CALIAN

2006 ANNUAL REPORT

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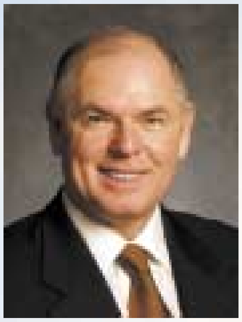
Our Mission is to sell technology services to industry and government in Canada and around the world.



Message from the Chairman

2006 was a year of renewed focus for Calian. Faced with a challenging environment, the management team stayed the course and focused on the key elements that continue to make us a highly respected company.

First, the Company is dedicated to providing the highest quality service to its customers. Throughout 2006, we never strayed from this principle. Repeat orders received from many of our long-time customers are testament to the importance that they attach to quality and our ability to deliver what we promise.

Second, even when large-scale changes to the workforce are necessary due to fluctuating market demands, management continued to improve the work environment to ensure that we attract and retain the very best talent at Calian.

Finally, our directors and managers continued to apply the highest level of corporate governance. We as a group take very seriously the responsibilities that you as shareholders have entrusted to us. Our board of directors continues to support management by providing judicious advice and guidance on the development and execution of corporate plans and strategies.

I am proud of our accomplishments over the past year, and I share the excitement of our entire management team about our future prospects. I look forward to continued performance that will enhance returns and ultimately provide maximum value to our shareholders.

As a final note, as many of you are already aware, I was recently appointed Mayor of the City of Ottawa. As a result, I felt that I could no longer dedicate the proper attention to Calian's business in my capacity as active Chairman and have stepped down as the Company's Chairman of the Board. However, I do wish to stay involved at a Board level and will remain on the Board of Directors. The Board recently elected Mr. Kenneth Loeb as the new Chairman for Calian. Mr. Leob has been involved as a director since 2001 and I have the fullest confidence that Calian is in good hands under his stewardship.

Larry O'Brien
Chairman

Gatineau
Satellite Station

Signal Operations
(SigOps)

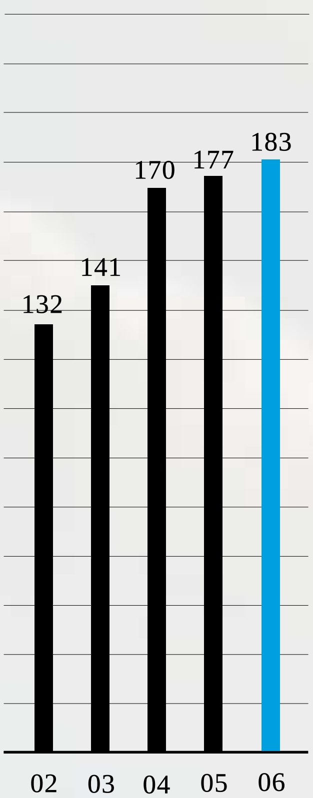
Health Services
Support Contract

Inmarsat
RF system

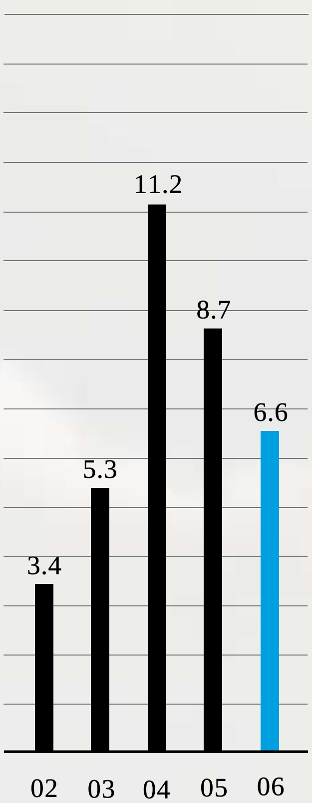
Canadian Forces Base
Kingston

(millions of dollars, except per share data)

