

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

The following Management Discussion and Analysis is dated December 8, 2017 and should be read in conjunction with the audited consolidated financial statements and notes included in this annual report. The Company's accounting policies are in accordance with IFRS. As in the consolidated financial statements, all dollar amounts in this Management Discussion and Analysis are expressed in thousands of Canadian dollars unless otherwise noted.

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

IFRS and non-GAAP measures:

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

Forward Looking Statements

The Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on certain assumptions made by the Company that may prove to be inaccurate. Forward-looking statements include those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent that they relate to the Company or its management. These forward-looking statements are not historical facts, but reflect the Company's current expectations and assumptions regarding future results or events. Assumptions made include customer demand for the Company's services, the Company's ability to maintain and enhance customer relationships, as well as the Company's ability to bring to market its services. Furthermore, the Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on current expectations as at December 8, 2017 that are subject to change and to risks and uncertainties including those set out in this document under the heading "Risk Factors". Actual results may differ due to facts such as customer demand, customer relationships, new service offerings, delivery schedules, revenue mix, competition, pricing pressure, foreign currency fluctuations and uncertainty in the markets in which the Company conducts business. Additional information identifying risks and uncertainties is contained in the Company's filings with the various provincial securities regulators. Readers should not place undue reliance in the Company's forward-looking statements.

Business Overview and Strategic Direction

Calian is a diverse company. For over 35 years, the company has evolved into an organization that has consistently demonstrated the ability to manage numerous profitable service offerings while earning a high level of customer satisfaction. Our DNA allows us to manage this complexity, and to successfully deliver in domestic and global markets.

Calian's primary services offerings are:

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

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

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

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

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

	SED	BTS
Markets Served	Engineering and Manufacturing	Health, Training, Engineering and IT Professional Services
Contracting Model	Mostly Fixed Price	Mostly Cost Plus
Customer Base	Domestic & International	Domestic and International
Quality Initiatives	ISO	Excellence Canada / ISO
Risk Profile	High Risk	Low to Medium Risk
Workforce	300	2700

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

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

Calian's System Engineering Division

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

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

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

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

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

In 2017, SED continued to grow in profitability in spite of a reduction in revenues. The divisional revenues decreased by 8% over the previous year as a result of significant non-labor throughput included in the 2016 revenues. SED signed \$70 million in new contracts, ending the year with a backlog of \$71 million of which \$53 million is expected to be earned in fiscal 2018. Profitability increased by 7% in spite of lower revenues. The differing margins on the mix of work between projects, products and manufacturing factored into the higher profitability as well as excellent project execution. SED maintained its record for on-time delivery of complex technical solutions keeping customer satisfaction levels high. The successful projects completed this year will lay the ground work for repeat business in the future. The following provides a summary of 2017 results across the division's primary service lines.

CALIAN System Engineering Services

The majority of the systems engineering work during the year came from providing RF ground systems for several customers including Hughes, Inmarsat, Cobham, McDonald Detweiller and Associates and Lockheed Martin. The applications ranged from communication systems to earth observation and 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 continued supporting Canadian earth observation missions with our current team size. SED continues to host and maintain the RF systems for Ligado, Ciel and Hughes.

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

CALIAN Contract Manufacturing Services

Business continued at a steady pace for SED's commercial and defense manufacturing line as we continued to produce modules and cable assemblies for General Dynamics Land Systems Canada, KIDDE and DRS. SED's investment in the new surface mount technology line and continuous improvement of manufacturing processes continues to show through increased capacity and efficiency. The situation for defense sales remains volatile due to constraints on Canadian and US military spending. However, there was an increase in defense related orders in the fourth quarter. We continue to counter the volatility in the defense industry by growing our commercial manufacturing business through customers such as IntraGrain, whose products that we manufacture, continue to grow in popularity.

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

Calian's Business and Technology Services Division

Calian's BTS division, with our principal office in Ottawa, Ontario, is a leading professional services organization, providing services and solutions in Healthcare, Training and Engineering, and IT Professional Services. BTS is a continuous improvement organization, a founding partner of Excellence Canada, and is accredited to Excellence Canada's Excellence, Innovation and Wellness Gold Level award.

Contracts in Business and Technology Services are typically on a per-diem basis, and can range from short-term assignments to multi-year outsourcing contracts. Historically our core competencies, common across all service lines, are recruiting and project, contract and workforce management; however the division continues to evolve its services to incorporate technology in order to offer full solutions to our customers. Each of these competencies is aligned to each service line in the areas of:

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

The vast majority of revenues are derived from Canadian sources in the public and private sectors. With a large presence in the Department of National Defence, we have been successful in our diversification strategy, and have developed a well-established private sector customer base across oil and gas, nuclear and numerous others. For example, our health service line includes the administration on behalf of Loblaw of over 150 medical clinics across Canada, as well as the provision of health care services to customers through our own managed clinics.

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

Revenue growth from new opportunities will be largely dependent on the issuance of the initial proposal request and the ultimate timing of the related contract award. The Health Services contract was renewed in 2017 for up to 12 years and with most of the training and engineering service line contracts being renewed in 2016, the division has visibility into at least \$171 million of contract value to be generated in fiscal 2018. Calian's historical high renewal win rate combined with its win strategy provides management confidence in its ability to successfully remain the customer's preferred choice.

