

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### 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.

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

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

Calian's 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 and is diversifying its customer base in the agriculture, cable and defence sectors. 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 delays, deferrals and cancellations of DND capital procurements have created intense competition for available manufacturing work. Finally, changes in the relative value of the Canadian dollar may negatively or positively impact the Systems Engineering Division's competitiveness on projects denominated in foreign currencies.

The BTS Division's 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 emergency management engineering services in the nuclear sector 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, training and engineering 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 2018 Annual Information Form and Management Circular can be found on SEDAR at [www.SEDAR.com](http://www.SEDAR.com)

Dated: December 10, 2018



## Management's Statement of Responsibility

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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  
December 10, 2018*



**Jacqueline Gauthier**

*Chief Financial Officer*

## Independent Auditor's Report

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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, 2018 and September 30, 2017, 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, 2018 and September 30, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

**Chartered Professional Accountants  
Licensed Public Accountants**

*November 20, 2018  
Ottawa, Ontario*

# Calian Group Ltd.

## Consolidated Statements of Financial Position

For the years ended September 30, 2018 and 2017  
(Canadian dollars in thousands)

|   | NOTES | September 30,<br>2018 | September 30,<br>2017 |
|---|-------|-----------------------|-----------------------|
| <b>ASSETS</b>                                     |       |                       |                       |
| <b>CURRENT ASSETS</b>                             |       |                       |                       |
| Cash  |       | \$ 21,842             | \$ 28,639             |
| Accounts receivable                               |       | 69,096                | 54,884                |
| Work in process                                   |       | 18,217                | 19,490                |
| Prepaid expenses                                  |       | 3,879                 | 1,650                 |
| Derivative assets                                 | 19    | 1,021                 | 123                   |
| <b>Total current assets</b>                       |       | <b>114,055</b>        | <b>104,786</b>        |
| <b>NON-CURRENT ASSETS</b>                         |       |                       |                       |
| Capitalized research and development              | 6     | 1,449                 | 300                   |
| Equipment   | 6     | 9,795                 | 6,203                 |
| Application software                              | 7     | 788                   | 766                   |
| Investments and loan receivable                   | 8     | 435                   | 530                   |
| Acquired intangible assets                        | 9     | 6,702                 | 5,586                 |
| Goodwill  | 10    | 18,236                | 15,383                |
| <b>Total non-current assets</b>                   |       | <b>37,405</b>         | <b>28,768</b>         |
| <b>TOTAL ASSETS</b>                               |       | <b>\$ 151,460</b>     | <b>\$ 133,554</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |       |                       |                       |
| <b>CURRENT LIABILITIES</b>                        |       |                       |                       |
| Accounts payable and accrued liabilities          |       | \$ 37,524             | \$ 32,584             |
| Unearned contract revenue                         | 15    | 11,209                | 8,831                 |
| Derivative liabilities                            | 19    | 525                   | 360                   |
| <b>Total current liabilities</b>                  |       | <b>49,258</b>         | <b>41,775</b>         |
| <b>NON-CURRENT LIABILITIES</b>                    |       |                       |                       |
| Deferred tax liabilities                          | 14    | 2,488                 | 2,292                 |
| <b>Total non-current liabilities</b>              |       | <b>2,488</b>          | <b>2,292</b>          |
| <b>TOTAL LIABILITIES</b>                          |       | <b>51,746</b>         | <b>44,067</b>         |
| <b>SHAREHOLDERS' EQUITY</b>                       |       |                       |                       |
| Issued capital                                    | 11    | 28,647                | 26,240                |
| Contributed surplus                               |       | 1,065                 | 541                   |
| Retained earnings                                 |       | 70,185                | 62,776                |
| Accumulated other comprehensive loss              |       | (183)                 | (70)                  |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 |       | <b>99,714</b>         | <b>89,487</b>         |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |       | <b>\$ 151,460</b>     | <b>\$ 133,554</b>     |

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

Approved by the Board  
on November 20, 2018:



**Kenneth Loeb**  
Chairman



**Richard Vickers**  
Director

## Calian Group Ltd. Consolidated Statements of Net Profit

For the years ended September 30, 2018 and 2017  
(Canadian dollars in thousands, except per share data)

|  | NOTES | 2018             | 2017             |
|--|-------|------------------|------------------|
| Revenues   |       | \$ 304,958       | \$ 275,423       |
| Cost of revenues                                     |       | 245,266          | 222,519          |
| Gross profit   |       | 59,692           | 52,904           |
| Selling and marketing                                |       | 5,154            | 4,396            |
| General and administration                           |       | 24,774           | 20,718           |
| Facilities   |       | 4,722            | 4,319            |
| Depreciation of equipment and application software   |       | 1,807            | 1,490            |
| Amortization of acquired intangible assets           |       | 1,193            | 1,093            |
| Profit before interest income and income tax expense |       | 22,042           | 20,888           |
| Interest income                                      |       | 227              | 165              |
| Profit before income tax expense                     |       | 22,269           | 21,053           |
| Income tax expense – current                         |       | 6,566            | 5,613            |
| Income tax expense – deferred                        |       | (374)            | 50               |
| Total income tax expense                             | 14    | 6,192            | 5,663            |
| <b>NET PROFIT</b>                                    |       | <b>\$ 16,077</b> | <b>\$ 15,390</b> |

