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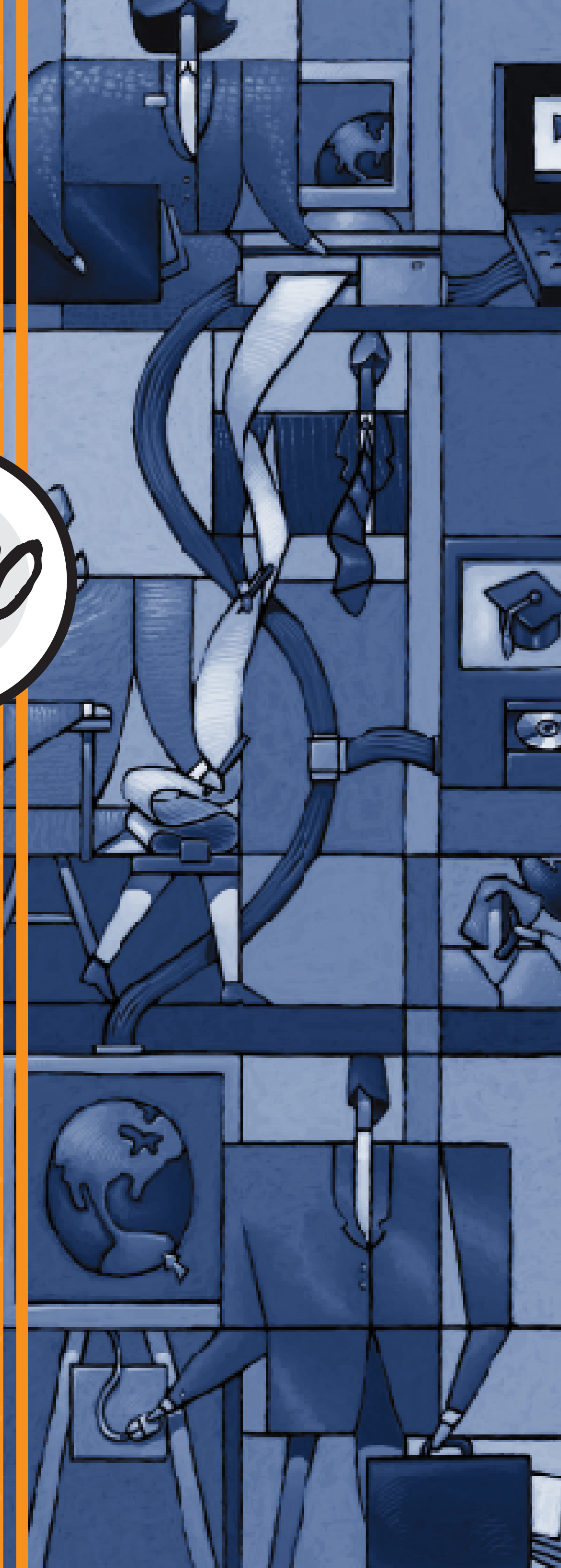
CALIAN

annual report

2000



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Corporate Profile

With annual revenues of more than $125 million, Calian is one of the largest providers of technology and professional services in Canada. Calian's Professional Services practice assists customers by providing recruiting and placement services, strategic long-term outsourcing services and information technology consulting services. Calian's Systems Engineering division delivers leading-edge communications infrastructures to the aerospace, telecommunications and government sectors.

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At a Glance

Professional Services

To gain a competitive advantage in today's marketplace, companies are increasingly focused on their core markets, products and services. Businesses are interested in staffing quickly to take advantage of key opportunities while outsourcing their non-core activities. Calian's Professional Services practice is focused on:

- attracting people to meet our clients' demands;
- developing an organization's strategic focus and its ability to manage change; and
- enabling a business and its employees to use and apply technology to achieve greater workforce productivity.

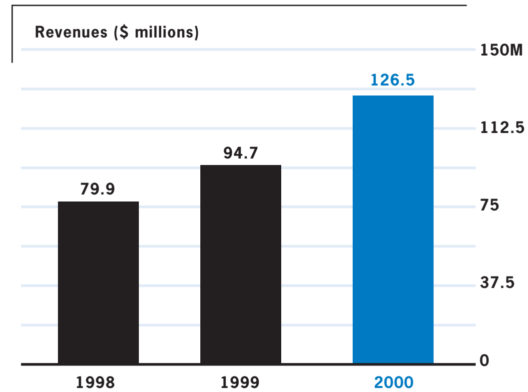
Systems Engineering

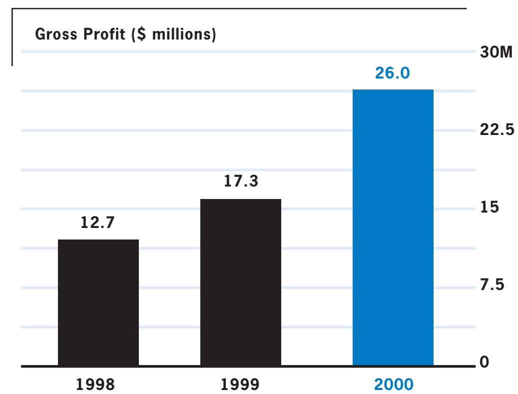
Calian's Systems Engineering division specializes in satellite communications, control and test systems. Our completely dependable, flexible systems and services fully satisfy the needs of major satellite manufacturers, operators and service providers around the world.

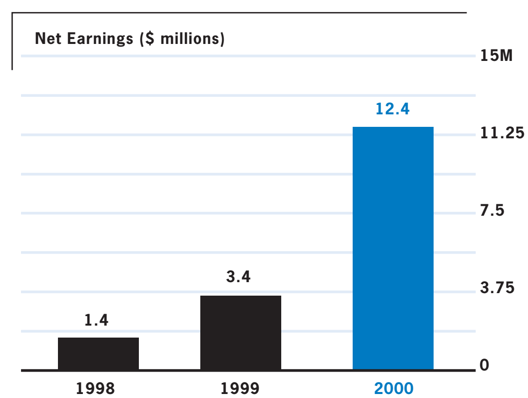
At a Glance

Highlights

- Record sales of $126.5 million, surpassing its prior record year by $31.8 million.
- For the first time in corporate history, recorded bookings of more than $130 million, with bookings for the year totaling $134.8 million.
- Order backlog of $116.6 million as of September 30, 2000, compared to $108.3 million at the end of 1999. This represents an increase of $8.3 million or 7.7%.
- Continued to penetrate Fortune 1000 firms in North America, adding projects for clients such as Lockheed Martin, Nokia, Siemens, Prentice Hall and Alcatel.
- Acquired MacDonald & Brisson, a staffing services company, that will further increase our operational strength in the human resources management sector.
- In April acquired Learning-Portal.com and Productivity Point International (Ottawa). These acquisitions will strengthen Calian's position in the e-Services business and in instructor-led training.
- Toward the end of fiscal 2000, introduced a world-class ERP system to enhance its back office systems capabilities and establish a foundation for improved growth and performance.







Highlights

Chairman's Message

Since 1982, Calian has been a leader in providing technical and professional services to both government agencies and some of the world's largest aerospace and telecommunications firms.

In May of 2000, I decided to retire as President and CEO and turn the helm over to Shaun McEwan, who was previously Calian's Executive Vice-President and Chief Financial Officer. During my 18 years as President and CEO, I have had the privilege of working with many highly skilled and talented employees and senior managers whose collective energy has helped Calian get to where it is today. I want to take this opportunity to thank them for all of their contributions over the years. I have also had the privilege of having first-class Boards of Directors and they have provided me with invaluable direction and guidance—not only for me but more importantly for Calian.

I would also like to thank our customers for their support. Through the years we have had a single mission—to satisfy our customers. We have worked on some of the most challenging engagements with the world's best companies and the best run government agencies.

Finally, I would like to express my thanks to our shareholders. I very much appreciate their support and encouragement.

I will continue to provide strategic direction to Calian as Chairman and I look forward to helping secure some of the tremendous business opportunities we see ahead.

Larry O'Brien
Chairman of the Board of Directors

President's Message

For Calian Technology, fiscal 2000 witnessed important new milestones in the company's evolution. Calian established unprecedented operational benchmarks, strengthened its financial position and grew its order book to record volume.

For the fiscal year ended September 30, 2000, revenues increased 33.6% to $126.5 million. Earnings moved up significantly to $12.4 million.
At year-end, consolidated backlog rose 7.7% to $116.6 million.
Long-term debt dramatically shrank to $0.9 million from $3.3 million.
Shareholders' equity increased to $42.2 million from $26.2 million.

Throughout the year we strengthened our core resourcing, engineering and consulting services for private and public sector organizations across North America.

Internal growth during the year consisted of increased business with current clients and new business created by expanding our customer base. Calian continued to penetrate major Fortune 1000 firms, winning contracts with Lockheed Martin, Nokia, Siemens, Prentice Hall and Alcatel.

External growth was hallmarked by a selective acquisition program. Calian's objective in 2000 was to strengthen its leadership position in the resourcing market, resulting in the acquisition of MacDonald & Brisson Personnel Services, a staffing services company specializing in temporary help and IT staffing services. We also acquired Learning-Portal.com and Productivity Point International (Ottawa). These acquisitions bolstered the Company's e-Services business and allowed us to enter the instructor-led training business.

As Calian grows, we are seeking to leverage our existing strengths while carefully evaluating markets for services currently in development. We aim to become the recognized market leader in our industry. Customers will view us as the best-of-breed supplier of high-value, quality solutions.