While federal government spending priorities fluctuate, profitable business does exist for companies who have the financial strength to accommodate slowdowns in government spending, and the discipline to adjust costs to declines in revenue. BTS' strong back office capabilities, centered on an SAP based management information system along with our emphasis on continuous improvement and business development, ensures that it is able to identify and win new business opportunities and accommodate that new business in a scalable fashion.

Overall, the business environment for the BTS division is stable. The division made progress in 2017 in many areas in all of our service lines. We continue to be very successful in managing existing contracts, and we have maintained high quality and client satisfaction levels. As a result, the division renewed all of its major contracts that were up for renewal in 2017, representing a 100% win rate of the contracts up for re-compete.

At a consolidated level, with our focus on the evolution of services and diversification of our customer base, contract wins with new customers have allowed us to penetrate certain market segments previously not available to Calian. The realization of organic growth across all service lines combined with seed contract wins in new markets areas allowed the division to report revenue growth of 4%. In 2017, we also signed \$973 million in contracts and ended the year with a backlog of \$1,190 million of which \$171 million is expected to be earned during fiscal 2018.

The following provides a summary of 2017 results across the division's primary service lines.

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CALIAN Health Services

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

CALIAN ITPS services

Our IT Professional Services (ITPS) line also made some significant strides with a goal to evolve service offerings. With the acquisition of DWP Solutions in 2014, a security and cyber services company, and our recent hire of a Cyber solutions practice lead, ITPS continues to leverage this experience and background to expand our capability in this high-demand market. We have also expanded our cyber security product resale for customers including relationships with Tripwire, Fortinet and Cylance. In the ICT sector, we continue to build upon our subject matter expertise through the delivery of a worldwide Engineering Support Service Desk. The federal government's recent spending patterns have also helped the ITPS service line increase its presence this year, however, we continue to experience a very competitive environment and increased pressure on margins within the Federal Government. To offset this trend, ITPS continues to grow its customer base outside the federal government to target different market areas such as. Focus on the evolution of IT services to project and solution based business remains a key priority.

CALIAN Training and Engineering Services

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

In summary, 2017 was a year of continued growth for Calian with significant improvements in EBITDA and earnings. As importantly, we made tangible progress in the execution of our long term strategy. The company enters 2018 with a strong backlog of work and a reasonable expectation of future prospects. In the coming year, we are expecting stability on our existing contracts, and positive results from investments made in research and development and sales resources. We continue to increase our investment in the marketing function with a focus on proactive social media engagement and targeted marketing campaigns in support of all service lines.

Calian is a diverse company which has consistently demonstrated the ability to manage this diversity and provide excellent returns for our shareholders. Under the framework of a common strategy, each segment of the company has the ability, capacity and management focus to control and manage their respective business segment. We are an innovative company, proudly Canadian, and are focused on sustaining our positive momentum in 2018.

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Backlog

The Company's backlog at September 30, 2017 was \$1,261 million with terms extending to fiscal 2030. This compares to \$488 million reported at September 30, 2016. Contracted Backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas Option Renewals represent customers' options to further extend existing contracts under similar terms and conditions.

During 2017 the following contracts were the major contributors to the Company's backlog. These contracts are further described in the business overview section of this Management Discussion and Analysis.

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

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

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout

the contract life and as such the amount actually realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for 2018, 2019, and beyond based on management's current visibility into customers' existing requirements.

Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately \$113 million. The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

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

Selected Annual Information

(dollars in millions, except per share data)

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

⁽¹⁾ See reconciliation regarding non-GAAP measures below

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2017 Results of Operations

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

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

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

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

BTS revenues for 2017 were up 4% compared to 2016 revenues. Revenues from the division's traditional business lines showed a steady state with the prior year, with increases in the newly acquired ISR contributing to growth in revenues. The Company experiences continued recovery with federal government spending supported with incremental wins with new customers and within new markets as the division continues to focus on diversification of its customer base.

The Company derives a significant portion of its revenues from the Government of Canada. During 2017 (2016), 66% (61%) of revenues were related to contracts with various departments and agencies of the Government of Canada with approximately 60% (53%) directly with DND. Both of the Company's divisions conduct business with the Government of Canada.

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

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

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

The consolidated gross margin for 2017 reflects mix improvements and solid execution on contracts.

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

Gross margin in BTS reflects improved revenue mix from increased activity with mainstay customers and solid execution across its portfolios. While competition on new work continues to be fierce, the division continues to evolve its service offering with a goal to increase differentiation and gross margins realized in the longer term.

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

Selling and marketing	2017	2016	% change
Selling and marketing	\$ 4,396	\$ 4,124	6.6%
As a percentage of consolidated revenues	1.6%	1.5%	

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

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

General and administration costs increased over the prior year as a result of investing in service line evolution capabilities in addition to recognizing additional variable compensation stemming from increased profitability and performance. Management will continue to challenge discretionary spending; however, prudent investments may be required to support the evolution of the Company's service lines.

