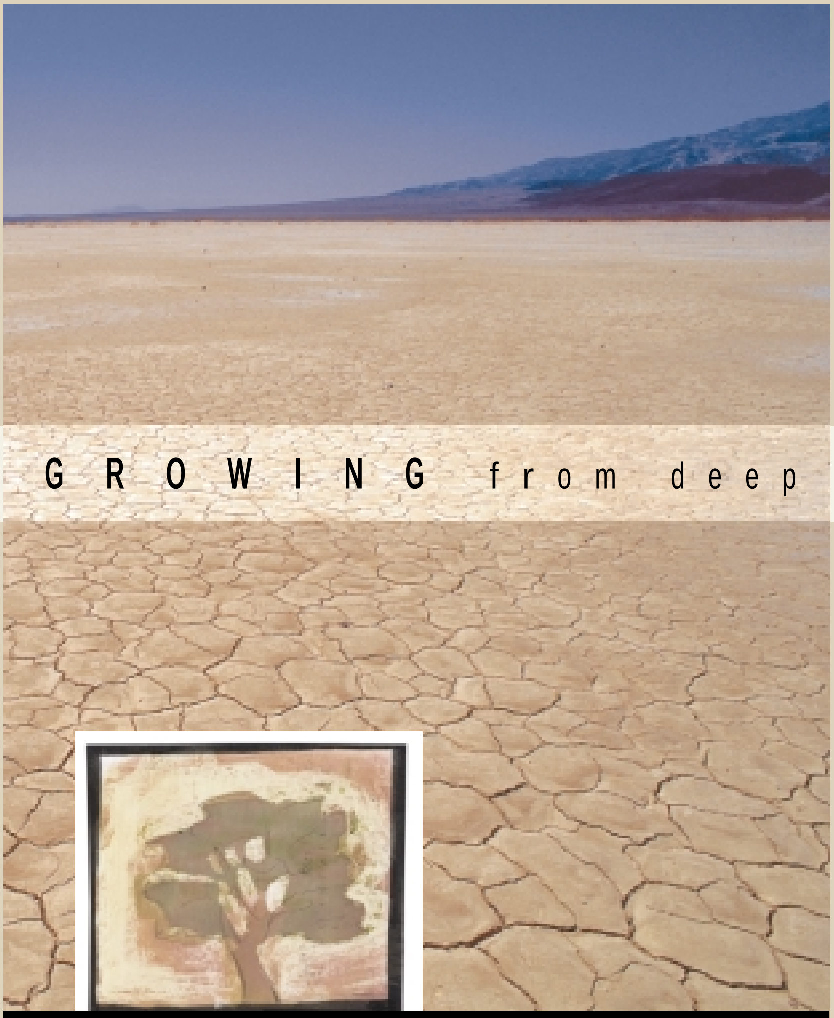
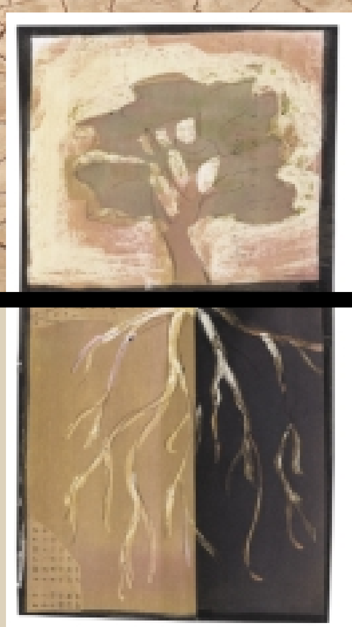


GROWING from deep roots



CALIAN

annual report 2001

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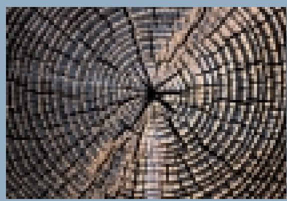
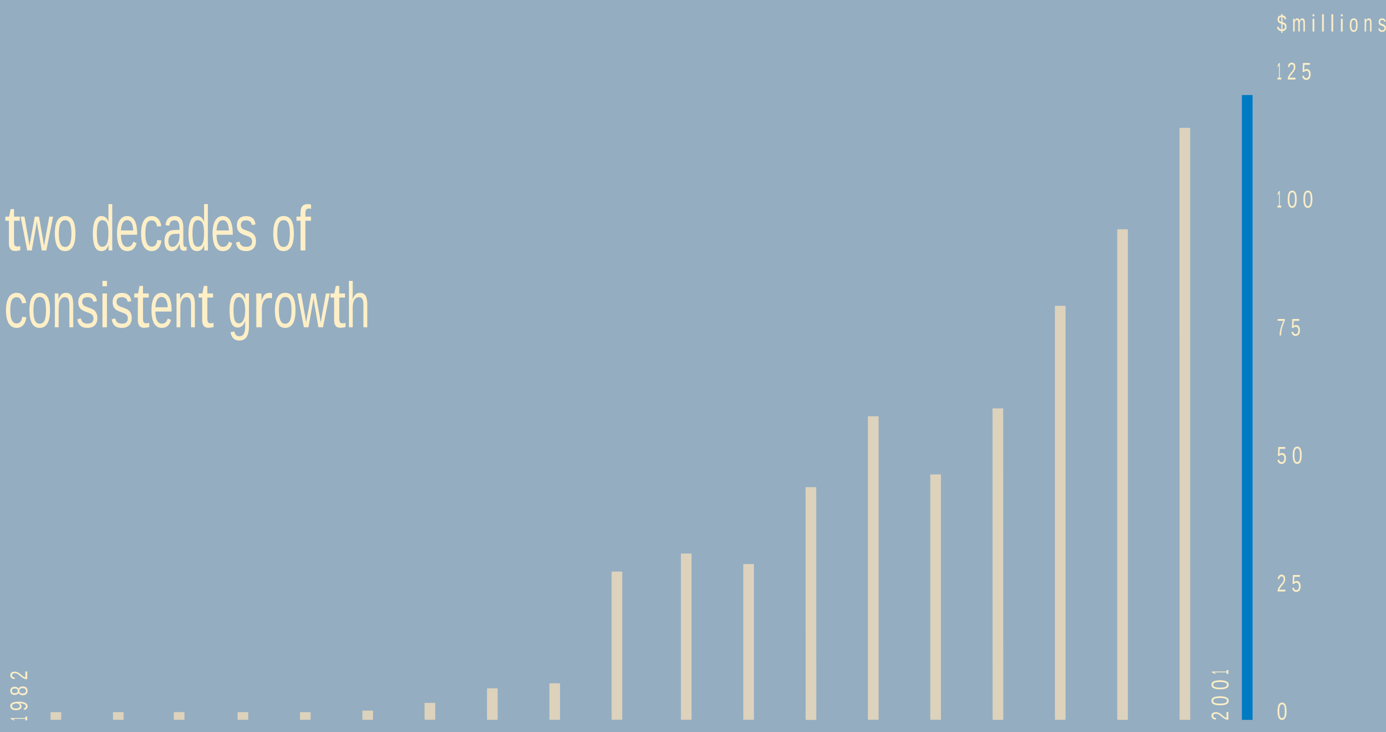


durable **RESILIENCE**

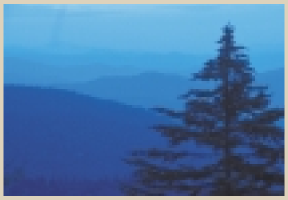
... two decades of consistent growth



resourcing

systems engineering

Calian's purpose is to be Canada's most desirable technology and professional services provider to work for, buy from and invest in.



hearty NUTRIENTS

We are achieving our purpose and building success through a clear and simple focus on the fundamentals - by putting people first, and applying our strengths, we bring value to our employees, our customers and our investors.