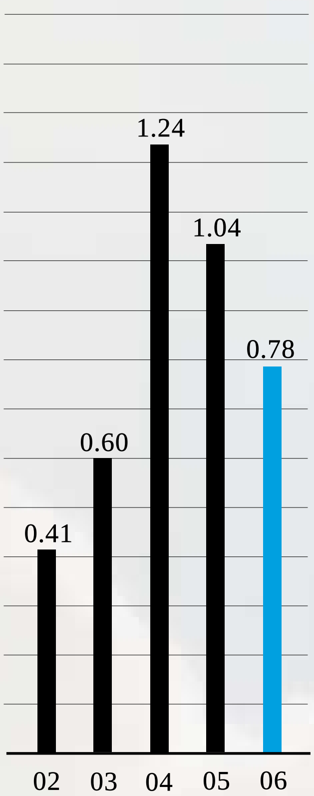
Revenues



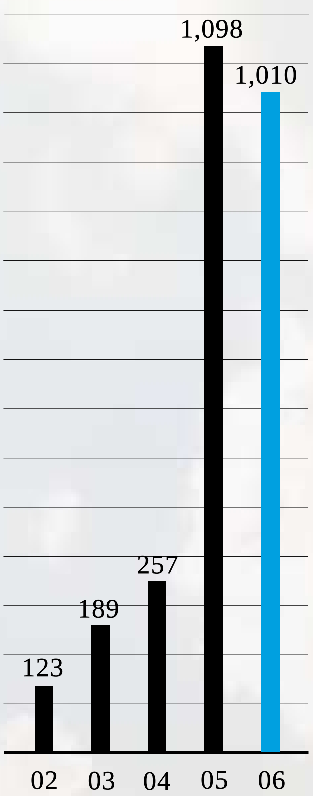
Earnings,
Continuing Operations



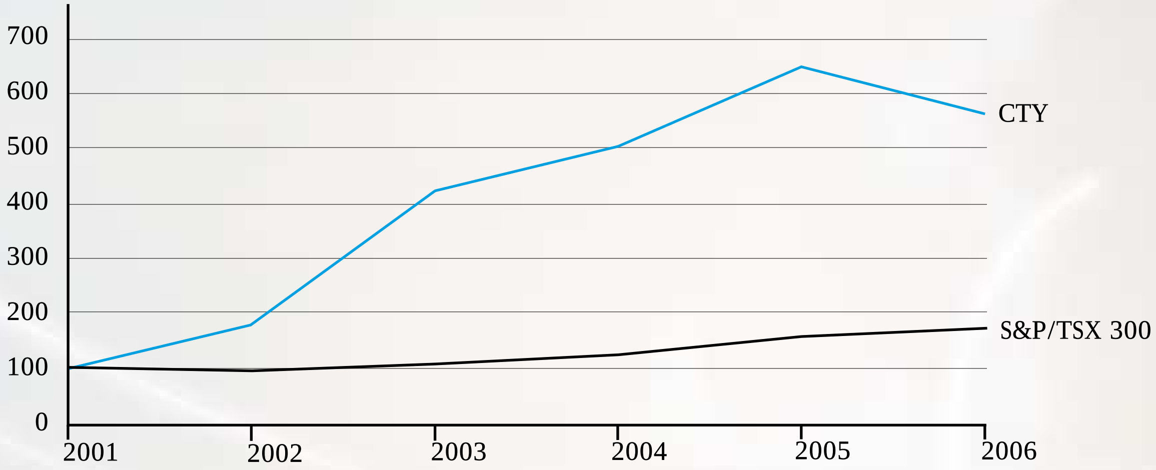
Earnings Per Share

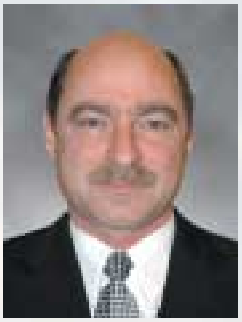


Backlog



Comparison of Cumulative Total Return





Message from the President and Chief Executive Officer

Fiscal 2006 presented Calian with some significant challenges.

Our success in winning a $400 million health services contract was being overshadowed by a legal objection from the incumbent contractor. Also, a major contract for call center services was not renewed due to the internal restructuring of a long-term client. In the satellite sector, we entered the year with a backlog of signed contracts well below traditional levels and our markets remained sluggish.

Challenges indeed, but ones that the management team at Calian faced head-on with confidence, determination and a continued focus on quality. As a result, I am happy to report that we have successfully overcome each of these obstacles.

First, the legal issues we were facing have been successfully brought to conclusion. Not only were the claims resolved, but as part of the process, we have turned a competitor into a strategic partner, one that will help us achieve a larger share of Canada's evolving healthcare markets. Most importantly, the settlement allows management to focus again on looking ahead instead of over our shoulders. And, the legal resolution has lifted a cloud hanging over the company's shares - they are once again considered valuable transaction currency.

Second, the loss of a long-term contract for call center support has been notable. But our response was measured and orderly. By following the trademark Calian approach of open and honest communications, we were able to effectively deal with the reduction and redeployment of a large number of employees. While the loss of this contract has a significant effect on revenues, the low margins associated with this work means that the impact on profitability is substantially less. We are confident that we can redeploy our resources to our traditional businesses and more than compensate for the shortfall created by this loss.

Third, our markets are recovering. With the federal election behind us, spending in government circles has not only resumed, but has substantially increased in the area of national defense where we supply training and simulation services. Likewise, the satellite ground system market is once again providing us with opportunities. Some of these have already been turned into backlog and others will be pursued aggressively throughout the year.

I am extremely proud of the way our management team has performed in the face of these challenges. Throughout the process, we never lost sight of the future. We continued providing quality services to our existing customers and identified opportunities with new ones. Successfully dealing with today's concerns while at the same time keeping a focus on the future has become an important element of Calian's leadership.

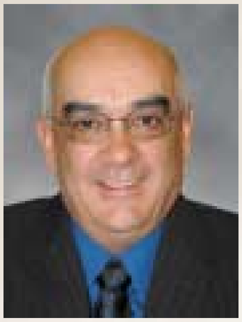
As a result, we ended the year with very respectable numbers. Revenues were up by 3% to $ 183 million. After allowing for the legal settlement, net earnings were $6.6 million or $0.78 per share. Our backlog remains at a very healthy level of $1,010 million at year-end. A detail discussion of these results has been included in the management discussion and analysis of this annual report.

Looking ahead, both divisions have earned the respect of a broad base of satisfied customers, and our stellar performance continues to attract new ones. Our management team has proven itself once again and is fully focused on execution. A strong backlog, improved markets, and a clean balance sheet capable of supporting long-term growth all bode extremely well for an excellent year ahead.

On a personal note, I would like to thank all of our employees for their hard work and dedication over the past year. I know that both of our divisional management teams are excited about their respective prospects for the next year and I wholeheartedly share their enthusiasm. I have every expectation that 2007 will be a rewarding year for all of our stakeholders and I look forward to the opportunity to discuss our plans and prospects at this year's Annual General Meeting.

Ray Basler
President and CEO

Report on Operations
Systems Engineering



While revenues declined significantly for the Systems Engineering Division in fiscal 2006, the year also saw continuing profitability, solid project performance, and strong indicators of improving markets and opportunities.

Revenues declined by 27% to less than $37 million. The decline had been anticipated – major projects for Inmarsat and the European Space Agency (ESA) were winding down, orders for Aerial Head Assemblies remained significantly below previous levels, and the timing of new satellite programs delayed opportunities for ground systems.

However, despite the drop in revenues, the division once again achieved respectable operating profits through efficient project execution and tight control of operating costs. Divisional contribution was $5 million.

During the year, SED completed two major earth station projects. We successfully commissioned a second deep space antenna for ESA in Cebreros, Spain. This antenna was recently used as the primary system for tracking ESA's deep space probe to Venus. Looking ahead, it is expected that ESA will procure a third deep space antenna to complete its global tracking network and the division is ideally positioned to play a leading role on this project when it moves ahead. We also completed final commissioning of the Radio Frequency (RF) systems for Inmarsat's new fourth generation satellite system. Inmarsat has recently announced plans to launch a third satellite for this system and we are well suited to provide them with additional RF equipment for communications with this satellite.

In the past year, we have seen a resurgence within the satellite sector. Three separate companies have initiated major programs in the US to provide mobile voice and data services using a combination of satellites and terrestrial components. We have been successful in signing contracts to provide antennas and RF equipment for all three major programs. This provides a solid foundation of work throughout 2007 and beyond.

As well, we continue to receive a steady flow of business from XM Satellite Radio and Worldspace for upgrades and enhancements as they deploy new services for their digital audio broadcasting systems. We were successful in winning design and production contracts with Worldspace for repeaters destined primarily for the Indian market.

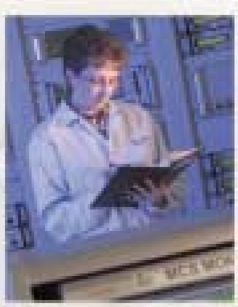
Our manufacturing business has seen significant growth as a result of additional business with Kidde Dual Spectrum for harnesses, sensors and control processors for their fire suppression product. This increased level of business is expected to continue throughout 2007. In addition, a renewed focus on border security gives us some optimism for additional orders of Aerial Head Assemblies for the MSTAR product which is well-suited to the security surveillance market.

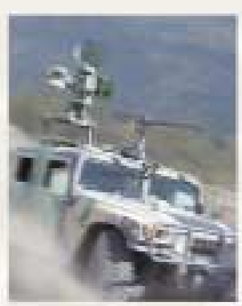
We also continue to provide satellite operations and support services to the Canadian Space Agency for the Radarsat-1 and Scisat programs. We are optimistic that the expertise we have developed on these missions will pave the way for an operations role on future programs as well.

