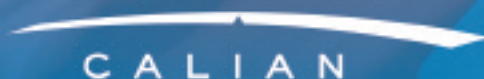
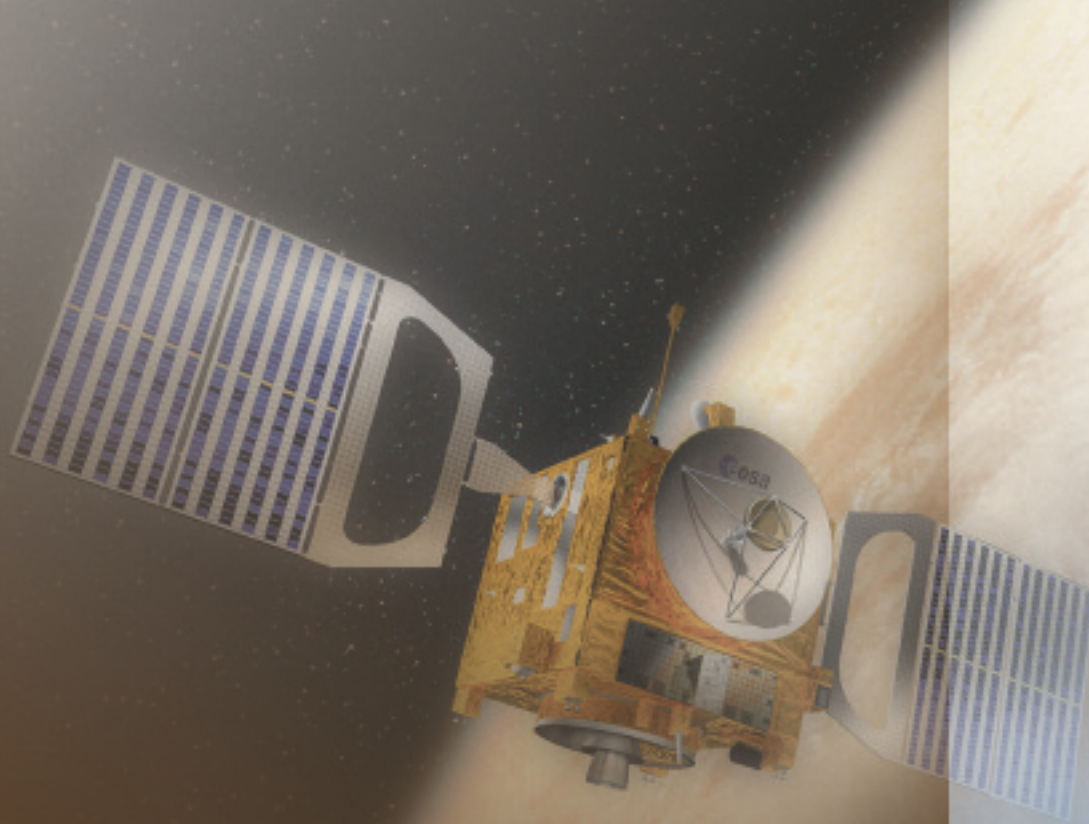




25 years of influencing our world



Calian Technologies Ltd. 2007 Annual Report



"For 25 years, Calian Technologies has been helping to change the world we live in. By applying technology and providing expert resources to a wide range of human endeavors, Calian is making a world of difference."

Table of Contents

1	Message from the Chairman
3	Message from the President and CEO
4	Report on Operations - Systems Engineering
5	Report on Operations - Business and Technology Services
6	Business of the Company
8	Management's Discussion and Analysis of Financial Condition and Results of Operations
25	Management's Statement of Responsibility
26	Auditors' Report
27	Consolidated Statements of Earnings and Retained Earnings
28	Consolidated Balance Sheets
29	Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income (Loss)
30	Consolidated Statements of Cash Flows
31	Notes to the Consolidated Financial Statements

Message from the Chairman



For 25 years, Calian has been serving its customer base with a focus on quality and execution that ultimately manifests itself in customer satisfaction. As a board member since 2001 and more recently as Chairman, I can attest to the commitment of the Company's management and board to maintain this philosophy with a view to providing continued growth and value to our shareholders. Accordingly, the guidance and advice provided to the management team is consistent with the values and business approach that Calian has built over the past number of years.

Our directors and management are mindful of the responsibilities that you as shareholders have entrusted to us and accordingly we continue to place a great deal of emphasis on corporate governance. By having each independent board member involved in all board committees, they are afforded a direct and in-depth view of the Company's affairs. Your board provides support and guidance to management, not only in the development and execution of operational plans and strategies, but also by ensuring that the management team is developing and has the depth necessary to carry on for the longer term.

During 2007, Calian's diversity once again paid dividends as we adjusted to differing circumstances in our major markets. While one division realigned its affairs to cope with a loss of a large call center contract, the other was taking full advantage of resurgence in the satellite communications sector. Combined, we once again were able to provide a very respectable return to our shareholders and enter 2008 with a strong and diversified portfolio of business.

I am very proud of the Company's performance over the last year and I share management's enthusiasm for the future. Armed with a solid base of business and a strong balance sheet, the Board of Directors is confident in management's ability to execute and in doing so, to maximize the returns for our shareholders.

A handwritten signature in black ink that reads "Kenneth Loeb".

Kenneth Loeb
Chairman



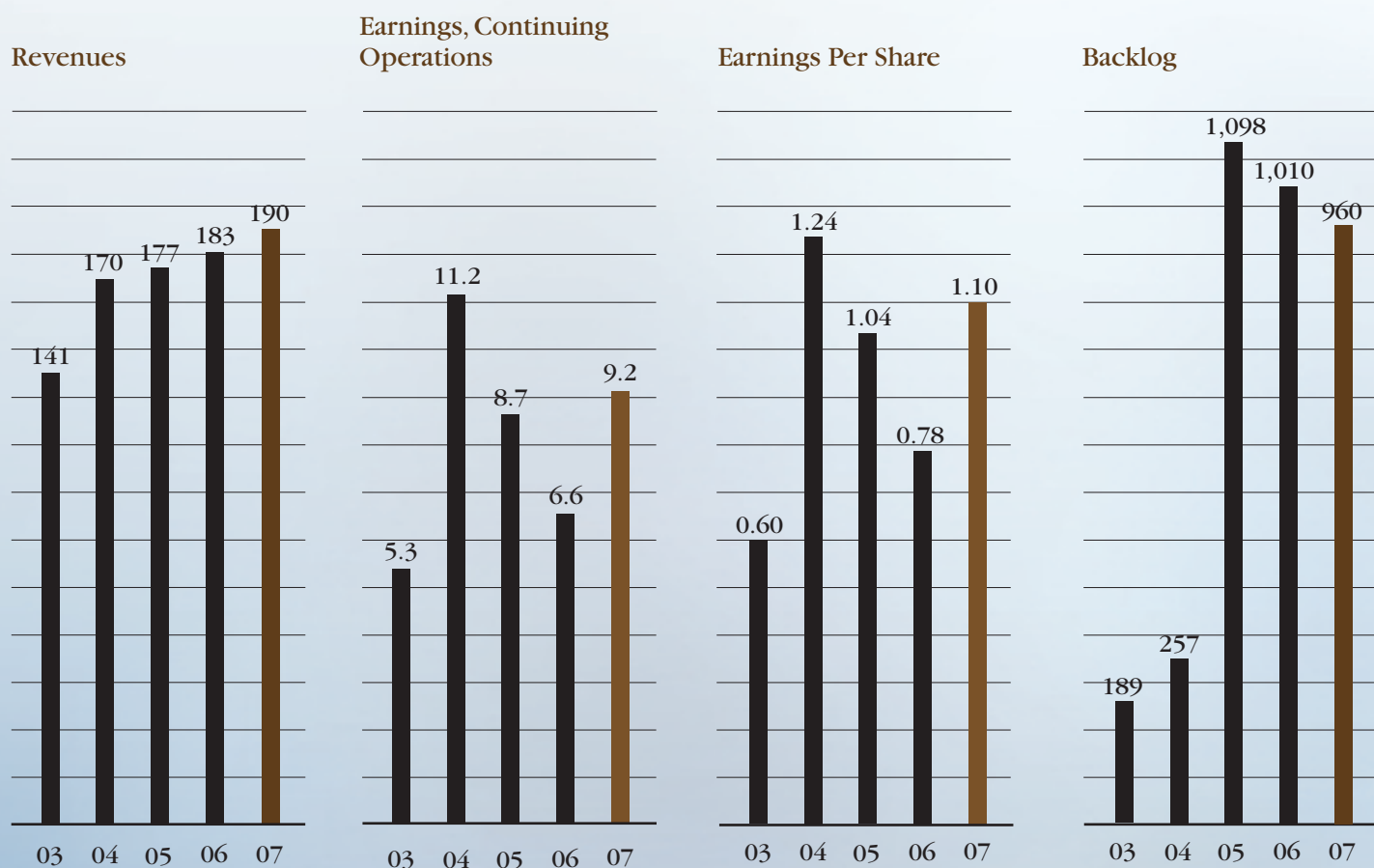
The technical consultants provided to federal government departments help to reduce costs and increase efficiencies in government operations.