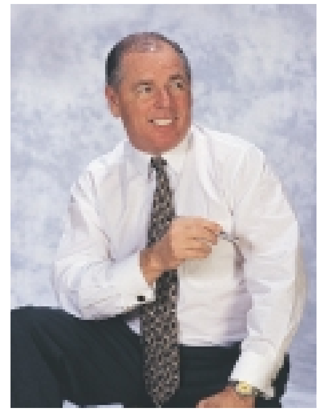
People At Calian, we are building work environments and business relationships where people and businesses thrive. For our employees, this means Calian is a superior place to build a career, a place where our people are recognized as the best in their fields. For our customers, our commitment and attention to helping them succeed is built on integrity and flexibility in meeting their individual needs.

Strengths Leading-edge knowledge, superior skills, effective management and a commitment to customer service. These are the strengths that have led Calian through two decades of consistent growth. They are the nutrients that will continue to sustain us as we grow in our chosen fields.

Value Beyond the bottom line, Calian's focus on value means results and performance for all our stakeholders - our employees, our customers and our investors.

Although our strategies and tactics will change to adapt to a changing environment, our core values will not. Our commitment to integrity and service is more than just our latest idea. Our emphasis on using our people and strengths to solve real problems and make a meaningful contribution is the basis for continued growth and prosperity.

Message from the Chairman, President and CEO



There's no doubt that the period spanning Calian's FY2001 was a tough one for business. Sagging consumer confidence, massive market corrections, and heightened levels of uncertainty all combined to produce drought-like conditions for many businesses around the world. The dot-coms were particularly hard-hit.

These global conditions had their effects on Calian, too. In particular, our eServices business failed to achieve expectations and in the process, was sapping Company resources and management attention. In May, our Board of Directors approved a formal plan to dispose of all assets of the eServices business. The loss on this disposal resulted in a net loss for the Company of over $14 million, compared to net earnings of over $12 million the previous year.

Our decision to dispose of eServices was really a decision to return to our roots, to nurture the core business areas in which we excel, and to prune judiciously, even there, to eliminate unnecessary costs. We are confident in the correctness of these decisions.

Our roots are deep. Resourcing (staffing and outsourcing) and systems engineering are the staple business areas that have fed our growth over two decades. They are solid grounding for sustaining that growth. They provide the wherewithal to overcome harsh conditions and to outlast times of drought.

The results of pruning are already evident. In the last half of FY2001, we accomplished much in our efforts to improve operating efficiencies. We will continue to implement changes that will bring further improvement.

We are confident that the decisions we have made and the direction we have taken will be successful in sustaining Calian's growth in both good and adverse environments. On behalf of the Board of Directors, I wish to thank our shareholders, customers and employees for their support. I look forward to their participation as we continue to grow, from deep roots.

Larry O'Brien
Chairman of the Board of Directors, President and CEO

Review of Operations


With annual revenues of more than $120 million and over 2,200 technology and professional services engineers, consultants, managers and employees, Calian is one of the largest providers of technology and professional services in Canada.

CALIAN building with HEARTWOOD

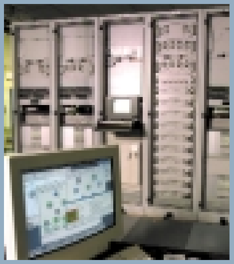
The Company

Calian works with customers worldwide in leading businesses and public organizations to integrate technology and business. In a nutshell, we do two things, very well:

> **Systems Engineering** - we provide dependable, flexible systems to fully satisfy the needs of our customers in testing, managing and operating communications systems and networks.

> **Resourcing** - we provide recruiting, placement and outsourcing services to enable businesses to achieve greater workforce productivity by managing the ebb and flow of their human resource needs.

Systems Engineering



network coordination systems for Inmarsat

35-metre antenna system for the European Space Agency

Our Systems Engineering Division (SED) is committed to providing the communications industry with the timely delivery of dependable, flexible systems and services that meet our commitments and fully satisfy our customers' needs in testing, operating and managing their communications systems.

Our product lines include in-orbit test, satellite spectrum monitoring, and telemetry, tracking and command systems, as well as satellite gateways, network management systems and uplink stations. Customers include major satellite manufacturers, operators and service providers worldwide - SED's systems are now operating on six continents. Contract manufacturing services are also provided to telecommunications, aviation and military customers in North American markets.

During fiscal 2001, SED continued its strong record of winning business, signing nearly $52 million in new contracts to achieve a year-end backlog of over $57 million. These signings were with a blend of new and existing customers. For example, additional network management work was signed with SED's long-time customer, Inmarsat, and follow-on manufacturing services were contracted with the likes of Computing Devices, Santa Barbara Dual Spectrum and Systems & Electronics Inc. At the same time, nearly $30 million was signed with customers new to SED, such as Thrane & Thrane and Hughes Network Systems for radio frequency and satellite resource management equipment needed for a new generation of broadband satellite services.

Looking forward, our key objective is continuing profitable growth through on-going development of our core satellite communications business, and by applying our core competencies to other adjacent markets. Our growth will provide stability and opportunities for professional development. We will become partners with our suppliers and customers, dedicated to their success as well as our own. We will be respected in the industry for our integrity and fair business practices.

Resourcing

Calian is a leading provider of resourcing solutions, helping clients manage the ebb and flow of their human resource needs with services that provide unparalleled workforce flexibility. Our portfolio of solutions is carefully designed to deliver the perfect balance of people and technology services.

Our success comes from taking the time to understand customer requirements, using tried-and-true recruiting and account management techniques, and adhering to strict service level requirements. At Calian, success is realized when employees are challenged and productive, clients are completely satisfied with the services they receive, and both Calian and its customers are achieving their financial goals.

building with HEARTWOOD

Outsourcing

Calian's Outsourcing Services Division fulfills multi-person, multi-year client requirements through a variety of contracting vehicles. Through its commitment to quality management and continuous improvement, OSD provides government and industry clients with complete solutions in support of key operations:

- IT/IM support services
- Facilities management
- Computer systems and network administration
- Simulation training
- Remote sensing operations
- Applied science and engineering services
- Project management (PMO, CM, and QA)
- Operations and maintenance
- Business process outsourcing
- Training and education services
- Information systems management

In FY 2001, traditional OSD business achieved total revenue growth of 18% over last fiscal year. We won new long-term contracts within existing customer organizations such as DND and Industry Canada, and new business in several sectors - project management staff for the Goose Bay Office, Performance Oriented Electronics Training, Surveillance of Space (SoSP) Project Management Office, Oracle application development for the Director of Material Management and Distribution, and web development for SchoolNet.

The Temporary Help Services (THS) business was chosen as the sole supplier of administrative support to JDS Uniphase Ottawa. In addition, THS remains a top-ranking supplier of Resourcing solutions to many federal government departments. During fiscal 2001 OSD's Call Centre Operations unit continued to expand its business with a major Canadian telecommunications supplier.

