

**CALIAN TECHNOLOGIES LTD.  
MANAGEMENT PROXY CIRCULAR  
NOVEMBER 30, 2008**

**SOLICITATION OF PROXIES**

**This Management Proxy Circular (this “Circular”)** is furnished in connection with the solicitation by the management of CALIAN TECHNOLOGIES LTD. (the “Corporation”) of proxies to be used at the annual and special meeting of shareholders of the Corporation to be held on Friday February 6, 2009 at 2:00 p.m. (Ottawa time) at the Brookstreet Hotel, Kanata, Ontario for the purposes set forth in the enclosed notice of meeting or any adjournment thereof (the “Meeting”). It is expected that the solicitation will be primarily by mail, but employees of the Corporation may also solicit proxies personally. The cost of solicitation by management will be borne by the Corporation.

Except as otherwise stated, the information contained in this Circular is given as of November 30, 2008. All dollar amounts in this Circular are in Canadian dollars unless otherwise indicated.

**APPOINTMENT OF PROXYHOLDERS AND REVOCATION OF PROXIES**

A vote at all meetings of shareholders of the Corporation may be given in person or by proxy whether or not the proxy holder is a shareholder. The persons named in the Form of Proxy enclosed with this Circular are officers of the Corporation. **Each shareholder is entitled to appoint a person other than the individuals named in the Form of Proxy to represent such shareholder at the Meeting.** A shareholder desiring to appoint some other person to represent that shareholder at the Meeting may do so either by inserting such person’s name in the blank space provided in the appropriate Form of Proxy or by completing another proper Form of Proxy and, in either case, delivering the completed proxy to the Corporation’s transfer agent, the CIBC Mellon Trust Company, P.O. Box 721, Agincourt, Ontario, M1S 0A1, in the addressed envelope enclosed or to the Secretary of the Corporation no later than 5:00 p.m. (Ottawa time) on Wednesday, February 4, 2009.

The officers named in the Form of Proxy will vote or withhold from voting the common shares in the capital of the Corporation (the “Common Shares”) for which they are appointed proxy holders (including on any ballot that may be called for) in accordance with the instructions of the shareholder appointing them. **In the absence of such instructions, such Common Shares will be voted FOR the election of Directors, FOR the appointment of auditors and FOR the Stock Option Plan Resolution.** The Form of Proxy confers discretionary authority with respect to amendments or variations to matters identified in the notice of meeting and other matters, which may properly come before the Meeting. At the date hereof, management of the Corporation is not aware of any other matters to come before the Meeting. Any amendment, variation or other matter, which is not known to management, which may properly come before the Meeting, will be voted upon by the proxies hereby solicited in accordance with the best judgment of the person or persons voting such proxies.

Pursuant to Section 148(4) of the *Canada Business Corporations Act* (the “CBCA”), a proxy given pursuant to this solicitation may be revoked (1) by instrument in writing, executed by the shareholder or by the shareholder’s attorney authorized in writing and deposited at the registered office of the Corporation at 340 Legget Drive, suite 101, Ottawa, Ontario, K2K 1Y6 at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, (2) by delivering the revocation prior to voting to the chair of the Meeting on the day of the Meeting, or any adjournment thereof or (3) in any other manner permitted by law. **If a shareholder appoints some person other than the officers named in the Form of Proxy to represent the shareholder, such person will vote the Common Shares in respect of which that person is appointed proxy holder in accordance with the**

**direction of the shareholder who appointed that person. In the absence of such direction, that person may vote such shares at that person's discretion. It is the responsibility of the shareholder appointing any other person to represent such shareholder to inform that person that that person has been so appointed.**

## **VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES**

As of the date of this Circular, 7,849,139 Common Shares were issued and outstanding, the holders of which are entitled to one vote for each Common Share held. The board of directors of the Corporation (the "Board") has fixed the close of business on December 12, 2008 as the record date for the purpose of determining shareholders entitled to receive notice of and to vote at the Meeting. The failure of any shareholder to receive notice of a meeting of the shareholders does not, however, deprive such shareholder of a vote at such meeting.

The following table sets forth information regarding the beneficial ownership of the Common Shares as of November 30, 2008 with respect to each person who, as of such date, is known to the directors or officers of the Corporation to be the beneficial owner of or exercise control or direction over more than 10% of the Common Shares:

<u>Name of Beneficial Owner</u>	<u>Number of Common Shares Held</u>	<u>Percentage of Voting Common Shares</u>
Bissett Investment Management, a division of Franklin Templeton Investments Corp.	1,518,800	19.4%

To the knowledge of the directors and officers of the Corporation, accounts and funds managed by Fidelity Management and Research Company ("Fidelity") of Boston, Massachusetts, U.S.A. and its affiliates, may beneficially own or exercise control or direction over Common Shares carrying more than 10% of the votes attached to the Common Shares. Fidelity does not publicly disclose its shareholdings in which such accounts and funds invest, including the Corporation.

## **PRESENTATION OF FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION**

The Corporation's audited financial statements for the year ended September 30, 2008 (the "Financial Statements") and the auditors' report on the Financial Statements will be presented to shareholders at the Meeting. The Financial Statements are included in the Corporation's 2008 Annual Report which accompanies this Circular. In accordance with the provisions of the CBCA, the Financial Statements are merely presented at the Meeting and will not be voted on.

The Corporation has filed an Annual Information Form (the "AIF") for its 2008 fiscal year and its 2008 Annual Report on SEDAR at [www.sedar.com](http://www.sedar.com) that contain, among other things, all of the financial disclosure (including copies of the Financial Statements and management's discussion and analysis of the Financial Statements) required under Multilateral Instrument 52-110 – Audit Committees of the Canadian Securities Administrators. In particular, the information that is required to be disclosed in Form 52-110F1 of Multilateral Instrument 52-110 may be found under the heading "Audit Committee" in the AIF.

## ELECTION OF DIRECTORS

The Board is elected annually. The number of directors of the Corporation to be elected at the Meeting is set at seven (7). Each of the persons listed below is proposed to be nominated as a director of the Corporation to serve until the next annual meeting or until such person's successor is elected or appointed, and each has agreed to serve as director if elected. Unless a shareholder directs that such shareholder's Common Shares are to be withheld from voting for the election of directors, the persons designated in the enclosed proxy will vote FOR the election of the proposed nominees listed in the table below, all of whom are currently directors of the Corporation:

<u>Name and Present Principal Occupation</u>	<u>Period of Service as a Director</u>	<u>Number of Common Shares Held</u>
Kenneth J. Loeb <sup>(1)(2)(3)(4)</sup> , Ottawa, ON Chief Executive Officer, Capital Box Limited	2001 - 2008	2,805
Larry O'Brien <sup>(3)</sup> , Ottawa, ON Mayor, City of Ottawa	1982 - 2008	470,771 <sup>(5)</sup>
Major Gen. (Ret'd) C. William Hewson <sup>(1)(2)(3)</sup> Calabogie, ON, Consultant	2003 - 2008	1,305
Senator David Tkachuk <sup>(1)(2)(3)</sup> , Saskatoon, SK Member of the Senate of Canada	2003 - 2008	409
Richard A. Vickers, FCA <sup>(1)(2)(3)</sup> , Manotick, ON Chief Operating Officer, Borden Ladner Gervais LLP	2003 - 2008	3,805
Raymond Basler, Saskatoon, SK President and Chief Executive Officer of the Corporation	2005-2008	70,000
Paul Cellucci <sup>(1)(2)(3)</sup> , Hudson, Massachusetts Special counsel to McCarter & English, LLP	2007-2008	nil

(1) Member of the Audit Committee of the Board.

(2) Member of the Compensation Committee of the Board

(3) Member of the Governance Committee of the Board.

(4) Chairman of the Board

(5) All of these Common Shares are held by Cinnatek Corporation, an Ontario corporation wholly owned by Larry O'Brien.

Except as set forth below, the above-mentioned persons have held the principal occupations set below their names or other management functions within their respective organizations for the last five years.

RAYMOND BASLER was President of the Corporation's Systems Engineering division from November 25, 1998 to September 30, 2004 and from August 6, 2002 to February 2, 2005; Mr. Basler was the Corporation's President and Chief Operating Officer.

LARRY O'BRIEN was elected Mayor of the City of Ottawa taking effect on December 1, 2006, prior to which Mr. O'Brien was the Corporation's Chairman, President and Chief Executive Officer from April 16, 2001 to August 5, 2002, the Corporation's Chairman and Chief Executive Officer from August 6, 2002 to

February 2, 2005 and the Corporation's Chairman from February 2, 2005 to November 24, 2006.

PAUL CELLUCCI was US Ambassador to Canada from April 17, 2001 to March 18, 2005.

No director or executive officer of the Corporation and, to the knowledge of the Corporation, no shareholder holding a sufficient number of securities of the Corporation to materially affect its control is or was, in the 10 years preceding the date of this Circular, a director or executive officer of any company that was, while that person was acting in that capacity, (a) the subject of a cease trade or similar order or an order that denied any such company access to any exemption under securities legislation for a period of more than 30 consecutive days, (b) subject to an event that resulted, after such person ceased to be a director or executive officer, in such company being the subject of any such order or (c) within a year of such person ceasing to act in that capacity, became bankrupt, made a proposal under any bankruptcy or insolvency related legislation or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No director or executive officer of the Corporation and, to the knowledge of the Corporation, no shareholder holding a sufficient number of securities of the Corporation to materially affect its control, within the 10 years preceding the date of this Circular, has become bankrupt, made a proposal under any bankruptcy or insolvency related legislation or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

**Management does not contemplate that any of the nominees listed above will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed Form of Proxy reserve the right to vote for any nominee in their discretion unless the shareholder has specified in the Proxy that such shareholder's Common Shares are to be withheld from voting in the election of directors.**

#### **Directors' Attendance**

For the 12-month period ended September 30, 2008, the Board met on five occasions, the Audit Committee met four times, the Compensation Committee met twice and the Governance Committee met once. Compensation and governance issues are also discussed during the quarterly Board meetings with all of the Board members present. All of the directors were present at all Board and committee meetings either by phone or in person, with the exception of Mr. Larry O'Brien and Senator David Tkachuk who were absent from one board meeting.

#### **STATEMENT OF EXECUTIVE COMPENSATION**

The following table, presented in accordance with the National Instrument 51-102 of the Canadian Securities Administrators, sets forth all compensation paid in respect of the individuals who were the Chief Executive Officer and Chief Financial Officer during the year ended September 30, 2008 and the other three most highly compensated executive officers of the Corporation (the "named executive officers") who earned more than \$150,000 in salary and bonus during the last fiscal year.

**Summary Compensation Table**  
(all dollar amounts rounded to nearest dollar)

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards	
		Salary	Bonus	Other Annual Compensation <sup>(1)</sup>	Securities Under Options/SARs Granted <sup>(2)</sup>	All Other Compensation
Raymond Basler <sup>(3)</sup> President and Chief Executive Officer	2008	\$310,000	\$420,000	-	40,000	Nil
	2007	\$295,000	\$380,000	-	40,000	Nil
	2006	\$281,000	\$310,000	-	Nil	Nil
Jacqueline Gauthier Vice President, Chief Financial Officer and Corporate Secretary	2008	\$179,000	\$210,000	-	30,000	Nil
	2007	\$173,000	\$190,000	-	30,000	Nil
	2006	\$165,000	\$155,000	-	Nil	Nil
Tom Coates Vice President and General Manager Business and Technology Services	2008	\$193,000	\$185,000	-	20,000	Nil
	2007	\$187,000	\$200,000	-	20,000	Nil
	2006	\$181,000	\$162,000	-	Nil	Nil
Brent McConnell Vice President and General Manager Systems Engineering	2008	\$181,000	\$250,000	-	20,000	Nil
	2007	\$175,000	\$215,000	-	20,000	Nil
	2006	\$170,000	\$160,000	-	Nil	Nil

(1) Unless otherwise indicated, perquisites and other personal benefits do not exceed the lesser of \$50,000 and 10% of the total of the annual salary and bonus of the named executive officer.

