CALIAN

NEWS RELEASE

IMMEDIATE RELEASE

CALIAN REPORTS FIRST QUARTER RESULTS

(All amounts in this release are in Canadian Dollars)

Ottawa, Ontario – February 7, 2018: Calian Group Ltd. (TSX.CGY) today released unaudited results for the first quarter ended December 31, 2017.

The Company reported revenues for the quarter of $75.8 million, a 10% increase from the $68.7 million reported in the same quarter of the previous year.

EBITDA(1) for the first quarter was $6.4 million, a 23% increase compared to $5.2 million in the same quarter of the previous year.

Net profit for the first quarter was $4.1 million or $0.53 per share basic and $0.52 per share diluted, a 20% increase compared to $3.4 million or $0.45 per share basic and diluted in the same quarter of the previous year.

See caution regarding non-GAAP measures at the end of this press release

"The results for this quarter continue to show the benefit of the combined strength of our 5 service offerings", stated Jacqueline Gauthier, CFO. "The increase in revenues this quarter from both organic and acquisitive means allowed the Company to report record quarterly revenues. In addition, with significant improvement in gross margin percentages the Company was able to increase its EBITDA levels at a higher pace than its revenue growth, while at the same time continue investments in its business development and delivery capabilities; therefore providing for a solid return to shareholders."

"I am extremely proud of the team's efforts in the quarter delivering a new high for our Q1 results", stated Kevin Ford, CEO. "This quarter's results mirror our strategy of both organic and acquisitive growth and all service lines are positively contributing to these results", stated Ford.

“We are also very pleased with the contribution of International Safety Research Inc. (ISR) acquired in May 2017 which represents 4% of our revenue growth this quarter. ISR is a longstanding and trusted partner in the nuclear industry. At this early stage, ISR’s performance has met our expectations and integration efforts continue to go well. The complementary markets of ISR present an excellent opportunity to bring our collective capabilities to bear and I am confident that our combined team will be successful in future pursuits.” continued Ford.

"I am also pleased to announce changes to our executive ranks. First, Jerry Johnson, currently the BTS VP of Training and Engineering Services, will be taking on the role of Chief Information Officer at Calian Group. Increasingly, technology is becoming a key enabler to our growth objectives and Jerry is uniquely positioned to lead Calian Group in the delivery of our technology enablers. Jerry is transitioning into the new role while we conduct a search for his replacement. Also, at the heart of our growth objectives are clearly our employees. I have asked Lynn Stevens, currently the BTS division VP of Human Resources, to join our corporate ranks as the companies Chief Human Resources Officer (CHRO). Lynn will be working with both divisions to ensure that critical activities in the recruitment of the best talent, continued evolution of our HR function and leveraging best practices in the development of our employees are being executed while providing a focal point for integration of employees from future acquisitions. Lynn's current role at BTS will not be replaced. I view these appointments as critical as we continue to align our internal capacity to the pace our of growth agenda".

"With over 65 consecutive profitable quarters, positive cash flows, a strong balance sheet and enviable backlog, our financial position is very strong which provides the facility to continue to invest in innovation. While we are confident in our organic growth opportunities, we continue to search proactively for M&A opportunities that support our growth objectives", continued Ford.

Management continues to focus on its key strategic initiatives. Traditional markets in which Calian operates are stable and management expects organic revenue and earnings growth in most or all of its service lines through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2018 to be in the range of $290 million to $310 million, net profit in the range of $1.90 to $2.20 per share.

Caution regarding non-GAAP measures:

This press release is based on reported earnings in accordance with IFRS. Reference to generally accepted accounting principles (GAAP) means IFRS, unless indicated otherwise. This press release is also based on non-GAAP financial measures including EBITDA, adjusted net profit and adjusted net profit per share. These non-GAAP measures are mainly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by IFRS; therefore, others using these terms may calculate them differently. Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our financial reports with enhanced understanding of our results and related trends and increases transparency and clarity into the core results of our business. Refer to the MD&A for definitions of these metrics and reconciliations to the most comparable IFRS measures.