### Net profit per share:

|         |    |         |         |
|---------|----|---------|---------|
| Basic   | 13 | \$ 2.08 | \$ 2.03 |
| Diluted | 13 | \$ 2.07 | \$ 2.01 |

*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, 2018 and 2017  
(Canadian dollars in thousands)

|  | NOTES | 2018             | 2017             |
|--|-------|------------------|------------------|
| <b>NET PROFIT</b>  |       | \$ 16,077        | \$ 15,390        |
| 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 \$53 (2017 - \$296). |       | (113)            | 807              |
| Other comprehensive income (loss), net of tax  |       | (113)            | 807              |
| <b>COMPREHENSIVE INCOME</b>  |       | <b>\$ 15,964</b> | <b>\$ 16,197</b> |

*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, 2018 and 2017  
(Canadian dollars in thousands, except per share data)

|  | Notes | Issued capital | Contributed surplus | Retained earnings | Cash flow hedging reserve | Total     |
|--|-------|----------------|---------------------|-------------------|---------------------------|-----------|
| Balance October 1, 2017                            |       | \$ 26,240      | \$ 541              | \$ 62,776         | \$ (70)                   | \$ 89,487 |
| Comprehensive income                               |       | -              | -                   | 16,077            | (113)                     | 15,964    |
| Dividend paid (\$1.12 per share)                   |       | -              | -                   | (8,668)           | -                         | (8,668)   |
| Issue of shares under employee stock purchase plan | 11,12 | 551            | -                   | -                 | -                         | 551       |
| Issue of shares under stock option plan            | 11    | 1,856          | (196)               | -                 | -                         | 1,660     |
| Share-based compensation expense                   | 12    | -              | 720                 | -                 | -                         | 720       |
| Balance September 30, 2018                         |       | \$ 28,647      | \$ 1,065            | \$ 70,185         | \$ (183)                  | \$ 99,714 |

|  | 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 |

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

## Calian Group Ltd. Consolidated Statements of Cash Flows

For the years ended September 30, 2018 and 2017  
(Canadian dollars in thousands)

|   | NOTES | 2018              | 2017             |
|---|-------|-------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>     |       |                   |                  |
| Net profit                                      |       | \$ 16,077         | \$ 15,390        |
| Items not affecting cash:                       |       |                   |                  |
| Interest income                                 |       | (227)             | (165)            |
| Income tax expense                              | 14    | 6,192             | 5,663            |
| Employee share plans compensation expense       |       | 853               | 306              |
| Depreciation and amortization expense           |       | 3,000             | 2,583            |
|   |       | 25,895            | 23,777           |
| Change in non-cash working capital              |       |                   |                  |
| Accounts receivable                             |       | (12,867)          | 8,066            |
| Work in process                                 |       | 1,273             | (2,011)          |
| Prepaid expenses                                |       | (818)             | (557)            |
| Accounts payable and accrued liabilities        |       | 4,029             | 3,643            |
| Unearned contract revenue                       |       | 755               | (2,440)          |
|   |       | 18,267            | 30,478           |
| Interest received                               |       | 285               | 204              |
| Income tax paid                                 |       | (7,169)           | (5,511)          |
|   |       | 11,383            | 25,171           |
| <b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>  |       |                   |                  |
| Issuance of common shares                       | 11,12 | 2,122             | 3,195            |
| Dividends                                       |       | (8,668)           | (8,520)          |
|   |       | (6,546)           | (5,325)          |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>  |       |                   |                  |
| Investments and loan receivable                 | 8     | (150)             | (250)            |
| Business acquisitions                           | 20    | (4,975)           | (5,344)          |
| Capitalized research and development            | 6     | (1,149)           | (300)            |
| Equipment and application software expenditures | 6,7   | (5,360)           | (2,074)          |
|   |       | (11,634)          | (7,968)          |
| <b>NET CASH (OUTFLOW) INFLOW</b>                |       | <b>\$ (6,797)</b> | <b>\$ 11,878</b> |
| <b>CASH, BEGINNING OF PERIOD</b>                |       | <b>28,639</b>     | <b>16,761</b>    |
| <b>CASH, END OF PERIOD</b>                      |       | <b>\$ 21,842</b>  | <b>\$ 28,639</b> |

*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, 2018 and 2017  
(Canadian dollars in thousands, except per share amounts)

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### 1. Basis of preparation

Calian Group Ltd. (“the Company”) is incorporated under the Canada Business Corporations Act. The address of its registered office and principal place of business is 770 Palladium Drive, Ottawa, Ontario K2V 1C8. The Company’s capabilities 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, 2018. 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, 2018 were authorized for issuance by the Board of Directors on November 20, 2018.

