Management Discussion and Analysis – March 31, 2017:

(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 2017, revenues were $67,063 compared to $68,100 reported for the same period in 2016 representing a 2% decrease from the prior year. For the six-month period ending March 31, 2017 revenues were $135,769 compared to $132,633 for 2016, an increase of 2%.

Systems Engineering's (SED) revenues were $16,103 in the quarter and $36,240 on a year-to-date basis representing an 8% and 2% decrease respectively when compared to the $17,484 and $37,164 recorded for the same periods in the previous year. Work continued at a steady state in all areas of the division including systems engineering, defense related and commercial contract manufacturing. However this quarter reflected a higher amount of labor based revenue in comparison to the revenues dominated by the RF Systems in the same quarter of last year which have a higher non-labor content. This is a result of several RF system projects coming to successful completion along with others just in the early design phase.

Business and Technology Services (BTS) revenues were $50,960 in the quarter and $99,530 on a year-to-date basis representing a 1% and 4% increase, respectively, when compared to the $50,616 and $95,469 recorded for the same periods in the previous year. Demand in most of the division's mainstay contracts continues to be strong and we are achieving success in our customer diversification efforts.

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. 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 20.0% for the second quarter of 2017 and 19.0% on a year-to-date basis compared to the 17.7% and 17.9% recorded for the same periods in the previous year.

Gross margin in Systems Engineering was 32.7% in the second quarter of 2017 and 27.5% on a year-to-date basis compared to the 28.1% and 26.2% recorded for the same periods in the previous year. The higher margins for the quarter and year-to-date periods in comparison to the previous year are due to the successful completion of several projects allowing the retirement of end of project risks, solid product sales and a higher labor component in the current mix of projects which yields higher margins. The results reflect another solid quarter of performance in all of SED's business areas. 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 15.9% for the three and six month periods ending March 31, 2017 compared to the 14.2% and 14.7% recorded for the same periods in the previous year. Gross Margin in this recent quarter was positively impacted by 2 additional work days with Easter 2017 falling in the third quarter 2017 this year compared to Q2 in 2016. In addition, solid execution on our contracts combined with recent contract renewals and wins provided for an additional uplift in margins. While competition on new work is expected to temper any significant near-term improvement, 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 and diligent negotiation of supplier costs 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 six-month period ended March 31, 2017, selling and marketing, general and administration and facilities totalled $14,366 or 10.6% of revenues compared to $13,166 or 10.0% of revenues reported in 2016. Operating costs increased over the prior year as a result of continued focus on selling and marketing efforts and service line evolution capabilities. Management will continue to challenge discretionary spending; however, prudent investments are required to support the evolution of the Company's service lines.

EBITDA(1):

EBITDA(1) for the second quarter was $6,190 compared to $5,408 in the same quarter of the previous year. For the six-month period ended March 31, 2017, EBITDA(1) was $11,395 compared to $10,581 in the same period of the previous year.

Depreciation:

For the six-month period ended March 31, 2017, depreciation was $707 which is higher than the $621 recorded in 2016 as a result of higher levels of equipment purchases in 2016.

Amortization of intangibles:

Amortization of intangibles decreased to $485 compared to $624 in fiscal 2016, with a portion of the prior acquired intangibles are now fully amortized.

Deemed compensation related to acquisitions and Bargain purchase gain:

Deemed compensation was fully amortized in fiscal 2016.

Income taxes:

The provision for income taxes was $2,703 or 26.3% of earnings before tax compared to $2,488 in 2016 or 28.2% of earnings before tax. The difference in effective rates is primarily due to the non-deductibility of the deemed compensation amounts recorded in 2016. The effective tax rate for 2017, prior to considering the impact of non-taxable transactions and adjustments to reflect actual tax provision as filed, is expected to be approximately 26.9%.

Net profit:

As a result of the foregoing, in the second quarter of 2017 the Company recorded net profit of $4,186 or $0.55 per share basic and diluted, compared to $3,262 or $0.44 per share basic and diluted in the same quarter of the prior year. Adjusted net profit(1) for the second quarter was $4,186 or $0.55 per share basic and diluted, compared to $3,529 or $0.48 per share basic and diluted in the same quarter of the previous year. For the six-month period ended March 31, 2017 the Company recorded net profit of $7,565 or $1.00 per share basic and diluted, compared to $6,325 or $0.86 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, 2017 was $7,565 or $1.00 per share basic and diluted, compared to $6,859 or $0.93 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 2017	Second Quarter 2016	YTD Quarter 2017	YTD Quarter 2016
NET PROFIT	$ 4,186	$ 3,262	$ 7,565	$ 6,325
Deemed compensation related to acquisitions	-	267	-	534
Adjusted net profit	$ 4,186	$ 3,529	$ 7,565	$ 6,859

Reconciliation of EBITDA	Second Quarter 2017	Second Quarter 2016	YTD Quarter 2017	YTD Quarter 2016
Profit before interest income and income tax expense	$ 5,590	$ 4,515	$ 10,203	$ 8,802
Depreciation	358	314	707	621
Amortization	242	312	485	624
Deemed compensation related to acquisitions	-	267	-	534
EBITDA	$ 6,190	$ 5,408	$ 11,395	$ 10,581