(2) This number represents the total number of Securities Under Options Granted outstanding at the end of each year

### Stock Option Plans

On February 2, 2005, the Corporation established a Director and Employee Stock Option Plan (the “Stock Option Plan”) administered by the Compensation Committee which had the authority to select those directors and employees to whom options were granted, the number of options to be granted to each director and employee and the price at which Common Shares under such options may be purchased, provided that such price was to be based upon the market price of the Common Shares on the date the option was granted. Options granted under the Plan are non-transferable and each option, unless terminated pursuant to the Stock Option Plan, expires on a date determined by the Compensation Committee, which date will not be later than 10 years from the date the option was granted. Without giving effect to the Plan Maximum Amendment (as defined below) that is proposing to change the maximum number of Common Shares that may be issued under the Stock Option Plan to a fixed maximum number of 500,000, the maximum number of Common Shares issuable pursuant to the exercise of options is 250,000 Common Shares. At September 30, 2008, 165,000 options had been granted under the Stock Option Plan. On November 12, 2008, an additional 85,000 options were granted under the Stock Option Plan and, as a result, at November 30, 2008, 250,000 options have been granted under the Stock Option Plan.

There were no grants of options to purchase Common Shares under the Stock Option Plan during the Corporation’s fiscal year ended September 30, 2008.

The following table sets forth each exercise of options to purchase Common Shares under the Plan during the fiscal year ended September 30, 2008 by the Named Executive Officers:

**Aggregated Option / SAR Exercises during the Financial Year Ended  
September 30, 2008 and Financial Year-End Option / SAR Values**

<b>Name</b>	<b>Securities Acquired on Exercise</b>	<b>Aggregate Value Realized</b>	<b>Unexercised Options at September 30, 2008 Exercisable/Unexercisable</b>	<b>Value of Unexercised in-the-Money Options at September 30, 2008 Exercisable / Unexercisable</b>
Raymond Basler	Nil	Nil	26,400 / 13,600	\$NIL / \$NIL
Jacqueline Gauthier	Nil	Nil	20,000 / 10,000	\$NIL / \$NIL
Tom Coates	Nil	Nil	13,200/ 6,800	\$NIL / \$NIL
Brent McConnell	Nil	Nil	13,200/ 6,800	\$NIL / \$NIL

The Corporation also has in place an employee stock purchase plan that has been approved by the shareholders of the Corporation (the "Purchase Plan"), pursuant to which Purchase Plan the Corporation has reserved an aggregate of up to 500,000 Common Shares for issuance of which 241,840 Common Shares have been issued as of September 30, 2008 and there has been no change to this number as at November 30, 2008.

**Employment Agreements and Management Contracts**

Larry O'Brien

Pursuant to a memorandum of agreement with the Corporation dated July 22, 1993, amended February 2, 2005, Larry O'Brien was employed by the Corporation as Chairman of the Board of Directors. The compensation payable to Mr. O'Brien under this agreement is comprised of salary in the amount of \$150,000 per year and a car allowance in the amount of \$650 per month. In the event Mr. O'Brien is terminated by the Corporation for convenience or in the event of a change of control, the Corporation is required to pay Mr. O'Brien an amount equal to three times the remuneration Mr. O'Brien earned in the 12 months prior to his termination. On November 24, 2006, Mr. O'Brien resigned his position of Chairman to assume the role of Mayor of the City of Ottawa. Effective December 1, 2006, Mr. O'Brien's employment agreement was amended to permit Mr. O'Brien to take a leave of absence without compensation while he holds public office. If elected by shareholders, Mr O'Brien will continue to sit on the Board, will be entitled to earn directors compensation referred to under the heading "Compensation of Directors" below and will be entitled to be reimbursed for all out-of-pocket expenses incurred in connection with carrying out his duties as a Board member.

Raymond Basler

Pursuant to an employment agreement dated February 2, 2005, Raymond Basler is employed by the Corporation as President and Chief Executive Officer. As of the date of this Circular, the compensation payable to Mr. Basler under this agreement is comprised of salary in the amount of \$319,000 per year, a pension allowance equal to 5% of annual salary, a cash bonus in such amount determined from time to time by the Compensation Committee or the Board based on the Corporation's financial performance and a car allowance of \$800 per month. In the event Mr. Basler is terminated by the Corporation for convenience or in the event of a change of control, the Corporation is required to pay Mr. Basler an amount equal to two times the remuneration Mr. Basler earned in the 12 months prior to his termination plus an amount equal to the outstanding bonus earned to the date of termination on the basis of the financial statements for the previous month.

Tom Coates

Pursuant to an employment agreement dated June 1, 2000, Tom Coates is employed by the Corporation as Vice President and General Manager, Business and Technology Services. As of the date of this Circular, the

compensation payable to Mr. Coates under this agreement is comprised of salary in the amount of \$198,500, a pension allowance equal to 5% of annual salary, a cash bonus in such amount determined from time to time by the Compensation Committee or the Board based on the Corporation's financial performance and a car allowance of \$650 per month. In the event Mr. Coates is terminated by the Corporation for convenience, the Corporation is required to pay Mr. Coates an amount equal to 18 months' salary and benefits plus an amount equal to the outstanding bonus earned to the date of termination on the basis of the financial statements for the previous month.

#### Jacqueline Gauthier

Pursuant to an employment agreement dated February 22, 2005, Jacqueline Gauthier is employed by the Corporation as Vice President, Chief Financial Officer and Corporate Secretary. As of the date of this Circular, the compensation payable to Ms. Gauthier under this agreement is comprised of salary in the amount of \$184,500, a cash bonus in such amount determined from time to time by the Compensation Committee or the Board based on the Corporation's financial performance and a car allowance of \$650 per month. In the event Ms. Gauthier is terminated by the Corporation for convenience, the Corporation is required to pay Ms. Gauthier an amount equal to 18 months' salary and benefits plus an amount equal to the outstanding bonus earned to the date of termination on the basis of the financial statements for the previous month.

### **COMPOSITION OF THE COMPENSATION COMMITTEE**

The members of the Compensation Committee during the Corporation's 2008 fiscal year were Senator David Tkachuk (Chairman of the Compensation Committee), Mr. C. William Hewson, Mr. Richard A. Vickers, Mr. Kenneth J. Loeb and Mr. Paul Cellucci.

### **REPORT ON EXECUTIVE COMPENSATION**

The recommendations of the Compensation Committee are referred to the Board for approval. The compensation payable to Messrs. Basler and Coates and Ms. Gauthier is governed by the written employment agreements referred to above.

It is the policy of the Corporation that its employees receive compensation based on the market value of the type of job they perform, internal pay equity and their level of individual performance. The pay for performance philosophy adopted by the Board is specifically emphasized in the executive compensation program, in order to maintain the position of the Corporation in a highly competitive business environment.

Base salaries are competitive in the industry and are determined on the basis of outside market data as well as individual performance and experience level. The Chief Executive Officer's base salary is determined based on general understanding of salaries paid to chief executive officer salaries of publicly traded companies and the relative experience and expertise of the Corporation's Chief Executive Officer. Mr. Basler has been with the Corporation for 21 years and has extensive knowledge of the Corporation and its industry. Base salaries for senior managers of the Corporation are based on the experience and performance of each senior manager.

The annual bonus paid to each of the Chief Executive Officer and the Chief Financial Officer is based on the overall financial performance of the Corporation. No specific weight is assigned to individual measures of financial performance. Annual bonuses are also paid to the senior managers of the Corporation based on a percentage of divisional profitability and individual performance. Certain members of the executive team are primarily responsible for the financial performance of a specific division. During 2008, Mr. McConnell was responsible for the performance of the Corporation's Systems Engineering division and Mr. Coates was responsible for the performance of the Corporation's Business and Technology Services division.

During fiscal 2008, the annual base salary and annual bonus for the Chief Executive Officer and the annual bonuses for the top three executive officers were submitted to the Compensation Committee and to the Board for their review and approval. For the fiscal 2009 period, the Corporation expects that the base salary and annual bonus of the Chief Executive Officer and the annual bonuses for the top three executive officers will continue to be submitted to the Compensation Committee and to the Board for review and approval.

The overall compensation program of the Corporation is intended to attract and retain competent, committed individuals, who will ensure the long-term success of the Corporation. The compensation for all remaining executives (except for that contractually provided for) is determined by the Chief Executive Officer.

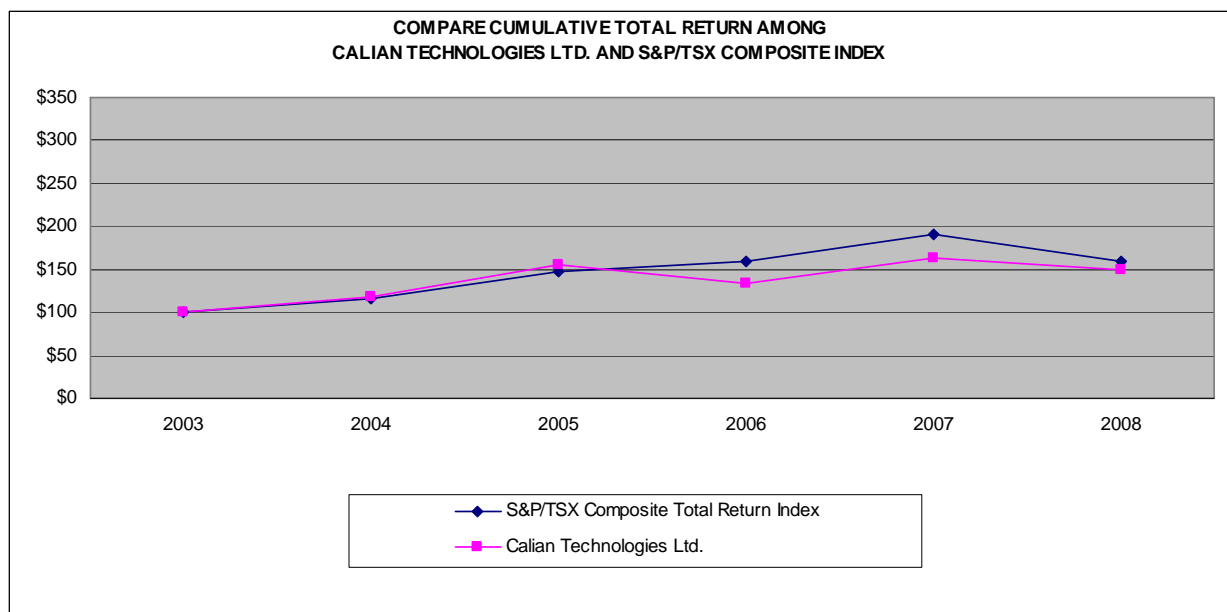
Presented by the Compensation Committee: David Tkachuk (Chairman of the Compensation Committee); C. William Hewson; Richard Vickers; Kenneth Loeb and Paul Cellucci.