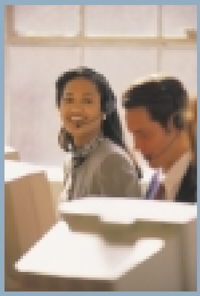
OSD is well-poised to maintain profitability in FY2002, and experience modest growth. We're focusing on streamlining business processes and driving internal efficiencies through corporate-wide initiatives, and extending our record of contract wins to generate new revenue. New business development will focus on facilities Operations and Management (O&M) activities, as well as small/medium projects primarily in the public sector.

outsourcing highly-skilled teams

Staffing

Providing per diem consultants, long-term contracted employees, "just-in-time" project-oriented resources, and permanent placement/executive search services, the Staffing Services Division (SSD) works in partnership with its client base to increase recruitment efficiency (turn-around-time), identify highly-skilled talent, and offset cyclical/seasonal staffing needs.

long- or short-term staffing placements



Calian invests in a dynamic, continuously developing resource pool to provide the finest personnel for enhancing the client workforce. Calian's approach provides flexible options for temporary, contract, consulting, and permanent placement services in the following disciplines:

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

Fiscal 2001 has seen significant achievement of new business within SSD - standing offers for IT services with Toronto Dominion Bank, Canada Customs and Revenue Agency, Defence Research Establishment Ottawa, Citizenship and Immigration, and Department of Defence Triforces, as well as Preferred Supplier status for IT services with Government-on-Line, New Horizons (Ontario Power), and General Motors Canada. We're also a Vendor of Record for IT services with the City of Toronto, and received a standing offer for Lotus Notes support with Health Canada. We're providing Tucows with 7x24 call centre support, and we became a Preferred Supplier with Rogers AT&T Wireless for their technical support centre.

In addition to these significant wins, SSD also experienced a year of change. In response to the downturn within the telecommunications sector, SSD re-structured to ensure profitability and adaptability to changing market conditions.

Much of the FY2002 revenue will come from working the standing offers already awarded by the Federal Government. The year will see stabilization and improved profitability within SSD. Sales processes, customer tracking tools, proposal generation and communication strategies have been simplified and streamlined. All of this will ensure a leaner, more focused staffing unit, sized to the realities of the market, and positioned to serve the available buying community.

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

Calian Technology Ltd. provides diversified systems engineering and resourcing services to industry and government through its wholly owned operating subsidiaries Calian Ltd., Calian Inc. and Calian Technology (US) Ltd. The subsidiaries that had been acquired during the year 2000 were combined with Calian Ltd. during 2001 or immediately after the fiscal year-end.

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

- Resourcing involves both short and long-term placements of personnel to augment customers' workforces (Staffing) as well as the long-term management of projects, facilities and customer business processes (Outsourcing). Resourcing has its principal Canadian offices in the Ottawa area and its U.S. office in Virginia.

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

During the first part of fiscal 2001, Calian also operated in the eServices business (eLearning, management consulting and other related areas), which was considered a separate segment during the first two quarters of the year. On May 16, 2001 Calian's Board of Directors approved a plan to dispose of eServices, which consisted of rationalizing the eServices operations by making adjustments to the workforce and facilities commensurate with the size of the business and selling the resized business. The effective date of disposal was June 30, 2001. The Company recorded a loss on disposal of the eServices business of $11,341 after tax, including rationalization costs and operating losses subsequent to May 16, 2001. The results of operations of the eServices business are shown separately as a discontinued operation in the consolidated statement of earnings and are further described in Note 11 to the consolidated financial statements.

Earnings before interest, income taxes and amortization of goodwill were $2,085 during the year. The Company had a loss from continuing operations (after income taxes and amortization) of $318 for the year, and a net loss of $14,694 after accounting for the disposal of eServices. However, cash balances grew by $1,635 during the year, and at September 30, 2001 there was $12,211 of cash and equivalents on the balance sheet. The elements that make up the foregoing measures of profitability and cash flow are discussed below.

RESULTS OF OPERATIONS

Revenues
Total revenues for the year ended September 30, 2001 (excluding eServices) were $120,648, a 5.6% increase over fiscal 2000 revenues of $114,294. The increased sales result from strong customer relationships and the Company's sales and marketing efforts.

Calian's Resourcing operations accounted for revenues of $80,626 or 66.8% of total revenues, while Systems Engineering accounted for the balance of $40,022 or 33.2% of revenues. A year earlier, Calian's Resourcing operations generated revenues of $65,318 or 57.1% of the total, while Systems Engineering accounted for $48,976 or 42.9% of total revenues in 2000.

Calian's revenues are affected by the health of various countries' economies, particularly those of Canada and the United States. In the Resourcing segment, employment growth and government spending patterns are particularly important. In Systems Engineering, the timing and nature of customers' spending decisions on telecommunications programs are determining factors of activity.

The 23% growth in 2001 revenues in Resourcing is a result of several factors:

· Expansion of Calian's call center revenues with a major customer, which accounted for 24% of the Company's total revenues in 2001, up from 14% in 2000,

· Solid growth in the Outsourcing business, principally with the Federal government,

· The inclusion of twelve months of revenues of a staffing business that had been acquired in 2000, whereas the prior year included eight months of revenues from the date of acquisition.

There were also revenue declines with some Resourcing customers in the telecom sector as a result of the economic slowdown in that sector in 2001.

The revenues of Systems Engineering were lower than in the prior year because there were fewer sales of hardware components included in the revenue mix in 2001 than in 2000.

The Company derives a significant portion of its revenues from the Government of Canada. During the year, 41% of revenues were related to contracts with various departments and agencies of the Government of Canada, compared to 39% in fiscal 2000. Both operating segments conduct business with this major customer.

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

Gross profit is calculated as the difference between the revenues and the cost of revenues. For the year ended September 30, 2001, the Company reported a gross profit of $21,429 or 17.8% of revenues, which compares to $23,182 or 20.3% a year earlier. Gross profit percentages were stable in Systems Engineering, but were lower in Resourcing since providing resources to call center operations, in which the Company expanded during the year, have lower margins than the balance of the Resourcing operations. There was also margin pressure in other parts of the staffing business, particularly toward the end of the year, largely as a result of the general economic slowdown.

Management expects that, overall, gross margin percentages will be similar in 2002 to those that were achieved in 2001.

Selling, Administration and Other Expenses

The Company separately identifies four principal expense categories in its consolidated financial statements - Selling and Marketing, General and Administration, Facilities, and Amortization of capital assets. These are referred to herein as Selling, Administration and Other expenses.

Total Selling, Administration and Other expenses totaled $19,013 or 15.8% of revenues in fiscal 2001. This compares to $16,545 or 14.5% of revenues in 2000. As described below, the overall increase in expense is related largely to infrastructure costs that were put in place to support an organization that had grown considerably, and to support sales growth going forward. As described below, some of these expenses are expected to decline in the future.

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 account management activities conducted by sales personnel. The costs of the recruiting department are also classified as Selling and Marketing expenses, as this sales support role is key in obtaining resources for our customers.

Selling and Marketing expenses totaled $5,215, almost the same as in 2000 when they were $5,186. Selling and Marketing expenses as a percentage of revenues were 4.3% in fiscal 2001 and 4.5% in fiscal 2000.