To deliver on these objectives, we will focus our efforts on market segments where we have significant opportunities—Professional Services and Systems Engineering. We will continue to review our operations to ensure we achieve profitable growth for our shareholders.

The e-Services consulting market has been developing somewhat more slowly than originally envisaged. Calian is working to strengthen its position in this market by focusing its operations and emphasizing our systems integration expertise.

On behalf of the Board of Directors and management at Calian, I wish to thank our shareholders, customers and employees for their support and I look forward to their participation as we continue to move forward.

M. Shaun McEwan
President and CEO

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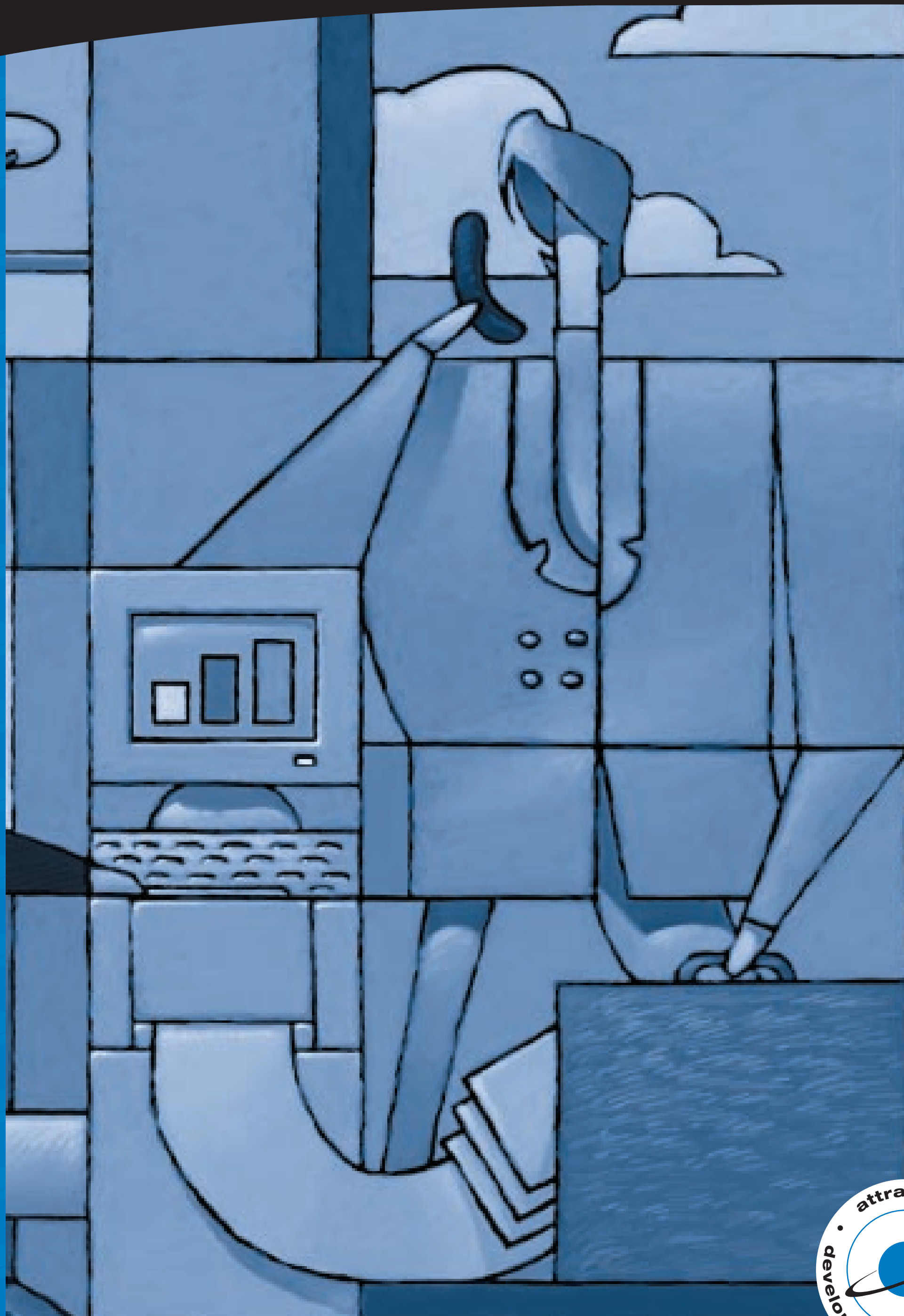

Review of Operations

Professional Services

Calian is one of Canada's leading providers of staffing and outsourcing services, helping our clients manage their human resource requirements with services that provide unparalleled workforce flexibility.

Calian has seen significant growth in this business segment. From high-tech specialists to temporary administrative assistants to an entire workforce, our high levels of service and the speed of our response have contributed to this success.

Staffing

This past year, Calian's Staffing Services Division, which oversees both short and long-term placements, provided assignments for more than 1,400 people. This figure is expected to increase in 2001. Business volumes grew significantly in the call centre market. This market has grown strongly over the past two years as a result of the continued adoption of the Internet. With its tremendous training and technical infrastructure requirements, this niche sector will continue to provide Calian with opportunities. The acquisition of MacDonald & Brisson was completed during the year, further strengthening our staffing power.

Calian provides its customers with people who have the precise skill sets needed, regardless of the number and types of personnel required or the duration of the contract.

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We provide our employees with the best technology tools, training and support available.

Calian has a large inventory of personnel, efficiently managed through a state-of-the-art resumé database, as well as an extensive network of customers who rely on us for quick, responsive solutions to their staffing needs.

Calian's staffing team targets customers who require specialized professional and technical support personnel in the following areas:

- Information technology
- Engineering
- Telecommunications
- Computer programming
- Research and development
- Technical help desk
- Call centre support
- Clerical and administrative

Selected Clients

- Alcatel
- Industry Canada
- Environment Canada

Outsourcing

Calian's Outsourcing Division, which secures and manages people in multi-year contracts, experienced a year of growth in fiscal 2000. We made significant investments in baseline technology to increase our outsourcing capabilities.

Reduced operating costs, superior service, and the ability to refocus internal resources on key company priorities are some of the advantages Calian provides to its outsourcing clients. Whether it's alternative service delivery options, facilities or operations management, applied engineering or quality assurance, Calian's highly skilled personnel create targeted outsourcing solutions that anticipate client needs, deliver new capabilities and re-energize existing programs.

Calian's Outsourcing Division offers customer organizations experience in the following areas:

- Project management
- Facilities management
- Operations and maintenance
- Business process outsourcing
- Training and education services
- Application hosting services
- Information systems management

Development

Selected Clients

- Canadian Centre for Remote Sensing
- Canadian Space Agency
- Department of National Defence

Staffing and Outsourcing—Going Forward

Intensive marketing, strategic partnering and geographic expansion resulted in a revenue growth of 40% over the past three years for these divisions. In the future, we will sharpen our business focus, working to secure key accounts that demonstrate our leadership. Our ability to move quickly, by sharing information through internal systems and leveraging the knowledge gained from client projects, is key to increasing our profit margins and ensuring our competitive advantage.

Management Consulting

Calian's Management Consulting practice works with clients to develop business strategies that manage strategic and operational change. Together, we define those aspects of service delivery that are important to an organization's operations. Then, we identify the critical steps, tools and technical infrastructure required to achieve those business objectives.

Selected Clients

- Bank of Canada
- Bell Nexxia
- New Brunswick Power
- Unysis

e-Services

The e-Services market represents significant opportunity, and Calian has assembled a comprehensive set of Learning, Content Management and Consulting services. We have been demonstrating market leadership through the value of those services to a customer base of large, highly successful enterprises.

In the knowledge economy, a company's competitive advantage comes from highly skilled and motivated employees who consistently upgrade their skills and advance their knowledge of the company. A career-long learning model in an environment with ready access to relevant content combines to create an integral part of employee productivity and motivation, which is a vital element to higher rates of employee retention. Organizations around the world are recognizing that their core value propositions are only as good as their people. Calian's e-Services group works to build the skills and productivity of knowledge workers.

e-Services has three business lines:

- e-Learning Services—Calian Learning Services is focused on providing fully integrated solutions to build employees' skills and company capability. The solutions include:
    - Strategy Development
    - Learning Management Systems and Services
    - Delivery (Electronic and Instructor Led)
    - Customer Content Development
- Content Management—Content Management Services is focused on developing standard based (SGML, XML) systems for managing large-scale content for multiple purpose deployment online. The services include:
    - Content Management Strategy
    - System Architecture and Design
    - System Implementation
- Employee Support Systems—ESS is focused on improving employee productivity and satisfaction by bringing employee and business systems to the desktop.
    - System Design and Integration

Selected Clients

- Ontario Energy Board
- Lockheed Martin
- Alcatel
- Thompson Publishing

e-Services—Going Forward

Looking ahead, our key objectives are to continue to focus, structure and build our business to establish stronger and more enduring competitive advantages. We will continue to focus on our customers and the solutions to their problems.

Our ability to define and produce supportive employee-facing applications and architectures enhance these services.

Systems Engineering division

Systems Engineering

Calian's Systems Engineering division is committed to providing both government agencies and businesses with the rapid delivery of systems and services that fully satisfy their needs in testing, operating and managing their satellite systems.

Our product lines include satellite gateways, uplink stations, network control systems, in-orbit tests, satellite spectrum monitoring and telemetry, tracking and command systems.

