



Calian Technologies Ltd.
2009 Annual Report

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Message from the Chairman

I am very proud of the accomplishments of our management team in making 2009 another successful year. In the face of economic turmoil on a global scale, our team remained focused on the business fundamentals that guide our Company – strong corporate governance, fiscal prudence, uncompromised quality of service, business ethics, and operational execution. As a result, Calian’s performance was outstanding as measured by all the key indicators – satisfied customers, solid financial results, value to shareholders, and the firm footing of a solid backlog.

Calian’s performance over the past year is something we can all be truly proud of. But as shareholders, you have entrusted us with responsibilities for both the present and the future. In keeping with the principles of strong corporate governance, your board is comprised of a majority of independent members and an independent chairman. In furtherance of our mandate for the stewardship and safeguarding of the interests of the shareholders, we also meet regularly in the absence of management to allow for candid and open discussions.

As I look ahead, I share the enthusiasm of the management team for the coming year, confident that the principles and ordered business approach that led to our success this year are even more firmly entrenched throughout the Company. As a board, we feel that Calian’s strong financial position and its seasoned management team are key ingredients to seize and execute on new opportunities to provide you, our shareholders, with continued superior results in the future.

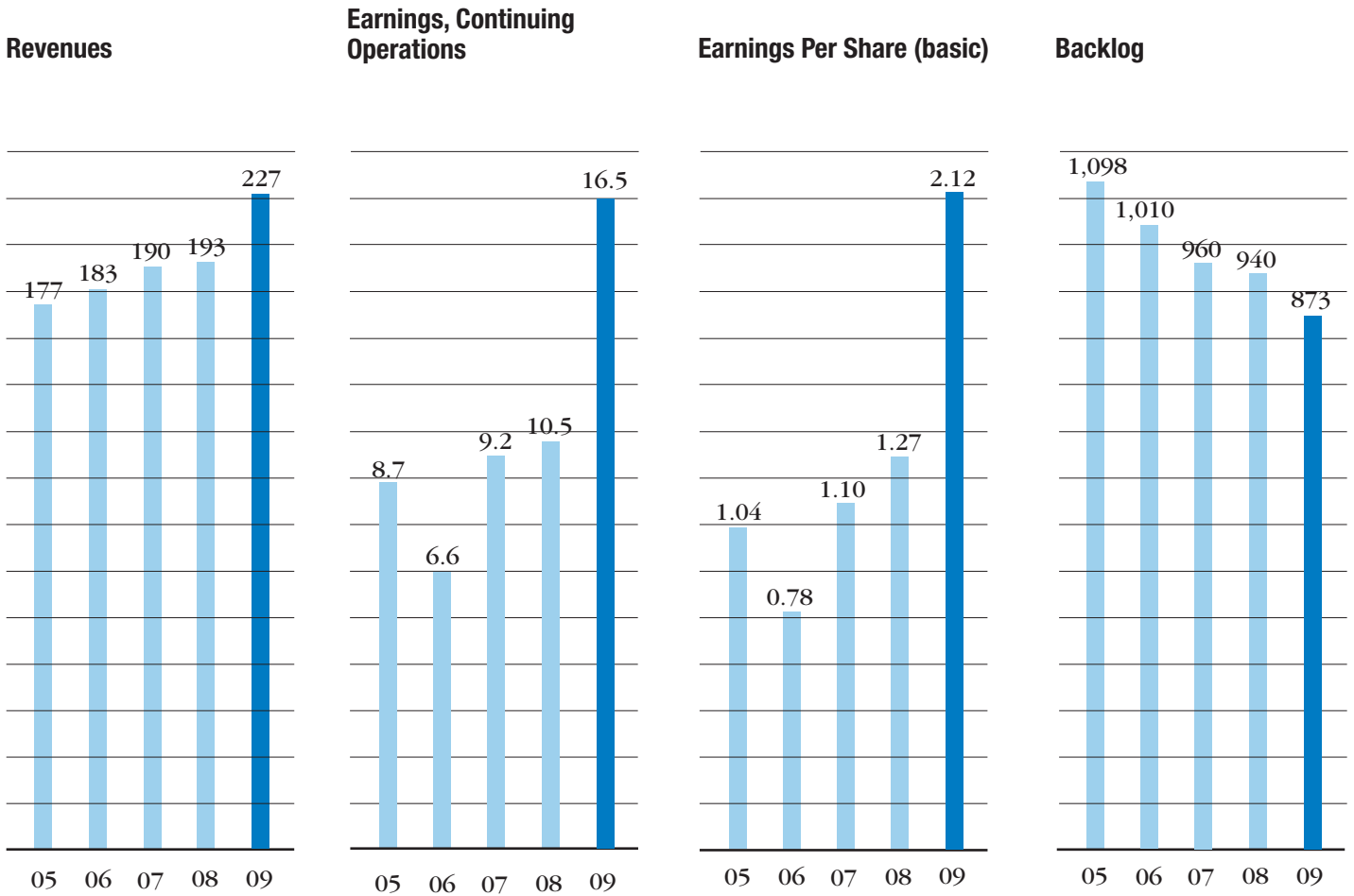


Kenneth Loeb

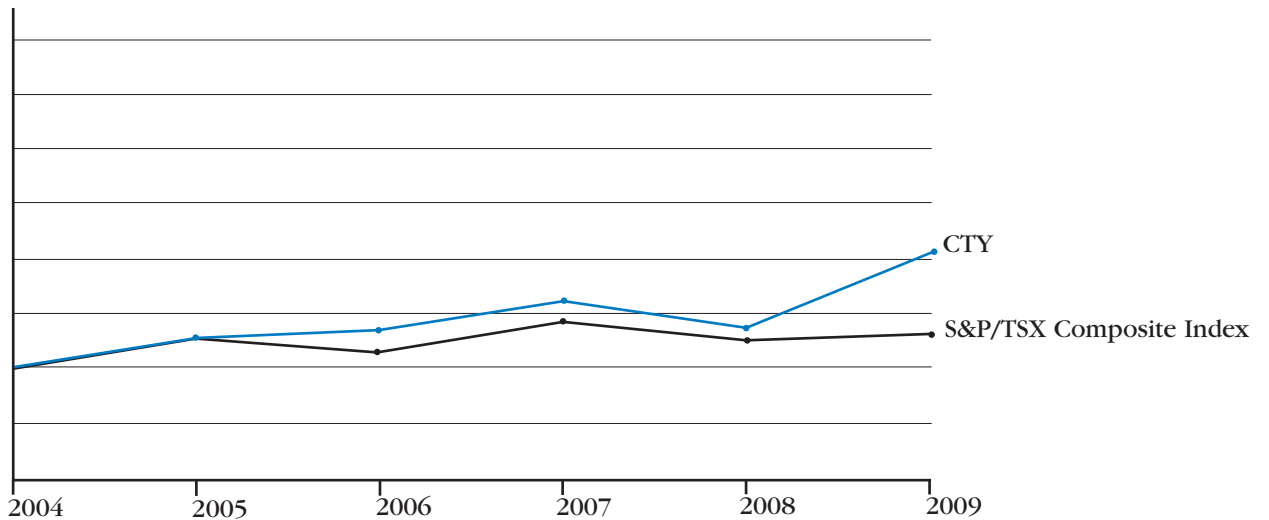
Chairman



(millions of dollars, except per share data)



Comparison of Cumulative Total Return



Message from the President and CEO

2009 was an exceptional year for Calian. Both divisions performed extremely well with substantial growth in revenues, earnings and operational cash flows. What makes this feat truly remarkable is that it was achieved against the backdrop of the worst economic environment in recent history, one that threatened the very existence of many companies, including some of our customers. Armed with a strong balance sheet and a solid base of blue chip customers, we were able to weather the economic storm and stay the course.

For the first time, we exceeded the elusive \$200 million mark in consolidated revenues due to impressive gains in both divisions. We ended the year with \$227 million in revenues, an 18% improvement over the prior year. In the midst of a very unstable economic environment, we kept our focus, always driving toward the complete satisfaction of our customers to create our own success. I am extremely pleased with the superb execution displayed by all of our operating groups.

Our SED division had a banner year due in large part to a notable increase in manufacturing related revenues from both our traditional military customers and from new commercial customers such as Research in Motion. Our satellite engineering group also did exceptionally well as we successfully completed a number of large projects that were signed in previous fiscal years. In a fitting end to an outstanding year, the SED division signed a contract with the European Space Agency for a third deep space antenna destined for South America.

Our BTS division's performance was equally impressive, not only in terms of significant revenue increases, but also with the successful renewal of a number of key contracts. Our Outsourcing group saw notable revenue increases in existing contracts and an impressive ramp in revenues from new contracts. Recent contract renewals have solidified our key sources of revenue, providing a solid base of business and an exciting future for this group. While our Staffing group struggled with a downturn in commercial markets, we made the necessary adjustments to place greater emphasis on government procurements, resulting in improved overall performance. At the same time, we maintained our strong relationships with commercial customers and are ready to regain traction when they emerge from the current economic downturn.

On the bottom line, our earnings reached an all-time high of \$2.12 per share. This compares to \$1.27 last year, and represents an increase of 67%. These record earnings are a direct result of our keen focus on margins and our ever-vigilant monitoring and control of operating costs. We again increased our dividends which are now at an annual rate of \$0.68 per share representing an attractive yield to our shareholders.

With the economic crisis hitting its peak in the latter part of calendar 2008, our share price fell along with the markets in general. We used this opportunity to accelerate our share repurchase program and over the course of the year, we bought 472,400 shares at an average price of \$10.44 which added significantly to shareholder value. Our share price has since recovered nicely and overall, our shareholders realized a 62% return for the year, compared with a decline of 3% in the S&P/TSX Index over the same period.

While 2009 was truly exceptional, we believe that our healthy backlog, coupled with the strength of our financial and human resources, keeps us in a position for continued strong performance as we move forward. While we do not foresee a quick economic recovery, we continue to have high expectations for the future, delivering quality services to our customers and excellent returns to our shareholders.

I would like to thank our customers, suppliers and dedicated employees who have all contributed to the success of Calian over the past year. I would also like to thank our shareholders who continued to support us during these difficult economic times. We are pleased that we were able reward you for your loyalty.



A handwritten signature in black ink that reads "Ray Basler". The signature is fluid and cursive.

Ray Basler
President and CEO





Report on Operations - Systems Engineering

2009 was an extremely busy and successful year for the Systems Engineering Division that produced excellent operating results. Major projects in the satellite earth station market, coupled with significant growth in our contract manufacturing business led to revenues of \$76 million, a 27% increase over 2008. This increased level of business, along with extremely high resource utilization and excellent project execution resulted in a divisional contribution of \$17 million compared to \$9 million last year, a 90% improvement.

The increase in business for our manufacturing group that started in 2008 continued throughout this year. We saw substantial expansion in our business with Kidde Dual Spectrum for wiring harnesses and electronic components of their Fire Suppression System. A significant order received at the end of 2008 from DRS led to an increase in our work on Arial Heads for the MSTAR radar product. To accommodate the additional manufacturing workload, we increased our manufacturing staff by 15%.

During the year, we added Research in Motion as a customer for the manufacture of test systems used in the final test stages of their Blackberry hand held devices. We now have a strong relationship with RIM and we expect to be a long-term partner to RIM, further strengthening our manufacturing business.

In the satellite engineering area, we completed the development and began installations of the large and complex earth stations for the three Mobile Satellite Services companies in the US. Installation and test of the ICO system in Las Vegas is complete. Initial installations of the four earth stations for SkyTerra and the two stations for TerraStar are essentially complete with final testing scheduled for early 2010. These major programs contributed significantly to revenue and operating profit during the year.

Late in 2009, the European Space Agency issued an Authorization To Proceed with the development of the third antenna for their deep space tracking network. The full contract was signed in early 2010 and will generate significant revenues for the next two years.

Our satellite operations business continues to provide a steady stream of profitable business. We have been providing operations services for the Radarsat 1 and Scisat satellites under contract to the Canadian Space Agency for the past 15 years, and expect this contract to be renewed in early 2010 for an additional period of two years. We have also been providing operations services for the Radarsat 2 satellite under contracts to MDA and Telesat since the satellite's launch in December 2007. During the year, we assumed responsibility for primary operations of the Ciel-2 satellite, and we are now also hosting gateway equipment for SkyTerra. The SkyTerra and Ciel equipment are located in our new gateway building located adjacent to our primary facility. It provides the core capability to allow us to expand our business in satellite operations.