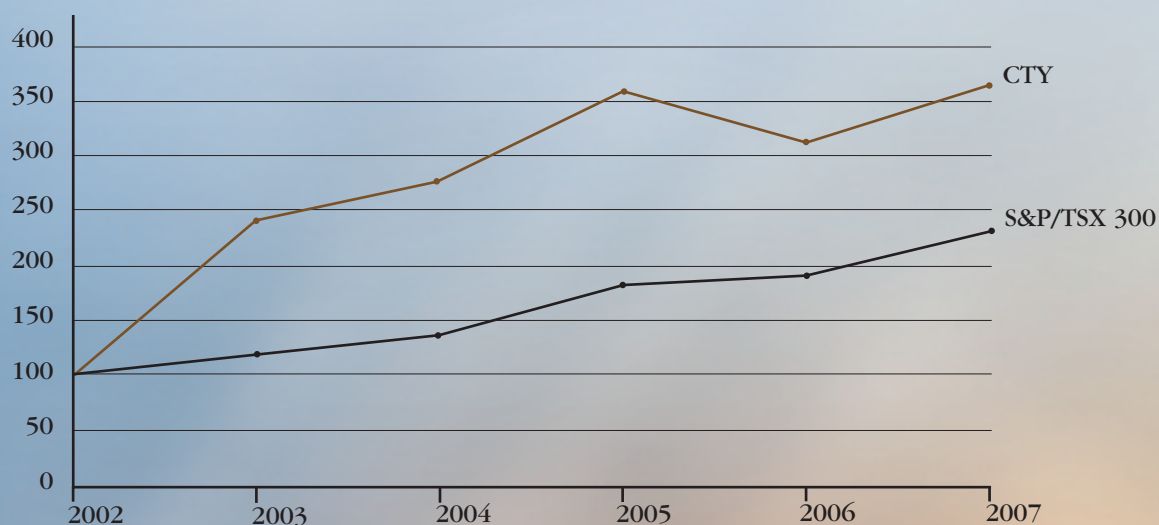
All 170 channels of entertainment and information from XM Satellite Radio find their way to your car through equipment provided by SED.



(millions of dollars, except per share data)



Comparison of Cumulative Total Return



Message from the President and Chief Executive Officer



Over the past 25 years, Calian has evolved from a one-man consulting operation to an entity with almost \$200 million in revenues and a workforce of over 2,000 individuals. The acquisition of SED in 1990, with operations in the area of satellite communications, was a major stepping-stone in this evolution and it is now one of Calian's two operating divisions. The other division, known as BTS, has grown both organically and through acquisitions and continues Calian's traditional outsourcing and staffing business in the area of human resource management.

Throughout the years, our focus on quality and customer satisfaction has stood the test of time, allowing us to build a superior business. Of course, we have encountered difficulties along the way, but we have only become stronger by learning from the experience. We have built a culture of honesty and integrity with our employees, our suppliers and our customers. Our strength lies in our flexibility and our ability to adapt to our customers' ever-changing needs. The result is a highly regarded enterprise that has a well-honed business model and the capacity for continued future growth, key ingredients for providing ongoing value to our shareholders.

2007 was a solid year for Calian as we were able once again to take advantage of our diversity, flexibility and strong customer relationships. Specifically, a contract for call center services lapsed late in 2006 when a long-term customer reorganized. Accordingly, our BTS division started the year with a significantly reduced revenue base. Our goal was to offset the effects through the redeployment of our internal resources and recover the lost contribution from our traditional business areas. I am very proud of the progress made during the year. We were able to grow our traditional business and increase margins, while at the same time, retain tight controls on operating costs. Despite the call center setback, we are well on our way to accomplishing our goal as we managed to regain a significant portion of the lost contribution, a remarkable achievement in a short period of time.

Likewise, after a number of years of working in a depressed business environment, our Systems Engineering Division was presented with an improving market for satellite communications. Our objective was to capitalize on the addressable opportunities that best meshed with our capabilities. To that end, we have captured a number of key contract wins and revenues have increased by 52% over the prior year. Divisional profitability has also increased significantly and we enjoy a solid backlog of work entering 2008.

On a consolidated basis, our revenues increased by 4% to \$190 million. We have shown strong improvements in margins, and when coupled with our on-going focus on managing operating costs, our earnings have grown to \$9.2 million or \$1.10 per share. By applying our disciplined management approach to generate stable cash flows, we were able to regularly reward our shareholders in the form of increased quarterly dividends, which now stand at 12 cents per share. In the absence of competing cash requirements, we expect to continue to pay dividends commensurate with profitability. Including share appreciation and dividends, our stock has provided a total return of 22% this fiscal year.

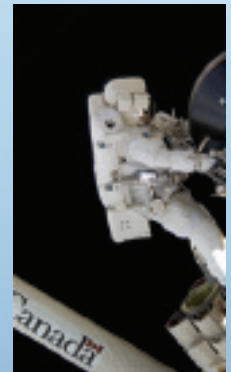
We continue to yield excellent returns on capital employed, and we will continue to seek opportunities to deploy cash generated from operations. Whether it is in the form of an investment to enhance organic growth, an economically justified acquisition or the repurchase of shares, our objective continues to be enhanced long-term returns to our shareholders.

Looking ahead, both divisions have built a strong and stable base of operations from which to serve our existing customers and to attract new ones. We have the necessary financial depth and management resources to exploit future growth opportunities, and when coupled with our strong backlog and improving markets, I have high expectations for an excellent year ahead.

This annual report contains references to a number of successes during the year and prospects for the future. Along with the senior management team and the Board of Directors, I look forward to the opportunity to discuss these with you at the upcoming Annual General Meeting.



Ray Basler
President and CEO



Canadian Astronaut Dave Williams rides Canadarm2, a robotic system on the International Space Station for which SED provided test systems that ensured its proper operation.

Report on Operations Systems Engineering



2007 was a year of recovery for the Systems Engineering Division with revenues rebounding to \$56 million, a 52% increase over the prior year. The recovery in the satellite earth station market and significant growth in our contract manufacturing business were major contributors to this increase. The implementation of lean manufacturing principles coupled with excellent project execution resulted in our divisional contribution increasing to \$6.5 million compared to \$5.0 million last year.

During the year, we were successful in winning a number of projects in the mobile satellite sector. A complex RF System for ICO Global Communications was developed and delivered on time and on budget, despite demanding technical requirements and a very aggressive schedule. The design formed the basis for similar developments for TerreStar and Mobile Satellite Ventures, and with the resulting efficiency gains, all three of these hybrid mobile satellite programs contributed strongly to divisional revenues and profitability.

With Inmarsat initiating plans to launch an additional satellite to achieve global coverage with their fourth generation system, we have been contracted to provide RF systems for their new earth station in Hawaii. This continues a long tradition of supplying ground systems for Inmarsat's fleet of spacecraft and there will likely be additional opportunities for us in related test and monitoring systems.

As XM Satellite Radio and WorldSpace deploy new Digital Audio Broadcast (DAB) services, we continue to receive an ongoing flow of work for upgrades and enhancements. The start of DAB services in Europe is expected to provide additional opportunities in 2008 and beyond.

We also completed a contract with SkyWave Mobile Communications for their new D+/D2 satellite gateways and deployed the systems in the Netherlands and New Zealand. There is potential for ongoing development work with SkyWave as they evolve their services for new market requirements.

Our contract manufacturing group grew by 40% in 2007, primarily as a result of more fire suppression equipment being built for Kidde Dual Spectrum. Repeat business included MSTAR systems for DRS Technologies, vehicle interface units for General Dynamics and specialized test sets for Nortel Networks. Our manufacturing workforce has increased accordingly to accommodate the higher level of business. The introduction of lean manufacturing processes provided efficiencies that helped offset the learning curve associated with new staff as well as the negative effects of the strengthening of the Canadian dollar.

In conclusion, 2007 was a successful year for the Systems Engineering Division from both an operational and financial perspective. We have a seasoned management team and a professional workforce committed to customer satisfaction and continuous improvement, helping ensure continued success in 2008. As such, we expect to maintain healthy revenue levels in both our traditional satellite markets and in our contract manufacturing business while at the same time seeking new opportunities in related areas.

A handwritten signature in dark ink, appearing to read 'B McConnell'.

Brent McConnell

VP and General Manager, Systems Engineering



Two large antenna systems provided by SED in Spain and Australia allow the European Space Agency to communicate with deep space probes like this one in orbit around Venus.

Report on Operations Business and Technology Services



In 2007, BTS continued its focus on execution and organic growth of its staffing and outsourcing service offerings. Although we lost a significant revenue stream from our call center business late in 2006, our traditional businesses that command higher margins managed to grow despite tightening of federal government spending. Accordingly, we were able to more than replace the gross margin shortfall from our contract loss. We continued to expand our continuous improvement and business excellence initiatives within the division allowing us to make further improvements in operating efficiencies during the year. These achievements, coupled with controlling the growth of operating expenses, allowed BTS to recover a significant portion of its lost contribution ending the year at just over \$9 million in divisional contribution.

2007 was an excellent year for the Outsourcing Services Department (OSD). New opportunities and organic growth enabled the department to grow its revenues by 7% during the year. We are particularly proud of our competitive wins to provide the Department of National Defence (DND) with Driver Wheeled Training support services, Vehicle Maintenance support and operational support for the Land Command Support System. These wins will add more than \$20 million in new business to OSD over the next three years and provide further validation of our decision to focus on this market segment. In the US we were able to renew our Technical Liaison Support to the Spanish Air Force on the F-18 program for an additional 5 years. Our service delivery to DND on the Health Service Support contract continues to exceed customer expectations and was recognized by the customer with the award of performance incentive fees that were 70% more than the previous year.