### COMPENSATION OF DIRECTORS

During 2008, the Chairman of the Board of Directors received an annual retainer of \$37,500 and each director of the Corporation who is not an employee received an annual retainer in the amount of \$25,000 and reimbursement of out of pocket expenses. The directors of the Corporation are not required to hold a minimum number of Common Shares. For 2009, the Chairman of the Board of Directors is entitled to an annual retainer of \$37,500 and each director of the Corporation who is not an employee is entitled to an annual retainer in the amount of \$25,000 in addition to \$500 per special purpose meeting and reimbursement of out of pocket expenses.

### PERFORMANCE GRAPH

The following graph compares the percentage change in the cumulative total shareholder return on the Common Shares with the cumulative total return of the S&P/TSX Composite Index for the five year period ended September 30, 2008. The following graph assumes \$100 invested on October 2, 2003 and reinvestment of all dividends.



## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes the number of Common Shares authorized for issuance from treasury under the Corporation's equity compensation plans as at September 30, 2008.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by securityholders	165,000 <sup>(1)</sup>	\$13.22	85,000

(1) These securities include Common Shares issuable under Stock Option Plan but do not include Common Shares authorized for issuance pursuant to the Purchase Plan. Under the Purchase Plan, the Corporation expects to issue approximately 25,465 Common Shares in February 2009 at a purchase price of approximately \$9.88 per share, following which approximately 232,695 Common Shares will be available for issuance under the Purchase Plan, all in accordance with the terms and conditions thereof as disclosed to and approved by the Company's shareholders on February 26, 2003.

## SPECIAL MATTERS

### Stock Option Plan Resolution

At the Meeting, Shareholders will be asked to approve amendments to the Stock Option Plan that were approved by the Board on November 12, 2008 (the "Option Plan Amendments").

The Stock Option Plan is administered by the Compensation Committee which had the authority to select those directors and employees to whom options were granted, the number of options to be granted to each director and employee and the price at which Common Shares under such options may be purchased, provided that such price was to be based upon the market price of the Common Shares on the date the option was granted. Options granted under the Plan are non-transferable and each option, unless terminated pursuant to the Stock Option Plan, expires on a date determined by the Compensation Committee, which date will not be later than 10 years from the date the option was granted.

Unless otherwise determined by the Compensation Committee, one-third of any option shall vest and may be exercised following each anniversary of the date of an option grant. The Compensation Committee may by written notice to any participant accelerate the vesting of all or any portion of any option.

The Compensation Committee may also accelerate the vesting of any or all outstanding options to provide that such options shall be fully vested and conditionally exercisable upon (or prior to) the completion of a change in control (as such term is defined in the Stock Option Plan). If the Compensation Committee elects to accelerate the vesting of any options and any such options are not exercised within ten (10) business days following the giving of the notice of the proposed change in control, such unexercised options shall terminate and expire upon the completion of the proposed change in control. Upon the occurrence of a change of control, the Compensation Committee may also instead provide for the conversion or exchange of any outstanding Options into or for options, rights or other securities in any entity participating in or resulting from such change in control.

Employees and directors of the Corporation are entitled to participate in the Stock Option Plan while they are engaged with the Corporation. If a participant under the Stock Option Plan dies or becomes disabled while engaged with the Corporation or retires from engagement with the Corporation, the right of that participant (or of that participant's legal representative) to participate in the Stock Option Plan terminates as of the date of death, disability or retirement, as may be applicable, but any vested options may be exercised within 180 days of that event (unless such options terminate earlier pursuant to their terms) and any unvested

options terminate immediately on the date of that event. If a participant under the Stock Option Plan is terminated by the Corporation or voluntarily resigns from the Corporation, that participant may exercise any vested options within 30 days of that event (unless such options terminate earlier pursuant to their terms) but any unvested options terminate immediately on the date of that event.

The maximum number of Common Shares that may be reserved for issuance to any one eligible person (together with such person's associates) pursuant to options granted under the Stock Option Plan is 5% of the number of Common Shares then issued and outstanding and no single participant (together with such participant's associates) shall be granted, within any twelve month period, options representing a number of Common Shares which exceeds 5% of the number of Common Shares then issued and outstanding. The maximum number of Common Shares that may be reserved for issuance to insiders, as defined by the Manual (as defined below), pursuant to the Stock Option Plan (and any other security-based compensation arrangements) at any time, and the maximum number of Common Shares that may be issued to Related Persons under the Stock Option Plan (and any other security-based compensation arrangements) within any one-year period, is 10% of the Common Shares outstanding. Options granted under the Stock Option Plan may not be assigned in any manner whatsoever.

A blacklined copy of the Stock Option Plan reflecting the proposed Option Plan Amendments is attached as Schedule "A" to the Stock Option Plan Resolution set out as Appendix 3 to this Circular. The most significant of the Option Plan Amendments relate to:

- (i) changing the maximum number of Common Shares issuable under the Stock Option Plan from 250,000 to 500,000 (the "Plan Maximum Amendment");
- (ii) extending the expiry of stock options during a Blackout Period (as defined below) and permitting the granting of options during a Blackout Period at an exercise price per Common Share equal to the *greater of* (A) the market price of the Common Shares at the time of the grant, and (B) the market price of the Common Shares at the close of trading on the first business day following the expiry of the Blackout Period, provided that in no event shall any options granted during the Blackout Period be exercisable until after the exercise price has been fixed (together, the "Blackout Period Amendments"); and
- (iii) amending the Stock Option Plan's amending procedures (the "Amending Provisions Amendment").

The Option Plan Amendments have been pre-cleared by the Toronto Stock Exchange (the "TSX"). Certain of the Option Plan Amendments are required in part to comply with the TSX rules in Subsections 613(d) and 613(h)(iii) of the TSX Company Manual (the "Manual") and TSX Staff Notice #2006-0001. The following is a summary of the material Option Plan Amendments:

*Plan Maximum Amendment.* The strategic use of incentive stock options is an important component of the Corporation's overall compensation plan for its employees and directors and for attracting, motivating and retaining qualified employees and directors, which is critical to the Corporation's success. On November 12, 2008, the Board approved, subject to shareholder and regulatory approval, a proposed amendment to the Stock Option Plan to change the maximum number of Common Shares that may be issued under the Stock Option Plan from the current fixed maximum number of 250,000 Common Shares to a fixed maximum number of 500,000 Common Shares, which represents approximately 6.4% of the Corporation's issued and outstanding Common Shares as of November 30, 2008 and 6.1% of the Corporation's share capital on November 30, 2008 on a fully diluted basis. In making the decision to recommend the Plan Maximum Amendment, the Board considered a number of factors, including the number of options currently outstanding under the Stock Option Plan, the number of options currently available for grant under the Stock Option Plan and the Corporation's current and anticipated

human resource requirements. Of the currently authorized 250,000 Common Shares, 250,000 are currently reserved for issuance upon the exercise of outstanding options. As of the date hereof, the Corporation has no Common Shares available to be issued pursuant to the exercise of options to be granted under the Stock Option Plan. The Corporation believes that the proposed increase in the maximum number of Common Shares that may be issued under the Stock Option Plan will ensure that a reasonable number of Common Shares remain available for the grant of options in the future. The Corporation plans to request the conditional listing of an additional 250,000 Common Shares on the TSX to be listed as reserved for issuance under the Stock Option Plan. No options have been granted to any director or Named Executive Officer out of the proposed Plan Maximum Amendment.

*Blackout Period Amendments.* As part of the Corporation's good corporate governance practices, the Corporation self-imposes trading restrictions from time to time, (such periods each being a "Blackout Period"), preventing officers, directors and employees from exercising and selling their vested stock options. The Stock Option Plan will be amended such that, should the expiry date of any vested stock option of a Stock Option Plan participant fall during, or within nine (9) trading days immediately following, a Blackout Period, the expiry date of such a vested stock option will automatically be ten (10) trading days from the date the relevant Blackout Period ends.

The rules of the TSX pertaining to stock options plans do not prohibit the granting of options during a Blackout Period but they do prohibit the fixing of the exercise price during such a period, except in limited circumstances. Under a TSX Staff Notice issued on October 24, 2005, the TSX indicated that options granted while material information is undisclosed will be cancelled, forfeited or re-priced to a price established after the material information has been disclosed to the market and the impact on the trading price of the securities underlying the options is known. The Board believes that it is reasonable to permit the granting of options during a Blackout Period so long as the exercise price of such options is fixed at a price which is the *greater of* the market price of the Common Shares underlying such options on the date of grant and the market price of the Common Shares underlying such options following the expiry of the Blackout Period, thereby satisfying the requirement under the TSX rules that the exercise price not be less than the market price on the date of grant and the TSX's concern that options not be priced based on a market price that does not reflect the impact of material undisclosed information. Accordingly, the Stock Option Plan will be amended to permit the granting of options during a Black-out Period provided that the pricing of such options is determined as indicated above. The Board believes that this amendment is necessary to ensure that participants under the Stock Option Plan are not inappropriately deprived of the grant of earned options in accordance with the Corporation's usual granting schedule.

*Amending Provisions Amendment.* The Stock Option Plan's amending procedures currently provide for the Board to be able to amend, suspend or terminate the Stock Option Plan from time to time and at any time, provided that no such amendment or termination could, without the consent of each participant, alter or impair such participant's rights or increase such participant's obligations under the Stock Option Plan. It was implicit under the Stock Option Plan that the Board could make certain amendments without shareholder approval. However, the TSX now requires the Stock Option Plan to explicitly provide that shareholder approval is not required to implement any amendments, save and except for amendments related to (i) the maximum number of Common Shares or any other shares of the Corporation which are reserved for issuance under the Stock Option Plan (and under any other share compensation arrangement of the Corporation); (ii) an increase in the maximum percentage of Common Shares available to be issued to insiders under the Stock Option Plan; (iii) a reduction in the exercise price for options held by insiders; and (iv) an extension to the term of options held by insiders. In other words, the TSX now

provides that other than these four prescribed items, any other amendment can be made by the Board without shareholder approval. The Board has determined that it should amend the Stock Option Plan's amending procedures to provide for the Board to be able to alter, amend or discontinue the Stock Option Plan from time to time without shareholder approval, save and except those matters required by TSX and certain additional matters where it is desirable to specify those matters as requiring shareholder approval for amendments. Accordingly, the Board approved the Option Plan Amendments on November 12, 2008, including an amendment to the amendment provisions in the Stock Option Plan to provide that the approval of shareholders is only required for the following amendments to the Stock Option Plan or options granted under it:

- (i) increasing the maximum number or percentage of Common Shares which are reserved for issuance under the Stock Option Plan;
- (ii) reducing the exercise price for outstanding options or cancelling options for the purpose of issuing new options;
- (iii) extending the term of any outstanding options;
- (iv) increasing limits on non-employee director participation;
- (v) increasing the maximum percentage of Common Shares available to be issued to insiders under the Stock Option Plan;
- (vi) increasing the number of Common Shares reserved for issuance to any one person under the Stock Option Plan; and
- (vii) amending the Stock Option Plan to allow an Option holder to transfer Options other than by will or pursuant to laws of succession.

Examples of the amendments that may be made without shareholder approval include, without limitation, amendments related to (a) the vesting provisions of the Stock Option Plan or any option granted under the Stock Option Plan, (b) the early termination provisions of the Stock Option Plan or any option granted under the Stock Option Plan, (c) the addition of any form of financial assistance by the Corporation for the acquisition by all or certain categories of participants, and the subsequent amendment of any such provision which is more favourable to such participants, (d) the addition or modification of a cashless exercise feature, payable in cash or Common shares, which provides for a full deduction of the number of underlying Common Shares from the Stock Option Plan reserve, (e) the suspension or termination under applicable laws (including, without limitation, the rules, regulations and policies of the TSX).