We've continued to develop ground stations and RF equipment for our long-term customers such as Inmarsat and SiriusXM. The level of business with Inmarsat declined slightly this year as the major earth station project in Hawaii was completed. However, we continue to develop Aeronautical Ground Earth Stations and upgrades to their Frequency Planning System and Global Resource Manager. SiriusXM has begun to lift their freeze on capital expenditures and we expect our business with them to return to more traditional levels in the coming year.

In conclusion, 2009 was a very successful year for the Systems Engineering Division. Revenues were up and divisional contribution improved significantly. We have a healthy backlog and a number of excellent opportunities for new work in the coming year. Our seasoned management team and professional workforce are committed to customer satisfaction and continuous improvement, helping ensure continued success in 2010.



Brent McConnell

VP and General Manager, Systems Engineering

Report on Operations - Business and Technology Services

2009 was an excellent year for the Business and Technology Services division overall. Year over year revenue grew by 14% to \$152 million and divisional contribution increased by 16% to \$10 million. Major long-term contract renewals and new contract wins were instrumental in the division achieving its three goals for the year, to deliver growth, profitability and positive cash flow. The Outsourcing group had a banner year and is well positioned to continue its revenue growth due to several key contract wins and renewals. The Staffing Services group was reorganized to provide more stability and despite challenges in the private sector market, is looking forward to resuming revenue growth in 2010.

Our Outsourcing group exceeded its performance objectives across the board. The DND Health Service Support Contract was extended for an additional two-year period while the Directorate of Synthetic Land Environments (DLSE) contract was renewed for five years with an option for an additional four years, adding \$195 million to our backlog. The DLSE project is expected to continue to grow in 2010 as this team supports not only the ongoing operational requirements of DND, but also the Olympic Games in Vancouver and the upcoming G8/G20 conferences Canada is hosting later in the year. Our Outsourcing group was also successful in winning new contracts for Vehicle Maintenance at CFB Wainwright, Leopard Tank Maintenance at CFB Edmonton, and Management and Communications support for the Army's initiative to operate a radio station that broadcasts to Afghanistan from CFB Kingston. These activities are expected to generate \$5 million in new revenue in the coming year.

Our Staffing group experienced a year of transition as it reorganized to better serve its various markets. Its success in the public sector was offset by the economic challenges of the private sector. The creditor filing by Nortel resulted in the division taking a charge of over \$750 thousand; however Calian continues to do business with Nortel and we are now classified as a key supplier to Nortel and we believe we will continue to work with the new owners once the creditor protection process is completed. Fortunately, both our Federal Government and Enterprise Resource Planning (ERP) staffing businesses were able to exceed revenue targets for the year in their very competitive markets as demand increased for experienced IT and ERP professionals in all levels of government.

Our US subsidiary posted excellent results for the year and successfully renewed contracts with both the Canadian and Australian Governments to provide engineering and logistical support for their respective F/A-18 programs. These two multi-year programs (six and 10 years respectively) added an additional \$25 million to our contract backlog and provide an excellent base of business for the foreseeable future.

Finally, the division was advised in early September by the National Quality Institute that it had won the prestigious Canada Award for Excellence gold trophy for a Healthy Workplace. This recognition is the culmination of years of patient work by all employees of the division and complements the previous CAE gold award for Quality received in 2006.

Looking ahead, 2010 begins on a positive note. We are starting the year with a solid backlog, and we foresee significant organic growth opportunities from recently renewed and soon to be renewed multi-year contracts. The division is also actively preparing for a number of identified new opportunities that we expect to be competed in 2010. We are well positioned to be extremely competitive in these pursuits as we continue to drive improvements in our back office support functions and reap the rewards of prior year investments. We are focused on executing against our plans and the division is committed to once again delivering excellent results in the coming year.



Tom Coates

*VP and General Manager,
Business & Technology Services*





Business of the Company

Calian sells technology services to industry and government.

We operate through two autonomous divisions that complement each other and that share the vision and key tenet upon which Calian has emerged as a technology services leader — effective and prudent management with a focus on sustainable growth in carefully selected markets.

The diversity of our service offerings is at the heart of our success. By serving a number of customers in several different and geographically varied markets, we benefit from a diversity that helps us weather the downturns experienced in any one market and that allows us to take advantage of unique opportunities as they arise. This diversity is most evident when comparing the business of our two divisions.

Systems Engineering designs and manufactures complex systems. Our primary markets are the satellite communications arena and the defense and homeland security sectors. We are a small niche player serving a handful of multi-national organizations working on large worldwide projects. More than 80% of our annual revenues are derived from exports.

Our approach is simple. We tailor systems to meet individual customer needs, using advanced commercial equipment from reliable suppliers. This means less development, lower risk and cost, and faster delivery. Our customers value being able to delegate the development of large and complex systems to us, confident that our technical and management skills will deliver what we promised, when we promised it, and at the agreed price. Our core competencies make us stand out from our competitors — strong project management, systems engineering know-how, and software development capabilities. Our full-service approach addresses needs from design through long-term maintenance, helping our customers roll out new services on time and manage them profitably. We routinely enjoy repeat business due to the strong relationships we have established with industry leaders.

The same core competencies are applied to the manufacturing services we provide to military prime contractors and equipment suppliers. The value added by our technical expertise and our focus on high-reliability, low-volume production of complex systems differentiate our services from those of our competitors.

Business and Technology Services provides people to help customers manage their changing workforce requirements. We provide ready access to an exceptional team of engineering, technology, administrative and health care professionals. The division caters mainly to the Canadian federal government, with a large presence in the Department of National Defense, and also has a well-established private sector customer base that is expanding. About 2% of annual revenues are derived from the United States.

The services we offer allow our customers to focus their vital internal resources on key priorities. The value we add lies in the breadth of services we offer and our ability to source sufficient and appropriate resources on a timely basis to meet our customers' requirements. This is due to our exceptional recruiting capabilities, effective management of our employees in the field, and competitive rates.

A comparison of the business models and operating approaches of the two divisions further illustrates the diversity between them.

Contracts in Systems Engineering are technically complex and are typically on a fixed-price basis with demanding requirements to meet delivery schedules. The division operates essentially under a fixed-cost structure, requiring the careful management of labour utilization. The majority of revenues are derived from international sources and contracts are often denominated in foreign currencies. While the risks are high, the margins are commensurate.

Contracts in Business and Technology Services are typically on a per-diem basis and can range from short-term assignments to multi-year operations and maintenance contracts. The cost structure of the division is variable as direct labour costs are scalable to match contract requirements. The majority of revenues are derived from Canadian sources so there is little currency exposure. With a reduced risk profile, margins are correspondingly lower.

Systems Engineering's billings are based on achieving well defined project milestones. These can be in advance of, or subsequent to the recognition of revenues. Milestone profiles vary depending on factors such as the customer, competition and pricing. Accordingly, cash flows and working capital requirements can vary significantly from project to project and over the life of any one project. In Business and Technology Services, cash flows are very predictable as most contracts call for monthly billings of work performed.

From the perspective of renewing business, Systems Engineering is awarded one project contract at a time, usually as a result of winning an open international competition. Constant marketing efforts are directed towards identifying and securing bid opportunities and a significant overhead effort is required to develop detailed proposals for new projects. The situation is similar for the short-term staffing component of the Business and Technology Services division, which requires ongoing marketing and sales efforts to maintain the backlog. However, the longer-term outsourcing component of this division enjoys the benefit of multi-year contracts that often contain provisions for extensions, offering long-term visibility of future revenues.

Overall, the diversity in markets, customers and business models provides Calian with an enviable balance in its consolidated business.

Management Team



Ray Basler

President and CEO



Jacqueline Gauthier

VP, CFO and Corporate Secretary



Tom Coates

*VP and General Manager,
Business & Technology Services*



Brent McConnell

*VP and General Manager,
Systems Engineering*

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management Discussion and Analysis is dated November 30, 2009 and should be read in conjunction with the audited consolidated financial statements and notes included in this annual report. The Company's accounting policies are in accordance with Canadian generally accepted accounting principles (GAAP) of the Canadian Institute of Chartered Accountants. As in the consolidated financial statements, all dollar amounts in this Management Discussion and Analysis are expressed in thousands of Canadian dollars unless otherwise noted.

Forward Looking Statements

The Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on certain assumptions made by the Company that may prove to be inaccurate. Forward-looking statements include those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent that they relate to the Company or its management. These forward-looking statements are not historical facts, but reflect the Company's current expectations and assumptions regarding future results or events. Assumptions made include customer demand for the Company's services, the Company's ability to maintain and enhance customer relationships, as well as the Company's ability to bring to market its services. Furthermore, the Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on current expectations as at November 30, 2009 that are subject to change and to risks and uncertainties including those set out under the heading "Risk Factors" below. Actual results may differ due to facts such as customer demand, customer relationships, new service offerings, delivery schedules, revenue mix, competition, pricing pressure, foreign currency fluctuations and uncertainty in the markets in which the Company conducts business. Additional information identifying risks and uncertainties is contained in the Company's filings with the various provincial securities regulators. Readers should not place undue reliance in the Company's forward-looking statements.

Business Overview and Strategic Direction

Calian sells technology services to industry and government. For many years, industry and government have searched for and adopted new operating models and new technologies in an effort to improve the efficiency of their operations. Management expects that they will continue to do so, and in recognizing this trend, the Company has built a unique combination of specialized skills and available capable resources in order to address the resulting market opportunities.

With these capable resources at the ready, Calian can quickly assemble and deploy teams of professionals with the requisite skills to promptly assist customers implement their diverse operating and technology needs, whether it is the design and integration of a complex satellite ground system or the provision of specialized training, project management and operations services.

Calian's larger mainstream competitors often cannot duplicate the timeliness and reliability of Calian's services. Furthermore, efficient and flexible operating processes, combined with a strong financial condition allow Calian to profitably address lower margin business without compromising quality or performance, and this further distinguishes the Company from its competitors. Due to the Company's successful delivery and execution of projects, Calian experiences repeat business and a large number of contract renewals.

Calian's long-term direction is to continue to focus on providing its current service offerings to industry and government in specialized niche areas outside the mainstream market, avoiding competition with larger competitors. Calian will concentrate on those opportunities that entail agility and flexibility in both resources and capabilities to address customer requirements, be it in our traditional markets or new ones with similar needs.

Calian's growth plans include building upon and expanding its current capabilities and addressing a wider range of customers with a broader range of services without compromising its commitment to quality and delivery. Calian plans to continue augmenting its service offerings and capitalizing on its reputation for delivery, building on its satisfied base of blue-chip customers. In addition, the Company plans to continue to look for and acquire specialized companies that have also had success in profitably addressing niche markets and whose operating philosophies align with those of Calian. With growing revenues, an efficient back office, and the realization of economies of scale, the Company's objective is to enhance the returns to its shareholders and build an enterprise that excels in its selected markets.

For existing operations, the key is controlled profitable growth. Management expects that growth will not only extract economies of scale and provide additional returns, but will also provide an environment for its people to grow and advance within the Company. Calian's strengths in delivering specialized services in niche markets have so far permitted the Company

Management's Discussion and Analysis of Financial Condition and Results of Operations

to excel in a difficult business environment where many mainstream competitors have faltered. With this backdrop of continuing to do what Calian does best, there are no plans to materially alter the business of the Company.

Calian currently operates in two reportable segments, defined by their primary type of service offerings:

Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector. The Systems Engineering Division, also known as SED, has its principal office in Saskatchewan.

Business and Technology Services involves both short and long-term placements of personnel to augment customers' workforces as well as the long-term management of projects, facilities and customer business processes. The Business and Technology Services division (BTS) has its principal Canadian office in the Ottawa area and its US office in Virginia.

Systems Engineering Division

For over 40 years, SED's core strength has been communications systems engineering. SED builds equipment, systems, and networks to maximize utilization, efficiency and throughput. Its primary market is the satellite industry, but it also applies its capabilities and expertise to broader adjacent markets with needs for similar systems and services.

SED is a systems integrator and it works with its customers on a project basis to develop custom systems tailored to their specific operational requirements. From one project to the next, SED attempts to reuse system architecture, core software modules, and custom hardware designs to reduce development time, cost and technical risks. SED's manufacturing facility, initially created to support its communication systems engineering group, now accounts for a substantial portion of the revenue base and provides an on-going base of business that helps offset the ebb and flow of core project work.

