2014

Calian Technologies Ltd.
Annual Report

CALIAN

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Message from the Chairman

Kenneth Loeb - Chairman

2014 was another successful year for Calian. While the financial results reflect the intense competition in the current government marketplace, our management team has not wavered from the basic business fundamentals that have created the customer loyalty that we enjoy today. Through prudent management and the taking of controlled risks we were able to once again provide a respectable return on capital employed and maintain our dividends at an attractive yield level. While we operate within a challenged business environment, we are committed to the evolution of our business. Be it through corporate acquisitions to round out our service lines, or through the bolstering of our management bench strength in the health sector, we are prepared to invest for the long term benefit of our shareholders.

As time passes, management teams and boards evolve and the recent announcement of Ray Basler's retirement is yet another milestone in Calian's corporate journey. Ray has led the company through some very challenging times and the board is extremely grateful for his unwavering commitment to the betterment of Calian. I am also pleased that he has indicated his willingness to remain on the board post-retirement. On that note, Major General (Ret'd) William Hewson who has steadfastly served the board since 2003 has decided not to stand for another term. While I accept these changes with mixed feelings, I have full confidence in the succession planning and nomination processes we have in place to ensure that the company moves forward in an orderly manner. The board unanimously believes in Kevin's abilities as incoming CEO to deliver on Calian's long-term growth strategies and I look forward to working with him in this regard.

Overall, I am very proud of the Company's accomplishments over the past year and as a board, we believe that management has the ability and resources necessary to capitalize on future opportunities for the benefit of our shareholders.

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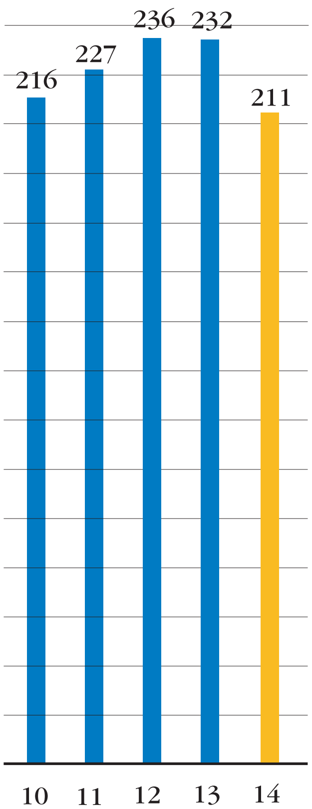
Kenneth Loeb

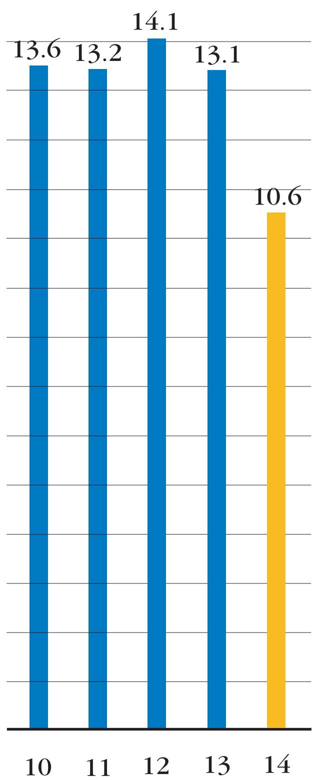
Chairman

(millions of dollars, except per share data)

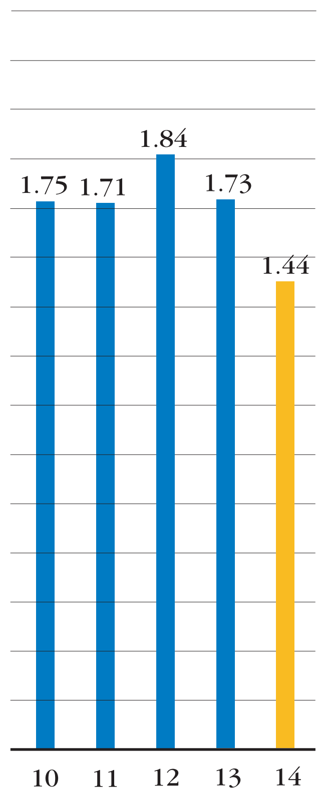
Revenues



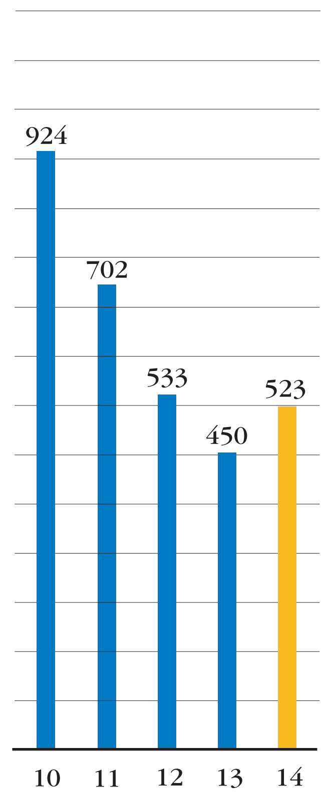
Net Earnings



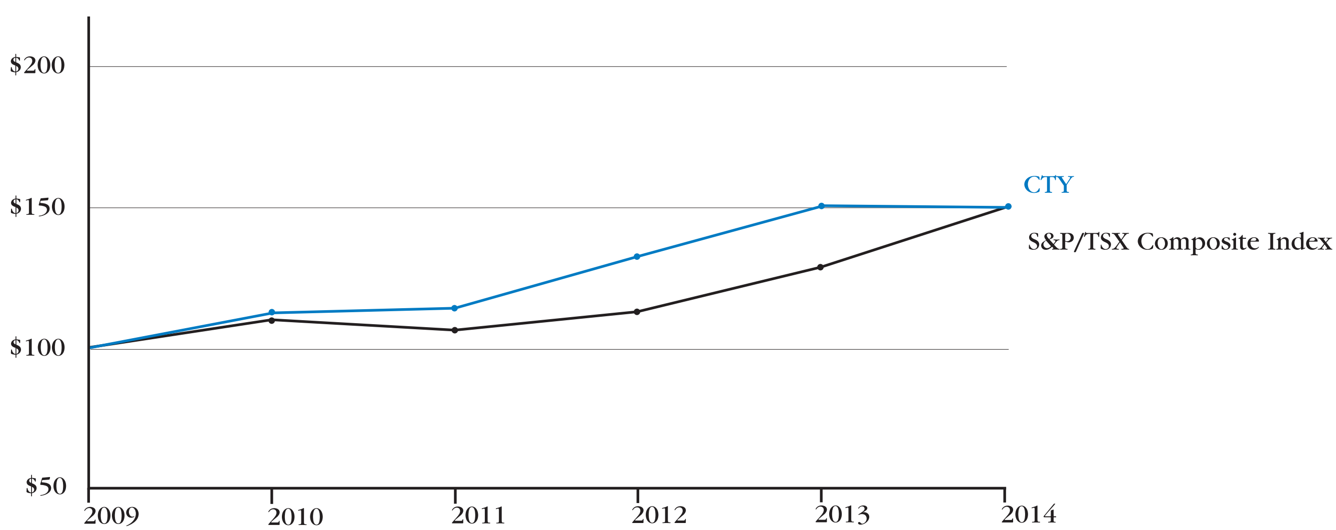
Earnings Per Share



Backlog



Comparison of Cumulative Total Return



Message from the President and CEO

Ray Basler - President and CEO

Fiscal 2014 turned out to be a very challenging year from a revenue perspective as governments continued their cost cutting initiatives and we experienced reduced demand in many of our markets. This impacted not only government and defence based revenues, but also our commercial revenues as enterprises adjusted their infrastructure and resource requirements downward. Fortunately, the diversity of our business once again helped to temper this negative impact as certain service lines achieved year over year growth. In addition, recent acquisitions helped to mitigate the revenue shortfalls, albeit only for a portion of the fiscal year.

Even though the level of customer requirements was down from the prior year, we did not waiver in our corporate passion for quality and customer satisfaction. We used this slowdown to pursue and acquire business in new geographies and market segments. Expanding our customer base and evolving our service and product offerings will continue to be the foundation for achieving our long-term business objectives of controlled profitable growth and positive cash flows.

Worthy of note, we were successful in rebuilding our backlog with significant new signings and renewals late in the fiscal year, which provides us with added revenue confidence for the future. The divisional reports contained in this document elaborate on the specifics of these achievements.

On a consolidated basis we achieved revenues of $211 million, a drop of 9% from the prior fiscal year. With reduced customer spending comes intense competition for available work, ultimately manifesting in the form of reduced gross margins. While tight control of discretionary operating expenses helped to partially offset the margin pressure we ended the year with earnings of $1.44 per share. We maintained our quarterly dividend at $0.28 per share representing a very attractive yield throughout the year. While the dividend represents a larger payout ratio than past years, it is still well within the level of cash generated from operations. Being mindful of the cash requirements associated with the acquisitions consummated this year, we compensated with a reduced level of share repurchases compared to the prior year.

Overall, while results have tapered somewhat from the prior year, I am still proud of our accomplishments over the last year, particularly our ability to adapt to an ever-changing business environment, in the interests of achieving long-term growth.

On a personal note, I have recently announced my upcoming retirement effective March 31, 2015. After almost three decades with the company and a full ten years as CEO, I feel entirely comfortable transferring the helm to the next generation of leadership. I look forward to working with Kevin and the management team during the interim period and to assuming an advisory role thereafter. While we have experienced some difficult markets in recent years we have always provided a respectable return on capital employed. I believe our management team is fully capable of addressing the challenges that lay ahead while at the same time capitalizing on available opportunities. Armed with a solid backlog, excellent prospects and a strong balance sheet, I believe the company is well positioned for sustainable growth in the long term.

Ray Basler
President and CEO

Report on Operations - Systems Engineering (SED)

> "Looking to next year, we see an increasing and healthy backlog which bodes well for reaching our growth targets."

Although we had operational accomplishments on several fronts, we also faced many challenges that are exhibited in the financial results for 2014. Our communications systems group had an excellent year with the successful completion of a number of major RF ground system projects. However, the challenges of winning new business in the first part of the year, largely in the aerospace and defence sector, had a significant impact on our revenues. This resulted in divisional contribution of $9.5 million on revenues of $55.4 million. Despite lower revenues, we have upheld our commitment to quality and maintained customer loyalty.

In our contract manufacturing group, government delays and cancellations of defence programs led to intense competition for the little remaining manufacturing work. While we managed to sign new work on the Tactical Armoured Patrol Vehicle program, it was not at the levels we anticipated due to competitive pressures. In addition, the DND cancellation of the Close Combat Vehicle program dealt a further blow to our expected revenue stream. These factors combined with the downturn in Blackberry requirements left our manufacturing labour force underutilized, necessitating a right-sizing of the manufacturing workforce. Fortunately, long term customers like General Dynamics Land Systems (GDLS) and KDS provided a steady stream of new orders. Late in the fiscal year, we received a new order for Power Control Modules from GDLS which contributed significantly to our backlog. In addition, we have invested in new surface mount manufacturing capabilities to replace aging circuit card manufacturing infrastructure. This will help us to increase our quality and production capacity for the future and will also allow us to bid on new requirements that demand the latest in manufacturing technologies.

Our systems engineering group executed well on the Inmarsat I5 RF systems, the Canadian Centre for Mapping and Earth Observation RF systems and Sirius/XM upgrades. These programs contributed substantially to both revenue and profitability. Although later than expected, we signed a new major RF systems program late in the second quarter which contributed substantially to our backlog. We have been very successful in capturing new RF systems work in 2014 which bodes well for future year's revenues. Our satellite operations and hosting business with the Canadian Space Agency, Ciel and Lightsquared continued at a steady pace, providing a much needed and predictable source of revenues.

Our product group had an excellent year of sales led by our Decimator spectrum analyser and Gemini modulator products. We have also signed exciting new work for the development of bonded modulators and receivers which are critical components in delivering 4K TV solutions over satellite. Furthermore, we continue to deliver highly specialized products to Rohde & Schwarz for resale under their brand. While product margins are generally higher, risks associated with early-stage development and testing of new products can have a dampening effect on overall margins.

Looking to next year, we see an increasing and healthy backlog which bodes well for reaching our growth targets. Despite the competitive pressures on our business, our team's commitment to quality and excellence in customer support remains high. With an increased backlog of work and exciting new opportunities ahead, we look forward to the challenge of profitably executing this work for the benefit of our shareholders.