About Calian

Calian employs over 2,900 people with offices and projects that span Canada, U.S. and international markets. The company's capabilities are diverse with services delivered through two divisions. The Business and Technology Services (BTS) Division is headquartered in Ottawa and includes the provision of business and technology services and solutions to industry, public and government in the health, training, engineering and IT services domains. Calian’s Systems Engineering Division (SED) located in Saskatoon plans, designs and implements complex communication systems for many of the world’s space agencies and leading satellite manufacturers and operators. SED also provides contract manufacturing services for both private sector and military customers in North America.

For further information, please visit our website at www.calian.com, or contact us at ir@calian.com

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DISCLAIMER

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Calian to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; and the impact of consolidations in the business services industry. Additional risks and uncertainties affecting Calian can be found in Management’s Discussion and Analysis of Results of Operations and its Annual Information Form for the fiscal year ended September 30, 2017 on SEDAR at www.sedar.com. If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein and our current objectives or strategies may change. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

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CALIAN GROUP LTD.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2017 and September 30, 2017
(Canadian dollars in thousands)

	NOTES	December 31, 2017	September 30, 2017
ASSETS			
CURRENT ASSETS			
Cash		$ 19,267	$ 28,639
Accounts receivable		60,908	54,884
Work in process		22,153	19,490
Prepaid expenses		1,990	1,650
Derivative assets	8	178	123
Total current assets		104,496	104,786
NON-CURRENT ASSETS			
Equipment		6,989	6,503
Application software		714	766
Investments and loan receivable		530	530
Acquired intangible assets		5,287	5,586
Goodwill		15,383	15,383
Total non-current assets		28,903	28,768
TOTAL ASSETS		$ 133,399	$ 133,554
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 28,176	$ 32,584
Unearned contract revenue		10,424	8,831
Derivative liabilities	8	54	360
Total current liabilities		38,654	41,775
NON-CURRENT LIABILITIES			
Deferred tax liabilities		2,201	2,292
Total non-current liabilities		2,201	2,292
TOTAL LIABILITIES		40,855	44,067
SHAREHOLDERS' EQUITY			
Issued capital	5	27,434	26,240
Contributed surplus		666	541
Retained earnings		64,695	62,776
Accumulated other comprehensive loss		(251)	(70)
TOTAL SHAREHOLDERS' EQUITY		92,544	89,487
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 133,399	$ 133,554

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

	NOTES	Three-months ended December 31, 2017	Three-months ended December 31, 2016
Revenues	7	$ 75,749	$ 68,707
Cost of revenues		61,034	56,345
Gross profit		14,715	12,362
Selling and marketing		1,242	1,088
General and administration		5,929	5,084
Facilities		1,137	985
Depreciation		412	349
Amortization		299	243
Profit before interest income and income tax expense		5,696	4,613
Interest income		47	24
Profit before income tax expense		5,743	4,637
Income tax expense – current		1,696	1,230
Income tax expense – deferred		(24)	28
Total income tax expense		1,672	1,258
NET PROFIT FOR THE PERIOD		**$ 4,071**	**$ 3,379**
NET PROFIT PER SHARE:			
Basic	6	$ 0.53	$ 0.45
Diluted	6	$ 0.52	$ 0.45

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, 2017 and 2016
(Canadian dollars in thousands)

	NOTES	Three-months ended December 31, 2017	Three-months ended December 31, 2016
NET PROFIT FOR THE PERIOD		$ 4,071	$ 3,379
Other comprehensive income, net of tax			
Change in deferred gain or loss on derivatives designated as cash flow hedges, net of tax of $66 (2016 - $269)		(181)	653
Other comprehensive income (loss) , net of tax		(181)	653
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**$ 3,890**	**$ 4,032**

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

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2017		$ 26,240	$ 541	$ 62,776	$ (70)	$ 89,487
Total comprehensive income		-	-	4,071	(181)	3,890
Dividends ($0.28 per share)		-	-	(2,152)	-	(2,152)
Issue of shares under the employee share option plan	5	1,194	(159)	-	-	1,035
Share based compensation expense	5	-	284	-	-	284
Balance December 31, 2017		**$ 27,434**	**$ 666**	**$ 64,695**	**$ (251)**	**$ 92,544**

	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**

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, 2017 and 2016
(Canadian dollars in thousands)

