



2012

Annual Report
Calian Technologies Ltd.



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
24	Management's Statement of Responsibility
25	Auditors' Report
26	Consolidated Statements of Financial Position
27	Consolidated Statements of Net Earnings
28	Consolidated Statements of Comprehensive Income
29	Consolidated Statements of Changes in Equity
30	Consolidated Statements of Cash Flows
31	Notes to the Consolidated Financial Statements



Message from the Chairman

Fiscal 2012 was yet another successful year for Calian as the management team was able to navigate the unsettled business environment and post excellent results compared to the prior year. At the same time, they were able to assess the ever-changing dynamics of the marketplace and make the required organizational changes to adapt. With the acquisition of Primacy Management we were faced with the inevitable cultural and integration issues, not experienced for some time. We are pleased with the progress to date and we as a board have every confidence in management's ability to take full advantage of the new resources and markets associated with this acquisition.

This year also marked the 30th anniversary of the Company. Throughout the years, Calian's key strength has been its ability to adapt to an ever-changing business environment. Larry O'Brien, who founded the Company in 1982, was instrumental in developing this corporate trait and in the process created an entity that was built to last. With Larry's decision to leave the board and take a well-deserved retirement after 30 years of contribution, we are confident that we have the necessary talent to be successful well into the future. Also, during the year, we received the resignation of Paul Cellucci due to health reasons. We will miss his insight, particularly as it pertains to US matters. The Board of Directors was pleased to appoint George Weber as a replacement director and fully expect that he will contribute to the collective knowledge and background of the Board.

The board is cognizant of its duties to ensure the timely and orderly succession of management and during the past two years, we have witnessed the replacement of both of our divisional general managers due to retirements. We are very pleased with the seamless transition in both instances and firmly believe that we have a strong and motivated senior management team that will continue to generate superior results for our shareholders.



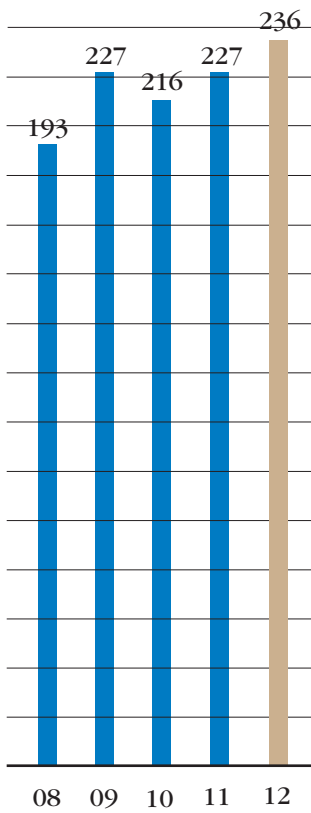
A handwritten signature in black ink that reads "Kenneth Loeb".

Kenneth Loeb

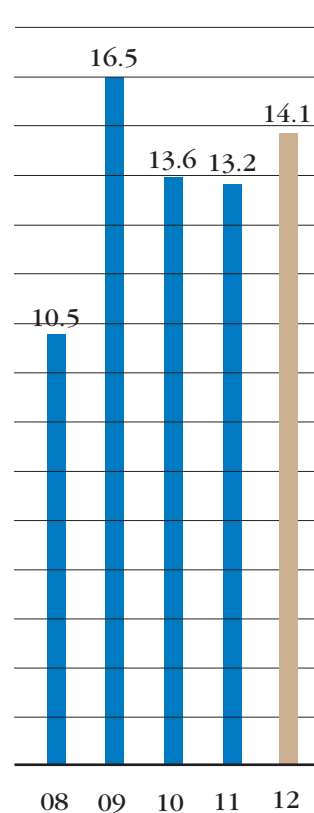
Chairman

(millions of dollars, except per share data)

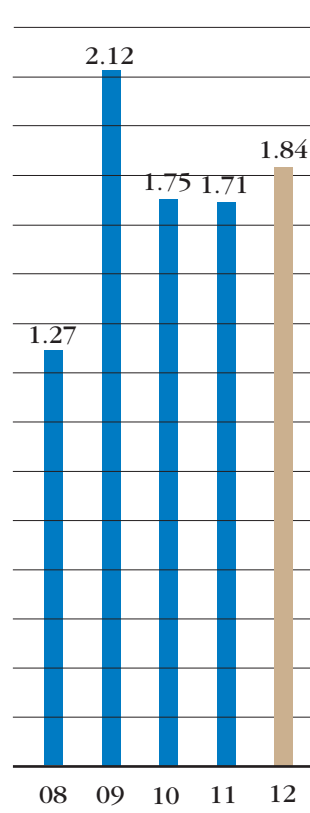
Revenues



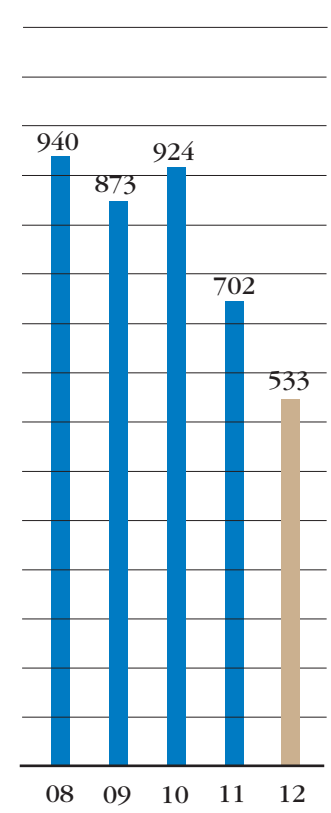
Net Earnings



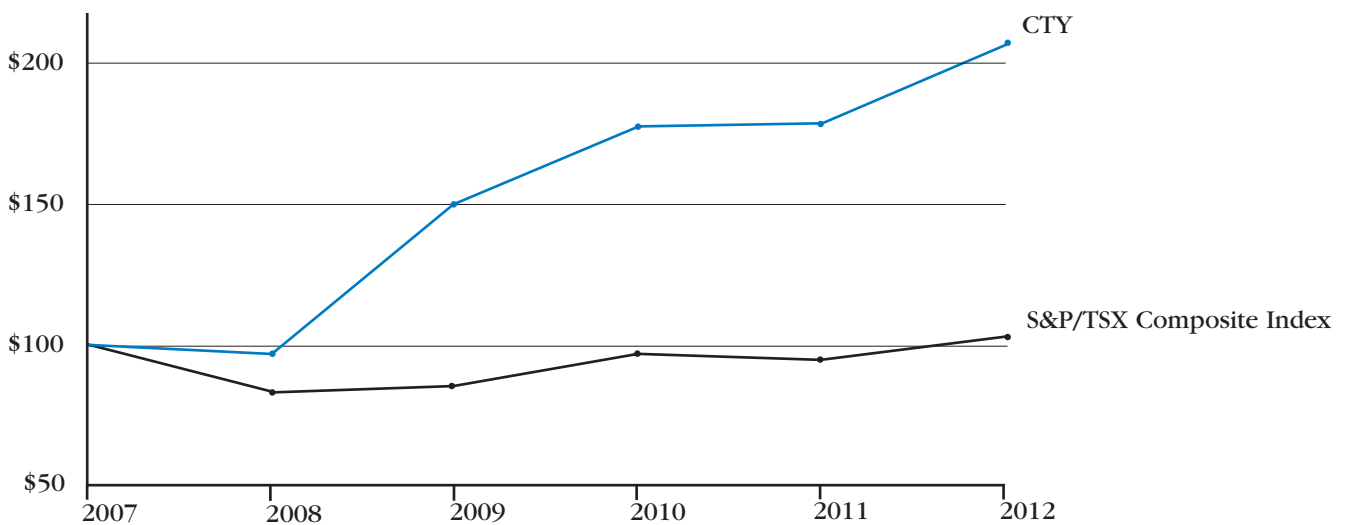
Earnings Per Share



Backlog



Comparison of Cumulative Total Return



Message from the President and CEO

Fiscal 2012 culminates thirty years of business for Calian. From its modest beginnings to the present day, the business tenets of controlled profitable growth and positive cash flows have remained strong. This approach has put us in a position to seize opportunities as they arise while at the same time weather the economic uncertainty that has persisted for the last few years. I am pleased that our enterprise has withstood the competitive, political and economic pressures that have touched virtually every entity in today's marketplace. The diversity of our two divisions has once again provided stability, not only in their varied service offerings, but also in the markets that they serve and the geographies in which they operate.

During the past year we continued to experience pressure in all of our markets as existing competitors became more aggressive and others moved up and down the value chain in an attempt to maximize their share of markets that in some instances were shrinking. Our continued emphasis on quality and customer satisfaction together with creative solutions and astute pricing has allowed us to grow and prosper within this environment. As an Ottawa headquartered company, I was particularly pleased to be honored with the Ottawa Chamber of Commerce's Company of the Year award which recognized the same positive business attributes that form the foundation of our long-term success.

Our BTS division had a very eventful year. A fundamental reorganization was implemented which allowed us to take out non-value added costs while at the same time accurately define our service lines and fortify our sales and business development resources. The result is a leaner team with a clearer assessment of our target markets and a readiness to develop and address prospective business. The acquisition of Primacy Management allowed us to round out our health-care service offerings while at the same time expanding our customer base and enhancing our bottom line. Similarly, the disposition of our US subsidiary late in the year was driven by the recognition that a Canadian-owned entity in a foreign military sales environment was not the most productive or profitable use of our valuable resources.

Armed with a healthy backlog of profitable work, our BTS division will continue to provide a stable base of revenues with excellent long term growth potential and with the organizational realignment behind us, we are fully prepared to address the divisional challenges that lie ahead.

Our SED division also had a year of unsettled business. Our manufacturing group was plagued with unpredictable requirements from our military customers as they addressed their own budget uncertainties. This was evident in an early surge in requirements only to be met with a reduced level of activity later in the year. Likewise, demand from our commercial contract manufacturing customers was irregular as they too dealt with intense competition for market share. Our engineering group was well utilized throughout the year as we contended with a high level of project activity for communication systems as well as ongoing enhancements to our portfolio of ancillary communications products.

While our large contract for the European Space Agency's 3rd deep space antenna is nearing completion, we are fortunate to have signed a number of contracts with key customers to help fill the gap. Despite our anticipation of continued tempered markets, our existing base of business along with internal product developments promise a firm level of activity for the new year.

Overall, we achieved consolidated revenues of \$236 million representing an increase of 4% over the prior year. Despite intense competition and a relatively strong Canadian dollar, we were able to achieve excellent contract execution which resulted in realized margins that were slightly better than the prior year. This, coupled with close control of operating costs resulted in earnings of \$1.84 per share. This represents an increase of 7% over the prior year, a remarkable feat considering today's volatile business environment. Despite the cash used for the Primacy acquisition, we still maintain a healthy cash balance and we have maintained an excellent rate of return on invested capital.

During the year we once again increased our quarterly dividend which now stands at an annual rate of \$1.12 per share. Cash dividends paid during the year represented a yield in excess of 5% and we plan to continue our policy of paying dividends at levels commensurate with after tax earnings. Including the reinvestment of dividends, our shareholders have once again realized an excellent return of 16% for the year, compared to only 6% for the TSX composite index.

During the year, we repurchased 98,000 shares under the Normal Course Issuer Bid at an average price of \$18.52 per share. We continue to believe that the repurchase of shares at reasonable prices is an excellent use of cash resources to enhance shareholder value.

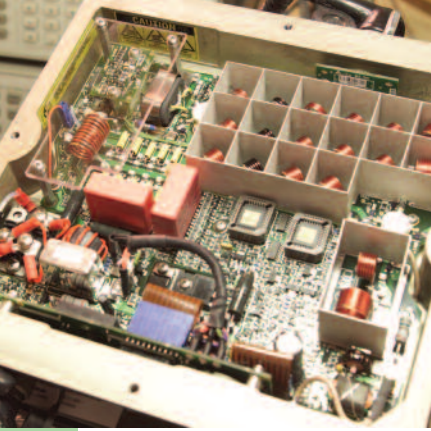
In summary, I am very pleased with the results for 2012 and I would like to thank our customers, suppliers and employees who have collectively contributed to this success. Our strong backlog and solid balance sheet provide our management team with the basic building blocks to continue generating exceptional returns, ultimately translating into a healthy and growing dividend stream for our shareholders.



Ray Basler

President and CEO





Report on Operations - Systems Engineering (SED)

The SED division achieved relative success despite the many challenges in 2012. The work levels in contract manufacturing oscillated during the year due to uncertainties in both the government and commercial sector. The revenue gap created by the large ESA antenna contract moving towards completion, was filled by a larger number of smaller antenna projects. A larger number of active projects presented both management and execution challenges, particularly with the allocation of resources where multiple international installations are involved. With extra effort and judiciously adding resources, we were able to execute

our projects without any major technical or schedule implications. Overall, for the fiscal year we recorded revenues of \$67.5 million and a divisional contribution of \$10.9 million, or 16.1%.