Patrick Thera

Patrick Thera

VP and General Manager, Systems Engineering

Report on Operations - Business and Technology Services (BTS)

> **"We have an excellent team, robust business strategies and a strong backlog of business; key building blocks for achieving success and providing long-term value to our shareholders."**

The Business and Technology services division continued to deal with tough market conditions which were primarily driven by reduced federal government spending. Our main customer, DND, was significantly impacted and we coped with DND budget reductions which included the early cancellation of our National Maintenance Contract as well as a significant reduction in demand under our existing training contracts. Although we had numerous smaller contract wins throughout the year, they were not sufficient to offset the effects of DND cost cutting efforts. Overall, we achieved $155.8M in revenue and a divisional contribution of $6.8M representing a reduction from the prior year.

Despite the challenging market conditions, we seized the opportunity to complete three acquisitions this fiscal year – Med-Team, AMTEK and DWP. These acquisitions not only diversify our customer base but also provide proven delivery experience, an important ingredient in the evolution of our service lines. Financially, we inherited a substantial backlog which will provide for increased revenues, margin and cash flows going forward.

Our Health Service line achieved year over year growth as a result of the increased demand on the Health Services Support Contract (HSSC) as well as the continued rollout of the Primacy medical clinic program. Our HSSC contract was extended to September 2016 with an additional 6 month option to March 2017 adding over $117M in realizable backlog. This extension reaffirms DND's trust in our ability to support the healthcare demands of the Canadian military. The Med-Team acquisition adds a strong healthcare team that have over twenty five years of experience in the managed medical clinic business, a key ingredient as we diversify our health service line offerings to include primary patient care.

Our Training and Ancillary Service line was significantly impacted by DND's reductions which resulted in decreased demand for training services across our entire DND contract portfolio. On a positive note, we were successful in winning the renewal of the CFSATE contract and we continue to diversify our training customer base with beachhead contracts in the nuclear industry, educational institutions and also an exciting contract win to deliver training services on an international stage. The aquisition of Amtek provide new service offerings in line with our diversification strategy.

The IT Professional Services (ITPS) line was also impacted by federal government reductions, but we achieved positive growth in our private sector and Toronto region markets. We continue to strengthen our relationships within the Information and Communication Technologies sector and are optimistic about the growth prospects in this market segment. Also, the acquisition of DWP Solutions provides new and enhanced capabilities in cyber and security services and we look to capitalize on this high-demand market segment.

Overall, while we are disappointed in our fiscal year results, we still maintain a very strong business generating significant profits and positive cash flows. We continue to enjoy very high customer satisfaction levels across all of our service lines and we firmly believe that our passion for delivery excellence will be the foundation for meeting our long-term growth objectives.

A recent organizational change that provides for renewed focus and manpower on each of our service lines will help the division to navigate the current challenging market conditions, successfully integrate our recent acquisitions and balance the needs of the short term while positioning for long term growth. We have an excellent team, robust business strategies and a strong backlog of business; key building blocks for achieving success and providing long-term value to our shareholders.

Kevin Ford

VP and General Manager,
Business & Technology Services

Business of the Company

We operate through two divisions that complement each other and that share the vision and key tenet upon which Calian has emerged as a business and technology services leader — effective and prudent management with a focus on controlled profitable growth in carefully selected markets.

The diversity of our service offerings is at the heart of our success. By serving a number of customers in wide ranging and geographically varied markets, we benefit from a diversity that helps us weather the downturns experienced in any one market while at the same time positioning ourselves to take advantage of unique opportunities as they arise. This diversity is most evident when comparing the business of our two divisions.

Systems Engineering designs and manufactures complex systems. Our focus is on two distinct markets. Our primary market is satellite communications sector where we serve satellite manufacturers, operators and service providers around the world. We also provide satellite operations services to government and commercial clients in the same market sector. Our other market is in the defence/security and high-end telecommunications industry where we provide low to medium volume manufacturing services to major players. In both markets, we are a small niche player serving a handful of multi-national organizations working on large worldwide projects. More than 60% of our annual revenues are derived from exports.

Custom Manufacturing

Systems Engineering

Our customers require sophisticated, custom-built infrastructure to meet their unique requirements. Our straightforward approach is to fulfill these requirements by integrating advanced commercial equipment provided from reliable suppliers, our own commercial products, and where necessary, custom-built components. Our customers rely on our technical and management skills to deliver what we promised, on schedule and at the agreed price. We have a full-service approach helping our customers from design through to long-term operations and support. Our customers reward our success in meeting their expectations with repeat business. Our core competencies make us stand out from our competitors — strong project management, systems engineering know-how, expertise in high-throughput embedded logic and software development capabilities. We maintain a core set of reusable designs, components and products to increase our competitive edge. These strengths have allowed us to establish long-term relationships with many of the industry's leaders.

We apply these same core competencies to the manufacturing services we provide to military prime contractors and equipment suppliers. The value added by our technical expertise and our focus on high-reliability, low-volume production of complex systems differentiate our services from those of our competitors.

Business and Technology Services provides Training, IT and Healthcare delivery solutions as well as national workforce management capability via strategic long-term outsourcing services, recruiting and placement services, and per-diem staffing services. The division provides ready access to an exceptional team of professionals in IT Professional Services, Healthcare, Engineering and Training domains. The division currently caters mainly to the Canadian federal government, with a large presence in the Department of National Defence, and also has a well-established private sector customer base that is expanding across targeted sectors. Our health care service line also includes the administration on behalf of Loblaw of over 140 medical clinics across Canada as well as the provision of health care services directly to customers through our own managed clinic as well as our recently acquired Med-Team clinic.

Health Services

Training

Information Technology Professional Services

The services we offer allow our customers to focus their vital internal resources on key priorities. The value we add lies in the breadth of services we offer and our ability to source sufficient and appropriate resources on a timely basis to meet our customers' requirements. This is due to our exceptional program delivery capability, recruiting capabilities, effective management of our employees in the field and competitive rates.

A comparison of the business models and operating approaches of the two divisions further illustrates the diversity between them.

Contracts in Systems Engineering are technically complex and are typically on a fixed-price basis with demanding requirements to meet delivery schedules. The division operates essentially under a fixed-cost structure, requiring the careful management of labour utilization. The majority of revenues are derived from international sources and contracts are often denominated in foreign currencies. While the risks are high, the margins are commensurate.

Contracts in Business and Technology Services are typically on a per-diem basis and can range from short-term assignments to multi-year operations and/or maintenance contracts. The cost structure of the division is variable as direct labour costs are scalable to match contract requirements. The vast majority of revenues are derived from Canadian sources. With a reduced risk profile, margins are correspondingly lower. With the inclusion of health clinics in the BTS portfolio, revenue is also generated via direct billing to provincial health care organizations.

Systems Engineering's billings are based on achieving well defined project milestones. These can be in advance of, or subsequent to the recognition of revenues. Milestone profiles vary depending on factors such as the customer, competition and pricing. Accordingly, cash flows and working capital requirements can vary significantly from project to project and over the life of any one project. In Business and Technology Services, cash flows are very predictable as most contracts call for monthly billings of work performed.

From the perspective of renewing business, Systems Engineering is awarded one project contract at a time, usually as a result of winning an open international competition. Constant marketing efforts are directed towards identifying and securing bid opportunities and a significant overhead effort is required to develop detailed proposals for new projects. The situation is similar for the short-term staffing component of the Business and Technology Services division, which requires ongoing marketing and sales efforts to maintain the backlog. However, the longer-term training, healthcare and workforce management component of this division enjoys the benefit of multi-year contracts that often contain provisions for extensions, offering long-term visibility of future revenues.

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

Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations

The following Management Discussion and Analysis is dated December 4, 2014 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 it's 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 it 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 4, 2014 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 sells business and services to industry and government. For many years, industry and government have searched for and adopted new operating models and new technologies in an effort to improve the efficiency of their operations. Management expects that they will continue to do so, and in recognizing this trend, the Company has built a unique combination of specialized skills and available capable resources in order to address the resulting market opportunities.

With these capable resources at the ready, Calian can quickly assemble and deploy teams of professionals with the requisite skills to promptly assist customers to implement their diverse operating and technology needs, whether it is the design and integration of a complex satellite ground system, low-volume high-quality contract manufacturing or the provision of specialized personnel in the areas of IT, training and ancillary and healthcare services.

Calian's larger mainstream competitors often cannot duplicate the timeliness and reliability of Calian's services. Furthermore, efficient and flexible operating processes, combined with a strong financial condition allow Calian to profitably address lower margin business without compromising quality or performance, and this further distinguishes the Company from its competitors. Due to the Company's successful delivery and execution of projects, Calian experiences repeat business and a high percentage of contract renewals.

Calian's long-term direction is to expand its current service offerings with industry and government in specialized niche areas outside the mainstream market, avoiding competition with larger competitors. Calian will concentrate on those opportunities that entail agility and flexibility in both resources and capabilities to address customer requirements, be it in our traditional markets or new ones with similar needs.

Calian's growth plans include building upon and expanding its current capabilities and addressing a wider range of customers with a broader range of services without compromising its commitment to quality and delivery. Calian plans to continue augmenting its service offerings and capitalizing on its reputation for delivery, building on its satisfied base of blue-chip customers. In addition, the Company plans to seek partnership opportunities or acquire specialized companies that have also had success in profitably addressing niche markets with a minimum amount of capital employed and whose operating philosophies align with those of Calian. With substantial revenues, an efficient back office, and the realization of economies of scale, the Company's objective is to enhance the returns to its shareholders and build an enterprise that excels in its selected markets.

For existing operations, the key is controlled profitable growth. Management expects that growth will not only extract economies of scale and provide additional returns, but will also provide an environment for its people to grow and advance within the Company. Calian's strengths in delivering specialized services in niche markets have so far permitted the Company to excel in a difficult business environment where many mainstream competitors have faltered. With this backdrop of continuing to play to our strengths, there are no plans to materially alter the business of the Company.

Calian currently operates in two reportable segments, defined by their primary type of service offerings:

Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector. The Systems Engineering Division, also known as SED, has its principal office in Saskatoon, Saskatchewan.

Business and Technology Services is a leading program delivery partner for public and private sector customers in a variety of industries, whereby we provide workforce augmentation as well as the long-term management of projects, facilities and customer business processes in the areas of IT professional services, training and ancillary and healthcare services. The Business and Technology Services division (BTS) has its principal office in Ottawa, Ontario.

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 the 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, 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 rollout of the Company's backlog by division showing both contracted backlog and option renewals by fiscal year.

In addition, since referencing pricing or volumes of production are not applicable to our business to allow a proper understanding of the level of revenue generated during the year or expected in the future, the following discussions that refer to the types of contracts performed by each of the two divisions will provide some insight into the level of customer specific demand for our services.

Systems Engineering Division

For over 49 years, SED's core strength has been communications systems engineering. SED builds equipment, systems, and products to maximize utilization, efficiency and throughput of communications networks. Its primary market is the satellite industry, but it also applies its capabilities and expertise to broader adjacent markets with needs for similar systems and services.

SED generally acts as a systems integrator and works with its customers on a project basis to develop custom systems tailored to their specific operational requirements. From one project to the next, SED endeavors to reuse system architecture, core software modules, and custom hardware designs to reduce development time, cost and technical risks. Some of these core modules have evolved into products which SED sells either stand alone or as a part of the systems they deliver. SED's manufacturing capability, initially created to support its communication systems engineering group, now accounts for a substantial portion of divisional revenues and provides an on-going base of business that helps offset the ebb and flow of core project work.

SED's strengths are renowned around the world with exports typically accounting for more than 60% of annual sales. Customers often request deployment of our systems to other locations. We now have systems operating on six continents and we are well versed in the logistics associated with international installations.

SED designs and manufactures equipment for the satellite ground-based infrastructure market and systems must be upgraded or replaced on a regular basis. The introduction of Ultra-HDTV, the growing deployment of high throughput satellites and the move to higher frequency bands are also presenting opportunities for additional capacity and enhancements. There are growing demands to monitor the earth's environment, resources and security as well as to watch world events unfold in real time through earth observation satellites. Also, additional demands are being driven by mobile broadcast, military use of commercial satellites and the ongoing need to replace the existing capacity of satellites approaching end-of-life.