	NOTES	Three-months ended December 31, 2017	Three-months ended December 31, 2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net profit for the period		$ 4,071	$ 3,379
Items not affecting cash:			
Interest income		(47)	(24)
Income tax expense		1,672	1,258
Employee share plans compensation expense		304	17
Depreciation and amortization		711	592
		6,711	5,222
Change in non-cash working capital			
Accounts receivable		(5,894)	639
Work in process		(2,663)	3,996
Prepaid expenses		(340)	(1,150)
Accounts payable and accrued liabilities		(5,279)	(2,378)
Unearned contract revenue		1,593	(782)
		(5,872)	5,547
Interest received		70	24
Income tax paid		(1,607)	(1,328)
		(7,409)	4,243
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Issuance of shares	5	1,035	657
Dividends		(2,152)	(2,099)
		(1,117)	(1,442)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Investment		-	(100)
Equipment and application software		(846)	(252)
		(846)	(352)
NET CASH INFLOW (OUTFLOW)		**$ (9,372)**	**$ 2,449**
CASH, BEGINNING OF PERIOD		28,639	16,761
CASH, END OF PERIOD		$ 19,267	$ 19,210

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, 2017 and 2016
(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, 2017 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, 2017. 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 7, 2018.

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. 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 compared the current standard to the new standard and identified the key differences and is currently completing its assessment of how these differences could potentially impact the Company. The implementation plan also includes a review of changes to internal controls and processes to manage the new standard on a go forward basis as contracts are signed, and revenue is recognized. As well, the Company has not yet determined which transition method it will apply or whether it will use the optional exemptions or practical expedients available under the new standard. Management of the Company reports its findings and progress to the Audit Committee on a frequent basis. The Company will provide further updates as it progresses in its assessment.

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"). 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 with the Company's annual periods beginning on October 1, 2018. Assessment of the impact is currently underway by the Company but at this time, the impact is not yet known.

IFRS 16 Leases

In January 2016, the IASB released IFRS 16 *Leases* which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. IFRS 16 is effective with the Company's annual periods beginning on October 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, 2017.

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 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. As at December 31, 2017 (2016), 279,200 (319,000) options were outstanding of which 207,200 (299,000) are exercisable. During the period ended December 31, 2017 (2016), 90,600 (Nil) options were issued.

The weighted average fair value of options granted during the three month period ending December 31, 2017 was $4.53 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 issuances 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 between October 1,2017 and December 31, 2017:

Grant date share price	$ 34.58
Exercise price	$ 34.58
Expected price volatility	24.0%
Expected option life	4.25 yrs
Expected dividend yield	4.07%
Risk-free interest rate	1.62%
Forfeiture rate	0%

Restricted Stock Units

The Company has established a restricted stock unit ("RSU") plan. Under the plan, eligible employees are granted the right to shares of common stock as remuneration for services rendered to the Company. RSU's are granted by the Board of Directors and at the date of the grant, the market value is used to determine the fair value of the units. The following table depicts the activity for the RSU's during the quarter ended December 31, 2017 (2016).

	Three-months ended December 31	
	2017	**2016**
Beginning balance	11,345	-
Vested	(3,741)	-
Cancelled	(150)	-
Issued	9,852	-
Closing balance	17,306	-

6. NET PROFIT PER SHARE

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

	Three-months ended December 31	
	2017	**2016**
Weighted average number of shares – basic	7,675,384	7,494,766
Addition to reflect the dilutive effect of employee stock options and RSU's	86,564	67,808
Weighted average number of shares – diluted	7,761,948	7,562,574

Options and RSU's 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, 2017 (2016), 90,600 (Nil) options and 9,852 (Nil) RSU's were excluded from the above computation.

Net 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 and solutions 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, 2017.

Three-months ended December 31, 2017	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	$ 21,318	$ 54,431	$ -	$ 75,749
Profit before interest income and income tax expense	2,891	3,841	(1,036)	5,696
Interest income				47
Income tax expense				(1,672)
Net profit for the period				$ 4,071
Equipment and intangible expenditures	$ 846	$ -	$ -	$ 846
Total assets other than cash and goodwill	$ 42,751	$ 55,858	$ 140	$ 98,749
Goodwill	-	15,383	-	15,383
Cash	-	-	19,267	19,267
Total assets	$ 42,751	$ 71,241	$ 19,407	$ 133,399

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
Equipment and intangible expenditures	$ 122	$ 130	$ -	$ 252