Manufacturing revenues were slightly improved compared to last year. A brief surge of manufacturing related work in the first quarter was managed through utilization of a temporary work force. Other manufacturing work continued, albeit at slightly reduced levels, as customers like Research In Motion slowed orders while they reassessed their market position. By the end of the fiscal year, work levels rebounded as some of our projects moved to the production phase. Profitability of the manufacturing business was excellent due to careful management of staff utilization levels, optimization of processes and favourable vendor pricing.

Satellite service providers expanded into Ku and Ka frequency bands in order to roll out their wide-band satellite communications networks. The technical challenges associated with designing networks in these frequency bands played to the strengths of our system engineering capabilities. As a result, Inmarsat's requirements for their GlobalXpress and Alphasat initiatives led to several new projects for SED including In-Orbit Test Systems, Diversity RF Systems and Capacity Planning Software. In addition, customers such as Skywave and Sirius/XM sought to upgrade their existing infrastructure. The significant non-labour components of all these programs provided considerable contribution to SED revenues. Staff utilization was very high within our engineering group as parallel engineering and installation teams were required for concurrent projects. We continued to see considerable margin pressure, especially on new pursuits as competition intensified. Fortunately, our history of excellent project performance along with our keen focus on customer satisfaction has allowed us to partially counteract the competitive pressures. Overall, our engineering projects provided revenues similar to last fiscal year along with a solid contribution to margin.

In our communications products group, the introduction of a new version of our Decimator Spectrum Analyser product resulted in increased unit sales. Our Cable Load Generator product established us as a credible supplier to a large test equipment manufacturer with a global reach. In addition, we developed our next generation of satellite modulator under contract to Echosat, a major satellite service provider. As a result, revenues from our ancillary products continue to grow and there is a good potential for enhanced margins.

Satellite operations continues to generate a steady stream of profitable business. However, budget constraints within the Canadian Space Agency resulted in work scope reductions in our satellite operations contract for the Radarsat 1 and Scisat missions. Maintaining support for Radarsat 1 is critical as it forms the basis for our incremental support to MDA and Telesat for Radarsat 2 satellite operations. Our business with CEIL and LightSquared continued at similar levels compared to last fiscal year.

Overall, the resulting revenues for this fiscal year were slightly better than the prior year. With increased labour utilization and our close attention to operating and administrative costs we achieved a meaningful improvement in divisional contribution for the year.

I am very proud of the performance of the Systems Engineering Division in my inaugural year as General Manager. Our management team looks forward to the challenges and opportunities of the next fiscal year and we remain fully committed to customer satisfaction and the profitable execution of all of our projects.



Patrick Thera

VP and General Manager, Systems Engineering

Report on Operations - Business and Technology Services (BTS)

The Business and Technology Services Division faced numerous challenges in 2012 but I am happy to report growth in both top and bottom line results. These results were achieved despite our main customer, the Federal government, going through significant budget reductions and staff adjustments that resulted in procurement slowdowns primarily in the last half of the fiscal year.

From a financial perspective, the division's revenues grew in each quarter compared to the prior year culminating in record annual revenues of \$168 million. Our growth was achieved by a combination of organic growth and the mid-year acquisition of Primacy. Year over year, we increased divisional contribution by 11% to \$10.8 million.

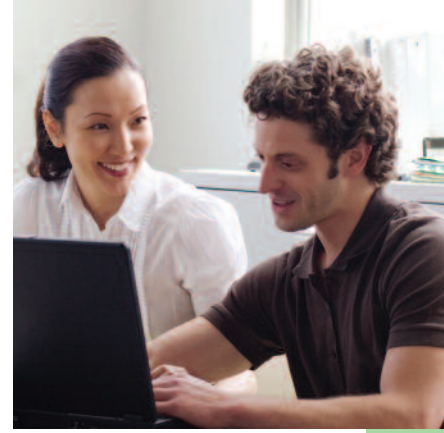
This year included a very significant reorganization of the division. We moved away from our staffing and outsourcing structure, to a format that encompasses operations, sales and divisional services. Within operations, we established our selected service lines, being Health, Operations and Maintenance, Information Technology Professional Services and Training along with respective service line leaders. These operational leaders manage the delivery of contracts in their respective area and evolve and expand the capabilities of their service lines in support of our growth objectives. We also consolidated and strengthened our sales team adding additional sales capacity and hiring senior sales executives to lead the division into new sectors. With the new organization firmly entrenched, we are poised to take advantage of future opportunities as they arise.

The acquisition of Primacy Management Inc. not only provided a new customer with Loblaw, but it also expanded the capabilities of our health service line adding expertise in the management of civilian health clinics. We are excited about ongoing work with Loblaw to deliver health and wellness programs and also leveraging this expertise to enhance the growth of Calian's presence in the healthcare market. Combined with our Defence military health contract, Calian now has one of the largest Canadian based medical practitioner networks.

I am also proud of the positive contributions we are making to our customers and of the very high customer satisfaction ratings that our organization has earned. Whether it is our Operations and Maintenance team repairing military vehicles to be ready for missions, our Health teams providing healthcare to the men and women of the military, our Primacy team managing over 100 medical clinics that facilitate over 3 million patient visits a year, our Training team preparing soldiers for missions or helping them advance their career goals, or finally our IT professional services team working on numerous initiatives to improve or modernize our customers IT infrastructure- we are making a difference!

We have also continued to invest in our back office by implementing numerous process and information system improvements in support of our growth objectives. Areas such as sales mobility are key enablers to increasing time with our customers.

Considering the challenging economic environment and a very competitive marketplace, I am pleased with the results achieved by the BTS division over the past year. Looking forward, we will stay the course on our growth strategy by expanding our customer base and rounding out our service offerings. We will continue to focus on organic growth opportunities but will consider potential acquisitions or partnering arrangements that strategically support our long-term growth objectives. Of course, complete satisfaction of our existing customers will always be paramount. Our strong and seasoned management team remains committed to the execution of our strategy and to delivering another successful year for our shareholders.



Kevin Ford

*VP and General Manager,
Business & Technology Services*



Business of the Company

We operate through two 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 focus is on two distinct markets. Our primary market is satellite communications sector where we serve satellite manufacturers, operators and service providers around the world. We also provide satellite operations services to government and commercial clients in the same market sector. Our other market is in the defence/security and high-end telecommunications industry where we provide small to medium volume manufacturing services to major players. In both markets, we are a small niche player serving a handful of multi-national organizations working on large worldwide projects. More than 75% of our annual revenues are derived from exports.

Our customers require sophisticated, custom-built infrastructure to meet their unique requirements. Our straightforward approach is to fulfill these requirements by integrating advanced commercial equipment provided from reliable suppliers and where necessary, custom-built components. Our customers rely on our technical and management skills to deliver what we promised, on schedule and at the agreed price. We have a full-service approach helping our customers from design through to long-term operations and support. Our customers reward our success in meeting their expectations with repeat business. Our core competencies make us stand out from our competitors — strong project management, systems engineering know-how, and software development capabilities. We maintain a set of reusable hardware and software components to increase our competitive edge. These strengths have allowed us to establish long-term relationships with many of the industry's leaders.

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

Business and Technology Services assists clients by providing strategic long-term outsourcing services, recruiting and placement services, and per-diem staffing services. The division provides ready access to an exceptional team of professionals in IT Professional Services, Healthcare, Operations and Maintenance and Training domains. The division currently caters mainly to the Canadian federal government, with a large presence in the Department of National Defence, and also has a well-established private sector customer base that is expanding across targeted sectors.

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 program delivery capability, recruiting capabilities, effective management of our employees in the field, and competitive rates.

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

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

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



Kevin Ford

*VP and General Manager,
Business & Technology Services*



Patrick Thera

*VP and General Manager,
Systems Engineering*

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

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

The following Management Discussion and Analysis is dated December 6, 2012 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 IFRS. 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 6, 2012 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 to implement their diverse operating and technology needs, whether it is the design and integration of a complex satellite ground system, low-volume high-quality contract manufacturing or the provision of specialized personnel in the areas of IT, training, health care and operations and maintenance 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 high percentage of contract renewals.

Calian's long-term direction is to expand its current service offerings with 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 seek partnership opportunities or 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

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

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 play to our strengths, there are no plans to materially alter the business of the Company.

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

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

Business and Technology Services is a leading program delivery partner for public and private sector customers in a variety of industries, whereby we provide workforce augmentation as well as the long-term management of projects, facilities and customer business processes in the areas of IT professional services, training, health care and operations and maintenance services. The Business and Technology Services division (BTS) has its principal office in Ottawa, Ontario.

As both of our divisions operate in very specific niche areas within large markets, there exists very little third party data to compare to the Company's performance. Although referring to the general market trends provides insight into the health of those markets and some clarity on the opportunities within those markets, it is not indicative of the health, demand, funding of the individual customers of the Company. In order to compensate for this limited insight and to provide an indication of revenue potential, this annual report provides a detailed rollout of the Company's backlog by division showing both contracted backlog and option renewals by fiscal year.

In addition, since referencing pricing or volumes of production are not applicable to our business to allow a proper understanding of the level of revenue generated during the year or expected in the future, the following discussions that refer to the types of contracts performed by each of the two divisions will provide some insight into the level of customer specific demand for our services.

Systems Engineering Division

For over 47 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 works with its customers on a project basis to develop custom systems tailored to their specific operational requirements. From one project to the next, SED attempts to reuse system architecture, core software modules, and custom hardware designs to reduce development time, cost and technical risks. SED's manufacturing capability, initially created to support its communication systems engineering group, now accounts for a substantial portion of the revenue base and provides an on-going base of business that helps offset the ebb and flow of core project work.

SED's strengths are renowned around the world with exports typically accounting for more than 75% of annual sales. This compares to a Canadian space industry average of 50%. Customers often request deployment of our systems to other locations. We now have systems operating on six continents and we are well versed in the logistics associated with international installations.

SED designs and manufactures equipment for the satellite ground-based infrastructure market and systems must be upgraded or replaced on a regular basis. The introduction of HDTV, the wide acceptance of Digital Audio Radio and the move to higher frequency bands are also presenting opportunities for additional capacity and enhancements. With recent world events, demand for reliable mobile communications for disaster relief and satellite news gathering has now become center stage. Additional demands are being driven by mobile broadcast, military use of commercial satellites and the ongoing need to replace the existing capacity of satellites approaching end-of-life. Data intensive applications are also driving the need for high throughput satellite constellations.

Overall, the business environment for the SED division is stable and sustainable. Inmarsat and some other operators are deploying next generation satellite constellations. This should bode well for integrators such as SED. Reduced credit availability continues to hamper the ability of start-ups and certain existing players to get the funding or refinancing needed to drive their initiatives forward. Competition remains fierce as competing companies look to fill their available capacity.

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

While the satellite communications sector has been the core of SED's business, the contract manufacturing group continues to provide a solid base of revenues and the ongoing level of work SED receives from several key customers continues to provide the manufacturing group with respectable levels of utilization. We focus on opportunities requiring low volume and high reliability manufacturing; qualities that are well suited to defence applications. These attributes also provide effective immunization from offshore competitors.

In 2012 the SED division performed well signing \$70 million in new contracts and ending the year with a backlog of \$73 million of which \$45 million is expected to be earned during 2013.

Fiscal 2012 had its share of challenges and accomplishments for SED. Manufacturing orders dropped substantially as orders from customers such as KDS, General Dynamics and RIM were lumpy. Our flexible manufacturing workforce allowed us to address the uneven flow and still yield solid margins.

SED's satellite earth station business was also a significant contributor to revenue. The largest project in this area is the third deep space antenna for the European Space Agency. All design and in-plant integration activities were completed and the construction of the 35m antenna and site integration in Malargue, Argentina is nearing completion. The Inmarsat I5 RF systems are a three year program and include six 13m antenna systems installed at diverse locations around the globe. We completed the initial system design and are proceeding with factory acceptance tests and site installation on the first two systems.

Further RF system work signed this year included a new contract for an RF system in Prince Albert for the Canadian Centre for Remote Sensing, a set of three beacon transmission stations for Yahsat and an Inmarsat BGAN RF System in China.

Work continued on the Mexsat RF Systems for Boeing and we are now proceeding with site installation. In total, this is the largest number of RF Earth Station programs ever undertaken by SED in a single year. The fact that we can accommodate this amount of work is a reflection of the depth of our capabilities.

Several satellite gateway system initiatives began this year including the development of a Sirius replacement system, a Safety Services Gateway for Inmarsat Aeronautical services, additional Inmarsat Aero Gateways and upgrades to the Skywave Low Data Rate gateway systems. The signing of the Inmarsat GX Capacity Planning project late in the fiscal year will help to ensure high utilization in our systems and software groups.

Satellite Operations continues to provide a steady revenue stream. We continue to operate the Radarsat I and SciSat Satellites under contract to CSA and the Radarsat II satellite for MDA. We are the primary operations centre for the Ciel II satellite and are hosting the LightSquared communications gateway equipment. Reductions in the CSA's operations budget and the bankruptcy protection filing of LightSquared may result in reduced revenue from this part of the business in the coming years. We continue to look for opportunities to replenish and expand our operations business.