Overall, the business environment for the SED division is stable and sustainable. Inmarsat and Hughes are deploying next generation satellite constellations creating growth opportunites for integrators such as SED. Reduced credit availability continues to hamper the ability of start-ups and certain existing players to get the funding or refinancing needed to drive their initiatives forward. Competition remains fierce as competing companies look to fill their available capacity.

While the satellite communications sector has been the core of SED's business, the contract manufacturing group continues to provide a solid base of revenues and ongoing level of work for SED which in turn provides the manufacturing group with respectable levels of utilization. We focus on opportunities requiring low volume and high reliability manufacturing; qualities that are well suited to defence applications. These attributes also provide effective differentiation from offshore competitors. Reduction in government spending has had the effect of increased competition among Canadian manufacturing companies. As such, manufacturing related revenues have reduced from past levels. However, long term customers such as GD Land Systems Canada and KIDDE help sustain this group with ongoing work.

In 2014 the SED division performed well signing $85 million in new contracts and ending the year with a backlog of $80 million of which $43 million is expected to be earned during fiscal 2015.

Fiscal 2014 had its share of challenges and accomplishments for SED. Manufacturing orders from Textron, GD and KIDDE provided SED with the majority of its manufacturing revenues for the year. The flexibility of our manufacturing organization allowed us to transition from more labor intensive manufacturing work to more automated processes. Through process automation, solid margins were obtained regardless of the unevenness in work flow in this sector.

SED's satellite earth station business continued to be a significant contributor to revenue. The largest project in this area during Fiscal 2014 was ground station work for the Canadian Center for Mapping and Earth Observation (CCMEO). Work this year covered the deployment of new antenna systems in Prince Albert, Gatineau and Inuvik. The Inmarsat I5 RF systems, a three year program which includes six 13m antenna systems installed at diverse locations around the globe also provided a substantial source of revenues as we completed the RF systems in North America and New Zealand. In addition work has begun on a series of RF Systems for Hughes as they expand their network. Our systems group remained busy with upgrades for Sirius/XM as well as systems developed for the Inmarsat network including aeronautical systems, capacity planning systems and new Low Data Rate Gateways for Honeywell Global Tracking Solutions.

Ancillary product sales including SED's Decimator Spectrum Analyzer, Gemini modulator and cable applications continued to grow and provide significant margins. Custom products such as high throughput modulators and receivers for ultra high definition applications also contributed to our revenues.

Our CSA Satellite Operations team was right sized after the loss of the Radarsat I satellite. Increased automation of certain operational aspects allowed us to continue to provide the CSA with excellent support within a reduced budget. We continue to provide satellite operations for Radarsat II, Scisat and Neosat. Also, we continue to be the primary operations centre for the Ciel II satellite and are hosting the LightSquared communications gateway equipment. Other reductions in the CSA's operations budget and the ongoing bankruptcy protection of LightSquared may result in reduced revenue from this part of the business in the coming years. We continue to look for opportunities to replenish and expand our satellite operations business.

The markets in which SED operates are currently stable and we expect new opportunities to arise during the years ahead. In addition our manufacturing group is expected to continue at current levels. That being said, we do expect some volatility over the short term as customers assess their upcoming budgets and adjust to changing market conditions. In the communication business sector, SED expects to work closely with Inmarsat and Hughes as both entities continue to evolve and expand their service offerings. In the Digital Audio Broadcast market, we anticipate additional business with Sirius/XM Radio as they seek to gain commonality in their systems post-merger and also strive to enhance and expand their product offerings. In the test systems area, we will continue to pursue opportunities within our traditional test systems market for Communications Monitoring Systems and In-Orbit Test Systems as well as exploiting our Resource Management software. We expect that new enhancements to our family of ancillary satellite products will generate increased sales and margins in the years ahead.

As worldwide competitors continue to vie for market share, margins are expected to remain under competitive pressure. Continued volatility of the Canadian dollar relative to other major currencies will also affect our competitive position on international pursuits.

Business and Technology Services Division

BTS is a leading program delivery partner for public and private sector customers. We meet and anticipate our customers' unique needs in the areas of IT professional services, training and ancillary, engineering and health care services.

We have a workforce of approximately 2,000 individuals across Canada, in both full and part-time capacities. Currently our primary market is the Canadian federal government with an emphasis on the Department of National Defence (DND), but we also provide services to large multi-national companies as well as to other departments within the federal government. In addition, we continue to operate two medical clinics that provide medical services directly to the general public under provincial health care plans.

With over 32 years of experience, BTS provides custom solutions that help organizations manage complex workforce challenges by assuming responsibility for functional tasks, executing sophisticated engineering programs, or by providing workforce augmentation with flexible and skilled teams. The division's success comes from its focus on delivering a quality service through careful attention to both customer and contractor needs. The end result is customers having access to Calian's extensive expertise and pool of specialized talent so they are free to focus on their core business. BTS is a continuous improvement organization and is accredited to Level 4 under the Progressive Excellence Program of Excellence Canada.

Over the past several years, we have continued to build and enhance our reputation as a very competent, high quality, but reasonably priced supplier. This strategy has allowed us to maintain our competitiveness and effectively develop a capability that few of our competitors can match. Unfortunately the reduction in government and defence spending over the last year has created additional competition in our selected areas requiring the division to take a more aggressive response in terms of pricing.

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

The major market for our BTS division continues to be DND. DND is one of the departments that is under severe pressure as part of the federal government's quest to reduce spending. While DND capital programs were most affected, we have also experienced some reductions in the utilization of certain training contracts. Fortunately DND's focus on providing quality health care has resulted in high demand on our health services contract. Overall the BTS division is well positioned to continue to service the government in the areas of health, training and IT services and has strategies in place to ensure that we are well positioned when the current cost cutting initiatives have subsided.

The overriding trends affecting our business are expected to be influenced by four factors: the rate of economic recovery in our markets; the transition from public sector stimulus spending to one of public sector deficit reduction and expenditure control; the continuing competitive landscape; and finally the pace of technology evolution and potential impact to our business.

Demographics continue to work in our favour. Due to retirements, large corporations along with various federal government departments and the military continue to lose large numbers of employees with in-depth knowledge of their internal workings. In many cases the remaining employees are not yet able to assume additional responsibilities. This has created a necessity for these entities to re-acquire this lost knowledge. The BTS division has placed a special emphasis on attracting retirees who possess extensive corporate knowledge and expertise, and accordingly has been successful in assisting customers in bridging the knowledge gap while they train and mentor replacement staff. We continue to see the long term attractiveness for this solution and will continue to take advantage of this trend to provide "ready-made" support services to our customers.

In order to cope with the backlog of procurement, federal government departments are implementing new processes and tools. In the Information Technology and Management (IT/IM) arena, the trend to larger, more complex ERP systems continues. New installations continue to provide opportunities; however system upgrades, enhancements and migrations are assuming an ever increasing share of the IT/IM budgets and hence provide good business opportunities. This is particularly the case in many larger organizations where legacy system databases are being mandated to interface with these ERP systems. Government wide, there is a greater focus on developing and supporting wider web access coupled with the associated security concerns of protecting the users and their data. Accordingly, we continue to focus on related business development activities and the investment of internal resources to accommodate these new approaches.

While government spending is under tight controls and has become unpredictable due to the implementation of previously announced budget reductions, profitable business does exist for companies who have the financial strength to accommodate these down periods and the discipline to adjust costs to declines in revenue. BTS's strong back office capabilities, centered on an SAP based management information system along with its 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.

All in all, despite the current competitive landscape, we continue to believe that the long-term business environment for the services of the BTS division remains favorable.

BTS results for 2014 were affected by a very difficult business environment. The Federal government continued to implement spending constraints and DND, our main customer, was one of the departments most affected. Early in the fiscal year, DND cancelled our national maintenance contract and we continued to see a reduced demand on our training contracts. With few new initiatives and cutting of costs on existing contracts, the BTS division realized a drop in revenues this year. However, we continued to evolve our service offerings with enhanced capabilities in many areas. Also, we have been successful in the broadening of our customer base with many new beachheads across service lines. The division continues to be very successful in managing existing contracts and has maintained high quality and client satisfaction levels. This will put us in good stead when these markets rebound.

The Health Service Support Contract was spared from the spending constraints realizing a 10% growth this year. In addition, the Division was also awarded an 18 month extension to the original contract period thereby securing revenues through to September 2016 with an additional 6 month option that could extend the contract period to March 2017. The acquisition of Primacy during 2012 was a key step in expanding our health service offerings allowing us to acquire not only a national civilian clinic presence but also a world-class customer with Loblaw. Primacy continued to grow this year currently operating 140 clinics across Canada. In addition, through Primacy, Calian has opened a managed clinic in Ottawa. The acquisition of Med-Team during the year is a continuation of our health strategy and aligns to our strategic goals related to the establishment of a national civilian healthcare footprint to augment our military offerings. This has allowed us to strengthen our national medical practitioner network and expand our health service offerings to our clients.

The IT Professional Services (ITPS) line was significantly affected this year, as short-term requirements were the hardest hit by the Federal government cost-cutting initiatives. This created ongoing market pressures that continue to commoditize and depress on-demand staffing rates resulting in a reduction in realized margins. To offset this trend, the Division is pursuing other markets. As our client base is demanding more specialists in the area of cyber and security, the Division sought and closed the acquisition of DWP Solutions Inc. late in the year. The experience and background of DWP will help the Division expand its capability in this high demand market area.

Our training and ancillary contracts continue to represent a solid base of revenues. Although pressures to reduce costs are felt by our customers, the nature of these services are at the core of our customers operations and as such have been less impacted from the severe cuts experienced in certain other areas. The DLSE (Directorate of Synthetic Land Environments) contract was negatively affected this fiscal year as training budgets and the pace of training were significantly reduced. Revenues on other programs within this service line were somewhat depressed as other contracts were moderately affected by government cost cutting initiatives. To further expand our engineering support capabilities, during the year we acquired Amtek Engineering Services Ltd. Amtek specializes in providing the full-spectrum of engineering and technical services supporting the Department of National Defence (DND) and other government departments. During the year, the Division also secured a contract renewal for CFSATE with DND for an additional contract value of $18 million over a two year period.

Significant investments were made in past years to increase our sales and business development capability within the health, telecommunications and aerospace and defence sectors. At the same time, we continue to streamline our sales efforts to ensure that we are as efficient and cost effective as possible. The overall goal is the expansion of our knowledge and presence within selected sectors as part of the Division's overall diversification strategy.

In summary, fiscal year 2014 was a year of challenges and required ongoing adjustments to an ever-changing federal government landscape. Although the division faced a difficult environment, it was able to adapt and leverage its diversity to continue delivering solid results, albeit at a reduced level from the prior year.

Acquisitions:

Despite the tough market environment, the Division has continued to invest to expand its service offerings and diversify. The Division completed three acquisitions during 2014:

On December 31, 2013 the Company acquired Med-Team Clinic Inc. Med-Team is a medical practice management business located in Ottawa, providing facility management, medical support staff and administration services to doctors working from their clinic. Med-Team was established in 1984 and has an excellent reputation for providing quality healthcare services. Med-Team brings medical expertise and represents a continuation of the strategy of evolving the Company's Health Service line and enhancing the Calian brand in the healthcare marketplace by leveraging their expertise and best practices into Calian's national medical clinic program.

On April 30, 2014 the Company acquired Amtek Engineering Services Ltd. AMTEK professional engineers and technologists apply expertise in disciplines essential for system development, operation and maintenance. AMTEK's capabilities provide full life-cycle support for soldier systems, major defence projects, electrical and electronic systems, computer systems, naval architecture and aerospace systems. Amtek brings a strong management team and a history of profitability and it represents a critical step towards the goal of evolving the Company's Training and Ancillary Service line enhancing the Calian brand in the defence and federal government marketplace and expanding the Company's customer base in the defence and government area.

On June 30, 2014 the Company acquired DWP Solutions Inc. DWP Solutions Inc. provides information technology and security consulting services to both private and public sector clients in Ottawa, Montreal, and Toronto. DWP has an extensive list of services that include project management, business process reengineering, business continuity planning, disaster recovery planning, pandemic planning, privacy impact assessments, threat risk assessments, vulnerability assessments, physical security, forensic investigations, certification and accreditation, IT and application controls and compliance (SOX), identity management and developing IT security programs. As a profitable organization with a great reputation, DWP allows Calian to expand its IT services into the cyber and security marketplace.