During 2000, the Systems Engineering division continued its strong record of winning new business. In February, Calian was awarded the Uplink Delivery and Management System software contract from XM Satellite Radio Inc. As part of this contract, Calian is designing, manufacturing and installing the Uplink Delivery System that encodes and relays radio programming. In March, the Systems Engineering division further boosted Calian revenues, winning a $1.5 million contract to supply customized RF test fixtures to a major telecommunications equipment provider. The satellite communications market is gradually shifting from telecommunications-based satellite communications to Internet Protocol (IP)-based communications. The two above-noted contracts are examples of Calian's ability to leverage existing skill sets into emerging, growth-oriented markets.

Selected Clients

- Lockheed Martin
- Canadian Space Agency
- European Space Agency
- Inmarsat
- Boeing Satellite Systems
- XM Satellite Radio

Systems Engineering—Going Forward

Our key objectives are to achieve profitable growth through continued development of our core satellite communications business and by applying our core competencies to other communications markets to become a market leader in broadcast, network management, gateway and test systems.
To achieve these objectives, we will become partners with our suppliers and customers, dedicated to their success as well as our own. As a result, we will be known as a superior place to build a career and our people will be recognized as the best in their fields.

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

The following discussion should be read in conjunction with the audited consolidated financial statements and notes included in this annual report. As in the consolidated financial statements, all dollar amounts in this Management Discussion and Analysis are expressed in thousands of Canadian dollars unless otherwise noted.

This annual report may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management's Discussion and Analysis of this report and as discussed in public disclosure documents filed with Canadian regulatory authorities. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

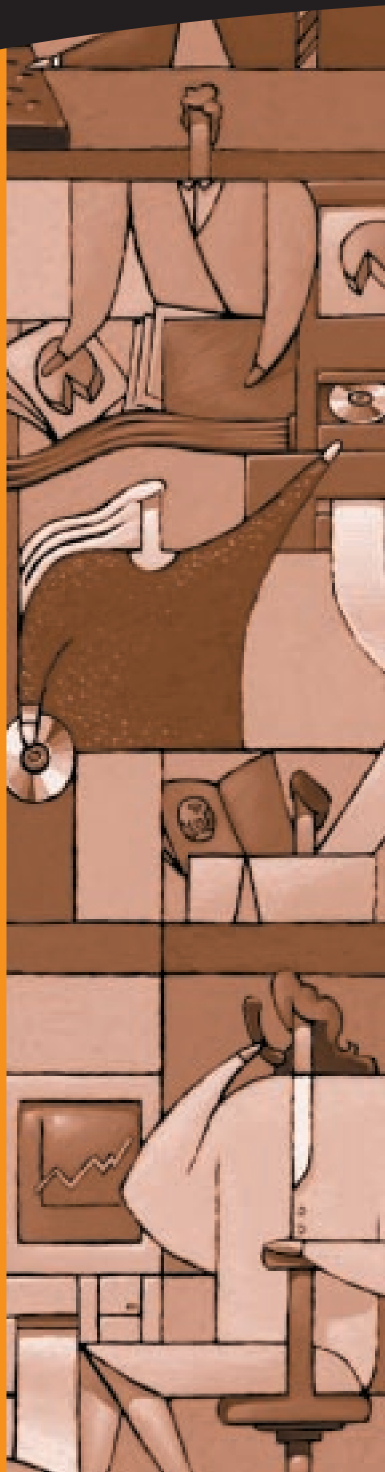
Overview

The Company provides diversified technology and professional services through its wholly owned operating subsidiaries: Calian Ltd., MacDonald & Brisson Personnel Services Ltd., Productivity Point International Canada Ltd., Calian Inc. and Calian Technology (US) Ltd. Effective January 1, 2000, a number of the Company's Canadian wholly-owned subsidiaries were amalgamated to form Calian Ltd.

In its fiscal 2000 year, the Company achieved sizeable growth in both revenues and net earnings. Revenues increased by 33.6% over the prior year to $126,548 while net earnings (including the favourable impact of $7,853 due to a change in accounting policy for income taxes) increased from $3,433 in fiscal 1999 to $12,444 in 2000.

Selected Consolidated Financial Information

The selected consolidated financial information that follows has been derived from the consolidated financial statements of the Company and should be read in conjunction with the consolidated financial statements in this report and this discussion.



(Canadian dollars in thousands, except per share data)

Income Statement	2000	% of Revenues	1999	% of Revenues
Revenues	$126,548	100.0	$94,733	100.0
Cost of revenues	100,531	79.4	77,384	81.7
Gross profit	26,017	20.6	17,349	18.3
Selling, administration and other	21,381	16.9	13,188	13.9
Prior years' investment tax credits	(3,423)	(2.7)	–	–
Other income	(251)	(0.2)	–	–
Earnings before interest, taxes and amortization of goodwill	8,310	6.6	4,161	4.4
Interest income, net	299	0.2	249	0.2
Earnings before taxes and amortization of goodwill	8,609	6.8	4,410	4.6
Incomes taxes—Current	1,506	1.2	571	0.6
Future	(5,907)	(4.6)	–	–
Amortization of goodwill	566	0.4	406	0.4
NET EARNINGS	**$12,444**	**9.8**	**$3,433**	**3.6**

Earnings per share	2000	1999
Basic	$1.30	$0.39
Fully diluted	$1.19	$0.36
Weighted average number of shares		
Basic	9,339,502	8,813,181
Fully diluted	10,379,801	9,995,625
Balance sheet data		
Working capital	15,919	14,593
Total assets	69,997	57,482
Long-term debt, including current portion	891	3,306
Shareholders' equity	42,239	26,226

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

Economic Value Added (EVA)

The company has formally adopted the principles of Economic Value Added (EVA) and implemented a value-based management system. EVA is positive when a company's net after-tax operating profit exceeds a capital charge representing the return expected by the providers of the company's capital. Research has shown a strong correlation between a company's stock price and the economic profits the company generates.

During fiscal 2000, we continued to monitor our capital base and the associated returns on that capital. At the beginning of the year, the capital employed was $23,144; at the end of the year it was $32,268, an increase of $9,124. Approximately $3,261 of this increase is directly attributable to net assets acquired in acquisitions, while $4,660 is related to other spending on capital assets.

For the year ended September 30, 2000, the return on capital employed (ROCE) in the business was approximately 16.9%, compared with 17.7% in fiscal 1999. Since the fiscal 2000 ROCE is greater than the Company's Weighted Average Cost of Capital of approximately 11.1%, Calian generated positive EVA of $1.5 million in 2000 and therefore provided positive returns to its shareholders.

Results of Operations

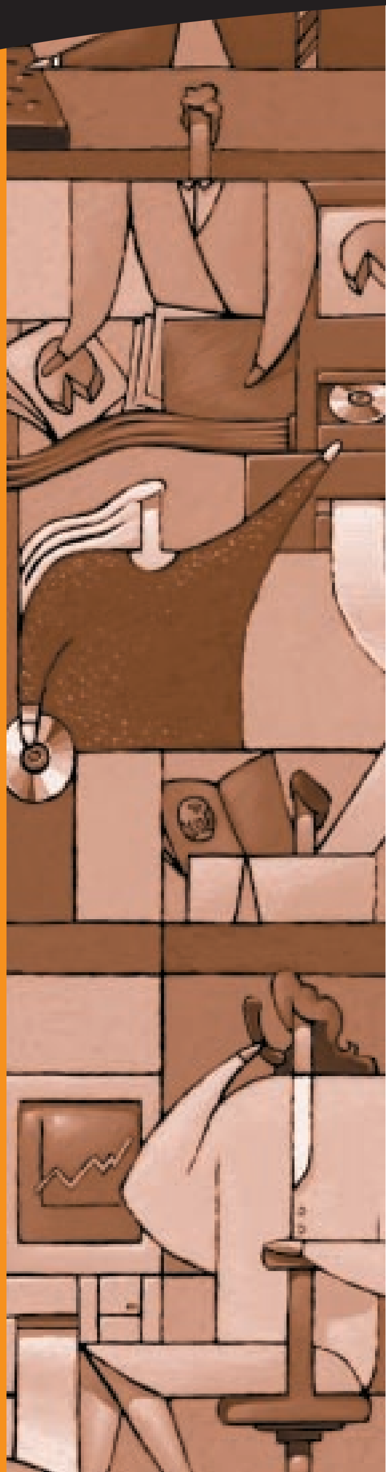
Revenues

Total revenues for the year ended September 30, 2000 were $126,548, an increase of $31,815 or 33.6% over fiscal 1999 revenues of $94,733. In 1998, Calian's total revenues amounted to $79,928.

Calian's Professional Services practice comprising staffing, outsourcing, management consulting and e-Services accounted for revenues of $77,572 or 61.3% of total revenues, while Systems Engineering accounted for the balance of $48,976 or 38.7% of revenues. A year earlier, Calian's Professional Services practice generated revenues of $51,398 or 54.3%, while Systems Engineering accounted for $43,335 or 45.7% of total revenues in 1999.

The contributing factors to this revenue growth have been the acquisition of two businesses during the fiscal year, as well as increased sales with new and existing customers resulting from strong customer relationships and the Company's solid sales and marketing efforts.

The Company derives a significant portion of its revenues from the Government of Canada. During the year, 38.0% of revenues were related to contracts with various departments and agencies of the Government of Canada, compared to 34.8% in fiscal 1999.



Cost of Revenues

The Company's cost of revenues includes all direct costs incurred in the provision of its products and services. These costs include all expenses associated with full-time staff, contract staff and subcontractors where these resources are billable to a customer. They also include other direct costs, including the costs of computer hardware and software sold as components of a solution, travel and living expenses necessary in the delivery of services, and any other expenses incurred that are billable to a customer.