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

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

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

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

⁽¹⁾ See reconciliation regarding non-GAAP measures below

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

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

Deemed compensation related to acquisitions

The deemed compensation results from a portion of the purchase price related to the Amtek and DWP acquisitions being deemed as deferred compensation payable to certain shareholders under IFRS and therefore excluded from the total consideration of the purchase. The remaining portion of the deemed compensation related to these acquisitions was fully expensed in 2016.

Income tax expense

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

Net profit

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

⁽¹⁾ See reconciliation regarding non-GAAP measures below

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

Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of the Company's financial reports with enhanced understanding of the Company's results and related trends and increases transparency and clarity into the core results of the business. EBITDA, Adjusted net profit and adjusted net profit per share exclude items that do not reflect, in our opinion, the Company's core performance and helps users of our MD&A to better analyze our results, enabling comparability of our results from one period to another.

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

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

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

Selected Quarterly Financial Data

(dollars in millions, except per share data)

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

⁽¹⁾ See reconciliation regarding non-GAAP measures above

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

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

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Liquidity and Capital Resources

Calian's net cash position was \$28,639 at September 30, 2017, compared to \$16,761 at September 30, 2016.

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

Operating activities

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

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

Financing activities

Dividend

As a result of continuing earnings and a strong cash position, the Company maintained its dividend in 2017. The Company paid quarterly dividends totaling \$8,520 or \$1.12 cents per share compared to 2016 when the Company paid \$8,320 in dividends or \$1.12 cents per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

Shares

At September 30, 2017 there were 240,600 options outstanding at an average price of \$20.10 expiring at various dates between December 4, 2017 and May 17, 2022.

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

Investing activities

Equipment expenditures

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

Acquisitions

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

Investments

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

Capital resources

At September 30, 2017 the Company had a short-term credit facility of \$40,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. An amount of \$75 was drawn to issue a letter of credit to meet customer contractual requirements.

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

Contractual obligations

Payments due:	Total	<1 year	1-3 years	4-5 years	>5 years
Operating leases	\$ 28,704	\$ 3,106	\$ 6,345	\$ 6,400	\$ 12,853
Purchase obligations	18,519	17,289	1,227	3	-
Total contractual obligations	\$ 47,223	\$ 20,395	\$ 7,572	\$ 6,403	\$ 12,853

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

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements at September 30, 2017.

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

Operating leases

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

Related party transactions

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

Critical Accounting Estimates

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

Revenue recognition

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

Contingencies

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

Income taxes

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

Allowance for doubtful accounts

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

Goodwill

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

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

Adoption of New Accounting Rules and Impact on Financial Results

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

Impact of Accounting Pronouncements Not Yet Implemented

There were no new accounting pronouncements issued in 2017 which would affect the Company's results of operations or financial conditions.

Management's Conclusion on the Effectiveness of Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's disclosure controls and procedures as of September 30, 2017, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them and that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

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

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's internal control over financial reporting as of September 30, 2017, have concluded that the Company's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with IFRS.

During the most recent interim quarter ending September 30, 2017, there have been no changes in the design of the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Risk Factors

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

Competition for contracts within key markets

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

Concentration of Revenues

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

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

The availability of qualified professionals

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

Performance on fixed-price contracts

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

Non-performance of a key supplier or contractor

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

Rapidly changing technologies and customer demands

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

Customer's ability to retain market share

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

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

Government contracts

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

Backlog

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. At September 30, 2017 the Company's backlog included \$113 million of contract value in excess of the current estimated utilization levels. Should additional customer requirements for the Company's services under these contracts not materialize, this excess will not be realized.

Credit risk concentration with respect to accounts receivable

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

Insufficient or inappropriate mix of work for fixed labour resources

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

Operational risk

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

Foreign currency risk

The Company operates internationally with approximately 20% of its business derived from non-Canadian sources. A substantial portion of this international business is denominated in major foreign currencies and therefore the Company's results from operations are affected by exchange rate fluctuations of these currencies relative to the Canadian dollar. The Company uses financial instruments, principally in the form of forward exchange contracts, in its management of foreign currency exposures. At September 30, 2017, the Company had various forward exchange contracts, which are explained in Note 19 to the Company's consolidated financial statements for the year ended September 30, 2017. The strengthening of the Canadian dollar relative to other foreign currencies may negatively impact the Company's competitiveness and increase pressure on margins for new work.

Sufficiency of insurance

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

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

Medical malpractice

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

Political and trade barriers

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

Consolidation of customer base

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

Reliance on information systems

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

Long term Outlook

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

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

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

The SED Division has been working within a sustainable satellite sector and is expecting opportunities to continue to arise as systems adopting the latest technologies will be required by customers wishing to maintain and improve their service offerings and react to an increasing demand for bandwidth. SED continues to invest in communications products, software development and manufacturing equipment to strengthen its competitive position. However in the short-term, activity levels in custom manufacturing will continue to be directly dependent upon SED's customers' requirements and continuing volatility in orders is anticipated as both government and commercial customers continue to re-examine their traditional spending patterns. The recent delays, deferrals and cancellations of DND capital

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

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

Additional Information

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

Dated: December 8, 2017