The BTS division enters the new year with a strong backlog of work and a reasonable expectation of future prospects. In the coming year, we are expecting a mix of stability and potential volatility on our existing contracts. The division will also be reorganized to focus on the Health, IT and Training and Engineering service lines while continuing to strengthen our common back office processes and supporting systems. A new VP of Health services has been hired and current VP level executives will run the IT, Training and Engineering service lines. We have also reinvigorated the marketing function for the division and have planned initiatives for a new website, a focus on proactive social media engagement and targeted marketing campaigns in support of the three service lines.

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. A significant portion of BTS's contracts are not subject to renewal during the upcoming year. This provides for a stable and secure base of business for fiscal 2015 and allows delivery personnel to focus on increased contract performance, organic contract growth and support of new business development initiatives.

In the long term, BTS will continue to focus in areas where it has been successful in the past and will build on newly acquired expertise to branch into additional adjacent markets.

Backlog

The Company's backlog at September 30, 2014 was $523 million with terms extending to fiscal 2018. This compares to $450 million reported at September 30, 2013. 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 2014 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.

- $117 million to extend the DND Health Services Contract to September 30, 2016
- $35 million contract with a major US satellite service provider for RF gateways across North America
- $18 million to renew the DND CFSATE contract to July 2016.
- $12 million contract win for Power Control Modules for the Armoured Brigade program for GDLS

In addition, approximately $40 million of backlog was added as a result of the Amtek and DWP acquisitions. 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 2015, 2016 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 $145 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.

Backlog

(dollars in millions)	Fiscal 2015	Fiscal 2016	Beyond 2016	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	$ 179	$ 114	$ 18	$ 311	$ 133	$ 444
Option Renewals	11	20	36	67	12	79
TOTAL	$ 190	$ 134	$ 54	$ 378	$ 145	$ 523
Business and Technology Services	$ 147	$ 115	$ 36	$ 298	$ 145	$ 443
Systems Engineering	43	19	18	80	-	80
TOTAL	$ 190	$ 134	$ 54	$ 378	$ 145	$ 523

Selected Annual Information

(dollars in millions, except per share data)

	2014	2013	2012
Revenues	$ 211.3	$ 232.5	$ 235.9
EBITDA[(1)]	$ 16.2	$ 19.1	$ 20.0
Net profit	$ 10.6	$ 13.1	$ 14.1
Adjusted net profit[(1)]	$ 10.7	$ 13.1	$ 14.1
Net profit per share, basic and diluted	$ 1.44	$ 1.73	$ 1.84
Adjusted net profit per share, basic and diluted[(1)]	$ 1.45	$ 1.73	$ 1.84
Total assets	$ 100.9	$ 97.6	$ 103.7
Dividends per share	$ 1.12	$ 1.12	$ 1.06

2014 Results of Operations

Profit before interest and income taxes were $14,116 in 2014 compared with $17,444 in 2013 and net profit were $10,581 for the year compared with $13,055 in the previous year. The Company completed the year with $25,200 of cash compared to $29,782 at the end of 2013.

Revenues	2014	2013	% change
SED revenues	$ 55,413	$ 70,434	(21%)
BTS revenues	$ 155,844	$ 162,029	(4%)
Consolidated revenues	$ 211,257	$ 232,463	(9%)

The general business environment in 2014 reflects continued contraction in government spending in both of our divisions. Program delays and activity rescheduling within DND and other government departments have resulted in reduced take-up on existing contract vehicles and postponed revenue realization on new ones. The Company began the year with $160 million of its backlog to be earned in 2014. This base of work combined with the win of several contracts during 2014 resulted in a respectable revenue stream for the year.

SED saw several large engineering projects near their completion phase in 2014, which resulted in a lower mix of materials and subcontract costs. Accordingly, while engineering utilization remained very high, actual revenues generated from engineering projects were down from the same period last year. Manufacturing related revenues were lower than the prior year, although SED did recognize a respectable uptake during the latter part of the year. Although still representing a small percentage of revenues, ancillary product sales increases are encouraging. Due to the project nature of its business, the SED division is susceptible to significant variation in volumes of activity from period to period. While the division has experienced overall revenue retraction this year, management is encouraged by the increase in backlog.

The demand for services in most of the BTS market segments during all of fiscal 2014 was affected by the government spending cuts. Compared to the prior year, we were most affected in our operations and maintenance group as DND wound down our existing vehicle maintenance contract at the beginning of this fiscal year and decided not to re-compete the work requirement. Our training contracts also felt the impact of budget constraints and our short term staffing group experienced revenue declines due to overall reduced demand as well as significant competitive pressures for available work. Our health group provided comparatively positive results with some revenue gains in fiscal 2014. The revenue in the BTS division was also positively impacted by the recent acquisition of Amtek Engineering Services and DWP Solutions.

The Company derives a significant portion of its revenues from the Government of Canada. During 2014 (2013), 68% (66%) of revenues were related to contracts with various departments and agencies of the Government of Canada with approximately 52% (52%) directly with DND. Both of the Company's divisions conduct business with the Government of Canada. However the increase in percentage of revenues derived from the government is mainly from work completed by SED in 2014 for the Canada Center for Remote Sensing contract described earlier.

Management expects that the marketplace for the near term will continue to be unsettled and very competitive. SED is expected to face a challenging environment in the manufacturing area at least for the near term. Also, the timing of new engineering opportunities is always subject to delay. Our backlog provides a reasonable level of revenue assurance on existing contracts and new opportunities continue to arise. However, continued cuts in federal government spending could have a prolonged effect on near term revenues. The nature and extent of future government spending constraints remain uncertain and therefore, future revenues ultimately will be determined by customer demand on existing contracts as well as the timing of future contract awards.

Cost of revenues and Gross profit	2014	2013	% change
SED gross profit	$ 15,390	$ 16,661	(8%)
As a percentage of SED revenues	27.8%	23.7%	
BTS gross profit	$ 23,720	$ 26,067	(9%)
As a percentage of BTS revenues	15.2%	16.1%	
Consolidated gross profit	$ 39,110	$ 42,728	(8%)
As a percentage of consolidated revenues	18.5%	18.4%	

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 2014 reflects the successful execution of projects tempered by general downward margin pressure being experienced in both divisions.

At SED, the successful execution on projects nearing completion provided excellent margins this current year compared to the prior year when SED experienced cost increases on a specific program. Also, the higher concentration of labour provided higher margins than the prior year which had a significant component of materials and subcontracts that typically attract lower margins.

The traditional BTS business which is concentrated with the federal government continued to experience margin pressure. Strong competition on new work will likely negate any significant near-term improvement. In addition, the acquired Amtek and DWP businesses are characterized by lower gross margins but with correspondingly reduced costs of business development and delivery. Accordingly, the inclusion of such revenues has had a dilutive effect on reported margin percentages.

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	2014	2013	% change
Selling and marketing	$ 3,379	$ 3,626	(7%)
As a percentage of consolidated revenues	1.6%	1.6%	

Selling and marketing expenses as a percentage of revenues remain stable. Costs for 2015 may increase slightly over the 2014 level as the Company continues to invest in its diversification, evolution and the broadening of our target markets.

General and administration	2014	2013	% change
General and administration	$ 16,141	$ 16,650	(3%)
As a percentage of consolidated revenues	7.6%	7.2%	

General and administration costs as a percentage of revenues increased over the prior year. Through continued cost containment efforts, management was able to reduce its costs compared to fiscal 2013, even with the inclusion of the operating expenses of its recently acquired businesses. However, with the decrease in revenues, total costs as a percentage of revenues increased slightly. Management will continue to challenge discretionary spending; however, prudent investments may be required to support the evolution of the Company's service lines.

Facilites	2014	2013	% change
Facilities	$ 3,374	$ 3,369	-%

Facility expenses, which include costs associated with office space, have been relatively stable over the past several years. Overall facility costs are not expected to increase significantly in 2015.

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

EBITDA[(1)] for fiscal 2014 was $16,216 compared to EBITDA of $19,083 in the previous year.

[(1)] See reconciliation regarding non-GAAP measures below

Depreciation and amortization	2014	2013	% change
Depreciation	$ 1,077	$ 1,095	(2)%
Amortization	$ 924	$ 544	70 %

Depreciation expense is relatively stable over the years and reflects a stable level of annual capital expenditures. Depreciation expense is expected to remain stable for 2015.

As a result of the completion of three business acquisitions during fiscal 2014, amortization of intangibles increased to $924 compared to $544 in fiscal 2013. When taking into consideration a full year amortization on the acquisitions completed in fiscal 2014, amortization of intangible assets is estimated at $1,457 for fiscal 2015.

Deemed compensation related to acquisition and Bargain purchase gain

These unusual items result 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 are excluded from the total consideration of the purchase. The amounts totaling $2,139 will be expensed in the Company's consolidated statement of net profit on a straight-line basis over two years, being the retention period required under the agreements. In addition, as a result of excluding a significant portion of the purchase price in the Amtek acquisition, the identifiable tangible and intangible assets on acquisition were higher than the consideration allocated which resulted in a bargain purchase gain. For the year ended September 30, 2014 $429 was expensed as deemed compensation and $330 was recognized as bargain purchase gain. For fiscal 2015, the amount of deemed compensation is expected to be $1,070.

Interest income

Interest income for 2014 is comprised mainly of interest earned on the Company's cash balances and remained stable over the prior year.

Income tax expense

The Company reports its results on a fully taxed basis. The provision for income taxes for 2014 was $3,806 or 26.5% of earnings before income taxes compared to $4,741 or 26.6% of earnings before income taxes in 2013. The effective tax rate for 2015, prior to considering the impact of non-taxable transactions, is expected to be approximately 26.5%.

Net profit

The Company reported net profit of $10,581 or $1.44 per share basic and diluted for 2014 compared to $13,055 or $1.73 per share basic and diluted in 2013. The Company reported adjusted net profit [(1)] of $10,680 or $1.45 per share basic and diluted for 2014 compared to $13,055 or $1.73 per share basic and diluted in 2013.

[(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 earnings 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. In addition, as a result of significant increases in amortization as a result of recent acquisitions, the Company believes it is appropriate to explain its result prior to these acquisition charges.

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

Reconciliation of Adjusted Net Profit

	2014	2013
NET PROFIT	$ 10,581	$ 13,055
Deemed compensation related to acquisition	479	-
Bargain purchase gain	(330)	-
Adjusted net profit	$ 10,680	$ 13,055

Reconciliation of EBITDA

	2014	2013
Profit before interest and income tax expense	$ 14,116	$ 17,444
Deemed compensation related to acquisition	479	-
Bargain purchase gain	(330)	-
Depreciation	1,077	1,095
Amortization	924	544
EBITDA	$ 16,266	$ 19,083

Selected Quarterly Financial Data

(dollars in millions, except per share data)

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13
Revenues	$ 54.4	$ 53.8	$ 51.2	$ 51.8	$ 57.5	$ 58.1	$ 58.9	$ 57.9
EBITDA[1]	$ 4.5	$ 4.1	$ 3.5	$ 4.1	$ 4.5	$ 4.8	$ 4.9	$ 4.9
Net profit	$ 2.6	$ 2.9	$ 2.4	$ 2.8	$ 3.0	$ 3.3	$ 3.4	$ 3.4
Adjusted net profit[1]	$ 2.9	$ 2.7	$ 2.4	$ 2.8	$ 3.0	$ 3.3	$ 3.4	$ 3.4
Net profit per share								
Basic	$ 0.35	$ 0.39	$ 0.32	$ 0.38	$ 0.41	$ 0.43	$ 0.44	$ 0.45
Diluted	$ 0.35	$ 0.39	$ 0.32	$ 0.38	$ 0.41	$ 0.43	$ 0.44	$ 0.45
Adjusted net profit per share[1]								
Basic	$ 0.38	$ 0.37	$ 0.32	$ 0.38	$ 0.41	$ 0.43	$ 0.44	$ 0.45
Diluted	$ 0.38	$ 0.37	$ 0.32	$ 0.38	$ 0.41	$ 0.43	$ 0.44	$ 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.

Liquidity and Capital Resources

Calian's net cash position was $25,200 at September 30, 2014, compared to $29,782 at September 30, 2013.