SED's strengths are renowned around the world with exports typically accounting for more than 80% of annual sales. This compares to a Canadian space industry average of 50%. Customers often deploy our systems to other locations and we have systems operating on six continents.

SED designs and manufactures equipment for the satellite ground-based infrastructure market. The introduction of HDTV and the wide acceptance of Digital Audio Radio are also presenting opportunities for additional capacity and enhancements. With recent world events, demand for reliable mobile communications for disaster relief has now become center stage. Additional demands are being driven by applications like mobile broadcast, military use of commercial satellites and the ongoing need to replace the existing capacity of satellites approaching end-of-life. Accordingly, new business opportunities are being generated.

Overall, the business environment for the SED division has improved and industry players are optimistic that the recent recovery from the slump experienced in the last few years is sustainable. Inmarsat and Intelsat, who have both operated under restricted capital expenditure philosophies for the last few years, are increasing capital spending which should bode well for integrators such as SED. The one major obstacle is the current credit crisis, which is hampering the ability of start-ups and certain existing players to get the funding or refinancing needed to drive their initiatives forward. Of course, the competition will continue to be fierce as competing companies look to fill their available capacity.

While the satellite communications sector has been the core of SED's business, the contract manufacturing group provided substantial revenues in 2009 accounting for more than 50% of SED revenues. We focus on opportunities requiring low volume and high reliability manufacturing; qualities that are well suited to defence applications. These attributes also provide effective immunization from offshore competitors.

2009 was a very successful year for the SED Division despite the economic uncertainty and credit crisis. Completion of major earth station projects along with a significant increase in our manufacturing business provided a solid revenue base.

Our manufacturing business grew considerably again this year. The largest contributor to growth in this area has been KDS, our customer for harnesses and electronic modules. As a result, we added more than 80 employees to our manufacturing group. Our Ariel Head Assembly business with DRS continued at a slightly increased rate from 2008. In addition, we won a contract to provide Research in Motion, a new customer, with test sets for various models of their Blackberry phone. We are now fully qualified by them to provide the test sets and expect to see repeat business from this customer.

Major programs in the Mobile Satellite Communications market continued to contribute a solid base of business this year. In addition to installing the ICO, Terrestar and SkyTerra systems, SED also installed RF systems and a carrier monitoring system

Management's Discussion and Analysis of Financial Condition and Results of Operations

for Inmarsat's new station in Hawaii. The first phase of Aeronautical Ground Earth Stations has now been completed and we will continue to work on this program in early 2010 to provide additional capabilities and upgrades.

Satellite Operations continued to provide a steady revenue stream. SED continues to operate both of the Radarsat Satellites under contract to CSA and MDA. In addition during the year we expanded our customer base and began providing satellite operations to Ciel for the Ciel II satellite and we are under contract to host SkyTerra (formerly MSV) communications gateway equipment at the newly established building adjacent to our current facility in Saskatoon. The new building was completed during the year along with installation of three 11-Meter antennas and a 7.5 Meter antenna.

During 2009, SED signed \$89 million in new contracts and ended the year with a backlog of \$59 million of which \$30 million is earmarked for 2010. With a number of major projects completing in 2009, SED faces the usual challenge of securing new projects for the future.

The markets in which SED operates are currently strong and we expect many new opportunities to surface during the year ahead. For example, in November 2010, SED completed its negotiations and signed the \$39 million contract with ESA to supply the Third Deep Space Antenna. This represents an incremental \$24 million over the Authorization To Proceed that was signed in the fourth quarter of 2009. In addition our manufacturing base is expected to remain healthy, albeit at lower levels than experienced in 2009. In the Communication business sector, in addition to the ESA Third Deep Space Antenna, SED expects to work closely with Inmarsat as they continue to evolve and expand their service offerings. In the Digital Audio Broadcast market, we anticipate additional business with Sirius/XM Radio as they seek to realize further merger related efficiencies and also strive to bolster their product offerings. In the test systems area, we expect a solid level of business from RIM test sets and we will continue to pursue opportunities with our traditional test systems market for Communications Monitoring Systems and In-Orbit Test Systems. Finally, within our Network Management business, we will continue to exploit our Resource Management software as well as pursue further sales of our ancillary satellite products.

Business and Technology Services Division

BTS is a leader in the business and technology services field, providing professional, technical and administrative personnel to meet and anticipate its customers' unique needs. Across Canada and in parts of the USA, we have a workforce of 2,100 individuals in both full and part-time capacities. Our primary market is the Canadian federal government, but we also provide services to large multi-national and Fortune 500 companies as well as to the Governments of the United States, Spain and Australia.

We are in the people business. We work with our customers to define their needs and satisfy their requirements through short and medium-term placements of personnel to augment customers' workforces (Staffing) or through the long-term management of projects, facilities and customer business processes (Outsourcing).

The division's success comes from its focus on delivering a quality service through careful attention to both customer and contractor needs. BTS is a continuous improvement organization and is accredited to Level 4 under the Progressive Excellence Program of the National Quality Institute of Canada. In 2009, BTS received a gold level Canada Award of Excellence for Health and Wellness.

Over the past several years, we have continued to build and enhance our reputation as a highly competent, high quality, but reasonably priced, supplier. We have consciously focused on niche markets that do not attract significant attention or large numbers of competitors. This strategy has allowed us to maintain our prices and effectively develop a capability that few competitors can match.

The major market for our BTS division continues to be the Canadian Federal government with an emphasis on the Department of National Defence (DND), particularly for outsourcing services. DND has been a major beneficiary of funding increases in recent budgets and some of the budget increases relate to strengthening personnel in both the regular and reserve forces and to supporting increased training and medical care. Both of these priorities target areas of expertise within the division. DND has started to involve private contractors in all facets of their training to free up their relatively scarce military personnel for mission critical operational duties. The BTS division is well positioned to take advantage of the increased training requirements in areas where the shortages are most prominent.

Demographics continue to work in our favour within the marketplace. Due to retirements, large corporations along with various Federal government departments and the military continue to lose large numbers of employees with in-depth knowledge of their internal workings. In many cases the remaining employees are not yet able to assume additional respon-

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sibilities. This has created a necessity for these entities to re-acquire this lost knowledge. The BTS division has placed a special emphasis on attracting retirees with their extensive corporate knowledge and expertise, and accordingly has been successful in assisting them in bridging the knowledge gap while they train and mentor replacement staff. At the present time, we continue to see increased demand for this solution and will continue to take advantage of this trend to provide "ready made" support services to our customers.

In order to cope with the backlog of procurement, federal government departments are implementing new processes and tools. In the Information Technology and Management (IT/IM) arena, the trend to larger, more complex ERP systems continues. New installations continue to provide opportunities; however system upgrades, enhancements and migrations are assuming an ever increasing share of the IT/IM budgets and hence our business opportunities. This is particularly the case in many larger organizations where legacy system databases are being mandated to interface with these ERP systems. Within the federal government particularly, there is not only a need for new applications but also a need to provide access to both the application and the information in its underlying database. Government wide, there is a greater focus on developing and supporting wider web access coupled with an even greater attention to the associated security concerns of protecting the users and their data. Accordingly, we continue to focus on related business development activities and the investment of internal resources to accommodate these new approaches.

2009 was a year of significant contract renewal activity for BTS, particularly within Outsourcing where numerous multi-year contracts spanning 6 to 9 years were successfully retained within DND, effectively allowing us to dominate this niche training market. These wins will provide a good source of organic growth allowing us to seek out and exploit new niche markets.

Albeit a smaller portion of our revenues, the private sector continues to suffer from the economic crisis and certain key accounts such as Nortel and General Motors have struggled. We have been successful in refocusing our attention to government customers while at the same time positioning ourselves to take advantage of the eventual recovery of the private sector.

All in all, despite the current impediments created by global financial instability that impacted our private sector business, we continue to believe that the long-term business environment in the public sector for our services remains favourable and will more than offset any continued private sector slow down.

2009 has been a year of solid performance. The HSSC (Health Service Support Contract) with DND grew this year over the prior year as a result of increased demand for professional resources. Similarly, the DLSE (Directorate of Synthetic Land Environments) contract generated organic growth as DND ramped up its training activities under a contract renewal obtained in the second half of the year. The contract renewal is for a term of 5 years with an option for an additional 4 years, thereby increasing backlog by \$195 million. This contract is expected to grow heading into 2010 as the team continues to support special requirements such as the Olympic Games in Vancouver and the G-8/G20 Conferences later next year, in addition to its ongoing DND training activities.

BTS was also successful in winning new contracts for Vehicle Maintenance at CFB Wainwright, Leopard Tank Maintenance at CFB Edmonton, and Management and Communications support for the Army's initiative to operate a radio station that broadcasts to Afghanistan from CFB Kingston, which in total are expected to add approximately \$5 million in new revenue in the coming year.

BTS enters 2010 with a strong backlog of work and excellent opportunities on recently submitted proposals. In addition, we are also seeing an increase in the number of new training opportunities being competed. Accordingly, we expect that during the coming year, we will experience an increase in training revenue as these new contracts materialize. However, the magnitude of the expected revenue increase will be greatly influenced by the timing of actual contract awards.

With the HSSC contract, we are now considered a major player in private sector health care delivery. The existing DND contract has funding room for significant increases in activity but these have not yet materialized and the planned increased investment in mental health resources has yet to be approved. Until these new resources are authorized, we do not expect to see significant growth within this contract. However, during the past year we met with some success in signing small contracts for the supply of physicians to other smaller government departments. These contract wins have opened the door for us to pursue increased requirements within these departments and our challenge in the future is to demonstrate that the DND model can be tailored to fit their smaller health care environments.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The IT/IM markets continue to offer significant potential. The increasing complexity of both business and government, coupled with the ever increasing demand for information is driving the need for sophisticated information management and information sharing systems. The level of sophistication, particularly in the ERP realm, often requires specialized resources not often found in-house and accordingly is driving demand for outside specialists. Our traditional staffing model and our expertise in the areas of general IT and ERP puts us in a strong position to address these requirements. Our SSD service offerings are well positioned and competitively priced in the local Ottawa market and we expect to increase our level of business within our key customers. The recently introduced omnibus IT staffing supply arrangement for the Federal government, called TBIPS (Task Based Information and Professional Services) is gaining traction and we have been successful in winning new business under this vehicle. Several of the larger departments are early proponents and appear to be favouring this tool to clear their backlog of IT support requirements. We expect that this momentum will continue into the new year.

In the long-term, BTS will continue to focus in areas where it has been successful in the past and will build on newly acquired expertise to branch out into additional adjacent markets.

Backlog

The Company's backlog at September 30, 2009 was \$873 million with terms extending to fiscal 2018. This compares to \$940 million reported at the end of September 2008. 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 2010, 2011 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 \$197 million. The majority of this amount relates to the health services support contract. In September 2009, the Company reduced its backlog by \$182 million based on DND exercising the first two option years of the health services support contract without a corresponding increase in funding. The funding is still available to DND, however, this was considered an indication that this portion of the contracted backlog would not materialize. 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 2010	Fiscal 2011	Beyond 2011	Estimated realizable portion	Excess over estimated realizable portion	TOTAL
Contracted Backlog	\$ 140	\$ 97	\$ 98	\$ 335	\$ 86	\$ 421
Option Renewals	11	17	313	341	111	452
TOTAL	\$ 151	\$ 114	\$ 411	\$ 676	\$ 197	\$ 873
Business and Technology Services	\$ 121	\$ 102	\$ 394	\$ 617	\$ 197	\$ 814
Systems Engineering	30	12	17	59	-	59
TOTAL	\$ 151	\$ 114	\$ 411	\$ 676	\$ 197	\$ 873

Management's Discussion and Analysis of Financial Condition and Results of Operations

Selected Annual Information

(dollars in millions, except per share data)

	2009	2008	2007
Revenues	\$ 227.2	\$ 193.2	\$ 189.9
Net earnings	\$ 16.5	\$ 10.5	\$ 9.2
Net earnings per share, basic	\$ 2.12	\$ 1.27	\$ 1.10
Net earnings per share, diluted	\$ 2.11	\$ 1.27	\$ 1.10
Total assets	\$ 104.3	\$ 85.9	\$ 72.7
Dividends per share	\$ 0.64	\$ 0.54	\$ 0.42

2009 Results of Operations

Earnings before other expense, interest income and income taxes were \$24,272 in 2009 compared with \$15,165 in 2008 and net earnings were \$16,452 for the year compared with \$10,509 in the previous year. The Company completed the year with \$43,662 of cash compared to \$27,327 at the end of 2008.