The foregoing is a summary of the material Option Plan Amendments only, and shareholders should review the proposed amended Stock Option Plan attached hereto in its entirety. The Option Plan Amendments are subject to prior regulatory approval and the TSX has conditionally approved the Option Plan Amendments subject to ratification by the Shareholders at the Meeting as set forth herein. Management believes that the proposed changes would be beneficial to the Corporation because they will permit the Stock Option Plan to be consistent with changes in TSX policy and will permit it to be a more effective human resources management tool. Accordingly, Management strongly urges shareholders to approve the Stock Option Plan Resolution.

Shareholders will be asked to consider and, if deemed advisable, to approve, with or without amendment, the Stock Option Plan Resolution set out in Appendix 3 to this Circular.

**The Board recommends to the Shareholders that they approve the Stock Option Plan Resolution. Unless directed otherwise, the persons named in the accompanying form of proxy intend to vote FOR the Stock Option Plan Resolution.**

## **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Corporation maintains directors' and officers' liability insurance in the aggregate principal amount of \$50,000,000. The premium payable for such insurance during the period from October 26, 2008 to October 26, 2009 is \$211,000. The by-laws of the Corporation generally provide that the Corporation shall indemnify a director or officer of the Corporation against liability incurred in such capacity to the extent permitted or required by the CBCA. To the extent the Corporation is required to indemnify the directors or officers pursuant to its by-laws, the insurance policy provides that the Corporation is liable for the initial \$150,000 in the aggregate for each loss claimed.

#### **INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS**

There was no indebtedness owed to the Corporation during the fiscal year ended September 30, 2008 by any individual who was a director, executive officer and senior officer of the Corporation (and any associate of the foregoing).

#### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

There are no interests of any directors, officers or holders of over 10% of the Common Shares, or any directors or officers of any holders of over 10% of the Common Shares or any affiliates or associates of any of the foregoing, in any transactions of the Corporation during fiscal 2008 or in any proposed transaction that have materially affected or that would materially affect the Corporation or any of its subsidiaries.

#### **APPOINTMENT OF AUDITORS**

It is intended to vote the Proxy solicited hereby (unless the shareholder directs its Common Shares to be withheld from voting in the appointment of auditors) to re-appoint Deloitte & Touche LLP, as auditors of the Corporation to hold office until the next annual meeting of shareholders and to authorize the directors to fix the auditors' remuneration. Deloitte & Touche LLP was first appointed as the Corporation's auditors on March 25, 1991.

#### **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

The Canadian Securities Administrators have introduced National Instrument 58-101 – Disclosure of Corporate Governance Practices (the "National Instrument") and National Policy 58-201 – Corporate Governance Guidelines (the "National Policy"). A complete description of the Corporation's approach to corporate governance in accordance with each of the National Instrument and the National Policy is set out in the "Statement of Corporate Governance Practices" attached as Appendix 1 to this Circular.

#### **PARTICULARS OF OTHER MATTERS**

Management knows of no other matters to come before the Meeting other than the matters referred to in the Notice of Meeting, however, if any other matters which are not now known to management should properly come before the Meeting, the Proxy will be voted upon such matters in accordance with the best judgment of the person voting the Proxy.

#### **DEADLINE FOR SHAREHOLDER PROPOSALS**

If any person entitled to vote at an annual meeting of the Corporation's shareholders wishes to propose any matter for consideration at the next annual meeting, in order for such proposal to be considered for inclusion in the materials mailed to shareholders in respect of such meeting, such proposal must be received by the Corporation no longer than 90 days before the anniversary date of this notice.

## **ADDITIONAL INFORMATION**

Financial Information is provided in the Corporation's comparative financial statements and management discussion and analysis for its most recently completed financial year. Copies of the Corporation's financial statements and management discussion and analysis can be requested by contacting Investor Relations at [IR@calian.com](mailto:IR@calian.com) or by calling 1-613-599-8600.

Additional information relating to the Corporation can also be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **DIRECTORS' APPROVAL**

The undersigned hereby certifies that the directors of the Corporation have approved the contents and the sending of this Circular.

DATED: November 30, 2008



Jacqueline Gauthier, Secretary  
CALIAN Technologies Ltd.  
Ottawa, Ontario

## Appendix 1

### Statement of Corporate Governance Practices

<b>1. Board of Directors</b>	
(a) Disclose the identity of directors who are independent	Kenneth Loeb, William Hewson, David Tkachuk, Paul Cellucci, and Richard Vickers are independent directors.
(b) Disclose the identity of directors who are not independent, and describe the basis for that determination	Larry O'Brien is not independent because he has received during 2006 direct compensation in excess of \$75,000 from the Corporation.  Raymond Basler is not independent because he is the President and Chief Executive Officer of the Corporation.
(c) Disclose whether or not a majority of directors are independent.	The Board is currently comprised of seven members, five of whom are independent directors.
(d) Identify any director who is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction and identify that issuer.	None of the members of the Board are directors of any other reporting issuer (or the equivalent), with the exception of Senator David Tkachuk who is a director of Cline Mining Corporation, a corporation listed on the TSX.
(e) Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year.	At each of its quarterly meetings, the Board meets without management present. In addition, at each of its quarterly meetings, a meeting comprised of only independent Board members is also held. During 2008, independent Board members met four times without management present.
(f) Disclose whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities.	Effective November 25, 2006 the chair of the Board, Kenneth Loeb, is an independent member of the Board. Prior to November 24, 2006, Mr. Loeb served as the Corporation's Lead Director and the chair of the Board was Larry O'Brien who was not an independent member of the Board.
(g) Disclose the attendance record of each director for all board meetings held since the beginning of the issuer's most recently completed financial year.	Since the beginning of the Corporation's most recently completed financial year, all of the members of the Board were present at all Board and committee meetings either by phone or in person, with the exception of Mr. Larry O'Brien and Senator David Tkachuk who were absent from one board meeting.
<b>2. Board Mandate</b>	
Disclose the text of the board's written mandate.	The text of the Board's written mandate and those of its committees are set out in Appendix 2 to this Circular.

<b>3. Position Descriptions</b>	
(a) Disclose whether or not the board has developed written position descriptions for the chair and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position.	As part of the Board’s mandate, the Board has developed position descriptions for the Chairman of the Board. The Board has not developed position descriptions for the Chairs of the Audit Committee, the Compensation Committee and the Governance Committee, however, the Board has developed a mandate for each of these committees and, as such, the Chair of each committee is responsible to ensure that such mandates are followed.
(b) Disclose whether or not the board and CEO have developed a written position description for the CEO.	The Board has developed a position description for the Chief Executive Officer. In addition, the Board annually approves the strategic and operational plans, business objectives and key results for which the Chief Executive Officer is responsible.
<b>4. Orientation and Continuing Education</b>	
(a) Briefly describe what measures the board takes to orient new directors regarding <ul style="list-style-type: none"> <li>(i) the role of the board, its committees and its directors, and</li> <li>(ii) the nature and operation of the issuer’s business</li> </ul>	The Board does not have a formal process of orienting new members of the Board. However, an informal orientation occurs at the first Board meeting following the election of new directors. The Governance Committee has the responsibility of monitoring the existing process in order to determine if a more formal orientation process is warranted.
(b) Briefly describe what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide continuing education, describe how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors	The Board has not developed a formal continuing education program. The Corporation’s Corporate Secretary provides regular updates to the Board on new developments in corporate governance. Information on seminars and conferences are also passed along to directors but attendance at such events is not mandatory. Cost of attendance to seminars and conferences are paid by the Corporation.
<b>5. Ethical Business Conduct</b>	
(a) Disclose whether or not the board has adopted a written code for the directors, officers and employees. If the board has adopted a written code: <ul style="list-style-type: none"> <li>(i) disclose how a person or company may obtain a copy of the code;</li> <li>(ii) describe how the board monitors compliance with its code, or if the board does not monitor compliance, explain whether and how the board satisfies itself regarding compliance with its code; and</li> <li>(iii) provide a cross-reference to any material change report filed since the beginning of the issuer’s most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.</li> </ul>	The Board has adopted a written Guide to Ethical Business Practices (the “Guide”). In particular: <ul style="list-style-type: none"> <li>(i) The Guide is available on the Corporation’s website and explains the mechanisms in place to report departures from the Guide.</li> <li>(ii) The Guide provides for a reporting mechanism to the Board. In addition, all of the Corporation’s employees who do not work directly at a customer’s premises must certify annually that they have read, understand and agree to comply with the Guide.</li> <li>(iii) There has been no material change report filed that pertains to any conduct of a director or an executive officer that constitutes a departure from the Guide.</li> </ul>

(b) Describe any steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest.	The Board has adopted a policy on related party transactions which does not allow for any transactions to occur between the Corporation and a third party who has direct or indirect ties with the directors, officers or employees of the Corporation.
(c) Describe any other steps the board takes to encourage and promote a culture of ethical business conduct.	The Board believes the Guide is sufficient to encourage and promote a culture of ethical business conduct.
<b>6. Nomination of Directors</b>	
(a) Describe the process by which the board identifies new candidates for board nomination.	The Board does not have a nominating committee.
(b) Disclose whether or not the board has a nominating committee composed entirely of independent directors. If the board does not have a nominating committee composed entirely of independent directors, describe what steps the board takes to encourage an objective nomination process.	Nominations to the Board are largely the result of recruitment efforts of the Chairman of the Board. Potential nominees are discussed with the Board as a whole. The Board feels that the current approach is appropriate.
<b>7. Compensation</b>	
(a) Describe the process by which the board determines the compensation for the issuer's directors and officers	<p>The recommendations of the Compensation Committee are referred to the Board for approval. The compensation payable to Mr. Basler and Coates and Ms. Gauthier is governed by the written employment agreements referred to in the Circular.</p> <p>It is the policy of the Corporation that its employees receive compensation based on the market value of the type of job they perform, internal pay equity and their level of individual performance. The pay for performance philosophy adopted by the Board is specifically emphasized in the executive compensation program, in order to maintain the position of the Corporation in a highly competitive business environment.</p> <p>Base salaries are competitive in the industry and are determined on the basis of outside market data as well as individual performance and experience level. The Chief Executive Officer's base salary is determined based on general knowledge of salaries paid to chief executive officers of publicly traded companies and the relative experience and expertise of the Corporation's chief executive officer. Mr. Basler has been with the Corporation for 21 years and has extensive knowledge of the Corporation and its industry. Base salaries for senior managers of the Corporation are based on the experience and performance of each senior manager.</p> <p>The annual bonus paid to each of the Chief Executive Officer and the Chief Financial Officer is based on the overall financial performance of the Corporation. No specific weight is assigned to individual measures of financial performance. Annual bonuses are also paid to the senior managers of the Corporation based on a percentage of divisional profitability and individual</p>