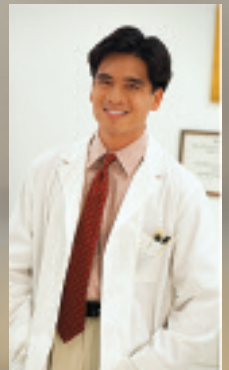
The Staffing Services Department (SSD) managed to hold their own in a very challenging and extremely competitive environment during the year, especially with our federal government customers. The department experienced a decrease in its public sector business that was somewhat offset by growth from the private sector. Since the start of the new government fiscal year, the federal public sector has been operating under tight fiscal management and departmental operating costs have been constrained. That said, we were able to once again renew our major support contracts with two key customers for Engineering and Technical Support services and we were successful in adding several term supply arrangements with the Canadian federal government. SSD was also able to successfully expand our service offerings to the provincial government sector, winning an IT support service contract with the Ontario Lottery and Gaming Commission. We continued to strengthen our private sector sales and recruiting teams across the country and successfully competed for and won new business relationships with several major Canadian resource companies in western Canada, continuing the expansion of our SAP consulting services. Although we cannot predict the duration of the federal government constraints, SSD is well positioned to capture its share of opportunities once the constraints are lifted.

Building on the success we achieved in 2006 with the receipt of the Canada Award for Excellence Gold Trophy for Quality, we continued to work on our Healthy Workplace initiative and we are on track with our plan of achieving national recognition in the coming year.

Looking to 2008, we expect to continue to expand our OSD training capabilities and service offerings. SSD will continue to exploit the recent build out of our sales and delivery organization in the private sector to meet the rapidly expanding needs of the resource sector in western Canada and the manufacturing sector in eastern Canada. All in all, we are looking forward to another year of growth and excellent returns from the BTS division in 2008.



Tom Coates
VP and General Manager,
Business & Technology Services



More than 550 medical personnel, provided by BTS right across Canada, support the health care needs of the National Department of Defence.

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.

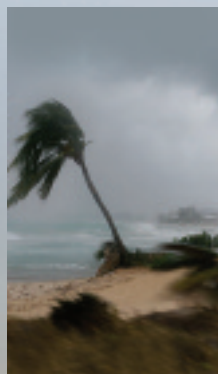
Systems Engineering designs and manufactures complex systems. Our primary markets are the satellite communications arena and the defense and homeland security sectors. We are a small niche player serving a handful of multi-national organizations working on large worldwide projects. More than 70% of our 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.

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.



Satellites like Canada's Radarsat-1, flown by SED for the Canadian Space Agency, help monitor severe weather and its effects on coastal areas.

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.

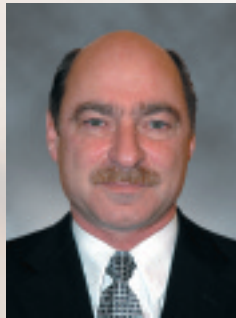
Contracts in Business and Technology Services are typically on a per-diem basis and can range from short-term assignments to multi-year operations and maintenance contracts. The cost structure of the division is variable as direct labour costs are scalable to match contract requirements. The majority 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*



BTS provides Canada's soldiers with a wide range of technical and operations training including tactical battlefield simulations.

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

The following Management Discussion and Analysis is dated December 3, 2007 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 December 3, 2007 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 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.

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

The Company also plans to expand its service offerings and customer base through strategic acquisitions. Management has established acquisition criteria that are designed to identify candidates that best complement Calian's existing businesses. Using these criteria as a guideline, management will have a valuable filter to enhance decision making such that acquisitions are economically justified and can be expected to increase shareholder value.

Calian delivers its services through its wholly owned operating subsidiaries Calian Ltd. and Calian Inc. 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 to reduce development time, cost and technical risks. SED's manufacturing facility, initially created to support its communication systems engineering group, now also 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 70% 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 serves principally the satellite ground equipment sector. There has been little growth for the infrastructure components of satellite ground equipment in the last few years, a direct reflection of the fact that the commercial satellite industry had been plagued with over capacity. Fortunately, the US military has become a large consumer of commercial satellite bandwidth. Even though direct US military requirements are generally closed to Canadian companies due to ITAR and other commercial barriers, their ever-increasing demand for capacity is encouraging large operators to invest in new capacity, which is presenting opportunities for system integrators such as SED. In addition, new dual-mode mobile satellite systems have been initiated in North America to take advantage of hybrid capabilities to address disaster relief and other mobile requirements. Likewise, existing fixed satellite service operators are expanding their capital programs as they address fleet renewal requirements and new applications such as HDTV and Digital Audio Broadcasting.

While the satellite communications sector has been the core of SED's business, the contract manufacturing group is still substantial, accounting for 25% of SED revenues. Our manufacturing capabilities address low-volume high-quality requirements, typically involving RF components. Accordingly, they are well suited to military manufacturing applications. The current environment is strong and we are experiencing steady growth in this area. MSTAR manufacturing activity has shown some improvement in the last year, and the potential exists for continued requirements for this product.

Overall, the business environment for the Systems Engineering Division has improved and industry players are optimistic for a sustainable recovery. Of course, the competition will continue to be intense as competing companies look to fill their available capacity. In addition, the strengthening of the Canadian dollar has certainly added to the competitive pressures faced by SED, particularly when competing against US based companies.

With a healthy backlog entering 2007, our operations efforts were focused on sales and execution. The level of activity for SED increased significantly from 2006 levels as the satellite market improved, providing an increased level of opportunities and contract signings late in 2006 and throughout 2007. Overall, the division signed over \$73 million of new business throughout 2007 which results in a solid base of work entering 2008. These contracts are confirmation that the satellite

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

market has recovered and that SED continues to be a supplier of choice with existing customers as well as a preferred alternative with new ones. Examples of recent contracts signed by SED are:

In late 2006, SED commenced work on a multi-million dollar contract with Ottawa based SkyWave Mobile Communications Inc. to provide them with new gateway stations for their Inmarsat D+ communications network. The gateways will be used by SkyWave to provide a communications infrastructure for asset tracking and SCADA applications. The contract was completed in 2007.

In December 2006, SED signed a contract valued in excess of \$15 million to develop Radio Frequency Terminals (RFTs) for a new mobile communications network covering North America. The network is designed to deliver advanced voice and data services via a seamless satellite/terrestrial hybrid architecture. Under the terms of the agreement, SED will provide the RFTs for four communications gateways to be located in Canada and the USA. The high availability RFTs will support satellite Telemetry, Tracking and Command (TT&C), as well as communications gateway requirements. This contract was a derivative of similar mobile satellite RF systems won in 2006.

In August 2007, SED signed a contract with Inmarsat to develop Radio Frequency Systems (RFS) for its new I-4 earth station in Paumalu, Hawaii. The new earth station will operate with the third I-4 satellite, which Inmarsat plans to launch in 2008. Under the terms of the agreement, SED will provide the RF systems for 2 earth stations. The high availability RF systems will support satellite Tracking, Telemetry and Command (TT&C), as well as communications gateway requirements. This contract is a continuation of SED's work previously provided in 2005 and 2006 for the first four earth stations associated with the first and second I-4 satellites.

Throughout the year, SED received various orders valued at nearly \$8 million for the supply of Ariel Head Assemblies (AHAs), an integral part of the MSTAR product used in security and surveillance applications. These orders are further confirmation that we continue to be a supplier of choice with this existing customer.

SED also enjoys repeat business on a smaller scale from many of its long-term customers. For example, a number of follow-on orders were received from contract manufacturing customers such as DND, KDS and Nortel for continued manufacturing of their products and test fixtures. Also, a number of contracts were received from XM Satellite Radio and WorldSpace for upgrades and enhancements to previously provided systems to support their digital audio radio services.

2007 was a year of significant recovery for SED's traditional satellite business. Its success in winning three major RF systems contracts for new Mobile Satellite Systems provided excellent revenue in 2007 and will continue to do so in 2008. As these programs move ahead, we will see opportunities develop for related support systems such as network management. While we expect increased opportunities in the satellite ground systems sector, competition will be intense and the market will certainly be cost sensitive. As usual, we will focus on niche opportunities in more sophisticated and complex systems that play to our strengths. We anticipate continued growth within our manufacturing business and despite a tight labour market and declining US dollar, we expect to deliver solid results from this revenue stream by focusing on tight execution. As our major customers in the area of satellite-based Digital Audio Broadcasting have significant expansions plans, we expect to see additional opportunities arise as well.

In the longer-term, SED will continue to focus in areas of past successes and build on newly acquired expertise to branch out into additional adjacent markets. Particular attention will be paid to the following areas:

- Continue developing relationships with our traditional customer base. By maintaining our visibility and continuing to execute high-quality projects on time and on budget, we will ensure a favourable position when bidding on new requirements.
- Balance our workload. By focusing on the manufacturing group's recent successes and developing a higher level of repeat business from existing customers, we will temper the ebbs and flows associated with the project-based portion of our business. In addition, by further leveraging some of the capabilities from our satellite programs to small stand-alone products for the communications industry, we will be in a better position to alleviate some of the volatility in the engineering group.
- Continue to expand into complementary markets. By adapting and marketing our current RF capabilities and expertise to other wireless applications, we will attract new opportunities.

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

- Take advantage of the current high level of activity in the hybrid mobile satellite sector. These new systems use a terrestrial component to complement the coverage provided by the satellite system and this new architecture will present opportunities for the development of related network management systems, an area where we have significant capabilities based on systems previously delivered to Inmarsat.
- Increase our competitiveness by gaining further efficiencies and reducing costs through continuous improvement initiatives. This will help to acquire new work and also temper the effects of the strengthened Canadian dollar.

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, our workforce exceeds 2,000 individuals in both full and part time capacities. Our primary market is the Canadian federal government with a focus on the Department of National Defence (DND), but we also provide services to large multi-national and Fortune 500 companies as well as to other departments within the federal government and 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 long-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 customer 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, and received a gold level Canada Award of Excellence for Quality earlier in the year.