Revenues

	2009	2008	% change
SED revenues	\$ 75,527	\$ 59,702	27%
BTS revenues	\$ 151,703	\$ 133,463	14%
Consolidated revenues	\$ 227,230	\$ 193,165	18%

The general business environment in 2009 continued to be very competitive. The Company began the year with \$161 million of its backlog to be earned in 2009. This base of work combined with the win of several larger contracts during 2009 resulted in a solid revenue stream for the year.

SED revenues improved over the prior year as a result of continued strength in the satellite industry combined with elevated demand for its manufacturing services. It should be noted that due to the project nature of its business, the SED division is susceptible to significant variation in volumes of activity from period to period.

BTS achieved above average revenue growth this year as a result of significant organic growth on recently renewed long-term contracts plus the addition of several new smaller contracts.

The Company derives a significant portion of its revenues from the Government of Canada. During 2009 (2008), 60% (59%) of revenues were related to contracts with various departments and agencies of the Government of Canada. Both of the Company's divisions conduct business with this major customer.

Management expects that the marketplace in 2010 will continue to be very competitive. The market conditions for SED are expected to be positive and should present new opportunities in 2010. However with the completion or near-completion of several large contracts in the satellite engineering group and limited visibility in the custom manufacturing area, overall revenues are expected to abate until new programs are captured. With a solid level of activity on existing contracts heading into 2010 and new opportunities available in the marketplace, BTS revenue levels are expected to improve over the prior year. However, the timing of future contract awards will ultimately determine BTS revenues for the next 12 months. While the Company begins the year with \$151 million of backlog to be earned in 2010, the above noted variables will have an impact in revenues ultimately realized.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Cost of revenues and Gross profit

	2009	2008	% change
SED gross profit	\$ 23,269	\$ 14,451	61%
As a percentage of SED revenues	30.8%	24.2%	
BTS gross profit	\$ 25,943	\$ 23,388	11%
As a percentage of BTS revenues	17.1%	17.5%	
Consolidated gross profit	\$ 49,212	\$ 37,839	30%
As a percentage of consolidated revenues	21.7%	19.6%	

The Company's cost of revenues includes all direct costs incurred in the provision of its products and services. These costs include all expenses associated with direct full-time staff, contract staff and subcontractors. They also include other direct costs including the landed cost of hardware and software sold as components of a solution, travel and living expenses necessary in the delivery of the services, and provision for warranty where applicable.

The consolidated gross margin for 2009 was positively impacted by the increase in realized margins at the SED division.

The above average gross margin at SED is due to a combination of several positive factors. With increased activity in all components of its business, SED was able to achieve exceptional utilization resulting in economies of scale. In addition, the excellent project execution and retirement of risk on certain projects provided for additional margin as well.

While the BTS gross margin was mostly in line with the prior year, the mix of business, increased costs on a contract ending in March 2010, and competitive pressures particularly in the private sector had a slight negative effect on overall margins.

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 execution in order to maximize margins. However, the highly competitive environment faced by SED and BTS coupled with the continued volatility of the Canadian dollar could impact margins. In addition management does not expect margins realized by SED in 2009 to be sustained in 2010 and believes that margins in the near term will return to historical levels.

Selling and marketing

	2009	2008	% change
Selling and marketing	\$ 4,957	\$ 4,854	2%
As a percentage of consolidated revenues	2.2%	2.5%	

Selling and marketing expenses are marginally higher than in the prior year and are expected to increase slightly over the 2009 level as the Company concentrates on broadening its customer base and expanding its service offerings to new markets.

General and administration

	2009	2008	% change
General and administration	\$ 15,714	\$ 13,209	19%
Write-off of Nortel receivable	(757)	-	
General and administration excluding Nortel	14,957	13,209	13%
As a percentage of consolidated revenues	6.6%	6.8%	

As a result of the Company's continuous cost control activities, general and administration expenditure excluding Nortel decreased as a % of revenues. Looking ahead, management believes that general and administration costs will remain in line with activity levels.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Facilities

	2009	2008	% change
Facilities	\$ 3,230	\$ 3,118	4%

Facility expenses, which include costs associated with office space, have been relatively stable over the past several years. 2009 costs were somewhat higher as minor repairs were required to certain leased facilities. Overall facility costs are not expected to increase significantly in 2010.

Amortization of equipment and intangibles

	2009	2008	% change
Amortization	\$ 1,246	\$ 1,374	(9%)

The Company does not require a significant amount of new capital every year.

Stock option compensation

As indicated in Note 9, during 2009 (2008) the Company granted 85,000 (NIL) options and recorded \$104 (\$119) of stock compensation expense.

Interest income

Interest income is comprised of interest earned on the Company's cash balances and accrued interest related to the investment in AIM. Interest income earned on cash balances decreased to \$241 in 2009 from \$878 in 2008 mainly as a result of a significant decrease in interest rates during 2009.

Unrealized gain on fair value of conversion options of long-term investment

The Company recorded a loss of \$220 for the year compared to \$338 in 2008 relating to the fair value of conversion options of long-term investment. The reported unrealized gain or loss is a reflection of the movement in quoted market prices of AIM shares.

Loss on share exchange

On January 20, 2009, Med-Emerg announced that it successfully merged with AIM in an all-stock transaction. At that time, Calian surrendered its preferred shares in Med-Emerg in exchange for a secured convertible debenture of AIM with a face value of \$3,897. The share exchange resulted in a loss on exchange of \$125.

Prior year investment tax credits

During 2009 the Company recorded additional investment tax credits of \$311 with respect to its re-filing of its fiscal year 2006 R&D claims.

Income tax expense

The Company reports its results on a fully taxed basis. The provision for income taxes for 2009 was \$8,190 or 33.2% of earnings before income taxes compared to \$5,584 or 34.7% of earnings before income taxes in 2008. The decrease in the effective tax rate for 2009 is a result of a decrease in federal and provincial prescribed income tax rates. With prescribed federal and provincial tax rates continuing to decrease, the effective tax rate for 2010, prior to considering the impact of non-taxable transactions, is expected to be approximately 32.5%.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Net earnings

The Company reported net earnings of \$16,452 or \$2.12 per share basic and \$2.11 per share diluted for 2009 compared to \$10,509 or \$1.27 per share basic and diluted in 2008.

Selected Quarterly Financial Data

(dollars in millions, except per share data)

	Q4/09	Q3/09	Q2/09	Q1/09	Q4/08	Q3/08	Q2/08	Q1/08
Revenues	\$ 54.4	\$ 57.8	\$ 59.9	\$ 55.1	\$ 48.9	\$ 51.0	\$ 47.4	\$ 45.9
Net earnings	\$ 3.5	\$ 4.5	\$ 5.2	\$ 3.3	\$ 2.7	\$ 3.3	\$ 2.3	\$ 2.2
Net earnings per share								
Basic	\$ 0.45	\$ 0.58	\$ 0.67	\$ 0.42	\$ 0.33	\$ 0.40	\$ 0.28	\$ 0.26
Diluted	\$ 0.44	\$ 0.58	\$ 0.67	\$ 0.42	\$ 0.33	\$ 0.40	\$ 0.28	\$ 0.26

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 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.

The full text of the Company's fourth quarter management discussion and analysis can be found on SEDAR at www.SEDAR.com.

Liquidity and Capital Resources

Calian's net cash position was \$43,662 at September 30, 2009, compared to \$27,327 at September 30, 2008.

	2009	2008
Cash flows from operating activities before changes in working capital	\$ 18,615	\$ 12,044
Changes in working capital	7,440	6,654
Cash flows from operating activities	26,055	18,698
Cash flows used for financing activities	(8,412)	(7,547)
Cash flows used for investing activities	(1,392)	(2,029)
Currency translation	84	128
Increase in cash	\$ 16,335	\$ 9,250

Operating activities

Cash flows from operating activities in 2009 improved by \$7,357 compared to 2008 due to increased profitability, positive changes in working capital and a significant increase in advance customer payments. Working capital elements changed in line with the ebbs and flows of the business. The market for the Systems Engineering Division is characterized by long-term 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 September 30, 2009, the Company's total unearned revenue amounted to \$20,792. This compares to \$12,290 one year earlier, with the increase primarily attributable to a significant advance payment from ESA related to the Authorization To Proceed on the third deep space antenna.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financing activities

Dividend

As a result of continuing earnings and a strong cash position, the Company once again increased its dividend in 2009. The Company paid \$4,970 in dividends or \$0.64 cents per share compared to 2008 when the Company paid \$4,453 in dividends or \$0.54 cents per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

Shares

During 2009, the Company repurchased 472,400 common shares at an average price of \$10.44 and during 2008 the Company repurchased 264,500 common shares at an average price of \$12.53 through its normal course issuer bids.

At September 30, 2009 there were 155,438 options outstanding at an average price of \$11.22 expiring at various dates between February 4, 2012 and November 18, 2013.

At September 30, 2009 there were 7,744,546 common shares outstanding and as of the date of this Management Discussion and Analysis, there were 7,805,484 common shares outstanding.

Investing activities

Equipment expenditures

Calian acquired \$1,392 in equipment, furniture and fixtures during 2009, compared to \$2,029 during 2008. Equipment purchased in 2008 included leasehold improvement associated with the move of the BTS office to new leased premises. During 2010, expenditures are expected to be in line with normal levels. At September 30, 2009 there were no significant commitments to expend capital assets.

Capital resources

At September 30, 2009 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. Management believes that Calian has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

Contractual obligations

Payments due:	Total	<1 year	1-3 years	4-5 years	>5 years
Operating leases	\$ 7,262	\$ 2,698	\$ 1,544	\$ 1,277	1,743
Purchase obligations	5,005	5,005	-	-	-
Total contractual obligations	\$ 12,267	\$ 7,703	\$ 1,544	\$ 1,277	1,743

Purchase obligations include agreements to purchase goods and services that are enforceable and legally binding. They do not include agreements that are cancellable without penalty.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements at September 30, 2009.

Operating leases

The Company leases various premises and office equipment through operating leases.

Related party transactions

There were no transactions with related parties during 2009 and 2008.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the Company's financial condition and results of operations. On an on-going basis, management reviews its estimates and assumptions, including those related to revenue recognition on fixed-price projects, contingencies, estimated amounts for income taxes, allowance for doubtful accounts, valuation of goodwill, valuation of intangibles and valuation of investment. Management bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances; actual results could differ from those estimates.

Revenue recognition

The Business and Technology Services Division's revenue is derived primarily from per-diem contracts where revenue is recognized when the services are provided. However, a significant portion of the Systems Engineering Division's revenue is derived from fixed-price contracts. Revenue from these fixed-price projects is recognized using the percentage of completion method using management's best estimate of the costs and related risks associated with completing the projects. The greatest risk on fixed-price contracts is the possibility of cost overruns. Management's approach to revenue recognition is tightly linked to detailed project management processes and controls. The information provided by the project management system combined with a knowledgeable assessment of technical complexities and risks are used in estimating the percentage completion.

Contingencies

From time to time the Company is involved in claims in the normal course of business. Management assesses such claims and where considered likely to result in a material exposure and, where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. The Company does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

Income taxes

The Company records future income tax assets and liabilities related to deductible temporary differences. The Company assesses the value of these assets and liabilities based on their realizability given management assessments of future taxable income.

Allowance for doubtful accounts

The Company has extensive commercial history upon which to base its provision for doubtful accounts. Due to the nature of the industry in which the Company operates, the Company does not create a general provision for bad debts but rather determines bad debts on a specific account basis. Due to the blue-chip list of customers, the Company's allowance for doubtful accounts at September 30, 2009 and 2008 was minimal.

Goodwill

Goodwill is tested for impairment annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. Testing for impairment is accomplished by determining whether the fair value of the reporting unit exceeds the net carrying value as of the assessment date. If the fair value is greater than the carrying amount, no impairment is necessary. In the event the carrying amount exceeds the fair value, an impairment charge may be required. The determination of fair value is based on management's estimate of future results of operations of the reporting unit using reasonable assumptions relating to growth levels, expected costs, expected business environment and the Company's weighted average cost of capital.

