Management Discussion and Analysis – December 31, 2018:

(Canadian dollars in thousands, except per share data)

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

IFRS and non-GAAP measures:

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

RESULTS OF OPERATIONS

Revenues:

For the first quarter of 2019, revenues were $79,921 compared to $76,169 reported for the same period in 2018 representing a 5% increase from the prior year.

The general business environment in 2019 is strong in both divisions. The Company's healthy backlog and its recent acquisitions is expected to provide a solid year.

Systems Engineering's (SED) revenues were $18,268 in the quarter representing a 16% decrease when compared to the $21,738 recorded for the same period in the previous year. Although the division continues to work with a solid backlog of work, some ground system contracts are still ramping up in comparison to several contracts in full swing, resulting in lower revenues this year compared to the prior year's Q1. Product sales continue to provide solid recurring revenues and interest continues to grow with some of our newer products with new customers entering the mix. SED's other business units continue to be busy in a range of activities including custom software development projects, and contract manufacturing for commercial and defence customers. As well, IntraGrain activities did not play a major role in revenues this quarter as the IntraGrain business is seasonal and most of its activities will be reflected in the third and fourth quarter.

Business and Technology Services (BTS) revenues were $61,653 in the quarter representing a 13% increase when compared to the $54,431 recorded for the same period in the previous year. The acquisitions for the quarter and year-to-date account for 4% of the growth in the respective periods with the remainder achieved through organic growth. All services lines showed significant increase in demand for their services with existing customers and saw the benefit of various new wins.

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

Gross margin

Gross margin was 19.7% for the first quarter of 2019 compared to the 19.4% recorded for the same period in the previous year.

Gross margin in Systems Engineering was 22.9% in the first quarter of 2019 compared to the 23.7% recorded for the same period in the previous year. Gross margin in the quarter reflects solid execution across all business units impacted by customer driven development projects that, until fully developed, result in lower margins. In addition, the influx of new resources to fulfil project requirements continue to have an impact on margins as these resources were trained and ramped up on projects. Although the mix of revenues plays a significant role in the margin ultimately realized, product sales and excellent project execution helped the division maintain a solid level of margins.

Gross margin in Business and Technology Services was 18.7% for the first quarter of 2019 compared to the 17.7% recorded for the same periods in the previous year. The inclusion of the Secure Tech and PriorityOne acquisitions account for approximately 0.2% improvement for the year with the remaining uplift being attributed to solid execution on existing contracts. The division continues to evolve its service offering with a goal to increase gross margins realized in the longer term.

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

Operating expenses:

For the period ended December 31, 2018, selling and marketing, general and administration and facilities totalled $10,034 or 12.6% of revenues compared to $8,308 or 11.0% of revenues reported in 2018. Operating costs increased over the prior year due to the inclusion of operating costs related to the Secure Tech, PriorityOne and IntraGrain acquisitions, continued focus on selling and marketing efforts and service line evolution capabilities, improvements and expansion of our facilities, the expensing of share-based compensation in addition to certain one-time costs. Management will continue to challenge discretionary spending; however, continued prudent investments are required to support the evolution of the Company's service lines.

EBITDA [(1)]:

EBITDA [(1)] for the first quarter was $5,687 compared to $6,492 in the same quarter of the previous year. EBITDA decreased from a combination of timing and mix in revenues in the SED division and the seasonality of our recent acquisitions; where most of the revenues and profits from the Secure Tech and IntraGrain businesses are generated in the second and third fiscal quarters.

Depreciation:

For the period ended December 31, 2018, depreciation was $495 which is higher than the $412 recorded in fiscal 2018 due to increased capital spending and assets acquired through acquisition in recent past.

Amortization of intangibles:

For the period ended December 31, 2018, amortization of intangibles remained stable at $280 compared to $299 in the same period of fiscal 2018.

Income taxes:

The provision for income taxes was $1,447 or 30.1% of earnings before tax compared to $1,649 in 2018 or 28.3% of earnings before tax. The difference in effective tax rates is primarily due to the increase in non-tax-deductible items such as the acquisition interest accretion. The effective tax rate for 2019, prior to considering the impact of non-taxable transactions and adjustments to reflect actual tax provision as filed, is expected to be approximately 27.0%.

Net profit:

As a result of the foregoing, in the first quarter of 2019 the Company recorded net profit of $3,355 or $0.43 per share basic and diluted, compared to $4,179 or $0.54 per share basic diluted in the same quarter of the prior year.

(1) See reconciliation regarding non-GAAP measures below

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

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

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

Reconciliation of EBITDA	First Quarter 2019	First Quarter 2018
Profit before interest and income tax expense	$ 4,912	$ 5,781
Depreciation	495	412
Amortization of intangibles	280	299
EBITDA	$ 5,687	$ 6,492

BACKLOG

The Company's backlog at December 31, 2018 was $1,354 million with terms extended to fiscal 2030. This compares to $1,228 million reported at September 30, 2018. Contracted Backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas Option Renewals represent customers' options to further extend existing contracts under similar terms and conditions.