In conclusion, despite the lower revenues experienced in 2006, SED continued to manage its affairs to satisfy its customers and to maintain profitability. During the latter part of the year, we signed significant new contracts that provide a healthy backlog of work as we enter a new year. As such, we are optimistic that 2007 will see a return to more traditional levels of revenue for the division.

B McConnell

Brent McConnell
VP and General Manager, Systems Engineering





Report on Operations
Business and Technology Services

Fiscal 2006 was a year of focused execution for the Business and Technology Services Division. Despite the completion of our call centre services contract and resulting exit from this market segment, the division was still able to increase its revenues by 15% to over $146 million. Our ongoing attention to continuous improvement and delivery combined with organic growth from our existing customers once again yielded improved operating results. Divisional contribution increased to $9.5 million.

2006 was a quiet year for outsourcing opportunities within the Canadian federal government as many of the opportunities that we were tracking continued to be delayed. However, these opportunities have not dissipated and we believe that we are in an excellent position to compete when they ultimately materialize. Health services and training remain the key areas of focus for our outsourcing business. The majority of our training contracts with the Department of National Defence have experienced significant organic growth over the past several years and 2006 was no different. Our simulation training services have expanded significantly in support of the Canadian Forces (CF) NATO deployment in Afghanistan. In addition, we continue to see ever increasing demand for our training services in support of the CF's ongoing recruitment. Our service delivery to the Department of National Defence on the health service support contract continues to exceed their expectations as evidenced by high marks received on various program assessments throughout the year.

In our staffing business, we were successful in increasing the number of long-term supply arrangements with the Canadian federal government, adding four new contracting vehicles during the year. Our private sector business saw the addition of several new relationships with major resource companies in western Canada, particularly in the area of SAP consulting. In addition, our US subsidiary's content management services group continued its success in the interactive electronic technical manuals market by expanding its relationships with Boeing and Northrop Grumman Corporation.

During the year we maintained an operations emphasis on our continuous improvement initiative. In the third quarter, we were notified that we had successfully completed the Progressive Excellence Program under the auspices of the National Quality Institute, the first private sector company to do so. This accomplishment was also recognized by the Canada Awards for Excellence, which announced in September that the division was being honoured with the Gold trophy for Quality and the Silver award for a Healthy Workplace.

With our exit from the low margin call centre services contract coupled with solid execution in our traditional markets, we are well positioned for an excellent fiscal 2007. We have now solidified many of our long-term contract renewals and we maintain a very healthy backlog. Our efficient back office has been thoroughly exercised and proven that it can accommodate substantial growth without incurring additional costs. These two assets will provide us with a very solid foundation from which we can aggressively pursue new opportunities to enhance both revenues and operating returns in the coming year.

Tom Coates
VP and General Manager, Business & Technology Services

Business of the Company

Calian sells technology services to industry and government. We operate through two autonomous divisions that complement each other and that share the vision and key tenet upon which Calian has emerged as a technology services leader — effective and prudent management with a focus on sustainable growth in carefully selected markets.

The diversity of our service offerings are at the heart of our success. By serving a number of customers in several different and geographically varied markets, we benefit from a diversity that helps us weather the downturns experienced in any one market and that allows us to take advantage of unique opportunities as they arise. This diversity is most evident when comparing the business of our two divisions.

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

Our approach is simple. We tailor systems to meet individual customer needs, using advanced commercial equipment from reliable suppliers. This means less development, lower risk and cost, and faster delivery. Our customers value being able to delegate the development of large and complex systems to us, confident that our technical and management skills will deliver what we promised, when we promised it, and at the agreed price. Our core competencies make us stand out from our competitors — strong project management, systems engineering know-how, and software development. Our full-service approach addresses needs from design through long-term maintenance, helping our customers roll-out new services on time and manage them profitably. We routinely enjoy repeat business due to the strong relationships we have established with industry leaders.

Business and Technology Services provides people to help customers manage their changing workforce requirements. We provide ready access to an exceptional team of engineers, technology, administrative and health care professionals. The division caters mainly to the Canadian federal government, with a large presence in the Department of National Defense, and also has a well-established private sector customer base that is expanding. About 3% of annual revenues are derived from the United States.

The services we offer allow our customers to focus their vital internal resources on key priorities. The value we add lies in the breadth of services we offer and our ability to source sufficient and appropriate resources on a timely basis to meet our customers' requirements. This is due to our exceptional recruiting capabilities, effective management of our employees in the field, and competitive rates.

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

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

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

direct labour costs are scalable to match contract requirements. The majority of revenues are derived from Canadian sources so there is little currency exposure. With a reduced risk profile, margins are correspondingly lower.

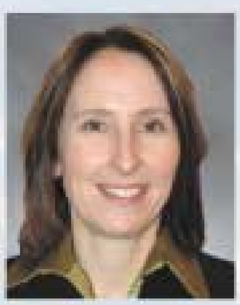
Systems Engineering's billings are based on achieving well-defined project milestones. These can be in advance of, or subsequent to the recognition of revenues. Milestone profiles vary depending on factors such as the customer, competition and pricing. Accordingly, cash flows and working capital requirements can vary significantly from project to project and over the life of any one project. In Business and Technology Services, cash flows are very predictable as most contracts call for monthly billings of work performed.

From the perspective of renewing business, Systems Engineering is awarded one project contract at a time, usually as a result of winning an open international competition. Constant marketing efforts are directed towards identifying and securing bid opportunities and a significant overhead effort is required to develop detailed proposals for new projects. The situation is similar for the short-term staffing component of the Business and Technology Services Division which requires ongoing marketing and sales efforts to maintain the backlog. However, the longer-term outsourcing component of this division enjoys the benefit of multi-year contracts that often contain provisions for extensions, offering long-term visibility of future revenues.

Overall, the diversity in markets, customers and business models provides Calian with an enviable balance in its consolidated business.

Management Team

Ray Basler
President and CEO



Jacqueline Gauthier
VP, CFO
and Corporate Secretary

Tom Coates
VP and General Manager,
Business & Technology Services

Brent McConnell
VP and General Manager,
Systems Engineering

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

The following Management Discussion and Analysis is dated November 30, 2006 and should be read in conjunction with the audited consolidated financial statements and notes included in this annual report. The Company's accounting policies are in accordance with Canadian generally accepted accounting principles (GAAP) of the Canadian Institute of Chartered Accountants. As in the consolidated financial statements, all dollar amounts in this Management Discussion and Analysis are expressed in thousands of Canadian dollars unless otherwise noted.