General and Administration

The Company's General and Administration expenses include all overhead-related expenses except facilities. General and Administration expenses were $9,244 in fiscal 2001, compared with $7,290 the previous year. Expenditure levels increased in the latter part of fiscal 2000 as the Company invested in infrastructure in systems, finance, human resources and payroll to support a substantially higher revenue base than had been experienced historically. It is not expected that General and Administration expenses will increase in the foreseeable future, even when activity and sales volumes increase. The Company is focused on reducing its overhead expenses, and expects to report lower General and Administration costs in fiscal 2002.

Facilities

Facilities, which include costs associated with office space, have been relatively stable over time. Facility costs during fiscal 2001 were $2,774 compared to $2,588 in 2000, an increase of 7.2%. In both fiscal years facility costs as a percentage of revenues amounted to 2.3%. During the 2001 fiscal year the Company opened a small office in Montreal to support the call center business, then in May 2001 Calian consolidated much of its space by moving all its Kanata, Ontario-based personnel into one building while subletting to others a building that it had begun to lease in June 2000. The U.S. operations also relocated to smaller premises during the 2001 year.

Amortization of Capital Assets
Amortization of capital assets totaled $1,780, compared with $1,481 in the previous year. The increase is due to the somewhat heavier rate of capital spending toward the end of fiscal 2000, which affects the amortization expense in subsequent periods. The major assets purchased in 2000 were a new enterprise resource planning system and leasehold improvements.

Special charge (income)
In the first quarter of 2001 the Company recorded legal, settlement and other costs amounting to $331 that were not associated with the eServices business and which were not part of normal operations. In 2000, 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 $201 during the year, compared to $299 recorded in fiscal 2000. Interest income earned on certain customer deposits accrues to the benefit of the related project and accordingly is not presented in the Company's interest income.

Earnings before taxes and amortization of goodwill
Before considering the provision for income taxes and the amortization of goodwill, which are almost exclusively non-cash expenses, Earnings (EBTA) were $2,286 for the year 2001. This is also before considering the losses relating to the discontinued operation, discussed below.

In fiscal year 2000 EBTA was $10,610, which includes $3,423 related to prior years' investment tax credits and $540 related to the sale of investments. The other significant elements that account for the difference in EBTA between 2001 and 2000 are the lower Gross Profit and the increase in General and Administrative expense which have been described above.

Income Taxes
During fiscal 2000, Calian adopted the Canadian Institute of Chartered Accountants' new rules for accounting for income taxes, which resulted in a one-time favourable impact to net earnings of $9,931 for the fiscal year as explained in Note 6 to the consolidated financial statements. 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.

Calian now reports its results on a fully taxed basis, although significant cash taxes may not be payable for several years. Total income taxes paid in 2001 were $140. The provision for income taxes during 2001 (other than that considered in the results of the discontinued eServices operations) was $2,368. This includes the effect of income tax rate reductions on the valuation of future income tax assets to the extent of $1,055 which were recorded during the year. All announced future income tax rate changes applicable to the Company have been reflected. For the fiscal year 2000 there was a net recovery of income taxes of $3,513 due to the implementation of the new accounting rules as described above. Also included in fiscal year 2000's income were $3,423 of investment tax credits relating to prior years' research expenditures.

The Company continues to have income tax losses and research expenditures to reduce future earnings for tax purposes. The total pool available (Federal) to reduce future earnings as at September 30, 2001 amounted to $16,090. This compares to $13,874 available to the Company at the end of fiscal 2000. Calian also has $2,176 in investment tax credits available to apply against future federal taxes payable.

Earnings (loss) from continuing operations
The Company reported a loss from continuing operations (after income taxes and amortization) of $318 ($0.03 per share) for the 2001 year. In fiscal 2000, when the Company adopted new rules in accounting for income taxes that gave rise to a one-time favourable impact to net earnings of $9,931, earnings from continuing operations were $13,912 ($1.46 per share basic and $1.33 per share fully diluted). If the benefit of the one-time tax item were excluded, earnings per share from continuing operations in fiscal 2000 would have been $0.41 basic and $0.37 fully diluted.

Discontinued operation
In May 2001 the Company's Board of Directors approved a formal plan to dispose of all the assets of the eServices business, to focus on Resourcing and Systems Engineering. eServices had not met expectations, and was consuming a disproportionate amount of Company resources and management attention. This business had always generated less than 10% of Company revenues. All revenues and expenses of eServices have been classified separately in the accompanying consolidated financial statements as a discontinued operation.

The net losses of eServices were $4,434 before taxes and $3,035 after taxes between October 2000 and May 16, 2001, whereas they were $2,356 before taxes and $1,468 after taxes in the fiscal year 2000. The pre-tax loss in fiscal 2001 included special charges of $1,669 taken during the first quarter, representing severances, settlement and legal costs, asset write-downs and pre-accrued facilities costs.

Effective June 30, 2001 the Company disposed of the eServices business by making further adjustments to the workforce and facilities and then selling the resized business. The Company recorded a loss on disposal of $13,287 before tax and $11,341 after tax, including rationalization costs and operating losses subsequent to May 16, 2001. The loss on disposal of assets including capital assets and goodwill was $10,947, rationalization costs were $1,796, and the loss from operations from May 16 to June 30, 2001 was $544. These amounts are expressed on a pre-tax basis.

Net earnings (loss)
The Company reported a net loss of $14,694 ($1.51 per share) for the 2001 year. In fiscal 2000, net earnings were $12,444 ($1.30 per share basic and $1.19 per share fully diluted). If the effect of the one-time favourable tax adjustment of $9,931 in 2000 referred to above were excluded, net earnings per share in fiscal 2000 would have been $0.26 basic and $0.23 fully diluted.

Operating results by quarter
The tables below provide certain financial information in summary form on a quarterly basis for the fiscal years 2001 and 2000.

Selected Quarterly Financial Data
(dollars in thousands, except per share data)
(unaudited)

Fiscal Year 2001	Dec 31, 2000	March 31, 2001	June 30, 2001	Sept 30, 2001	Total 2001
	Fiscal Quarters ended				
Revenues	$ 29,830	$31,898	$ 29,166	$ 29,754	$ 120,648
Cost of revenues	24,716	25,499	24,153	24,851	99,219
Gross profit	5,114	6,399	5,013	4,903	21,429
Selling, administration and other	4,865	4,925	4,951	4,272	19,013
Special charge	331	-	-	-	331
	5,196	4,925	4,951	4,272	19,344
Earnings (loss) before interest, taxes and amortization of goodwill	(82)	1,474	62	631	2,085
Interest income, net	44	23	20	114	201
Earnings (loss) before taxes and amortization of goodwill	(38)	1,497	82	745	2,286
Income taxes	598	640	540	590	2,368
Earnings (loss) before amortization of goodwill	(636)	857	(458)	155	(82)
Amortization of goodwill	59	60	58	59	236
Earnings (loss) from continuing operations	(695)	797	(516)	96	(318)
Net loss from discontinued operation	(2,049)	(645)	(341)	-	(3,035)
Net loss on disposal of discontinued operation	-	-	(11,341)	-	(11,341)
Net Earnings (Loss)	$ (2,744)	$ 152	$ (12,198)	$ 96	$ (14,694)
Earnings (loss) per share from continuing operations					
Basic	$ (0.07)	$ 0.08	$ (0.05)	$ 0.01	$ (0.03)
Fully Diluted	$ (0.07)	$ 0.08	$ (0.05)	$ 0.01	$ (0.03)
Net earnings (loss) per share					
Basic	$ (0.28)	$ 0.02	$ (1.25)	$ 0.01	$ (1.51)
Fully Diluted	$ (0.28)	$ 0.02	$ (1.25)	$ 0.01	$ (1.51)
Weighted average number of shares					
Basic	9,734,390	9,769,822	9,774,701	9,774,701	9,763,403
Fully Diluted	10,741,984	10,772,776	10,591,685	10,498,616	10,638,765