As at September 30, 2017	Systems Engineering	Business and Technology Services	Corporate	Total
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

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

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value December 31, 2017
SELL	34,496	USD	January 2018	$ 43,275	$ 128
SELL	10,241	EURO	January 2018	15,415	49
SELL	51	GBP	January 2018	87	1
Derivative assets					$ 178

8. HEDGING (Continued)

BUY	12,183	USD	January 2018	$ 15,284	$ 45
BUY	1,751	EURO	January 2018	2,636	8
BUY	51	GBP	January 2018	87	1
Derivative liabilities					$ 54

A 10% strengthening of the Canadian dollar against the following currencies at December 31, 2017 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

	December 31, 2017
USD	$ 2,545
EURO	1,162
	$ 3,707

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. ACQUISITION

International Safety Research Inc. ("ISR")

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

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. With the current level of contracts signed by ISR and the ability to grow in its selected market segment, management believes that ISR can achieve its earn-out target in both years. Therefore, the amount of $3,074 represents the estimated fair value of the Company's obligation at the acquisition date. ISR specializes in nuclear safety and emergency preparedness and response nationally and internationally. ISR was acquired to expand the Company's emergency preparedness service offering and will be reported as part of the Business and Technology Services operating segment.

Management Discussion and Analysis – December 31, 2017:

(Canadian dollars in thousands, except per share data)

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 we fulfill our 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.

RESULTS OF OPERATIONS

Revenues:

For the first quarter of 2018, revenues were $75,749 compared to $68,707 reported for the same period in 2017 representing a 10% increase from the prior year.

Systems Engineering (SED) revenues were $21,318 in the quarter representing a 6% increase when compared to the $20,137 recorded for the same period in the previous year with work continuing at a steady state in all areas of the division. Several programs are in full swing including RF systems projects, product developments as well as defence and commercial contract manufacturing. With the increase in projects requiring expert labour resources, SED continues to increase its workforce especially in the area of software developers which will ultimately help ensure sustainable growth in areas of higher margin potential.

Business and Technology Services (BTS) revenues were $54,431 in the quarter representing a 12% increase when compared to the $48,570 recorded for the same period in the previous year. This revenue increase was achieved through a combination of the inclusion of the ISR acquisition and organic growth, specifically in the health service line this quarter. Demand in most of the division's mainstay contracts continues to be strong and we are achieving success in our customer diversification efforts.

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 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.

Gross margin

Gross margin was 19.4% for the first quarter of 2018 compared to the 18.0% recorded for the same period in the previous year.

Gross margin in Systems Engineering was 23.8% in the first quarter of 2018 compared to the 23.4% recorded for the same period in the previous year. The similar margin for the quarter in comparison to the previous year is indicative of the similar mix of projects in both periods. The results for this quarter reflect the continued solid performance of all of SED's business areas. 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 Business and Technology Services was 17.7% in the first quarter of 2018 compared to the 15.8% recorded for the same period in the previous year. The inclusion of the ISR acquisition accounts for approximately 1.3% of the 1.9% improvement with the remaining uplift, the result of solid execution on existing contracts. The division continues to evolve its service offering with a goal to increase gross margins realized in the longer term.

Because of the significant difference in gross margin between each of the two divisions, the overall gross margin of the Company is dependent on the relative level of revenue generated from each division. Management will continue to focus on operational execution and diligent negotiation of supplier costs in order to maximize margins. However, 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.

Operating expenses:

For the period ended December 31, 2017, selling and marketing, general and administration and facilities totalled $8,308 or 11.0% of revenues compared to $7,157 or 10.5% of revenues reported in 2017. Operating costs increased over the prior year as a result of continued focus on selling and marketing efforts and service line evolution capabilities. Management will continue to challenge discretionary spending; however, continued prudent investments are required to support the evolution of the Company's service lines.

EBITDA(1):

EBITDA(1) for the first quarter was $6,407 compared to $5,205 in the same quarter of the previous year.

Depreciation:

For the period ended December 31, 2017, depreciation was $412 which is slightly higher than the $349 recorded in fiscal 2017.

Amortization of intangibles:

For the period ended December 31, 2017, amortization of intangibles increased slightly to $299 compared to $243 in fiscal 2017.

