**CALIAN GROUP LTD.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**As at December 31, 2016 and September 30, 2016**
**(Canadian dollars in thousands)**

| | NOTES | December 31, 2016 | September 30, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash | | $ 19,210 | $ 16,761 |
| Accounts receivable | | 61,038 | 61,032 |
| Work in process | | 13,273 | 17,269 |
| Prepaid expenses | | 2,194 | 1,044 |
| Derivative assets | 8 | 87 | 534 |
| Total current assets | | 95,802 | 96,640 |
| NON-CURRENT ASSETS | | | |
| Equipment | | 5,313 | 5,472 |
| Application software | | 674 | 612 |
| Investment | 10 | 100 | - |
| Acquired intangible assets | | 2,655 | 2,898 |
| Goodwill | | 12,037 | 12,037 |
| Total non-current assets | | 20,779 | 21,019 |
| TOTAL ASSETS | | $ 116,581 | $ 117,659 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | | $ 23,651 | $ 26,671 |
| Unearned contract revenue | | 10,489 | 11,271 |
| Derivative liabilities | 8 | 320 | 484 |
| Total current liabilities | | 34,460 | 38,426 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 1,210 | 912 |
| Total non-current liabilities | | 1,210 | 912 |
| TOTAL LIABILITIES | | 35,670 | 39,338 |
| SHAREHOLDERS' EQUITY | | | |
| Issued capital | 5 | 23,510 | 22,820 |
| Contributed surplus | | 439 | 472 |
| Retained earnings | | 57,186 | 55,906 |
| Accumulated other comprehensive loss | | (224) | (877) |
| TOTAL SHAREHOLDERS' EQUITY | | 80,911 | 78,321 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | $ 116,581 | $ 117,659 |

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

**CALIAN GROUP LTD.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT**
**For the three-month periods ended December 31, 2016 and 2015**
**(Canadian dollars in thousands, except per share data)**

| | NOTES | Three-months ended December 31, 2016 | Three-months ended December 31, 2015 |
|---|---|---|---|
| Revenues | 7 | $ 68,707 | $ 64,533 |
| Cost of revenues | | 56,345 | 52,866 |
| Gross profit | | 12,362 | 11,667 |
| Selling and marketing | | 1,088 | 973 |
| General and administration | | 5,084 | 4,613 |
| Facilities | | 985 | 908 |
| Depreciation | | 349 | 307 |
| Amortization | | 243 | 312 |
| Deemed compensation related to acquisitions | | - | 267 |
| Profit before interest income and income tax expense | | 4,613 | 4,287 |
| Interest income | | 24 | 4 |
| Profit before income tax expense | | 4,637 | 4,291 |
| Income tax expense – current | | 1,230 | 1,312 |
| Income tax expense – deferred | | 28 | (84) |
| Total income tax expense | | 1,258 | 1,228 |
| **NET PROFIT FOR THE PERIOD** | | **$ 3,379** | **$ 3,063** |
| **NET PROFIT PER SHARE:** | | | |
| Basic | 6 | $ 0.45 | $ 0.42 |
| Diluted | 6 | $ 0.45 | $ 0.42 |

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

**CALIAN GROUP LTD.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**For the three-month periods ended December 31, 2016 and 2015**
**(Canadian dollars in thousands)**

| | **NOTES** | **Three-months ended December 31, 2016** | **Three-months ended December 31, 2015** |
|---|---|---|---|
| NET PROFIT FOR THE PERIOD | | $ 3,379 | $ 3,063 |
| Other comprehensive income, net of tax | | | |
| Change in deferred gain or loss on derivatives designated as cash flow hedges, net of tax of $269 (2015 - $121) | | 653 | (333) |
| Other comprehensive income (loss) , net of tax | | 653 | (333) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **$ 4,032** | **$ 2,730** |