### 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, DWP Solutions Inc., located in Ottawa, Ontario, International Safety Research Inc. (“ISR”), located in Ottawa, Ontario, PriorityOne Workplace Health Inc. and William J Barker Clinical Psychologists Ltd. (collectively “Priority One”), located in Calgary, Alberta and Secure Technologies International Inc. (“Secure Tech”), 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, 2018 and 2017  
(Canadian dollars in thousands, except per share amounts)

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### 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, 2018 and 2017  
(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.

### Capitalized Research and Development (“R&D”)

Research costs are expensed as incurred. Internally developed internal-use asset costs incurred in the development phase of a project are capitalized. Certain costs incurred in connection with the development of assets to be used internally are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of development. Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Company are recognized as assets when the following criteria are met:

- it is technically feasible to complete the asset so that it will be available for use;
- there is an ability and management intends to complete the asset for use or sale;
- it can be demonstrated how the asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- the expenditure attributable to the asset during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

### 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.

Capitalized R&D is measured at cost and depreciated once the assets are available for use. Costs include expenditures that are directly attributable to its construction.

### 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.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
(Canadian dollars in thousands, except per share amounts)

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### 2. Summary of significant accounting policies (continued)

#### 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.

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 expensed 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 of 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.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
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### 2. Summary of significant accounting policies (continued)

#### 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.

#### 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.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
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### 2. Summary of significant accounting policies (continued)

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.

#### 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).

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
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### 2. Summary of significant accounting policies (continued)

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.

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. The core principle of the new guidance is that an entity should recognize revenue for the transfer of goods and services equal to an amount it expects to be entitled to receive for those goods and services. IFRS 15 is effective for the Company's annual periods beginning on October 1, 2018. The new guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Company has elected to adopt IFRS15 using the full retrospective approach.

The Company expects revenue recognition for its broad portfolio of service offerings to remain largely unchanged, however, some impacts have been identified. The Company recognizes certain contract revenue in profit or loss in proportion to the stage of completion of the contract using the percentage of completion method. Under the new revenue standard, revenue is recognized upon the satisfaction of the Company's performance obligations, which occurs when control of a good or service transfers to the customer. Control can transfer either at a point in time or over time. A small number of contracts that previously were recognized over time will not meet the criteria set out in the new standard for over time recognition and for those contracts, revenue will be deferred and recognized upon completion of the performance obligation. Under the current revenue standards, warranty is accounted for as a separate performance obligation where revenue is recognized as costs are incurred during the warranty phase. IFRS15 classifies warranty as assurance type and service type. Assurance type warranty is accounted for as part of other performance obligations in the contract and recognized as those costs are incurred whereas service type warranties are recognized as a separate performance obligation. In addition, for assurance type warranties, IAS37 requires the Company to estimate the liability and accrue this over the contract term. Previously the Company did not have a liability set up for anticipated warranty costs as they were expensed as incurred. The Company offers a number of different warranties to customers which will be impacted by the classification and treatment under IFRS15. These changes are expected to have minimal impact on the timing of revenue and margin recognition.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
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### 4. Future changes in accounting policies (continued)

#### *IFRS 9 Financial instruments*

IFRS 9 was issued by the IASB in November 2009 and October 2010, was amended in 2013 and finalized in July 2014 and will replace IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS9 introduces new requirements for the classification and measurement of financial assets. Under IFRS9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The financial assets are subsequently measured at amortized cost, fair value through profit and loss or fair value through other comprehensive income. IFRS 9 is effective with the Company’s annual periods beginning on October 1, 2018. The Company does not expect a material impact on the classification and measurement of its financial assets, as the majority are currently classified and measured at amortized cost.

IFRS9 includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. The Company does not expect changes relating to hedging as the types of hedge accounting relationships that the Company currently designates will be capable of meeting the requirements of IFRS9.

#### *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.

#### *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.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
(Canadian dollars in thousands, except per share amounts)

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

For the years ended September 30, 2018 and September 30, 2017, 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.

### 6. Equipment

|                        | September 30, 2018 |                          |                | September 30, 2017 |                          |                |
|------------------------|--------------------|--------------------------|----------------|--------------------|--------------------------|----------------|
|                        | Cost               | Accumulated Amortization | Carrying Value | Cost               | Accumulated Amortization | Carrying Value |
| Leasehold improvements | \$ 3,798           | \$ 1,751                 | \$ 2,047       | \$ 1,753           | \$ 1,480                 | \$ 273         |
| Equipment              | 18,799             | 11,051                   | 7,748          | 16,132             | 10,202                   | 5,930          |
|                        | \$ 22,597          | \$ 12,802                | \$ 9,795       | \$ 17,885          | \$ 11,682                | \$ 6,203       |
| Capitalized R&D        | \$ 1,449           | -                        | 1,449          | 300                | -                        | 300            |

### 7. Application software

|                      | September 30, 2018 |                          |                | September 30, 2017 |                          |                |
|----------------------|--------------------|--------------------------|----------------|--------------------|--------------------------|----------------|
|                      | Cost               | Accumulated Amortization | Carrying Value | Cost               | Accumulated Amortization | Carrying Value |
| Application software | \$ 3,772           | \$ 2,984                 | \$ 788         | \$ 3,483           | \$ 2,717                 | \$ 766         |



# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

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### 8. Investment and loan receivable

During the year ended 2018 (2017), the Company provided \$150 (\$150) to Cliniconex Inc. in the form of a convertible loan bearing interest at a rate of 12% maturing on June 6, 2021 and June 9, 2020 respectively. The loans contain 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.