Income taxes:

The provision for income taxes was $1,672 or 29.1% of earnings before tax compared to $1,258 in 2017 or 27.1% of earnings before tax. 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:

As a result of the foregoing, in the first quarter of 2018 the Company recorded net profit of $4,071 or $0.53 per share basic and $0.52 per share diluted, compared to $3,379 or $0.45 per share basic and diluted in the same quarter of the prior year.

(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 interim 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 EBITDA	First Quarter 2018	First Quarter 2017
Profit before interest income and income tax expense	$ 5,696	$ 4,613
Depreciation	412	349
Amortization	299	243
EBITDA	$ 6,407	$ 5,205

BACKLOG

The Company's backlog at December 31, 2017 was $1,181 million with terms extended 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.

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 $96 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	$ 163	$ 121	$ 162	$ 446	$ 63	$ 509
Option Renewals	7	29	603	639	33	672
TOTAL	$ 170	$ 150	$ 765	$ 1,085	$ 96	$ 1,181
Business and Technology Services	$ 133	$ 136	$ 758	$ 1,027	$ 96	$ 1,123
Systems Engineering	37	14	7	58	-	58
TOTAL	$ 170	$ 150	$ 765	$ 1,085	$ 96	$ 1,181

FINANCIAL CONDITION AND CASHFLOWS

Operating activities:

Cash outflows from operating activities for the period ended December 31, 2017 were $7,409 compared to cash inflows of $4,243 in 2017. Cash flows have been negatively impacted by the increase in accounts receivable, work in process and accounts payable commensurate with the status of 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 December 31, 2017, the Company's total unearned revenue amounted to $10,424 compared to $8,831 at September 30, 2017.

Financing activities:

During the periods ended December 31, 2017 (2016), the Company paid quarterly dividends of $0.28 ($0.28) per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

Investing activities:

During the period, the Company invested $846 in capital assets compared to $252 in the prior period. The increase is attributable to additional manufacturing equipment purchased at SED.

Capital resources:

At December 31, 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 used to issue a letter of credit to meet customer contractual requirements. Management believes that Calian has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

ADOPTION OF NEW ACCOUNTING RULES AND IMPACT ON FINANCIAL RESULTS

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

SELECTED QUARTERLY FINANCIAL DATA

	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16
REVENUES	$ 75,549	$ 72,321	$ 67,332	$ 67,063	$ 68,707	$ 68,758	$ 73,196	$ 68,100
EBITDA(1)	$ 6,407	$ 6,572	$ 5,504	$ 6,190	$ 5,205	$ 5,318	$ 6,114	$ 5,408
Net profit	$ 4,071	$ 4,327	$ 3,498	$ 4,186	$ 3,379	$ 3,380	$ 3,888	$ 3,262
Adjusted net profit(1)	$ 4,071	$ 4,327	$ 3,498	$ 4,186	$ 3,379	$ 3,380	$ 3,996	$ 3,529
Net profit per share								
Basic	$ 0.53	$ 0.57	$ 0.46	$ 0.55	$ 0.45	$ 0.45	$ 0.52	$ 0.44
Diluted	$ 0.52	$ 0.56	$ 0.45	$ 0.55	$ 0.45	$ 0.45	$ 0.52	$ 0.44
Adjusted net profit per share(1)								
Basic	$ 0.53	$ 0.57	$ 0.46	$ 0.55	$ 0.45	$ 0.45	$ 0.54	$ 0.48
Diluted	$ 0.52	$ 0.56	$ 0.45	$ 0.55	$ 0.45	$ 0.45	$ 0.54	$ 0.48

SEASONALITY

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 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.

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 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.

GUIDANCE

Management continues to focus on its key strategic initiatives. Traditional markets in which Calian operates are stable and management expects organic revenue and earnings growth in most or all of its service lines through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2018 to be in the range of $290 million to $310 million, net profit in the range of $1.90 to $2.20 per share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim quarter ended December 31, 2017, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

FORWARD-LOOKING STATEMENT

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Calian to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; and the impact of consolidations in the business services industry. Additional risks and uncertainties affecting Calian can be found in Management's Discussion and Analysis of Results of Operations and its Annual Information Form for the fiscal year ended September 30, 2017 on SEDAR at www.sedar.com. If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein and our current objectives or strategies may change. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

Date: February 7, 2018