	2014	2013
Cash flows from operating activities before changes in working capital	$ 16,402	$ 19,214
Changes in working capital	(4,964)	(6,681)
Cash flows from operating activities	11,438	12,533
Cash flows used in financing activities	(9,151)	(13,624)
Cash flows used in investing activities	(6,869)	(1,125)
Increase (decrease) in cash	$ (4,582)	$ (2,216)

Operating activities

Cash inflows from operating activities for the year ending September 30, 2014 were $11,438 compared to $12,533 in 2013. This year's decrease is mainly as the result of lower cash earnings offset by working capital fluctuations in line with the ebbs and flows of the business and an increase of $1,083 in unearned revenues compared to a decrease of $9,334 in 2013. 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, 2014, the Company's total unearned revenue amounted to $5,141. This compares to $4,059 at September 30, 2013, with the increase primarily attributable to advance billings for work to be performed in a future period.

Financing activities

Dividend

As a result of continuing earnings and a strong cash position, the Company maintained its dividend in 2014. The Company paid quarterly dividends totaling $8,263 or $1.12 cents per share compared to 2013 when the Company paid $8,472 in dividends or $1.12 cents per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

Shares

During 2014 the Company repurchased 64,500 common shares at an average price of $19.79 and during 2013 the Company repurchased 282,670 common shares at an average price of $19.82 through its normal course issuer bids.

At September 30, 2014 there were 415,000 options outstanding at an average price of $19.80 expiring at various dates between February 13, 2016 and September 3, 2019.

At September 30, 2014 there were 7,353,908 common shares outstanding and as of the date of this Management Discussion and Analysis, there were 7,353,908 common shares outstanding.

Investing activities

Equipment expenditures

Calian acquired $1,123 in equipment, furniture and fixtures during 2014, compared to $725 during 2013. For 2015, expenditures are expected to increase somewhat as certain manufacturing related equipment at the SED division are being upgraded. Capital expenditures are not expected to exceed $2,000. At September 30, 2014 there were no significant commitments to expend capital assets.

Acquisitions

During the year ended September 30, 2014 (2013), the Company paid $5,681 ($400) for various acquisitions as described in the interim financial statements.

Capital resources

At September 30, 2014 the Company had a short-term credit facility of $10,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. An amount of $612 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	$ 5,470	$ 2,391	$ 1,652	$ 886	$ 541
Purchase obligations	28,730	8,238	20,492	-	-
Total contractual obligations	$ 34,200	$ 10,629	$ 22,144	$ 886	$ 541

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, 2014.

Operating leases

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

Related party transactions

There were no transactions with related parties during 2014 and 2013.

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, 2014 and 2013 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 13% to 16% for its BTS division.

Adoption of New Accounting Rules and Impact on Financial Results

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

Impact of Accounting Pronouncements Not Yet Implemented

There were no new accounting pronouncements issued in 2014 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, 2014, 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, 2014, 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, 2014, 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. Risk management is an integral part of how the Company plans and monitors the business strategies and results and 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 Systems Engineering and Business and Technology Services divisions face some or all of the following risks and uncertainties:

Competition for contracts within key markets

The markets for the Company's services are intensely 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 accredited at Level 4 of the Progressive Excellence Program by Excellence Canada. This approach to management was developed to help the Company ensure that its employees deliver services consistently according to the Company's high standards and based on strong values underlying its client-focused culture.

Concentration of Revenues

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

The availability of qualified professionals

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

Performance on fixed-price contracts

A large percentage of SED's contracts are based on a fixed price for the provision of a specified service or system against an agreed delivery schedule. These fixed-price contracts at times 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 subcontractors 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 their market share

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

Government contracts

During 2014, approximately 68% of the Company's total revenues were derived from contracts with the Canadian government and its agencies. The government may change its policies, priorities or funding levels through agency or program budget reductions or impose budgetary constraints. Furthermore, contracts with governments, including 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

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.

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 the Company 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 16% 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, 2014 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, 2014. The strengthening of the Canadian dollar relative to other foreign currencies may negatively impact the Company's competitiveness and increase pressure on margins for new work.

Sufficiency of insurance

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

Medical malpractice

As a result of the Company executing the health services support contract for the Department of National Defence and the operation of 3 clinics, 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.

Long-term Outlook

Management continues to believe that the Company is well positioned for sustained growth in the long term. The Company operates in markets that will continue to require the services that the Company offers. To further assure itself of a stable source of revenues, the Company will continue to focus on increasing the percentage of its revenues derived from recurring business while pursuing new business in adjacent and non-government markets. The recent strengthening of the company's backlog provides an added degree of confidence for the realization of future revenues.

The Systems Engineering Division has been working within a sustainable satellite sector and the division is expecting new opportunities to arise as systems adopting the latest technologies will be required by customers wishing to maintain and improve their service offerings. Custom manufacturing activity levels will continue to be directly dependent upon SED's customers' requirements. Continuing volatility in orders is anticipated as both government and commercial customers continue to re-examine their traditional spending patterns. Recent delays, deferrals and cancellations of DND capital procurements are creating intense competition for available work. Changes in the relative value of the Canadian dollar will impact the Systems Engineering Division's competitiveness on projects denominated in foreign currencies.

The Business and Technology Services Division's services are adaptable to many different markets. Currently, its strength lies in providing program management and delivery services to the Department of National Defence. Management believes that in the long term, this department and many others within the federal government will continue to require more support services from private enterprises to supplement their current workforce. However, current cost cutting initiatives in the federal government have already had a negative impact on traditional BTS revenue sources and it is anticipated that the continued roll out of these initiatives could further impact demand, at least in the short term. Management believes that the types of service the division offers will continue to be attractive to government agencies in the long term and the division continues to assess how it can address new markets and seek new opportunities outside of the Federal Government. Recent acquisitions have 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. In support of its strategy to diversify our customer base and evolve our service line capabilities, the division will continue to look for future acquisition opportunities while at the same time enhancing its ongoing investment in business development and marketing initiatives.

Additional Information

Additional information about the Company such as the Company's 2014 Annual Information Form and Management Circular can be found on SEDAR at www.SEDAR.com

Dated: December 4, 2014

Management's Statement of Responsibility

The accompanying consolidated financial statements of Calian Technologies Ltd. and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements include some amounts that are based on management's best estimates that have been made using careful judgment.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling its responsibilities, management of Calian has developed and continues to maintain systems of internal accounting controls including written policies and procedures and segregation of duties and responsibilities.

Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this report through its Audit Committee. The Audit Committee meets periodically with management to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the financial statements and financial reporting matters. The Audit Committee also meets periodically with the external auditors to review and discuss the financial statements and financial reporting matters.

The financial statements have been audited by Deloitte LLP, Chartered Professional Accountants, who have full access to the Audit Committee with and without the presence of management.

Ray Basler
President and CEO
Ottawa, Ontario
November 12, 2014

Jacqueline Gauthier
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Calian Technologies Ltd.

We have audited the accompanying consolidated financial statements of Calian Technologies Ltd., which comprise the consolidated statements of financial position as at September 30, 2014 and September 30, 2013, and the consolidated statements of net profit, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Calian Technologies Ltd. as at September 30, 2014 and September 30, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants

Licensed Public Accountants

November 12, 2014
Ottawa, Ontario

Calian Technologies Ltd.
Consolidated Statements of Financial Position
As at September 30, 2014 and 2013
(Canadian dollars in thousands)

	NOTES	September 30, 2014	September 30, 2013
ASSETS			
CURRENT ASSETS			
Cash		$ 25,200	$ 29,782
Accounts receivable		39,249	37,903
Work in process	15	12,590	9,764
Prepaid expenses		1,700	1,442
Derivative assets	19	191	89
Total current assets		78,930	78,980
NON-CURRENT ASSETS			
Equipment	6	3,615	3,418
Application software	7	518	585
Acquired intangible assets	8	5,750	3,808
Goodwill	9	12,037	10,781
Total non-current assets		21,920	18,592
TOTAL ASSETS		$ 100,850	$ 97,572
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 24,013	$ 24,634
Unearned contract revenue	15	5,141	4,059
Share repurchase obligation	10	-	947
Derivative liabilities	19	473	14
Total current liabilities		29,627	29,654
NON-CURRENT LIABILITIES			
Deferred tax liabilities	14	1,672	1,121
Total non-current liabilities		1,672	1,121
TOTAL LIABILITIES		31,299	30,775
SHAREHOLDERS' EQUITY			
Issued capital	10	20,161	19,746
Contributed surplus	10	336	216
Retained earnings		49,128	47,089
Accumulated other comprehensive loss		(74)	(254)
TOTAL SHAREHOLDERS' EQUITY		69,551	66,797
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 100,850	$ 97,572

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

Approved by the Board
on November 12, 2014:

Kenneth Loeb
Chairman

Richard Vickers
Director

Calian Technologies Ltd.
Consolidated Statements of Net Profit

For the years ended September 30, 2014 and 2013

(Canadian dollars in thousands, except per share data)

	NOTES	2014	2013
Revenues		$ 211,257	$ 232,463
Cost of revenues		172,147	189,735
Gross profit		39,110	42,728
Selling and marketing		3,379	3,626
General and administration		16,141	16,650
Facilities		3,374	3,369
Depreciation of equipment and application software		1,077	1,095
Amortization of acquired intangible assets		924	544
Deemed compensation related to acquisitions	20	429	-
Bargain purchase gain	20	(330)	-
Profit before interest income and income tax expense		14,116	17,444
Interest income	13	271	352
Profit before income tax expense		14,387	17,796
Income tax expense – current	14	4,085	4,499
Income tax expense – deferred	14	(279)	242
Total income tax expense		3,806	4,741
NET PROFIT		$ 10,581	$ 13,055
Net profit per share:			
Basic	12	$ 1.44	$ 1.73
Diluted	12	$ 1.44	$ 1.73

Calian Technologies Ltd.
Consolidated Statements of Comprehensive Income
For the years ended September 30, 2014 and 2013
(Canadian dollars in thousands)

	NOTES	2014	2013
NET PROFIT		$ 10,581	$ 13,055
Other comprehensive income, net of tax			
Items that will be reclassified subsequently to net profit:			
Change in deferred gain (loss) on derivatives designated as cash flow hedges, net of tax of $65 (2012 - $346)		180	(951)
Other comprehensive income (loss), net of tax		180	(951)
COMPREHENSIVE INCOME		$ 10,761	$ 12,104

Calian Technologies Ltd.
Consolidated Statements of Changes in Equity
For the years ended September 30, 2014 and 2013
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2013		$ 19,746	$ 216	$ 47,089	$ (254)	$ 66,797
Comprehensive income		-	-	10,581	180	10,761
Dividend paid ($1.12 per share)		-	-	(8,263)	-	(8,263)
Issue of shares under employee					-	
share purchase plan	10,11	465	-	-	-	465
Share-based compensation expense	11	-	120	-	-	120
Share repurchase	10	(174)	-	(1,102)	-	(1,276)
Share repurchase obligation change	10	124	-	823	-	947
Balance September 30, 2014		$ 20,161	$ 336	$ 49,128	$ (74)	$ 69,551

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2012		$ 19,949	$ 164	$ 47,186	$ 697	$ 67,996
Comprehensive income		-	-	13,055	(951)	12,104
Dividend paid ($1.12 per share)		-	-	(8,472)	-	(8,472)
Issue of shares under employee share purchase plan	10,11	424	-	-	-	424
Issue of shares under stock option plan	10,11	99	(6)	-	-	93
Share-based compensation expense	11	-	58	-	-	58
Share repurchase	10	(757)	-	(4,844)	-	(5,601)
Share repurchase obligation change	10	31	-	164	-	195
Balance September 30, 2013		$ 19,746	$ 216	$ 47,089	$ (254)	$ 66,797

Calian Technologies Ltd.
Consolidated Statements of Cash Flows
For the years ended September 30, 2014 and 2013
(Canadian dollars in thousands)

	NOTES	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		$ 10,581	$ 13,055
Items not affecting cash:			
Interest income		(271)	(352)
Income tax expense		3,806	4,741
Employee stock purchase plan and share-based compensation expense	13	188	131
Depreciation and amortization expense	14	2,001	1,639
Deemed compensation related to acquisitions		429	-
Bargain purchase gain		(330)	-
		16,404	19,214
Change in non-cash working capital			
Accounts receivable		3,252	4,218
Work in process		(2,826)	(318)
Prepaid expenses		570	(639)
Accounts payable and accrued liabilities		(3,496)	3,777
Unearned contract revenue		1,083	(9,334)
		14,987	16,918
Interest received		287	380
Income tax paid		(3,836)	(4,765)
		11,438	12,533
CASH FLOWS USED IN FINANCING ACTIVITIES			
Issuance of common shares	10,11	388	449
Dividends		(8,263)	(8,472)
Repurchase of shares	10	(1,276)	(5,601)
		(9,151)	(13,624)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Equipment and application software expenditures	6,7	(1,188)	(725)
Acquisitions	20	(5,681)	(400)
		(6,869)	(1,125)
NET CASH OUTFLOW		(4,582)	(2,216)
CASH, BEGINNING OF PERIOD		29,782	31,998
CASH, END OF PERIOD		$ 25,200	$ 29,782

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2014 and 2013
(Canadian dollars in thousands, except per share amounts)

1. Basis of preparation

Calian Technologies 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.