The markets in which SED operates are currently stable and we expect new opportunities to surface during the years ahead. In addition our manufacturing base is expected to remain steady but we do expect some volatility over the short term as customers assess their upcoming budgets and market conditions. In the Communication business sector, SED expects to work closely with Inmarsat as they continue to evolve and expand their service offerings, particularly as it relates to their new Ka Band Global Express Service. In the Digital Audio Broadcast market, we anticipate additional business with Sirius/XM Radio as they seek to gain commonality in their systems post-merger and also strive to bolster their product offerings. In the test systems area, we will continue to pursue opportunities with our traditional test systems market for Communications Monitoring Systems and In-Orbit Test Systems. In addition, we will continue to exploit our Resource Management software as well as pursue further sales of our ancillary satellite products.

As worldwide competitors continue to vie for market share, margins are expected to remain under pressure. Continued volatility of the Canadian dollar relative to other major currencies will also weaken our export position.

Business and Technology Services Division

BTS is a leading program delivery partner for public and private sector customers. We meet and anticipate our customers' unique needs in the areas of IT professional services, training, health care and operations and maintenance services.

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

We have a workforce in excess of 2,100 individuals across Canada, in both full and part-time capacities. Currently our primary market is the Canadian federal government with an emphasis on the Department of National Defence (DND), but we also provide services to large multi-national companies as well as to other departments within the federal government.

With 30 years of experience, BTS provides custom solutions that help organizations manage complex workforce challenges by assuming responsibility for functional tasks, executing sophisticated engineering programs, or by providing workforce augmentation with flexible and skilled teams. The division's success comes from its focus on delivering a quality service through careful attention to both customer and contractor needs. The end result is customers having access to Calian's extensive expertise and pool of specialized talent so they are free to focus on their core business. BTS is a continuous improvement organization and is accredited to Level 4 under the Progressive Excellence Program of Excellence Canada.

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

The major market for our BTS division continues to be DND. DND continues to be an area of focus for the federal government and its training and health requirements should remain stable. Both of these priorities target areas of expertise within the division. The BTS division is well positioned to continue to service the government in these areas.

The overriding trends affecting our business are expected to be influenced by four factors: the rate of economic recovery in our markets; the transition from public sector stimulus spending to one of public sector deficit reduction and expenditure control; the continuing competitive landscape; and finally the pace of technology evolution and potential impact to our business.

Demographics continue to work in our favour. Due to retirements, large corporations along with various federal government departments and the military continue to lose large numbers of employees with in-depth knowledge of their internal workings. In many cases the remaining employees are not yet able to assume additional responsibilities. This has created a necessity for these entities to re-acquire this lost knowledge. The BTS division has placed a special emphasis on attracting retirees who possess extensive corporate knowledge and expertise, and accordingly has been successful in assisting customers in bridging the knowledge gap while they train and mentor replacement staff. At the present time, we continue to see steady demand for this solution and will continue to take advantage of this trend to provide "ready-made" support services to our customers.

In order to cope with the backlog of procurement, federal government departments are implementing new processes and tools. In the Information Technology and Management (IT/IM) arena, the trend to larger, more complex ERP systems continues. New installations continue to provide opportunities; however system upgrades, enhancements and migrations are assuming an ever increasing share of the IT/IM budgets and hence our business opportunities. This is particularly the case in many larger organizations where legacy system databases are being mandated to interface with these ERP systems. Government wide, there is a greater focus on developing and supporting wider web access coupled with the associated security concerns of protecting the users and their data. Accordingly, we continue to focus on related business development activities and the investment of internal resources to accommodate these new approaches.

While government spending is under tight controls and is slightly unpredictable due to recently announced budget reductions, profitable business does exist for companies who have the financial strength to weather these down periods and the discipline to adjust costs to declines in revenue. BTS's strong back office capabilities, centred on an SAP based management information system along with its emphasis on continuous improvement and business development ensures that it is able to identify and win new business opportunities and accommodate that new business in a scalable fashion.

All in all, despite the current competitive landscape, we continue to believe that the long-term business environment for the services of the BTS division remains favorable.

BTS results for 2012 were solid despite a very difficult business environment. Growth was achieved within a very tough Federal Government environment and defence customer base. Service offerings have evolved with growing capabilities in many areas. The division was very successful in terms of managing existing contracts and maintaining high client satisfaction.

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

Federal Government budget reductions had some impact on the Division; however our simulation based training experience with DND was leveraged to secure our first non-DND contract with a private company in the nuclear field. We are hopeful that our expansion in this area will provide an opportunity to further broaden these capabilities to attract additional customers.

The Health Service Support Contract with DND remains stable after securing additional option years through to March 2014. The acquisition of Primacy during 2012 was a key step in expanding our health service offerings allowing us to acquire not only a national civilian clinic presence but also a world-class customer with Loblaw. Since Calian acquired Primacy seven months ago, Primacy opened 9 new clinics and currently operates 110 clinics across Canada. Through Primacy, Calian opened its first managed clinic in Halifax on October 1, 2012. These activities are key elements in Calian's health strategy which encompasses a civilian healthcare footprint to augment our military offerings, thereby strengthening our National medical practitioner network and expanding our health service offerings to our clients.

The IT Professional Services Line (ITPS) had another strong year with better than average growth within all three ITPS geographies (Toronto, Ottawa and Montreal). However, ongoing market pressures that continue to commoditize and depress on-demand consulting rates have resulted in a reduction in realized margins.

Our training contracts continued to run strong. The DLSE (Directorate of Synthetic Land Environments) contract continued to generate organic growth as DND showed increased demand for classroom and simulation-based training. However, the federal government's deficit reduction program did dampen realized growth within this service line as other contracts were moderately affected by these government directives.

The operations and maintenance contracts yielded very positive results this year. The quality of service delivered on the National Maintenance Contract resulted in our customer increasing its requirement for our services. In addition, performance evaluations conducted twice a year by our customer resulted in excellent scores yielding improved incentive fees.

During the year, we sold our U.S. based subsidiary. This decision to sell our U.S. business was made due to the arduous Foreign Ownership, Control and Influence (FOCI) requirements and the inordinate effort and overhead required to manage a business of this size and scope.

Significant investments were made to increase our sales resources with additional leadership focused on the Health, Telecommunications and Aerospace & Defence sectors. The goal of these investments is to expand our knowledge of, and presence within, these sectors as part of the Division's overall diversification strategy.

During 2012, Calian was awarded the "2012 Company of the Year" by the Ottawa Chamber of Commerce directly supporting our goal to raise company visibility in the Ottawa region.

In summary, fiscal year 2012 was a respectable year from a results perspective. Although the division faced a difficult environment, growth was still achieved in top and bottom line. With the Primacy acquisition and sale of the U.S. based business, considerable effort and resources were expended in M&A activity and the related integration. Going forward, we expect that the current Federal Government and defence budget constraints will continue, and therefore, we must focus on new customers and service offerings to meet our growth objectives.

BTS enters the new year with a strong backlog of work and a reasonable expectation of good future prospects. In the coming year, we are expecting organic growth on our existing contracts; however revenue growth from new opportunities will be largely dependent on the issuance of the initial request and the ultimate timing of the related contract award. A significant portion of BTS's contracts are not subject to renewal during the upcoming year. This provides for a stable and secure base of business for fiscal 2013 and allows delivery personnel to focus on increased contract performance, organic contract growth and support of new business development initiatives.

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.

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

Backlog

The Company's backlog at September 30, 2012 was \$553 million with terms extending to fiscal 2018. This compares to \$702 million reported at September 30, 2011. Contracted Backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas Option Renewals represent customers' options to further extend existing contracts under similar terms and conditions.

During 2012 the following contracts were the major contributors to the Company's backlog. These contracts are further described in the business overview section of this Management Discussion and Analysis.

- \$14 million contract with VT iDirect Inc. for backup ground stations for Inmarsat's new Global Express Ka band system extending to August 2014;
- \$5 million contract with Canada Center for Remote Sensing for the provision of a ground station extending to June 2013;
- \$5 million contract with Inmarsat for the provision of AERO ground earth stations extending to May 2013;
- \$5 million contract with General Dynamics Land Systems for the design and provision of power control modules extending to December 2014;

There were no contracts which were cancelled unexpectedly which resulted in a decrease in our backlog; however the Company did remove \$14,000 in backlog related to the sale of its US subsidiary.

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for 2013, 2014 and beyond based on management's current visibility into customers' existing requirements.

Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately \$116 million. This amount relates to certain government contracts, such as the health services support contract, where the contract maximums exceed expected utilization rates. While the excess funding is still available to DND, this was considered an indication that this portion of the contracted backlog would not materialize. The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

Backlog

(dollars in millions)	Fiscal 2013	Fiscal 2014	Beyond 2014	Estimated realizable portion of Backlog	Excess over estimated realizable portion	TOTAL
Contracted Backlog	\$ 168	\$ 69	\$ 17	\$ 254	\$ 50	\$ 304
Option Renewals	10	51	122	183	66	249
TOTAL	\$ 178	\$ 120	\$ 139	\$ 437	\$ 116	\$ 553
Business and Technology Services	\$ 133	\$ 103	\$ 128	\$ 364	\$ 116	\$ 480
Systems Engineering	45	17	11	73	-	73
TOTAL	\$ 178	\$ 120	\$ 139	\$ 437	\$ 116	\$ 553

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

Selected Annual Information

(dollars in millions, except per share data)

	2012	2011	2010
Revenues	\$ 235.9	\$ 226.7	\$ 215.7
Net earnings	\$ 14.1	\$ 13.2	\$ 13.6
Net earnings per share, basic	\$ 1.84	\$ 1.71	\$ 1.75
Net earnings per share, diluted	\$ 1.84	\$ 1.71	\$ 1.75
Total assets	\$ 103.7	\$ 90.6	\$ 91.9
Dividends per share	\$ 1.06	\$ 0.97	\$ 1.79

2012 Results of Operations

Earnings before interest and income taxes were \$18,733 in 2012 compared with \$17,446 in 2011 and net earnings were \$14,108 for the year compared with \$13,181 in the previous year. The Company completed the year with \$31,998 of cash compared to \$30,742 at the end of 2011.

Revenues

	2012	2011	% change
SED revenues	\$ 67,515	\$ 65,716	3%
BTS revenues	\$ 168,413	\$ 160,935	5%
Consolidated revenues	\$ 235,928	\$ 226,651	4%

The general business environment in 2012 continued to be very competitive. The Company began the year with \$183 million of its backlog to be earned in 2012. This base of work combined with the win of several larger contracts during 2012 resulted in a solid revenue stream for the year.

SED saw continued stability in the satellite industry and although the project mix has changed, the overall level of activity is consistent with the previous year. It should be noted that due to the project nature of its business, the SED division is susceptible to significant variation in volumes of activity from period to period. BTS realized gains in most of its market segments due to steady activity on contracts and the inclusion of Primacy Management revenues.

The Company derives a significant portion of its revenues from the Government of Canada. During 2012 (2011), 62% (61%) of revenues were related to contracts with various departments and agencies of the Government of Canada with approximately 52% (53%) directly with DND. Both of the Company's divisions conduct business with the Government of Canada.

Management expects that the marketplace over the next year will continue to be very competitive. The market conditions for SED are expected to be temperate and while new opportunities are expected, the related timing of project awards is always subject to change. Current BTS backlog will provide a solid level of activity on existing contracts and new opportunities are expected to arise. Cuts in federal government spending will have an impact on future revenues in certain segments, however, the nature and extent of the spending constraints remain uncertain at this time. The timing of future contract awards and customer demand will ultimately determine revenues for the next year.

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

Cost of revenues and Gross profit

	2012	2011	% change
SED gross profit	\$ 16,422	\$ 15,867	4%
As a percentage of SED revenues	24.3%	24.1%	
BTS gross profit	\$ 28,005	\$ 26,428	6%
As a percentage of BTS revenues	16.6%	16.4%	
Consolidated gross profit	\$ 44,427	\$ 42,295	4%
As a percentage of consolidated revenues	18.8%	18.7%	

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 warranty costs where applicable.

The consolidated gross margin for 2012 was in line with expectations. Higher margins from the Primacy acquisition offset the negative impact of competitive pressures and the smaller proportion of SED revenues.

Despite the differing margins on various projects, the overall margin percentage for the SED division remained relatively stable compared to the prior year. Higher staff utilization served to offset some of the competitive market pressures.

The BTS increase in gross margin is primarily related to the addition of Primacy Management which commands higher gross margins. The traditional BTS business continued to experience pressure on margins when bidding for new work as competition remains strong.

Because of the significant difference in gross margin between each of the two divisions, the overall gross margin of the Company is dependent on the relative level of revenue generated from each division. Management will continue to focus on execution and aggressive negotiation of input costs in order to maximize margins. However, stiff competition is expected to keep the pressure on margins in both divisions. The volatility of the Canadian dollar is always an influencing factor for margins on new work in the SED division when denominated in foreign currencies.

Selling and marketing

	2012	2011	% change
Selling and marketing	\$ 4,762	\$ 4,524	5%
As a percentage of consolidated revenues	2.0%	2.0%	

Selling and marketing expenses as a percentage of sales remain stable. Costs for 2013 are expected to remain stable over the 2012 level.