Investment

The investment in AIM is reviewed for events or circumstances that indicate a loss in value that is other than a temporary decline. If it is determined that a loss in value that is other than a temporary decline has occurred, the investment would be written down. The write-down would be included in the determination of net income. The determination of the loss is based on management's estimate of future results of operations of AIM, using reasonable assumptions relating to growth levels and market trends. Based on the current outlook, management believes that there has been no other than temporary decline in value at September 30, 2009.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Adoption of New Accounting Policies During The Year

For the year ended September 30, 2009, the Company adopted the following accounting recommendation.

Goodwill and Intangible assets

Effective October 1, 2008, the Company adopted Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and for intangible assets. As a result, computer software was reclassified from equipment to intangible assets retrospectively.

Impact of Accounting Pronouncements Not Yet Implemented

Financial Instruments

In August 2009, the CICA amended Section 3855, Financial Instruments - Recognition and Measurement. These amendments will be applicable to financial statements relating to the Company's annual financial statements beginning on October 1, 2009. Currently the Company is required to classify its investment in AIM Health Group Inc. as an Available-For-Sale financial asset. In 2010, management will have the choice of classifying its investment as an Available-For-Sale asset or as a Loans and Receivable asset. If management choose to classify this investment under the category Loans and Receivables, it will no longer fair value the host contract portion of the investment and amounts charged to Accumulated Other Comprehensive Income will be reversed.

In June 2009, the CICA amended Section 3862, Financial Instruments - Disclosures. These amendments will be applicable to financial statements relating to the Company's annual financial statements beginning on October 1, 2009. The amendments provide for additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises. The Company does not anticipate that the adoption of the new standard will have a significant impact on the financial statements of the Company.

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, replacing Section 1581, Business Combinations. This new Section will be applicable to financial statements relating to the Company's annual financial statements beginning on October 1, 2011. Earlier adoption is permitted. The Section establishes standards for the accounting for a business combination. The Company does not anticipate that the adoption of the new standard will have a significant impact on the financial statements of the Company.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements. These new Sections will be applicable to financial statements relating to the Company's annual financial statements beginning on October 1, 2011. Earlier adoption is permitted when adopting Section 1582, Business Combinations, replacing Section 1581, Business Combinations. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company does not anticipate that the adoption of the new standards will have a significant impact on the financial statements of the Company.

International Financial Reporting Standards

The Canadian Accounting Standards Board has recently confirmed that Canadian publicly accountable enterprises will be required to report under International Financial Reporting Standards (IFRS) as replacement guidance for the Canadian generally accepted accounting principles (Canadian GAAP). IFRS uses a conceptual framework similar to current Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. In addition, it is expected that IFRS at the transition date will differ from current IFRS. The Company expects to issue its first financial statement in accordance with IFRS effective with its three-month period ending December 31, 2011.

Management's Discussion and Analysis of Financial Condition and Results of Operations

In order to prepare for the conversion to IFRS, the Company has developed an IFRS changeover plan. This plan addresses key elements of the Company's conversion to IFRS including:

- Accounting policy changes and financial reporting requirements;
- Education and training requirements;
- Impacts on business activities and on Information technology and data systems;
- Internal control over financial reporting;

We have also established a formal governance structure for the conversion to IFRS. The initiative is lead by the Chief Financial Officer who reports regularly to the Chief Executive Officer. The Chief Financial Officer also reports quarterly to the Audit Committee of the Board of Directors on the status of the project and the implications of the changeover to IFRS.

During 2009, we completed the high-level diagnostic gap and impact analysis between Canadian GAAP and IFRS applicable to the Company. The key activities consisted of:

- Identification of significant technical accounting and disclosure differences;
- Identification of key IFRS accounting policy alternatives;
- Identification of major operational and systems impacts.

During 2010, we expect to complete our detailed analysis of relevant differences between current IFRS and Canadian GAAP and complete all the required changes to our systems, processes and internal controls for purposes of dual-reporting in fiscal 2011. The key activities planned for 2010 consist of:

- Detailed evaluation of accounting and disclosure options, including the review of estimated impacts on the Company's financial position and results of operations, key performance indicators and business activities;
- Selection of IFRS-compliant accounting policies, including IFRS 1 policy choices;
- Identification of adjustments required on transition date;
- Identification of dual-reporting solution to maintain parallel records during 2010;
- Detailed assessment of implications to systems, processes, documentation and internal controls;
- Implementation of required changes to systems, processes, documentation and internal controls.

During 2010 and 2011 we will complete the necessary work required to quantify the impact of the changeover to IFRS on the Company's financial position and result of operations at date of transition and affecting the comparative year 2011 and the first reporting year 2012. We will continue to monitor changes to IFRS and assess the impact that these new standards will have on the Company's financial results and on the Company's changeover plan. These changes may have an impact on the Company's consolidated financial statements; however it is too early in the Company's changeover process to provide quantification of those effects. Based on the Company's work to date, we believe that the areas with potential impact include hedge accounting documentation and overall disclosure requirements.

Management's Conclusion on the Effectiveness of Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's disclosure controls and procedures as of September 30, 2009, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them and that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

Management's Conclusion on the Effectiveness of Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's internal control over financial reporting as of September 30, 2009, have concluded that the Company's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with Canadian GAAP.

During the most recent interim quarter ending September 30, 2009, there have been no changes in the design of the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Risk Factors

The Company is subject to a number of risks and uncertainties that could significantly affect the Company's financial condition and future results of operations. The Company has a comprehensive planning process where risks are identified and plans initiated to minimize risks wherever possible. The Systems Engineering and Business and Technology Services divisions face some or all of the following risks and uncertainties:

Competition for contracts within key markets

The markets for the Company's services are intensely competitive, rapidly evolving and subject to technological changes. The principal competitive factors in the Company's markets are quality, performance, price, timeliness, customer support and reputation. Calian has a disciplined approach to management of all aspects of its business. The Company is a proponent of quality management; SED is registered under ISO 9001-2000 standards and BTS is accredited at Level 4 of the Progressive Excellence Program by the National Quality Institute. This approach to management was developed to help the Company ensure that its employees deliver services consistently according to the Company's high standards and based on strong values underlying its client-focused culture.

The availability of qualified professionals

Competition from other firms has a two-fold impact on the Company. The Company must not only vie for qualified employees for its own operations but must have ready access to a large pool of qualified professionals to satisfy contractual arrangements with customers. The Company mitigates these factors through a number of means. The Company's performance driven remuneration policies and its favorable working environment are conducive to attracting ambitious, qualified professionals. As a supplier of professional employees through outsourcing contracts, the Company regularly establishes relationships with a significant number of professionals in key markets.

Performance on fixed-price contracts

A large percentage of SED's contracts are based on a fixed price for the provision of a specified service against an agreed delivery schedule. These fixed-price contracts at times involve the completion of large-scale system engineering projects. There is a risk in all fixed-price contracts that the Company will be unable to deliver the system within the time specified and at the expected cost. The Company employs sophisticated design and testing processes and practices, which include a wide range of stringent factory and on-site acceptance tests with criteria and requirements jointly developed with the customer. However, non-performance could result in a customer being in a position to terminate the contract for default, or to demand repayments or penalties. Program management methodologies have been implemented to adequately manage each project and any customer change, and to identify and mitigate potential technical risks and related cost overruns. In addition, the Company employs procedures to ensure accurate estimating of costs and performs regular detailed reviews of progress on each project.

Non-performance of a key supplier or contractor

The Company's business is often dependent on performance by third parties and subcontractors for completion of contracts for which the Company is the prime contractor. Subcontractors for large systems are selected in concurrence with the customer's requirements, and if not directed by the customer, are selected through a competitive bid or negotiated process. Most major development subcontracts are established as fixed-price contracts. The Company believes that these subcontractors have an economic incentive to perform such subcontracts for the Company. However, no company can protect itself against all material breaches, particularly those related to financial insolvency of the subcontractors or to cost overruns by subcontractors. Risks include a significant price increase in those few subcontracts that are not fixed-price, delay in performance, failure of any major subcontractor to perform or the inability of the Company to obtain replacement subcontractors at a reasonable price. The performance of key subcontracts is closely monitored as part of the Company's project management process to promptly identify potential issues and develop remedial actions.

Rapidly changing technologies and customer demands

The markets in which the Company operates are characterized by changing technology and evolving industry standards. The Company keeps pace with developments in the industries it serves and actively monitors the evolution of these markets, thus ensuring that it can meet the evolving needs of its clients. The Company achieves this by continually recruiting profession-

Management's Discussion and Analysis of Financial Condition and Results of Operations

als in high demand positions and providing regular training to ensure employee skills remain current. The Company's ability to anticipate changes in technology, technical standards and service offerings will be a significant factor in the Company's ability to compete or expand into new markets.

Government contracts

During 2009, approximately 60% of the Company's total revenues was derived from contracts with the Canadian government and its agencies. The government may change its policies, priorities or funding levels through agency or program budget reductions or impose budgetary constraints. Furthermore, contracts with governments, including the Canadian government, may be terminated or suspended by the government at any time, with or without cause. Although in the past the Company has not experienced any significant cancellations of previously awarded contracts by the Canadian government, there can be no assurance that any contract with the government will not be terminated or suspended in the future.

Backlog

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. At September 30, 2009 the Company's backlog included \$197 million of contract value in excess of the current estimated utilization levels. Should additional customer requirements for the Company's services under these contracts not materialize, this excess will not be realized.

Credit risk concentration with respect to accounts receivable

As the Company grows, it monitors the concentration of its business in its various segments and with particular customers. In management's opinion, the fact that the Company operates in two segments that provide some diversification of its customer base mitigates the potential impact on earnings and cash flow of problems related to an individual sector or customer.

Insufficient or inappropriate mix of work for fixed labour resources

Virtually all employees of SED are full time staff and represent a broad spectrum of unique skill sets. Accordingly, SED strives to secure sufficient labour sales that adequately match the skill sets. SED's business development practices are designed to dynamically adjust pursuits of contracts to address the sufficiency and mix of available resources.

Operational risk

Operational risk is managed through the establishment of effective infrastructure and controls. Key elements of the infrastructure are qualified, well-trained personnel, clear authorization levels and reliable technology. Controls established by documented policies and procedures include the regular examination of internal controls by internal employees as well as our auditors, segregation of duties, and financial management and reporting. In addition, the Company maintains insurance coverage and contingency plans for systems failures or catastrophic events.

Foreign currency risk

The Company operates internationally with approximately 30% of its business derived from non-Canadian sources. A substantial portion of this international business is denominated in major foreign currencies and therefore the Company's results from operations are affected by exchange rate fluctuations of these currencies relative to the Canadian dollar. The Company uses financial instruments, principally in the form of forward exchange contracts, in its management of foreign currency exposures. At September 30, 2009 the Company had various forward exchange contracts, which are explained in Note 18 to the Company's consolidated financial statements for the year ended September 30, 2009. The strengthening of the Canadian dollar relative to other foreign currencies may negatively impact the Company's competitiveness and increase pressure on margins for new work.

Sufficiency of insurance

The Company carries various forms of insurance to protect itself from a variety of insurable risks. However, such coverage may not be sufficient in extreme circumstances and accordingly there exists a risk to the Company. While the Company

Management's Discussion and Analysis of Financial Condition and Results of Operations

cannot reasonably insure itself for all events, it regularly reviews the availability, scope and amounts of coverage with its professional advisors and implements an approach balancing both cost and risk.

Medical malpractice

As a result of the Company executing the health services support contract for the Department of National Defence, the Company is subject to risks associated with the medical profession. In order to mitigate such risks to the degree possible, the Company has obtained medical malpractice and professional liability insurance in accordance with the terms of this contract. In addition, it is a condition of employment for doctors, dentists and other medical professionals to maintain appropriate credentials, be in good standing with their medical associations and obtain medical malpractice insurance from their respective association.

Political and trade barriers

Revenues on certain projects are derived from customers in foreign jurisdictions and are subject to trade and political barriers relating to the protection of national interests. These barriers could have an adverse effect on our ability to win repeat business and attract new customers.

Consolidation of customer base

The satellite industry has experienced both restructuring and consolidation. As the newly formed entities focus on optimizing cash flows and gaining economies of scale, opportunities for systems integrators may be diminished thereby creating a very competitive environment with commensurate pressure on margins.