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for 2019, 2020 and beyond based on management's current visibility into customers' existing requirements. Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately $92 million. The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

(dollars in millions)	Fiscal 2019	Fiscal 2020	Beyond 2020	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	$ 184	$ 189	$ 155	$ 528	$ 68	$ 596
Option Renewals	10	29	695	734	24	758
TOTAL	$ 194	$ 218	$ 850	$ 1,262	$ 92	$ 1,354
Business and Technology Services	$ 148	$ 148	$ 822	$ 1,118	$ 92	$ 1,210
Systems Engineering	46	70	28	144	-	144
TOTAL	$ 194	$ 218	$ 850	$ 1,262	$ 92	$ 1,354

FINANCIAL CONDITION AND CASHFLOWS

Operating activities:

Cash inflows from operating activities for the period ended December 31, 2018 were $978 compared to cash outflows of $7,410 in 2018. Cash flows have been positively impacted by the decrease in accounts receivable offset by large payments made on accounts payable. The aging of the accounts receivable remains in excellent health. These variations in cash flows are not considered unusual and reflect normal working capital fluctuations associated with the ebbs and flows of the business.

Financing activities:

During the period ended December 31, 2018 (2017), the Company paid dividends of $0.28 ($0.28) per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

During the period ending December 31, 2018, the Company utilized its short-term credit facility and held a balance of $12,000 at period end compared to NIL in same period of the previous year.

Investing activities:

During the period ended December 31, 2018, the Company invested $393 in capital assets compared to $513 in the same quarter of the prior year, in addition to the $494 invested in capitalized R&D compared to the $333 in the previous year. The increase is attributable to additional manufacturing equipment purchased at SED and the move to the new Calian head office in Ottawa.

The Company also acquired IntraGrain as explained in Note 13 to the financial statements.

Capital resources:

At December 31, 2018 the Company had a short-term credit facility of $40,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. The Company has drawn $12,000 against the credit facility and an amount of $50 was used to issue a letter of credit to meet customer contractual requirements. Management believes that Calian has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

ADOPTION OF NEW ACCOUNTING RULES AND IMPACT ON FINANCIAL RESULTS

In the current Quarter the Company adopted IFRS 9 Financial Instruments, and IFRS 15 Contracts with Customers. The accounting policies and impacts to the financial statements are expressed in note 2 to the financial statements.

SELECTED QUARTERLY FINANCIAL DATA

	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17
REVENUES	$ 79,921	$ 78,536	$ 72,989	$ 77,375	$ 76,169	$ 72,321	$ 67,332	$ 67,063
EBITDA (1)	$ 5,687	$ 6,704	$ 6,064	$ 6,076	$ 6,492	$ 6,572	$ 5,504	$ 6,190
Net profit	$ 3,355	$ 4,385	$ 3,915	$ 3,971	$ 4,179	$ 4,327	$ 3,498	$ 4,186
EBITDA per share								
Basic	$ 0.73	$ 0.87	$ 0.79	$ 0.79	$ 0.85	$ 0.86	$ 0.72	$ 0.82
Diluted	$ 0.73	$ 0.86	$ 0.78	$ 0.78	$ 0.84	$ 0.85	$ 0.72	$ 0.81
Net profit per share								
Basic	$ 0.43	$ 0.57	$ 0.51	$ 0.51	$ 0.54	$ 0.57	$ 0.46	$ 0.55
Diluted	$ 0.43	$ 0.56	$ 0.50	$ 0.50	$ 0.54	$ 0.56	$ 0.45	$ 0.55

SEASONALITY

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

As well, recent acquisitions, specifically Secure Tech and IntraGrain generate most of their revenue in the second and third quarter of the Company's fiscal year.

OUTLOOK

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

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

The company has completed seven acquisitions in the past 6 years and will proactively look for companies that can accelerate its growth strategy with a focus on customer diversification and service line evolution.

Calian's SED Division has been working within a sustainable satellite sector and is expecting opportunities to continue to arise as systems adopting the latest technologies will be required by customers wishing to maintain and improve their service offerings and react to an increasing demand for bandwidth. SED continues to invest in communications products, software development and manufacturing equipment to strengthen its competitive position and is diversifying its customer base in the agriculture, cable and defence sectors. In the short-term, activity levels in custom manufacturing will continue to be directly dependent upon SED's customers' requirements and continuing volatility in orders is anticipated as both government and commercial customers continue to re-examine their traditional spending patterns. Any delays, deferrals and cancellations of DND capital procurements will create intense competition for available manufacturing work. Finally, changes in the relative value of the Canadian dollar may negatively or positively impact the Systems Engineering Division's competitiveness on projects denominated in foreign currencies.

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

GUIDANCE

Traditional markets in which Calian operates are stable and management expects organic revenue and earnings growth in most or all of its service lines through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2019 to be in the range of $330 million to $360 million, EBITDA per share in the range of $3.60 to $3.90 and net profit in the range of $2.10 to $2.40 per share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim quarter ended December 31, 2018, the Company adopted additional controls to ensure contracts are recognized under IFRS 15 appropriately. These additional controls entail review of contracts to ensure proper recognition. There have been no other changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

FORWARD-LOOKING STATEMENT

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Calian to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; and the impact of consolidations in the business services industry. Additional risks and uncertainties affecting Calian can be found in Management’s Discussion and Analysis of Results of Operations and its Annual Information Form for the fiscal year ended September 30, 2018 on SEDAR at www.sedar.com. If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein and our current objectives or strategies may change. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

Date: February 5, 2019