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

General and administration

	2012	2011	% change
General and administration	\$ 17,725	\$ 16,980	4%
As a percentage of consolidated revenues	7.5%	7.5%	

General and administration costs in absolute dollars increased slightly in line with cost escalation and increases in revenue. Looking ahead, management believes that general and administration costs will remain mostly in line with activity levels.

Facilities

	2012	2011	% change
Facilities	\$ 3,344	\$ 3,345	0%

Facility expenses, which include costs associated with office space, have been relatively stable over the past several years. Overall facility costs are not expected to increase significantly in 2013.

Sale of US subsidiary:

On August 31, 2012, the Company sold its US division. The restrictive nature of foreign ownership of US based entities that perform services for the US and foreign militaries, impacted management's pursuit of growth for this division and it became clear that this was not the most productive or profitable use of our valuable resources. Revenues from this division for the last nine months were \$2,841 and the sale of the division is not expected to have any material impact on the results of the Company.

Interest income

Interest income for 2012 is comprised mainly of interest earned on the Company's cash balances. Interest income decreased compared to 2011 when the company was accruing interest related to the investment in AIM Health Group Inc. Interest income earned on cash balances was consistent with the prior year.

Income tax expense

The Company reports its results on a fully taxed basis. The provision for income taxes for 2012 was \$4,953 or 26.0% of earnings before income taxes compared to \$5,082 or 27.8% of earnings before income taxes in 2011. The decrease in the effective tax rate for 2012 is mainly the result of a decrease in federal and provincial prescribed income tax rates. The effective tax rate for 2013, prior to considering the impact of non-taxable transactions, is expected to be approximately 26.5%.

Net earnings

The Company reported net earnings of \$14,108 or \$1.84 per share basic and diluted for 2012 compared to \$13,181 or \$1.71 per share basic and diluted in 2011.

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

Selected Quarterly Financial Data

(dollars in millions, except per share data)

	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11
Revenues	\$ 58.1	\$ 59.3	\$ 61.6	\$ 56.8	\$ 55.4	\$ 58.5	\$ 59.4	\$ 53.3
Net earnings	\$ 3.4	\$ 3.5	\$ 3.7	\$ 3.6	\$ 3.3	\$ 3.5	\$ 3.3	\$ 3.1
Net earnings per share								
Basic	\$ 0.44	\$ 0.45	\$ 0.48	\$ 0.47	\$ 0.43	\$ 0.45	\$ 0.42	\$ 0.41
Diluted	\$ 0.44	\$ 0.45	\$ 0.48	\$ 0.47	\$ 0.43	\$ 0.45	\$ 0.42	\$ 0.41

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 \$31,998 at September 30, 2012, compared to \$30,742 at September 30, 2011.

	2012	2011
Cash flows from operating activities before changes in working capital	\$ 20,172	\$ 18,711
Changes in working capital	(4,945)	(12,020)
Cash flows from operating activities	15,227	6,691
Cash flows used for financing activities	(8,899)	(8,440)
Cash flows from (used in) investing activities	(5,018)	3,414
Currency translation	(54)	22
Increase in cash	\$ 1,256	\$ 1,687

Operating activities

Cash inflows from operating activities for the year ending September 30, 2012 were \$15,227 compared to \$6,691 in 2011. This year's increase is mainly as the result of working capital fluctuations in line with the ebbs and flows of the business and an increase of \$5,366 compared to a decrease of \$7,976 in 2011 in unearned revenues. The market for the Systems Engineering Division is characterized by contracts with billings tied to milestones achieved, which often results in significant working capital requirements. Conversely, given the nature of this business, it is sometimes possible to negotiate advance payments on contracts. Such advance payments give rise to unearned revenue that will be realized as revenue over the course of the contract. As at September 30, 2012, the Company's total unearned revenue amounted to \$13,392. This compares to \$8,026 at September 30, 2011, with the increase primarily attributable to advance milestones on certain contracts.

Financing activities

Dividend

As a result of continuing earnings and a strong cash position, the Company once again increased its dividend in 2012. The Company paid quarterly dividends totaling \$8,137 or \$1.06 cents per share compared to 2011 when the Company paid \$7,472 in dividends or \$0.97 cents per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

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

Shares

During 2012 the Company repurchased 98,000 common shares through its normal course issuer bid at an average price of \$18.52 and during 2011 the Company repurchased 81,600 common shares at an average price of \$18.23 through its normal course issuer bids.

At September 30, 2012 there were 245,000 options outstanding at an average price of \$19.85 expiring at various dates between February 13, 2016 and August 12, 2017.

At September 30, 2012 there were 7,650,657 common shares outstanding and as of the date of this Management Discussion and Analysis, there were 7,625,587 common shares outstanding.

Investing activities

Equipment expenditures

Calian acquired \$1,054 in equipment, furniture and fixtures during 2012, compared to \$483 during 2011. For 2013, expenditures are expected to be in line with normal levels which approximate \$1,000 per year. At September 30, 2012 there were no significant commitments to expend capital assets.

Capital resources

At September 30, 2012 the Company had a short-term credit facility of \$25,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. An amount of \$612 was drawn to issue a letter of credit to meet customer contractual requirements.

Management believes that the company has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

Contractual obligations

Payments due:	Total	<1 year	1-3 years	4-5 years	>5 years
Operating leases	\$ 15,196	\$ 2,263	\$ 4,223	\$ 4,012	\$ 4,698
Purchase obligations	17,557	15,956	1,601	-	-
Total contractual obligations	\$ 32,753	\$ 18,219	\$ 5,824	\$ 4,012	\$ 4,698

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, 2012.

Operating leases

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

Related party transactions

There were no transactions with related parties during 2012 and 2011.

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS 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, provisions and contingencies, estimated timing of reversals of income tax temporary differences, allowance for doubtful accounts, valuation of investment and impairment of goodwill. 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.

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

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 probability of being realized 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, 2012 and 2011 was minimal.

Goodwill

Goodwill is tested for impairment annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. Testing for impairment is accomplished by determining whether the fair value of the cash generating 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. 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 when considering the current and forecasted business environment and each cash-generating unit's discount rate. For purpose of determining fair value, management considered a growth level range of 0% to 3% and a discount rate range of 13% to 16% for its BTS division excluding Primacy and a growth level range of 0% to 15% and a discount rate range of 25% to 30% for its Primacy division.

Adoption of New Accounting Rules and Impact on Financial Results

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

International Financial reporting Standards

The consolidated financial statements included herein reflect the adoption of IFRS, with effect from October 1, 2010. Periods prior to October 1, 2010 have not been restated and were in accordance with Canadian GAAP which, as discussed in the consolidated financial statements, was applied during the periods prior to the effective date of the Company's adoption of IFRS.

Note 25 to the consolidated financial statements contains a detailed description of the Company's conversion to IFRS, including a reconciliation of key components of its financial statements previously prepared under Canadian GAAP to those under IFRS as at and for the year ending September 30, 2011. Although the adoption of IFRS resulted in adjustments to the Company's financial statements, it did not materially impact the underlying cash flows or profitability.

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

Impact of Accounting Pronouncements Not Yet Implemented

There were no new accounting pronouncements issued in 2012 other than the adoption of IFRS which would affect the Company's results of operations or financial conditions.

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, 2012, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them and that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

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

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's internal control over financial reporting as of September 30, 2012, have concluded that the Company's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with Canadian GAAP.

During the most recent interim quarter ending September 30, 2012, 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.

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. Risk management is an integral part of how the Company plans and monitors the business strategies and results and we have embedded risk management activities in the operational responsibilities of management and made them an integral part of our overall governance, organizational and accountability structure. 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. The Company 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 9001-2008 standards and BTS is accredited at Level 4 of the Progressive Excellence Program by the National Quality Institute (now known as Excellence Canada). 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. While SED revenues are predominately export, its labour costs are largely influenced by domestic and regional economic factors. Accordingly, labour costs could become significantly higher than those of foreign competitors, thereby eroding our competitive position.

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

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 or system 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.

Customer's ability to retain their market share

The Company performs manufacturing services for a number of customers, whereby we build their products to meet their market demands. While these relationships are long-standing, the Company is susceptible to overall shifts in market demand for such products as well as our customers' share of such markets. While the Company has regular discussions with customers regarding upcoming requirements, an erosion of a customer's market share for a particular product could have a direct impact on the Company's revenues and profitability.

Government contracts

During 2012, approximately 62% of the Company's total revenues were 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.

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

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, 2012 the Company's backlog included \$116 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, 2012 the Company had various forward exchange contracts, which are explained in Note 20 to the Company's consolidated financial statements for the year ended September 30, 2012. The strengthening of the Canadian dollar relative to other foreign currencies may negatively impact the Company's competitiveness and increase pressure on margins for new work.

Sufficiency of insurance

The Company carries various forms of insurance to protect itself from a variety of insurable risks. However, such coverage may not be sufficient in extreme circumstances and accordingly there exists a risk to the Company. While the Company cannot reasonably insure itself for all events, it regularly reviews the availability, scope and amounts of coverage with its professional advisors and implements an approach balancing both cost and risk.

Medical malpractice

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

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

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 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 continue to focus on increasing the percentage of its revenues derived from recurring business while pursuing new business in adjacent markets.

The Systems Engineering Division has been working within a stable satellite sector and the division is expecting new opportunities to arise as systems adopting the latest technologies will be required by customers to maintain and improve their service offerings. Custom manufacturing activity levels will continue to be directly dependent upon SED's customers' requirements. The continued volatility of the Canadian dollar could impact the Systems Engineering Division's competitiveness when bidding against foreign competition on projects denominated in foreign currencies.

The Business and Technology Services Division's services are adaptable to many different markets. Currently, its strength lies in providing program management and delivery services to the Department of National Defence. Management believes that this department and many others within the federal government will continue to require support services from private enterprises to supplement their current workforce, however the federal government's current cost cutting initiatives could have a negative impact on demand, at least in the short-term. Management believes that the types of service the division offers will continue to be attractive to government agencies in the long term and the division continues to assess how it can address new markets and increase the availability of new opportunities. The acquisition of Primacy Management has bolstered the division's performance and it is expected that Primacy will continue to meet the financial targets established as part of the acquisition.

Additional Information

Additional information about the Company such as the Company's 2012 Annual Information Form and Management Circular can be found on SEDAR at www.SEDAR.com

Dated: December 6, 2012

Management's Statement of Responsibility

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

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

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

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

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

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

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



Ray Basler

*President and CEO
Ottawa, Ontario
November 14, 2012*



Jacqueline Gauthier

Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Calian Technologies Ltd.

We have audited the accompanying consolidated financial statements of Calian Technologies Ltd., which comprise the consolidated statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, and the consolidated statements of net earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended September 30, 2012 and September 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Calian Technologies Ltd. as at September 30, 2012, September 30, 2011 and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.



**Chartered Accountants
Licensed Public Accountants**

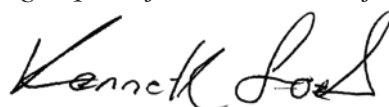
*November 14, 2012
Ottawa, Ontario*

Calian Technologies Ltd.
Consolidated Statements of Financial Position
As at September 30, 2012 and 2011 and October 1, 2010
(Canadian dollars in thousands)

NOTES	September 30, 2012	September 30, 2011	October 1, 2010
ASSETS			
		(Note 25)	(Note 25)
CURRENT ASSETS			
Cash	\$ 31,998	\$ 30,742	\$ 29,055
Accounts receivable	40,928	35,181	33,954
Work in process	9,446	6,960	3,576
Prepaid expenses	5 1,480	2,751	6,329
Derivative assets	20 234	451	158
Investment	6 -	-	953
Total current assets	84,086	76,085	74,025
NON-CURRENT ASSETS			
Deferred tax assets	15 -	480	696
Investment	6 -	-	2,464
Equipment	7 3,854	4,069	4,611
Application software	8 615	440	543
Acquired intangibles	9 4,352	-	-
Goodwill	10 10,781	9,518	9,518
Total non-current assets	19,602	14,507	17,832
TOTAL ASSETS	\$ 103,688	\$ 90,592	\$ 91,857
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 19,853	\$ 18,594	\$ 17,024
Unearned contract revenue	16 13,392	8,026	16,002
Share repurchase obligation	11 1,209	562	1,315
Derivative liabilities	20 26	1,054	48
Total current liabilities	34,480	28,236	34,389
NON-CURRENT LIABILITIES			
Deferred tax liabilities	15 1,212	-	-
Total non-current liabilities	1,212	-	-
TOTAL LIABILITIES	35,692	28,236	34,389
SHAREHOLDERS' EQUITY			
Issued capital	11 19,949	19,018	18,511
Contributed surplus	11 164	219	171
Retained earnings	47,186	43,345	38,275
Accumulated other comprehensive income (loss)	697	(226)	511
Total shareholder's equity	67,996	62,356	57,468
	\$ 103,688	\$ 90,592	\$ 91,857

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

Approved by the Board
on November 14, 2012:



Kenneth Loeb
Chairman



Richard Vickers
Director

Calian Technologies Ltd.
Consolidated Statements of Net Earnings
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share data)