Forward Looking Statements

The Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on certain assumptions made by the Company that may prove to be inaccurate. Forward-looking statements includes those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent that they relate to the Company or its management. These forward-looking statements are not historical facts, but reflect the Company's current expectations and assumptions regarding future results or events. Assumptions made include customer demand for the Company's services, the Company's ability to maintain and enhance customer relationships, as well as the Company's ability to bring to market its services. Furthermore, the Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on current expectations as at November 30, 2006 that are subject to change and to risks and uncertainties including those set out under the heading "Risk Factors" below. Actual results may differ due to facts such as customer demand, customer relationships, new service offerings, delivery schedules, revenue mix, competition, pricing pressure, foreign currency fluctuations and uncertainty in the markets in which the Company conducts business. Additional information identifying risks and uncertainties is contained in the Company's filings with the various provincial securities regulators. Readers should not place undue reliance in the Company's forward-looking statements.

Business Overview

Calian sells technology services to industry and government. For many years, industry and government have searched for and adopted new operating models and new technologies in an effort to improve the efficiency of their operations. Management expects that they will continue to do so, and in recognizing this trend, the Company has built a unique combination of specialized skills and available capable resources in order to address the resulting market opportunities.

With these capable resources at the ready, Calian can quickly assemble and deploy teams of professionals with the requisite skills to promptly assist customers implement their diverse operating and technology needs, whether it is the design and integration of a complex satellite ground system or the provision of specialized training, project management and operations services.

The timeliness and reliability of Calian's services often cannot be duplicated by Calian's larger mainstream competitors. Furthermore, efficient and flexible operating processes, combined with a strong financial condition allow Calian to profitably address lower margin business without compromising quality or performance, and this further distinguishes the Company from its competitors. Due to the Company's successful delivery and execution of projects, Calian experiences repeat business and a large number of contract renewals.

Calian delivers its services through its wholly owned operating subsidiaries Calian Ltd. and Calian Inc. Calian currently operates in two reportable segments, defined by their primary type of service offerings:

> Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector. The Systems Engineering Division, also known as SED, has its principal office in Saskatchewan.
>
> Business and Technology Services involves both short and long-term placements of personnel to augment customers' workforces as well as the long-term management of projects, facilities and customer business processes. The Business and Technology Services Division (BTS) has its principal Canadian offices in the Ottawa area and its US office in Virginia.

Long-term Strategy

Calian's long-term strategy is to continue to focus on providing its current service offerings to industry and government in specialized niche areas outside the mainstream market, avoiding competition with larger competitors. Calian will concentrate on providing services that the Company believes its competitors either do not want to provide or cannot provide efficiently.

Calian's growth plans include building upon and expanding its current capabilities and addressing a wider range of customers with a broader range of services without compromising its commitment to quality and delivery.

Calian plans to continue augmenting its service offerings and capitalizing on its reputation for delivery, building on its satisfied base of blue-chip customers. In addition, the Company plans to continue to look for and acquire specialized companies that have also had success in profitably addressing niche markets and whose operating philosophies align with those of Calian. With growing revenues, an efficient back office, and the realization of economies of scale, the Company's objective is to enhance the returns to its shareholders and build an enterprise that excels in its selected markets.

For existing operations, the key is controlled profitable growth. Management expects that growth will not only extract economies of scale and provide additional returns, but will also provide an environment for its people to grow and advance within the Company. Calian's strengths in delivering specialized services in niche markets have so far permitted the Company to excel in a difficult business environment where many mainstream competitors have faltered. With this backdrop of continuing to do what Calian does best, there are no plans to materially alter the business of the Company.

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

Fiscal 2006

Earnings before other expense, interest and income taxes were $11,801 in 2006 compared with $13,572 in 2005 and net earnings were $6,623 for the year compared with $8,749 in the previous year. The Company completed the year with $17,018 of cash compared to $17,889 at the end of 2005.

Systems Engineering Division

As expected revenues for the Systems Engineering Division (SED) in 2006 decreased from the 2005 levels when work on several large contracts such as the ground systems for Inmarsat's fourth generation satellites and the construction of the European Space Agency's second deep space antenna were substantially complete, providing nominal revenue in 2006.

However new business opportunities arose in several of SED's main markets. The division signed over $20 million of new business late in 2006 which will translate into revenue in 2007. These contracts are confirmation that the satellite market is on its way to recovery and that SED continues to be a supplier of choice with existing customers as well as a preferred alternative with new ones. Examples of contracts signed by SED in 2006 are:

> Early in 2006, SED received a purchase order valued at $3.3 million from Systems & Electronics Inc. (SEI), of St. Louis, Missouri. SEI is now a part of DRS Technologies, which provides advanced sustainment solutions to military and other government customers. This order was supplemented in October 2006, when SED received an additional contract valued at nearly $3 million. Both of these orders were follow on from a contract that SED delivered in 2004. SED will supply AHAs which are an integral part of a Manportable Surveillance and Target Acquisition Radar (MSTAR) product.
>
> During the second half of 2006, SED received two contracts each valued in excess of $7 million to provide satellite Radio Frequency Terminals (RFT). The high availability RFTs, located in North America, will support satellite telemetry, tracking and command, as well as communications gateway requirements. The Company's customers are premiere suppliers of mobile satellite systems and this award affirms our position as a leading supplier of sophisticated satellite earth station RF systems.
>
> During the second half of 2006, SED received a $3 million contract for terrestrial repeaters to be deployed by WorldSpace Satellite Radio as an initial phase in both middle-eastern and indian markets.
>
> During the fourth quarter of 2006, SED commenced work on a multi-million dollar contract with Ottawa based Skywave Mobile Communications Inc. to provide them with new gateway stations for their Inmarsat D+ communications network. The gateways will be used by Skywave to provide a communications infrastructure for asset tracking and SCADA applications. Skywave is a new customer.
>
> During the fourth quarter of 2006, SED signed a contract valued at more than $3 million to manufacture Vehicle Interface Units (VIU) to be supplied to the Department of National Defense. The contract is a follow on order for VIUs that SED had previously supplied.

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

In addition to its ongoing pursuit of opportunities in its traditional markets, the division continues to expand into complementary markets and look for new opportunities by adapting and marketing its current RF capabilities and expertise to other wireless applications.

Business and Technology Services Division

As a result of winning a number of large long-term contracts in the prior year and continued delays with regards to new opportunities, the BTS Division obtained only minor contract amendments during the year. However the health services support contract won in early 2005 produced a full year of revenue and profitability compared to only six months in 2005. Accordingly, despite the loss of its call-centre services contract during the year, the division enjoyed record profitability.

The BTS Division was successful in renewing all of its existing contracts that were up for renewal in 2006 and made progress in developing relationships with new departments of the Canadian federal government and various large companies. It also obtained several new standing agreements and preferred vendor status arrangements, which position the division for future business with these new customers.