Long-term Outlook

Management believes the Company is well positioned for long-term sustained growth. 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 focus on increasing the percentage of its revenues derived from recurring business while pursuing new business in adjacent markets.

The Systems Engineering Division has been working within an improved satellite sector for the last two years and the division is expecting new opportunities to arise as systems adopting the latest technologies will be required by customers to maintain and improve their service offerings. Management is also confident that systems such as MSTAR will continue to be in demand in the security and surveillance market although it cannot predict the timing and extent of future orders. The continued volatility of the Canadian dollar could impact the Systems Engineering Division's competitiveness when bidding against foreign competition 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 to the Department of National Defence. Management believes that this department and many others within the federal government will continue to require more support services from private enterprises to supplement their current workforce. Management believes that the types of service the division offers will continue to be attractive to government agencies going forward.

While not immune to the current economic uncertainty, management believes that the company's strong backlog and customer base coupled with the diversification of its two divisions will provide reduced susceptibility relative to other entities.

Additional Information

Additional information about the Company such as the Company's 2009 Annual Information Form and Management Circular can be found on SEDAR at www.SEDAR.com

Dated: November 30, 2009

Management's Statement of Responsibility

The accompanying consolidated financial statements of Calian Technologies Ltd. and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements include some amounts that are based on management's best estimates that have been made using careful judgment.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling its responsibilities, management of Calian and its subsidiaries has developed and continues to maintain systems of internal accounting controls including written policies and procedures and segregation of duties and responsibilities.

Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded and the financial records are reliable for preparing the financial statements.

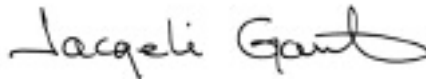
The Board of Directors carries out its responsibility for the financial statements in this report through its Audit Committee. The Audit Committee meets periodically with management to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the financial statements and financial reporting matters. The Audit Committee also meets periodically with the external auditors to review and discuss the financial statements and financial reporting matters.

The financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who have full access to the Audit Committee with and without the presence of management.



Ray Basler

*President and CEO
Ottawa, Ontario
November 11, 2009*



Jacqueline Gauthier

Chief Financial Officer

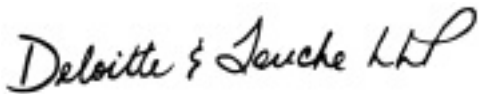
Auditors' Report

To the Shareholders of Calian Technologies Ltd.

We have audited the consolidated balance sheets of Calian Technologies Ltd. as at September 30, 2009 and 2008 and the consolidated statements of earnings and retained earnings, cash flow, comprehensive income and accumulated other comprehensive loss and retained earnings for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
November 11, 2009

Calian Technologies Ltd.
Consolidated Statements of Earnings and Retained Earnings
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands, except per share data)

	2009	2008
Revenues	\$ 227,230	\$ 193,165
Cost of revenues	178,018	155,326
Gross profit	49,212	37,839
Selling and marketing	4,957	4,854
General and administration	15,714	13,209
Facilities	3,230	3,118
Stock option compensation (Note 10)	104	119
Amortization	1,246	1,374
Prior year investment tax credit (Note 5)	(311)	-
Earnings before other expense, interest income and income tax expense	24,272	15,165
Unrealized loss on fair value of conversion options of long-term investment (Note 6)	(220)	(338)
Loss on share exchange (Note 6)	(125)	-
Interest income (Note 12)	715	1,266
Earnings before income tax expense	24,642	16,093
Income tax expense (Note 5):		
Current	8,055	5,534
Future	135	50
	8,190	5,584
NET EARNINGS	\$ 16,452	\$ 10,509
Retained earnings, beginning of year	35,148	31,852
Excess of purchase price over stated capital on repurchase of shares (Note 9)	(3,938)	(2,760)
Dividends	(4,970)	(4,453)
Retained earnings, end of year	\$ 42,692	\$ 35,148
Net earnings per share (Note 11)		
Basic	\$ 2.12	\$ 1.27
Diluted	\$ 2.11	\$ 1.27
Weighted average number of shares (Note 11)		
Basic	7,764,119	8,247,798
Diluted	7,814,984	8,247,798

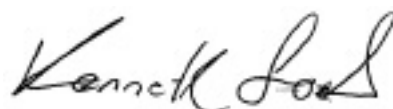
The accompanying notes are an integral part of the consolidated financial statements.

Calian Technologies Ltd.
Consolidated Balance Sheets
As at September 30, 2009 and 2008
(Canadian dollars in thousands)

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash	\$ 43,662	\$ 27,327
Accounts receivable	32,816	33,304
Work in process	2,766	4,761
Prepaid expenses (Note 4)	5,656	701
Future income taxes (Note 5)	1,472	2,060
Derivative assets (Note 18)	679	521
	87,051	68,674
LONG-TERM INVESTMENT (Note 6)	3,037	3,165
EQUIPMENT (Note 7)	4,300	4,093
INTANGIBLES (Note 8)	420	481
GOODWILL	9,518	9,518
	\$ 104,326	\$ 85,931
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 22,644	\$ 20,430
Unearned contract revenue	20,792	12,290
Derivative liabilities (Note 18)	377	1,606
	43,813	34,326
COMMITMENTS (Note 13) AND CONTINGENCIES (Note 14)		
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	17,719	16,975
Contributed surplus (Note 10)	285	429
Retained earnings	42,692	35,148
Accumulated other comprehensive loss	(183)	(947)
	60,513	51,605
	\$ 104,326	\$ 85,931

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board:



Kenneth Loeb
Chairman



Richard Vickers
Director

Calian Technologies Ltd.
Consolidated Statements of Comprehensive Income
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands)

	2009	2008
Net earnings	\$ 16,452	\$ 10,509
Unrealized gain on translating financial statements of self-sustaining foreign operation, net of tax of nil	84	128
Unrealized loss on fair value of host contract component of long-term investment, net of tax of nil	(257)	(46)
Change in deferred gain (loss) on derivatives designated as cash flow hedges, net of tax of \$450 (2008:\$1,012)	937	(2,000)
Other comprehensive income (loss)	764	(1,918)
Comprehensive income	\$ 17,216	\$ 8,591

Calian Technologies Ltd.
Consolidated Statements of Accumulated Other Comprehensive Loss and Retained Earnings
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands)

	2009	2008
Unrealized cumulative loss on translating financial statements of self-sustaining foreign operation	\$ (310)	\$ (394)
Unrealized cumulative gain on fair value of host contract component of long-term investment	128	385
Deferred loss on derivatives designated as cash flow hedges	(1)	(938)
Accumulated other comprehensive loss, end of year	(183)	(947)
Retained earnings, end of year	42,692	35,148
Accumulated other comprehensive loss and retained earnings, end of year	\$ 42,509	\$ 34,201

The accompanying notes are an integral part of the consolidated financial statements.

Calian Technologies Ltd.
Consolidated Statements of Cash Flows
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 16,452	\$ 10,509
Items not affecting cash		
Interest accreted on host contract component of long-term investment (Note 12)	(474)	(388)
Employee stock purchase plan compensation expense (Note 9)	50	42
Stock option compensation (Note 10)	104	119
Write-off of Nortel receivable	757	-
Amortization	1,246	1,374
Future income tax expense (Note 5)	135	50
Unrealized loss on fair value of conversion options of long-term investment (Note 6)	220	338
Loss on share exchange (Note 6)	125	-
	18,615	12,044
Change in non-cash working capital		
Accounts receivable	(758)	(62)
Work in process	1,996	(1,017)
Prepaid expenses (Note 4)	(4,954)	(200)
Accounts payable and accrued liabilities	2,932	1,196
Unearned contract revenue	8,224	6,737
	26,055	18,698
CASH FLOWS USED IN FINANCING ACTIVITIES		
Issuance of common shares (Note 10)	1,491	220
Dividends	(4,970)	(4,453)
Repurchase of shares (Note 9)	(4,933)	(3,314)
	(8,412)	(7,547)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Equipment and intangible expenditures	(1,392)	(2,029)
	(1,392)	(2,029)
FOREIGN CURRENCY ADJUSTMENT		
	84	128
NET CASH INFLOW	16,335	9,250
CASH, BEGINNING OF YEAR	27,327	18,077
CASH, END OF YEAR	\$ 43,662	\$ 27,327
SUPPLEMENTARY INFORMATION:		
Income taxes paid	\$ 8,045	\$ 4,929

The accompanying notes are an integral part of the consolidated financial statements.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands, except per share data)

1. Nature of Operations

Calian Technologies Ltd. ("the Company"), incorporated under the Canada Business Corporations Act, and its wholly-owned subsidiaries provide technology services to industry and government.

2. Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Calian Ltd., Calian Inc., and Calian Technology (U.S.) Ltd. All transactions and balances between these companies have been eliminated on consolidation.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Company's management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Significant areas requiring the use of estimates relate to the determination of percentage of completion, estimated project costs and revenues for contract revenue recognition, contingencies, estimated timing of reversals of amount for income tax balances, allowance for doubtful accounts, valuation of investment and the impairment of goodwill. Actual results could differ from those estimates.

Revenue recognition

Revenue on fixed-price contracts is recognized at the net realizable value of services provided using the percentage of completion method based on management estimates of costs to complete each contract. Billings and cash receipts in advance of amounts earned are reflected as unearned contract revenue. Provision is made for the entire amount of any expected losses on revenue contracts, if any, in the period in which they are first determinable. In addition, a provision for warranty claims is established when revenue is recognized, based on warranty terms and prior claim experience. As some contracts extend over one or more years, any revision in cost and profit estimates made during the course of the work are reflected in the accounting period in which the facts indicating a need for the revision become known.

Revenue derived from per-diem contracts is recognized in the period the services are provided.

Research and development costs and related investment tax credits

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. No such costs have been deferred at September 30, 2009 and 2008.

Research and development costs incurred under contract are included in cost of sales net of related government assistance. Investment tax credits are accounted for using the cost reduction method, whereby the benefit is recognized as a reduction in the cost of the related asset or expenditure when there is reasonable assurance the tax credits will be realized and if it is more likely than not that they will be utilized to reduce taxes payable.

Share-based compensation

The Company has a stock option plan for executives and other key employees and an employee share purchase plan. The Company measures and recognizes compensation expense based on the fair-value of the stock or stock options issued using the Black-Scholes pricing model. The offsetting credit is recorded against contributed surplus. Consideration paid by employees on the purchase of shares or exercise of options and related amounts of contributed surplus are recorded as share capital when the shares are issued.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands, except per share data)

2. Accounting Policies (Continued)

Current monetary assets and liabilities

Cash is measured at fair value with changes in fair value recorded in net income. Accounts receivable and accounts payable and accrued liabilities are measured at amortized cost with interest accretion recorded in net income. Due to the short-term nature of these assets and liabilities, the carrying amounts approximate fair value.

Work in process

Work in process represents work performed but not invoiced and is recorded at net realizable value.

Long-term investment

The Company's long-term investment is considered a hybrid instrument as it includes rights of conversion to common shares. The conversion options are considered to be embedded derivatives to be separated and valued independently of the underlying debenture investment "host contract". The conversion options are measured at fair value using a Black-Scholes model with changes in fair value recorded in net income. The host contract is adjusted to fair value each period end. The effective interest rate method is used to calculate interest income on the host contract. The change in the fair value of the host contract is recorded in other comprehensive income. Fair value of the host contract is determined using interest rates in effect at each reporting period with consideration given to the credit rating of the debtor. The carrying amount of the long-term investment is equal to the sum of the fair value of both the embedded derivative and the host contract.

Income taxes

The Company accounts for income taxes using the liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities using rates enacted or substantively enacted.

Equipment

Equipment, comprising equipment, furniture and fixtures, is recorded at cost, net of related government assistance and investment tax credits. Amortization is calculated using the declining balance method at rates ranging from 20% to 30% for all equipment other than leasehold improvements. Leasehold improvements are amortized on a straight-line basis over the term of the leases. The Company's policy is to review all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying value of the asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Goodwill and intangible assets

Effective October 1, 2008, the Company adopted Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and for intangible assets. As a result, computer software was reclassified from equipment to intangible assets retrospectively.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of a reporting unit's goodwill exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. An impairment charge is recorded for goodwill that is considered impaired. The Company performs its annual review of goodwill on September 30th each year. Based on the impairment tests performed at September 30, 2009 and 2008, the Company concluded that a goodwill impairment charge was not required.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands, except per share data)

2. Accounting Policies (Continued)

Intangibles

Intangibles are comprised of application software used by the Company for general and administration purposes and for various customer related projects. Intangibles also include customer relationships, non-competition agreements, order backlog and consultant databases acquired through business combinations. Application software is amortized using the declining balance method at a rate of 20%. Non-software intangibles are amortized on a straight-line basis over their estimated useful life not exceeding five years. The amortization method and estimate of useful life is reviewed annually. The Company's policy is to review all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying value of the intangibles exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Foreign currency translation

Accounts denominated in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at year-end. Non-monetary items are translated at rates in effect on the dates of the transactions. Revenues and expenses are translated at rates in effect during the year except for amortization, which is translated at the same rate as the assets to which it relates. Gains and losses from translation are included in earnings in the period in which they occur.