	NOTES	2012	2011
Revenues		\$ 235,928	\$ 226,651
Cost of revenues		191,501	184,356
Gross profit		44,427	42,295
Selling and marketing		4,762	4,524
General and administration		17,725	16,980
Facilities		3,344	3,345
Gain on sale of US subsidiary	22	(137)	-
Earnings before interest income and income tax expense		18,733	17,446
Interest income	14	328	817
Earnings before income tax expense		19,061	18,263
Income tax expense - current	15	4,810	4,557
Income tax expense - deferred	15	143	525
Total income tax expense		4,953	5,082
NET EARNINGS		\$ 14,108	\$ 13,181
Net earnings per share:			
Basic	13	\$ 1.84	\$ 1.71
Diluted	13	\$ 1.84	\$ 1.71

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

Calian Technologies Ltd.
Consolidated Statements of Comprehensive Income
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands)

	NOTES	2012	2011
NET EARNINGS		\$ 14,108	\$ 13,181
Other comprehensive income, net of tax			
Unrealized (loss) gain on translating financial statements of an investment in a foreign operations, net of tax of nil (2011 - nil)		(54)	22
Change in deferred gain (loss) on derivatives designated as cash flow hedges, net of tax of \$349 (2011 - \$312)		945	(759)
Other comprehensive income (loss), net of tax		891	(737)
COMPREHENSIVE INCOME		\$ 14,999	\$ 12,444

Calian Technologies Ltd.
Consolidated Statements of Changes in Equity
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share data)

	Notes	Issued capital	Contributed surplus	Retained earnings	Foreign currency translation reserve	Cash flow hedging reserve	Total
Balance October 1, 2011	(Note 25)	\$ 19,018	\$ 219	\$ 43,345	\$ 22	\$ (248)	\$ 62,356
Comprehensive income		-	-	14,108	(54)	945	14,999
Sale of US subsidiary					32		32
Dividend paid (\$1.06 per share)		-	-	(8,137)	-	-	(8,137)
Issue of shares under employee share purchase plan	11	418	-	-	-	-	418
Issue of shares under stock option plan	11,12	844	(142)	-	-	-	702
Share-based compensation expense	12	-	87	-	-	-	87
Share repurchase	11	(249)	-	(1,565)	-	-	(1,814)
Share purchase agreement - reclassification	11	(82)	-	(565)	-	-	(647)
Balance September 30, 2012		\$ 19,949	\$ 164	\$ 47,186	\$ -	\$ 697	\$ 67,996

	Notes	Issued capital	Contributed surplus	Retained earnings	Foreign currency translation reserve	Cash flow hedging reserve	Total
Balance October 1, 2010	(Note 25)	\$ 18,511	\$ 171	\$ 38,275	\$ -	\$ 511	\$ 57,468
Comprehensive income		-	-	13,181	22	(759)	12,444
Dividend paid (\$0.97 per share)		-	-	(7,472)	-	-	(7,472)
Issue of shares under employee share purchase plan	11	384	-	-	-	-	384
Issue of shares under stock option plan	11,12	218	(21)	-	-	-	197
Share-based compensation expense	11,12	-	69	-	-	-	69
Share repurchase	11	(200)	-	(1,287)	-	-	(1,487)
Share purchase agreement - reclassification	11	105	-	648	-	-	753
Balance September 30, 2011		\$ 19,018	\$ 219	\$ 43,345	\$ 22	\$ (248)	\$ 62,356

Calian Technologies Ltd.
Consolidated Statements of Cash Flows
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands)

	NOTES	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings		\$ 14,108	\$ 13,181
Items not affecting cash:			
Interest income	14	(328)	(817)
Income tax expense	15	4,953	5,082
Employee stock purchase plan and share-based compensation expense		158	137
Amortization		1,418	1,128
Gain on sale of US subsidiary		(137)	-
		20,172	18,711
Change in non-cash working capital			
Accounts receivable		(6,162)	(1,294)
Work in process		(2,612)	(3,384)
Prepaid expenses		2,035	3,578
Accounts payable and accrued liabilities		899	1,403
Unearned contract revenue		5,367	(7,976)
		19,699	11,038
Interest received		310	338
Income tax paid		(4,782)	(4,685)
		15,227	6,691
CASH FLOWS USED IN FINANCING ACTIVITIES			
Issuance of common shares	11,12	1,052	519
Dividends		(8,137)	(7,472)
Repurchase of shares	11	(1,814)	(1,487)
		(8,899)	(8,440)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Equipment and application software expenditures	7,8	(1,054)	(483)
Acquisition of Primacy Management Inc.	21	(4,112)	-
Sale of US subsidiary	22	148	-
Proceeds from repayment of debenture	6	-	3,897
		(5,018)	3,414
FOREIGN CURRENCY ADJUSTMENT			
		(54)	22
NET CASH INFLOW		1,256	1,687
CASH, BEGINNING OF PERIOD		30,742	29,055
CASH, END OF PERIOD		\$ 31,998	\$ 30,742

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

1. Basis of preparation

Calian Technologies Ltd. (“the Company”), incorporated under the Canada Business Corporations Act, and its wholly-owned subsidiaries provide technology services to industry and government. The address of its registered office and principal place of business is 340 Legget Drive, Ottawa, Ontario K2K 1Y6. The Company's capabilities include the provision of business and technology services to industry and government in the health, operations and maintenance, IT services and training domains as well as the design, manufacturing and maintenance of complex systems to the communications and defence sectors.

Statement of compliance

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board (“IASB”). These consolidated financial statements are the first annual financial statements prepared under IFRS and were prepared using the accounting policies as described in Note 2 – Summary of significant accounting policies. These accounting policies were retrospectively applied unless otherwise noted below.

Note 25 – Transition to IFRS explains how the transition from previous Canadian generally accepted accounting principles (“GAAP”) to IFRS affected the Company's reported financial position as at October 1, 2010 and September 30, 2011, as well as the financial performance and cash flows for the year ended September 30, 2011.

These consolidated financial statements for year ended September 30, 2012 were authorized for issuance by the Board of Directors on November 14, 2012.

2. Summary of significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise stated.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Calian Ltd. located in Ottawa, Ontario and Primacy Management Inc. (“Primacy”) located in Burlington, Ontario as well as Calian Technology (US) Ltd. until the date of sale (Note 22). All transactions and balances between these companies have been eliminated on consolidation.

Basis of presentation

The consolidated financial statements are presented at historical cost unless otherwise noted. Historical cost is generally based on the fair value of the consideration given in exchange for the asset.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

Fixed price contracts

Where the outcome of fixed-price construction contracts can be estimated reliably, revenue is recognized by reference to the completed activity of the contract as at each reporting period, measured based on the proportion of the costs incurred for work performed to date relative to the estimated total contract costs including warranty costs where applicable, except where this would not be representative of the stage of completion. As some contracts extend over more than one year, any revision in cost and profit estimates made during the course of the work is reflected in the accounting period in which the facts indicating a need for the revision become known. Variations in contract work, claims and incentive payments if any, are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of fixed-price construction contracts cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period they are incurred.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as work in process. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as unearned contract revenue. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as unearned contract revenue. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under accounts receivable.

Time and material contracts

Revenue derived from time and material contracts is recognized at the contractual rates as labour hours are delivered and direct expenses are incurred. Variations in revenue incentive payments if any are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Share-based compensation

The Company has a stock option plan for executives and other key employees. The Company measures and recognizes compensation expense based on the grant date fair-value of the stock options issued using the Black-Scholes pricing model. The offsetting credit is recorded in contributed surplus. Compensation expense is recorded on a straight-line basis over the vesting period, based on the Company's estimate of stock options that will ultimately vest. At each reporting period, the Company revises its estimate of the stock options expected to vest. The impact on the change in estimate, if any, is recognized over the remaining vesting period. Consideration paid by employees on the exercise of options and related amounts of contributed surplus is recorded as issued capital when the shares are issued.

The Company has an employee stock purchase plan available to all employees of the Company. The plan provides for a discount to the fair market value at the date the shares are issued. Compensation expense representing the discount is recorded as general and administration costs with an offsetting amount to issued capital.

Operating leases

Leases entered into are classified as either finance or operating leases. Leases that transfer substantially all of the risks and rewards of ownership of property to the Company are accounted for as finance leases. For leases which are classified as operating leases, lease payments are recognized as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis. The Company does not have any finance leases.

Current monetary assets and liabilities

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

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net earnings, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current tax

The tax currently payable is based on taxable income for the period using tax rates enacted or substantively enacted as at each reporting period and any adjustments to tax payable related to previous years. Taxable profit differs from profit as reported in the consolidated statement of net earnings because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Deferred tax

Deferred tax is recognized using the balance sheet method, providing for differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used for taxation purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted at each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Equipment

Equipment, comprising leasehold improvements, furniture and computer equipment is stated at cost less accumulated amortization and impairment losses, if any. The carrying value is net of related government assistance and investment tax credits. The cost of equipment at October 1, 2010, the date of transition to IFRS, was determined by reference to its amortized cost at that date.

Amortization is recognized in net earnings on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the term of the leases. The estimated useful lives for the current and comparative period are as follows:

- Leasehold improvements: over the term of each lease
- Furniture: 10 years
- Computer equipment: 5 years

The estimated useful lives, residual values and depreciation methods are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

Application software

Application software is measured at cost less accumulated amortization and is amortized on a straight-line basis over its estimated useful life not exceeding five years. The amortization method and estimate of useful life is reviewed annually.

Acquired intangibles

Acquired intangibles are measured at cost less accumulated amortization. Amortization is recognized in net earnings on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the term of the leases. The estimated useful lives for the current and comparative period are as follows:

- Customer relationship: indefinite
- Contract with customer: 5 years
- Non-competition agreements: 7 years

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

The customer relationship, representing expected renewals of the acquired contract, is considered to have an indefinite life based on the fact that the contract is renewable on an annual basis indefinitely. The amortization method and estimate of useful life is reviewed annually.

Impairment of equipment and application software

At each reporting period, management reviews the carrying amounts of its equipment and application software to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, management estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Impairment of goodwill

Goodwill arising on the acquisition of a business represents the excess of the purchase price over the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired businesses recognized at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently if events or changes in circumstances indicate that the unit might be impaired.

When the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the cash-generating unit on pro-rata basis. An impairment loss recognized for goodwill is not reversed in a subsequent period. The Company performs its annual review of goodwill on September 30th each year.

Business acquisition

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Foreign currency translation

Transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. At each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at each reporting period. Non-monetary items which are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in net earnings in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currencies (see note below for hedging policy).

The functional currency of the parent company, Calian Ltd. and Primacy Management Inc., its subsidiaries, is the Canadian dollar. The functional currency of Calian Technology (US) Ltd., is the US dollar. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's wholly-owned foreign operation until its sale (see Note 22) are expressed in Canadian dollars using US dollar exchange rates prevailing at each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising are classified in other comprehensive income and accumulated in equity in the Company's foreign currency translation adjustment reserve. Such exchange differences are recognized in net earnings in the period in which the foreign operation is disposed.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company's financial assets are classified as follows:

Cash	Fair value through profit or loss
Accounts receivable	Loans and receivables
Derivative assets	Fair value through profit or loss

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets at FVTPL are measured at fair value with changes in fair value recognized in net earnings.

Loans and receivables

Accounts receivable are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Accounts receivable are assessed for impairment individually. Objective evidence of impairment could include the Company's past experience of collecting payments and an increase in the number of delayed payments past the average credit period.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Impairment losses, if any, are recognized in net earnings. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in net earnings, if any. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net earnings to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Company's trade payables and share purchase obligations are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Derivative liabilities are classified as FVTPL.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset (or financial liability) and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (cash disbursements), including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

Fair value hierarchy

The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

Level 1 values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within more than one level of the hierarchy, the level within which the fair value measurement is categorized is based on the Company's assessment of the lowest level input that is the most significant to the fair value measurement.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

2. Summary of significant accounting policies (continued)

Derivative financial instruments and risk management

The Company enters into derivative financial instruments, mainly foreign exchange forward contracts to manage its foreign exchange rate risk. The Company's policy does not allow management to enter into derivative financial instruments for trading or speculative purposes. Foreign exchange forward contracts are entered into to manage the foreign exchange rate risk on foreign denominated financial assets and liabilities and foreign denominated forecasted transactions.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into with transaction costs recognized in profit and loss. Derivatives are subsequently re-measured to their fair value at each reporting period. The resulting gain or loss is recognized in net earnings immediately unless the derivative is designated and effective as a hedging instrument, in which event the effective portion of changes in the fair value of the derivative is recorded in other comprehensive income and is recognized in net earnings when the hedged item affects net earnings. The Company expenses transaction costs related to its foreign exchange contracts. 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. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months.

Hedge accounting

Management designates its foreign exchange forward contracts as either hedges of the fair value of recognized assets or liabilities (fair value hedges) or hedges of highly probable forecast transactions and firm commitments (cash flow hedges).

At the inception of the hedge relationship, the Company documents the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Furthermore, both at the hedge's inception and on an ongoing basis, the Company also assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in net earnings immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in net earnings, and is included in other gains and losses, if any. Amounts deferred in other comprehensive income are recycled in net earnings in the periods when the hedged item is recognized in net earnings, in the same line of the income statement as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when management revokes the hedging relationship; the hedging instrument is terminated or no longer qualifies for hedge accounting. For fair value hedges, the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net earnings from that date. For cash flow hedges, any cumulative gain or loss deferred in other comprehensive income at that time remains in other comprehensive income and is recognized when the forecast transaction is ultimately recognized in net earnings. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in other comprehensive income is recognized immediately in net earnings.