BALANCE SHEET DATA

Working Capital	13,587	14,289	10,626	11,205
Total assets	69,746	68,164	55,041	54,447
Long-term debt including current portion	718	695	637	505
Shareholders' equity	39,560	39,843	27,645	27,741

Selected Quarterly Financial Data
(dollars in thousands, except per share data)
(unaudited)

Fiscal Year 2000	Dec 31, 1999	March 31, 2000	June 30, 2000	Sept 30, 2000	Total 2000
	Fiscal Quarters ended				
Revenues	$ 25,749	$ 28,506	$ 31,261	$ 28,778	$ 114,294
Cost of revenues	20,956	22,937	24,508	22,711	91,112
Gross profit	4,793	5,569	6,753	6,067	23,182
Selling, administration and other	3,471	3,789	4,511	4,774	16,545
Prior years' investment tax credits				(3,423)	(3,423)
Special charge (income)	-	-	(201)	(50)	(251)
	3,471	3,789	4,310	1,301	12,871
Earnings before interest, taxes and amortization of goodwill	1,322	1,780	2,443	4,766	10,311
Interest income, net	132	75	37	55	299
Earnings before taxes and amortization of goodwill	1,454	1,855	2,480	4,821	10,610
Income taxes	20	31	35	(3,599)	(3,513)
Earnings before amortization of goodwill	1,434	1,824	2,445	8,420	14,123
Amortization of goodwill	48	67	50	46	211
Earnings from continuing operations	1,386	1,757	2,395	8,374	13,912
Net earnings (loss) from discontinued operation	(287)	(523)	(1,064)	406	(1,468)
Net Earnings	$ 1,099	$ 1,234	$ 1,331	$ 8,780	$ 12,444
Earnings per share from continuing operations					
Basic	$ 0.16	$ 0.19	$ 0.25	$ 0.86	$ 1.46
Fully Diluted	$ 0.14	$ 0.18	$ 0.23	$ 0.78	$ 1.33
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	9,080,799	9,650,051	9,706,018	9,339,502
Fully Diluted	10,282,525	9,924,189	10,570,483	10,745,250	10,379,801
BALANCE SHEET DATA					
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	

As described in the discussion above, the results of operations of the eServices business have been shown as a discontinued operation in each quarter during fiscal years 2001 and 2000. The difference between Earnings (loss) from continuing operations and Net earnings (loss) is represented by the after tax losses of the discontinued operation.

The one-time favourable adjustment of $9,931 relating to income taxes described in the Income Taxes section above was recorded in the fourth quarter of fiscal 2000. There was virtually no income tax expense recorded in the fiscal quarters prior to that quarter. Since the fourth quarter of 2000, the Company has provided for income taxes on a fully taxed basis in its financial statements.

Other than the two foregoing items, the major factors that affected changes in reported profitability between the quarters of fiscal 2001 and 2000 are the different levels of gross profit and of selling, administrative and other expense, which are described above.

LIQUIDITY AND CAPITAL RESOURCES

Calian's net cash position was $12,211 at September 30, 2001, compared to $10,576 at September 30, 2000. During the year, the Company's net cash position improved by $1,635.

Cash flows provided from operating activities in 2001 were $3,207, as compared with a use of funds of $1,784 during fiscal 2000. Although profitability was lower during fiscal 2001, several working capital elements were a source of cash, notably accounts receivable and accounts payable and accrued liabilities. Accounts receivable were lower than in the prior year because of improved collections and the elimination of eServices. Accounts payable and accrued liabilities were higher than at the prior year-end due to the timing of expenditures on Systems Engineering projects and the accrual of some expenditures relating to eServices. As at September 30, 2001, working capital amounted to $11,205, compared to $15,919 one year earlier.

In addition to cash, 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, 2001, the Company's total deposits, net of depository payments to subcontractors, amounted to $10,148. This compares to $14,947 one year earlier. It is expected that unearned revenue will decrease somewhat over the upcoming year as the related work is performed and obtaining customer deposits on new projects is expected to become more difficult.

Calian acquired $1,169 in capital assets during 2001, significantly less than the $4,660 invested during fiscal 2000. During 2000, the largest project was the investment in an enterprise resource planning (ERP) system developed by SAP. During the fiscal year 2002, capital expenditures are expected to be less than amortization; therefore the net book value of capital assets is expected to decrease. At September 30, 2001 there were no significant commitments to expend capital.

Calian did not make any business acquisitions during the 2001 year, whereas in fiscal 2000 it made two. In February 2000, Calian acquired MacDonald & Brisson Personnel Services Ltd. (Resourcing segment) and in April the Company purchased Productivity Point International Canada Ltd. (eServices). These two acquisitions used a total of $1,897 in cash.

The Company repaid $708 of capital leases and other debt during the 2001 fiscal year. Total long-term debt, including the current portion, stands at $505 at year-end. The amount payable within the next fiscal year is $160.

57,346 shares were issued for cash during fiscal 2001 and 1,100 shares were repurchased during the year under the Company's normal course issuer bid. At September 30, 2001 there were 9,774,701 common shares outstanding.

Subsequent to year-end, the Company announced that it would purchase up to 20.9% of its shares under a substantial issuer bid. The offer closed in November and in December 2001 the Company purchased 1,786,956 of its common shares for $5,003 plus associated costs.

At September 30, 2001 the Company had a short-term credit facility of $10,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. The ability of the Company to draw on this credit facility depends upon the level of its accounts receivable and its meeting certain financial covenants. Letters of credit in the amount of $213 were applied against the available line at year-end. Following the successful completion of the substantial issuer bid and the corresponding reduction in equity in the first quarter of fiscal 2002, the Company will renegotiate the terms of its credit facility during the second quarter of 2002. It is expected that the short-term credit facility will decrease somewhat.

Management believes that Calian has sufficient cash resources to finance its working capital requirements during 2002 and to repay long-term debt as it comes due.

RISKS AND OPPORTUNITIES

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.

All participants in the resourcing 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 business or credit risk with major clients
- Technical risks on firm fixed price projects

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 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 firms 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 policies and its favourable working environment have attracted ambitious, qualified professionals. In addition, as a 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, the Company has achieved one of the industry's highest contract win and renewal rates. This success has, in turn, been an important motivator for Calian's personnel.

As the Company grows, it monitors the concentration of its business in its various segments and with particular customers. In management's opinion, the fact that the Company operates in two segments and has a diverse customer base mitigates the potential impact on earnings and cash flow of problems with an individual sector or customer. The Company does extensive call center business with a large private sector customer. Processes have been established to mitigate the Company's credit exposure with this customer.