In the prior fiscal year, the Company invested \$100 to acquire a non-controlling interest in common shares of Cliniconex Inc., an Ottawa-based patient outreach solutions vendor. As part of the investment, a member of the Company's management team has been appointed to the Cliniconex Inc. Board of Directors. The investment is measured at cost.

### 9. Acquired intangible assets

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

|  | September 30, 2018 |                          |                 | September 30, 2017 |                          |                 |
|--|--------------------|--------------------------|-----------------|--------------------|--------------------------|-----------------|
|  | 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             | 6,769              | 3,686                    | 3,083           | 5,600              | 3,611                    | 1,989           |
| Contract with customers                  | 3,473              | 2,316                    | 1,157           | 2,703              | 1,720                    | 983             |
| Non-competition agreements               | 532                | 320                      | 212             | 543                | 272                      | 271             |
| Trademarks and software assets           | 562                | 221                      | 341             | 562                | 128                      | 434             |
|  | <u>\$ 13,245</u>   | <u>\$ 6,543</u>          | <u>\$ 6,702</u> | <u>\$ 11,317</u>   | <u>\$ 5,731</u>          | <u>\$ 5,586</u> |

### 10. Goodwill

|                                  | September 30, 2018 |             |                  | September 30, 2017 |             |                  |
|----------------------------------|--------------------|-------------|------------------|--------------------|-------------|------------------|
|                                  | Cost               | Impairment  | Carrying Value   | Cost               | Impairment  | Carrying Value   |
| Business and Technology Services | \$ 18,236          | \$ -        | \$ 18,236        | \$ 15,383          | \$ -        | \$ 15,383        |
|                                  | <u>\$ 18,236</u>   | <u>\$ -</u> | <u>\$ 18,236</u> | <u>\$ 15,383</u>   | <u>\$ -</u> | <u>\$ 15,383</u> |

### Annual test for impairment

Goodwill recorded is allocated in its entirety to the Business and Technology Services division. At September 30, 2018 and 2017, 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, 2018 and 2017, 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, 2018 |                  | September 30, 2017 |                  |
|--|--------------------|------------------|--------------------|------------------|
|  | Shares             | Amount           | Shares             | Amount           |
| Balance, beginning of year                       | 7,655,713          | \$ 26,240        | 7,483,599          | \$ 22,820        |
| Shares issued under stock option plan            | 87,541             | 1,856            | 140,900            | 2,944            |
| Shares issued under employee stock purchase plan | 21,508             | 551              | 31,214             | 476              |
| <b>Issued capital</b>                            | <b>7,764,762</b>   | <b>\$ 28,647</b> | <b>7,655,713</b>   | <b>\$ 26,240</b> |

Subsequent to the date of the statement of financial position, on November 14, 2018, the date of issuance of these consolidated financial statements, the Company declared a dividend of \$0.28 per common share payable on December 12, 2018.

#### 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, 2018, based on the Company's total common shares outstanding, a total of 689,829 stock options and RSU's may be issued and outstanding. Based on this, the Company could grant up to 430,459 additional stock options beyond what was issued and outstanding as at September 30, 2018.

At September 30, 2018 (2017) there were 247,400 (240,600) options outstanding with a weighted average remaining contractual life of 2.75 (1.94) years of which 187,400 (222,600) were exercisable at a weighted average price of \$22.56 (\$19.52). During the years ended September 30, 2018 (2017), 96,600 (30,000) options were granted and 83,800 (140,900) options were exercised. The Company has total unrecognized compensation expense of \$87 (2017 - \$28) that will be recorded in the next fiscal year

The weighted average fair value of options granted during the year ended September 30, 2018 was \$4.52 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 2018:

|                           | November 2017 | March 2018 |
|---------------------------|---------------|------------|
| Grant date share price    | \$ 34.58      | \$ 31.54   |
| Exercise price            | \$ 34.58      | \$ 31.54   |
| Expected price volatility | 24.0%         | 22.7%      |
| Expected option life      | 4.25yrs       | 4.25yrs    |
| Expected dividend yield   | 4.07%         | 3.52%      |
| Risk-free interest rate   | 1.62%         | 2.09%      |
| Forfeiture rate           | 0%            | 0%         |