	<p>performance. Certain members of the executive team are primarily responsible for the financial performance of a specific division. During 2008, Mr. McConnell was responsible for the performance of the Corporation's Systems Engineering division and Mr. Coates was responsible for the performance of the Corporation's Business and Technology Services division.</p> <p>During fiscal 2008, the annual base salary for the Chief Executive Officer and the annual bonuses for the top four executive officers were submitted to the Compensation Committee and to the Board for their review and approval. For the fiscal 2009 period, the Corporation expects that any changes to the base salary of the Chief Executive Officer and annual bonuses for the top four executive officers will continue to be submitted to the Compensation Committee and to the Board for review and approval.</p> <p>The overall compensation program of the Corporation is intended to attract and retain competent, committed individuals, who will ensure the long-term success of the Corporation. The compensation for all remaining executives is determined by the Chief Executive Officer.</p> <p>The compensation of the prior Chairman of the Board, Mr. Larry O'Brien, was approved by the Board on August 2, 2006. Mr. O'Brien resigned as the Chairman on November 24, 2006.</p> <p>Directors' compensation is determined by the Chairman of the Board following discussions with the Board members.</p> <p>Stock options grants to employees and directors must be approved by the Board.</p>
(b) Disclose whether or not the board has a compensation committee composed entirely of independent directors.	The Compensation Committee is composed of Mr. David Tkachuk (Chairman), William Hewson, Richard Vickers, Paul Cellucci and Kenneth Loeb, each of whom is an independent director.
(c) If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.	The mandate of the Compensation Committee is attached at Appendix 2 to this Circular.
(d) If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.	During fiscal 2008, the Board did not retain any compensation consultant.
<b>8. Other Board Committees</b>	

<p>If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.</p>	<p>The Board has a Governance Committee, the mandate of which committee is attached at Appendix 2 to this Circular.</p>
<p><b>9. Assessments</b></p>	
<p>Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively.</p>	<p>The Chairman of the Board has the ongoing responsibility of assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors. Evaluation criteria include such factors as the attendance record of individual Board members and the effectiveness of their participation at Board meetings. Annually, the Chairman of the Board prepares and approves the list of nominees to be presented at the Annual General Meetings of shareholders.</p>

**APPENDIX 2**  
**CALIAN TECHNOLOGIES LTD**  
**MANDATE OF THE BOARD OF DIRECTORS**

The Board of Directors (Board) has the overall responsibility for the stewardship of the Corporation. As such, the Board delegates to management certain of its authority and responsibilities to manage the business of the Corporation. The delegation of authority conforms to statutory limitations and certain responsibilities cannot be delegated to management and remains with the Board. The Calian Board of Directors has a Chairman, a Corporate Governance Committee, a Compensation Committee and an Audit Committee.

The primary objective of the Board is to make sure that management is thinking and acting in a manner that reflects our core values of 1) thinking long-term, 2) adding value and 3) being honest and transparent in all its business activities.

This document is intended to provide the Directors, Management and interested investors insight into the Board process that affects the Corporation.

**1. GENERAL PROCEDURES**

- 1.1 The Board shall be composed of a minimum of 5 directors, with the majority being independent directors.
- 1.2 The Board shall meet on a quarterly basis. Each quarterly meeting will include the following sessions:
  - Informal board dinner with board members and senior management present;
  - Independent Directors meeting;
  - Board meeting with management present;
  - Board meeting without management present.
- 1.3 Special meetings shall be held at the call of the Chairman or upon the request of two members of the Board.
- 1.4 A quorum shall be a majority of the members.
- 1.5 Unless the Board otherwise specifies, the Secretary of the Corporation shall act as Secretary of all meetings of the Committee.
- 1.6 A copy of the minutes of each meeting of the Board of Directors shall be provided to each director in a timely fashion.
- 1.7 Board meeting agendas shall be the responsibility of the Chairman of the Board.
- 1.8 The Board shall communicate its expectations to management with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management at least five (5) days in advance of meeting dates.
- 1.9 To assist the Board in discharging its responsibilities, the Board may retain at the expense of the Corporation, one or more persons having special expertise.

## **2. Specific Responsibilities and Duties**

### **2.1 Strategic Planning and Annual Operational Plans**

- 2.1.1 Review and approve the strategic plan and monitor the implementation of the strategic plan by management;
- 2.1.2 Review and approve the financial goals of the Corporation;
- 2.1.3 Review and Approve the annual operating plan and budget of the Corporation;
- 2.1.4 Review and approve major business decisions and transactions not in the ordinary course of business such as acquisitions, divestitures and capital transactions.

### **2.2 Risk Management**

- 2.2.1 Review the processes utilized by management with respect to risk assessment and risk management and the identification by management of the principal risks of the business of the Corporation including financial risks;
- 2.2.2 Review the implementation by management of appropriate systems to manage business and financial risks;
- 2.2.3 Review the processes to ensure respect for and compliance with applicable regulatory, corporate, securities, environmental, health and safety and other legal requirements.

### **2.3 Succession Planning and Senior Officers Performance**

- 2.3.1 Choose the Chief Executive officer and approve the appointment of Senior Officers;
- 2.3.2 Review and approve the corporate objectives that the Chief Executive Officer is responsible for meeting
- 2.3.3 Assess the performance of the Chief Executive Officer in relation to such objectives;
- 2.3.4 Establish the compensation for the Chief Executive Officer;
- 2.3.5 Assess and oversee the succession plan for Senior Officers;
- 2.3.6 Ensure that processes are in place for the recruitment, training, development and retention of executives who exhibit high-standards of integrity and competence;

### **2.4 Internal Controls**

- 2.4.1 Oversee the establishment by management of an adequate system of internal controls and procedures and assess its effectiveness;
- 2.4.2 Oversee the reliability and integrity of accounting and disclosure principles and practices followed by management;
- 2.4.3 Approve the Annual Financial Statements, Management Discussion and Analysis and other statutory filings such as the AIF, Management Proxy Circular and Annual Report.
- 2.4.4 Approve the Interim Financial Statements and Management Discussion and Analysis.

## **2.5 *Communication and Public Disclosure***

- 2.5.1 Adopt communication policies and monitor the Corporation's investor relations program;
- 2.5.2 Oversee the establishment of processes for accurate, timely and full public disclosure.

## **2.6 *Governance***

- 2.6.1 Establish appropriate structures and procedures to allow the Board to function independently of management;
- 2.6.2 Evaluate the size and composition of the Board and establish Board committees. Define the committees mandates to assist the Board in carrying out its responsibilities;
- 2.6.3 Review periodically the Corporation's Guide to Ethical Business Practices;
- 2.6.4 Annually review and assess the adequacy of the Board's mandate and evaluate its effectiveness in fulfilling its responsibilities;
- 2.6.5 Review shareholder proposals and determine appropriate course of action.

## **ROLE OF THE CHAIRMAN**

- 1.1 Assist newly appointed directors in becoming familiar with the operations of the Corporation and its governance process and provide orientation and continuing education for all members of the Board of Directors;
- 1.2 Review the Directors' compensation in relation to current norms and recommend changes to the Board of Directors;
- 1.3 Discuss with each director their assessment of their effectiveness and performance and contribution to the Board;
- 1.4 Recommend to the Board of Directors the size of the Board and the structure, responsibility and composition of Board committees;
- 1.5 Establish procedures for effective Board meetings and otherwise ensure that processes and structures are in place to ensure the Board functions independently from management and without conflicts of interest;
- 1.6 Recommend for approval by the Board of Directors nominees for election or appointment to the Board of Directors;
- 1.7 Discuss with each director their assessment of the effectiveness and performance of the Board of Directors and each of its committee, including the Corporate Governance Committee and report to the Board;
- 1.8 Ensure that an effective Board succession plan is in place;

**CALIAN TECHNOLOGIES LTD**  
**MANDATE OF THE CORPORATE GOVERNANCE COMMITTEE**

The Corporate Governance Committee (The Committee) will assist the Board of Directors in fulfilling its oversight responsibilities. In performing its duties, the Committee will provide advice and recommendations relating to Corporate Governance and will have the overall responsibility for the quality of the Corporation's governance system.

**1. GENERAL PROCEDURES**

- 1.1 The Committee shall be composed of a minimum of 3 directors, with the majority being independent directors.
- 1.2 The Committee shall meet periodically as circumstances dictate. Meetings shall be held at the call of the Chairman or upon the request of two members of the Board. The Committee shall report to the Board of Directors periodically on the Committee's activities.
- 1.3 A quorum shall be a majority of the members.
- 1.4 Unless the Committee otherwise specifies, the Secretary of the Corporation shall act as Secretary of all meetings of the Committee.
- 1.5 In the absence of the Chairman of the Committee, the Chairman shall chair the meeting.
- 1.6 A copy of the minutes of each meeting of the Committee shall be provided to each director in a timely fashion.
- 1.7 Committee meeting agendas shall be the responsibility of the Chairman of the Committee.
- 1.8 To assist the Committee in discharging its responsibilities, the Committee may retain at the expense of the Corporation, one or more persons having special expertise.
- 1.9 The Committee shall review its performance and mandate on an annual basis.

**2. Specific Responsibilities and Duties**

- 2.1 Establish appropriate structures and procedures to allow the Board to function independently of management;
- 2.2 Evaluate the size and composition of the Board and establish Board committees. Define the committees mandates to assist the Board in carrying out its responsibilities;
- 2.3 Annually review and assess the adequacy of the Board's mandate and evaluate its effectiveness in fulfilling its responsibilities;
- 2.4 Monitor best practices and ensure compliance with all legal requirements relating to corporate governance. Develop and recommend to the Board of Directors a set of corporate governance guidelines including the Board of Directors' mandate in accordance with applicable laws and regulations. Review such guidelines periodically and recommend changes as deemed necessary;
- 2.5 Review and assess the adequacy of the Corporation's Disclosure Policy, Insider Trading Policy, Guide to Ethical Business Practices and other related policies and guidelines, as deemed appropriate.

**CALIAN TECHNOLOGIES LTD**  
**MANDATE OF THE COMPENSATION COMMITTEE**

The purpose of the Compensation Committee (The Committee) is to review and establish the compensation of Senior Executive of the Corporation.

**1. General Procedures**

- 1.1 The Committee shall be composed of a minimum of 3 independent directors;
- 1.2 The Committee shall meet at least annually to discuss compensation arrangements for the Corporation's Senior Executives;
- 1.3 A quorum shall be a majority of the members;
- 1.4 To assist the Committee in discharging its responsibilities, the Committee may retain at the expense of the Corporation, one or more persons having special expertise;

**2. Specific Responsibilities and Duties**

- 2.1 Establish the Corporation's general compensation philosophy, and oversee the development and implementation of compensation programs;
- 2.2 Review and Approve the corporate objectives that the Chief Executive Officer is responsible for meeting, assess the performance of the Chief Executive Officer in relation to such objectives and establish the compensation for the Chief Executive Officer;
- 2.3 Review and approve compensation programs applicable to the Senior Executives of the Corporation;
- 2.4 Review and approve severance or similar termination payments proposed to be made to any current or former Senior Executives of the Corporation;
- 2.5 Oversee the development and implementation of the succession plan for Senior Executives.
- 2.6 Oversee the processes for the recruitment, training, development and retention of executives who exhibit high-standards of integrity and competence.

**APPENDIX 3**

**FORM OF STOCK OPTION PLAN RESOLUTION**

**Stock Option Plan Resolution**

BE IT RESOLVED AS AN ORDINARY RESOLUTION OF THE SHAREHOLDERS THAT:

1. the amendments to the Calian Technologies Ltd. Amended and Restated Stock Option Plan (the “**Plan**”), as more fully set forth in the blacklined copy of the Plan attached at Schedule “A” hereto, be and are hereby approved;
2. without limiting the generality of the forgoing, the maximum number of Common Shares that may be issued under the Plan, as amended, shall be increased from the current fixed maximum number of 250,000 Common Shares to a fixed maximum number of 500,000 Common Shares;
3. any officer or director of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute and deliver all such documents and to do all such acts and things as he or she may determine to be necessary or desirable in order to carry out the foregoing provisions of this resolution, the execution of any such document or the doing of any such acts and things being conclusive evidence of such determination; and
4. the directors of the Corporation may in their discretion revoke this resolution before it is implemented, without further notice to, or approval of the shareholders.