Note 20 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

3. Future changes in accounting policies

IFRS 9 Financial instruments

IFRS 9 was issued in November 2009 introducing new requirements for the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to include the requirements for the classification and measurement of financial liabilities and derecognition.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company has not yet assessed the impact of this standard on its consolidated financial statements.

IFRS 10 Consolidated financial statements

IFRS 10 establishes principles for the presentation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces IAS 27 – Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company has not yet assessed the impact of this standard on its consolidated financial statements.

IFRS 12 Disclosure of interests in other entities

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for the Company's fiscal years beginning on or after January 1, 2013, with earlier application permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

IFRS 13 Fair value measurement

IFRS 13 is intended to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will be effective for the Company's fiscal years beginning on or after January 1, 2013, with earlier application permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

IAS 1 Presentation of financial statements

In June 2011, the IASB amended IAS 1 – Presentation of financial statements. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within other comprehensive income that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in other comprehensive income and net earnings should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for the Company's fiscal years beginning on or after January 1, 2013, with earlier application permitted. The Company does not expect any changes to its consolidated financial statement presentation from this amendment as the items within other comprehensive income that may be reclassified to the statement of comprehensive income are already grouped together.

IAS 28 Investments in associates and joint ventures

IAS 28 was re-issued by the IASB in May 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The amended version of IAS 28 is effective for financial years beginning on or after January 1, 2013, with earlier application permitted. The Company has not yet assessed the impact of the amendments to IAS 28 on its consolidated financial statements.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

4. Critical accounting judgments and key sources of estimation uncertainty

Estimates:

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and 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. Actual results could differ from those estimates.

Purchase price allocation

As described in Note 21 of these financial statements, the Company acquired Primacy Management Inc. As a result of this acquisition, management was required to estimate the fair values of each identifiable asset and liability acquired through the acquisition. Fair value of cash, accounts receivable, accounts payable and equipment were estimated to approximate their carrying values in Primacy's records at the date of the transaction. The fair values of the intangibles were valued using the excess earnings method under the income approach.

Percentage completion on revenue

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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Income taxes

The Company records deferred income tax assets and liabilities related to deductible or taxable temporary differences. The Company assesses the value of these assets and liabilities based on the likelihood of the realization as well as the timing of reversal given management assessments of future taxable income.

Contingent liabilities

From time to time the Company is involved in claims in the normal course of business. Management assesses such claims and where considered probable to result in a material exposure and, where the amount of the claim can be measured reliably, provisions for loss are made based on management's assessment of the likely outcome.

Allowance for doubtful accounts receivable

The Company has extensive commercial history upon which to base its provision for doubtful accounts receivable. 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.

For the years ended September 30, 2012, September 30, 2011 and October 1, 2010, no material changes in estimates have been made.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Judgments:

Financial instruments

The Company's accounting policy with regards to financial instruments is described in Note 2. In applying this policy, judgments are made in applying the criteria set out in IAS 39 – Financial instruments: recognition and measurement, to record financial instruments at fair value through profit or loss, and the assessments of the classification of financial instruments and effectiveness of hedging relationships.

Accounting policy for equipment

Management makes judgments in determining the most appropriate methodology for amortizing assets over their useful lives. The method chosen is intended to mirror, to the best extent possible, the consumption of the asset.

Deferred income taxes

The Company's accounting policy with regards to income taxes is described in Note 2. In applying this policy, judgments are made in determining the probability of whether deductions or tax credits can be utilized and related timing of such items.

Determination of functional currency

To enable translation of foreign currency transactions of foreign operations, IFRS require an assessment of the basis or unit of measure, or what is termed the “functional currency” under IFRS. IAS 21 – The Effects of Changes in Foreign Exchange Rates sets out factors to be considered in determining whether the functional currency of a foreign operation is the same as that of the reporting entity of which it is a subsidiary, branch, associate or joint venture. The Company determined the functional currency of the parent company, its subsidiaries and divisions thereof, is Canadian dollars, with the exception of Calian Technology (U.S.) Ltd., whose functional currency is the US dollar.

Percentage complete methodology

The Company uses judgment in determining the most appropriate basis on which to determine percentage of completion. Options available to the Company include the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, surveys of work performed and completion of a physical proportion of the contract work. While the Company considers the costs to complete, the stage of completion is assessed based upon the assessment of the proportion of the contract completed. Judgments are also made in determining what costs are project costs for determining percentage complete.

5. Prepaid expenses

	September 30, 2012	September 30, 2011	October 1, 2010
Prepaid operating expenses	\$ 1,480	\$ 1,233	\$ 705
Milestone advance to subcontractors	-	1,518	5,624
	\$ 1,480	\$ 2,751	\$ 6,329

6. Investment

In 2006, the Company invested \$3,623 in Med-Emerg International Inc. which was subsequently merged with AIM Health Group Inc. During 2011, the full amount of the debenture was repaid.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

7. Equipment

	September 30, 2012			September 30, 2011			October 1, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 1,501	\$ 632	\$ 869	\$ 1,462	\$ 483	\$ 979	\$ 1,478	\$ 340	\$ 1,138
Equipment and furniture	10,318	7,333	2,985	9,856	6,766	3,090	9,546	6,073	3,473
	<u>\$ 11,819</u>	<u>\$ 7,965</u>	<u>\$ 3,854</u>	<u>\$ 11,318</u>	<u>\$ 7,249</u>	<u>\$ 4,069</u>	<u>\$ 11,024</u>	<u>\$ 6,413</u>	<u>\$ 4,611</u>

8. Application software

	September 30, 2012			September 30, 2011			October 1, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Application software	\$ 2,423	\$ 1,808	\$ 615	\$ 2,250	\$ 1,810	\$ 440	\$ 2,195	\$ 1,652	\$ 543

9. Acquired intangibles

Acquired intangibles are allocated to the Primacy cash-generating unit.

	September 30, 2012		
	Cost	Accumulated Amortization	Net Book Value
Customer relationship	\$ 1,909	\$ -	\$ 1,909
Contract with customer	2,574	301	2,273
Non-competition agreements	187	17	170
Total	<u>\$ 4,670</u>	<u>\$ 318</u>	<u>\$ 4,352</u>

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

10. Goodwill

	September 30, 2012			September 30, 2011 and October 1, 2010		
	Cost	Impairment	Carrying amount	Cost	Impairment	Carrying amount
Business and Technology Services	\$ 9,518	\$ -	\$ 9,518	\$ 9,518	\$ -	\$ 9,518
Primacy	1,263	-	1,263	-	-	-
Goodwill	\$10,781	\$ -	\$ 10,781	\$ 9,518	\$ -	\$ 9,518

Annual test for impairment

Goodwill recorded is allocated in its entirety to the Business and Technology Services division. At September 30, 2012 and 2011, management assessed the recoverable amount of goodwill and concluded that a goodwill impairment charge was not required. The recoverable amounts of the relevant cash-generating units were assessed by reference to value in use.

For the years ended September 30, 2012 and 2011, the following key assumptions were used in arriving at value in use for each cash-generating unit. Outlooks for the next three years were used as the basis for the future cash flow estimates and the future estimated growth rates were validated by comparing to average growth levels for the previous 5 years.

	Discount factors	Growth rates
Business and Technology Services (excluding Primacy)	13% to 16%	0 to 3%
Primacy	25% to 30%	0 to 15%

11. Issued capital and reserves

Issued capital

Authorized: Unlimited number of common shares, no par value

Unlimited number of preferred shares issuable in series, no par value

Issued: Common shares as follows:

	September 30, 2012		September 30, 2011	
	Shares	Amount	Shares	Amount
Balance, beginning of year	7,669,983	\$ 19,018	7,706,895	\$ 18,511
Shares issued under stock option plan	55,000	844	21,800	218
Shares issued under employee stock purchase plan	23,674	418	22,888	384
Shares repurchased for cash	(98,000)	(249)	(81,600)	(200)
Balance, end of year	7,650,657	20,031	7,669,983	18,913
Share purchase obligation	-	(82)	-	105
Issued capital	7,650,657	\$ 19,949	7,669,983	\$ 19,018

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

11. Issued capital and reserves (continued)

Share repurchase

During 2012 (2011), the Company acquired 98,000 (81,600) of its outstanding common shares at an average price of \$18.52 (\$18.23) per share for a total of \$1,814 (\$1,487) including related expenses, through normal course issuer bids in place during the periods. The excess of the purchase price over the stated capital of the shares has been charged to retained earnings.

Subsequent to the date of the statement of financial position, on November 14, 2012, the date of issuance of these consolidated financial statements, the Company declared a dividend of \$0.28 per common share payable on December 12, 2012.

Share repurchase obligation

The Company has an agreement with a third party which provides for automatic repurchases of the Company's shares without the Company having the ability to influence the purchases. The financial liability is determined as the present value of the maximum redemption amount at each of the reporting periods. The reclassification adjustment is made by reducing issued capital and retained earnings with an offsetting adjustment to the share repurchase obligation account. An income adjustment will result for any shares repurchased below the maximum amount per share. The amount of income recognized in each reporting period is insignificant.

Contributed surplus

Contributed surplus comprises the value of share-based compensation expense related to options granted that have not been exercised or have expired unexercised.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Company's US operations prior to its sale (Note 22).

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to forecasted transactions.

12. Share-based compensation

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 the fair market value of the shares at the date of grant. A total of 500,000 common shares have been authorized for issuance under the plan and 500,000 (345,000) have been issued as of September 30, 2012 (2011). No consideration is payable on the grant of an option.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Option series:	Number	Grant date	Expiry date price	Exercise	Fair value at grant date
(1) Issued February 5, 2007	80,000	February 5, 2007	February 4, 2012	\$ 13.47	\$ 2.98
(2) Issued August 22, 2007	85,000	August 22, 2007	August 21, 2012	\$ 13.00	\$ 2.64
(3) Issued November 18, 2008	85,000	November 18, 2008	November 17, 2013	\$ 9.05	\$ 0.96
(4) Issued February 14, 2011	95,000	February 14, 2011	February 13, 2016	\$ 18.65	\$ 1.27
(5) Issued August 13, 2012	155,000	August 13, 2012	August 12, 2017	\$ 20.54	\$ 0.99

For the option issuance dated February 5, 2007, 43,200 options vested immediately with the remaining vesting through to February 5, 2009.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

12. Share-based compensation (continued)

For the option issuance dated August 22, 2007, 48,200 options vested immediately with the remaining vesting through to August 22, 2009.

For the option issuance dated November 18, 2008, 24,200 options vested immediately with the remaining vesting through to November 18, 2010.

For the option issuance dated February 14, 2011, 28,000 options vested immediately with the remaining vesting through to February 14, 2013.

For the option issuance dated August 13, 2012, 49,000 options vested immediately with the remaining vesting through to August 13, 2014.

The weighted average fair value of options granted during the year ended September 30, 2012 (2011) was \$0.99 (\$1.27) per option calculated using the Black-Scholes option pricing model. Where relevant, the expected life of the options was based on historical data for similar issuance and adjusted based on management's best estimate for the effects of non-transferability, restrictions and behavioural considerations. Expected volatility is based on historical price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that options would be exercised on average 2.9 years after vesting.

The following assumptions were used to determine the fair value of each series of options granted during the year:

Grant date share price	\$ 20.54
Exercise price	\$ 20.54
Expected price volatility	15.1%
Expected option life	2.9 yrs
Expected dividend yield	5.4%
Risk-free interest rate	1.2%
Forfeiture rate	0%

	September 30, 2012		September 30, 2011	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	150,000	\$ 16.49	76,800	\$ 11.71
Exercised	(55,000)	\$ 12.77	(21,800)	\$ 9.05
Expired	(5,000)	\$ 18.65	-	\$ -
Granted	155,000	\$ 20.54	95,000	\$ 18.65
Outstanding, end of year	245,000	\$ 19.85	150,000	\$ 16.49

At September 30, 2012 there were 245,000 options outstanding with a weighted average remaining contractual life of 4.4 years of which 118,000 were exercisable at a weighted average price of \$19.43.

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 2012 (2011), the Company issued 23,674 (22,888) shares under the ESPP at an average price of \$14.76 (\$14.06) and employees subscribed to approximately 24,600 common shares, which will be issued during fiscal 2013 at an average price of \$15.10. Since inception and including the issuance of shares in 2012, 344,112 shares have been issued under the plan. During 2012 (2011), the Company recorded compensation expense of \$72 (\$68) relating to its ESPP.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

13. Earnings per share

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

	2012	2011
Weighted average number of common shares - basic	7,655,092	7,697,217
Additions to reflect the dilutive effect of employee stock options	7,004	17,948
Weighted average number of common shares - diluted	7,662,096	7,715,165

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 2012 (2011), 155,000 (95,000) options were excluded from the above computation of diluted weighted average number of common shares because they were anti-dilutive.

