Management Discussion and Analysis – June 30, 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		Nine months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenues	$ 88,795	$ 72,989	$ 252,130	$ 226,532
Gross Margin	$ 18,040	$ 15,023	$ 50,743	$ 44,608
Operating Expenses	$ 11,292	$ 8,959	$ 31,745	$ 25,977
EBITDA	$ 6,748	$ 6,064	$ 18,998	$ 18,631

Revenues:

The general business environment in 2019 remains strong in both divisions. The Company has recognized its fourth consecutive quarter of record revenue through progress in both divisions. The Company has continued to win and renew deals and currently has a backlog of $1.4 billion.

Systems Engineering's (SED) revenues were $25,177 in the quarter and $61,625 on a year-to-date representing a 56% and 6% increase, respectively, when compared to the $16,148 and $57,938 recorded for the same periods in the previous year. The current quarter's growth was the result of a strong contribution from IntraGrain, a seasonal business which historically records the majority of its revenue in the company's third and fourth quarter. The acquisition of SatService at the beginning of the quarter also contributed to the increase in revenues.

Business and Technology Services (BTS) revenues were $63,618 in the quarter and $190,505 on a year-to-date basis representing a 12% and 14% increase, respectively when compared to the $56,841 and $168,595 recorded for the same period in the previous year. Growth this quarter and the year to date have come from our Health and Training offerings, who have both expanded to new customers and continued to grow their scope of work under existing contracts. Acquisitions in our IT and Engineering groups accounted for 4% 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 24.6% in the third quarter of 2019 and 24.7% on a year-to-date basis compared to the 31.7% and 26.5% recorded for the same periods in the previous year. During our third quarter, margins were positively impacted by the additions of product revenue, mainly through our acquisition of IntraGrain. This was offset by cost overruns on longer term, complex engineering projects, and underutilization due to delays to the beginning of new projects. On a year to date basis, the contribution of larger ground system projects at lower margin profiles have contributed to a lower margin mix.

Gross margin in Business and Technology Services was 18.6% for the three and nine-month periods ending June 30, 2019 compared to the 17.4% 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:

Year to date operating costs on a consolidated basis have increased by $5,768. This was the result of continued investment in the Company's selling and marketing efforts, the evolution of our service line offerings, improvements and expansion of our facilities, and the introduction of long-term share-based compensation. In addition, recent acquisitions of Secure Tech, PriorityOne, IntraGrain and SatService have resulted in new operating expenses of $2,185. The Company also incurred one-time costs in the second and third quarters relating to the acquisition of SatService of $771. 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 $684 in the third 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 June 30, 2019 EBITDA(1) has increased by $366 when comparing to the same period in the previous year. Year to date increases are slightly lower than quarter to date increases primarily due to timing and revenue mix in the SED division and the seasonality of our recent acquisitions.

Depreciation:

For the nine month period ended June 30, 2019, depreciation was $1,598 which is higher than the $1,268 recorded in fiscal 2018 due to increased capital spending and assets acquired through acquisitions.

Amortization of intangibles:

For the nine month period ended June 30, 2019, amortization of intangibles increased to $1,708 when compared to $869 in the same period of fiscal 2018. This increase is due to the acquisition of IntraGrain and SatService accompanied by acquisitions in the prior year contributing to full year amortization in the current year.

Accretion Expense:

For the year-to-date period ended June 30, 2019, accretion expense increased to $726 when compared to the $70 in the same period in the prior year. This increase is due to the acquisition of IntraGrain and Satservice.

(1) See reconciliation regarding non-GAAP measures below

Income taxes:

The provision for income taxes was $4,114 or 26.3% of earnings before tax compared to $4,675 in 2018 or 28.1% 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 third quarter of 2019, the Company recorded net profit of $4,297 or $0.54 per share basic and $0.54 diluted, compared to $3,897 or $0.50 per share basic and $0.50 per share diluted in the same quarter of the prior year. For the nine-month period ended June 30, 2019, the Company recorded net profit of $11,516 or $1.47 per share basic and $1.47 per share diluted, compared to $11,954 or $1.55 per share basic and $1.54 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.

