Management Discussion and Analysis – March 31, 2015:

(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 second quarter of 2015, revenues were $61,042 compared to $51,186 reported for the same period in 2014 representing a 19% increase from the prior year. For the six-month period ending March 31, 2015 revenues were $117,942 compared to $102,988 for 2014, an increase of 15%.

Systems Engineering's (SED) revenues were $16,967 in the quarter and $31,932 on a year-to-date basis representing a 37% and 19% increase respectively when compared to the $12,380 and $26,910 recorded for the same periods in the previous year. Engineering, manufacturing and test related revenues showed an increase relative to the same period of last year. Due to the project nature of its business, the SED division is susceptible to significant variation in volumes of activity from period to period. During the quarter, the division experienced the positive effects of recent contract signings on realized revenue. It is expected that these projects will enhance revenues further as they reach the implementation phase.

Business and Technology Services (BTS) revenues were $44,075 in the quarter and $85,110 on a year-to-date basis representing a 14% and 12% increase respectively when compared to the $38,806 and $76,078 recorded for the same periods in the previous year. During 2015 revenues from the division's traditional business lines were relatively consistent with the same periods of last year, showing two quarters now where we did not encounter a drop in year over year revenues due to federal government constraints. Accordingly, revenues generated from acquisitions made during fiscal 2014 accounted for the increased revenue in 2015.

Management expects that the marketplace for the near term will continue to be unsettled and very competitive and the timing of new contract awards is always subject to delay. Our backlog provides a reasonable level of revenue assurance on existing contracts and new opportunities continue to arise. However, 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.

Gross margin

Gross margin was 16.8% in the second quarter of 2015 and 17.7% on a year-to-date basis compared to the 17.9% and 18.5% recorded for the same periods in the previous year. Both divisions are showing lower gross margins this year.

Gross margin in Systems Engineering was 22.8% in the second quarter of 2015 and 25.4% on a year-to-date basis compared to the 26.9% and 27.1% recorded for the same periods in the previous year. With the project mix biased towards lower-margin materials and subcontracts, SED margins were reduced compared to the prior year.

Gross margin in Business and Technology Services was 14.4% in the second quarter of 2015 and 14.8% on a year-to-date basis compared to the 15.0% and 15.5% recorded for the same periods in the previous year. The traditional BTS business which is concentrated within the federal government continued to experience margin contraction due to competitive pressures. 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 also had a dilutive effect on reported margin percentages. Stiff competition on new work is expected to temper any significant near-term improvement.

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.

Operating expenses:

For the six-month period ended March 31, 2015, selling and marketing, general and administration and facilities totalled $12,385 or 10.6% of revenues compared to $11,519 or 11.2% of revenues reported in 2014. With growing revenues, operating costs as a percentage of sales decreased. The inclusion of the results of recently acquired businesses has helped to lower this percentage as the acquired companies had a lower cost structure than our traditional business.

EBITDA(1):

EBITDA(1) for the second quarter was $3,989 million compared to $3,508 in the same quarter of the previous year. For the six-month period ended March 31, 2015, EBITDA(1) was $8,346 million compared to $7,574 in the same period of the previous year

Depreciation:

For the six-month period ended March 31, 2015, depreciation was $652 which is higher than the $532 recorded in fiscal 2014 due to capital upgrades made to certain manufacturing assets in the SED division.

Amortization of intangibles:

As a result of the completion of three business acquisitions during fiscal 2014, for the six-month period ended March 31, 2015, amortization of intangibles increased to $716 compared to $291 in fiscal 2014.

Deemed compensation related to acquisitions:

This unusual item results 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 is excluded from the total consideration of the purchase.

For the six-month period ended March 31, 2015, deemed compensation related to acquisition amounted to $534 compared to $nil recorded in fiscal 2014. For the full year ended September 30, 2015, the amount of deemed compensation is expected to be $1,070.

Income taxes:

The provision for income taxes was $1,827 or 28.0% of earnings before tax compared to $1,751 in 2014 or 25.4% of earnings before tax. The difference in effective rates is primarily due to the non-deductibility of the deemed compensation amounts referred to in the above paragraph. The effective tax rate for 2015, prior to considering the impact of non-taxable transactions and adjustments to reflect actual tax provision as filed, is expected to be approximately 26.5%.

Net profit:

As a result of the foregoing, in the second quarter of 2015 the Company recorded net profit of $2,208 or $0.30 per share basic and diluted, compared to $2,364 or $0.32 per share basic and diluted in the same quarter of the prior year. Adjusted net profit(1) for the second quarter was $2,475 or $0.34 per share basic and diluted, compared to $2,364 or $0.32 per share basic and diluted in the same quarter of the previous year. For the six-month period ended March 31, 2015 the Company recorded net profit of $4,676 or $0.64 per share basic and diluted, compared to $5,140 or $0.70 per share basic and diluted in the same period of the prior year. Adjusted net profit(1) for the six-month period ended March 31, 2015 was $5,210 or $0.71 per share basic and diluted, compared to $5,140 or $0.70 per share basic and diluted in the same period of the previous year.