The accounts of a wholly-owned subsidiary, which is considered to be a self-sustaining foreign operation, have been translated into Canadian dollars using the current rate method of foreign currency translation. Under this method, assets and liabilities are translated at the rate of exchange in effect at year-end. Revenues and expenses are translated at rates in effect during the year. Translation gains and losses are recorded in the cumulative translation adjustment as a separate component of other comprehensive income.

Financial instruments and risk management

The Company utilizes derivative financial instruments in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific contractually related firm commitments on projects. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives are recorded on the balance sheet at fair value with changes in fair value recorded in net income unless the derivative is designated as a cash flow hedge. Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place at the end of the period. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded in other comprehensive income and is recognized in net income when the hedged item affects net income. The Company expenses transaction costs related to its foreign exchange contracts.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands, except per share data)

2. Accounting Policies (Continued)

Financial Instruments – Disclosures and Presentation

Effective October 1, 2007, the Company adopted Section 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments - Presentation. These sections require the disclosure of information with regards to the significance of financial instruments for the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks. Financial instrument classification is as follows:

Financial instrument classification is as follows:

Cash	Held for trading
Accounts receivable	Loans and receivables
Derivative assets and liabilities	Held for trading
Long-term investment - conversion option	Held for trading
Long-term investment - host contract	Available-for-sale
Accounts payable and accrued liabilities	Other liabilities

Held for trading

Held for trading financial assets and liabilities are typically acquired for resale, derivatives or other financial assets and liabilities that are designated as held for trading. They are measured at fair value with changes in fair value flowing through income in the period.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized, when the cumulative gain or loss is transferred to other income.

Loans and receivables

Loans and receivables are recorded initially at fair value then are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded initially at fair value then accounted for at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred.

Comprehensive income

Comprehensive income includes net earnings and other comprehensive income (OCI). OCI refers to changes in net assets from certain transactions and other events and circumstances, other than transactions with shareholders. These changes are recorded directly as a separate component of shareholders' equity and excluded from net earnings. The Company's OCI includes the foreign currency translation adjustment for its US subsidiary that does not use the Canadian dollar as its measurement currency, the unrealized gain or loss on fair value of the host contract portion of its long-term investment and the change in fair value on the effective portion of derivatives designated as cash flow hedges where the hedged item has not yet been recognized in income.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands, except per share data)

3. New accounting pronouncement

Financial Instruments

In August 2009, the CICA amended Section 3855, Financial Instruments - Recognition and Measurement. These amendments will be applicable to financial statements relating to the Company's annual financial statements beginning on October 1, 2009. Currently the Company is required to classify its investment in AIM Health Group Inc. as an Available-For-Sale financial asset. In 2010, management will have the choice of classifying its investment as an Available-For-Sale asset or as a Loans and Receivable asset. If management choose to classify this investment under the category Loans and Receivables, it will no longer fair value the host contract portion of the investment and amounts charged to Accumulated Other Comprehensive Income will be reversed.

In June 2009, the CICA amended Section 3862, Financial Instruments - Disclosures. These amendments will be applicable to financial statements relating to the Company's annual financial statements beginning on October 1, 2009. The amendments provide for additional disclosure requirements about fair value measurements of financial instruments and enhanced liquidity risk disclosure requirements for publicly accountable enterprises. The Company does not anticipate that the adoption of the new standard will have a significant impact on the financial statements of the Company.

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, replacing Section 1581, Business Combinations. This new Section will be applicable to financial statements relating to the Company's annual financial statements beginning on October 1, 2011. Earlier adoption is permitted. The Section establishes standards for the accounting for a business combination. The Company does not anticipate that the adoption of the new standard will have a significant impact on the financial statements of the Company.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements. These new Sections will be applicable to financial statements relating to the Company's annual financial statements beginning on October 1, 2011. Earlier adoption is permitted when early adopting Section 1582, Business Combinations. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company does not anticipate that the adoption of the new standards will have a significant impact on the financial statements of the Company.

International Financial Reporting Standards

Canadian public companies will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board. This change will be applicable to financial statements relating to the Company's annual financial statements beginning on or after October 1, 2011. The Company has undertaken a project to ensure compliance with the new standards by the adoption date.

4. Prepaid Expenses

	2009	2008
Prepaid operating expenses	\$ 635	\$ 701
Milestone advance to subcontractor	5,021	-
	\$ 5,656	\$ 701

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands, except per share data)

5. Income Taxes

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the income taxes actually provided in the accounts:

	2009	2008
Earnings before income taxes	\$ 24,642	\$ 16,093
Tax provision at the combined basic Canadian federal and provincial income tax rate of 32.6% (2008: 33.6%)	8,031	5,406
Increase resulting from:		
Permanent differences	43	72
Impact of rate reductions on valuation of future income tax assets	38	60
Other	78	46
Income tax expense	\$ 8,190	\$ 5,584

During 2009, the Company received an assessment from the Canada Revenue Agency regarding the Company's re-filing of its 2006 scientific research and experimental development (R&D) claim allowing additional R&D costs to be claimed. As a result the Company received a refund of \$311 of investment tax credits related to its 2006 R&D activities.

The balances of future income tax assets at September 30, 2009 and 2008 represent the future benefits of temporary differences between the tax and accounting bases of liabilities, consisting mainly of amounts expensed for accounting purposes in advance of tax. None of the goodwill is expected to be deductible for tax purposes.

6. Long-term Investment

On July 11, 2006, the Company invested \$3,623 in Med-Emerg International Inc. (Med-Emerg) in the form of convertible preferred shares which included \$116 of acquisition costs. On January 20, 2009, Med-Emerg announced that it successfully merged with AIM Health Group Inc. (AIM) in an all-stock transaction. At that time, Calian surrendered its preferred shares in Med-Emerg in exchange for a secured convertible debenture of AIM with a face value of \$3,897. The share exchange resulted in a loss on exchange of \$125.

The non-interest bearing debenture is convertible into 6,831,372 common shares of AIM at the Company's option. AIM is also entitled to cause the debenture to be converted into common shares when in any given 6-month period, trading volumes of AIM common shares exceed 1,089,642 shares and the weighted average share price is at least \$0.57. Conversion is limited to 50% of the debenture in any 6-month period. On a fully converted basis, this investment represents a 6% interest based on the current number of common shares outstanding. The debenture is subordinated to secured creditors of record on January 20, 2009 and any bank indebtedness. The debenture is due to be redeemed in two instalments; \$1,000 payable in cash on January 1, 2011 and the remaining \$2,897 payable on July 11, 2011 in cash or AIM common shares at the option of AIM based on the then fair market value of the common shares.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
Years ended September 30, 2009 and 2008
(Canadian dollars in thousands, except per share data)

6. Long-term Investment (Continued)

Fair value of long-term investment:

Med-Emerg long-term investment, at cost	\$ 3,623
Med-Emerg cumulative unrealized gain on conversion options	(1,878)
Med-Emerg cumulative interest accretion on host contract	897
Med-Emerg cumulative unrealized gain on fair value of host contract component	-
Med-Emerg fair value of investment on January 20, 2009, prior to exchange loss on share exchange	2,642 (125)
AIM long-term investment, at cost	\$ 2,517
AIM cumulative unrealized gain on conversion options	35
AIM cumulative interest accretion on host contract	357
AIM cumulative unrealized gain on fair value of host contract component	128
Fair value of AIM investment at September 30, 2009	\$ 3,037

The Company's long-term investment is considered a hybrid instrument as it includes rights of conversion to common shares. The conversion options are considered to be embedded derivatives to be separated and valued independent of the underlying host contract.

The conversion options are measured at fair value with changes in fair value recorded in net income. During 2009 and 2008, the value of the options decreased resulting in an unrealized loss of \$220 and \$338 respectively. The fair value of the conversion options applies the following data and assumptions to the Black-Scholes option pricing model:

AIM 30 days weighted average share price	\$ 0.09
Risk free interest rate	1.26%
Actual stock price volatility	99.1 %
Expected life of options	1.75 years

Under the Black-Scholes model, a one cent increase (decrease) in AIM share price would result in a \$15 increase (decrease) in the fair value of the conversion options. A 10% increase (decrease) in the volatility of AIM stock price would result in an \$18 increase (decrease) in the fair value of the conversion option. AIM shares are traded on the TSX Venture Exchange and currently trade in limited volume.

Fair value of the host contract component is determined using interest rates in effect at each reporting period. A 1% increase (decrease) to the interest rate would result in a \$45 decrease (increase) in the fair value of the host contract component. The interest rate used at September 30, 2009 is 16.4% and represents an approximation of the borrowing rate available for companies with risk profiles similar to AIM based on BBB credit rating.

7. Equipment

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 1,474	\$ 182	\$ 1,292	\$ 1,332	\$ 114	\$ 1,218
Equipment and furniture	8,890	5,882	3,008	8,378	5,503	2,875
	\$ 10,364	\$ 6,064	\$ 4,300	\$ 9,710	\$ 5,617	\$ 4,093

8. Intangibles

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Acquired through business combinations	\$ 1,482	\$ 1,482	\$ -	\$ 1,482	\$ 1,402	\$ 80
Application software	1,794	1,374	420	1,958	1,557	401
	\$ 3,276	\$ 2,856	\$ 420	\$ 3,440	\$ 2,959	\$ 481

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9. Share Capital

Authorized: Unlimited number of common shares
Unlimited number of preferred shares issuable in series

Issued: Common shares as follows:

	2009		2008	
	Shares	Amount	Shares	Amount
Balance, beginning of year	8,098,335	\$ 16,975	8,345,581	\$ 17,309
Shares issued under stock option plan	94,562	1,455	-	-
Shares issued under employee stock purchase plan	24,049	284	17,254	220
Shares repurchased for cash	(472,400)	(995)	(264,500)	(554)
Balance, end of year	7,744,546	\$ 17,719	8,098,335	\$ 16,975

Share repurchase

During 2009 (2008), the Company acquired 472,400 (264,500) of its outstanding common shares at an average price of \$10.44 (\$12.53) per share for a total of \$4,933 (\$3,314) including related expenses, through normal course issuer bids in place during the periods. The excess of the purchase price over the stated capital of the shares has been charged to retained earnings.

Employee stock purchase plan

The Company has an Employee Stock Purchase Plan (ESPP) under which most full-time employees may register once a year to participate in one of two offering periods. Eligible employees may purchase common shares by payroll deduction throughout the year at a price of 80% of the fair market value at the beginning of the initial offering period or may purchase common shares at a price of 90% of the fair market value at the beginning of the interim offering period. Such shares are issued from treasury once a year at the end of the offering periods.

A total of 500,000 common shares have been authorized for issuance under the plan. During 2009 (2008), the Company issued 24,049 (17,254) shares under the ESPP and employees subscribed to approximately 31,100 common shares, which will be issued during fiscal 2010 at an average price of \$9.05. Since inception and including the issuance of shares in 2009, 265,889 shares have been issued under the plan. During 2009, the Company recorded compensation expense of \$50 (2008: \$42) relating to its ESPP.

10. Stock Options

The Company has an established stock option plan, which provides that the Board of Directors may grant stock options to eligible directors and employees. Under the plan eligible directors and employees are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted but in no circumstances below fair market value of the shares at the date of grant. A total of 500,000 common shares have been authorized for issuance under the plan, of which 250,000 options have been issued at September 30, 2009.

During 2009 the Company granted 85,000 options to directors and officers at a price of \$9.05 per share with 24,200 vesting immediately and 60,800 options vesting over a period of two years. The options expire on November 18, 2013.

