Management Discussion and Analysis – March 31, 2019:

(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

	Three months ended		Six months ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Revenues	$ 83,414	$ 77,375	$ 163,335	$ 153,544
Gross Margin	$ 16,982	$ 14,786	$ 32,703	$ 29,586
Operating Expenses	$ 10,419	$ 8,710	$ 20,453	$ 17,018
EBITDA	$ 6,563	$ 6,076	$ 12,250	$ 12,568

Revenues:

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 $18,180 in the quarter and $36,448 on a year-to-date representing a 9% and 13% decrease, respectively, when compared to the $20,052 and $41,790 recorded for the same periods in the previous year. Although the division continues to work with a solid backlog of contracts, some ground system contracts are still ramping up, resulting in lower revenues this year compared to the prior year's. 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 $65,234 in the quarter and $126,887 on a year-to-date basis representing 14% increases when compared to the $57,323 and $111,754 recorded for the same period in the previous year. During the quarter and year-to-date, the acquisitions account for 3% of the growth in the respective periods with the remainder achieved through organic growth. All service lines continue to show growth which is a result of strong delivery, and new customer 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 in Systems Engineering was 26.8% in the second quarter of 2019 and 24.9% on a year-to-date basis compared to the 23.7% and 24.5% recorded for the same periods in the previous year. Gross margin in the quarter reflects solid execution across all business units. There are a number of projects ramping up, but resource utilization was a priority, and resulted in a positive margin impact. 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 18.6% for the three and six-month periods ending March 31, 2019 compared to the 18.7% and 17.3% recorded for the same periods in the previous year. The margin increase on a year to date basis is due to strong execution on ongoing 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:

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 one-time costs in the second quarter only relating to the acquisition of SatService of $600. 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) increased in the second quarter when compared to the same period in the prior year due to an increase in sales volume and stronger margins, offset by increased operating expenses. On a year to date basis at March 31, 2019 EBITDA(1) is slightly down when comparing to the same period in the previous year primarily due to timing and revenue mix in the SED division and the seasonality of our recent acquisitions.

Depreciation:

For the six month period ended March 31, 2019, depreciation was $1,035 which is higher than the $826 recorded in fiscal 2018 due to increased capital spending and assets acquired through acquisitions.

Amortization of intangibles:

For the six month period ended March 31, 2019, amortization of intangibles increased to $702 when compared to $598 in the same period of fiscal 2018. This increase is due to the acquisition of IntraGrain.

Accretion Expense:

For the year-to-date period ended March 31, 2019, accretion expense increased to $379 when compared to the $47 in the same period in the prior year. This increase is due to the acquisition of IntraGrain.

Income taxes:

The provision for income taxes was $2,970 or 29.1% of earnings before tax compared to $3,175 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%.

(1) See reconciliation regarding non-GAAP measures below

Net profit:

As a result of the foregoing, in the second quarter of 2019, the Company recorded net profit of $3,864 or $0.50 per share basic and $0.49 diluted, compared to $3,925 or $0.51 per share basic and diluted in the same quarter of the prior year. For the six-month period ended March 31, 2019, the Company recorded net profit of $7,219 or $0.93 per share basic and $0.92 per share diluted, compared to $8,058 or $1.06 per share basic and $1.05 per share diluted in the same period of the prior year.

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	**Second Quarter 2019**	**Second Quarter 2018** *Restated (Note 2)*	**YTD 2019**	**YTD 2018** *Restated (Note 2)*
Net Profit	$ 3,864	$ 3,925	$ 7,219	$ 8,058
Depreciation	540	414	1,035	826
Amortization	422	299	702	598
Interest Expense (Income)	(23)	(65)	(55)	(135)
Accretion interest expense related to acquisitions	237	23	379	47
Income Tax Expense	1,523	1,480	2,970	3,175
EBITDA	$ 6,563	$ 6,076	$ 12,250	$ 12,568

BACKLOG

The Company's backlog at March 31, 2019 was $1,355 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 $134 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.