The major market for our BTS division continues to be the Canadian government with an emphasis on DND, particularly for Outsourcing Services. DND has been a major beneficiary of funding increases in recent budgets. 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. While 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 training priorities continue to shift due to the ever-changing needs related to off-shore deployments. Current emphasis is being placed on mission critical skills such as combat first aid, gunnery and driver training. This constant re-prioritization is indicative of the across the board skills shortage the CF face, but also contributes to certain delays in the issuance of procurement requests for training programs and other ancillary requirements.

With an ageing workforce, both the federal government and large corporations continue to be faced with a knowledge gap. That is, many of the employees with in-depth knowledge of internal workings are now retiring. To ensure adequate transition with the younger workforce, these entities are willing to re-acquire this lost knowledge through private entities. The BTS division has placed a special emphasis on attracting retirees with their extensive knowledge and expertise, and accordingly has been successful in assisting these organizations in bridging the knowledge gap while they train replacement staff. At the present time, we continue to see increased demand for this solution.

In the Information Technology and Management arena, the growth trend continues as both the federal government and large corporate organizations continue to evolve their IT infrastructure. While new installations continue to provide prospects, upgrades and enhancements are assuming an ever-increasing share of the new opportunities. This is especially true where large organizations are required to deal with the vast array of changes in corporate governance and accountability. 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.

During 2007, the BTS Division was able to successfully replace the gross margin from the loss of a call center contract in the latter part of 2006. This was achieved through a combination of organic growth and successful renewals on existing contracts, and winning new contracts as described below:

Late in 2006, Calian's US subsidiary was able to secure a renewal contract with the Defence Logistics Agency (DLA) to support Headquarters DLA in developing programs to enhance support for US allies in the areas of Foreign Military Sales Prime Vendor Program Development, DLA Security Assistance Program Development, Security Assistance/FMS Training

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

and the Foreign Visitors Program. The services will be delivered under a one-year contract with eight six-month option periods. The total contract value, including option periods, exceeds \$2 million.

In November 2006, Calian's US subsidiary was awarded a renewal contract from the US Navy to provide professional, technical, and administrative services in support for the Spanish Air Force Technical/Logistics Management office. Under this contract, Calian will provide financial and logistical analysis, program management, and administrative services associated with the Spanish Air Forces' Foreign Military Sales program. The contract is for one year with four option years and has a total value in excess of \$4 million.

In December 2006, the Canadian government awarded a limitation of expenditure contract with the Department of National Defence (DND) for the provision of Inspection and Repair Services at the Area Support Unit in Wainwright, Alberta. Under the terms of the contract, Calian's Business and Technology Services division will provide a team of technicians to conduct inspections, servicing and repair on approximately 150 Wheeled Light Armoured Vehicles. This contract is for an initial three-month period valued at \$573 thousand. The contract also contains options for additional effort up to September 2008, which if exercised, could increase the total contract value to over \$3 million.

In March 2007 a contract was issued by the Department of National Defence (DND) for the provision of instructional and training support personnel required to deliver Driver Wheeled Training (DWT) Courses. Training will be delivered at a number of military bases across Canada and training courses will be based on a variety of military vehicle types. The contract is for an initial 11-month period ending March 31, 2008 and is valued at over \$3 million. The contract also contains options for additional effort up to March 2010, which if exercised, could increase the total contract value to over \$10 million.

In March 2007, a contract was issued by DND for the provision of professional services to initiate, develop and deliver training to support systems deployment and upgrades of the Land Command Support System (LCSS). This two-year contract is valued at \$8 million. Under the terms of the contract, Calian personnel will be responsible for maintaining, preparing, upgrading and developing LCSS equipment systems in order to meet training objectives. The team will deliver training services in a variety of locations throughout Canada to introduce Canadian Forces personnel to LCSS functionality and the exploitation of the systems on the modern battlefield.

In March 2007, a contract was issued by Public Works and Government Services Canada (PWGSC) to provide professional services to support, maintain and enhance the applications developed by Canada On-Line Services. Canada On-Line is responsible for several key government internet, extranet and intranet sites including the primary internet site for the Government of Canada and the public service information resource, Publiservice. The two-year contract is valued at \$800 thousand.

Looking ahead to 2008, at the federal level, restricted program spending due to the political uncertainty of a minority government is the new norm. This ongoing absence of major new programs continues to force the higher level Tier 1 systems integrators to maintain their downstream presence to compete for additional work and to hold on to work that they would normally contract out in order to maintain their current workforce. With no changes expected in the short term, the marketplace will remain extremely competitive, especially in the IT area.

That being said, it is our belief that the market will normalize as budget restrictions will be lifted eventually. 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 customer departments. The private sector IT market continues to strengthen nationally and is particularly robust in western Canada with the presence of corporate head offices for major resource sector companies. The overall SAP market remains characteristically tight in the availability of qualified candidates, with very high demand for ERP resources in Alberta. We have seen somewhat stronger demand for ERP resources in the local Ottawa market, as customers upgrade their current systems and roll out new service offerings.

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. Its long-term business plan will focus on the following areas:

- **Training and Simulation.** Throughout the years, BTS has been a leader in this field and has experienced significant growth in this area with DND. Greater demands on the military, coupled with demographics are driving the need for basic training and knowledge transfer. DND is taking a broad-based approach to many new training initiatives and this will fit well with our already significant presence at various military training centers.

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

- **IT & Enterprise Applications**—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. In the public sector, the primary area of focus will be web development, maintenance and support. In the private sector, we will continue to focus on commercial applications and the penetration of geographical markets outside central Canada.
- **Health Care**—With the Health Services Support contract, we are now considered a major player in health care delivery. We will promote this expertise with other entities that could benefit from utilizing a similar, albeit small scale, approach tailored to fit their organizations' needs. Our newly-gained recruiting capability in health services combined with our long-term program delivery experience should pose an attractive proposition.
- **Employee satisfaction**—We deal in people, most of who are on site at customer premises. Therefore, if we can keep our staff satisfied through a combination of providing challenging work and helping them to develop their careers, they will ensure customer satisfaction and that in turn will ensure that our investors are rewarded.
- **Economies of scale**—We will focus our operations on continuous improvements to drive additional efficiencies and ensure added scalability of the organization.

Backlog

The Company's backlog at September 30, 2007 was \$960 million with terms extending to fiscal 2014. This compares to \$1,010 million reported at the end of September 2006. Contracted Backlog represents the 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 consumption for 2008 and 2009 based on its current visibility into customers' planned utilization.

Amounts shown as beyond 2009 represent the unearned portion of the contract value remaining after deducting the expected consumption for 2008 and 2009. These amounts exceed current utilization rates and known customer requirements by approximately \$326 million. The majority of this amount relates to the health services support contract. Should additional customer requirements for the Company's services under these contracts not materialize, this excess will not be realized. The Company's policy is to reduce the reported contractual backlog once it receives official confirmation from the customer that indicates the utilization of the full contract value is unlikely.

(dollars in millions)	Fiscal 2008	Fiscal 2009	Beyond 2009	TOTAL	Excess over estimated utilization	Backlog at estimated utilization levels
Contracted Backlog	\$ 140	\$ 81	\$ 192	\$ 413	\$ 160	\$ 253
Option Renewals	10	14	523	547	166	381
TOTAL	\$ 150	\$ 95	\$ 715	\$ 960	\$ 326	\$ 634
Business and Technology Services	\$ 112	\$ 83	\$ 708	\$ 903	\$ 326	\$ 577
Systems Engineering	38	12	7	57	-	57
TOTAL	\$ 150	\$ 95	\$ 715	\$ 960	\$ 326	\$ 634

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

Selected Annual Information

(dollars in millions, except per share data)

	2007	2006	2005
Revenues	\$ 189.9	\$ 182.8	\$ 177.8
Net earnings	\$ 9.2	\$ 6.6	\$ 8.7
Net earnings per share	\$ 1.10	\$ 0.78	\$ 1.04
Total assets	\$ 72.7	\$ 68.2	\$ 74.8
Dividend per share	\$ 0.42	\$ 0.33	\$ 0.32

2007 Results of Operations

Earnings before other income, interest and income taxes were \$13,146 in 2007 compared with \$11,801 in 2006 and net earnings were \$9,205 for the year compared with \$6,623 in the previous year. The Company completed the year with \$18,077 of cash compared to \$17,018 at the end of 2006.

Revenues

	2007	2006	% change
SED revenues	\$ 55,856	\$ 36,689	52%
BTS revenues	\$134,003	\$ 146,157	(8%)
Consolidated revenues	\$189,859	\$ 182,846	4%

The general business environment in 2007 continued to be very competitive. The Company began the year with \$137 million of its backlog to be earned in 2007. This base of work combined with the win of many smaller contracts during 2007 resulted in a solid revenue stream for the year.

SED revenues improved significantly over the prior year as a result of a rejuvenated satellite industry, which translated into improved market opportunities for satellite ground equipment. During 2007, SED ramped up work on several large contracts signed late in 2006 and early 2007. By comparison, during the same period in 2006, SED was winding down on many contracts. Due to the project nature of its business, the SED division is susceptible to significant variation in volumes of activity from period to period.

The decrease in BTS revenues over the prior year is attributable mainly to the loss of the call center services contract in June 2006. A tightening of federal government spending on short-term staffing during the second half of 2007 also contributed to the reduction. This was however partially offset by an increase in the outsourcing business due to additional demand and organic growth within existing long-term contracts. Excluding the revenue reduction associated with call center services, the BTS division reported a 3% increase in revenues for the year.