Statement of compliance

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board ("IASB") and in place for September 30, 2014. These consolidated financial statements were prepared using the accounting policies as described in Note 2 – Summary of significant accounting policies.

Comparative amounts of depreciation and amortization expense as well as prepaid expenses and equipment have been reclassified in the Consolidated Statement of Net Profit and Consolidated Statement of Financial Position, respective for the year ended September 30, 2013, to conform to the current period presentation.

These consolidated financial statements for the year ended September 30, 2014 were authorized for issuance by the Board of Directors on November 12, 2014.

2. Summary of significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise stated.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Calian Ltd. located in Ottawa, Ontario, Primacy Management Inc. located in Burlington, Ontario, Med-Team Clinic Inc., located in Ottawa, Ontario, Amtek Engineering Services Ltd, located in Ottawa, Ontario and DWP Solutions Inc., located in Ottawa, Ontario. The results of the subsidiaries acquired in 2014 are included from the date of acquisition and onward. All transactions and balances between these companies have been eliminated on consolidation.

Basis of presentation

The consolidated financial statements are presented at historical cost unless otherwise noted. Historical cost is generally based on the fair value of the consideration given in exchange for the asset or liability.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

Fixed price contracts

Where the outcome of fixed-price construction contracts can be estimated reliably, revenue is recognized by reference to the completed activity of the contract as at each reporting period, measured based on the proportion of the costs incurred for work performed to date relative to the estimated total contract costs including warranty costs where applicable, except where this would not be representative of the stage of completion. As some contracts extend over more than one year, any revision in cost and profit estimates made during the course of the work is reflected in the accounting period in which the facts indicating a need for the revision become known. Variations in contract work, claims and incentive payments if any, are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of fixed-price construction contracts cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as work in process. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as unearned contract revenue. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as unearned contract revenue. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under accounts receivable.

2. Summary of significant accounting policies (continued)

Time and material contracts

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

Share-based compensation

The Company has a stock option plan for executives and other key employees. The Company measures and recognizes compensation expense based on the grant date fair-value of the stock options issued using the Black-Scholes pricing model. The offsetting credit is recorded in contributed surplus. Compensation expense is recorded on a straight-line basis over the vesting period, based on the Company's estimate of stock options that will ultimately vest. At each reporting period, the Company revises its estimate of the stock options expected to vest. The impact on the change in estimate, if any, is recognized over the remaining vesting period. Consideration paid by employees on the exercise of options and related amounts of contributed surplus are recorded as issued capital when the shares are issued.

The Company has an employee stock purchase plan available to all employees of the Company. The plan provides for a discount to the fair market value at the date the shares are issued. Compensation expense representing the discount is recorded as general and administration expenses with an offsetting amount to issued capital.

Operating leases

Leases entered into are classified as either finance or operating leases. Leases that transfer substantially all of the risks and rewards of ownership of property to the Company are accounted for as finance leases. For leases which are classified as operating leases, lease payments are recognized as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis. The Company does not have any finance leases.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net profit, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current tax

The tax currently payable is based on taxable income for the period using tax rates enacted or substantively enacted as at each reporting period and any adjustments to tax payable related to previous years. Taxable profit differs from profit as reported in the consolidated statement of net profit because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is recognized using the balance sheet method, providing for differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used for taxation purposes calculated using the tax rates in effect when the differences are expected to reverse.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

2. Summary of significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted at each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Equipment

Equipment, comprising leasehold improvements, furniture and computer equipment is stated at cost less accumulated depreciation and impairment losses, if any. The carrying value is net of related government assistance and investment tax credits. Depreciation is recognized in net profit on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the term of the leases. The estimated useful lives are as follows:

- Leasehold improvements: over the term of each lease
- Furniture: 10 years
- Computer equipment: 5 years

The estimated useful lives, residual values and depreciation methods are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

Application software

Application software is measured at cost less accumulated depreciation and is amortized on a straight-line basis over its estimated useful life not exceeding five years. The amortization method and estimate of useful life is reviewed annually.

Acquired intangible assets

Acquired intangible assets are measured at cost less accumulated amortization. Amortization is recognized in net profit on a straight-line basis over the estimated useful lives of the underlying assets. The estimated useful lives are as follows:

- Customer relationship Primacy: indefinite
- Other customer relationships: 3 to 5 years
- Contracts with customers: 3 to 5 years
- Non-competition agreements: 7 years

The customer relationship from the Primacy acquisition, representing expected renewals of the acquired contract, is considered to have an indefinite life based on the fact that the contract is renewable on an annual basis indefinitely. The amortization method and estimate of useful life for all other intangible assets is reviewed annually.

Impairment of equipment and application software

At each reporting period, management reviews the carrying amounts of its equipment, application software and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with an indefinite life are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, management estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units. The Company performs its annual review of intangible assets with an indefinite life on September 30th each year.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

2. Summary of significant accounting policies (continued)

Impairment of goodwill

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

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

Business acquisition

Acquisition of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes a payment subject to the retention of the principal shareholders, the amount is deemed to represent deferred compensation payable to such shareholders and therefore is excluded from the total consideration to the purchase and is expensed on a straight-line basis over the retention period in the Company's consolidated statement of net profit as deemed compensation related to acquisitions.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Foreign currency translation

Transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. At each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at each reporting period. Non-monetary items which are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in net profit in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currencies (see note below for hedging policy).

The functional currency of the parent company and its subsidiaries is the Canadian dollar.

2. Summary of significant accounting policies (continued)

Financial instruments

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

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

Financial assets

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

Cash	Fair value through profit or loss
Accounts receivable	Loans and receivables
Derivative assets	Fair value through profit or loss

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets at FVTPL are measured at fair value. Derivative assets are classified as FVTPL. Changes in fair value of financial assets other than derivatives are recognized in net profit and changes in fair values of derivatives are recognized in Other Comprehensive Income ("OCI").

Loans and receivables

Accounts receivable are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of financial assets have been impacted. Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Accounts receivable are assessed for impairment individually. Objective evidence of impairment could include the Company's past experience of collecting payments and an increase in the number of delayed payments past the average credit period.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Impairment losses, if any, are recognized in net profit. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When a accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in net profit, if any. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net profit to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Company's accounts payable and accrued liabilities and share purchase obligations are classified as other financial liabilities. Accounts payable and accrued liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Derivative liabilities are classified as FVTPL. The share purchase obligation is based on the fair value of the Company's shares at the end of each period.

2. Summary of significant accounting policies (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset (or financial liability) and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (cash disbursements), including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

Fair value hierarchy

The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

Level 1 values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within more than one level of the hierarchy, the level within which the fair value measurement is categorized is based on the Company's assessment of the lowest level input that is the most significant to the fair value measurement.

Derivative financial instruments and risk management

The Company enters into derivative financial instruments, mainly foreign exchange forward contracts to manage its foreign exchange rate risk. The Company's policy does not allow management to enter into derivative financial instruments for trading or speculative purposes. Foreign exchange forward contracts are entered into to manage the foreign exchange rate risk on foreign denominated financial assets and liabilities and foreign denominated forecasted transactions.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into with transaction costs recognized in profit and loss. Derivatives are subsequently re-measured to their fair value at each reporting period. The resulting gain or loss is recognized in net profit immediately unless the derivative is designated and effective as a hedging instrument, in which event the effective portion of changes in the fair value of the derivative is recorded in other comprehensive income and is recognized in net profit when the hedged item affects net profit. The Company expenses transaction costs related to its foreign exchange contracts. Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place at the end of the period. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months.

Hedge accounting

Management designates its foreign exchange forward contracts as either hedges of the fair value of recognized assets or liabilities (fair value hedges) or hedges of highly probable forecast transactions and firm commitments (cash flow hedges).

At the inception of the hedge relationship, the Company documents the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Furthermore, both at the hedge's inception and on an ongoing basis, the Company also assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in net profit immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in net profit, and is included in other gains and losses, if any. Amounts deferred in other comprehensive income are recycled in net profit in the periods when the hedged item is recognized in net profit, in the same line of the statement of net profit as the recognized hedged item.

2. Summary of significant accounting policies (continued)

Hedge accounting is discontinued when management revokes the hedging relationship; the hedging instrument is terminated or no longer qualifies for hedge accounting. For fair value hedges, the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net profit from that date. For cash flow hedges, any cumulative gain or loss deferred in other comprehensive income at that time remains in other comprehensive income and is recognized when the forecast transaction is ultimately recognized in net profit. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in other comprehensive income is recognized immediately in net profit.

Note 19 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

3. Changes in accounting policies

Financial statement presentation

In June 2011, the IASB amended IAS 1, Presentation of financial statements. The principal change resulting from the amendments to IAS 1 is a requirement to group items within OCI that may be reclassified to the statement of income. The amendments also reaffirmed existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amended IAS 1 was adopted effective January 1, 2013. The presentation of the Company's consolidated financial statement was not impacted by these amendments.

Fair value measurement

In May 2011, the IASB released IFRS 13, Fair value measurement. IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS when another IFRS requires or permits the item to be measured at fair value. IFRS 13 was adopted effective October 1, 2013. The adoption of this standard had no significant impact on the Company's consolidated financial statements.

4. Future changes in accounting policies

IFRS 15 Revenue from Contracts with Customers

In April 2014, the IASB released IFRS 15 – Revenue from Contracts with Customers. The Standard replaces IAS11 Construction Contracts and IAS18 Revenue, providing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

IFRS 9 Financial instruments

IFRS 9 was issued by the IASB in November 2009 and October 2010, was amended in 2013 and finalized in July 2014 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39").

IFRS 9 uses a single approach to determine whether a financial instrument is measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of those financial instruments. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

5. Critical accounting judgments and key sources of estimation uncertainty

Estimates:

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates.

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

Purchase Price allocation

As described in Note 20 of these financial statements, the Company acquired several companies during the year. As a result of these acquisitions, management was required to estimate the fair values of each identifiable asset and liability acquired through the acquisitions. Fair value of cash, accounts receivable, accounts payable and equipment were estimated to approximate their carrying values at the date of the transaction. The fair values of the intangible assets were valued using the excess earnings method under the income approach.

Contingent consideration

As described in Note 20 of these financial statements, the Company acquired several companies during the year. As a result of these acquisitions, management was required to estimate the fair value of the contingent consideration by assessing the likelihood of each business meeting the earn-out targets required for the contingent consideration to be paid.

Percentage completion on revenue

A significant portion of the Systems Engineering Division's revenue is derived from fixed-price contracts which can extend over more than one reporting period. Revenue from these fixed-price projects is recognized using the percentage of completion method using management's best estimate of the costs and related risks associated with completing the projects. The greatest risk on fixed-price contracts is the possibility of cost overruns. Management's approach to revenue recognition is tightly linked to detailed project management processes and controls. The information provided by the project management system combined with a knowledgeable assessment of technical complexities and risks are used in estimating the percentage complete.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Income taxes

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

Contingent liabilities

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

Allowance for doubtful accounts receivable

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

For the years ended September 30, 2014, September 30, 2013, no material changes in estimates have been made.