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

# CALIAN GROUP LTD.
## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
### For the three-month periods ended December 31, 2016 and 2015
### (Canadian dollars in thousands, except per share data)

| | Notes | Issued capital | Contributed surplus | Retained earnings | Cash flow hedging reserve | Total |
|---|---|---|---|---|---|---|
| Balance October 1, 2016 | | $ 22,820 | $ 472 | $ 55,906 | $ (877) | $ 78,321 |
| Total comprehensive income | | - | - | 3,379 | 653 | 4,032 |
| Dividends ($0.28 per share) | | - | - | (2,099) | - | (2,099) |
| Issue of shares under the employee share option plan | 5 | 690 | (33) | - | - | 657 |
| **Balance December 31, 2016** | | **$ 23,510** | **$ 439** | **$ 57,186** | **$ (224)** | **$ 80,911** |

| | Notes | Issued capital | Contributed surplus | Retained earnings | Cash flow hedging reserve | Total |
|---|---|---|---|---|---|---|
| Balance October 1, 2015 | | $ 20,673 | $ 458 | $ 50,633 | $ (3,049) | $ 68,715 |
| Total comprehensive income | | - | - | 3,063 | (333) | 2,730 |
| Dividends ($0.28 per share) | | - | - | (2,066) | - | (2,066) |
| Share based compensation expense | 5 | - | 26 | - | - | 26 |
| **Balance December 31, 2015** | | **$ 20,673** | **$ 484** | **$ 51,630** | **$ (3,382)** | **$ 69,405** |

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

**CALIAN GROUP LTD.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the three-month periods ended December 31, 2016 and 2015**
**(Canadian dollars in thousands)**

| | NOTES | Three-months ended December 31, 2016 | Three-months ended December 31, 2015 |
|---|---|---|---|
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | | | |
| Net profit for the period | | $ 3,379 | $ 3,063 |
| Items not affecting cash: | | | |
| Interest income | | (24) | (4) |
| Income tax expense | | 1,258 | 1,228 |
| Employee stock purchase plan and option plan compensation expense | | 17 | 43 |
| Depreciation and amortization | | 592 | 619 |
| Deemed compensation related to acquisitions | | - | 267 |
| | | 5,222 | 5,216 |
| Change in non-cash working capital | | | |
| Accounts receivable | | 639 | 1,935 |
| Work in process | | 3,996 | (3,715) |
| Prepaid expenses | | (1,150) | (224) |
| Accounts payable and accrued liabilities | | (2,378) | (7,650) |
| Unearned contract revenue | | (782) | 1,979 |
| | | 5,547 | (2,459) |
| Interest received | | 24 | 4 |
| Income tax paid | | (1,328) | (598) |
| | | 4,243 | (3,053) |
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | | | |
| Issuance of shares | | 657 | - |
| Dividends | | (2,099) | (2,066) |
| | | (1,442) | (2,066) |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | | |
| Investment | 10 | (100) | - |
| Equipment and application software | | (252) | (293) |
| | | (352) | (293) |
| **NET CASH INFLOW (OUTFLOW)** | | **$ 2,449** | **$ (5,412)** |
| CASH, BEGINNING OF PERIOD | | 16,761 | 10,624 |
| CASH, END OF PERIOD | | $ 19,210 | $ 5,212 |

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

**CALIAN GROUP LTD.**
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**For the three-month periods ended December 31, 2016 and 2015**
**(Canadian dollars in thousands, except per share amounts)**
**(Unaudited)**

## 1. BASIS OF PREPARATION

Calian Group Ltd. ("the Company") is incorporated under the Canada Business Corporations Act. The address of its registered office and principal place of business is 340 Legget Drive, Ottawa, Ontario K2K 1Y6. The Company's capabilities include the provision of business and technology services to industry and government in the health, IT services and training domains as well as the design, manufacturing and maintenance of complex systems to the communications and defence sectors.

These unaudited interim condensed consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standard Board ("IASB"). These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with the accounting policies the Company adopted in its annual consolidated financial statements for the year ended September 30, 2016 and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended September 30, 2016. These unaudited interim condensed consolidated financial statements do not include all of the information required in annual financial statements.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on February 1, 2017.

## 2. FUTURE CHANGES IN ACCOUNTING POLICIES

*IFRS 15 Revenue from Contracts with Customers*

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

*IFRS 9 Financial instruments*

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010, was amended in 2013 and finalized in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial instrument is measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of those financial instruments. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

*IFRS 16 Leases*

In January 2016, the IASB released IFRS 16 *Leases* which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

There were no significant changes in estimates or approaches to determining estimates in the periods presented when compared to the estimates or approaches used the annual consolidated financial statements for the year ended September 30, 2016.

## 4. SEASONALITY

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The Company's revenues and earnings have historically been subject to some quarterly seasonality due to the timing of vacation periods and statutory holidays.