The Company derives a significant portion of its revenues from the Government of Canada. During the year 2007 and 2006, 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 2008 will continue to be very competitive. The market conditions for SED are expected to be strong and should present many new opportunities in 2008. The eventual lifting of the recent constraints within the federal government and the timing of future contract wins will ultimately determine the BTS revenue growth for the next 12 months. While the Company begins the year with \$150 million of backlog to be earned in 2008, the above noted variables will have an impact in revenues ultimately realized. Overall, management is expecting a respectable increase from the level of business experienced in 2007.

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

Cost of revenues and Gross profit

	2007	2006	% change
SED gross profit	\$ 12,068	\$ 9,395	28%
As a percentage of SED revenues	21.6%	25.6%	
BTS gross profit	\$ 23,809	\$ 23,570	1%
As a percentage of BTS revenues	17.8%	16.1%	
Consolidated gross profit	\$ 35,877	\$ 32,965	9%
As a percentage of consolidated revenues	18.9%	18.0%	

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 margins for 2007 were impacted positively by the wind-down of the call center services contract and an increase in SED's proportion of overall revenues.

SED gross margin in the prior year reflected the positive impact associated with closeouts of several large projects whereas gross margin in 2007 reflect a higher proportion of lower margin non-labour component in revenues, a strong Canadian dollar and the highly competitive nature of the recent signings for the division.

BTS improvement in gross margin is a reflection of the changing revenue mix resulting from the wind-down of the call center services contract. Gross margins in all other business areas are relatively constant between 2007 and 2006.

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. The highly competitive environment faced by SED and BTS coupled with the strengthened Canadian dollar is expected to put pressure on margins. However, by continuing to focus on execution, management believes that this impact can be negated and realized margins can be maintained at levels consistent with the prior year.

Selling and marketing

	2007	2006	% change
Selling and marketing	\$ 4,973	\$ 5,019	(1)%
As a percentage of consolidated revenues	2.6%	2.7%	

Selling and marketing expenses are similar to the prior year and are expected to increase slightly over the 2007 level as the Company concentrates on broadening its customer base and expanding its service offerings to new markets.

General and administration

	2007	2006	% change
General and administration	\$ 12,926	\$ 12,527	3%
As a percentage of consolidated revenues	6.8%	6.9%	

As a result of the Company's continuous cost control activities, expenditure increases were kept in line with the increase in business. Looking ahead, management believes that the Company has the capacity for an increased level of business without significantly affecting general and administration costs.

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

Facilities

	2007	2006	% change
Facilities	\$ 3,017	\$ 2,723	11%

Facility expenses, which include costs associated with office space, have been relatively stable over the past several years. 2007 costs were somewhat higher as minor repairs were required to the leased facilities.

Commensurate with the exit of e-business in May 2001, Calian consolidated its Ottawa-based personnel into one building while subletting another building that it had begun to lease in June 2000. The Company's facility costs exclude lease and operating costs related to the excess space. During 2005, the Company renegotiated its lease with the sub-tenant through to 2010 for a significant portion of the excess space at current market rates. As a result, the Company is required to assume a portion of the costs associated with this facility. Management believes that the current provision of \$1,287 will be sufficient to cover the Company's share of the costs. Management believes that the existing facilities will be sufficient for the foreseeable future.

Amortization of equipment

	2007	2006	% change
Amortization of equipment	\$ 1,193	\$ 992	20%

The Company does not require a significant amount of new capital every year. The amortization level in the future is not expected to vary significantly from current levels.

Amortization of intangibles

	2007	2006	% change
Amortization of intangibles	\$ 312	\$ 312	0%

During 2005, the Company acquired intangibles as a result of its acquisition of Titan Consulting Group Ltd. These intangibles are amortized over their expected useful life, not exceeding five years.

Based on the current level of intangibles, the amortization level in 2008 is expected to be \$300.

Stock option compensation

As indicated in Note 8, the Company granted 165,000 options during the year and recorded \$310 of stock compensation expense.

Prior years' investment tax credits

As indicated in Note 3 of the Company's consolidated financial statements, during 2006 the Company recorded additional investment tax credits (ITC) of \$409 with respect to prior fiscal years' re-filing of R&D claims. This resulted in a recovery in 2006 of taxes already paid. For future years, ITC related to qualified R&D activity is recorded in the year in which the R&D costs are incurred.

Litigation settlement cost

As indicated in Note 10 to the Company's consolidated financial statements, on July 11, 2006, the Company paid \$2 million in exchange for a complete and full release and discharge of the \$100 million claim. The release confirms that the Company does not admit and in fact denies all allegations. Management was confident in its position, however, faced with the substantial legal costs and extensive management diversion associated with a multi-year litigation, management believes that the agreement reached is in the best interests of the Company.

Interest income

Interest income is earned on the Company's cash and is shown net of the Company's interest expense. The increase in interest income from \$584 in 2006 to \$958 in 2007 is largely the result of accreting \$325 of interest related to the host contract portion of the long-term investment.

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

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

As a result of the adoption of new accounting rules described below, the Company recorded a gain of \$106 for the year relating to the fair value of conversion options of long-term investment.

Income tax expense

Calian reports its results on a fully taxed basis. The provision for income taxes during 2007 was \$5,005 or 35.2% of earnings before income taxes compared to \$3,762 or 36.2% of earnings before income taxes in 2006. The 2007 provision was positively impacted by the non-taxable gains related to the valuation of the long-term investment. As a result of changes in prescribed tax rates with the federal and various provincial governments, the tax rate for 2008, prior to considering the impact of non-taxable transactions, is expected to decrease by approximately 1.5% from the rate experienced in 2007.

Net earnings

The Company reported net earnings of \$9,205 or \$1.10 per share basic and diluted for 2007 compared to \$6,623 or \$0.78 per share basic and diluted in 2006. Prior to recording the \$2 million litigation settlement, net earnings for 2006 would have been \$7,893 or \$0.93 per share basic and diluted.

Selected Quarterly Financial Data

(dollars in millions, except per share data)

	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06
Revenues	\$ 45.7	\$ 48.2	\$ 50.9	\$ 45.1	\$ 41.1	\$ 45.9	\$ 48.5	\$ 47.5
Net earnings	\$ 2.1	\$ 2.5	\$ 2.5	\$ 2.1	\$ 1.8	\$ 0.8	\$ 2.3	\$ 1.7
Net earnings per share								
Basic	\$ 0.26	\$ 0.30	\$ 0.30	\$ 0.24	\$ 0.22	\$ 0.09	\$ 0.27	\$ 0.20
Diluted	\$ 0.26	\$ 0.30	\$ 0.30	\$ 0.24	\$ 0.22	\$ 0.09	\$ 0.27	\$ 0.20

The first three quarters of 2006 include revenues and profitability from the call center services contract. In addition, the third quarter of 2006 was positively impacted by a one-time recovery of prior years' investment tax credits and the third quarter 2006 was negatively impacted by the litigation settlement.

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 \$18,077 at September 30, 2007, compared to \$17,018 at September 30, 2006.

	2007	2006
Cash flows from operating activities before changes in working capital	\$ 10,703	\$ 8,270
Changes in working capital	(4,104)	2,965
Cash flows from operating activities	6,599	11,235
Cash flows used for financing activities	(4,405)	(4,016)
Cash flows used for investing activities	(936)	(8,005)
Currency translation	(199)	(85)
Increase (decrease) in cash	\$ 1,059	\$ (871)

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

Operating activities

Cash flows from operating activities in 2007 decreased by \$4,636 compared to 2006 despite increased profitability. Working capital elements changed in line with the ebbs and flows of the business. Specifically, accounts receivable increased as a result of higher activities at SED in 2007, accounts payable decreased as a result of the payment of large supplier milestones near year-end and unearned contract revenues increased as a result of receiving customer advance payments near September 30, 2007. 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, 2007, the Company's total unearned revenue amounted to \$5,160. This compares to \$4,017 one year earlier.

Financing activities

Dividend

As a result of continuing earnings and a strong cash position, the Company increased its dividend again in 2007 and the Company paid \$3,525 in dividends or \$0.42 cents per share compared to 2006 when the Company paid \$2,796 in dividends or \$0.33 cents per share. The Company intends to continue with its current dividend policy for the foreseeable future and expects to pay quarterly dividends to shareholders.

Shares

During 2007, the Company repurchased 87,100 common shares through its normal course issuer bid at an average price of \$12.98 and during 2006, the Company repurchased 134,000 common shares through its normal course issuer bid at an average price of \$10.88.

During 2007 (2006), the Company issued 10,000 (14,245) common shares for cash as a result of options being exercised during the year at an average price of \$2.45 (\$2.95). At September 30, 2007 there were 165,000 options outstanding at an average price of \$13.22 expiring at various dates between February 4, 2012 and August 21, 2012. At September 30, 2007 there were 8,345,581 common shares outstanding and as of the date of this Management Discussion and Analysis, there were 8,306,281 common shares outstanding.

Investing activities

Acquisition

On September 7, 2004 the Company acquired all of the outstanding shares of Titan Consulting Group Ltd. The total value of the acquisition was \$7,897. On closing, the Company paid \$4,302 in cash with the remaining cash payment of \$3,557 made during 2006.

Investment

As indicated in Note 4 to the Company's consolidated financial statements, on July 11, 2006, Calian invested \$3,623, including transaction costs of \$116 in Med-Emerg International Inc. (Med-Emerg) in the form of convertible preferred shares.

Equipment expenditures

Calian acquired \$1,136 in equipment, furniture and fixtures during 2007, compared to \$1,025 during 2006. Equipment purchased in 2007 are in line with normal requirements for asset replacement. During 2008, expenditures are expected to be in line with past years. At September 30, 2007 there were no significant commitments to expend capital.

Capital resources

At September 30, 2007 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.