Judgments:

Financial instruments

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

Accounting policy for equipment and intangible assets

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

Deferred income taxes

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

(Canadian dollars in thousands, except per share amounts)

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

Judgments (continued):

Percentage complete methodology

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

6. Equipment

	September 30, 2014			September 30, 2013		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Leasehold improvements	$ 1,510	$ 926	$ 584	$ 1,510	$ 778	$ 732
Equipment and furniture	11,251	8,220	3,031	10,554	7,868	2,686
	$ 12,761	$ 9,146	$ 3,615	$ 12,064	$ 8,646	$ 3,418

7. Application software

	September 30, 2014			September 30, 2013		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Application software	$ 2,655	$ 2,137	$ 518	$ 2,510	$ 1,925	$ 585

8. Acquired intangible assets

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

	September 30, 2014			September 30, 2013		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Customer relationship related to Primacy	$ 1,909	$ -	$ 1,909	$ 1,909	$ -	$ 1,909
Other customer relationships	3,815	1,400	2,415	-	-	-
Contract with customers	1,485	292	1,193	2,574	815	1,759
Non-competition agreements	249	78	171	187	47	140
Trademarks	78	16	62	-	-	-
	$ 7,536	$ 1,786	$ 5,750	$ 4,670	$ 862	$ 3,808

9. Goodwill

	September 30, 2014			September 30, 2013		
	Cost	Impairment	Carrying amount	Cost	Impairment	Carrying amount
Business and Technology Services	$ 12,037	$ -	$12,037	$ 10,781	$ -	$ 10,781
	$ 12,037	$ -	$12,037	$ 10,781	$ -	$ 10,781

(Canadian dollars in thousands, except per share amounts)

9. Goodwill (continued)

Annual test for impairment

Goodwill recorded is allocated in its entirety to the Business and Technology Services division. At September 30, 2014 and 2013, management assessed the recoverable amount of goodwill and concluded that a goodwill impairment charge was not required. The recoverable amount of the cash-generating units or groups of cash generating units was assessed by reference to value in use.

For the years ended September 30, 2014 and 2013, the following key assumptions were used in arriving at value in use for the Business and Technology Services segment. Outlooks for the next three years were used as the basis for the future cash flow estimates and the future estimated growth rates were validated by comparing to average growth levels for the previous 5 years.

	Discount factors	Growth rates
Business and Technology Services	13% to 16%	0 to 3%

10. Issued capital and reserves

Issued capital

Authorized: Unlimited number of common shares, no par value
Unlimited number of preferred shares issuable in series, no par value

Issued: Common shares as follows:

	September 30, 2014		September 30, 2013	
	Shares	Amount	Shares	Amount
Balance, beginning of year	7,396,333	$ 19,746	7,650,657	$ 19,949
Shares issued under stock option plan	-	-	5,000	99
Shares issued under employee stock purchase plan	22,075	465	23,346	424
Shares repurchased for cash	(64,500)	(174)	(282,670)	(757)
Balance, end of year	7,353,908	$ 20,037	7,396,333	$ 19,715
Share purchase obligation	-	124	-	31
Issued capital	7,353,908	$ 20,161	7,396,333	$ 19,746

Share repurchase

During 2014 (2013), the Company acquired 64,500 (282,670) of its outstanding common shares at an average price of $19.79 ($19.82) per share for a total of $1,276 ($5,601) including related expenses, through normal course issuer bids in place during the periods. The excess of the purchase price over the stated capital of the shares has been charged to retained earnings.

Subsequent to the date of the statement of financial position, on November 12, 2014, the date of issuance of these consolidated financial statements, the Company declared a dividend of $0.28 per common share payable on December 11, 2014.

Share repurchase obligation

The Company has an agreement with a third party which provides for automatic repurchases of the Company's shares without the Company having the ability to influence the purchases. The financial liability is determined as the present value of the maximum redemption amount at the end of each of the reporting periods. The reclassification adjustment is made by reducing issued capital and retained earnings with an offsetting adjustment to the share repurchase obligation account. An income adjustment will result for any shares repurchased below the maximum amount per share. The amount of income recognized in each reporting period is insignificant.

Contributed surplus

Contributed surplus comprises the value of share-based compensation expense related to options granted that have not been exercised or have expired unexercised.

(Canadian dollars in thousands, except per share amounts)

11. Share-based compensation

Stock Options

The Company has an established stock option plan, which provides that the Board of Directors may grant stock options to eligible directors and employees. 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. The plan provides for a 10% rolling maximum number of options available for grant. As at September 30, 2014 (2013), a total of 735,390 (739,633) common shares are reserved for issuance under the plan with 415,000 (240,000) options currently outstanding of which 290,600 (197,000) are exercisable. During the period ended September 30, 2014 (2013), 175,000 (NIL) options were issued.

No consideration is payable on the grant of an option.

Option series:	Number	Grant date	Expiry date price	Exercise	Fair value at grantdate
(1) Issued February 14, 2011	95,000	February 14, 2011	February 13, 2016	$ 18.65	$ 1.27
(2) Issued August 13, 2012	155,000	August 13, 2012	August 12, 2017	$ 20.54	$ 0.99
(3) Issued September 3, 2014	175,000	September 3, 2014	September 3, 2019	$ 19.70	$ 1.18

For the option issuance dated February 14, 2011, 28,000 options vested immediately with the remaining vesting through to February 14, 2013. For the option issuance dated August 13, 2012, 49,000 options vested immediately with the remaining vesting through to August 13, 2014. For the option issuance dated September 3, 2014, 50,600 options vested immediately with the remaining vesting through to September 3, 2016.

The weighted average fair value of options granted during the year ended September 30, 2014 was $1.18 per option calculated using the Black-Scholes option pricing model. Where relevant, the expected life of the options was based on historical data for similar issuance and adjusted based on management's best estimate for the effects of non-transferability, exercises restrictions and behavioural considerations. Expected volatility is based on historical price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that options would be exercised on average 4.0 years after vesting. The following assumptions were used to determine the fair value of the options granted in 2014:

Grant date share price	$ 19.70
Exercise price	$ 19.70
Expected price volatility	17.4%
Expected option life	4.0 yrs
Expected dividend yield	5.7%
Risk-free interest rate	1.4%
Forfeiture rate	0%

	September 30, 2014		September 30, 2013	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	240,000	$ 19.87	245,000	$ 19.85
Exercised	-	$ -	(5,000)	$ 18.65
Expired	-	$ -	-	$ -
Granted	175,000	$ 19.70	-	$ -
Outstanding, end of year	415,000	$ 19.80	240,000	$ 19.87

At September 30, 2014 (2013) there were 415,000 (240,000) options outstanding with a weighted average remaining contractual life of 3.4 years of which 290,600 were exercisable at a weighted average price of $19.84.

(Canadian dollars in thousands, except per share amounts)

11. Share-based compensation (continued)

Employee stock purchase plan

The Company has an Employee Stock Purchase Plan ("ESPP") under which most full-time employees may register once a year to participate in one of two offering periods. Eligible employees may purchase common shares by payroll deduction throughout the year at a price of 80% of the fair market value at the beginning of the initial offering period or may purchase common shares at a price of 90% of the fair market value at the beginning of the interim offering period. Such shares are issued from treasury once a year at the end of the offering periods.

A total of 500,000 common shares have been authorized for issuance under the plan. During 2014 (2013), the Company issued 22,075 (23,346) shares under the ESPP at an average price of $17.54 ($15.22) for a total of $388 ($355) and employees subscribed to approximately 21,000 common shares, which will be issued during fiscal 2015 at an average price of $18.03. Since inception and including the issuance of shares in 2014, 389,533 shares have been issued under the plan. During 2014 (2013), the Company recorded compensation expense of $68 ($73) relating to its ESPP.

12. Net profit per share

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

	2014	2013
Weighted average number of common shares – basic	7,367,517	7,559,437
Additions to reflect the dilutive effect of employee stock options	-	3,532
Weighted average number of common shares – diluted	7,367,517	7,562,969

Options that are anti-dilutive because the exercise price was greater than the average market price of the common shares are not included in the computation of diluted net profit per share. For 2014 and 2013, 155,000 options were excluded from the above computation of diluted weighted average number of common shares because they were anti-dilutive.

Net profit is the measure of profit or loss used to calculate profit per share.

13. Interest income

Interest income is comprised of the following amounts:

	2014	2013
Interest earned on cash balances	$ 255	$ 324
Accreted interest on contingent consideration	16	28
Interest income	$ 271	$ 352

14. Income taxes

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

	2014	2013
Earnings before income taxes	$ 14,387	$ 17,796
Tax provision at the combined basic Canadian federal and provincial income tax rate of 26.7% (2013: 26.6%)	3,834	4,734
Increase (decrease) resulting from:		
Effect of expenses that are not deductible in determining taxable profits	75	64
Impact of rate reductions on valuation of deferred income tax assets	34	33
Other	(137)	(90)
Income tax expense	$ 3,806	$ 4,741

The effective income tax rate in the year was 26.7% compared to 26.6% in the prior year.

(Canadian dollars in thousands, except per share amounts)

14. Income taxes (continued)

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

Deferred tax assets (liabilities)	Equipment and Software application	Acquired intangible assets	Cash flow hedging reserve	Other	Total
Deferred tax liability at September 30, 2013	$ (240)	$ (1,009)	$ 22	$ 106	$ (1,121)
Acquired intangibles	-	(760)	-	-	(760)
Credited (debited) to statement of net profit	62	245	-	(28)	279
Credited (debited) to other comprehensive income	-	-	(70)	-	(70)
Deferred tax liability at September 30, 2014	$ (178)	$ (1,524)	$ (48)	$ 78	$ (1,672)

Deferred tax assets (liabilities)	Equipment and Software application	Acquired intangible assets	Cash flow hedging reserve	Other	Total
Deferred tax liability at September 30, 2012	$ (225)	$ (1,153)	$ (310)	$ 476	$ (1,212)
Credited (debited) to income statement	(15)	144	-	(370)	(241)
Credited (debited) to other comprehensive income	-	-	332	-	332
Deferred tax liability at September 30, 2013	$ (240)	$ (1,009)	$ 22	$ 106	$ (1,121)

15. Construction contracts

Construction contract revenues recorded during the period ended September 30, 2014 is $55,413 (2013: $70,434) all of which is from the Systems Engineering division.

Contracts in progress at the balance sheet date:

	2014	2013
Construction costs incurred plus recognized profits less recognized losses to date	$ 149,087	$ 154,326
Less: progress billings	(142,352)	(149,261)
	$ 6,735	$ 5,065

Recognized and included in the financial statements as amounts due:

	2014	2013
From customers under construction contracts	$ 11,605	$ 9,124
To customers under construction contracts	(4,870)	(4,059)
	$ 6,735	$ 5,065

At September 30, 2014 (2013), advances received from customers for contract work amounted to $5,141 ($4,059).

As at September 30, 2014 (2013), the Company had $2,266 ($1,397) in holdbacks receivable. Holdbacks are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. The entire amount for 2014 and 2013 is considered to be a short-term receivable.

(Canadian dollars in thousands, except per share amounts)

16. Commitments

The Company has non-cancellable lease agreements for office space and equipment with terms extending to the year 2024. The aggregate minimum rental payments under these arrangements are as follows:

2015	$	2,391
2016		881
2017		771
2018		745
2019		141
thereafter		541
Total	$	5,470

17. Contingencies

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

18. Segmented information

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

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

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

For the year ended September 30, 2014

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenue	$ 55,413	$ 155,844	$ -	$ 211,257
Profit before interest income and income tax expense	9,451	6,833	(2,168)	14,116
Interest income (Note 13)				271
Income tax expense (Note 14)				(3,806)
Net profit				$ 10,581
Total assets other than cash and goodwill	$ 23,048	$ 40,463	$ 102	$ 63,613
Goodwill	-	12,037	-	12,037
Cash	-	-	25,200	25,200
Total assets	$ 23,048	$ 52,500	$ 25,302	$ 100,850
Equipment and application software expenditures	$ 978	$ 210	$ -	$ 1,188
Acquired intangible assets (Note 20)	$ -	$ 2,865	$ -	$ 2,865
Acquired goodwill (Note 20)	$ -	$ 1,256	$ -	$ 1,256

(Canadian dollars in thousands, except per share amounts)

18. Segmented information (continued)

For the year ended September 30, 2013

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenue	$ 70,434	$ 162,029	$ -	$ 232,463
Profit before interest income and income tax	10,578	9,015	(2,149)	17,444
Interest income (Note 13)				352
Income tax expense (Note 14)				(4,741)
Net profit				13,055
Total assets other than cash and goodwill	$ 19,909	$ 37,001	$ 99	$ 57,009
Goodwill	-	10,781	-	10,781
Cash	-	-	29,782	29,782
Total assets	$ 19,909	$ 47,782	$ 29,881	$ 97,572
Equipment and application software expenditures	$ 402	$ 323	$ -	$ 725

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

	2014	2013
Canada	84%	82%
United States	12%	11%
Europe	4%	6%

Revenues are attributed to foreign countries based on the location of the customer. No assets are held outside of Canada. Revenues from various departments and agencies of the Canadian federal government for the year ended September 30, 2014 and 2013 represented 68% (66%) of the Company's total revenues. Both operating segments conduct business with this major customer.