BACKLOG

The Company's backlog at March 31, 2017 was $422 with terms extended to fiscal 2021. This compares to $488 reported at September 30, 2016. 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 2017, 2018 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 $91. 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 2017	Fiscal 2018	Beyond 2018	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	$ 111	$ 115	$ 35	$ 261	$ 75	$ 336
Option Renewals	4	21	45	70	16	86
TOTAL	$ 115	$ 136	$ 80	$ 331	$ 91	$ 422
Business and Technology Services	$ 88	$ 100	$ 63	$ 251	$ 91	$ 342
Systems Engineering	27	36	17	80	-	80
TOTAL	$ 115	$ 136	$ 80	$ 331	$ 91	$ 422

FINANCIAL CONDITION AND CASHFLOWS

Operating activities:

Cash inflows from operating activities for the period ended March 31, 2017 were $16,267 compared to cash inflows of $2,245 in 2016. Cash flows for the quarter have been positively impacted by the increase in cash earnings and the decrease in accounts receivable commensurate the close off of certain large projects at SED. The aging of the accounts receivable remain 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, 2017, the Company's total unearned revenue amounted to $9,503 compared to $11,271 at September 30, 2016, with the decrease attributable to work progressing on certain contracts where advanced milestone payments had previously been made.

Financing activities:

During the periods ended March 31, 2017 (2016), 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.

Investing activities:

During the six-month period, the Company invested $638 in capital assets compared to $591 in the prior period. The Company also invested in Cliniconex as explained in Note 10 to these financial statements.

Capital resources:

At March 31, 2017 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 $75 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

	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15	Q3/15
REVENUES	$ 67,063	$ 68,707	$ 68,758	$ 73,196	$ 68,100	$ 64,533	$ 60,944	$ 64,267
EBITDA(1)	$ 6,190	$ 5,205	$ 5,318	$ 6,114	$ 5,408	$ 5,173	$ 4,906	$ 3,970
Net profit	$ 4,186	$ 3,379	$ 3,380	$ 3,888	$ 3,262	$ 3,063	$ 2,877	$ 2,214
Adjusted net profit(1)	$ 4,186	$ 3,379	$ 3,380	$ 3,996	$ 3,529	$ 3,330	$ 3,144	$ 2,482
Net profit per share								
Basic	$ 0.55	$ 0.45	$ 0.45	$ 0.52	$ 0.44	$ 0.42	$ 0.39	$ 0.30
Diluted	$ 0.55	$ 0.45	$ 0.45	$ 0.52	$ 0.44	$ 0.42	$ 0.39	$ 0.30
Adjusted net profit per share(1)								
Basic	$ 0.55	$ 0.45	$ 0.45	$ 0.54	$ 0.48	$ 0.45	$ 0.43	$ 0.34
Diluted	$ 0.55	$ 0.45	$ 0.45	$ 0.54	$ 0.48	$ 0.45	$ 0.43	$ 0.34

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 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 service 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 growth strategy using a common framework across all of its services:

1. Customer retention: through continued delivery excellence, maintain a valued relationship with current customer base;
2. 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;
3. Service Line Evolution: continue investment in service offerings to increase differentiation and improve gross margin attainment;
4. 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.

With its most recent acquisition, the Company has completed five acquisitions in the past 5 years, and will proactively look for companies that can accelerate its growth strategy with a focus on companies that support our growth pillars of customer diversification and service line evolution.

The 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. SED also has a strong customer base in the Aeropsace and Defence sectors and recently has had success diversifying into the agriculture sector. 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. Continued delays of DND capital procurements have created 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 services are adaptable to many different markets. Currently, its strength lies in providing health, training, engineering and IT professional services and solutions across Canada with a significant portion of this work currently with the Department of National Defence. The division continues to focus on diversifying its customer base and evolving its service offerings. As an example the division now provides direct to customer health services through the operation of managed medical clinics 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, and training services from private enterprises to achieve their business outcomes. Looking at the current outlook and the current economic climate, the new federal government agenda may create uncertainty as to the extent of demand from this customer, at least in the short term. With continued investments in sales, marketing and success in new markets outside of the federal government, the division is better positioned to manage through these downturns. After a few years of industry dialogue, the request for proposal for the division's DND Health Services business was released in early January and we have now submitted our proposal. The new contract will have increased scope adding two new government departments (RCMP and Veterans Affairs) as well as DND Cadets. The initial contract period is until March 31, 2022 with an option to extend the term of the contract by up to eight additional years. While we expect competition, we will continue to focus on executing on the current contract and maintaining our high customer satisfaction with the customer through to March 31, 2018. Acquisitions have also bolstered the division's performance and we will continue to look at acquisition opportunities to support our strategic growth objectives.

GUIDANCE

During fiscal 2017, management will continue to focus on its key strategic initiatives. Traditional markets in which Calian operates have stabilized recently 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 2017 to be in the range of $265 million to $285 million, net profit in the range of $1.75 to $2.00 per share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the most recent interim quarter ended March 31, 2017, 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 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, 2016 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 10, 2017