The gross profit is calculated as the difference between the revenues and the cost of revenues. For the year ended September 30, 2000, the Company reported a gross profit of $26,017 or 20.6% of revenues. This compares to $17,349 or 18.3% a year earlier.

The gross profit for Systems Engineering increased to 20.9% in 2000 from 17.6% in 1999, whereas the gross profit in Professional Services increased to 20.3% from 18.9%.

Overall, the improved gross profit reflects an enhanced product mix and savings derived from implementing repeatable solutions.

Selling, Administration and Other Expenses

The Company separately reports four principal expense reporting categories in its consolidated financial statements—Selling and Marketing, General and Administration, Facilities, and Amortization of Capital Assets. This disclosure enables an analysis of both fixed and variable costs. These elements are grouped together as Selling, Administration and Other in the above condensed income statement.

Total Selling, Administration and Other expenses totaled $21,381 or 16.9% of revenues in fiscal 2000. This compares to $13,188 or 13.9% of revenues in 1999. The increase in operating expenses of $8,193 represents a 62.2% year-over-year increase compared to a revenue increase for the year of 33.6%. As described below, this increase in expense is related largely to infrastructure costs that will support sales growth going forward, particularly in Professional Services. It is also reflective of the acquisitions that were carried out during the year.

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

Selling and Marketing

Selling and Marketing expenses reflect all direct selling costs including salaries, commissions, travel and living expenses, the costs of proposal development and submission, and the costs of sales staff directly involved in account management activities. The costs of the recruiting department are also classified as Selling and Marketing expenses, as this sales support role is key in obtaining resouces for our customers.

Selling and Marketing expenses totaled $7,059 compared with $3,851 the previous year, for an increase of $3,208 or 83.3%. Selling and Marketing expenses as a percentage of revenues were 5.6% in fiscal 2000 and 4.1% in fiscal 1999. The increase in this expense category reflects the Company's investment in activities that support its growth strategy. These increased Selling and Marketing expenses are anticipated to translate into growing revenues primarily in the Professional Services business segment. The Company expects that Selling and Marketing expenses as a percentage of overall revenues will show a gradual decline, beginning in fiscal 2001, as the Company's revenues continue to grow.

General and Administration

The Company's General and Administration expenses include all overhead-related expenses, except facilities. General and Administration expenses were $9,556 compared with $5,653 the previous year. General and Administration expenses increased to 7.6% of revenues in 2000, up from 6.0% in fiscal 1999. A significant portion of this expenditure will assist in supporting Calian's future growth. The Company expects that General and Administration expenses as a percentage of overall revenues will decline as the Company's revenues increase.

Facilities

Facilities costs during fiscal 2000 were $2,868 compared to $2,219 in 1999, an increase of 29.2%. In both fiscal years, facilities costs as a percentage of revenues amounted to 2.3%. During the year, Calian opened an office in Toronto and in June expanded into a second building in Kanata, Ontario.

Amortization of Capital Assets

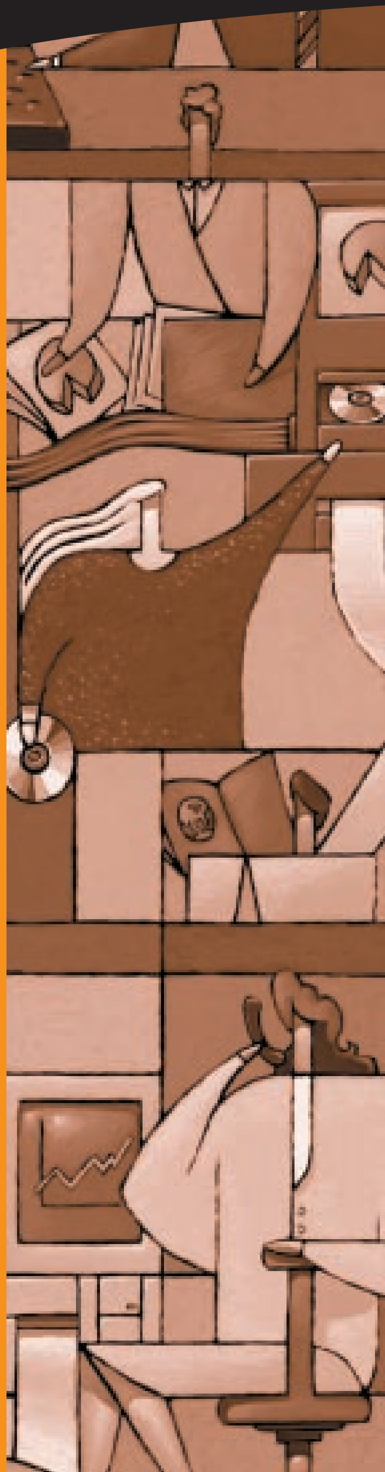
Amortization of Capital Assets totaled $1,898 or 1.5% of revenues, compared with $1,465 (1.5% of revenues the previous year). The increase is due to the higher level of capital spending during 2000.

Prior Years' Investment Tax Credits

As a result of changing its accounting policy for income taxes in fiscal 2000, the Company recognized in income $3,423 of investment tax credits relating to prior years' research expenditures.

Other Income

The Company recognized a gain on the sale of an investment in shares which, when netted with legal and other costs of previously discontinued operations, totaled $251.



Interest Income

Interest income is earned on the Company's excess cash and cash equivalents, and is shown net of the Company's interest expenses associated with its long-term debt and capital leases. Interest income amounted to $299 during the year, compared to $249 recorded in fiscal 1999. Interest income earned on certain customer deposits accrues to the benefit of the related project and accordingly is not classified in the Company's interest income.

Income Taxes

During fiscal 2000, Calian adopted the Canadian Institute of Chartered Accountants' (CICA) new rules for accounting for income taxes. This resulted in a one-time favourable impact to net earnings of $7,853 for the fiscal year. The most significant impact of the new CICA rules was the recognition of the future benefit to Calian of the investment tax credits created in prior years, of research expenditures not yet deducted, and prior years' net operating losses not yet claimed on Calian's tax returns.

By adopting these CICA rules in fiscal 2000, Calian will be reporting its results on a fully taxed basis going forward, although cash taxes may not be payable for several years. The Company continues to have income tax losses and research expenditures to reduce future earnings for tax purposes. The total pool available to reduce future earnings as at September 30, 2000 amounted to $13,874. Portions of this amount begin to expire in 2001. This compares to $18,519 available to the Company at the end of fiscal 1999. Calian also has $2,243 in investment tax credits available to apply against future federal taxes payable. These tax credits begin to expire in 2005.

For the year ended September 30, 1999, no recognition had been given in the Company's financial statements to the potential tax savings of the items discussed above. Therefore, in 1999, the Company's income tax rate was effectively zero, other than for income taxes incurred in the United States and investment tax credits utilized in the year.

Amortization of Goodwill

The amortization of goodwill was somewhat higher in 2000 than in 1999 due to the two acquisitions that were carried out during fiscal 2000. The Company amortizes goodwill over a period not to exceed 20 years.

Net Earnings

The Company reported net earnings of $12,444 or $1.30 per basic common share and $1.19 fully diluted for the fiscal year ended September 30, 2000. Excluding the $7,853 one-time favourable impact from Calian's adoption of the new CICA income tax accounting rules, thereby bringing the fiscal 2000 results back to a non-taxable basis, net earnings would have been $4,591 or $0.46 per share on a fully diluted basis. For the 1999 fiscal year, which was also on a non-taxable basis, Calian recorded net earnings of $3,433 or $0.36 per share on a fully diluted basis. This represents an earnings increase of $1,158 or 33.7% in fiscal 2000 compared to the prior year.

Earnings per share have been calculated based on the weighted average number of common shares outstanding during the individual quarters of the year. The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all convertible securities have been converted, all shares to be issued under contractual commitments are issued and all outstanding options have been exercised at the later of the beginning of the fiscal period and the option issue date. This calculation also includes an allowance for imputed earnings derived from the investment of funds that would have been received and the reduction of interest expense on convertible debt securities.

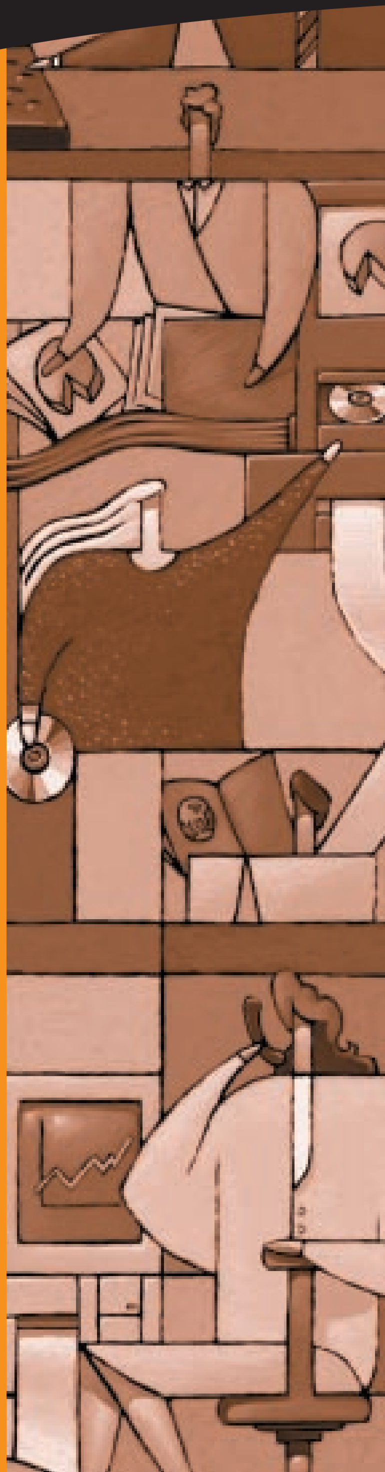
Liquidity and Capital Resources

For fiscal 2000, earnings before interest, taxes and amortization (EBITA) amounted to $10,208 or 8.1% of revenues, up from $5,626 or 5.9% of revenues recorded in 1999. Calian's 2000 EBITA includes $3,490 related to the one-time favourable impact on earnings of the change in its accounting policy for income taxes, relating to the recorded benefits of investment tax credits.