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

Contractual obligations

Payments due:	Total	<1 year	1-3 years	4-5 years	>5 years
Operating leases	\$ 7,576	\$ 3,108	\$ 4,299	\$ 169	-
Purchase obligations	12,482	10,165	2,317	-	-
Total contractual obligations	\$ 20,058	\$ 13,273	\$ 6,616	\$ 169	-

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, 2007.

Operating leases

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

Related party transactions

There were no transactions with related parties during 2007 and 2006.

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, 2007 and 2006 was minimal.

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

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.

Intangibles

Intangibles assets are tested for recoverability whenever events or circumstances indicate that the carrying amounts may not be recoverable. Testing for impairment is accomplished by determining whether the fair value of the intangibles exceeds the net carrying value as of the assessment date. In order to allocate the cost of intangible assets over their useful lives, estimates of the duration of their useful lives must be carried out.

Investment

The investment in Med-Emerg 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 as 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 Med-Emerg, 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, 2007.

Adoption of New Accounting Policies During The Year

For the year ended September 30, 2007, the Company adopted the following accounting recommendations.

Comprehensive income

These standards establish requirements for reporting and display of comprehensive income. The new standards require that comprehensive income and its components in a financial statement be presented with the same prominence as other financial statements that constitute a complete set of financial statements.

Financial instrument- recognition and measurement

These standards establish requirements for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The new standards require that all financial assets and liabilities be recorded on the balance sheet.

On initial recognition, financial assets and liabilities are recorded at fair value. Subsequent measurement is determined based on the classification of the financial assets and liabilities. Financial assets and liabilities must be classified into specific categories which then determine its measurement and presentation standards.

Based on a review of the current balance sheet, the Company has the following financial assets which will be affected by the new standards. Any change in measurement resulting from applying the new standards on October 1, 2006 was recorded against opening retained earnings and opening other comprehensive income with no impact to net income.

Category	Classification	Impact
Derivative financial hedging instruments	Held for trading	Forward contracts entered into by the Company for hedging purposes will be recorded on the balance sheet at their fair value with the resulting gain or loss recorded in other comprehensive income as permitted by the new standards for hedging.
Long-term investment	Derivatives: Held for trading	The fair value of the conversion options will be recorded on the balance sheet with the resulting gain or loss recorded in net income.
	Host contract: Available for sale	The residual value of the investment will be measured at amortized cost with interest accruing to net income. The host contract will be further adjusted to reflect fair value with changes in fair value recorded in other comprehensive income.

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

Financial instruments - disclosure and presentation

These standards establish requirements for the classification of financial instruments and its related interest, dividends, losses and gains; the circumstances in which financial assets and financial liabilities are offset; and disclosures about financial instruments and non-financial derivatives.

Hedging

These standards establish requirements for recognition and measurement related to hedging instruments. The Company currently uses forward contracts to hedge its foreign currency exposure on contracts. Under previous guidance, the Company was allowed to apply hedge accounting. Hedge accounting is a method for recognizing the gains and losses associated with the items in a hedging relationship in the same period when they would otherwise be recognized in different periods. Under the new standards, the Company can continue to apply hedge accounting. However the new standards provide further guidance on the measurement and recognition of the related foreign currency gains and losses associated with the items in the hedging relationship. Based on the new standards, the Company's hedging instruments are defined as cash flow hedges and as such the effective portion of the hedging item gain or loss will be recorded in other comprehensive income until the related hedged item is settled. The ineffective portion of the hedge gain or loss will be recorded immediately in net income. In addition, under the financial instruments standards, the forward contracts must be recorded on the balance sheet at fair value. Because these contracts are part of the hedging relationship, the related gains and losses resulting from changes in fair value will be recorded in other comprehensive income and released to the statement of earnings when the underlying hedged item is recognised in the statement of earnings.

Foreign currency translation

Exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation should be recognized in a separate component of other comprehensive income. Previously the cumulative translation adjustment was reported as a separate component of shareholders' equity. In addition, the new standards require that when comparative statements are provided for earlier periods, those financial statements are restated to reflect application of the new standards for foreign currency translation of self-sustaining foreign operations.

Impact of Accounting Pronouncements Not Yet Implemented

For the year and interim periods beginning October 1, 2007, there are no new accounting pronouncements that the Company is required to adopt which would have a material impact on the Company's financial statements.

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, 2007, 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.

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

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the design of the Company's internal control over financial reporting as of September 30, 2007, have concluded that the Company's internal controls over financial reporting provide reasonable assurance regarding reliability of financial reporting for external purposes in accordance with Canadian GAAP.

During the most recent interim quarter ending September 30, 2007, 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 professionals 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.

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

Government contracts

During 2007, approximately 59% 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, 2007 the Company's backlog included \$326 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 22% 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, 2007 the Company had various forward exchange contracts, which are explained in Note 16 to the Company's consolidated financial statements for the year ended September 30, 2007. 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.

Lease commitment

As indicated in Note 12 of the Company's consolidated financial statements, during 2005, the Company renegotiated a new lease with a sub-tenant of the Company at its premises in Kanata, Ontario for a significant portion of the Company's excess space at current market rates. As a result, the Company will be required to assume a portion of the costs associated with this facility. Management believes that the current provision of \$1,287 will be sufficient to cover the Company's share of such costs.

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

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 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 winning the health services support contract from the Department of National Defence, the Company will be subject to additional 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. Potential acquisitions, focused on adding complementary businesses to the Company's mix, could also be a possible source of growth.

The Systems Engineering Division had been working within a depressed satellite sector for the last few years. In addition, several large satellite operators were purchased using highly leveraged financial structures and industry consolidation continues. This depressed environment resulted in fewer opportunities during that period. During 2007, the division has seen a rejuvenated market and is currently experiencing increased demand for its products and services. Management believes that new 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 strengthening of the Canadian dollar will impact the Systems Engineering Division's competitiveness when bidding against foreign competition on projects denominated in US dollars and EUROS.

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. Although the division has seen delays and spending constraints within certain federal government departments, management believes that the types of service the division offers will continue to be attractive to government agencies going forward.

Additional Information

Additional information about the Company such as the Company's 2007 Annual Information Form and Management Circular can be found on SEDAR at www.SEDAR.com

Dated: December 3, 2007

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.

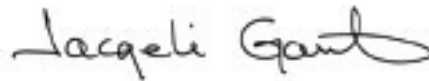
Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded and the financial records are reliable 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
Kanata, Ontario
October 26, 2007



Jacqueline Gauthier
Chief Financial Officer

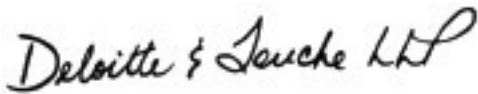
Auditors' Report

To the Shareholders of Calian Technologies Ltd.

We have audited the consolidated balance sheets of Calian Technologies Ltd. as at September 30, 2007 and 2006 and the consolidated statements of earnings and retained earnings, comprehensive income, accumulated other comprehensive income (loss) and cash flows 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, 2007 and 2006 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
October 26, 2007

Calian Technologies Ltd.
Consolidated Statements of Earnings and Retained Earnings
Years Ended September 30, 2007 and 2006
(dollars in thousands, except per share data)

	2007	2006
Revenues	\$ 189,859	\$ 182,846
Cost of revenues	153,982	149,881
Gross profit	35,877	32,965
Selling and marketing	4,973	5,019
General and administration	12,926	12,527
Facilities	3,017	2,723
Stock option compensation (Note 8)	310	-
Amortization of equipment	1,193	992
Amortization of intangibles	312	312
Prior years investment tax credits (Note 3)	-	(409)
Earnings before other income and expense, interest income and income tax expense	13,146	11,801
Litigation settlement cost (Note 10)	-	(2,000)
Unrealized gain on fair value of conversion options of long-term investment (Note 4)	106	-
Interest income (Note 11)	958	584
Earnings before income tax expense	14,210	10,385
Income tax expense (Note 3):		
Current	4,911	3,426
Future	94	336
	5,005	3,762
NET EARNINGS	9,205	6,623
Retained earnings, beginning of year	28,448	25,807
Adjustment to opening retained earnings (Note 2):		-
Unrealized loss on fair value of conversion options of long-term investment at October 1, 2006	(1,391)	-
Accreted interest on host contract component of long-term investment at October 1, 2006	68	-
Excess of purchase price over stated capital on repurchase of shares (Note 7)	(953)	(1,186)
Dividend	(3,525)	(2,796)
Retained earnings, end of year	\$ 31,852	\$ 28,448
Net earnings per share (Note 9)		
Basic	\$ 1.10	\$ 0.78
Diluted	\$ 1.10	\$ 0.78
Weighted average number of shares (Note 9)		
Basic	8,387,663	8,465,246
Diluted	8,387,663	8,500,079

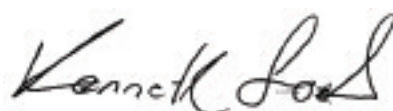
The accompanying notes are an integral part of the consolidated financial statements.