	Remainder of Fiscal 2019	Fiscal 2020	Beyond 2020	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	$ 134,729	$ 211,213	$ 152,886	$ 498,828	$ 102,046	$ 600,874
Option Renewals	2,899	24,041	695,352	722,292	32,000	754,292
TOTAL	$ 137,628	$ 235,254	$ 848,238	$ 1,221,120	$ 134,046	$ 1,355,166
Business and Technology Services	$ 101,253	$ 160,213	$ 815,005	$ 1,076,471	$ 134,046	$ 1,210,517
Systems Engineering	36,375	75,041	33,233	144,649	-	144,649
TOTAL	$ 137,628	$ 235,254	$ 848,238	$ 1,221,120	$ 134,046	$ 1,355,166

FINANCIAL CONDITION AND CASHFLOWS

Operating activities:

Cash inflows from operating activities for the three-month period ended March 31, 2019 were $4,201 compared to cash inflows of $4,093 for the same period of 2018. Cash flows have been positively impacted by the decrease in accounts receivable offset by large payments made on accounts payable, purchases of inventory to meet seasonal demand, increases in unearned contract revenue, and increase in work in process asset. 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. 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 March 31, 2019, the Company’s total unearned revenue amounted to $8,034 compared to $10,042 at September 30, 2018.

Financing activities:

During the three-month period ended March 31, 2019 (2018), the Company paid dividends of $0.28 ($0.28 per share), and $0.56 ($0.56) per share on a year to date basis. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

During the six-month period ending March 31, 2019, the Company utilized its short-term credit facility and held a balance of $17,000, $5,000 of which was drawn in Q2 compared to NIL in same period of the previous year. The additional draw was to support the payment of $9.8M on April 1, 2019 related to the acquisition of SatService.

Investing activities:

During the three-month period ended March 31, 2019, the Company invested $1,312 in capital assets compared to the $503 in the same period in the prior year. During the six-month period ended March 31, 2019, the Company invested $1,705 in capital assets when compared to $1,016 in the same period in the prior year, in addition to the $1,023 invested in capitalized R&D compared to the $420 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 resulting in cash outflows of $11,000 as explained in Note 16 to the financial statements.

Capital resources:

At March 31, 2019 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 $17,000 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

	Q2/19	Q1/19	Q4/18 *Restated (Note 2)*	Q3/18 *Restated (Note 2)*	Q2/18 *Restated (Note 2)*	Q1/18 *Restated (Note 2)*	Q4/17	Q3/17
REVENUES	$ 83,414	$ 79,921	$ 78,535	$ 72,989	$ 77,375	$ 76,169	$ 72,321	$ 67,332
EBITDA [(1)]	$ 6,563	$ 5,687	$ 6,703	$ 6,064	$ 6,076	$ 6,492	$ 6,572	$ 5,504
Net profit	$ 3,864	$ 3,355	$ 4,336	$ 3,897	$ 3,925	$ 4,179	$ 4,327	$ 3,498
EBITDA per share								
Basic	$ 0.84	$ 0.73	$ 0.86	$ 0.78	$ 0.79	$ 0.85	$ 0.86	$ 0.72
Diluted	$ 0.84	$ 0.73	$ 0.86	$ 0.78	$ 0.78	$ 0.84	$ 0.85	$ 0.72
Net profit per share								
Basic	$ 0.50	$ 0.43	$ 0.57	$ 0.51	$ 0.51	$ 0.54	$ 0.57	$ 0.46
Diluted	$ 0.49	$ 0.43	$ 0.56	$ 0.50	$ 0.51	$ 0.54	$ 0.56	$ 0.45

SEASONALITY

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The Company's revenues and earnings have historically been subject to some quarterly seasonality due to the timing of vacation periods, statutory holidays, industry specific seasonal cycles and the timing and delivery of milestones for significant projects. IntraGrain and Secure Tech, two recent acquisitions generate a significant portion of their revenues during the second, third and fourth quarter of the Company's fiscal year.

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 $2.05 to $2.35 per share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim quarter ended March 31, 2019, 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: May 14, 2019