19. Financial instruments and risk management

Capital Risk Management

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

(Canadian dollars in thousands, except per share amounts)

19. Financial instruments and risk management (continued)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

Foreign currency risk related to contracts

The Company is exposed to foreign currency fluctuations on its cash balance, accounts receivable, accounts payable and future cash flows related to contracts denominated in a foreign currency. Future cash flows will be realized over the life of the contracts. The Company utilizes derivative financial instruments, principally in the form of forward exchange contracts, in the management of its foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and therefore, the Company's policy is to hedge 100% of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm contractually related commitments on projects. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge ineffectiveness has historically been insignificant.

The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At September 30, 2014, the Company had the following forward foreign exchange contracts:

Type		Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, 2014
	BUY	36,434	USD	October 2014	$ 40,806	$ 189
	SELL	2,322	EURO	October 2014	3,285	1
	BUY	78	GBP	October 2014	142	1
Derivative assets						$ 191
	SELL	54,764	USD	October 2014	$ 61,336	$ 286
	SELL	1,000	USD	September 2015	1,120	62
	SELL	1,000	USD	September 2016	1,120	62
	SELL	1,000	USD	September 2017	1,120	62
	SELL	51	GBP	October 2014	93	1
Derivative liabilities						$ 473

(Canadian dollars in thousands, except per share amounts)

19. Financial instruments and risk management (continued)

At September 30, 2013, the Company had the following forward foreign exchange contracts:

Type		Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, 2013
	SELL	1,000	USD	September 2015	$ 1,057	$ 27
	SELL	1,000	USD	September 2016	1,057	27
	BUY	1,000	USD	September 2017	1,057	27
	BUY	21,947	USD	October 2013	22,617	5
	BUY	918	EURO	October 2013	1,277	3
Derivative assets						$ 89
	SELL	12,493	USD	October 2013	$ 12,875	$ 3
	SELL	3,822	EURO	October 2013	5,316	11
Derivative liabilities						$ 14

A 10% strengthening of the Canadian dollar against the following currency at September 30, 2014 would have increased (decreased) other comprehensive income by the amounts shown below.

	September 30, 2014
USD	$ 2,172
EURO	299
GDP	(4)
	$ 2,467

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and its foreign exchange contracts.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, federal and provincial government departments and large private companies. A significant portion of the Company's accounts receivable is from long-time customers. At September 30, 2014 (2013), 68% (66%) of its accounts receivable were due from the Government of Canada. Over the last five years the Company has not suffered any significant credit related losses.

The Company limits its exposure to credit risks from counter-parties to derivative financial instruments by dealing only with major Canadian financial institutions. Management does not expect any counter-parties to fail to meet their obligations.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	September 30, 2014	September 30, 2013
Cash	$ 25,200	$ 29,782
Accounts receivable	39,249	37,903
Derivative assets	191	89
	$ 64,640	$ 67,774

(Canadian dollars in thousands, except per share amounts)

19. Financial instruments and risk management (continued)

The aging of accounts receivable at the reporting date was:

	September 30, 2014	September 30, 2013
Current	$ 38,431	$ 36,048
Past due (61-120 days)	741	1,831
Past due (> 120 days)	77	24
	$ 39,249	$ 37,903

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At September 30, 2014 the Company has a cash balance of $25,200 and has an unsecured credit facility, subject to annual renewal. The credit facility permits the Company to borrow funds up to an aggregate of $10,000. As at September 30, 2014 an amount of $612 was drawn to issue a letter of credit to meet customer contractual requirements. All of the Company's financial liabilities have contractual maturities of less than 30 days.

Fair Value

The fair value of accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity. Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place on September 30, 2014 and represent the difference between the hedge rate and the exchange rate at the end of the reporting period.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 of the fair value hierarchy based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2014 Level 1	2014 Level 2
Cash	$ 25,200	$ -
Derivative financial assets	-	191
Derivative financial liabilities	-	(473)
Total	$ 25,200	$ (282)

	2013 Level 1	2013 Level 2
Cash	$ 29,782	$ -
Derivative financial assets	-	89
Derivative financial liabilities	-	(14)
Total	$ 29,782	$ 75

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2014 and 2013.

20. Acquisitions

Primacy Management Inc. ("Primacy")

On February 28, 2012, the Company acquired all of the outstanding shares of Primacy. Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Primacy an additional $400 and $600 if Primacy attains specified levels of profit before interest, taxes, depreciation and amortization (EBITDA) for the years ending February 28, 2013 and 2014 respectively. During the period ended March 31, 2014 (2013), the Company paid $600 ($400) respectively related to the first and second year earn-out.

Med-Team Clinic Inc. ("Med-Team")

On December 31, 2013, the Company acquired all of the outstanding shares of Med-Team for consideration of $930 of which $661 was paid on the date of closing. A discounted amount of $269 is payable contingently. Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Med-Team $300 if Med-Team attains specified levels of EBITDA for the years ended December 31, 2015 and 2016. The amount of $269 represents the estimated fair value of the Company's obligation at the acquisition date. Med-Team's principal business activity relates to the management of medical clinics. Med-Team was acquired so as to expand the Company's health service offerings. The acquisition is a business combination to which IFRS3 Business Combinations applies. Acquisition-related costs amounting to $37 have been excluded from the consideration and have been recognized as an expense in the current year ended September 30, 2014, within the general and administration line item in the consolidated statement of net profit.

Amtek Engineering Services Ltd. ("Amtek")

Effective April 30, 2014, the Company acquired all of the outstanding shares of Amtek for a purchase price of up to $5,890. Of this amount $3,490 was paid on the date of closing, $600 was placed in escrow and $1,800 is payable contingently.

Under the contingent payment arrangement, the Company is required to pay the former shareholders of Amtek an additional $900 and $900 if Amtek attains specified levels of earnings before interest, taxes, depreciation and amortization (EBITDA) for the years ended April 30, 2015 and 2016 respectively. With the current levels of contracts signed by Amtek and its ability to maintain its market share, management believes that Amtek can achieve its earn-out target in both years. Amtek's principal business activity relates to the provision of engineering services mainly within the Federal Government. Amtek was acquired so as to expand the Company's training and support service offerings.

A portion of the amount placed in escrow and a portion of the contingent payment totaling $1,914 are subject to the retention of the principal shareholders for a period of two years. These amounts are deemed to represent deferred compensation payable to such shareholders and therefore are excluded from the total consideration of the purchase and will be expensed in the Company's consolidated statement of net profit as deemed compensation related to acquisitions on a straight-line basis over the retention period.

Acquisition-related costs amounting to $65 have been excluded from the consideration and have been recognized as an expense in the current year ended September 30, 2014, within the general and administration line item in the consolidated statement of net profit.

DWP Solutions Inc. (DWP)

Effective June 30, 2014, the Company acquired all of the outstanding shares of DWP for a purchase price of up to $1,757. Of this amount $859 was paid during the current year ended September 30, 2014, $225 was placed in escrow and $675 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of DWP an additional $300 and $375 if DWP attains specified levels of earnings before interest, taxes, depreciation and amortization (EBITDA) for the years ended June 30, 2015 and 2016 respectively. With the current levels of contracts signed by DWP and the ability to grow in its selected market segment, management believes that DWP can achieve its earn-out target in both years. Therefore, the amount of $675 represents the estimated fair value of the Company's obligation at the acquisition date. DWP's principal business activity relates to the provision of IT cyber security professionals mainly within the Federal Government. DWP was acquired so as to expand the Company's IT service offerings.

The amount placed in escrow totaling $225 is subject to the retention of the principal shareholders for a period of two years. This amount is deemed to represent deferred compensation payable to such shareholders and therefore is excluded from the total consideration to the purchase and will be expensed in the Company's consolidated statement of net profit as deemed compensation related to acquisitions on a straight-line basis over the retention period.

Acquisition-related costs amounting to $50 have been excluded from the consideration and have been recognized as an expense in the current year ended September 30, 2014, within the general and administration line item in the consolidated statement of net profit.

(Canadian dollars in thousands, except per share amounts)

20. Acquisitions (continued)

These acquisitions are business combination to which IFRS 3 Business Combination applies.

	Med-Team	Amtek	DWP
Consideration:			
Cash	$ 661	$ 3,490	$ 859
Prepaid		600	225
Contingent consideration	269	486	675
Contingent payments	-	1,314	-
Total purchase price	$ 930	$ 5,890	$ 1,759
Less: deemed compensation	-	1,914	225
Consideration to allocate	$ 930	$ 3,976	$ 1,534

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

	Med-Team	Amtek	DWP
Current assets:			
Cash	$ 56	$ 818	$ (120)
Accounts receivable	171	3,274	1,345
Prepaid expenses	-	4	-
	$ 227	$ 4,096	$ 1,225
Non-current assets:			
Equipment	$ 4	$ 14	$ -
Intangibles assets	381	1,720	765
	$ 385	$ 1,734	$ 765
Current liabilities:			
Accounts payable and accrued liabilities	$ (125)	$ (1,068)	$ (965)
Deferred tax liability	(100)	(456)	(204)
	$ (225)	$ (1,524)	$ (1,169)
Net assets acquired	$ 387	$ 4,306	$ 821
Goodwill arising on acquisition:			
Total consideration allocated	$ 930	$ 3,976	$ 1,534
Net assets acquired	(387)	(4,306)	(821)
Bargain purchase gain	-	(330)	-
	$ 543	$ -	$ 713

(Canadian dollars in thousands, except per share amounts)

20. Acquisitions (continued)

Substantially all of the goodwill that arose on acquisitions relates to the value of the taxable temporary differences attributable to the acquired intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for tax purposes. The bargain purchase gain on the Amtek acquisition relates to the fact that a significant portion of the purchase price was deemed to be compensation as described above. As a result, the identifiable tangible and intangible assets on acquisition were higher than the consideration allocated which resulted in a bargain purchase gain.

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

	Primacy	Med-Team	Amtek	DWP
Consideration paid in cash	$ 600	$ 661	$ 4,090	$ 1,084
Less: cash balances acquired or overdraft assumed	-	(56)	(818)	120
	$ 600	$ 605	$ 3,272	$ 1,204

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

Had this business combination been effected at October 1, 2013, the revenue and net earnings of the Company for the year ended September 30, 2014 would have been higher by $13,578 and $750 respectively. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group for the year ending September 30, 2014 and provide a reference point for comparison in future periods.

21. Pension Plan

The Company sponsors a defined contribution pension plan for certain of its employees. Required contributions have been fully funded to September 30, 2014. For the year 2014 (2013), an amount of $772 ($755) was expensed related to this pension plan.

22. Related Party Transactions

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

Compensation of key management personnel:

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

	September 30, 2014	September 30, 2013
Short-term benefits	$ 2,173	$ 2,228
Share-based payments	184	39
	$ 2,357	$ 2,267

Corporate Information

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Board of Directors

Kenneth J. Loeb
Chief Executive Officer, Loeb Packaging Ltd.
Chairman, Calian Technologies Ltd.
Chair of the Nominating Committee

David Tkachuk
Senator
Chair of the Compensation Committee

Richard Vickers, FCA
Consultant
Chair of the Audit Committee

Major General (retired) C. William Hewson
Consultant
Chair of the Governance Committee

Ray Basler
President and CEO, Calian Technologies Ltd.

George Weber
President and CEO,
Royal Ottawa Health Care Group

Common Share Information

The Company's common shares are listed for trading on the Toronto Stock Exchange under the symbol CTY.

Dividend Policy

The Company intends to continue to declare a quarterly dividend in line with its overall financial performance and cash flow generation. Decisions on dividend payments are made on a quarterly basis by the Board of Directors. There can be no assurance as to the amount of such dividends in the future.

Annual Meeting of Shareholders

The Annual General Meeting of the Shareholders of Calian will be held on February 6, 2015 at 2:00 p.m. at the Brookstreet Hotel, Ottawa, Ontario, Canada. All shareholders are invited to attend. The telephone number of the Brookstreet Hotel is 613.271.1800.

2014

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