Calian employs procedures to ensure that accurate estimating and review processes are followed. In addition, program management methodologies have been implemented to adequately manage customer changes and to identify and mitigate potential technical risk and related cost overruns.

The Company operates internationally, with approximately 30% of its business derived from non-Canadian sources. A substantial portion of this international business is denominated in 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 exposures. At September 30, 2001 the Company had sold forward US$8,000 at an effective exchange rate of 1.57. More minor amounts have been hedged in other currencies, as explained in note 10 to the financial statements.

The Company is involved in several lawsuits that are described in Note 7 to the financial statements. These matters are at various stages of litigation, most of them early in the process. The outcomes of these matters are not determinable at this time.

IMPACT OF ACCOUNTING PRONOUNCEMENTS NOT YET IMPLEMENTED

For the fiscal year beginning in October 2001, Calian is required to adopt a new accounting standard concerning Earnings per Share, and is permitted although not required to adopt the recommendations of the new accounting standards on Goodwill and on Stock-Based Compensation. Calian has not yet determined whether it will adopt the new accounting standards on Goodwill or Stock-Based Compensation in fiscal 2002 or whether it will adopt them only in fiscal 2003. The impacts of the accounting recommendations on Stock-Based Compensation and Goodwill are unknown at this time. The impact of the new accounting recommendations on Earnings per Share is not expected to be significant.

OUTLOOK FOR 2002

Although the economic environment for 2002 appears challenging, we face the new year with some optimism.

With the Company's exit from eServices in June of 2001, Calian is completely focused on Resourcing and Systems Engineering. This refocusing has permitted a reduction in infrastructure costs and a streamlining of support activities. The resulting cost savings are expected to continue in the coming year.

At September 30, 2001, Calian's contract backlog amounted to $118 million. Approximately 60% of this backlog will be earned in fiscal year 2002, and 30% will be earned in fiscal year 2003.

In Resourcing, revenue growth in fiscal 2002 is expected to be moderate. Management will focus on organic growth within its existing customer base, with an emphasis on expenditure control and margin growth to improve operating results.

With large contract signings near the end of fiscal year 2001, Systems Engineering is expected to have a favourable year in 2002. Efficient use of resources coupled with successful execution of programs will provide continued contribution to overall results.

The Company is not expecting to pursue any acquisitions in the near future, unless a very clear opportunity is presented that fits Calian's strategic focus and is economically justified.

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.

Larry O'Brien
President and Chief Executive Officer

Brian K. Aitken
Vice President and Chief Financial Officer

Kanata, Ontario
November 2, 2001

Auditors' Report

To the Shareholders of Calian Technology Ltd.

We have audited the consolidated balance sheets of Calian Technology Ltd. as at September 30, 2001 and 2000 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, 2001 and 2000 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 2, 2001

Consolidated Statements of Earnings and Retained Earnings

Years Ended September 30, 2001 and 2000
(dollars in thousands, except per share data)

	2001	2000
Revenues	$ 120,648	$ 114,294
Cost of revenues	99,219	91,112
Gross profit	21,429	23,182
Selling and marketing	5,215	5,186
General and administration	9,244	7,290
Facilities	2,774	2,588
Amortization of capital assets	1,780	1,481
Prior years' investment tax credits (Note 6)	-	(3,423)
Special charge (income) (Note 14)	331	(251)
Earnings before interest, taxes and amortization of goodwill	2,085	10,311
Interest income, net	201	299
Earnings before taxes and amortization of goodwill	2,286	10,610
Income tax expense (recovery) (Note 6):		
Current	203	1,506
Future	2,165	(5,019)
	2,368	(3,513)
Earnings (loss) before amortization of goodwill	(82)	14,123
Amortization of goodwill	236	211
Earnings (loss) from continuing operations	(318)	13,912
Loss from discontinued operation (net of income taxes) (Note 11)	(3,035)	(1,468)
Loss on disposal of discontinued operation (net of income taxes) (Note 11)	(11,341)	-
NET EARNINGS (LOSS)	(14,694)	12,444
Retained earnings, beginning of year	24,491	12,047
Retained earnings, end of year	$ 9,797	$ 24,491
Earnings (loss) per share from continuing operations		
Basic	$ (0.03)	$ 1.46
Fully Diluted	$ (0.03)	$ 1.33
Net earnings (loss) per share		
Basic	$ (1.51)	$ 1.30
Fully Diluted	$ (1.51)	$ 1.19
Weighted average number of shares		
Basic	9,763,403	9,339,502
Fully Diluted	10,638,765	10,379,801

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

Consolidated Balance Sheets

As at September 30, 2001 and 2000
(dollars in thousands)

	2001	2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 12,211	$ 10,576
Accounts receivable	18,394	23,121
Unbilled accounts receivable	3,865	4,853
Prepaid expenses and other	704	1,336
Note receivable, non interest bearing	100	-
Future income taxes (Note 6)	2,292	3,276
	37,566	43,162
GOODWILL	3,482	11,686
CAPITAL ASSETS (Note 3)	5,067	9,182
INVESTMENT TAX CREDITS RECOVERABLE (Note 6)	2,176	2,243
FUTURE INCOME TAXES (Note 6)	5,906	3,724
NOTES RECEIVABLE, non interest bearing	250	-
	$ 54,447	$ 69,997
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 16,053	$ 11,586
Unearned contract revenue	10,148	14,947
Note payable	-	334
Current portion of long-term debt	160	376
	26,361	27,243
LONG-TERM DEBT (Note 4)	345	515
	26,706	27,758
CONTINGENCIES (Note 7)		
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	17,944	17,748
Retained earnings	9,797	24,491
	27,741	42,239
	$ 54,447	$ 69,997

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

Approved by the Board:

Larry O'Brien, Director

William G. Breen, Director

Consolidated Statements of Cash Flows

Years Ended September 30, 2001 and 2000
(dollars in thousands)

	2001	2000
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings (loss)	$ (14,694)	$ 12,444
Items not affecting cash		
Deferred lease inducements	(12)	(28)
Amortization	2,790	2,464
Loss on disposal of assets (Note 11)	10,947	-
Investment tax credits	66	(2,243)
Future income taxes	(1,198)	(5,581)
	(2,101)	7,056
Change in non-cash working capital		
Accounts receivable	4,269	(4,525)
Unbilled accounts receivable	988	(456)
Prepaid expenses and other	383	643
Accounts payable and accrued liabilities	4,467	(3,473)
Unearned contract revenue	(4,799)	(1,029)
	3,207	(1,784)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Repayment of debt	(708)	(1,565)
Issuance of common shares, net of repurchase	196	780
	(512)	(785)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Acquisition of capital assets	(1,169)	(4,660)
Proceeds on disposal of capital assets	9	10
Business acquisitions (Note 12)	-	(1,897)
Notes receivable	100	-
	(1,060)	(6,547)
NET CASH INFLOW (OUTFLOW)	1,635	(9,116)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,576	19,692
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 12,211	$ 10,576
SUPPLEMENTARY INFORMATION:		
Income taxes paid	140	20
Interest paid	77	61

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

...1 NATURE OF OPERATIONS

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

...2 ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Calian Ltd., MacDonald & Brisson Personnel Services Ltd., Calian Inc. and Calian Technology (US) Ltd.

Revenue recognition

Income on contracts is recognized at the net realizable value of services provided using the percentage of completion method based on management estimates. Billings and cash receipts in advance of amounts earned are reflected as unearned contract revenue. Provision is made for the entire amount of 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.