Calian's net cash position was $10,576 at September 30, 2000, compared to $19,692 at September 30, 1999. During the year, the Company's net cash outflow amounted to $9,116.

Calian acquired $4,660 in capital assets during the year of which approximately $1.6 million was spent on implementing within its Professional Services practice a state-of-the-art enterprise resource planning (ERP) system developed by SAP. This investment will increase efficiency by integrating the entire organization and result in faster, better-informed decisions being made and actions being taken. Investments such as the ERP system will provide a foundation for significant growth to occur in the medium to long term without corresponding increases in infrastructure and related costs.

Calian made two business acquisitions during the year to support its Professional Services practice. In February 2000, Calian acquired MacDonald & Brisson Personnel Services Ltd. and in April, the Company purchased all of the outstanding shares of the consolidated group of companies of Productivity Point International Canada Ltd. These two acquisitions used a total of $1,897 in cash.



As at September 30, 2000, working capital amounted to $15,919, compared to $14,593 one year earlier. The principal components of the Company's working capital are accounts receivable (billed and unbilled), offset by accounts payable and unearned contract revenue. The systems engineering market is characterized by long-term contracts with billings tied to milestones achieved, which often results in significant working capital requirements. Conversely, given the nature of this business, it is sometimes possible to negotiate advance payments as deposits on contracts. Such deposits give rise to unearned revenue that will be realized as revenue over the course of the contract. As at September 30, 2000, the Company's total deposits, net of depository payments to subcontractors, amounted to $14,947. This compares to $15,750 one year earlier. Of the funds on hand as at September 30, 2000, approximately $7,000 will be consumed in the performance of related work during fiscal 2001.

The Company significantly reduced its long-term debt (including the current portion reflected in current liabilities) from $3,306 in fiscal 1999 to $891 as at September 30, 2000. The amount payable within the next fiscal year is $376.

The Company has a short-term credit facility of $10,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. The Company also has a $1,200 facility for letters of credit and a foreign exchange facility of US $920. Letters of credit in the amount of $640 have been applied against the available line as at September 30, 2000.

Management believes that Calian has sufficient cash resources to finance its working capital requirements during 2001 and to repay long-term debt as it comes due.

Operational Risk

The financial measure of operational risk is actual losses incurred. No material losses occurred in 2000; however, there is no assurance that the Company will not suffer such losses in the future due to the nature of the risk. Operational risk is managed through the establishment of effective infrastructure and controls. Key elements of the infrastructure are qualified, well-trained personnel, clear authorization levels and reliable technology. Controls, established by documented policies and procedures, include the regular examination of internal controls by our auditors, segregation of duties, and financial management and reporting. In addition, the Company maintains insurance coverage and contingency plans for systems failure or catastrophic events.

Risks and Uncertainties

All participants in the professional services and systems engineering business segments face some or all of the following risks and uncertainties:

- Competition for contracts within key markets.
- A scarce number of qualified professionals.
- Business and market cycles.
- Potential legal and other liabilities in the event of non-fulfillment of contracts.
- Rapidly changing technologies and customer demands.
- Loss of major clients as the result of external conditions, such as changes in client financial conditions and mergers or acquisitions.

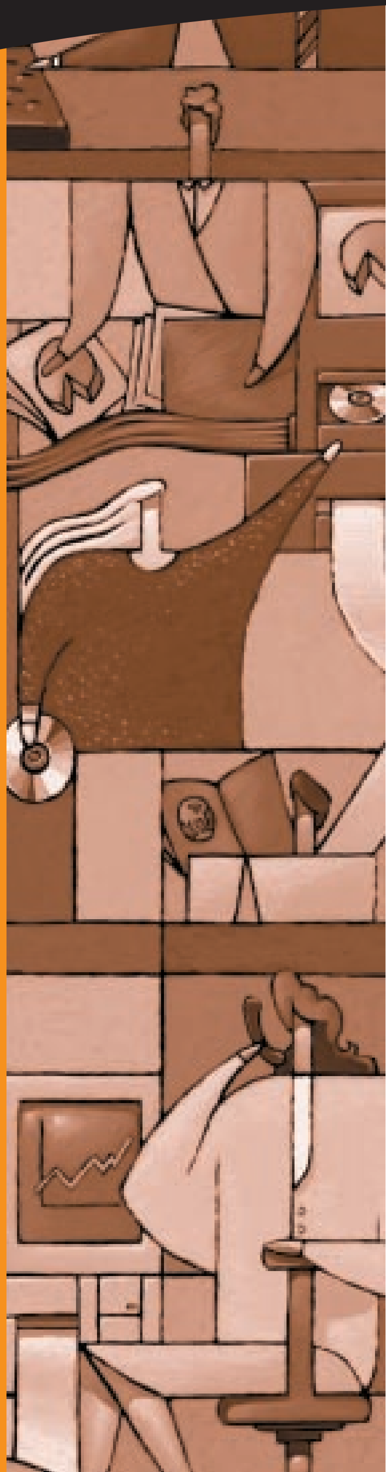
Competition for contracts within key markets and a relatively limited number of qualified professionals are, in management's opinion, the most significant risks that Calian faces.

The business opportunities that are being created by the expansion of the Internet and services offered over the web are vast and significant. Individual firms need to leverage their capabilities and meet their customers' changing business needs. The Company actively monitors the evolution of the markets it serves, and while seeking new business opportunities, adjusts its strategies and operations accordingly. Calian also seeks to reduce its dependence on individual customers, and continues to constantly upgrade the skills of its employees to ensure that they are conversant with the latest technology and the needs of our customers.

Competition from other consultants has a two-fold impact upon the Company. Calian must not only vie for qualified employees for its own operations but must have ready access to a large pool of qualified professionals to satisfy contractual arrangements with customers. Calian mitigates these factors through a number of means. Calian's performance-driven remuneration and informal, community-based working environment have attracted ambitious, qualified professionals. In addition, as the supplier of professional employees through outsourcing contracts, Calian regularly establishes relationships with a significant number of professionals in key markets.

Calian has established high standards for consistently delivering to specifications requested by its customers. As a result, Calian has achieved one of the industry's highest contract win and renewal rates. This success has, in turn, been an important motivator for the firm's personnel and it has helped in the successful integration of professionals and staff from acquired companies.

The Company operates internationally, with 30% of its business derived from non-Canadian sources. A substantial portion of this international business is denominated in US dollars, and therefore the Company's results from operations are affected by exchange rate fluctuations of the US dollar relative to the Canadian dollar. The Company uses financial instruments, principally in the form of forward exchange contracts, in its management of foreign currency risk.



Outlook

At year-end, Calian's contract backlog amounted to $116.6 million compared to $108.3 million a year earlier. This backlog is expected to provide significant revenue and cash flow well into the future.

Revenue growth in fiscal 2001 is expected to be strong in Professional Services, particularly in Staffing Services and Outsourcing, as the continued adoption of the Internet is expected to create opportunities in call centres, training and technical infrastructure.

Calian has made progress in strengthening its service offerings through the creation of several partnerships and alliances which are expected to result in additional revenue streams in 2001. These initiatives include providing resourcing services to xwave, LGS, Lockheed Martin and CGI. These partnerships provide Calian with increased sales channels, additional reference sources and the ability to provide leading-edge solutions for the Company's customer base.

From Calian's perspective, the e-Services consulting market is proving more diffucult to develop than originally envisaged. Calian will endeavour to strengthen its position in this market by streamlining its operations and by adjusting our strategy to emphasize our systems integration expertise.

Systems Engineering is expected to have a favourable year in 2001, continuing to benefit from its ability to leverage exisiting skill sets into emerging, growth-oriented markets.

Calian's ability to apply the knowledge gained from previous projects is a key to improving profit margins and ensuring sustained competitive advantages going forward.

Management's Statement of Responsibility

The accompanying consolidated financial statements of Calian Technology Ltd. and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates which have been made using careful judgment.

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

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

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

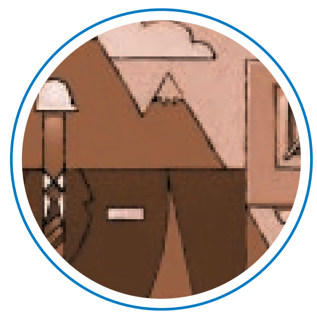
The Board of Directors carries out its responsibility for the financial statements in this report through its Audit Committee. The Audit Committee meets periodically with management and with the external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls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

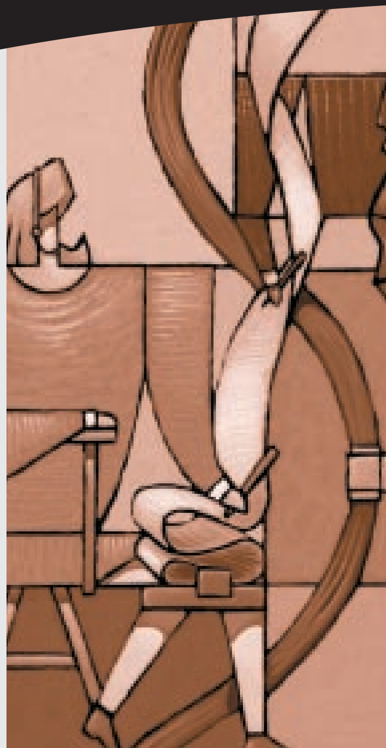
The financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who have full access to the Audit Committee with and without the presence of management.