Calian Technologies Ltd.
Consolidated Balance Sheets
As at September 30, 2007 and 2006
(dollars in thousands)

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash	\$ 18,077	\$ 17,018
Accounts receivable	32,375	27,529
Note receivable	-	186
Work in process	3,744	3,721
Prepaid expenses and other	502	493
Future income taxes (Note 3)	1,111	1,787
Derivative assets (Note 16)	250	-
	56,059	50,734
LONG-TERM INVESTMENT (Note 4)	3,162	3,623
EQUIPMENT (Note 5)	3,527	3,584
INTANGIBLES (Note 6)	392	704
GOODWILL	9,518	9,518
	\$ 72,658	\$ 68,163
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 16,958	\$ 18,785
Unearned contract revenue	5,160	4,017
Derivative liabilities (Note 16)	98	-
	22,216	22,802
COMMITMENTS (Note 13) AND CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	17,309	17,236
Contributed surplus (Note 8)	310	-
Retained earnings	31,852	28,448
Accumulated other comprehensive income (loss)	971	(323)
	50,442	45,361
	\$ 72,658	\$ 68,163

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, 2007 and 2006
(dollars in thousands)

	2007	2006
Net earnings	\$ 9,205	\$ 6,623
Unrealized loss on translating financial statements of self-sustaining foreign operation net of tax of nil	(199)	(85)
Unrealized gain on fair value of host contract component of long-term investment, net of tax of nil	12	-
Change in deferred gain on derivatives designated as cash flow hedges, net of tax of \$650	1,153	-
Other comprehensive income (loss), net of tax of \$650	966	(85)
Comprehensive income	\$ 10,171	\$ 6,538

Calian Technologies Ltd.
Consolidated Statements of Accumulated Other Comprehensive Income (Loss)
Years Ended September 30, 2007 and 2006
(dollars in thousands)

	2007	2006
Accumulated other comprehensive loss, beginning of year	\$ (323)	\$ (238)
Adjustment to accumulated other comprehensive loss, beginning of year (Note 2):		
Cumulative adjustment on translation of financial statements of self-sustaining foreign operations	-	-
Cumulative unrealized gain on fair value of host contract component of long-term investment at October 1, 2006, net of tax of nil	419	-
Cumulative change in deferred loss on derivatives designated as cash flow hedges at October 1, 2006, net of tax of \$51	(91)	-
Accumulated other comprehensive income (loss), beginning of year	5	(238)
Other comprehensive income (loss), net of tax of \$650	966	(85)
Accumulated other comprehensive income (loss), end of year	971	(323)
Retained earnings, end of year	31,852	28,448
Accumulated other comprehensive income (loss) and retained earnings, end of year	\$ 32,823	\$ 28,125

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

Calian Technologies Ltd.
Consolidated Cash Flow Statements
Years Ended September 30, 2007 and 2006
(dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 9,205	\$ 6,623
Items not affecting cash		
Interest accreted on note receivable	(14)	(28)
Interest accreted on host contract component of long-term investment (Note 4)	(325)	-
Employee stock purchase plan compensation expense	34	35
Stock option compensation expense (Note 8)	310	-
Amortization	1,505	1,304
Future income taxes (Note 3)	94	336
Unrealized gain on fair value of conversion options of long-term investment (Note 4)	(106)	-
	10,703	8,270
Change in non-cash working capital		
Accounts receivable	(5,267)	8,314
Work in process	(23)	(112)
Prepaid expenses and other	(9)	332
Accounts payable and accrued liabilities	(618)	(2,274)
Unearned contract revenue	1,813	(3,295)
	6,599	11,235
CASH FLOWS USED IN FINANCING ACTIVITIES		
Issuance of common shares	252	241
Dividend	(3,525)	(2,796)
Repurchase of shares (Note 7)	(1,132)	(1,461)
	(4,405)	(4,016)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Note receivable	200	200
Equipment expenditures	(1,136)	(1,025)
Business acquisition	-	(3,557)
Investment (Note 4)	-	(3,623)
	(936)	(8,005)
FOREIGN CURRENCY ADJUSTMENT	(199)	(85)
NET CASH INFLOW (OUTFLOW)	1,059	(871)
CASH, BEGINNING OF YEAR	17,018	17,889
CASH, END OF YEAR	\$ 18,077	\$ 17,018
SUPPLEMENTARY INFORMATION:		
Income taxes paid	\$ 5,443	\$ 2,996

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

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

(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 and estimated project costs and revenues for contract revenue recognition, contingencies, estimated amount for income tax balances, allowance for doubtful accounts, investment and the impairment of goodwill, based on currently available information. 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. 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, 2007 and 2006.

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 received and if it is more likely than not that they will be utilized to reduce taxes payable.

Stock-based compensation

The Company has a stock option plan for executives and other key employees and an employee stock 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. Consideration paid by employees on the purchase of shares under the employee stock purchase plan and exercise of stock options is recorded as share capital when the shares are issued.

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

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

Work in process

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

Long-term investment

Effective October 1, 2006, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation. Under the new standards, 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 preferred share 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 remaining change in 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. The sum of the fair value of both the embedded derivative and the host contract represents the fair value of the long-term investment. This new policy is adopted prospectively with changes in fair value to October 1, 2006 recorded in opening retained earnings or opening other comprehensive income (loss). On October 1, 2006, the Company recorded an adjustment to opening retained earnings of \$1,391 net of tax of nil representing the unrealized loss in fair value of the conversion options component of the long-term investment from the date the investment was acquired to September 30, 2006 and recorded an adjustment to opening retained earnings of \$68 net of tax of nil representing the accretion of interest. An adjustment of \$419 net of tax of nil was also recorded to opening accumulated other comprehensive income (loss) representing the unrealized gain on fair value of the host contract portion of the long-term investment.

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.

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%. 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.

Intangibles

Intangibles are comprised of acquired customer relationships, non-competition agreements, order backlog and consultant database. Intangibles are amortized on a straight-line basis over their estimated useful life not exceeding five years. 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.

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

(dollars in thousands, except per share data)

2. Accounting Policies (Continued)

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, 2007 and 2006, the Company concluded that a goodwill impairment charge was not required.

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. Effective October 1, 2006, the Company adopted Section 1530, Comprehensive Income, recording translation gains and losses in the cumulative translation adjustment as a separate component of other comprehensive income. Comparative statements have been restated to reflect the application of the new standards for foreign currency translation of a self-sustaining foreign operation.

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.

Effective October 1, 2006, the Company adopted Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 3865, Hedges. In accordance with the new standards, 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 are recorded in other comprehensive income and are recognized in net income when the hedged item affects net income. The Company expenses transaction costs related to its foreign exchange contracts. This new policy is adopted on a prospective basis with changes related to the prior fiscal year recorded in opening retained earnings or opening accumulated other comprehensive income (loss). On October 1, 2006, the Company recorded an adjustment to opening accumulated other comprehensive income of \$91 net of tax of \$51 representing the cumulative change in fair value on derivatives designated as cash flow hedges to September 30, 2006. No adjustment was made to opening retained earnings.

Embedded derivatives

The Company considered contracts in effect at March 31, 2003 that were still in effect on October 1, 2006 to assess potential embedded derivatives. The effect of implementing the new standards in respect of embedded derivatives resulted in no impact on the financial statements.

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

(dollars in thousands, except per share data)

2. Accounting Policies (Continued)

Comprehensive income

Effective October 1, 2006 the Company adopted Handbook Section 1530 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 effective portion of derivatives designated as cash flow hedges where the hedged item has not yet been recognized in income.

Earnings per share

Diluted earnings per share is calculated based on the weighted average number of common shares outstanding during the period plus the effects of potentially dilutive common shares outstanding during the period. This method requires that the dilutive effect of outstanding options be calculated using the treasury stock method, as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of issuance, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period. Contingently issuable shares are included in the diluted earnings per share calculation once the actual level of earnings indicates that the conditions will be met to issue shares. The number of shares included is determined based on the earnings to date and the current market price of the shares at the end of the reporting period, if the effect is dilutive.

3. Income Taxes

The balances of future income tax assets at September 30, 2007 and 2006 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.

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:

	2007	2006
Earnings before income taxes	\$ 14,210	\$ 10,385
Tax provision at the combined basic Canadian federal and provincial income tax rate of 36.0% (2006: 36.5%)	5,120	3,791
Increase (decrease) resulting from:		
Permanent differences	(5)	63
Impact of rate reductions on valuation of future income tax assets	19	65
Other	(129)	(157)
Income tax expense	\$ 5,005	\$ 3,762

During 2006, the Company received assessments from the Canada Revenue Agency regarding its 2005, 2004 and 2003 scientific research and experimental development (R&D) activities allowing additional R&D costs to be claimed. As a result the Company recorded \$409 of investment tax credits (ITC) which resulted in a recovery of taxes already paid. During 2007 (2006), the Company recorded \$46 (\$91) of ITC related to \$150 (\$330) of research and development costs. These costs have been recorded in cost of revenues.

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

(dollars in thousands, except per share data)

4. 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. The investment cost included acquisition costs of \$116. The preferred shares will be convertible into 8,750,000 common shares of Med-Emerg at the Company's option. After two years, Med-Emerg is also entitled to cause the preferred shares to be converted into common shares when trading volumes of Med-Emerg common shares exceed 600,000 shares and the weighted average share price is at least \$0.46 USD in the preceding 60 days. On a fully converted basis, this investment represents a 13% interest based on the current number of common shares outstanding. In the event the shares are not converted by July 11, 2011, the preferred shares will be redeemed, and at the option of Med-Emerg, the face value will be satisfied either in cash or in Med-Emerg common shares based on the then fair market value of the common shares.