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

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

...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.

Financial instruments and risk management

The carrying amount of the Company's current monetary assets and liabilities approximates fair value. The Company is exposed to fluctuations in foreign exchange rates on existing commitments and revenue denominated in foreign currencies. The net exposure is managed by creating offsetting positions through the use of forward foreign exchange contracts to hedge specific transactions. These foreign exchange contracts are not recorded on the balance sheet but are disclosed in the notes to the financial statements. Gains and losses related to the hedges of anticipated transactions are deferred and recognized in earnings when the hedged transaction occurs.

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 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.

Cash and cash equivalents

Cash and cash equivalents include investments with a major Canadian chartered bank that are held to maturity and have terms of three months or less at the time of acquisition. The carrying amounts of cash and cash equivalents are stated at cost, which is equal to their fair value.

...3 CAPITAL ASSETS

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment, furniture and fixtures	$11,501	$ 6,434	$ 5,067	$ 9,182

(dollars in thousands, except per share data)

...4 LONG-TERM DEBT

	2001	2000
Capital leases at rates ranging from 5.5% to 22% per annum, secured by underlying assets	$ 438	$ 662
Interest-free loans from the Government of Canada with principal repayments to 2001	-	66
Unsecured note payable due July 2001, bearing interest at prime.	-	62
Other non-interest bearing	67	101
	505	891
Less amounts due within one year	160	376
	$ 345	$ 515

Principal amounts are due as follows:	2002	$ 160
	2003	164
	2004	92
	2005	61
	2006 and thereafter	28

...5 SHARE CAPITAL

Authorized

Unlimited number of common shares

Unlimited number of preferred shares issuable in series

Issued

Common shares as follows:

	2001		2000	
	Shares Issued	Amount	Shares Issued	Amount
Balance, beginning of year	9,718,455	$ 17,748	8,906,438	$ 14,179
Shares issued for cash	57,346	199	281,389	780
Shares issued on conversion of debt	-	-	310,628	1,359
Shares issued for consideration on acquisition (Note 12)	-	-	220,000	1,430
Shares repurchased	(1,100)	(3)	-	-
Balance, end of year	9,774,701	$ 17,944	9,718,455	$ 17,748

(dollars in thousands, except per share data)

...5 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, 2001 is 566,245.

	2001		2000	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	1,039,232	$4.29	857,723	$2.85
Granted	89,250	$3.27	526,856	$5.68
Exercised	(25,100)	$2.69	(251,740)	$2.69
Forfeited or expired	(379,467)	$5.18	(93,607)	$3.15
Outstanding, end of year	723,915	$3.75	1,039,232	$4.29

As at September 30, 2001:

	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	213,250	2.23	$2.38	206,000	$2.38
$2.80 - $3.20	147,110	2.54	$2.99	86,750	$2.96
$3.45 - $3.80	90,655	2.51	$3.57	70,882	$3.59
$4.25 - $4.35	151,500	3.22	$4.32	58,370	$4.31
$5.30 - $6.90	121,400	3.85	$6.52	66,630	$6.72
	723,915	2.81	$3.75	488,632	$3.48

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, 2001, approximately 35,000 common shares will be issued under the Plan at a price of $2.84. Since inception and including the issuance of shares in January 2001, 61,895 shares have been issued under the plan.

(dollars in thousands, except per share data)

...6 INCOME TAXES

The balances of future income tax assets (current and long-term) at September 30, 2001 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 $9,045 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 $7,045 of federal losses and $4,833 of provincial losses available to reduce future earnings for income tax purposes, which expire as follows:

	Federal	Provincial
2002	$ 277	$ 277
2003	445	265
2004	143	82
2005	3,528	1,557
2006	46	46
2007 and thereafter	2,606	2,606
	$ 7,045	$ 4,833

Investment Tax Credits

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

2004	$ 213
2005 and thereafter	1,963
	$ 2,176

The future tax assets of the Company are comprised of the following elements:

	2001	2000
Income tax losses	$ 2,268	$ 1,832
Research and development expenditures	2,305	3,056
Tax base of assets in excess of book base	1,480	644
Book base of liabilities in excess of tax base	2,145	1,468
	8,198	7,000
Current	2,292	3,276
Long Term	$ 5,906	$ 3,724

(dollars in thousands, except per share data)

...6 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:

	2001	2000
Earnings before taxes and amortization of goodwill	$ 2,286	$ 10,610
Amortization of goodwill	236	211
Earnings before income taxes	2,050	10,399
Tax provision at the combined basic Canadian Federal and Provincial income tax rate of 43.2% (2000 - 44.5%)	885	4,627
Increase (decrease) resulting from:		
Future tax asset recorded as at October 1, 1999	-	(7,948)
Non-deductible amortization	102	95
Other permanent differences	274	72
Utilization of additional tax credits	-	(304)
Impact of rate reduction on valuation of future income tax assets	1,055	
Other	52	(55)
	$ 2,368	$ (3,513)

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.

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

Cost of revenues	$ 67
Prior years' investment tax credits	3,423
Provision for income taxes - future, relating to prior years	6,358
Amortization of goodwill	83
	9,931
Provision for income taxes - current	(1,313)
Provision for income taxes - future, relating to current year	(765)
Total positive impact on net earnings	$ 7,853

(dollars in thousands, except per share data)

...7 CONTINGENCIES

During the year the Company settled several claims with respect to former employees, which settlements are included as part of the special charge described in Note 14.

As described in Note 12, during its fiscal year 2000 the Company acquired PPI Canada Ltd. (PPI). In the event it is determined that the acquired business achieved a certain level of profitability (as defined) during the twelve months following the acquisition, additional cash consideration for the shares of PPI will become payable. The maximum amount of such an additional payment is $1,600. In June 2001 the Company informed the selling shareholders of PPI that the acquired business' profitability (as defined) was lower than the earnings threshold specified, and that accordingly, no additional payment for the PPI shares was required to be made. In July 2001 the selling shareholders of PPI filed a claim against the Company, claiming the additional payment of $1,600 and further damages in excess of $2,000. In October 2001 the Company filed a statement of defence to this claim, and counterclaimed $2,000 from the selling shareholders. The amount of additional consideration for the shares, if any, is not determinable at this time.

The Company is party to several other claims aggregating approximately $1,300, which are being contested. The potential outcomes of these matters are not determinable at this time. The Company intends to defend these actions, and management believes that the resolution of these matters will not have a material adverse effect on Calian's financial condition.

In prior years the Company 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 projects funded. A liability will be recognized in the period in which conditions arise that cause repayment. At September 30, 2001 no provision for repayment is required.

...8 COMMITMENTS

The Company has lease agreements with terms extending to the year 2011. The aggregate minimum rental payments under these arrangements are as follows:

2002	$ 3,004
2003	2,775
2004	2,524
2005	2,309
Subsequent years	5,724

...9 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.

During the first two quarters of fiscal 2001 the Company operated in three reportable segments described below, defined by their primary type of service offering, namely Systems Engineering, Resourcing and eServices.

- Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector.

- Resourcing involves both short and long-term placements of personnel to augment customers' workforces (Staffing) as well as the long-term management of projects, facilities and customer business processes (Outsourcing).