M. Shaun McEwan
President and Chief Executive Officer

Brian K. Aitken
Vice President and Chief Financial Officer

Kanata, Ontario
November 17, 2000





Auditors' Report

To the Shareholders of Calian Technology Ltd.

We have audited the consolidated balance sheets of Calian Technology Ltd. as at September 30, 2000 and 1999 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2000 and 1999 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Ottawa, Ontario
November 17, 2000

Consolidated Statements of Earnings and Retained Earnings

Years Ended September 30, 2000 and 1999
(Dollars in Thousands Except Per Share Data)

	2000	1999
REVENUES	$ 126,548	$ 94,733
Cost of revenues	100,531	77,384
Gross profit	26,017	17,349
Selling and marketing	7,059	3,851
General and administration	9,556	5,653
Facilities	2,868	2,219
Amortization of capital assets	1,898	1,465
Prior years' investment tax credits (Note 8)	(3,423)	–
Other income (Note 15)	(251)	–
Earnings before interest, taxes and amortization of goodwill	8,310	4,161
Interest income, net	299	249
Earnings before taxes and amortization of goodwill	8,609	4,410
Income taxes expense (recovery) (Notes 3 and 8):		
Current	1,506	571
Future	(5,907)	–
	(4,401)	571
Earnings before amortization of goodwill	13,010	3,839
Amortization of goodwill	566	406
NET EARNINGS	12,444	3,433
Retained earnings, beginning of year	12,047	8,790
Excess of purchase price over stated capital on repurchase of shares	–	(176)
Retained earnings, end of year	$ 24,491	$ 12,047
Earnings per share before amortization of goodwill (Note 11):		
Basic	$ 1.37	$ 0.44
Fully diluted	$ 1.24	$ 0.39
Net earnings per share (Note 11):		
Basic	$ 1.30	$ 0.39
Fully diluted	$ 1.19	$ 0.36
Weighted average number of shares:		
Basic	9,339,502	8,813,181
Fully diluted	10,379,801	9,995,625

Consolidated Balance Sheets

As at September 30, 2000 and 1999
(Dollars in Thousands)

	2000	1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,576	$ 19,692
Accounts receivable	23,121	17,090
Unbilled accounts receivable	4,853	4,397
Prepaid expenses and other	1,336	1,923
Future income taxes (Note 8)	3,276	–
	43,162	43,102
GOODWILL	11,686	8,610
CAPITAL ASSETS (Note 4)	9,182	5,770
INVESTMENT TAX CREDITS RECOVERABLE (Note 8)	2,243	–
FUTURE INCOME TAXES (Note 8)	3,724	–
	$ 69,997	$ 57,482
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 11,586	$ 12,200
Unearned contract revenue	14,947	15,750
Note payable bearing interest at 4.5%	334	–
Current portion of long-term debt	376	559
	27,243	28,509
LONG-TERM DEBT (Note 6)	515	2,747
	27,758	31,256
CONTINGENCIES (Note 9)		
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	17,748	14,179
Retained earnings	24,491	12,047
	42,239	26,226
	$ 69,997	$ 57,482

Approved by the Board:

Larry O'Brien, Director

M. Shaun McEwan, Director

CALIAN

Consolidated Statements of Cash Flows

Years ended September 30, 2000 and 1999

(Dollars in Thousands)

	2000	1999
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 12,444	$ 3,433
Items not affecting cash		
Deferred lease inducements	(28)	(11)
Amortization	2,464	1,871
Investment tax credits	(2,243)	–
Future income tax	(5,581)	–
	7,056	5,293
Change in non-cash working capital		
Accounts receivable	(4,525)	(3,398)
Unbilled accounts receivable	(456)	3,027
Prepaid expenses and other	643	(1,101)
Accounts payable and accrued liabilities	(3,473)	1,168
Unearned contract revenue	(1,029)	4,885
	(1,784)	9,874
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Repayment of debt	(1,565)	(1,101)
Issuance of common shares	780	548
Payment of dividend	–	(1,593)
Repurchase of common shares	–	(352)
	(785)	(2,498)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Acquisition of capital assets	(4,660)	(1,351)
Proceeds on disposal of capital assets	10	107
Business acquisitions (Note 14)	(1,897)	(4,242)
	(6,547)	(5,486)
NET CASH INFLOW (OUTFLOW)	(9,116)	1,890
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,692	17,802
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 10,576	$ 19,692
SUPPLEMENTARY INFORMATION		
Income taxes paid	20	19
Interest paid	61	96

Notes to the Consolidated Financial Statements

Years Ended September 30, 2000 and 1999
(Dollars in Thousands Except Per Share Data)

1. Nature of Operations

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

2. Accounting Policies

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

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Calian Ltd., MacDonald & Brisson Personnel Services Ltd., Productivity Point International Canada Ltd., Calian Inc. and Calian Technology (U.S.) Ltd. Effective January 1, 2000, a number of the Company's Canadian wholly-owned subsidiaries were amalgamated to form Calian Ltd.

The Company uses the cost method to account for its 18% investment in Square Peg Communications Inc. and its 16% investment in Terrapin Communications Inc.

Revenue recognition

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

2. Accounting Policies (continued)

Unbilled accounts receivable

Unbilled accounts receivable represent work performed but not invoiced and are recorded at net realizable value.

Capital assets

Capital assets are recorded at cost, net of related government assistance and investment tax credits. Amortization is calculated using the declining balance method at rates ranging from 20% to 30%.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets of subsidiaries acquired and is amortized over a period not to exceed twenty years based on the facts and circumstances of each acquisition. The company reviews the valuation and amortization of goodwill on an ongoing basis and if there has been a decrease in value that is considered to be other than temporary, based on future operations, goodwill is written down.

Income taxes

Commencing October 1, 1999, the Company and its subsidiaries adopted the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants (see Note 3).

Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of tax losses available to be carried forward to future years if these are likely to be realized.

Prior to October 1, 1999, the Company and its subsidiaries used the deferral method of accounting for income taxes.

2. Accounting Policies (continued)

Foreign currency translation

The accounts of a wholly owned subsidiary, which is considered to be an integrated subsidiary, and accounts in foreign currencies have been translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at year-end. Non-monetary items are translated at rates in effect on the dates of the transactions. Revenues and expenses are translated at rates in effect during the year except for amortization which is translated at the same rate as the assets to which they relate. Gains and losses from translation are included in earnings in the year in which they occur.

Cash and cash equivalents

Cash and cash equivalents include investments that are held to maturity and have terms of three months or less at the time of acquisition. Cash equivalents consist primarily of banker's acceptances, commercial paper, bearer deposit notes issued by major Canadian banks and corporate debt. The carrying amounts of cash and cash equivalents are stated at amortized cost, which approximates their fair value.

3. Change in Accounting Policy

Effective with the fourth quarter of 2000, the Company changed its policy for accounting for income taxes and the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants were adopted as of October 1, 1999. The provisions were applied retroactively without restatement of prior period financial statements. At October 1, 1999, Future Income Tax Assets of $8,481 were recorded, which included $533 related to subsidiaries that were acquired prior to October 1, 1999. Accordingly, this amount reduced the goodwill previously recorded for such acquisitions. The remainder of the Future Income Tax Asset was accounted as part of the future income tax recovery in the consolidated statement of earnings.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2000 and 1999
(Dollars in Thousands Except Per Share Data)

4. Capital Assets

	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment, furniture and fixtures	$ 14,899	$ 5,717	$ 9,182	$ 5,770

5. Credit Facility

The Company's credit facility with a Canadian chartered bank, bearing interest at prime and secured by a first charge on all corporate assets other than real property, consists of:

	Total	Available at September 30, 2000
Short-term Revolving Loan	$10,000 CDN	$10,000 CDN
Letters of Credit and/or Guarantee	1,200 CDN	560 CDN
Foreign Exchange Facility	920 USD	783 USD
Corporate VISA	100 CDN	100 CDN

The availability of the operating facility is based upon the Company's receivable position and is subject to certain financial covenants.

attraction • retention • development

Notes to the Consolidated Financial Statements

Years Ended September 30, 2000 and 1999
(Dollars in Thousands Except Per Share Data)

6. Long-term Debt

	2000	1999
Unsecured note payable due May 2002, bearing interest at 5% per annum and convertible into a maximum of 539,200 common shares in certain circumstances. The note was partially repaid in cash during the year with the balance converted to 310,628 common shares (Note 7):	$ –	$ 2,359
Capital leases at rates ranging from 5.5% to 22% per annum	662	345
Unsecured note payable due September 2000 bearing interest at 4.25% per annum	–	266
Interest-free loans from the Government of Canada with principal repayments to 2000	66	174
Unsecured note payable due July 2001, bearing interest at prime	62	–
Other at rates ranging from 6% to 10%	101	162
	891	3,306
Less amounts due within one year	376	559
	$ 515	$ 2,747

Principal amounts are due as follows:

2001	$ 376
2002	162
2003	156
2004	92
2005 and thereafter	105

(Dollars in Thousands Except Per Share Data)

7. Share Capital

Authorized

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

Issued

Common shares as follows:

	2000		1999	
	Shares Issued	Amount	Shares Issued	Amount
Balance, beginning of year	8,906,438	$ 14,179	8,850,938	$ 13,807
Shares issued for cash	281,389	780	168,000	548
Shares issued on conversion of debt (Note 6)	310,628	1,359	–	–
Shares issued for consideration on acquisition (Note 14)	220,000	1,430	–	–
Shares repurchased	–	–	(112,500)	(176)
Balance, end of year	9,718,455	$ 17,748	8,906,438	$ 14,179

Notes to the Consolidated Financial Statements

Years Ended September 30, 2000 and 1999
(Dollars in Thousands Except Per Share Data)

7. Share Capital (continued)

Share Options

The Company has established a stock option plan, whereby grants are made at the sole discretion of the Company's Board of Directors. Under this plan, eligible directors and employees are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted.