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

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### 12. Share-based compensation (continued)

|                                | 2018     |                              | 2017      |                              |
|--------------------------------|----------|------------------------------|-----------|------------------------------|
|                                | Options  | Weighted Avg. Exercise Price | Options   | Weighted Avg. Exercise Price |
| Outstanding, beginning of year | 240,600  | \$ 20.10                     | 351,500   | \$ 19.38                     |
| Exercised                      | (83,800) | \$ 19.80                     | (140,900) | \$ 19.85                     |
| Forfeited                      | (6,000)  | \$ 34.58                     | -         | \$ -                         |
| Granted                        | 96,600   | \$ 34.39                     | 30,000    | \$ 27.30                     |
| Outstanding, end of year       | 247,400  | \$ 25.43                     | 240,600   | \$ 20.10                     |

#### Restricted share units:

The Company has an established a restricted stock unit (“RSU”) plan. 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, 2018 and 2017:

|                                | 2018    |                              | 2017   |                              |
|--------------------------------|---------|------------------------------|--------|------------------------------|
|                                | RSU     | Weighted Avg. Exercise Price | RSU    | Weighted Avg. Exercise Price |
| Outstanding, beginning of year | 11,345  | \$ 27.43                     | -      | \$ -                         |
| Transferred to common shares   | (3,741) | \$ 27.42                     | -      | \$ -                         |
| Cancelled/forfeited            | (1,141) | \$ 31.03                     | -      | \$ -                         |
| Granted                        | 14,507  | \$ 33.45                     | 11,345 | \$ 27.43                     |
| Outstanding, end of year       | 20,970  | \$ 31.40                     | 11,345 | \$ 27.43                     |

In 2018, the Company issued 14,507 RSU’s, with a weighted average fair value of \$33.45 per RSU. Of the entire units issued to date under the RSU plan, NIL have vested as of September 30, 2018. The Company has recorded \$380 of share-based compensation expense in 2018 (2017 - \$142) related to the RSUs that have been granted. The Company has total unrecognized compensation expense of \$265 (2017 - \$169) that will be recorded over the next three years.

The following share-based payment arrangements are in existence:

| Option series                | Number | Grant date        | Expiry date       | Exercise price | Fair value at grantdate |
|------------------------------|--------|-------------------|-------------------|----------------|-------------------------|
| (1) Issued September 3, 2014 | 56,800 | September 3, 2014 | September 3, 2019 | \$ 19.70       | \$ 1.18                 |
| (2) Issued September 9, 2015 | 70,000 | September 9, 2015 | September 9, 2020 | \$ 17.69       | \$ 0.90                 |
| (3) Issued May 17, 2017      | 30,000 | May 17, 2017      | May 17, 2022      | \$ 27.30       | \$ 3.42                 |
| (4) Issued November 24, 2017 | 84,600 | November 24, 2018 | November 17, 2023 | \$ 34.58       | \$ 4.53                 |
| (5) Issued March 27, 2018    | 6,000  | March 27, 2018    | November 17, 2023 | \$ 31.54       | \$ 4.37                 |

For the option issuance dated November 24, 2017, 30,600 options vested immediately with the remaining vesting through to November 24, 2020. For the option issuance dated March 27, 2018, 2,000 options vested immediately with the remaining vesting through to March 27, 2020.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

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### 12. Share-based compensation (continued)

| RSU series                   | Number | Grant date        | Vest through      | Fair value at grant date |
|------------------------------|--------|-------------------|-------------------|--------------------------|
| (1) Issued February 15, 2017 | 5,860  | February 15, 2017 | November 15, 2019 | \$ 27.22                 |
| (2) Issued May 12, 2017      | 1,158  | May 12, 2017      | November 15, 2019 | \$ 28.43                 |
| (3) Issued November 24, 2017 | 9,297  | November 24, 2017 | November 15, 2020 | \$ 34.58                 |
| (4) Issued February 12, 2018 | 4,100  | February 12, 2018 | November 15, 2020 | \$ 31.01                 |
| (5) Issued March 27, 2018    | 555    | March 27, 2018    | November 15, 2020 | \$ 31.54                 |

### 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 2018 (2017), the Company issued 21,508 (31,214) shares under the ESPP at an average price of \$21.50 (\$12.73) for a total cash of \$462 (\$325) and total non-cash of \$89 (\$78). Employees subscribed to approximately 30,820 common shares, which will be issued during fiscal 2019 at an average price of \$24.64. Since inception and including the issuance of shares in 2018, 483,446 shares have been issued under the plan.