During 2009 under the fair value based method, compensation expense of \$104 (2008: \$119) was recorded with an offsetting credit to contributed surplus. For shares exercised during 2009, an amount of \$247 was transferred out of contributed surplus to share capital.

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10. Stock Options (Continued)

The fair value of options granted during 2009 was \$0.96 per option and was calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

Risk free interest rate	2.3%
Expected dividend yield	7.2%
Stock price volatility	26.7%
Expected life of options	3.47 years

Options outstanding:

	2009		2008	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	165,000	\$ 13.22	165,000	\$ 13.22
Exercised	(94,562)	\$ 12.77	-	\$ -
Granted	85,000	\$ 9.05	-	\$ -
Outstanding, end of year	155,438	\$ 11.22	165,000	\$ 13.22

	Range of exercise prices		
	\$9.05	\$13.00 - \$13.47	TOTAL
Options outstanding at September 30, 2009	74,000	81,438	155,438
Weighted average exercise price	\$ 9.05	\$ 13.19	\$ 11.22
Weighted average remaining contractual life	4.1 years	2.6 years	3.3 years
Options exercisable at September 30, 2009	31,200	81,438	112,638
Weighted average exercise price	\$ 9.05	\$ 13.19	\$ 12.04

11. Earnings Per Share

The diluted weighted average number of shares has been calculated as follows:

	2009	2008
Weighted average number of common shares - basic	7,764,119	8,247,798
Additions to reflect the dilutive effect of employee stock options	50,865	-
Weighted average number of common shares - diluted	7,814,984	8,247,798

Options that are anti-dilutive because the exercise price was greater than the average market price of the common shares are not included in the computation of diluted earnings per share. For 2009, no options were considered anti-dilutive. For 2008, 165,000 options were excluded from the above computation of diluted weighted average number of common shares because they were anti-dilutive.

12. Interest Income

Interest income is comprised of the following amounts:

	2009	2008
Interest earned on cash balances	\$ 241	\$ 878
Accreted interest on host contract component of long-term investment	474	388
Interest income	\$ 715	\$ 1,266

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13. Commitments

The Company has lease agreements for office space and equipment with terms extending to the year 2019. The aggregate minimum rental payments under these arrangements are as follows:

2010	\$	2,698
2011		812
2012		732
2013		649
2014		628
thereafter		1,743
<u>Total</u>	<u>\$</u>	<u>7,262</u>

14. Contingencies

In the normal course of business, the Company is party to employee related claims. The potential outcomes related to existing matters faced by the Company are not determinable at this time. The Company intends to defend these actions, and management believes that the resolution of these matters will not have a material adverse effect on the Company's financial condition.

15. Capital Management

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity excluding accumulated other comprehensive income relating to cash flow hedges. The Company does not have any debt and therefore net earnings generated from operations are available for reinvestment in the Company or distribution to the Company's shareholders. The Board of Directors does not establish quantitative return on capital criteria for management but rather promotes year over year sustainable profitable growth. The Board of Directors also reviews on a quarterly basis the level of dividends paid to the Company's shareholders and monitors the share repurchase program activities. The Company does not have a defined share repurchase plan and buy and sell decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

16. Guarantees

In the normal course of business, the Company enters into agreements that may provide for indemnification and guarantees to customers in transactions such as staffing, outsourcing and engineering. These indemnification undertakings and guarantees may require the Company to compensate customers for costs and losses incurred as a result of various events, including breaches of representations and warranties, intellectual property rights infringement, claims that may arise while providing services, or as a result of litigation that may be suffered by customers. The Company mitigates its potential liability by ensuring its revenue contracts do not contain clauses relating to liability for indirect or special damages such as loss of revenue or profit in all of its engineering agreements. The Company also mitigates the risk of loss by including similar indemnification clauses in the agreements entered into with its subcontractors. The term and nature of these indemnifications vary based upon the agreement, which often provides no limit. Consequently, the Company is unable to make a reasonable estimate of the maximum potential amounts that the Company could be required to pay to its customers. Historically, the Company has not been obligated to make significant payments under these indemnification clauses.

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17. Segmented Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, regarding how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer.

The Company operates in two reportable segments described below, defined by their primary type of service offering, namely Systems Engineering and Business and Technology Services.

- Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector.
- Business and Technology Services involves short and long-term placements of personnel to augment customers' workforces as well as the long-term management of projects, facilities and customer business processes.

The Company evaluates performance and allocates resources based on earnings before interest and income taxes. The accounting policies of the segments are the same as those described in Note 2.

For the year ended September 30, 2009

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 75,527	\$ 151,703	\$ -	\$ 227,230
Operating expenses	57,742	141,106	2,864	201,712
Amortization	651	595	-	1,246
Earnings before other expense, interest income and income tax expense	\$ 17,134	\$ 10,002	\$ (2,864)	\$ 24,272
Unrealized loss on fair value of conversion options of long-term investment (Note 6)				220
Loss on share exchange (Note 6)				125
Interest income (Note 12)				715
Income tax expense (Note 5)				8,190
Net earnings				\$ 16,452
Total assets other than cash and goodwill	\$ 17,436	\$ 33,625	\$ 85	\$ 51,146
Goodwill	-	9,518	-	9,518
Cash	-	-	43,662	43,662
Total assets	\$ 17,436	\$ 43,143	\$ 43,747	\$ 104,326
Equipment and intangible expenditures	\$ 755	\$ 637	\$ -	\$ 1,392

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17. Segmented Information (Continued)

For the year ended September 30, 2008

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 59,702	\$ 133,463	\$ -	\$ 193,165
Operating expenses	50,148	124,013	2,465	176,626
Amortization	519	855	-	1,374
Earnings before other expense, interest income and income tax expense	\$ 9,035	\$ 8,595	\$ (2,465)	\$ 15,165
Unrealized loss on fair value of conversion options of long-term investment (Note 6)				338
Interest income (Note 12)				1,266
Income tax expense (Note 5)				5,584
Net earnings				\$ 10,509
Total assets other than cash and goodwill	\$ 16,813	\$ 32,196	\$ 77	\$ 49,086
Goodwill	-	9,518	-	9,518
Cash	-	-	27,327	27,327
Total assets	\$ 16,813	\$ 41,714	\$ 27,404	\$ 85,931
Equipment and intangible expenditures	\$ 682	\$ 1,347	\$ -	\$ 2,029

Revenues from external customers are attributed as follows:

	2009	2008
Canada	70%	74%
United States	23%	19%
Europe	7%	7%

Revenues are attributed to foreign countries based on the location of the customer. No significant assets are held outside of Canada. Revenues from various departments and agencies of the Canadian federal government for the year ended September 30, 2009 represented 60% of the Company's total revenues and 59% of the Company's 2008 total revenues. Both operating segments conduct business with this major customer.

18. Financial Instruments and Risk Management

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

Foreign currency risk related to contracts

The Company is exposed to foreign currency fluctuations on its cash balance, accounts receivable, accounts payable and future cash flows related to contracts denominated in a foreign currency. Future cash flows will be realized over the life of the contracts. The Company utilizes derivative financial instruments, principally in the form of forward exchange contracts, in the management of its foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and therefore, the Company's policy is to hedge 100% of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes.

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18. Financial Instruments and Risk Management (Continued)

The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm contractually related commitments on projects. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge ineffectiveness has historically been insignificant.

The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At September 30, 2009, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, 2009
SELL	25,040	USD	October 2009	\$ 27,114	\$ 303
SELL	16,480	EURO	October 2009	26,197	376
Derivative assets					\$ 679
BUY	4,211	USD	October 2009	\$ 4,560	\$ 51
BUY	14,196	EURO	October 2009	22,566	324
BUY	120	GBP	October 2009	208	2
Derivative liabilities					\$ 377

At September 30, 2008, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value September 30, Fair Value 2008
SELL	15,669	USD	October 2008	\$ 16,163	\$ 512
BUY	433	EURO	October 2008	658	9
Derivative assets					\$ 521
SELL	49,001	USD	October 2008	\$ 50,547	\$ 1,600
BUY	25	EURO	October 2008	38	1
BUY	446	GBP	October 2008	849	5
Derivative liabilities					\$ 1,606

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18. Financial Instruments and Risk Management (Continued)

A 10% strengthening (weakening) of the Canadian dollar against the following currency at September 30, 2009 would have decreased (increased) other comprehensive income by the amounts shown below.

	<u>2009</u>
USD	\$ 1,799
EURO	300
GBP	(20)
	<u>\$ 2,079</u>

Foreign currency risk on US-based subsidiary

The Company is exposed to foreign currency fluctuations related to its net investment in a US-based subsidiary denominated in US dollars. The Company does not hedge its investment in the subsidiary as the currency position is considered long term in nature. At September 30, 2009 the net investment in the US-based subsidiary was \$1,357. A 10% strengthening (weakening) of the Canadian dollar against the US dollar at September 30, 2009 would have decreased (increased) OCI by \$127.

Interest rate risk

The Company is not directly exposed to interest-rate risk. However, the fair value of the host contract component of the long-term investment which is determined on a discounted cash flow basis will be affected by interest rate fluctuations. A 1% increase (decrease) to the interest rate would result in a \$45 decrease (increase) in the fair value of the investment.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and its foreign exchange contracts.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, federal and provincial government departments and large private companies. A significant portion of the Company's accounts receivable is from long-time customers. At September 30, 2009 60% of its accounts receivable were due from the Government of Canada. Over the last five years, with the exception of the loss recognized with regards to Nortel, the Company has not suffered any significant credit related losses.

The Company limits its exposure to credit risks from counter-parties to derivative financial instruments by dealing only with major Canadian financial institutions. Management does not expect any counter-parties to fail to meet their obligations.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<u>2009</u>	<u>2008</u>
Cash	\$ 43,662	\$ 27,327
Accounts receivable	32,816	33,304
Derivative assets	679	521
Long-term investment	3,037	3,165
	<u>\$ 80,194</u>	<u>\$ 64,317</u>

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18. Financial Instruments and Risk Management (Continued)

The aging of accounts receivable at the reporting date was:

	2009	2008
Current	\$ 32,428	\$ 31,689
Past due (61-120 days)	209	1,364
Past due (> 120 days)	179	251
	\$ 32,816	\$ 33,304

Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At September 30, 2009 the Company has a cash balance of \$43,662 and has an unsecured credit facility, subject to annual renewal. The credit facility permits the Company to borrow funds up to an aggregate of \$10,000. As at September 30, 2009 there were no direct borrowings under the Company's credit facility. All of the Company's financial liabilities have contractual maturities of less than 30 days.

Fair Value

The fair value of accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity.

Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place on September 30, 2009.

The fair value of the conversion options of the long-term investment is calculated using the Black-Scholes model that incorporates current market price, the contractual price and the volatility of the underlying instrument, the expected life of the option and the time value of money. The fair value of the host contract component of the long-term investment is calculated on a discounted cash flow basis using externally available yields used for investments of similar risk.

19. Pension Plan

The Company sponsors a defined contribution pension plan for certain of its employees. Required contributions have been fully funded to September 30, 2009. For the year 2009 (2008), an amount of \$778 (\$704) was expensed related to this pension plan.

20. Comparative figures

Comparative figures for application software have been reclassified to conform to the financial statement presentation adopted in 2009.

Corporate Information

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Board of Directors

Kenneth J. Loeb

Chief Executive Officer, Capital Box Limited
Chairman, Calian Technologies Ltd.

Larry O'Brien

Municipal Politician

Major General (retired) C. William Hewson

Consultant
Chair of the Governance Committee

David Tkachuk

Senator
Chair of the Compensation Committee

Richard Vickers, FCA

Consultant
Chair of the Audit Committee

Paul Cellucci

Special counsel to McCarter and English, LLP

Ray Basler

President and CEO, Calian Technologies Ltd.

Common Share Information

The Company's common shares are listed for trading on the Toronto Stock Exchange under the symbol CTY.

Dividend Policy

The Company intends to continue to declare a quarterly dividend in line with its overall financial performance and cash flow generation. Decisions on dividend payments are made on a quarterly basis by the Board of Directors. There can be no assurance as to the amount of such dividends in the future.

Annual Meeting of Shareholders

The Annual General Meeting of the Shareholders of Calian will be held on February 5, 2010 at 2:00 p.m. at the Brookstreet Hotel, Ottawa, Ontario, Canada. All shareholders are invited to attend. The telephone number of the Brookstreet Hotel is 613.271.1800.