These purchase options are granted with vesting terms ranging from immediately to over three years and a maximum term to expiry of five years, and are contingent on the option holders maintaining their employment. The number of shares authorized for grants of options is 1,700,000 less the number of options exercised since the inception of the plan. The number of options available to be granted at September 30, 2000 is 276,028.

	2000		1999	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	857,723	$ 2.85	765,000	$ 3.07
Granted	526,856	$ 5.68	509,423	$ 2.89
Exercised	(251,740)	$ 2.69	(168,000)	$ 3.26
Forfeited or expired	(93,607)	$ 3.15	(248,700)	$ 3.33
Outstanding, end of year	1,039,232	$ 4.29	857,723	$ 2.85

(Dollars in Thousands Except Per Share Data)

7. Share Capital (continued)

As at September 30, 2000:

	Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Avg. Remaining Contractual Life (Yrs)	Weighted Avg. Exercise Price		Number Exercisable	Weighted Avg.Exercise Price
$ 2.25 – 2.65	200,643	2.46	$2.39		200,643	$2.39
$ 2.80 – 3.20	203,345	2.54	$2.95		108,981	$2.90
$ 3.45 – 3.80	111,388	3.53	$3.60		58,533	$3.65
$ 4.25 – 4.35	230,956	4.22	$4.31		35,956	$4.26
$ 5.30 – 6.90	292,900	4.81	$6.76		57,500	$6.90
	1,039,232	3.64	$4.29		461,613	$3.38

Employee Stock Purchase Plan

The Company has a plan under which most full-time employees may register in December to participate in the following calendar year's stock purchase plan. Eligible employees may purchase common shares by payroll deduction throughout the calendar year at a price of 90% of the fair market value at the beginning of the calendar year. Such shares are issued from treasury at the beginning of the following calendar year.

A total of 350,000 common shares have been authorized for issuance under the plan. For the calendar year ended December 31, 2000, approximately 40,500 common shares will be issued under the Plan at a price of $4.09. Since inception and including the issuance of shares in January 2000, 29,649 shares have been issued under the plan.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2000 and 1999
(Dollars in Thousands Except Per Share Data)

8. Income Taxes

As described in Notes 2 and 3, the Company changed its method of accounting for income taxes effective October 1, 1999.

The balances of Future Income Tax Assets (current and long-term) at September 30, 2000 represent the future benefits of temporary differences between the tax and accounting bases of assets and liabilities, consisting mainly of future tax deductions, research and development expenditures and losses available to be carried forward for tax purposes to the extent that they are likely to be realized.

Research Expenditures

The Company and its subsidiaries have $9,586 of research expenditures available to reduce future earnings for tax purposes. This amount may be carried forward indefinitely but will be reduced by any related investment tax credits claimed.

Income Tax Losses

The Company and its subsidiaries have $4,288 of losses available to reduce future earnings for income tax purposes, which expire as follows:

2001	$ 94
2002	263
2003	118
2004	81
2005	3,146
2006 and thereafter	586
	$ 4,288

For the year ended September 30, 1999, no recognition had been given in these financial statements to the potential tax savings of the items discussed above.

8. Income Taxes (continued)

Investment Tax Credits

For the year ended September 30, 2000, the consolidated statement of earnings included the recognition of $3,423 of investment tax credits relating to prior years' research expenditures.

The Company and its subsidiaries have investment tax credits available to apply against future Federal income taxes payable, which expire as follows:

2005	$ 293
2006 and thereafter	1,950
	$ 2,243

(Dollars in Thousands Except Per Share Data)

8. Income Taxes (continued)

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

	2000	1999
Earnings before taxes and amortization of goodwill	$ 8,609	$ 4,410
Amortization of goodwill	566	406
Earnings before income taxes	8,043	4,004
Tax provision at the combined basic Canadian Federal and Provincial Income tax rate of 44.5% (1999 – 44.6%)	3,579	1,786
Increase (decrease) resulting from:		
Future tax asset recorded as at October 1, 1999	(7,948)	–
Non-deductible amortization	254	–
Utilization of tax loss carry-forward	–	(1,039)
Utilization of additional tax credits	(304)	–
Timing difference from the utilization of unrecorded investment tax credits	–	(223)
Other	18	47
	$ (4,401)	$ 571

(Dollars in Thousands Except Per Share Data)

8. Income Taxes (continued)

The application of CICA Section 3465 for the first time in the fiscal year ended September 30, 2000 has been reflected as follows in the consolidated statement of earnings for the year:

Cost of revenues	67
Prior years investment tax credits	3,423
Provision for income taxes – current	(1,313)
Provision for income taxes – future	5,593
Amortization of goodwill	83
Total positive impact on net earnings	7,853

9. Contingencies

In prior years certain of the Company's subsidiaries received assistance from the Government of Canada relating to research and development activities amounting to approximately $3,148. This assistance may be repayable based on future sales of the project funded. A liability will be recognized in the period in which conditions arise that cause repayment. At September 30, 2000, no provision for repayment is required.

The Company is party to two claims with respect to former employees, which are being contested. The potential outcomes of these matters are not determinable at this time. Management of the Company believes that the resolution of these matters will not have a material adverse effect on Calian's financial condition.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2000 and 1999
(Dollars in Thousands Except Per Share Data)

10. Commitments

The Company has lease agreements with terms extending to the year 2010. The aggregate minimum rental payments under these arrangements are as follows:

2001	$ 2,502
2002	2,506
2003	2,450
2004	2,033
2005 and thereafter	5,318

11. Earnings per share

Basic earnings per share have been calculated on the basis of earnings divided by the weighted average number of common shares outstanding during the specific quarters of the year. The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all convertible securities have been converted, all shares to be issued under contractual commitments are issued and all outstanding options had been exercised at the later of the beginning of the fiscal period and the option issue date, and includes an allowance for imputed earnings derived from the investment of funds which would have been received.

Earnings before amortization of goodwill, divided by the weighted average number of shares calculated as described immediately above, provides basic earnings per share for the fiscal year ended September 30, 2000 of $1.37 and fully diluted earnings per share of $1.24 ($0.44 and $0.39 respectively for the fiscal year ended September 30, 1999).

Net earnings per share for the fiscal year ended September 30, 2000 are $1.30 (basic) and $1.19 (fully diluted) ($0.39 and $0.36 respectively for the fiscal year ended September 30, 1999).

12. Segmented Information

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

The Company operates in two reportable segments described below, defined by their primary type of service offering, namely Systems Engineering and Professional Services. Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs in the wireless communications sector. Professional Services provides a full range of services from top level business consulting, information technology consulting, long-term management of customer business processes and information systems and short-term staffing solutions to augment customers' workforces.

The Company evaluates performance and allocates resources based on earnings before interest, taxes and amortization, capital employed and return on capital employed. The accounting policies of the segments are the same as those described in the significant accounting policies.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2000 and 1999
(Dollars in Thousands Except Per Share Data)

12. Segmented Information (continued)

For the Fiscal Year ending September 30, 2000

	Systems Engineering	Professional Services	Corporate Services	Total
Revenue	$ 48,976	$ 77,572	$ –	$126,548
Operating expenses	43,089	75,364	1,561	120,014
Prior years' investment tax credits	(2,714)	(709)	–	(3,423)
Other income	–	–	(251)	(251)
Earnings before interest, taxes and amortization	8,601	2,917	(1,310)	10,208
Amortization	877	1,587	–	2,464
Interest income (expense)	530	(231)	–	299
Earnings before taxes	8,254	1,099	(1,310)	8,043
Income taxes				(4,401)
Net earnings				$ 12,444
Total Assets	$ 49,985	$ 20,012	–	$ 69,997
Capital asset and goodwill expenditures	$ 757	$ 8,078	–	$ 8,835

(Dollars in Thousands Except Per Share Data)

12. Segmented Information (continued)

For the Fiscal Year ending September 30, 1999

	Systems Engineering	Professional Services	Corporate Services	Total
Revenue	$ 43,335	$ 51,398	$ –	$ 94,733
Operating expenses	39,792	47,784	1,531	89,107
Earnings before interest, taxes and amortization	3,543	3,614	(1,531)	5,626
Amortization	1,011	860	–	1,871
Interest income (expense)	428	(179)	–	249
Earnings before taxes	2,960	2,575	(1,531)	4,004
Income taxes				571
Net earnings				$ 3,433
Total Assets	$ 39,539	$ 17,943	$ –	$ 57,482
Capital asset and goodwill expenditures	$ 401	$ 7,854	$ –	$ 8,255

The Company offers three basic services from which revenue is generated: Integration, Consulting and Resourcing.