Its US operation was very successful this year in obtaining many smaller scale contracts in addition to a contract valued at over $2 million over a five-year period with the Defense Logistics Agency(DLA) to support Headquarters DLA in developing programs to enhance DLA support to US government allies. Under this contract, Calian will perform services in foreign military sales prime vendor program development, DLA Security Assistance Program Development, Security Assistance/FMS Training and Foreign Visitors Program.

Backlog

The Company's backlog at September 30, 2006 was $1,010 million with terms extending to fiscal 2014. This compares to $1,098 million reported at the end of September 2005. Contracted Backlog represents revenues remaining to be earned on signed contracts, whereas Option Renewals represent customers' options to further extend existing contracts under similar terms and conditions.

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog consumption for 2007 and 2008 based on its current visibility into customers' planned utilization.

Amounts shown as beyond 2008 represent the unearned portion of the contract value remaining after deducting the expected consumption for 2007 and 2008. These amounts exceed current utilization rates and known customer requirements by approximately $285 million. The majority of this amount relates to the health services support contract. Should customer requirements for the Company's services under these contracts not increase, this excess may not be realized.

The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value is unlikely.

(dollars in millions)	TOTAL	2007	2008	Beyond
Contracted Backlog	$ 426	$ 125	$ 77	$ 224
Option Renewals	584	12	29	543
TOTAL	$ 1,010	$ 137	$ 106	$ 767
Business and Technology Services	$ 969	$ 107	$ 97	$ 765
Systems Engineering	41	30	9	2
TOTAL	$ 1,010	$ 137	$ 106	$ 767

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

Selected Annual Information

(dollars in millions, except per share data)

	2006	2005	2004
Revenues	$ 182.8	$ 177.8	$ 169.7
Earnings from continuing operations	$ 6.6	$ 8.7	$ 11.2
Net earnings	$ 6.6	$ 8.7	$ 10.4
Earnings per share from continuing operations	$ 0.78	$ 1.04	$ 1.33
Net earnings per share	$ 0.78	$ 1.04	$ 1.24
Total assets	$ 68.2	$ 74.8	$ 68.5
Dividend per share	$ 0.33	$ 0.32	$ 0.22

Results of Operations

Revenues

Total revenues for the year ended September 30, 2006 were $182,846, a 3% increase over 2005 revenues of $177,777. This increase is attributable to the inclusion of twelve months of revenues on the health services support contract compared to six months in the prior year, offset by the loss of the call center services contract mid-year and a decrease in SED revenues resulting from a general softness in the satellite markets.

The general business environment in 2006 continued to be very competitive. The Company began the year with $138 million of its backlog to be earned in 2006. This base of work combined with the win of many smaller contracts during 2006 resulted in a solid revenue stream for the year.

Calian's Systems Engineering Division accounted for revenues of $36,689 or 20% of total revenues compared to $50,303 or 28% of revenues a year earlier, representing a 27% decrease over the prior year. Although the revenue mix varies significantly from year to year, early in 2006, SED completed the wind down on several of its larger long-term contracts won in previous years. The general softness in SED's markets impeded the division's ability in 2006 to compensate for the reduced revenues on these contracts.

The Business and Technology Services Division accounted for the balance of $146,157 or 80% of revenues compared to $127,474 or 72% a year earlier. This increase of 15% over the prior year's revenue base is attributed to a modest improvement in demand for its traditional services, the inclusion of twelve months of revenues from the health services support contract compared with 6 months in the prior year; partially offset by the loss during the year of the call center services contract.

The Company derives a significant portion of its revenues from the Government of Canada. During the year, 59% of revenues was related to contracts with various departments and agencies of the Government of Canada, compared to 43% in 2005. Both of the Company's divisions conduct business with this major customer. The Company also derived 9% of its revenues from a major customer in the call center business compared with 16% in 2005. The call center services contract was completed on June 30, 2006.

Management expects that the marketplace in 2007 will continue to be very competitive. However, over the past few months, both divisions have seen an increased level of opportunities in their respective markets. In addition, the Systems Engineering Division generated several new contract signings late in 2006 which will have a positive impact on revenues for 2007. Although the environment for the Business and Technology Services Division is showing signs of recovery, the ultimate timing of future contract wins will determine the revenue growth for the next 12 months. The Company begins 2007 with $137 million of backlog to be earned over the next 12 months. With its stable source of recurring work management expects respectable revenue growth in 2007 over the level of business experienced in 2006.

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.

For the year ended September 30, 2006, the Company reported a gross profit of $32,965 or 18.0% of revenues, which compares to $32,569 or 18.3% a year earlier. The overall gross margin for the Company decreased as a result of the change in revenue mix created by the change in divisional proportions with the Business and Technology Services Division accounting for a greater percentage of the overall revenue base.

Gross margin was 25.6% in the Systems Engineering Division during 2006 compared to 24.8% the previous year. SED realized excellent gross margins due to solid execution and retiring risk on large contracts completed during the year combined with a higher labour content in its revenue base.

In the Business and Technology Services Division, the gross margin was 16.1% in 2006 compared with 15.8% in 2005. This improvement in margin is a reflection of the changing revenue mix as a result of the wind-down of the call center services contract.

Because of the significant difference in gross margins between each of the two divisions, the overall gross margin of the Company is dependent on the relative level of revenue generated from each division. The highly competitive nature of the recent signings for SED are expected to result in 2007 margins being lower than the division has experienced in recent years. However, by continuing to focus on execution, management believes that this impact can be partially negated. For BTS margins should increase over the prior year as a result of the change in revenue mix associated with the absence of the call center services contract. On a consolidated basis, gross margin is expected to be similar to the prior year.

Selling, administration and other expenses

The Company separately identifies five principal expense categories in its consolidated financial statements—selling and marketing, general and administration, facilities, amortization of capital assets and amortization of intangibles. These are referred to in the Management Discussion and Analysis as selling, administration and other expenses.

Selling, administration and other expenses totaled $21,573 or 11.8% of revenues in 2006. This compares to $19,981 or 11.2% of revenues in 2005. The increase in absolute dollars is mainly attributable to the inclusion of 12 months of operating expenses relating to the Health Services Support contract compared to 6 months in the prior year and increased corporate governance costs. For 2007, management believes that it can maintain its operating expenses at the same percentage of revenues as 2006.

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 customers.

Selling and marketing expenses totaled $5,019 in 2006 or 2.7% of revenues which is slightly less than 2005 when selling and marketing expenses were $5,180 or 2.9% of revenues. Selling and marketing expenses are expected to increase slightly over the 2006 level as the Company concentrates on broadening its customer base and expanding its service offerings to new markets.