(1) *See reconciliation regarding non-GAAP measures below*

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

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

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

Reconciliation of adjusted net profit	Second Quarter 2015	Second Quarter 2014	YTD 2015	YTD 2014
NET PROFIT	$ 2,208	$ 2,364	$ 4,676	$ 5,140
Deemed compensation related to acquisitions	267	-	534	-
Adjusted net profit	$ 2,475	$ 2,364	$ 5,210	$ 5,140

Reconciliation of EBITDA	Second Quarter 2015	Second Quarter 2014	YTD 2015	YTD 2014
Profit before interest income and income tax expense	$ 3,046	$ 3,089	$ 6,444	$ 6,751
Depreciation	318	264	652	532
Amortization	358	155	716	291
Deemed compensation related to acquisitions	267	-	534	-
EBITDA	$ 3,989	$ 3,508	$ 8,346	$ 7,574

BACKLOG

The Company’s backlog at March 31, 2015 was $505 million with terms extended to fiscal 2018. This compares to $523 million reported at September 30, 2014. Contracted Backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas Option Renewals represent customers’ options to further extend existing contracts under similar terms and conditions.

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. The following table represents management’s best estimate of the backlog realization for 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 $159 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 2015	Fiscal 2016	Beyond 2016	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	$ 109	$ 138	$ 29	$ 276	$ 148	$ 424
Option Renewals	2	16	52	70	11	81
TOTAL	$ 111	$ 154	$ 81	$ 346	$ 159	$ 505
Business and Technology Services	$ 78	$ 124	$ 59	$ 261	$ 159	$ 420
Systems Engineering	33	30	22	85	-	85
TOTAL	$ 111	$ 154	$ 81	$ 346	$ 159	$ 505

FINANCIAL CONDITION AND CASHFLOWS

Operating activities:

Cash outflows from operating activities for the six-month period ended March 31, 2015 were $6,637 compared to cash outflows of $249 in 2014. Although cash earnings were improved over the prior year, the cash flows have been negatively impacted by the increase in accounts receivable with the SED division invoicing a significant level of milestones near the end of the quarter which will only be collected next quarter. 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, 2015, the Company's total unearned revenue amounted to $8,580. This compares to $5,141 at September 30, 2014, with the increase primarily attributable to advance billings for work to be performed in a future period.

Financing activities:

During the six-month periods ended March 31, 2015 (2014), the Company paid quarterly dividends of $0.56 ($0.56) per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

During the six-month periods ended March 31, 2015 (2014), the Company repurchased nil (64,500) common shares through its normal course issuer bid at an average price of $nil ($19.79).

Investing activities:

During the six-month periods ended March 31, 2015 (2014), the Company paid $nil ($544) for various acquisitions as described in these financial statements. Also, the Company invested $2,409 in capital assets which included significant upgrades to the manufacturing assets in the SED division. Capital acquisitions are expected to revert to more normal levels for the balance of the year.

Capital resources:

At March 31, 2015 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 used to issue a letter of credit to meet customer contractual requirements. Management believes that Calian has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

ADOPTION OF NEW ACCOUNTING RULES AND IMPACT ON FINANCIAL RESULTS

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

SELECTED QUARTERLY FINANCIAL DATA

	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13
REVENUES	$ 61,042	$ 56,000	$ 54,430	$ 53,839	$ 51,186	$ 51,802	$ 57,502	$ 58,123
EBITDA(1)	$ 3,989	$ 4,357	$ 4,525	$ 4,117	$ 3,508	$ 4,066	$ 4,487	$ 4,762
Net profit	$ 2,208	$ 2,468	$ 2,575	$ 2,866	$ 2,364	$ 2,776	$ 3,024	$ 3,276
Adjusted net profit(1)	$ 2,475	$ 2,735	$ 2,842	$ 2,698	$ 2,364	$ 2,776	$ 3,024	$ 3,276
Net profit per share								
Basic	$ 0.30	$ 0.34	$ 0.35	$ 0.39	$ 0.32	$ 0.38	$ 0.41	$ 0.43
Diluted	$ 0.30	$ 0.34	$ 0.35	$ 0.39	$ 0.32	$ 0.38	$ 0.41	$ 0.43
Adjusted net profit per share(1)								
Basic	$ 0.34	$ 0.37	$ 0.39	$ 0.37	$ 0.32	$ 0.38	$ 0.41	$ 0.43
Diluted	$ 0.34	$ 0.37	$ 0.39	$ 0.37	$ 0.32	$ 0.38	$ 0.41	$ 0.43

SEASONALITY

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

OUTLOOK

Management 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 Company's strong contract backlog provides substantial confidence for the realization of future revenues.

The Systems Engineering 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. 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 have created 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 across Canada. While the majority of this work has been with Department of National Defence, management believes that in the long term, this department and many others within the federal government and private sector will continue to require more support services from private enterprises to supplement their current workforce. However, the pending election and budget balancing initiatives in the federal government, could further negatively 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 invest and has been successful in entering 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.

GUIDANCE

Management expects revenue growth over the prior year will be achieved through a combination of the stabilizing of our traditional markets, the incremental revenue of recent acquisitions and 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. In addition, the requirement to categorize certain acquisition payments as compensation expense will negatively impact fiscal 2015 earnings by approximately $0.15 per share. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2015 to be in the range of $235 million to $ 265 million, net profit per share in the range of $1.30 to $1.55 per share and adjusted net profit(1) in the range of $1.45 to $1.70 per share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim quarter ended March 31, 2015, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

FORWARD-LOOKING STATEMENT

Certain information included in this management discussion and analysis 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; scarce number of qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with major customers; technical risks on fixed price projects; general industry and market conditions and growth rates; international growth and global economic conditions, currency exchange rate fluctuations; and the impact of consolidations in the business services industry. For additional information with respect to certain of these and other factors, please see the Company’s most recent annual report and other reports filed by the Company with the Ontario Securities Commission. 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. 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.

The foregoing discussion and analysis should be read in conjunction with the financial statements for the second quarter of 2015, and with the Management Discussion and Analysis in the 2014 annual report, including the section on risks and opportunities.

Date: May 6, 2015