	2000	1999
Integration	$ 45,289	$ 40,818
Consulting	11,995	9,238
Resourcing	69,264	44,677
Total Revenue	$ 126,548	$ 94,733

(Dollars in Thousands Except Per Share Data)

12. Segmented Information (continued)

The Company's revenues from all foreign countries represent approximately 30% in fiscal 2000 and 39% in fiscal 1999. Revenues from external customers are attributed as follows:

	2000	1999
Canada	70%	61%
United States	15%	22%
England	7%	6%
Germany	5%	8%
Other	3%	3%

Revenues are attributed to foreign countries based on the location of the customer. No significant assets are held outside of Canada.

Revenues from various departments and agencies of the Canadian federal government represented 38.0% (1999, 34.8%) of the Company's total revenues. Both operating segments conduct business with this major customer.

In 2000, revenue from Bell Canada and its subsidiaries accounted for 12.9% of the Company's total revenues (all from the Professional Services segment).

(Dollars in Thousands Except Per Share Data)

13. Financial Instruments

The Company uses financial instruments, principally in the form of forward exchange contracts, in its management of foreign currency exposures. Realized and unrealized foreign exchange contracts are recognized and offset foreign exchange gains and losses on the underlying net asset or net liability position. These contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At September 30, 2000, the Company had the following forward foreign exchange contracts:

Type	Amount	Currency	Maturity	Equivalent Cdn. Dollars
Sell	3,500	USD	October 2000	5,183
Buy	208	EURO	October 2000	261
Buy	964	AUD	October 2000	772
Buy	57	EURO	May 2001	93

In addition, the Company is exposed to credit risk from customers. The Company's business is mostly with large corporations and government clients, which minimizes credit risk. The Company also has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks.

(Dollars in Thousands Except Per Share Data)

14. Business Acquisitions

During the year ended September 30, 2000, the Company invested $4,003 to acquire operations in its Professional Services segment. Effective February 1, 2000, the Company acquired all of the outstanding shares of MacDonald & Brisson Personnel Services Ltd. ("M&B") for cash and debt consideration. Effective April 1, 2000, the Company also acquired all of the outstanding shares of the consolidated group of companies of Productivity Point International Canada Ltd. ("PPI"), including Learning-Portal.com, in exchange for cash and shares. Both acquisitions were accounted for using the purchase method of accounting and accordingly, the purchase prices were allocated to the assets and liabilities based on their estimated fair values as of the acquisition dates. The results of operations relating to the acquisitions have been included in these consolidated financial statements from the effective dates of acquisition. Goodwill is being amortized on the straight-line method over a period not to exceed twenty years.

Net assets acquired at assigned values during 2000 were as follows:

	M&B	PPI
Non-cash working capital acquired	$ 28	$ (1,198)
Future income tax assets	–	875
Capital assets	28	228
Goodwill	1,493	2,682
Long-term debt acquired	–	(133)
Purchase price	$ 1,549	$ 2,454
Consideration		
Net cash	$ 1,156	$ 741
Other costs	59	283
Notes payable	334	–
Shares (220,000 common shares)(Note 7)	–	1,430
Total consideration	$ 1,549	$ 2,454

14. Business Acquisitions (continued)

In the event that PPI achieves a certain level of profitability during the twelve month period following the acquisition, additional cash consideration for the shares of PPI will become payable. The maximum amount of additional consideration is $1,600. The amount of additional consideration, if any, is not determinable at this time. Upon determination of the amount of additional consideration payable, if any, it will be accounted for as an additional cost of the acquisition.

During the year ended September 30, 1999, the Company invested $8,008 to acquire operations in its Professional Services segment, and made an additional payment of $56 relating to a previous acquisition. Effective May 1, 1999, the Company acquired all of the outstanding shares of WHY Interactive Inc. for cash and debt consideration. Effective September 1, 1999, the Company also acquired all of the outstanding shares of the consolidated group of companies of Dunrobin Information Technology Ltd., Permatemp Personnel Services Inc. and PTI Technology Concepts Inc. ("PTI") for cash and debt consideration. Both acquisitions were accounted for using the purchase method of accounting and accordingly, the purchase prices were allocated to the assets and liabilities based on their estimated fair values as of the acquisition dates. The results of operations relating to the acquisitions have been included in these consolidated financial statements from the effective dates of acquisition. Goodwill is being amortized on the straight-line method over a period not to exceed twenty years.

(Dollars in Thousands Except Per Share Data)

14. Business Acquisitions (continued)

Net assets acquired at assigned values during 1999 were as follows:

	WHY Interactive	PTI
Non-cash working capital acquired	$ 1,138	$ 125
Capital assets	121	35
Goodwill	5,241	1,348
Purchase price	$ 6,500	$ 1,508
Consideration		
Net cash	$ 3,000	$ 1,186
Other costs	141	56
Notes payable	3,359	266
Total consideration	$ 6,500	$ 1,508

As a result of the change in accounting policy during the year ended September 30, 2000 (see Note 3), the Company recorded $398 of future tax assets relating to temporary differences and losses available for carry-forward of Why Interactive Inc.

15. Other Income

The following are reflected in the consolidated statement of earnings for the year ended September 30, 2000:

Gain on sale of shares of Skywave Mobile Communications Inc.	$ 540
Legal, settlement and other costs of previously discontinued operations	(289)
	$ 251

Selected Quarterly Financial Data

(Canadian Dollars in Thousands Except Per Share Data)
(unaudited)

	Fiscal quarters ended Dec 31, 1999	March 31, 2000	June 30, 2000	Sept 30, 2000	Total
Revenues	28,928	31,379	34,644	31,597	126,548
Cost of revenues	23,326	25,302	27,432	24,471	100,531
Gross profit	5,602	6,077	7,212	7,126	26,017
Selling, administration and other	4,487	4,740	5,914	6,240	21,381
Prior years' investment tax credits				(3,423)	(3,423)
Other income			(201)	(50)	(251)
	4,487	4,740	5,713	2,767	17,707
Earnings before interest, taxes and amortization of goodwill	1,115	1,337	1,499	4,359	8,310
Interest income, net	132	75	37	55	299
Earnings before taxes and amortization of goodwill	1,247	1,412	1,536	4,414	8,609
Income taxes	20	31	35	(4,487)	(4,401)
Earnings before amortization of goodwill	1,227	1,381	1,501	8,901	13,010
Amortization of goodwill	128	147	170	121	566
Net Earnings	1,099	1,234	1,331	8,780	12,444
Net earnings per share:					
Basic	$0.12	$0.14	$0.14	$0.90	$1.30
Fully diluted	$0.11	$0.13	$0.13	$0.82	$1.19
Weighted average number of shares:					
Basic	8,924,047	9,079,726	9,650,051	9,706,018	9,339,502
Fully diluted	10,282,525	9,923,116	10,570,483	10,745,250	10,379,801

Selected Quarterly Financial Data

(Canadian Dollars in Thousands Except Per Share Data)
(unaudited)

Balance Sheet Data

	Dec 31, 1999	March 31, 2000	June 30, 2000	Sept 30, 2000
Working capital	13,975	13,897	11,636	15,919
Total assets	60,391	61,869	65,895	69,997
Long-term debt including current portion	2,263	838	1,119	891
Shareholders' equity	27,436	30,471	33,314	42,239

Corporate Information

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Board of Directors

Larry O'Brien +*
Chairman
Calian

M. Shaun McEwan
President and Chief Executive Officer
Calian

W.G. Donald Armstrong +
President
Armstrong Shoes Ltd.

Anthony F. Griffiths *
Corporate Director

John B. Kelly +
Principal, Reid Eddison Inc.
and CEO, Rebel.com

William G. Breen*
Investor

+ Member of Audit Committee

* Member of Compensation and Governance Committee

Annual Meeting of Shareholders

The Annual and General Meeting of the Shareholders of Calian will be held on March 27, 2001, at 3:00 pm at the Ottawa Congress Centre, Ottawa, Ontario, Canada. All shareholders are invited to attend. The telephone number of the Congress Centre is 613-563-1984.

Economic Value Added (EVA)

Economic Value Added (EVA) is a registered trademark of Stern, Stewart and Company.

Common Share Information

The Company's common shares are listed for trading on the Toronto Stock Exchange under the symbol CTY. The following table sets out the high and low sale prices and the trading volumes for the common shares for the fiscal periods shown:

	High	Low	Volume
Fiscal 2000			
First quarter	$5.20	$3.90	617,406
Second quarter	$9.95	$4.50	6,156,985
Third quarter	$8.40	$5.80	1,176,837
Fourth quarter	$7.50	$5.20	1,557,026
Fiscal 1999			
First quarter	$3.90	$2.05	558,706
Second quarter	$3.90	$3.20	534,908
Third quarter	$4.25	$3.30	363,403
Fourth quarter	$4.95	$3.65	908,234

Dividend Policy

The Company maintains a dividend policy requiring the Board of Directors to review annually the current and projected annual cash flows, reinvestment opportunities, stock price performance and any economic or business trends that would impact the status of the Company. After this annual review, the Board may elect to issue a dividend to shareholders. Based on the review conducted this year, the Board of Directors elected not to declare a dividend for the fiscal 2000 year.

Special Thanks

We would like to thank Calian's own Richard Bruggink who created and produced this annual report in-house.