## SCHEDULE "A" TO APPENDIX 3

### Proposed Amendments to Stock Option Plan

#### CALIAN ~~TECHNOLOGY~~TECHNOLOGIES LTD. ~~2004 EMPLOYEE~~AMENDED AND RESTATED STOCK OPTION PLAN

### ARTICLE 1 PURPOSE

#### 1.1 Purpose

The purpose of the Calian ~~Technology~~Technologies Ltd. ~~2004 Employee~~Amended and Restated Stock Option Plan is to develop the interest and incentive of eligible employees and directors of Calian Technologies Ltd. (the "Company") and Affiliated Companies in the Company's growth and development by giving eligible employees and directors an opportunity to purchase Common Shares on a favourable basis, thereby advancing the interests of the Company, enhancing the value of the Common Shares for the benefit of all shareholders of the Company and increasing the ability of the Company to attract and retain skilled and motivated individuals in the service of the Company. This Calian Technologies Ltd. Amended and Restated Stock Option Plan amends and restates the Calian Technologies Ltd. Employee Stock Option Plan dated February 2005 in its entirety and all options to purchase shares of the Company granted pursuant to the Plan prior to the date hereof shall, hereafter, be governed by this Calian Technologies Ltd. Amended and Restated Employee Stock Option Plan.

### ARTICLE 2 INTERPRETATION

#### 2.1 Definitions

When used herein, unless the context otherwise requires, the following terms have the following meanings, respectively:

- (a) "Acquiror" has the meaning set forth in sub-section 4.9(e) hereof;
- (b) "Affiliated Company" means a company which is an "affiliate" (as defined in the *Securities Act* (Ontario), as amended from time) of the Company;
- (c) "Associate" has the meaning set forth in the *Securities Act* (Ontario), as amended from time to time;
- (d) "Blackout Period" means a period when the Optionee is prohibited from trading in the Company's securities pursuant to a black-out period or other trading restriction imposed by the Company;
- (e) ~~(d)~~ "Board" means the board of directors of the Company;
- (f) ~~(e)~~ "Business Day" means a day that is not a Saturday, Sunday or a statutory or legal holiday in Ottawa, Ontario;
- (g) ~~(f)~~ "Change in Control" has the meaning set forth in sub-section 4.9(f) hereof;
- (h) ~~(g)~~ "Committee" has the meaning set forth in Section 3.2 hereof;

- (i) ~~(h)~~ “**Common Shares**” means the common shares in the capital of the Company;
- (j) ~~(i)~~ “**Company**” means Calian ~~Technology~~ [Technologies](#) Ltd.;
- (k) ~~(j)~~ “**Date of Grant**” means, for any Option, the date specified by the Board at the time it grants the Option or, if no such date is specified, the date upon which the Option was granted;
- (l) ~~(k)~~ “**Director**” means a member of the Board or a member of the board of directors of an Affiliated Company;
- (m) ~~(l)~~ “**Disabled**” or “**Disability**” means the permanent and total incapacity of an Optionee as determined in accordance with procedures established by the Board for purposes of this Plan;
- (n) ~~(m)~~ “**Employee Participant**” means a current full-time or part-time employee or contract employee (other than an Executive Participant) of the Company or of an Affiliated Company. “Employee Participant” includes any Registered Retirement Savings Plans or Registered Retirement Income Funds established by or for the individual employee (or under which such individual is the beneficiary) and a subsidiary entity of such individual. A “**subsidiary entity**” is defined in sub-section 2.2(d) hereof;
- (o) ~~(n)~~ “**Exchange**” means The Toronto Stock Exchange or, if the Common Shares are not then listed and posted for trading on The Toronto Stock Exchange, on such stock exchange in Canada on which the Common Shares are listed and posted for trading as may be selected for such purpose by the Board;
- (p) ~~(o)~~ “**Executive Participant**” means a Director or an officer of the Company or of an Affiliated Company. “Executive Participant” includes any Registered Retirement Savings Plans or Registered Retirement Income Funds established by or for the individual Director or officer (or under which such individual is the beneficiary) and a subsidiary entity of such individual;
- (q) ~~(p)~~ “**Exercise Notice**” means a notice in writing, in the form set out in Schedule “B” hereto, signed by an Optionee and stating the Optionee’s intention to exercise a particular Option;
- (r) ~~(q)~~ “**Exercise Price**” means the price at which a Common Share may be purchased pursuant to the exercise of an Option;
- (s) ~~(r)~~ “**Exercise Period**” means the period of time during which an Option granted under this Plan may be exercised ~~(provided, however, that the Exercise Period may not exceed ten (10) years from the relevant Date of Grant);~~
- (t) ~~(s)~~ “**Insider**” has the meaning set forth in the *Securities Act (Ontario)*, as amended from time to time;
- (u) ~~(t)~~ “**Market Price**” of any Common Share underlying any Option shall be the closing price of a Common Share on the Exchange on the trading day immediately preceding the date on which such Option is granted. In the event that the Common Shares are not listed and posted for trading on any stock exchange in Canada, the Market Price shall be determined by the Board in its sole discretion;

- (v) “NI 45-106” means National Instrument 45-106 – Prospectus and Registration Exemptions of the Canadian Securities Administrators as may be amended, restated and/or supplanted from time to time;
- (w) ~~(t)~~ **“Offer”** has the meaning set forth in sub-section 4.9(e) hereof;
- (x) ~~(u)~~ **“Option”** means a non-assignable, non-transferable right to purchase Common Shares under this Plan;
- (y) ~~(v)~~ **“Optionee”** means an Employee Participant or Executive Participant who has been granted one or more Options;
- (z) ~~(w)~~ **“Option Agreement”** means a signed, written agreement between an Optionee and the Company, in the form attached as Schedule “A” hereto, subject to any amendments or additions thereto as may, in the discretion of the Board, be necessary or advisable, evidencing the terms and conditions on which an Option has been granted under this Plan;
- (aa) ~~(x)~~ **“Outstanding Issue”** means the number of Common Shares outstanding at the applicable date;
- (bb) ~~(y)~~ **“Participant”** means an Employee Participant or Executive Participant;
- (cc) ~~(z)~~ **“Person”** includes an individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate and a natural person in his or her capacity as trustee, executor, administrator or other legal representative;
- (dd) ~~(aa)~~ **“Plan”** means this Calian ~~Technology~~Technologies Ltd. ~~2004~~Amended and Restated Employee Stock Option Plan;
- (ee) “Post-Blackout Period Price” shall be the closing price of the Common Shares on the Exchange on the first Business Day following the date on which the relevant Blackout Period has expired. In the event that such Common Shares did not trade on such date, the Post-Blackout Period Price shall be the average of the bid and ask prices in respect of such Common Shares at the close of trading on such date. In the event that such Common Shares are not listed and posted for trading on any stock exchange, the Post-Blackout Period Price in respect thereof shall be as determined by the Board in its sole discretion at the close of business on the first Business Day following the expiration of the relevant Blackout Period;
- (ff) “Related Entity” has the meaning ascribed thereto by NI 45-106;
- ~~(bb)~~ **“Related Person”** means ~~a director or senior officer of the Company or an associate of a director or senior officer of the Company~~an Insider and also includes Associates and affiliates of the insider;
- (hh) ~~(ee)~~ **“Retirement”** means retirement from active employment with the Company or an Affiliated Company at or after age 65 or, with the consent for purposes of the Plan of such officer

of the Company as may be designated by the Board, at or after such earlier age and upon the completion of such years of service as the Board may specify; and

- (ii) ~~(dd)~~ **“Termination Date”** means in the case of an Employee Participant or Executive Participant whose employment or term of office with the Company or an Affiliated Company terminates in the circumstances set out in sub-section 4.7(b) or 4.7(c) hereof, the later of (A) the date that is the last day of any statutory notice period applicable to the Optionee pursuant to applicable employment standards legislation in Canada, and (B) the date that is designated by the Company or an Affiliated Company, as the case may be, as the last day of the Optionee’s employment or term of office with the Company or the Affiliated Company, as the case may be, and “Termination Date” specifically does not mean the date on which any period of reasonable notice that the Company or the Affiliated Company (as the case may be) may be required at law to provide to the Optionee, would expire.

## 2.2 Interpretation

- (a) Whenever the Board or, where applicable, the Committee is to exercise discretion in the administration of the terms and conditions of this Plan, the term “discretion” means the sole and absolute discretion of the Board or the Committee, as the case may be.
- (b) As used herein, the terms “Article”, “Section”, “sub-section” and “paragraph” mean and refer to the specified Article, Section, sub-section and paragraph hereof, respectively.
- (c) Words importing the singular include the plural and vice versa and words importing any gender include any other gender.
- (d) In this Plan, a Person is considered to be a “subsidiary entity” of another Person if:
- (i) it is controlled by,
    - (A) that other Person, or
    - (B) that other and one or more Persons, each of which is controlled by that other Person, or
    - (C) two or more Persons, each of which is controlled by that other Person; or
  - (ii) it is a subsidiary entity of a Person that is that other Person’s subsidiary entity.
- (e) In this Plan, a Person is considered to be “controlled” by a Person if:
- (i) in the case of a Person,
    - (A) voting securities of the first-mentioned Person carrying more than fifty percent (50%) of the votes for the election of directors thereof are held, otherwise than by way of security only, by or for the benefit of the other Person, and
    - (B) the votes carried by such securities are entitled, if exercised, to elect a majority of the directors of the first-mentioned Person;

- (ii) in the case of a partnership that does not have directors, other than a limited partnership, the second-mentioned Person holds more than fifty percent (50%) of the interests in the partnership; or
  - (iii) in the case of a limited partnership, the general partner is the second-mentioned Person.
- (f) Unless otherwise specified, all references to money amounts are to Canadian currency.

### **ARTICLE 3 ADMINISTRATION**

#### **3.1 Administration**

Subject to Section 3.2 hereof, this Plan will be administered by the Board and the Board has sole and complete authority, in its discretion, to:

- (a) determine the individuals (from among the Participants) to whom Options may be granted;
- (b) grant Options in such amounts and, subject to the provisions of this Plan, on such terms and conditions as it determines including:
  - (i) the time or times at which Options may be granted;
  - (ii) the Exercise Price of any Option;
  - (iii) the time or times when an Option becomes exercisable and, subject to Section 4.3 hereof, the duration of the Exercise Period of an Option;
  - (iv) whether restrictions or limitations are to be imposed on Common Shares that may be purchased pursuant to the exercise of any Option and the nature of such restrictions or limitations, if any; and
  - (v) any acceleration of exercisability or waiver of termination regarding any Option, based on such factors as the Board may determine;
- (c) interpret this Plan and adopt, amend and rescind administrative guidelines and other rules and regulations relating to this Plan; and
- (d) make all other determinations and take all other actions necessary or advisable for the implementation and administration of this Plan.

The Board's determinations and actions within its authority under this Plan are conclusive and binding on the Company and all other persons. The day-to-day administration of the Plan may be delegated to such officers and employees of the Company or of an Affiliated Company as the Board may in its sole discretion determine.