- eServices includes eLearning (strategy development, learning management systems and services, training delivery), content management, systems integration, and management consulting.

During the third quarter of fiscal 2001, the Company discontinued its operations of the eServices business (see Note 11).

(dollars in thousands, except per share data)

...9 SEGMENTED INFORMATION (Continued)

In fiscal 2000 the Company operated in two reportable segments, namely Systems Engineering and Professional Services. During the first quarter of 2001 the Company's management structure changed to separate Professional Services into Resourcing and eServices.

The Company evaluates performance and allocates resources based on earnings before interest and income taxes. The Company does not segregate assets between Resourcing, Corporate Services and eServices. The accounting policies of the segments are the same as those described in Note 2.

For the Fiscal Year ending September 30, 2001

	Systems Engineering	Resourcing	Corporate and Other (a) (b)	Total
Revenue	$ 40,022	$ 80,626	$ -	$120,648
Operating expenses	35,503	78,174	2,775	116,452
Amortization	759	1,137	120	2,016
Special charge	-	182	149	331
Earnings before interest and income taxes	3,760	1,133	(3,044)	1,849
Interest income				201
Income tax expense				2,368
Earnings (loss) from continuing operations				(318)
Discontinued operation				(14,376)
Net earnings (loss)				$ (14,694)
Total assets other than cash	$ 8,118		$ 34,118	$ 42,236
Cash				12,211
Total Assets				$ 54,447
Capital asset expenditures	$ 428		$ 741	$ 1,169

(dollars in thousands, except per share data)

...9 SEGMENTED INFORMATION (Continued)

For the Fiscal Year ending September 30, 2000

	Systems Engineering	Resourcing	Corporate and Other (a) (b)	Total
Revenue	$ 48,976	$ 65,318	-	$ 114,294
Operating expenses	43,089	60,654	2,433	106,176
Amortization	877	727	88	1,692
Prior years investment tax credits	(2,714)	(709)		(3,423)
Special charge (income)	-	-	(251)	(251)
Earnings before interest and income taxes	7,724	4,646	(2,270)	10,100
Interest income			-	299
Income taxes (recovery)				(3,513)
Earnings (loss) from continuing operations				13,912
Discontinued operation				(1,468)
Net earnings				$ 12,444

Total assets other than cash	$ 11,389		$ 48,032	$ 59,421
Cash				10,576
Total Assets				$ 69,997
Capital asset and goodwill expenditures	$ 757		$ 8,078	$ 8,835

(a) Includes corporate services costs not appropriate to allocate to the operating segments.
(b) Total assets include the assets of the eServices business.

The Company's revenues from all foreign countries represent approximately 27% in fiscal 2001 and 31% in fiscal 2000. Revenues from external customers are attributed as follows:

	2001	2000
Canada	73%	69%
United States	15%	15%
Europe	11%	14%
Other	1%	2%

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 41% (2000, 39%) of the Company's total revenues. Both operating segments conduct business with this major customer.

In 2001, revenue from a certain customer accounted for 24% of the Company's total revenues (2000, 14%) (all from the Resourcing segment).

(dollars in thousands, except per share data)

...10 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses financial instruments, principally in the form of forward exchange contracts, in its management of foreign currency exposures. These contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At September 30, 2001, the Company had the following forward foreign exchange contracts:

Type	Amount	Currency	Maturity	Equivalent Cdn. Dollars
Sell	8,000	USD	October 2001	12,586
Sell	262	EURO	October 2001	383
Buy	522	AUD	October 2001	405

The unrealised gains and losses related to the above items are not significant.

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.

...11 DISCONTINUED OPERATION

On May 16, 2001 the Company's Board of Directors approved a formal plan to dispose of all of the assets of the eServices business. The approved plan consisted of rationalizing the eServices operations by making adjustments to the workforce and facilities commensurate with the size of the business and selling the resized business. The effective date of disposal was June 30, 2001.

The Company has recorded a loss on disposal of the eServices business of $13,287 before tax and $11,341 after tax, including rationalization costs and operating losses subsequent to May 16, 2001. These amounts (pre-tax) are as follows:

(i)	Rationalization costs:	
	Workforce reduction	$ 731
	Legal, consulting and other	852
	Provision for excess facilities	213
		$ 1,796
(ii)	Loss on disposal of assets:	
	Goodwill	$ 7,485
	Capital assets	2,755
	Other assets	707
		$ 10,947
(iii)	Loss from operations from May 16 to June 30, 2001	$ 544

If there were to be additional consideration payable for the shares of PPI Canada Ltd. as described in Note 7, this would be accounted for as part of the discontinued operation.

The revenues of the eServices business for the year ended September 30, 2001 were $6,264 (2000, $12,254). The net loss before tax of eServices for the period from October 1, 2000 to May 16, 2001 was $4,434 ($3,035 after tax) and $2,356 ($1,468 after tax) for the year ended September 30, 2000.

The carrying value of the remaining assets and liabilities of the discontinued operation as at September 30, 2001 are as follows:

Trade receivables	$ 434
Accounts payable and accrued liabilities	(1,421)
	$ (987)

(dollars in thousands, except per share data)

...12 BUSINESS ACQUISITIONS

During the year ended September 30, 2000 the Company invested $4,003 to acquire operations in its Resourcing and eServices operations. 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 (Note 5)		-		1,430
Total consideration	$	1,549	$	2,454

In the event it is determined that PPI achieved a certain level of profitability (as defined) during the twelve month period following the acquisition, additional cash consideration for the shares of PPI will become payable (Note 7).

...13 RELATED PARTY TRANSACTIONS

Accounts receivable include a share purchase loan to an officer in the amount of $187 including interest accrued at rates prescribed by income tax regulations, which is due in calendar year 2001.

...14 SPECIAL CHARGE (INCOME)

The following are reflected in the consolidated statement of earnings for the year ended September 30, 2001 and 2000:

		2001		2000
Gain on sale of shares of Skywave Mobile Communications Inc.	$	-	$	(540)
Legal, settlement and other costs		331		289
Special charge (income)	$	331	$	(251)

...15 SUBSEQUENT EVENTS

Effective October 1, 2001, MacDonald and Brisson Personnel Services Ltd. was amalgamated with Calian Ltd.

On October 22, 2001, the Company announced that it would make an offer to purchase for $5 million in cash up to 2,040,816 or approximately 20.9% of its outstanding common shares, at a price per share of not more than $2.85 and not less than $2.45 through a Substantial Issuer Bid procedure known as a Dutch Auction. The offer will expire on November 30, 2001 unless withdrawn or extended.

...16 COMPARATIVE FIGURES

Certain comparative figures in the consolidated financial statements and notes to the consolidated financial statements have been re-classified to conform to the current year's presentation.

Corporate Information

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Board of Directors

Larry O'Brien + *
Chairman, President and CEO
Calian

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

Anthony F. Griffiths *
Independent Consultant

William G. Breen + *
Independent Consultant

Kenneth J. Loeb
President
Capital Box of Ottawa Limited

+ Member of Audit Committee
* Member of Compensation and Governance Committee

CALIAN

Common Share Information

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

Dividend Policy

The Company 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 2001 year.

Annual Meeting of Shareholders

The Annual General Meeting of the Shareholders of Calian will be held on March 7, 2002 at 3:00 p.m. 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.

CALIAN

CALIAN