	Three months ended		**Nine months ended**	
Reconciliation of EBITDA	**June 30, 2019**	**June 30, 2018** *Restated (Note 2)*	**June 30, 2019**	**June 30, 2018** *Restated (Note 2)*
Net Profit	$ 4,297	$ 3,897	$ 11,516	$ 11,954
Depreciation	563	442	1,598	1,268
Amortization	1,006	271	1,708	869
Interest Expense (Income)	41	(69)	(14)	(205)
Accretion interest expense related to acquisitions	347	23	726	70
Other income	(650)	-	(650)	-
Income Tax Expense	1,144	1,500	4,114	4,675
EBITDA	$ 6,748	$ 6,064	$ 18,998	$ 18,631

BACKLOG

The Company's backlog at June 30, 2019 was $1,397 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 $161 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	$ 78,064	$ 236,020	$ 172,610	$ 486,694	$ 122,637	$ 609,331
Option Renewals	706	14,443	733,254	748,403	38,803	787,206
TOTAL	$ 78,770	$ 250,463	$ 905,864	$ 1,235,097	$ 161,440	$ 1,396,537
Business and Technology Services	$ 55,781	$ 176,430	$ 861,489	$ 1,093,700	$ 161,440	$ 1,255,140
Systems Engineering	22,989	74,033	44,375	141,397	-	141,397
TOTAL	$ 78,770	$ 250,463	$ 905,864	$ 1,235,097	$ 161,440	$ 1,396,537

FINANCIAL CONDITION AND CASHFLOWS

Operating activities:

Cash inflows from operating activities for the three-month period ended June 30, 2019 were $7,704 compared to cash inflows of $4,408 for the same period of 2018. Cash flows have been positively impacted by results to date, offset by increases in accounts payable and work in process. 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 June 30, 2019, the Company's total unearned revenue amounted to $11,365 compared to $10,042 at September 30, 2018.

Financing activities:

During the three-month period ended June 30, 2019 (2018), the Company paid dividends of $0.28 ($0.28 per share), and $0.84 ($0.84) per share on a year to date basis. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

During the nine-month period ending June 30, 2019, the Company utilized its short-term credit facility and held a balance of $12,000, compared to NIL in same period of the previous year. In the current quarter the Company repaid $5,000 on the loan.

Investing activities:

During the three-month period ended June 30, 2019, the Company invested $761 in capital assets compared to the $1,390 in the same period in the prior year. During the nine-month period ended June 30, 2019, the Company invested $2,466 in capital assets when compared to $2,311 in the same period in the prior year.

During the nine-month period ended June 30, 2019, the Company invested $1,672 in capitalized R&D compared to the $712 in the previous year. The increase in investing activities 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 and SatService, with additional payment for ISR earn outs resulting in cash outflows relating to acquisitions of $20,849 as explained in Note 16 to the financial statements.

Capital resources:

At June 30, 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 $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.

SELECTED QUARTERLY FINANCIAL DATA

	Q3/19	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
REVENUES	$ 88,795	$ 83,414	$ 79,921	$ 78,535	$ 72,989	$ 77,375	$ 76,168	$ 72,321
EBITDA (1)	$ 6,748	$ 6,563	$ 5,687	$ 6,703	$ 6,064	$ 6,076	$ 6,491	$ 6,572
Net profit	$ 4,297	$ 3,864	$ 3,355	$ 4,336	$ 3,897	$ 3,925	$ 4,132	$ 4,327
EBITDA per share								
Basic	$ 0.86	$ 0.84	$ 0.73	$ 0.86	$ 0.78	$ 0.79	$ 0.85	$ 0.86
Diluted	$ 0.85	$ 0.84	$ 0.73	$ 0.86	$ 0.78	$ 0.78	$ 0.84	$ 0.85
Net profit per share								
Basic	$ 0.54	$ 0.50	$ 0.43	$ 0.57	$ 0.51	$ 0.51	$ 0.54	$ 0.57
Diluted	$ 0.54	$ 0.49	$ 0.43	$ 0.56	$ 0.50	$ 0.51	$ 0.54	$ 0.56

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.

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.

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 $335 million to $355 million, EBITDA per share in the range of $3.40 to $3.65 and net profit in the range of $2.05 to $2.25 per share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim quarter ended June 30, 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: August 7, 2019