### 13. Net profit per share

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

|  | 2018      | 2017      |
|--|-----------|-----------|
| Weighted average number of common shares – basic                             | 7,722,937 | 7,586,899 |
| Additions to reflect the dilutive effect of employee stock options and RSU’s | 44,140    | 76,353    |
| Weighted average number of common shares – diluted                           | 7,767,077 | 7,663,252 |

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 2018 (2017), 96,600 (NIL) 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:

|  | 2018      | 2017      |
|--|-----------|-----------|
| Profit before income taxes   | \$ 22,269 | \$ 21,053 |
| Tax provision at the combined basic Canadian federal and provincial income tax rate of 26.9% (2017: 26.9%) | 5,997     | 5,673     |
| Increase (decrease) resulting from:  |           |           |
| Effect of expenses that are not deductible in determining taxable profits                                  | 331       | 160       |
| Impact of rate reductions on valuation of deferred income tax assets                                       | (131)     | (126)     |
| Other  | (5)       | (44)      |
| Income tax expense   | \$ 6,192  | \$ 5,663  |

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

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### 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, 2017     | \$ (825)                           | \$ (1,431)                 | \$ (62)                   | \$ 26 | \$ (2,292) |
| Current year acquisition                         | -                                  | (612)                      | -                         | -     | (612)      |
| Credited (debited) to statement of net profit    | 97                                 | 267                        | -                         | -     | 364        |
| Credited (debited) to other comprehensive income | -                                  | -                          | 52                        | -     | 52         |
| Deferred tax liability at September 30, 2018     | \$ (728)                           | \$ (1,776)                 | \$ (10)                   | \$ 26 | \$ (2,488) |

| 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) |

### 15. Construction contracts

Construction contract revenues recorded during the period ended September 30, 2018 are \$64,004 (2017: \$78,569) substantially all of which is from the Systems Engineering Division.

Contracts in progress at the balance sheet date:

|   | 2018       | 2017       |
|---|------------|------------|
| Construction costs incurred plus recognized profits |            |            |
| less recognized losses to-date                      | \$ 222,504 | \$ 254,607 |
| Less: progress billings                             | (212,991)  | (248,017)  |
|   | \$ 9,513   | \$ 6,590   |

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

|   | 2018      | 2017      |
|---|-----------|-----------|
| From customers under construction contracts | \$ 16,869 | \$ 17,311 |
| To customers under construction contracts   | (7,356)   | (10,721)  |
|   | \$ 9,513  | \$ 6,590  |

At September 30, 2018 (2017), advances received from customers for contract work amounted to \$11,209 (\$8,831).

As at September 30, 2018 (2017), the Company had \$1,889 (\$2,224) 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 2018 and 2017 is considered a short-term receivable.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

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### 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:

|            |    |        |
|------------|----|--------|
| 2019       | \$ | 3,352  |
| 2020       |    | 3,418  |
| 2021       |    | 3,468  |
| 2022       |    | 3,387  |
| 2023       |    | 3,095  |
| thereafter |    | 9,949  |
| Total      | \$ | 26,669 |

### 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 acquisitions of Secure Tech and Priority One, 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, 2018                            | Systems<br>Engineering | Business and<br>Technology<br>Services | Corporate | Total      |
|--|------------------------|--|-----------|------------|
| Revenues   | \$ 76,940              | \$ 228,018                             | \$ -      | \$ 304,958 |
| Profit before interest income and income tax                     | 11,211                 | 14,882                                 | (4,051)   | 22,042     |
| Interest income  |                        |  |           | 227        |
| Income tax expense (Note 14)                                     |                        |  |           | (6,192)    |
| Net profit   |                        |  |           | \$ 16,077  |
| <br>   |                        |  |           |            |
| Total assets other than cash and goodwill                        | \$ 38,311              | \$ 72,826                              | \$ 145    | \$ 111,382 |
| Goodwill   | -                      | 18,236                                 | -         | 18,236     |
| Cash   | -                      | -                                      | 21,842    | 21,842     |
| Total assets   | \$ 38,311              | \$ 91,162                              | \$ 21,987 | \$ 151,460 |
| <br>   |                        |  |           |            |
| Equipment, application software and capitalized R&D expenditures | \$ 2,975               | \$ 3,534                               | \$ -      | \$ 6,509   |
| Acquired intangible assets (Note 20)                             | \$ -                   | \$ 2,309                               | \$ -      | \$ 2,309   |
| Acquired goodwill (Note 20)                                      | \$ -                   | \$ 2,853                               | \$ -      | \$ 2,853   |

## Calian Group Ltd. Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
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### 18. Segmented information (continued)

| For the year ended September 30, 2017                            | Systems<br>Engineering | Business and<br>Technology<br>Services | Corporate | Total      |
|--|------------------------|--|-----------|------------|
| Revenue  | \$ 75,634              | \$ 199,789                             | \$ -      | \$ 275,423 |
| Profit before interest income and income tax expense             | 12,381                 | 11,822                                 | (3,315)   | 20,888     |
| Interest income  |                        |  |           | 165        |
| Income tax expense (Note 14)                                     |                        |  |           | (5,663)    |
| Net profit   |                        |  |           | \$ 15,390  |
| <hr/>  |                        |  |           |            |
| 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 |
| <hr/>  |                        |  |           |            |
| Equipment, application software and capitalized R&D expenditures | \$ 1,924               | \$ 450                                 | \$ -      | \$ 2,374   |
| Acquired intangible assets                                       | \$ -                   | \$ 3,896                               | \$ -      | \$ 3,896   |
| Acquired goodwill  | \$ -                   | \$ 3,346                               | \$ -      | \$ 3,346   |