General and administration

The Company's general and administration expenses include all overhead-related expenses except facilities. General and administration expenses were $12,527 or 6.9% of revenues in 2006, compared with $10,568 or 5.9% of revenues in the previous year. The inclusion of a full year of the health services support contract compared to six months in 2005 and increased corporate governance costs represents the majority of the increase. As a result of the Company's continuous cost control activities, all other expenditures increased at a rate below inflation. Management believes that the Company has the capacity for an increased level of business without significantly affecting general and administration costs.

Facilities

Facility expenses, which include costs associated with office space, have been relatively stable over the past several years. Facility costs during 2006 were $2,723 compared to $2,698 in 2005. Commensurate with the exit of e-business in May 2001, Calian consolidated its Ottawa-based personnel into one building while subletting another building that it had begun to lease in June 2000.The Company's facility costs exclude lease and operating costs related to the excess space. During 2005, the Company renegotiated its lease with the sub-tenant through to 2010 for a significant portion of the excess space at current market rates. As a result, the Company is required to assume a portion of the costs associated with this facility. Management believes that the current provision of $1,724 will be sufficient to cover the Company's share of the costs. Management believes that the existing facilities will be sufficient for the foreseeable future.

Amortization of capital assets

Amortization of capital assets totaled $992, compared with $1,139 in the previous year.The amortization level in the future is not expected to vary significantly from current levels.

Amortization of intangibles

During 2005, the Company acquired intangibles as a result of its acquisition of Titan Consuting Group Inc.. These intangibles are amortized over their expected useful life, not exceeding five years. During 2006, the Company amortized $312 compared to $396 in 2005.The amortization level in 2007 based on the current level of intangibles is expected to be $312.

Prior years' investment tax credits

As indicated in Note 4 of the Company's consolidated financial statements, during the year the Company recorded additional investment tax credits (ITC) of $409 (2005 - $984) with respect to prior fiscal years' refilling of R&D claims. This resulted in a recovery in 2006 of taxes already paid. For 2006 and future years, ITC related to qualified R&D activity is recorded in the year in which the R&D costs are incurred.

Litigation

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

Interest income, net

Interest income is earned on the Company's cash and cash equivalents and is shown net of the Company's interest expense.

Income tax expense

Calian reports its results on a fully taxed basis.The provision for income taxes during 2006 was $3,762 or 36% of earnings before income taxes compared to $5,368 or 38% of earnings before income taxes in 2005. The 2006 provision was positively impacted by a recovery related to the filing of the 2005 income tax returns.The tax rate for 2007 is expected to be similar to the rate experienced in 2006.

Net earnings

The Company reported net earnings of $6,623 or $0.78 per share basic and diluted for 2006 compared to $8,749 or $1.04 per share basic and $1.03 per share diluted in 2005. Prior to recording the $2 million litigation settlement, net earnings for 2006 would have been $7,893 or $0.93 per share basic and diluted.

Selected Quarterly Financial Data

(dollars in millions, except per share data)

	Q4/06	Q3/06	Q2/06	Q1/06	Q4/05	Q3/05	Q2/05	Q1/05
Revenues	$ 41.1	$45.9	$48.5	$47.4	$50.4	$50.6	$ 38.7	$ 38.0
Net earnings	$ 1.8	$ 0.8	$ 2.3	$ 1.7	$ 3.1	$ 2.4	$ 1.8	$ 1.5
Net earnings per share								
Basic	$ 0.22	$ 0.09	$0.27	$0.20	$0.37	$0.28	$ 0.21	$ 0.18
Diluted	$ 0.22	$ 0.09	$0.27	$0.20	$0.36	$0.28	$ 0.21	$ 0.18

The third and fourth quarter 2005 revenues and profitability were positively impacted by activity related to the win in 2005 of the health services support contract. The third and fourth quarter 2006 revenues and profitability were negatively impacted by the wind-down of the call center services contract. In addition, the second quarter of 2006 and the fourth quarter of 2005 were positively impacted by a one-time recovery of prior years' investment tax credits and the third quarter 2006 was negatively impacted by the litigation settlement.

The Company's operations are subject to some quarterly seasonality due to the timing of vacation periods and statutory holidays. Typically the Company's first and last quarter will be negatively impacted as a result of the Christmas season and summer vacation period. During these periods, the Company can only invoice for work performed and is also required to pay for statutory holidays. This results in reduced levels of revenues and in a drop in gross margins. This seasonality may not be apparent in the overall results of the Company depending on the impact of the realized sales mix of its various projects.

The full text of the Company's fourth quarter management discussion and analysis can be found on SEDAR at www.SEDAR.com.

Liquidity and Capital Resources

Calian's net cash position was $17,018 at September 30, 2006, compared to $17,889 at September 30, 2005.

Operating activities

Cash flows from operating activities during fiscal 2006 were $11,150 as compared with a cash outflow of $10,616 in 2005. Although cash flows from earnings decreased in 2006 compared to 2005 by $2,536 million, 2005 cash flows were affected by a permanent increase in working capital requirements of $8 million related to the health services support contract. In addition, other working capital elements decreased from September 30, 2005 in line with the ebbs and flows of the business. Specifically, accounts receivable decreased as a result of receiving large milestone billings accrued prior to September 30, 2005. Accounts payable decreased as a result of the payment of a large supplier milestone which was recorded near 2005 year-end and unearned contract revenues decreased as a result of performing the work associated with customer payments received prior to September 30, 2005. The market for the Systems Engineering Division is characterized by long-term contracts with billings tied to milestones achieved, which often results in significant working capital requirements. Conversely, given the nature of this business, it is sometimes possible to negotiate advance payments on contracts. Such advance payments give rise to unearned revenue that will be realized as revenue over the course of the contract. As at September 30, 2006, the Company's total unearned revenue amounted to $4,017. This compares to $7,312 one year earlier.

Acquisition

As indicated in Note 12 of the Company's consolidated financial statements, on September 7, 2004 the Company acquired all of the outstanding shares of Titan Consulting Group Ltd.. The total value of the acquisition was $7,897. On closing, the Company paid $4,302 in cash with the remaining cash payment of $3,557 made during 2006.

Investment

As indicated in Note 5 to the Company's consolidated financial statements, on July 11, 2006, Calian invested $3,622, including transaction costs of $116 in Med-Emerg International Inc. (Med-Emerg) in the form of convertible preferred shares. Management believes that given the enormous pressures on governments to steamline their healthcare systems there will be increasing opportunities generated in this emerging market. Med-Emerg has a good long-standing reputation in many aspects of private delivery of healthcare services and is a premier consultant for policy makers and various healthcare organizations which puts them in an ideal position to address future requirements and for Calian to participate in that process.