Net earnings is the measure of profit or loss used to calculate earnings per share.

14. Interest income

Interest income is comprised of the following amounts:

	2012	2011
Interest earned on cash balances	\$ 310	\$ 301
Interest earned on investment	-	36
Accreted interest on contingent consideration	18	-
Accreted interest on host contract component of investment	-	480
Interest income	\$ 328	\$ 817

15. Income taxes

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the reported income tax expenses:

	2012	2011
Earnings before income taxes	\$19,061	\$ 18,263
Tax provision at the combined basic Canadian federal and provincial income tax rate of 27.0% (2011: 28.8%)	5,146	5,260
Increase (decrease) resulting from:		
Effect of expenses that are not deductible in determining taxable profits	36	12
Impact of rate reductions on valuation of deferred income tax assets	(68)	42
Other	(161)	(232)
Income tax expense	\$ 4,953	\$ 5,082

The effective income tax rate in the year was 27.0% compared to 28.8% in the prior year. The decrease is attributable to a decrease in federal and provincial enacted income tax rates.

The movements of deferred tax assets and liabilities are shown below:

Deferred tax assets (liabilities)	Tax Reserve	Equipment and Software application	Acquired intangibles	Hedging	Total
Deferred tax assets at September 30, 2011	\$ 669	\$ (215)	\$ -	\$ 26	\$ 480
Acquisitions / disposal	-	-	(1,214)	-	(1,214)
(Expensed) credited to income statement	(193)	(10)	61	-	(142)
(Expensed) credited to equity	-	-	-	(336)	(336)
Deferred tax liabilities at September 30, 2012	\$ 476	\$ (225)	\$ (1,153)	\$ (310)	\$ (1,212)

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

15. Income taxes (continued)

Deferred tax assets (liabilities)	Tax Reserve	Equipment and Software application	Acquired intangibles	Hedging	Total
Deferred tax assets at September 30, 2010	\$ 1,168	\$ (182)	\$ -	\$ (290)	\$ 696
(Expensed) credited to income statement	(499)	(33)	-	-	(532)
(Expensed) credited to equity	-	-	-	316	316
Deferred tax assets at September 30, 2011	\$ 669	\$ (215)	\$ -	\$ 26	\$ 480

16. Construction contracts

Construction contract revenues recorded during the period ended September 30, 2012 is \$67,515 (2011: \$65,716) all of which is from the Systems Engineering division.

Contract in progress at the balance sheet date:

	September 30 2012	September 30 2011
Construction costs incurred plus recognized profits		
less recognized losses to date	\$ 103,310	\$ 71,904
Less: progress billings	(107,726)	(73,514)
	\$ (4,416)	\$ (1,610)
Recognized and included in the financial statements as amounts due:		
	September 30 2012	September 30 2011
From customers under construction contracts	\$ 8,976	\$ 6,416
To customers under construction contracts	(13,392)	(8,026)
	\$ (4,416)	\$ (1,610)

At September 30, 2012 (2011), advances received from customers for contract work amounted to \$13,392 (\$8,026).

17. Commitments

The Company has non-cancellable lease agreements for office space and equipment with terms extending to the year 2020. The aggregate minimum rental payments under these arrangements are as follows:

2013	\$ 2,263
2014	2,156
2015	2,067
2016	2,031
2017	1,981
thereafter	4,698
Total	\$ 15,196

18. Contingencies

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

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011

(Canadian dollars in thousands, except per share amounts)

19. 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. This segment includes the new acquisition, Primacy Management Inc.

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. Revenues reported below represents revenue generated from external customers. There were no significant inter-segment sales in the year.

For the year ended September 30, 2012

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 67,515	\$ 168,413	\$ -	\$ 235,928
Operating expenses	56,635	157,734	2,963	217,332
Gain on sale of US subsidiary		137		137
Earnings before interest income and income tax expense	\$ 10,880	\$ 10,816	\$ (2,963)	\$ 18,733
Interest income (Note 14)				328
Income tax expense (Note 15)				(4,953)
Net earnings				\$ 14,108
Total assets other than cash and goodwill	\$ 23,753	\$ 36,277	\$ 879	\$ 60,909
Goodwill	-	10,781	-	10,781
Cash	-	-	31,998	31,998
Total assets	\$ 23,753	\$ 47,058	\$ 32,877	\$ 103,688
Equipment and application software expenditures	\$ 529	\$ 525	\$ -	\$ 1,054
Acquired intangibles (Note 21)	\$ -	\$ 4,670	\$ -	\$ 4,670
Acquired goodwill (Note 21)	\$ -	\$ 1,263	\$ -	\$ 1,263

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

19. Segmented information (continued)

For the year ended September 30, 2011

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	\$ 65,716	\$ 160,935	\$ -	\$ 226,651
Operating Expenses	55,459	151,181	2,565	209,205
Earnings before interest income and income tax expense	\$ 10,257	\$ 9,754	\$ (2,565)	\$ 17,446
Interest income (Note 14)				817
Income tax expense (Note 15)				(5,082)
Net earnings				\$ 13,181
Total assets other than cash and goodwill	\$ 16,257	\$ 33,962	\$ 113	\$ 50,332
Goodwill	-	9,518	-	9,518
Cash	-	-	30,742	30,742
Total assets	\$ 16,257	\$ 43,480	\$ 30,855	\$ 90,592
Equipment and application software expenditures	\$ 352	\$ 131	\$ -	\$ 483

The Company operates in Canada but provides services to customers in various countries. Revenues from external customers are attributed as follows:

	2012	2011
Canada	78%	78%
United States	13%	12%
Europe	9%	10%

Revenues are attributed to foreign countries based on the location of the customer. No assets are held outside of Canada. Revenues from various departments and agencies of the Canadian federal government for the year ended September 30, 2012 and 2011 represented 62% (61%) of the Company's total revenues. Both operating segments conduct business with this major customer.

20. Financial instruments and risk management

Capital Risk Management

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

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

20. Financial instruments and risk management (continued)

Market Risk

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

Foreign currency risk related to contracts

The Company is exposed to foreign currency fluctuations on its cash balance, accounts receivable, accounts payable and future cash flows related to contracts denominated in a foreign currency. Future cash flows will be realized over the life of the contracts. The Company utilizes derivative financial instruments, principally in the form of forward exchange contracts, in the management of its foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and therefore, the Company's policy is to hedge 100% of its foreign currency exposure excluding its exposure arising from the Company's US subsidiary. The Company does not 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. Hedge ineffectiveness has historically been insignificant.

The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At September 30, 2012, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Equivalent Maturity	Cdn. Dollars	Fair Value September 30, 2012
SELL	1,000	USD	September 2015	\$ 1,057	\$ 74
SELL	1,000	USD	September 2016	1,057	74
SELL	1,000	USD	September 2017	1,057	74
BUY	17,565	USD	October 2012	17,258	12
BUY	1,977	EURO	October 2012	2,497	-
BUY	38	GPB	October 2012	60	-
Derivative assets					\$ 234
SELL	36,790	USD	October 2012	\$ 36,148	\$ 24
SELL	5,158	EURO	October 2012	6,517	2
Derivative liabilities					\$ 26

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

20. Financial instruments and risk management (continued)

At September 30, 2011, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Equivalent Maturity	Cdn. Dollars	Fair Value September 30, 2011
SELL	1,000	USD	September 2015	\$ 1,057	\$ 9
SELL	1,000	USD	September 2016	1,057	9
SELL	1,000	USD	September 2017	1,057	9
BUY	14,295	USD	October 2011	14,613	371
BUY	3,829	EURO	October 2011	5,329	48
BUY	167	GPB	October 2011	268	5
Derivative assets					\$ 451
SELL	35,703	USD	October 2011	\$ 36,497	\$ 927
SELL	10,249	EURO	October 2011	14,265	127
Derivative liabilities					\$ 1,054

At October 1, 2010, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Equivalent Maturity	Cdn. Dollars	Fair Value September 30, 2010
SELL	1,000	USD	September 2015	\$ 1,057	\$ 28
SELL	1,000	USD	September 2016	1,057	28
SELL	1,000	USD	September 2017	1,057	28
SELL	19,628	USD	October 2010	20,252	56
BUY	6,563	EURO	October 2010	9,189	18
Derivative assets					\$ 158
BUY	4,065	USD	October 2010	\$ 4,194	\$ 11
SELL	12,262	EURO	October 2010	17,168	35
BUY	98	GPB	October 2010	160	2
Derivative liabilities					\$ 48

A 10% strengthening (weakening) of the Canadian dollar against the following currency at September 30, 2012 would have decreased (increased) other comprehensive income by the amounts shown below.

September 30, 2012

USD	\$ 2,185
EURO	(401)
GBP	6
	\$ 1,790

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

20. Financial instruments and risk management (continued)

Credit risk

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

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, federal and provincial government departments and large private companies. A significant portion of the Company's accounts receivable is from long-time customers. At September 30, 2012 (2011 and October 1, 2010), 59% (71%, 73%) of its accounts receivable were due from the Government of Canada. Over the last five years, with the exception of the loss recognized with regards to Nortel, the Company has not suffered any significant credit related losses.

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

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

	September 30, 2012	September 30, 2011	October 1, 2010
Cash	\$ 31,998	\$ 30,742	\$ 29,055
Trade receivable	40,928	35,181	33,954
Derivative assets	234	451	158
Investment	-	-	3,417
	\$ 73,160	\$ 66,374	\$ 66,584

The aging of trade receivable at the reporting date was:

	September 30, 2012	September 30, 2011	October 1, 2010
Current	\$ 39,971	\$ 34,246	\$ 33,072
Past due (61-120 days)	829	833	701
Past due (> 120 days)	128	102	181
	\$ 40,928	\$ 35,181	\$ 33,954

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At September 30, 2012 the Company has a cash balance of \$31,998 and has an unsecured credit facility, subject to annual renewal. The credit facility permits the Company to borrow funds up to an aggregate of \$25,000. As at September 30, 2012 an amount of \$612 was drawn to issue a letter of credit to meet customer contractual requirements. All of the Company's financial liabilities have contractual maturities of less than 30 days.

Fair Value

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

Fair value of the forward exchange contracts reflects the cash flows due to or from the Company if settlement had taken place on September 30, 2012.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

20. Financial instruments and risk management (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 of the fair value hierarchy based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012	2012
	Level 1	Level 2
Cash	\$ 31,998	\$ -
Derivative financial assets	-	234
Derivative financial liabilities	-	(26)
Total	\$ 31,998	\$ (208)

	2011	2011
	Level 1	Level 2
Cash	\$ 30,742	\$ -
Derivative financial assets	-	451
Derivative financial liabilities	-	(1,054)
Total	\$ 30,742	\$ (603)

	October 1, 2010	October 1, 2010
	Level 1	Level 2
Cash	\$ 29,055	\$ -
Derivative financial assets	-	158
Derivative financial liabilities	-	(48)
Total	\$ 29,055	\$ 110

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2012 and 2011 and October 1, 2010.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011

(Canadian dollars in thousands, except per share amounts)

21. Acquisition

On March 1, 2012, the Company acquired all of the outstanding shares of Primacy Management Inc. (Primacy) for consideration of \$5,244 of which \$4,000 was paid on the date of closing, \$300 was paid in April 2012 and \$944 is payable contingently as described below. Primacy's principal business activity relates to the management of medical clinics. Primacy was acquired so as to expand the Company's health service offerings. The acquisition is a business combination to which IFRS 3 Business Combination applies.

Consideration:

Cash	\$ 4,300
Contingent consideration (i)	944
Total	<u>\$ 5,244</u>

(i) Under the contingent consideration arrangement, the Company is required to pay the former shareholders of Primacy an additional \$400 and \$600 if Primacy attains specified levels of earnings before interest, taxes, depreciation and amortization (EBITDA) for the years ending February 28, 2013 and 2014 respectively. Currently, Primacy is on target for achieving its first year earn-out target and with the growing number of clinics operated by Primacy, management believes that Primacy can achieve its earn-out target in the second period. Therefore, the amount of \$944 represents the estimated fair value of the Company's obligation at the acquisition date.

Acquisition-related costs amounting to \$120 have been excluded from the consideration and have been recognized as an expense in the current year, within the general and administration line item in the consolidated statement of net earnings.

The following are the assets acquired and liabilities recognized at the date of the acquisition:

Current assets:

Cash	\$ 188
Accounts receivable	410
Prepaid expenses	7
	<u>\$ 605</u>

Non-current assets:

Equipment	\$ 25
Intangibles recognized at time of acquisition	4,670
	<u>\$ 4,695</u>

Current liabilities:

Accounts payable and accrued liabilities	\$ (105)
Deferred tax liability recognized at time of acquisition	(1,214)
	<u>\$ (1,319)</u>

Net assets acquired	<u>\$ 3,981</u>
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Goodwill arising on acquisition:

Total consideration	\$ 5,244
Less: fair value of identifiable net assets acquired	(3,981)
Goodwill acquired on acquisition	<u>\$ 1,263</u>

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

21. Acquisition (continued)

Substantially all of the goodwill that arose on the acquisition of Primacy relates to the value of the taxable temporary differences attributable to the acquired intangibles. None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

Net cash outflow as at September 30, 2012 related to the acquisition of Primacy:

Consideration paid in cash	\$ 4,300
Less: cash balances acquired	<u>\$ (188)</u>
	<u>\$ 4,112</u>

Impact of the acquisition on the consolidated results of the Company:

Included in revenues and net earnings for the year ended September 30, 2012 is \$2,461 and \$379 respectively, attributable to the additional business generated by Primacy.