#### **3.2 Delegation to Committee**

To the extent permitted by applicable law, the Board may, from time to time, delegate to a committee (the "Committee") of the Board all or any of the powers conferred on the Board under the Plan. In such event, the Committee will exercise the powers delegated to it by the Board in the manner and on the terms

authorized by the Board. Any decision made or action taken by the Committee arising out of or in connection with the administration or interpretation of this Plan in this context is final and conclusive.

### **3.3 Eligibility**

All Employee Participants and Executive Participants are eligible to participate in the Plan, subject to sub-sections 4.6(b) and 4.7(d) hereof. Eligibility to participate does not confer upon any Participant any right to be granted Options pursuant to the Plan. The extent to which any Participant is entitled to be granted Options pursuant to the Plan will be determined in the sole and absolute discretion of the Board, provided, however, that the following restrictions shall apply to this Plan together with all other ~~plans~~[share compensation arrangements of the Company](#) or stock option agreements of the Company:

- (a) the aggregate number of Common Shares reserved for issuance pursuant to Options granted to Related Persons shall not exceed ten percent (10%) of the Outstanding Issue;
- (b) Related Persons shall not be issued, within any twelve month period, a number of Common Shares which exceeds ten percent (10%) of the Outstanding Issue;
- (c) the number of Common Shares reserved for issuance pursuant to Options to any one Participant and such Participant's Associates shall not exceed five percent (5%) of the Outstanding Issue; and
- (d) no single Participant together with such Participant's Associates shall be granted, within any twelve month period, Options representing a number of Common Shares which exceeds five percent (5%) of the Outstanding Issue.

### **3.4 Total Common Shares Subject to Options**

- (a) The aggregate number of Common Shares that may be issued pursuant to the exercise of Options under this Plan shall not exceed ~~250,000~~[500,000](#) Common Shares which number may be increased by the Board in its sole and absolute discretion subject only to applicable laws and any shareholder or other approval which may be required. No Option may be granted if such grant would have the effect of causing the total number of Common Shares subject to Options under this Plan to exceed ~~250,000~~[500,000](#).
- (b) If, an Option terminates for any reason prior to its exercise in full or is cancelled, the Common Shares issuable pursuant to such Option shall be added back to the number of Common Shares reserved for issuance under the Plan and such Common Shares will again become available for grant under this Plan.

### **3.5 Option Agreements**

All grants of Options under Section 4.1 hereof shall be evidenced by Option Agreements. Such Option Agreements will be subject to the applicable provisions of this Plan and will contain such provisions as are required by this Plan and any other provisions that the Board may direct. Any one proper officer of the Company is authorized and empowered to execute and deliver, for and on behalf of the Company, an Option Agreement to each Optionee.

### **3.6 Non-transferability**

Subject to Section 4.6 hereof, Options granted under this Plan may only be exercised during the lifetime of the Optionee by such Optionee personally. No assignment or transfer of Options, whether voluntary, involuntary, by operation of law or otherwise, vests any interest or right in such Options whatsoever in

any assignee or transferee and immediately upon any assignment or transfer, or any attempt to make the same, such Options will terminate and be of no further force or effect.

## **ARTICLE 4 GRANT OF OPTIONS**

### **4.1 Grant of Options**

The Board may, from time to time, subject to the provisions of this Plan and such other terms and conditions as the Board may prescribe, grant Options to any Participant. Without limiting the generality of the foregoing, Options may be granted by the Board from time to time in during a Blackout Period, provided that in no event shall such Options be exercisable until after the Exercise Price applicable to such Options is fixed by the Board in accordance with Section 4.2.

### **4.2 Exercise Price**

The ~~purchase price of Common Shares purchasable under~~ Exercise Price of any Option shall be as determined by the Board but in any event shall not be less than the Market Price of the Common Shares on the Business Day immediately prior to the Date of Grant. If the Board grants Options to an Optionee during a Blackout Period, the Exercise Price fixed by the Board for such Options shall be equal to the greater of (i) the Market Price of the Common Shares on the Business Day immediately prior to the Date of Grant, and (ii) the Post-Blackout Period Price following the end of such Blackout Period.

### **4.3 Term of Options**

Subject to any accelerated termination as set forth in this Plan, each Option, unless otherwise specified by the Board, expires on the tenth anniversary of the Date of Grant; provided that in no event will the Exercise Period of an Option exceed ten (10) years from its Date of Grant. Notwithstanding the forgoing, should the expiry date of any vested Option fall during or within nine (9) trading days of the expiration of a Blackout Period, then the expiry date of such Option shall instead be ten trading days following the date the relevant Blackout Period is lifted, terminated or removed.

### **4.4 Exercise Period**

Unless otherwise specified by the Board at the time of granting an Option and except as otherwise provided in this Plan, each Option will vest and be exercisable as follows:

- (a) one third of the Common Shares issuable pursuant to the exercise of an Option shall vest and may be purchased by way of the exercise of such Option on the first anniversary of the Date of Grant thereof;
- (b) an additional one third of the Common Shares issuable pursuant to the exercise of an Option shall vest and may be purchased by way of the exercise of such Option on the second anniversary of the Date of Grant thereof; and
- (c) the remaining one third of the Common Shares issuable pursuant to the exercise of an Option shall vest and may be purchased by way of the exercise of such Option on the third anniversary of the Date of Grant thereof.

Once a portion of an Option vests and becomes exercisable, it shall remain exercisable until expiration or termination of such Option, unless otherwise specified by the Board in connection with the grant of such Option or pursuant to Section 4.9 hereof with respect to a change in control of the Company. Each Option or portion thereof may be exercised at any time or from time to time, in whole or in part, for up to

the total number of Common Shares with respect to which it is then exercisable. The Board may accelerate the date upon which any instalment of any Option becomes exercisable.

Subject to the provisions of this Plan and any Option Agreement, Options may be exercised by means of a fully completed Exercise Notice delivered to the Company together with payment therefor.

#### **4.5 Payment of Exercise Price**

An Exercise Notice must be accompanied by payment in full of the purchase price for the Common Shares to be purchased thereby. Such Exercise Price must be fully paid in cash, or by certified cheque, bank draft or money order payable to the Company or by such other means as might be specified from time to time by the Board. No Common Shares will be issued pursuant to the exercise of any Option until full payment therefor has been received by the Company. Subject to Section 4.10 hereof, as soon as practicable after receipt of any Exercise Notice and full payment, the Company will deliver to the Optionee a certificate or certificates representing the acquired Common Shares.

#### **4.6 Retirement, Death or Disability of Optionee**

If an Employee Participant or an Executive Participant dies or becomes Disabled while an employee, director or officer of the Company or an Affiliated Company or if the employment or term of office of the Optionee with the Company or an Affiliated Company terminates due to Retirement, then:

- (a) the executor, administrator or other legal representative of the Optionee's estate or the Optionee, as the case may be, may exercise any Options of the Optionee to the extent that such Options were exercisable at the date of such death, Disability or Retirement and the right to exercise such Options shall terminate on the earlier of (i) the date that is one hundred and eighty (180) days from the date of the Optionee's death, Disability or Retirement and (ii) the date on which the Exercise Period of the particular Option expires. Any Options held by the Optionee that were not exercisable at the date of death, Disability or Retirement shall immediately expire and be cancelled on such date; and
- (b) such Optionee's eligibility to receive further grants of Options under the Plan shall cease as of the date of the Optionee's death, Disability or Retirement, as the case may be.

#### **4.7 Termination of Employment or Services**

- (a) Where an Optionee's employment or term of office with the Company or an Affiliated Company ceases by reason of the Optionee's death, Disability or Retirement, then the provisions of Section 4.6 hereof shall apply.
- (b) Where an Optionee's employment or term of office terminates by reason of (i) termination by the Company or an Affiliated Company without cause (whether such termination occurs with or without any or adequate reasonable notice, or with or without any or adequate compensation in lieu of such reasonable notice) or (ii) voluntary resignation by such Optionee, then any Options held by such Optionee that are exercisable at the Termination Date shall continue to be exercisable by such Optionee until the earlier of (A) the date that is thirty (30) days following the Termination Date and (B) the date on which the Exercise Period of the particular Option expires. Any Options held by such Optionee that are not exercisable at the Termination Date shall immediately expire and be cancelled on the Termination Date.

- (c) Where an Optionee's employment or term of office is terminated by the Company or an Affiliated Company for cause, then any Options held by such Optionee, whether or not exercisable at the Termination Date, shall expire and be cancelled upon the earlier of (A) the date that is thirty (30) days following the Termination Date and (B) the date on which the Exercise Period of the particular Option expires.
- (d) An Optionee's eligibility to receive further grants of Options under the Plan shall cease as of the date that the Company or an Affiliated Company, as the case may be, provides such Optionee with written notification that such Optionee's employment or term of office, as the case may be, is terminated, notwithstanding that such date may be prior to the Termination Date.
- (e) Unless the Board, in its discretion, otherwise determines, at any time and from time to time, Options shall not be affected by any change of employment within or among the Company or an Affiliated Company for so long as an Employee Participant continues to be an employee of the Company or an Affiliated Company, or for so long as an Executive Participant continues to be a director or officer of the Company or an Affiliated Company, as the case may be.

#### **4.8 Discretion to Permit Exercise**

Notwithstanding the provisions of Sections 4.6 and 4.7 hereof, the Board may, in its discretion, at any time prior to or following the events contemplated in such sections, permit the exercise of any or all Options held by an Optionee in the manner and on the terms authorized by the Board, provided that the Board shall not, in any case, authorize the exercise of an Option pursuant to this Section 4.8 beyond the expiration of the Exercise Period of the particular Option.

#### **4.9 Change in Control**

- (a) Notwithstanding anything else in this Plan or contained in any Option Agreement, the Board shall have the right to provide for the conversion or exchange of any outstanding Options into or for options, rights or other securities in any entity participating in or resulting from a "Change in Control" (as defined below).
- (b) Upon the Company entering into an agreement relating to and publicly announcing a transaction which, if completed, would result in a Change in Control, the Company shall give written notice of the proposed Change in Control to each Optionee, together with a description of the effect of such Change in Control on outstanding Options, not less than ten (10) Business Days prior to the closing of the transaction resulting in the Change ~~of~~in Control.
- (c) The Board may, in its sole discretion, accelerate the vesting of any or all outstanding Options to provide that, notwithstanding Section 4.4 hereof or any Option Agreement, such outstanding Options shall be fully vested and conditionally exercisable upon (or prior to) the completion of the Change in Control, provided, however, that the Board shall not, in any case, authorize the exercise of Options pursuant to this section beyond the Expiry Date of such Options. If the Board elects to accelerate the vesting of the Options, and if any of such Options are not exercised within ten (10) Business Days following the giving of the notice contemplated in sub-section 4.9(b) hereof, such unexercised Options shall terminate and expire upon the completion of the proposed Change in Control. If, for any reason, the Change in Control does not occur within the contemplated time period, the acceleration of the vesting of the Options shall be retracted and vesting shall instead revert to the manner provided in Section 4.4 hereof.