Capital assets

Calian acquired $1,025 in capital assets during 2006, compared to $817 during 2005. Assets purchased in 2006 are in line with normal requirements for asset replacement. During 2007, capital expenditures are expected to be in line with past years. At September 30, 2006 there were no significant commitments to expend capital.

Dividend

As a result of continuing earnings and a strong cash position, the Company introduced a dividend in 2003. During 2006 the Company paid $2,796 in dividends or $0.33 cents per share compared to 2005 when the Company paid $2,682 in dividends or $0.32 cents per share. The Company intends to continue with its current dividend policy for the foreseeable future and expects to pay quarterly dividends to shareholders.

Shares

During 2006, the Company repurchased 134,000 common shares through its normal course issuer bid at an average price of $10.88. No shares were repurchased in 2005.

During 2006 (2005), the Company issued 14,245 (193,880) common shares for cash as a result of options being exercised during the year at an average price of $2.95 ($3.02). At September 30, 2006 there were 10,000 options outstanding at an average price of $2.45 expiring on December 14, 2006.

At September 30, 2006 there were 8,399,221 common shares outstanding and as of the date of this Management Discussion and Analysis, there were 8,405,221 common shares outstanding.

Capital resources

At September 30, 2006 the Company had a short-term credit facility of $10,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. Management believes that Calian has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

Contractual obligations

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating leases	9,987	3,001	5,255	1,731	-
Purchase obligations	8,721	8,721	-	-	-
Total contractual obligations	18,708	11,722	5,255	1,731	-

Purchase obligations include agreements to purchase goods and services that are enforceable and legally binding. They do not include agreements that are cancellable without penalty.

Off-Balance Sheet Arrangements

Financial instruments

The Company is exposed to foreign currency fluctuations on its cash balance, accounts receivable, accounts payable, future cash flows related to contracts denominated in a foreign currency and its net investment in a foreign subsidiary. Future cash flows will be realized over the life of the contracts. 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, 2006, the Company had forward sell contracts valued at $24,328 equivalent Canadian dollars and forward buy contracts valued at $11,656 equivalent Canadian dollars, which represents 100% of the Company's foreign currency exposure on contracts. All foreign denominated transactions are recorded at the associated hedged value at the time it is earned. The Company does not hedge its currency exposure related to the net investment in its foreign subsidiary.

Operating leases

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

Related party transactions

There were no transactions with related parties during 2006 and 2005.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the Company's financial condition and results of operations. On an on-going basis, management reviews its estimates and assumptions, including those related to revenue recognition on fixed-price projects, contingencies, estimated amounts for income taxes, allowance for doubtful accounts, valuation of goodwill and valuation of intangibles. Management bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances; actual results could differ from those estimates.

Revenue recognition

The Business and Technology Services Division's revenue is derived primarily from per-diem contracts where revenue is recognized when the services are provided. However, a significant portion of the Systems Engineering Division's revenue is derived from fixed-price contracts. Revenue from these fixed-price projects is recognized using the percentage of completion method using management's best estimate of the costs and related risks associated with completing the projects. The greatest risk on fixed-price contracts is the possibility of cost overruns. Management's approach to revenue recognition is tightly linked to detailed project management processes and controls. The information provided by the project management system combined with a knowledgeable assessment of technical complexities and risks are used in estimating the percentage completion.

Contingencies

From time to time the Company is involved in claims in the normal course of business. Management assesses such claims and where considered likely to result in a material exposure and, where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. The Company does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

Income taxes

The Company records future income tax assets and liabilities related to deductible temporary differences. The Company assesses the value of these assets and liabilities based on their realizability given management assessments of future taxable income.

Allowance for doubtful accounts

The Company has extensive commercial history upon which to base its provision for doubtful accounts. Due to the nature of the industry in which the Company operates, the Company does not create a general provision for bad debts but rather determines bad debts on a specific account basis. Due to the blue-chip list of customers, the Company's allowance for doubtful accounts at September 30, 2006 and 2005 was minimal.

Goodwill

Goodwill is tested for impairment annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. Testing for impairment is accomplished by determining whether the fair value of the reporting unit exceeds the net carrying value as of the assessment date. If the fair value is greater than the carrying amount, no impairment is necessary. In the event the carrying amount exceeds the fair value, an impairment charge may be required. The determination of fair value is based on management's estimate of future results of operations of the reporting unit using reasonable assumptions relating to growth levels, expected costs, expected business environment and the Company's weighted average cost of capital.

Intangibles

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

Adoption of New Accounting Policies During The Year

For the year ended September 30, 2006, the Company adopted a new accounting policy as result of its investment in Med-Emerg. Investments where significant influence by the Company do not exist are recorded at cost with earnings from investments recognized when received or receivable.Any loss in value that is other than a temporary decline is recorded as a reduction of the investment and included in net income.

Impact of Accounting Pronouncements Not Yet Implemented

For the year and interim periods beginning October 1, 2006, the Company is required to adopt the following accounting recommendations.

Comprehensive Income

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

Financial Instrument- Recognition and Measurement

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

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

Based on a review of the current balance sheet, the Company has the following financial assets which will be affected by the new standards.

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

Any change in measurement resulting from applying the new standards on October 1, 2006 will be recorded against opening retained earnings and opening other comprehensive income with no impact to net income.

Financial Instruments - Disclosure and Presentation

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

Hedging

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

Foreign Currency Translation

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

Management's Conclusion on the Effectiveness of Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's disclosure controls and procedures as of September 30, 2006, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

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

The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the design of the Company's internal control over financial reporting as of September 30,2006, have concluded that the Company's internal controls over financial reporting provide reasonable assurance regarding reliability of financial reporting for external purposes in accordance with Canadian GAAP.

During the most recent interim quarter ending September 30, 2006, there have been no changes in the design of the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Risk Factors

The Company is subject to a number of risks and uncertainties that could significantly affect the Company's financial condition and future results of operations. The Company has a comprehensive planning process where risks are identified and plans initiated to minimize risks wherever possible. The Systems Engineering and Business and Technology Services divisions face some or all of the following risks and uncertainties:

Competition for contracts within key markets

The markets for the Company's services are intensely competitive, rapidly evolving and subject to technological changes. The principal competitive factors in the Company's markets are quality, performance, price, timeliness, customer support and reputation. Calian has a disciplined approach to management of all aspects of its business. The Company is a proponent of quality management; SED is registered under ISO 9001-2000 standards and BTS is accredited at Level 4 of the Progressive Excellence Program by the National Quality Institute. This approach to management was developed to help the Company ensure that its employees deliver services consistently according to the Company's high standards and based on strong values underlying its client-focused culture.

The availability of qualified professionals

Competition from other firms has a two-fold impact on the Company. 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 are conducive to attracting ambitious, qualified professionals. As a supplier of professional employees through outsourcing contracts, Calian regularly establishes relationships with a significant number of professionals in key markets.