Had this business combination been effected at October 1, 2011, the revenue and net earnings of the Company for the year ended September 30, 2012 would have been higher by \$1,367 and \$168 respectively. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group for the year ending September 30, 2012 and provide a reference point for comparison in future periods.

22. Sale of US subsidiary

On August 31, 2012, the Company sold its US division. The restrictive nature of foreign ownership of US entities that perform services for the US military, impacted management's pursuit of growth for this division. Revenues from this division from October 1, 2011 to the date of sale were \$2,841. The sale of the division is not expected to have any material impact on the results of the Company.

23. Pension Plan

The Company sponsors a defined contribution pension plan for certain of its employees. Required contributions have been fully funded to September 30, 2012. For the year 2012 (2011), an amount of \$712 (\$687) was expensed related to this pension plan.

24. Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Other than transactions related to the compensation of key management personnel as described below, there have been no other transactions between the Company and other related parties.

Compensation of key management personnel:

The compensation for directors and other members of key management during the year was as follows. The compensation of directors and key executives is determined by the compensation committee having regards to the performance of individuals and market trends. The key executives are the Chief Executive Officer, the Chief Financial Officer, the Vice-President, Business and Technology Services Division and the Vice-President, Systems Engineering Division.

	September 30, 2012	September 30, 2011
Short-term benefits	\$ 2,390	\$ 2,335
Retirement allowance	388	-
Share-based payments	<u>139</u>	<u>139</u>
	<u>\$ 2,917</u>	<u>\$ 2,474</u>

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

25. Transition to IFRS

The Company adopted IFRS on October 1, 2011 effective for its consolidated financial statements beginning October 1, 2010. For all periods up to and including September 30, 2011, the Company prepared its financial statements in accordance with Canadian GAAP. This note explains how the transition from Canadian GAAP to IFRS affected the Company's reported financial position as at October 1, 2010 and September 30, 2011, as well as comprehensive income and cash flows for the year ended September 30, 2011. References to Canadian GAAP in this note refer to Part V of the Canadian Institute of Chartered Accountants Handbook applicable to the Company for the reporting periods up to and including the year ended September 30, 2011.

Initial election upon adoption

IFRS 1 requires a first-time adopter to retrospectively apply all IFRS effective as at the end of its first annual reporting period (September 30, 2012 for the Company) against opening retained earnings as of the date of the first comparative statements of financial position presented (i.e. October 1, 2010).

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The IFRS 1 exemptions that the Company applied upon adoption are summarized below.

IFRS 1 Exemptions:

Business Combinations

The Company elected to apply IFRS prospectively for business combinations from the date of transition to IFRS. Accordingly, the Company has not restated the accounting for acquisitions that occurred prior to October 1, 2010.

Foreign currency translation adjustment

At the transition date, the Company transferred all cumulative foreign exchange losses amounting to \$357, previously accumulated in the cumulative translation adjustment account to retained earnings. There was no impact on net equity as at October 1, 2010 as a result of this election.

Share-based payments

The Company elected not to apply IFRS 2 - Share-based payments, to equity instruments granted and vested before October 1, 2010. At the transition date, there was no adjustment related to equity instruments granted, outstanding and unvested as a result of this election.

Equipment and application software

The Company chose not to apply the elective exemption to report items of equipment and application software in its opening statement of financial position on the transition date using fair value as the deemed cost instead of actual cost that would otherwise be determined under IFRS.

IFRS 1 Mandatory exceptions:

IFRS 1 prohibits retrospective application of some aspects of other IFRS. As a result, the following mandatory exceptions from full retrospective application of IFRS were applied on transition to IFRS.

- The Company's estimates in accordance with IFRS at the date of transition to IFRS are consistent with estimates made for the same date in accordance with Canadian GAAP except where necessary to reflect any difference in accounting policies.
- The Company did not reflect in its opening IFRS statement of financial position a hedging relationship of a type that did not qualify for hedge accounting in accordance with IAS 39 - Hedge Accounting. All derivatives entered into by the Company prior to the transition date satisfied the hedge accounting criteria and therefore continue to be reflected as hedges on transition.

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

25. Transition to IFRS (continued)

Reconciliation of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an impact on comprehensive income or total operating, investing or financing cash flows and therefore no reconciliation is presented. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity:

Reconciliation of Equity

	September 30, 2011	October 1, 2010
Shareholders' Equity as reported under Canadian GAAP	\$ 62,918	\$ 58,783
Share repurchase agreement transferred to liabilities (a)	(562)	(1,315)
Shareholders' Equity as reported under IFRS	<u>\$ 62,356</u>	<u>\$ 57,468</u>

(a) Reclassification within the Statement of Financial Position:

The Company has an agreement with a third party which provides for automatic repurchases of the Company's shares without the Company having the ability to influence the purchases. The financial liability is determined as the present value of the maximum redemption amount. At October 1, 2010 and September 30, 2011, a reclassification adjustment was made and issued capital and retained earnings were reduced by \$178 (\$73) and \$1,137 (\$489) respectively with an offsetting adjustment to the share repurchase liability account. The amount of the reclassification for future periods will change based on the value of the commitment at the measurement date. An income adjustment will result on any share repurchased below the maximum amount per share.

(b) Reclassification within the Statement of Earnings:

The Company has also made the mandatory reclassification and amortization expense is no longer presented separately but rather is classified based on the underlying functions between Cost of revenues, Selling and marketing and General and administration.

For the year ended September 30, 2011, the depreciation amount of \$1,128 was reclassified as follows:

Cost of revenues	\$ 546
Selling and marketing	131
General and administration	451
<u>Total</u>	<u>\$ 1,128</u>

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011

(Canadian dollars in thousands, except per share amounts)

25. Transition to IFRS (continued)

Adjustments to Consolidated Statement of Financial Position – as at October 1, 2010

Canadian GAAP Accounts	footnotes	Canadian GAAP	IFRS Adjustments	IFRS reclassifications	IFRS
ASSETS					
CURRENT ASSETS					
Cash		\$ 29,055	-	-	\$ 29,055
Accounts receivable		33,954	-	-	33,954
Work in process		3,576	-	-	3,576
Prepaid expenses		6,329	-	-	6,329
Future income taxes	(a)	696	-	(696)	-
Derivative assets		158	-	-	158
Investment		953	-	-	953
Total current assets		74,721	-	(696)	74,025
Deferred tax assets	(a)	-	-	696	696
Investment		2,464	-	-	2,464
Equipment		4,611	-	-	4,611
Application software		543	-	-	543
Goodwill		9,518	-	-	9,518
Total non-current assets		17,136	-	696	17,832
TOTAL ASSETS		\$ 91,857	-	-	\$ 91,857
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Accounts payables and accrued liabilities		\$ 17,024	-	-	\$ 17,024
Unearned contract revenue		16,002	-	-	16,002
Share repurchase obligation	(b)	-	1,315	-	1,315
Derivative liabilities		48	-	-	48
Total current liabilities		33,074	1,315	-	34,389
Long-term liabilities		-	-	-	-
TOTAL LIABILITIES		33,074	1,315	-	34,389
SHAREHOLDERS' EQUITY					
Issued capital	(b)	18,689	(178)	-	18,511
Contributed surplus		171	-	-	171
Retained earnings	(b) (c)	39,769	(1,494)	-	38,275
Accumulated other comprehensive income	(c)	154	357	-	511
TOTAL SHAREHOLDERS' EQUITY		58,783	(1,315)	-	57,468
		\$ 91,857	-	-	\$ 91,857

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

25. Transition to IFRS (continued)

Adjustments to Consolidated Statement of Financial Position – as at September 30, 2011

Canadian GAAP Accounts	footnotes	Canadian GAAP	IFRS Adjustments	IFRS reclassifications	IFRS
ASSETS					
CURRENT ASSETS					
Cash		\$ 30,742	-	-	\$ 30,742
Accounts receivable		35,181	-	-	35,181
Work in process		6,960	-	-	6,960
Prepaid expenses		2,751	-	-	2,751
Future income taxes	(a)	480	-	(480)	-
Derivative assets		451	-	-	451
Total current assets		76,565	-	(480)	76,085
Deferred tax assets	(a)	-	-	480	480
Equipment		4,069	-	-	4,069
Application software		440	-	-	440
Goodwill		9,518	-	-	9,518
Total non-current assets		14,027	-	480	14,507
TOTAL ASSETS		\$ 90,592	-	-	\$ 90,592
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Accounts payables and accrued liabilities		\$ 18,594	-	-	\$ 18,594
Unearned contract revenue		8,026	-	-	8,026
Share repurchase obligation	(b)	-	562	-	562
Derivative liabilities		1,054	-	-	1,054
Total current liabilities		27,674	562	-	28,236
Long-term liabilities		-	-	-	-
TOTAL LIABILITIES		27,674	562	-	28,236
SHAREHOLDERS' EQUITY					
Issued capital	(b)	19,091	(73)	-	19,018
Contributed surplus		219	-	-	219
Retained earnings	(b) (c)	44,191	(846)	-	43,345
Accumulated other comprehensive loss	(c)	(583)	357	-	(226)
TOTAL SHAREHOLDERS' EQUITY		62,918	(562)	-	62,356
		\$ 90,592	-	-	\$ 90,592

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2012 and 2011
(Canadian dollars in thousands, except per share amounts)

25. Transition to IFRS (continued)

- (a) Under Canadian GAAP, deferred taxes are split between current and non-current components on the basis of either the underlying asset or liability or the expected reversal of items not related to an asset or liability. Under IFRS, all deferred tax assets and liabilities are classified as non-current.
- (b) IFRS stipulates that an obligation is created when an agreement is entered into with a third party which provides for automatic repurchases of the Company's shares without the Company having the ability to influence the purchases. The financial liability is determined as the present value of the maximum redemption amount. At October 1, 2010 (September 30, 2011), a reclassification adjustment was made and issued capital and retained earnings were reduced by \$178 (\$73) and \$1,137 (\$489) respectively with an offsetting adjustment to the share repurchase liability account. The amount of the reclassification for future periods will change based on the value of the commitment at the measurement date. An income adjustment will result on any share repurchased below the maximum amount per share. Based on historical trends, the amount of income to recognize is not expected to be significant.
- (c) At the transition date, as permitted under IFRS 1, the Company transferred all cumulative foreign exchange losses amounting to \$357, previously accumulated in the cumulative translation adjustment account to retained earnings. There was no impact on net equity as at October 1, 2010 as a result of this election.

Corporate Information

Corporate & Business and Technology Services

340 Legget Drive, Suite 101,
Ottawa, Ontario, Canada K2K 1Y6
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

Primacy Management Inc.

2321 Fairview Street, Suite 100
Burlington, Ontario
L7R 2E3
Phone: 905.637.2888

Board of Directors

Kenneth J. Loeb

Chief Executive Officer, Loeb Packaging Ltd.
Chairman, Calian Technologies Ltd.
Chair of the Nominating Committee

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

Ray Basler

President and CEO, Calian Technologies Ltd.

George Weber

President and CEO,
Royal Ottawa Health Care Group

Common Share Information

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

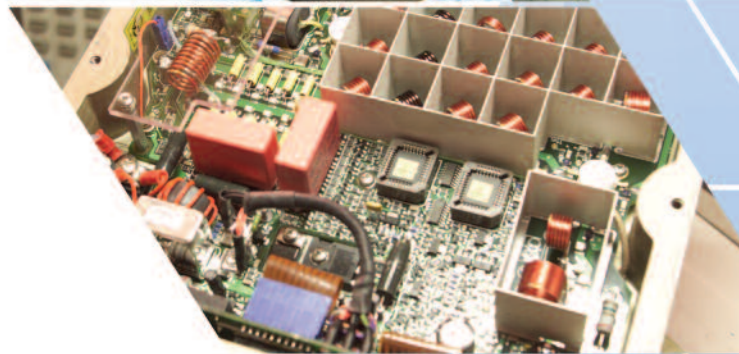
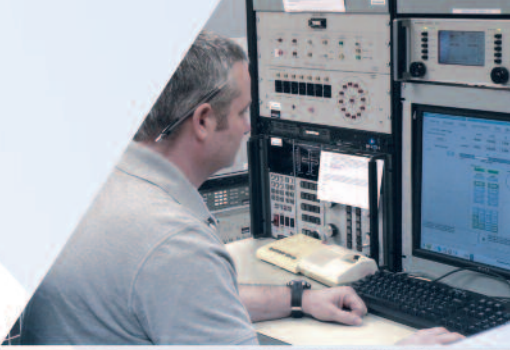
Dividend Policy

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, 2013 at 2:00 p.m. at the Brookstreet Hotel, Ottawa, Ontario, Canada. All shareholders are invited to attend. The telephone number of the Brookstreet Hotel is 613.271.1800.

Notes



2012

Annual Report Calian Technologies Ltd.