## 5. ISSUED CAPITAL

Stock options

The Company had an established stock option plan which expired on February 5, 2016 when the shareholders elected not to renew the plan. Under the plan, eligible directors and employees were granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options were granted but in no circumstances below fair market value of the shares at the date of grant. Effective February 5, 2016, no further grants can be made under the plan. As at December 31, 2016 (2015), 319,000 (495,000) options are outstanding of which 299,000 (397,100) are exercisable. During the period ended December 31, 2016 (2015), no options were issued.

## 6. NET PROFIT PER SHARE

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

| | **Three-months ended December 31** | |
|---|---|---|
| | **2016** | **2015** |
| Weighted average number of shares – basic | 7,494,766 | 7,378,298 |
| Addition to reflect the dilutive effect of employee stock options | 67,808 | - |
| Weighted average number of shares – diluted | 7,562,574 | 7,378,298 |

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 earnings per share. For the three-month period ended December 31, 2016 (2015), NIL (495,000) options were excluded from the above computation. Profit for the period is the measure of profit or loss used to calculate Net profit per share.

## 7. 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 provides business and technology services to industry and government in the health, IT services, training, and engineering domains.

The Company evaluates performance and allocates resources based on earnings before interest income and income taxes. The accounting policies of the segments are the same as those described in Note 2 – Summary of significant accounting policies to the consolidated financial statements for the year ended September 30, 2016.

**7. SEGMENTED INFORMATION (Continued)**

| **Three-months ended December 31, 2016** | Systems Engineering | Business and Technology Services | Corporate | Total |
|---|---|---|---|---|
| Revenues | $ 20,137 | $ 48,570 | $ - | $ 68,707 |
| Profit before interest income and income tax expense | 2,834 | 2,591 | (812) | 4,613 |
| Interest income | | | | 24 |
| Income tax expense | | | | (1,258) |
| Net profit for the period | | | | $ 3,379 |

| | | | | |
|---|---|---|---|---|
| Total assets other than cash and goodwill | $ 39,270 | $ 45,910 | $ 155 | $ 85,335 |
| Goodwill | - | 12,037 | - | 12,037 |
| Cash | - | - | 19,210 | 19,210 |
| Total assets | $ 39,270 | $ 57,947 | $ 19,365 | $ 116,582 |
| Equipment and intangible expenditures | $ 122 | $ 130 | $ - | $ 252 |

| **Three-months ended December 31, 2015** | Systems Engineering | Business and Technology Services | Corporate | Total |
|---|---|---|---|---|
| Revenues | $ 19,680 | $ 44,853 | $ - | $ 64,533 |
| Profit before interest income and income tax expense | 3,081 | 1,844 | (638) | 4,287 |
| Interest income | | | | 4 |
| Income tax expense | | | | (1,228) |
| Net profit for the period | | | | $ 3,063 |

| **As at September 30, 2016** | Systems Engineering | Business and Technology Services | Corporate | Total |
|---|---|---|---|---|
| Total assets other than cash and goodwill | $ 40,245 | $ 48,485 | $ 131 | $ 88,861 |
| Goodwill | - | 12,037 | - | 12,037 |
| Cash | - | - | 16,761 | 16,761 |
| Total assets | $ 40,245 | $ 60,522 | $ 16,892 | $ 117,659 |
| Equipment and intangible expenditures | $ 1,147 | $ 604 | $ - | $ 1,751 |

**8. HEDGING**

*Foreign currency risk related to contracts*

The Company is exposed to foreign currency exchange fluctuations on its cash balance, accounts receivable, accounts payable and accrued liabilities 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 on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge ineffectiveness has historically been insignificant.

The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At December 31, 2016, the Company had the following forward foreign exchange contracts:

| Type | Notional | Currency | Maturity | Equivalent Cdn. Dollars | Fair Value December 31, 2016 |
|---|---|---|---|---|---|
| SELL | 35,175 | USD | January 2017 | $ 47,229 | $ 51 |
| SELL | 10,334 | EURO | January 2017 | 14,642 | 36 |
| Derivative assets | | | | | $ 87 |
| | | | | | |
| BUY | 12,873 | USD | January 2017 | $ 17,285 | $ 19 |
| SELL | 1,000 | USD | September 2017 | 1,343 | 285 |
| BUY | 4,222 | EURO | January 2017 | 5,982 | 16 |
| Derivative liabilities | | | | | $ 320 |

A 10% strengthening of the Canadian dollar against the following currencies at December 31, 2016 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

| | **December 31, 2016** |
|---|---|
| USD | $ 2,844 |
| EURO | 787 |
| | $ 3,631 |

## 9. 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.

## 10. INVESTMENT

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