Fair value of long-term investment:

Long-term investment, at cost	\$ 3,623
Cumulative unrealized loss of conversion options	(1,285)
Cumulative interest accretion on host contract	393
Cumulative unrealized gain on fair value of host contract component	431
Fair value of investment at September 30, 2007	\$ 3,162

5. Equipment

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment, furniture and fixtures	\$ 11,657	\$ 8,130	\$ 3,527	\$ 11,153	\$ 7,569	\$ 3,584

6. Intangibles

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Acquired customer relationships	\$ 788	\$ 602	\$ 186	\$ 788	\$ 407	\$ 381
Non-competition agreements	480	296	184	480	200	280
Consultant database	88	66	22	88	45	43
Contractual arrangements with customers	126	126	-	126	126	-
	\$ 1,482	\$ 1,090	\$ 392	\$ 1,482	\$ 778	\$ 704

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

(dollars in thousands, except per share data)

7. Share Capital

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

Issued: Common shares as follows:

	2007		2006	
	Shares	Amount	Shares	Amount
Balance, beginning of year	8,399,221	\$ 17,236	8,503,313	\$ 17,270
Shares issued under stock option plan	10,000	24	14,245	42
Shares issued under employee stock purchase plan	23,460	228	15,663	199
Shares repurchased for cash	(87,100)	(179)	(134,000)	(275)
Balance, end of year	8,345,581	\$ 17,309	8,399,221	\$ 17,236

During fiscal 2007 (2006), the Company acquired 87,100 (134,000) of its outstanding common shares at an average price of \$12.98 (\$10.88) per share for a total of \$1,132 (\$1,461) including related expenses, through normal course issuer bids initiated in November 2006 and 2005. The excess of the purchase price over the average 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 fiscal 2007, the Company issued 23,460 (2006: 15,663) shares under the ESPP and employees subscribed to approximately 18,364 common shares, which will be issued during fiscal 2008 at an average price of \$10.66. Since inception and including the issuance of shares in 2007, 224,586 shares have been issued under the plan. During the twelve-month period ending September 30, 2007, the Company recorded a compensation expense of \$34 (2006: \$35) relating to its ESPP.

8. 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 250,000 common shares have been authorized for issuance under the plan.

During the year ending September 30, 2007 the Company granted 165,000 options to directors and officers at an average price of \$13.22 per share with 91,400 vesting immediately and 73,600 options vesting over a period of two years. The options have an expiry term of 5 years with 80,000 options expiring on February 4, 2012 and 85,000 options expiring on August 21, 2012.

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

(dollars in thousands, except per share data)

8. Stock Options (Continued)

At September 30, 2007 there were 165,000 options outstanding with a weighted average remaining contractual life of 4.63 years of which 91,400 were exercisable at a weighted average price of \$13.22.

	2007		2006	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	10,000	\$ 2.45	24,245	\$ 2.73
Exercised	(10,000)	\$ 2.45	(14,245)	\$ 2.95
Granted	165,000	\$ 13.22	-	\$ -
Outstanding, end of year	165,000	\$ 13.22	10,000	\$ 2.45

During the year ending September 30, 2007 under the fair value based method, compensation expense related to general and administration costs of \$310 (2006:nil) was recorded with an offsetting credit to contributed surplus.

The compensation costs reflected in the consolidated financial statements were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

Risk free interest rate	4.0%
Expected dividend yield	3.4%
Stock price volatility	31.9%
Expected life of options	3.3 years

The weighted average fair value of options granted during 2007 was \$2.80 per option.

9. Earnings Per Share

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

	2007	2006
Weighted average number of common shares - basic	8,387,663	8,465,246
Additions to reflect the dilutive effect of employee stock options	-	10,381
Shares to be issued for the Titan acquisition	-	24,452
Weighted average number of common shares - diluted	8,387,663	8,500,079

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 the year ended September 30, 2007, 165,000 options were excluded from the above computation of diluted weighted average number of common shares because they were anti-dilutive (2006: nil).

10. Litigation Settlement Cost

On July 11, 2006 the Company paid \$2 million in return for a complete and full release and discharge of the previously disclosed \$100 million claim. The release confirms that the Company does not admit and in fact denies all allegations.

11. Interest Income

Interest income is comprised of the following amounts:

	2007	2006
Interest income	\$ 619	\$ 556
Accreted interest on host contract component of long-term investment	325	-
Accreted interest on note receivable	14	28
Interest income	\$ 958	\$ 584

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

(dollars in thousands, except per share data)

12. Contingencies

During the year 2000, the Company entered into a 10-year lease for an office building in the Ottawa area expiring in April 2010. The Company currently has an agreement with a sub-tenant to lease a significant portion of the space for a period extending to the end of the lease period. The Company is required to assume the remaining portion of the costs associated with this facility. Unless the sub-lessee defaults on future payments, it is expected that the current provision of \$1,287 will be sufficient to cover the Company's share of the costs. The lease payments including operating costs relating to the excess space amount to approximately \$990 per year. During the year, the Company received lease revenues of \$554 (2006: \$567) which are recorded as a reduction of the provision.

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.

13. Commitments

The Company has lease agreements for office space and equipment with terms extending to the year 2012. The aggregate minimum rental payments under these arrangements are as follows:

2008	\$	3,108
2009	\$	2,461
2010	\$	1,838
2011	\$	99
2012	\$	70

14. 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 right infringement, claims that may arise while providing services, or as a result of litigation that may be suffered by customers. The Company mitigates its responsibility by removing from its contracts 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.

15. 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.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006
(dollars in thousands, except per share data)

For the year ended September 30, 2007

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 55,856	\$ 134,003	\$ -	\$ 189,859
Operating expenses	48,676	124,020	2,512	175,208
Amortization	665	840	-	1,505
Earnings before other income, interest income and income tax expense	\$ 6,515	\$ 9,143	\$ (2,512)	\$ 13,146
Unrealized gain on fair value of conversion options of long-term investment (Note 4)				106
Interest income (Note 11)				958
Income tax expense (Note 3)				5,005
Net earnings				\$ 9,205
Total assets other than cash and goodwill	\$ 16,004	\$ 28,904	\$ 155	\$ 45,063
Goodwill	-	9,518	-	9,518
Cash	-	-	18,077	18,077
Total assets	\$ 16,004	\$ 38,422	\$ 18,232	\$ 72,658
Equipment expenditures	\$ 748	\$ 388	\$ -	\$ 1,136

For the year ended September 30, 2006

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 36,689	\$ 146,157	\$ -	\$ 182,846
Operating expenses	31,664	135,867	2,619	170,150
Amortization	467	837	-	1,304
Prior years investment tax credits (Note 3)	(409)	-	-	(409)
Earnings before other expense, interest income and income tax expense	\$ 4,967	\$ 9,453	\$ (2,619)	\$ 11,801
Litigation settlement cost (Note 10)				(2,000)
Interest income (Note 11)				584
Income tax expense (Note 3)				3,762
Net earnings				\$ 6,623
Total assets other than cash and goodwill	\$ 10,403	\$ 30,902	\$ 322	\$ 41,627
Goodwill	-	9,518	-	9,518
Cash	-	-	17,018	17,018
Total assets	\$ 10,403	\$ 40,420	\$ 17,340	\$ 68,163
Equipment expenditures	\$ 675	\$ 350	\$ -	\$ 1,025

Calian Technologies Ltd.

Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

(dollars in thousands, except per share data)

15. Segmented Information (Continued)

Revenues from external customers are attributed as follows:

	2007	2006
Canada	78%	83%
United States	19%	12%
Europe	3%	5%

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, 2007 and 2006 represented 59% of the Company's total revenues. Accounts receivables from various departments and agencies of the Canadian federal government for the year ended September 30, 2007 represented 59% (2006: 62%) of the Company's total receivables. Both operating segments conduct business with this major customer.

16. Financial Instruments and Risk Management

Foreign currency risk

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 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 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.

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, 2007, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent	Fair Value
				Cdn. Dollars	September 30, Fair Value 2007
SELL	40,545	USD	October 2007	40,581	\$ 247
BUY	70	EURO	October 2007	99	-
BUY	254	GBP	October 2007	513	3
Derivative assets					\$ 250
BUY	15,701	USD	October 2007	15,715	\$ 96
SELL	462	EURO	October 2007	653	2
Derivative liabilities					\$ 98

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, 2007.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements

As at September 30, 2007 and 2006

(dollars in thousands, except per share data)

16. Financial Instruments and Risk Management (Continued)

Interest rate risk

The fair value of long-term investment will be affected by interest rate fluctuations. An increase to the interest rate would result in a decrease in the fair value of the investment.

Credit risk

The Company has an unsecured credit facility, subject to annual renewal. The credit facility permits the Company to borrow funds up to an aggregate of \$10 million. As of September 30, 2007 there were no direct borrowings under the Company's credit facility.

The Company is exposed to credit-related losses in the event of non-performance by counter-parties to derivative financial instruments but does not expect any counter-parties to fail to meet their obligations. The Company only deals with major financial institutions.

The Company is exposed to credit-related losses on accounts receivable but does not expect any customer to fail to meet their obligations. The Company's customers are largely Federal government departments and large private companies.

17. Pension Plan

The Company sponsors a defined contribution pension plan for certain of its employees. Required contributions have been fully funded to September 30, 2007. For the year ended September 30, 2007, an amount of \$618 (2006: \$578) was expensed related to this pension plan.

Corporate Information

Corporate & Business and Technology Services (BTS)

Calian Centre
2 Beaverbrook Road
Kanata, Ontario, Canada K2K 1L1
Phone: 613.599.8600
Fax: 613.599.8650
Web: www.calian.com

Systems Engineering (SED)

P.O. Box 1464
18 Innovation Blvd.
Saskatoon, Saskatchewan, Canada
S7K 3P7
Phone: 306.931.3425
Fax: 306.933.1486
Web: www.sedsystems.ca

United States Office

7960 Donegan Drive
Suite 223
Manassas, Virginia, USA 20109
Phone: 703.392.4950
Fax: 703.392.0980

Board of Directors

Kenneth J. Loeb

President, 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 8, 2008 at 2:00 p.m. at the Brookstreet Hotel, Kanata, Ontario, Canada. All shareholders are invited to attend. The telephone number of the Brookstreet Hotel is 613.271.1800.



MSTAR surveillance radar systems, assembled by SED for its US customer, help secure perimeters and protect borders.