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

|               | 2018 | 2017 |
|---------------|------|------|
| Canada        | 80%  | 80%  |
| United States | 15%  | 14%  |
| Europe        | 5%   | 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, 2018 and 2017 represented 68% (66%) of the Company's total revenues. Both operating segments conduct business with this major customer.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
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### 19. Financial instruments and risk management (continued)

#### 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.

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, 2018, the Company had the following forward foreign exchange contracts:

| Type                   | Notional | Currency | Maturity     | Equivalent Cdn. Dollars | Fair Value September 30, 2018 |
|------------------------|----------|----------|--------------|-------------------------|-------------------------------|
| SELL                   | 116,409  | USD      | October 2018 | \$ 150,691              | \$ 838                        |
| SELL                   | 7,994    | EURO     | October 2018 | 12,007                  | 183                           |
| SELL                   | 18       | CHF      | October 2018 | 24                      | -                             |
| Derivative assets      |          |          |              |                         | \$ 1,021                      |
| BUY                    | 64,946   | USD      | October 2018 | \$ 84,073               | \$ 468                        |
| BUY                    | 1,176    | EURO     | October 2018 | 1,766                   | 27                            |
| BUY                    | 1,457    | CHF      | October 2018 | 1,930                   | 30                            |
| Derivative liabilities |          |          |              |                         | \$ 525                        |



# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
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### 19. Financial instruments and risk management (continued)

At September 30, 2017, the Company had the following forward foreign exchange contracts:

| Type                   | Notional | Currency | Maturity     | Equivalent Cdn. Dollars | Fair Value September 30, 2016 |
|------------------------|----------|----------|--------------|-------------------------|-------------------------------|
| 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                        |

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, 2018 |
|------|--------------------|
| USD  | \$ 6,056           |
| EURO | 931                |
| CHF  | 173                |
|      | \$ 7,160           |

#### 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, 2018 (2017), 66% (62%) 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, 2018 | September 30, 2017 |
|---------------------|--------------------|--------------------|
| Cash                | \$ 21,842          | \$ 28,639          |
| Accounts receivable | 69,096             | 54,884             |
| Derivative assets   | 1,021              | 123                |
|                     | \$ 91,959          | \$ 83,646          |

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
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### 19. Financial instruments and risk management (continued)

The aging of accounts receivable at the reporting date was:

|                        | September 30, 2018 | September 30, 2017 |
|------------------------|--------------------|--------------------|
| Current                | \$ 61,528          | \$ 50,548          |
| Past due (61-120 days) | 4,556              | 3,055              |
| Past due (> 120 days)  | 3,012              | 1,281              |
|                        | <u>\$ 69,096</u>   | <u>\$ 54,884</u>   |

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

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At September 30, 2018, the Company has a cash balance of \$21,842 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, 2018 an amount of \$50 was drawn to issue a letter of credit to meet customer contractual requirements. All of the Company's financial liabilities have contractual maturities of less than 30 days.

#### Fair Value

The fair value of accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity. Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place on September 30, 2018 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).

|                                  | 2018<br>Level 1  | 2018<br>Level 2 |
|----------------------------------|------------------|-----------------|
| Cash                             | \$ 21,842        | \$ -            |
| Derivative financial assets      | -                | 1,021           |
| Derivative financial liabilities | -                | (525)           |
| Total                            | <u>\$ 21,842</u> | <u>\$ 496</u>   |

|                                  | 2017<br>Level 1  | 2017<br>Level 2 |
|----------------------------------|------------------|-----------------|
| Cash                             | \$ 28,639        | \$ -            |
| Derivative financial assets      | -                | 123             |
| Derivative financial liabilities | -                | (360)           |
| Total                            | <u>\$ 28,639</u> | <u>\$ (237)</u> |

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2018 and 2017.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

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### 20. Acquisitions

#### *International Safety Research Inc.*

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.

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 ending April 30, 2018 and 2019, respectively. During the year ended September 30, 2018 the Company paid the full \$1,640 related to the first year earn-out. There are no changes in management’s assessment that ISR can achieve its earn-out target in its second year based on the level of contracts and market share expectations. 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.

On February 22, 2018, Calian acquired the remaining 51% of International Safety Research Europe B.V. (“ISRE”) for \$166. The initial investment in ISRE was accounted for as an equity investment. With 100% ownership of ISRE, it is now fully consolidated.

#### *(D.T.) Secure Technologies International Inc.*

On May 31, 2018, the Company acquired all of the outstanding shares of Secure Tech for a purchase price of up to \$4,188. Of this amount, \$2,200 was paid on the date of closing, \$200 was placed in escrow, \$188 was paid upon settlement of final net equity and \$1,600 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Secure Tech an additional \$800 and \$800 if Secure Tech attains specified levels of earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the years ending May 31, 2019 and 2020, respectively. With the current level of contracts signed by Secure Tech and the ability to grow in its selected market segment, management believes that Secure Tech can achieve its earn-out target in both years. Therefore, the amount of \$1,600 represents the estimated fair value of the Company’s obligation at the acquisition date. Secure Tech is a dedicated partner in IT and Information Security. Secure Tech was acquired to expand the Company’s information technology cyber offering and will be reported as part of the Business and Technology (“BTS”) operating segment.