- (d) To the extent that the Change in Control would also result in a capital reorganization, arrangement, amalgamation or reclassification of the share capital of the Company and the Board does not accelerate the vesting of Options pursuant to sub-section 4.9(c) hereof, the Company shall make adequate provisions to ensure that, upon completion of the proposed Change in Control, the number and kind of shares subject to outstanding Options and/or the Exercise Price per share of Options shall be appropriately adjusted in such manner as the Board considers equitable to prevent substantial dilution or enlargement of the rights granted to Optionees.
- (e) If any individual, corporation or other entity (an **“Acquiror”**) makes an offer to purchase all of the outstanding Common Shares (together with any outstanding shares of any other class or series)(an **“Offer”**) and the Offer is accepted by all of the holders of Common Shares, other than those shareholders who acquired their Common Shares solely pursuant to the exercise of Options granted under the Plan (**“Option Shareholders”**), such Option Shareholders shall be required to sell all Common Shares which they have acquired or acquire pursuant to the exercise of any Options to the Acquiror on the same terms and conditions as set out in the Offer.
- (f) For purposes of this Section 4.9, a “Change in Control” means the happening of any of the following events: (i) any transaction pursuant to which (A) the Company goes out of existence or (B) any Person, or any Associate or Affiliated Company of such Person, (other than: the Company, a subsidiary of the Company or an employee benefit plan of the Company (including any trustee of such plan acting as trustee)) hereafter acquires the direct or indirect “beneficial ownership” (as such term is defined in the *Canada Business Corporations Act*) of securities of the Company representing 50% or more of the aggregate voting power of all of the Company’s then issued and outstanding securities; (ii) the sale of all or substantially all of the Company’s assets to a Person other than a Person that was an Affiliated Company; (iii) the dissolution or liquidation of the Company except in connection with the distribution of assets of the Company to one or more Persons which were Affiliated Companies prior to such event; or (iv) the occurrence of a transaction requiring approval of the Company’s shareholders involving the acquisition of the Company by an entity through purchase of assets, by amalgamation or otherwise.

#### **4.10 Conditions of Exercise**

Each Optionee shall, when requested by the Company, sign and deliver all such documents relating to the granting or exercise of Options which the Company deems necessary or desirable.

### **ARTICLE 5 SHARE CAPITAL ADJUSTMENTS**

#### **5.1 General**

The existence of any Options shall not affect in any way the right or power of the Company or its shareholders to make, authorize or determine any adjustment, recapitalization, reorganization or any other change in the Company’s capital structure or its business, or any amalgamation, combination, merger or consolidation involving the Company, to create or issue any bonds, debentures, Common Shares or other securities of the Company or to determine the rights and conditions attaching thereto, to effect the dissolution or liquidation of the Company or any sale or transfer of all or any part of its assets or business, or to effect any other corporate act or proceeding, whether of a similar character or otherwise, whether or not any such action referred to in this Section 5.1 would have an adverse effect on this Plan or any Option granted hereunder.

#### **5.2 Reorganization of Company’s Capital**

Should the Company effect a subdivision or consolidation of Common Shares or any similar capital reorganization or a payment of a stock dividend (other than a stock dividend that is in lieu of a cash dividend), or should any other change be made in the capitalization of the Company that, in the opinion of the Board, would warrant the replacement of any existing Options in order to adjust (a) the number of Common Shares that may be acquired on the exercise of any outstanding Options and/or (b) the Exercise Price of any outstanding Options in order to preserve proportionately the rights and obligations of the Optionees, the Board shall authorize such steps to be taken as may be equitable and appropriate thereto.

### **5.3 Other Events Affecting the Company**

In the event of an amalgamation, combination, merger or other reorganization involving the Company by exchange of Common Shares, by sale or lease of assets or otherwise, that, in the opinion of the Board, warrants the replacement of any existing Options in order to adjust (a) the number of Common Shares that may be acquired on the exercise of any outstanding Options or (b) the Exercise Price of any outstanding Options in order to preserve proportionately the rights and obligations of the Optionees, the Board shall authorize such steps to be taken as may be equitable and appropriate thereto.

### **5.4 Immediate Exercise of Options**

Where the Board determines that the steps provided in Sections 5.2 and 5.3 hereof would not preserve proportionately the rights and obligations of the Optionees in the circumstances or otherwise determines that it is appropriate, the Board may permit the immediate exercise of any outstanding Options that are not otherwise exercisable.

### **5.5 Issue by Company of Additional Common Shares**

Except as expressly provided in this Article 5, neither the issue by the Company of shares of any class or securities convertible into or exchangeable for shares of any class, nor the conversion or exchange of such shares or securities, shall affect, and no adjustment by reason thereof shall be made with respect to (a) the number of Common Shares that may be acquired on the exercise of any outstanding Options or (b) the Exercise Price of any outstanding Options.

### **5.6 Fractions**

No fractional Common Shares will be issued on the exercise of an Option. Accordingly, if, as a result of any adjustment under Sections 5.2 to 5.4 hereof inclusive, an Optionee would become entitled to a fractional Common Share, such Optionee shall have the right to acquire only the adjusted number of full Common Shares and no payment or other adjustment will be made with respect to the fractional Common Shares so disregarded.

### **5.7 Conditions of Exercise**

The Plan and each Option are subject to the requirement that if at any time the Board determines that the listing, registration or qualification of the Common Shares subject to such Option upon any stock exchange or under any provincial, state or federal law, or that the consent or approval of any governmental body, stock exchange or of the holders of the Common Shares generally, is necessary or desirable, as a condition of, or in connection with, the granting of such Option or the issue or purchase of Common Shares thereunder, no such Option may be granted or exercised in whole or in part unless such listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Board. The Optionees shall, to the extent applicable, cooperate with the Company in relation to such registration, qualification or other approval and shall have no claim or cause of action against the Company or any of its officers or directors as a result of any failure by the Company to obtain or to take any steps to obtain any such registration, qualification or approval.

## **ARTICLE 6 MISCELLANEOUS PROVISIONS**

## 6.1 Legal Requirement

The Company is not obligated to grant any Options, issue any Common Shares or other securities, make any payments or take any other action if, in the opinion of the Board, in its sole discretion, such action would constitute a violation by an Optionee or the Company of any provision of any applicable statutory or regulatory enactment of any government or government agency.

## 6.2 Optionee's Entitlement

Except as otherwise provided in this Plan, Options previously granted under this Plan, whether or not then exercisable, are not affected by any change in the relationship between, or ownership of, the Company and an Affiliated Company. For greater certainty, all Options remain valid and exercisable in accordance with the terms and conditions of this Plan and are not affected by reason only that, at any time, an Affiliated Company ceases to be an Affiliated Company.

## 6.3 Withholding Taxes

The exercise of each Option granted under this Plan is subject to the condition that if at any time the Company determines, in its discretion, that the satisfaction of withholding tax or other withholding liabilities is necessary or desirable in respect of such exercise, such exercise is not effective unless such withholding has been effected to the satisfaction of the Company. In such circumstances, the Company may require that an Optionee pay to the Company, in addition to and in the same manner as the Exercise Price for the Common Shares, such amount as the Company is obliged to remit to the relevant taxing authority in respect of the exercise of the Option. Any such additional payment is due no later than the date as of which any amount with respect to the Option exercised first becomes includable in the gross income of the Optionee for tax purposes.

## 6.4 Rights of Participant/Optionee

No Participant has any claim or right to be granted an Option (including, without limitation, an Option granted in substitution for any Option that has expired pursuant to the terms of this Plan), and the granting of any Option is not to be construed as giving an Optionee a right to remain in the employ of the Company or an Affiliated Company. No Optionee has any rights as a shareholder of the Company in respect of Common Shares issuable on the exercise of rights to acquire Common Shares under any Option until the allotment and issuance to the Optionee of certificates representing such Common Shares.

## 6.5 Compliance with Stock Exchange

The Board may make changes to the terms of the Options or the Plan to the extent necessary or desirable to comply with any rules, regulations or policies of the Exchange, provided that the value of previously granted Options and the rights of Optionees are not materially adversely affected by any such changes.

## 6.6 Termination; Amendment

- (a) The Plan will terminate and, for greater certainty, all unexercised Options shall terminate and expire on the earliest of: (i) the date upon which no further Common Shares remain available for issuance pursuant to Options which may be granted under the Plan and no Options remain outstanding; (ii) if the Board accelerates the vesting of Options pursuant to Section 4.9 hereof upon the occurrence of a Change in Control, unless renewed for such further period and upon such terms and conditions as the Board may determine; and (iii) the tenth anniversary of the Plan.
- (b) The Board ~~may, without notice, at any time or from time to time, of Directors shall have the right, in its sole discretion, to~~ amend, suspend or terminate this Plan or any ~~provisions hereof in such respects as it, in its sole discretion, determines appropriate. No such~~ portion thereof at any time, in accordance with applicable legislation, without obtaining the approval of shareholders; provided that any amendment to any provision of the Plan will be subject to any required

regulatory approval and the provisions of applicable law, if any, that require the approval of shareholders. Notwithstanding the foregoing, the Company will be required to obtain the approval of the shareholders of the Company for any amendment related to: (i) the maximum number or percentage of Common Shares issuable under the Plan; (ii) a reduction in the Exercise Price of outstanding Options or cancellation of Options for the purpose of issuing new Options; (iii) an extension to the term of outstanding Options; (iv) increasing limits on non-employee director participation; (v) Section 3.3 of the Plan which would increase the maximum percentage of Common Shares available to be issued to insiders under the Plan; (vi) increase the number of Common Shares reserved for issuance to any one Participant (or its Associates); and (vii) Section 3.6 which would allow an Option holder to transfer Options other than by will or pursuant to laws of succession. Subject to compliance with the applicable rules of the Exchange, no amendment, suspension or termination of this Plan, without the consent of any Optionee or the representatives of his or her estate, as applicable, alters or impairs any rights or obligations arising from any Option previously granted to an Optionee under this Plan will alter or impair any Options under the Plan, or any rights pursuant thereto, granted previously to any Participant without the consent of that Participant.

- (c) Notwithstanding any other provision of this Plan, the Exercise Price of any Options granted under this Plan must not be lower than the Market Price of the Common Shares at the time the Option is granted.

#### **6.7 Indemnification**

Every Director will at all times be indemnified and saved harmless by the Company from and against all costs, charges and expenses whatsoever including any income tax liability arising from any such indemnification, that such Director may sustain or incur by reason of any action, suit or proceeding, taken or threatened against the Director, otherwise than by the Company, for or in respect of any act done or omitted by the Director in respect of this Plan, such costs, charges and expenses to include any amount paid to settle such action, suit or proceeding or in satisfaction of any judgement rendered therein.

#### **6.8 Quebec Stock Savings Plan**

If the Common Shares qualify in any period for purposes of a stock savings plan under the *Taxation Act* (Quebec) (the “Quebec Act”), the Company shall so notify all Quebec resident Employee Participants and Executive Participants who are officers of the Company or of an Affiliated Company, whereupon any such Participant who wishes to deposit pursuant to the Quebec Act some or all of the Common Shares to be issued to them under the Plan in such period shall so indicate in the Exercise Notice.

#### **6.9 Participation in the Plan**

The participation of any Participant in the Plan is entirely voluntary and not obligatory and shall not be interpreted as conferring upon such Participant any rights or privileges other than those rights and privileges expressly provided in the Plan. In particular, participation in the Plan does not constitute a condition of employment nor a commitment on the part of the Corporation to ensure the continued employment of such Participant. The Plan does not provide any guarantee against any loss which may result from fluctuations in the market value of the Common Shares. The Company does not assume responsibility for the income or other tax consequences for the Participants and they are advised to consult with their own tax advisors.

#### **6.10 Effective Date**

This Plan becomes effective on a date to be determined by the Board.

#### **6.11 Governing Law**

This Plan is created under and is to be governed, construed and administered in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

DATED this \_\_\_\_ day of ~~February~~November, ~~2005~~2008.

**LTD.**

**CALIAN ~~TECHNOLOGY~~TECHNOLOGIES**

Per: \_\_\_\_\_  
Chief Executive Officer