Acquisition-related costs amounting to \$60 have been excluded from the consideration and have been recognized as an expense in the year ended September 30, 2018, within the general and administration line item in the consolidated statement of net profit.

#### *Priority One Workplace Health Inc. and William J Barker Clinical Psychologist Ltd.*

On July 31, 2018, the Company acquired all of the outstanding shares of Priority One for a purchase price of \$1,128. Of this amount, \$800 was paid on the date of closing, \$50 was placed in escrow, and \$278 was paid upon settlement of net equity. Priority One provides specialized psychological assessment and selection services. Priority One was acquired to expand the Company’s health care footprint and will be reported as part of the Business and Technology (“BTS”) operating segment.

Acquisition-related costs amounting to \$30 have been excluded from the consideration and have been recognized as an expense in the year ended September 30, 2018, within the general and administration line item in the consolidated statement of net profit.

This acquisition is accounted for as a business combination to which IFRS 3 Business Combinations applies.

| Consideration:            | Secure Tech | Priority One |
|---------------------------|-------------|--------------|
| Cash                      | \$ 2,588    | \$ 1,128     |
| Contingent payments       | 1,600       | -            |
| Consideration to allocate | \$ 4,188    | \$ 1,128     |

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

For the years ended September 30, 2018 and 2017  
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### 20. Acquisitions (continued)

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

| <b>Current assets:</b>                   | Secure Tech     | Priority One    |
|--|-----------------|-----------------|
| Cash                                     | \$ 508          | \$ 39           |
| Accounts receivable and tax receivable   | 228             | 370             |
| Prepaid expenses and other               | 1,391           | 20              |
|  | <b>\$ 2,127</b> | <b>\$ 429</b>   |
| <b>Non-current assets:</b>               |                 |                 |
| Equipment                                | \$ 47           | \$ 14           |
| Intangible assets                        | 1,539           | 770             |
|  | <b>\$ 3,713</b> | <b>\$ 1,213</b> |
| <b>Current Liabilities:</b>              |                 |                 |
| Accounts payable and accrued liabilities | \$ 163          | \$ 65           |
| Deferred income                          | 1,623           | -               |
| Deferred tax liability                   | 408             | 204             |
| Deferred tax liability                   | <b>\$ 2,194</b> | <b>\$ 269</b>   |
| Net assets acquired                      | <b>\$ 1,519</b> | <b>\$ 944</b>   |
| <b>Goodwill arising on acquisitions:</b> |                 |                 |
| Total consideration allocated            | \$ 4,188        | \$ 1,128        |
| Net assets acquired                      | 1,519           | 944             |
|  | <b>\$ 2,669</b> | <b>\$ 184</b>   |

None of the goodwill arising on the acquisitions is expected to be deductible for tax purposes.

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

|                             | ISR Europe    | Secure Tech     | Priority One    |
|-----------------------------|---------------|-----------------|-----------------|
| Consideration paid in cash  | \$ 166        | \$ 2,588        | \$ 1,128        |
| Less: cash balance acquired | -             | (508)           | (39)            |
|                             | <b>\$ 166</b> | <b>\$ 2,080</b> | <b>\$ 1,089</b> |

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

Had the business combinations been effected at October 1, 2017, the revenue and net profit of the Company for the Year ended September 30, 2018 would have been higher by \$5,851 and \$863, 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, 2018. Future periods will be impacted by seasonality as Secure Tech activities are impacted by the timing of product deliveries.

# Calian Group Ltd.

## Notes to the Consolidated Financial Statements

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(Canadian dollars in thousands, except per share amounts)

### 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, 2018. For fiscal 2018 (2017), an amount of \$1,127 (\$945) 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, Chief Information Officer, Chief Human Resource Officer and Vice-President, Systems Engineering Division.

|                      | 2018     | 2017     |
|----------------------|----------|----------|
| Short-term benefits  | \$ 2,239 | \$ 2,015 |
| Share-based payments | 443      | 309      |
| Total                | \$ 2,682 | \$ 2,324 |

### 23. Comparative Figures

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

### 24. Subsequent event

On November 1, 2018, the Company acquired Intragrain Technologies Inc. for total cash consideration of \$17,000 of which \$10,000 was paid on the date of closing, \$1,000 was placed in escrow and \$6,000 is payable contingently.

## Corporate Information

### Corporate & Business and Technology Services

770 Palladium Drive  
Ottawa, Ontario, Canada K2V 1C8  
Phone: 613.599.8600  
Fax: 613.592.3664  
Web: www.calian.com

### Systems Engineering (SED)

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

### 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, WRBX Consulting Ltd.  
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 7, 2019 at 10:00 a.m. ET at the TMX Broadcast Centre in Toronto, Ontario, Canada. All shareholders are invited to attend.





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Stability Through Diversity  
Focused on Growth