Performance on fixed-price contracts

A large percentage of SED's contracts are based on a fixed price for the provision of a specified service against an agreed delivery schedule. These fixed-price contracts at times involve the completion of large-scale system engineering projects. There is a risk in all fixed-price contracts that the Company will be unable to deliver the system within the time specified and at the expected cost. The Company employs sophisticated design and testing processes and practices, which include a range of stringent factory and on-site acceptance tests with criteria and requirements jointly developed with the customer. However, non-performance could result in a customer being in a position to terminate the contract for default, or to demand repayments or penalties. Program management methodologies have been implemented to adequately manage each project and any customer changes, and to identify and mitigate potential technical risks and related cost overruns. In addition, Calian employs procedures to ensure accurate estimating of costs and performs regular detailed reviews of progress on each project.

Non-performance of a key supplier or contractor

The Company's business is often dependent on performance by third parties and subcontractors for completion of contracts for which Calian is the prime contractor. Subcontractors for large systems are selected in concurrence with the customer's requirements, and if not directed by the customer, are selected through a competitive bid or negotiated process. Most major development subcontracts are established as fixed-price contracts. The Company believes that these subcontractors have an economic incentive to perform such subcontracts for the Company. However, no company can protect itself against all material breaches, particularly those related to financial insolvency of the subcontractors or to cost overruns by subcontractors. Risks include a significant price increase in those few subcontracts that are not fixed-price, delay in performance, a failure of any major subcontractor to perform or the inability of the Company to obtain replacement subcontractors at a reasonable price. The performance of key subcontracts is closely monitored as part of the Company's project management process to promptly identify potential issues and develop remedial actions.

Rapidly changing technologies and customer demands

The markets in which Calian operates are characterized by changing technology and evolving industry standards. Calian keeps pace with developments in the industries it serves and actively monitors the evolution of these markets, thus ensuring that it can meet the evolving needs of its clients. The Company achieves this by continually recruiting professionals in high demand positions and providing regular training to ensure employee skills remain current. The Company's ability to anticipate changes in technology, technical standards and service offerings will be a significant factor in the Company's ability to compete or expand into new markets.

Government contracts

During 2006, approximately 59% of the Company's total revenues was derived from contracts with the Canadian government and its agencies. The government may change its policies, priorities or funding levels through agency or program budget reductions or impose budgetary constraints. Furthermore, contracts with governments, including the Canadian government, may be terminated or suspended by the government at any time, with or without cause. Although in the past the Company has not experienced any significant cancellations of previously awarded contracts by the Canadian government, there can be no assurance that any contract with the government will not be terminated or suspended in the future.

Credit risk concentration with respect to trade receivables

As the Company grows, it monitors the concentration of its business in its various segments and with particular customers. In management's opinion, the fact that the Company operates in two segments that provide some diversification of its customer base mitigates the potential impact on earnings and cash flow of problems related to an individual sector or customer.

Insufficient or inappropriate mix of work for fixed labour resources

Virtually all employees of SED are full time staff and represent a broad spectrum of unique skill sets. Accordingly, SED strives to secure sufficient labour sales that adequately match the skill sets. SED's business development practices are designed to dynamically adjust pursuits of contracts to address the sufficiency and mix of available resources.

Operational risk

Operational risk is managed through the establishment of effective infrastructure and controls. Key elements of the infrastructure are qualified, well-trained personnel, clear authorization levels and reliable technology. Controls established by documented policies and procedures include the regular examination of internal controls by internal employees as well as our auditors, segregation of duties, and financial management and reporting. In addition, the Company maintains insurance coverage and contingency plans for systems failures or catastrophic events.

Foreign currency risk

The Company operates internationally with approximately 18% of its business derived from non-Canadian sources. A substantial portion of this international business is denominated in major foreign currencies and therefore the Company's results from operations are affected by exchange rate fluctuations of these currencies relative to the Canadian dollar. The Company uses financial instruments, principally in the form of forward exchange contracts, in its management of foreign currency exposures. At September 30, 2006 the Company had various forward exchange contracts, which are explained in Note 16 to the Company's consolidated financial statements for the year ended September 30, 2006. The strengthening of the Canadian dollar relative to other foreign currencies may negatively impact the Company's competitiveness and increase pressure on margins for new work.

Discontinued operation

As indicated in Note 12 of the Company's consolidated financial statements, during 2005, the Company renegotiated a new lease with a sub-tenant of the Company at its premises in Kanata, Ontario for a significant portion of the Company's excess space at current market rates. As a result, the Company will be required to assume a portion of the costs associated with this facility. Management believes that the current provision of $1,724 will be sufficient to cover the Company's share of such costs.

Sufficiency of insurance

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

Medical malpractice

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

Political and trade barriers

Revenues on certain projects are derived from customers in foreign jurisdictions and are subject to trade and political barriers relating to the protection of national interests. These barriers could have an adverse effect on our ability to win repeat business and attract new customers.

Consolidation of customer base

The satellite industry has experienced both restructuring and consolidation. As the newly formed entities focus on optimizing cash flows and gaining economies of scale, opportunities for systems integrators will be diminished thereby creating a very competitive environment with commensurate pressure on margins.

Long-term Outlook

Management believes the Company is well positioned for sustained growth in the long-term. The Company operates in markets that will continue to require the services that the Company delivers. To further assure itself of a stable source of revenues, the Company will focus on increasing the percentage of its revenues derived from recurring business while pursuing new business in adjacent markets. Its acquisition strategy, focused on adding complementary businesses to the Company's mix, will also be a potential source of growth.

The Systems Engineering Division has been working within a depressed satellite sector for the last few years. In addition, several large satellite operators were purchased using highly leveraged financial structures and industry consolidation continues. This depressed environment resulted in fewer opportunities during that period. However, management believes that new systems adopting the latest technologies will be required in the medium term to maintain and improve service offerings. Recently, the division has seen a rejuvenated market and his currently experiencing increased demand for its products and services. Management is also confident that systems such as MSTAR will continue to be in demand in the security and surveillance market although it cannot predict the timing and extent of future orders. The continued strengthening of the Canadian dollar will impact the Systems Engineering Division's competitiveness when bidding against foreign competition on projects denominated in US dollars and EUROs.

The Business and Technology Services Division's services are adaptable to many different markets. Currently, its strength lies in providing program management and delivery services to the Department of National Defence. Management believes that this department and many others within the federal government will continue to require more support services from private enterprises to supplement their current workforce. Although Calian has experienced delays during the last few years, management believes that the types of service the division offers will continue to be attractive to government agencies going forward. The acquisition of Titan coupled with existing standing agreements for SAP and Peoplesoft resources, positions the Company to take advantage of the expected growth in government ERP requirements.

With its large contract backlog, the BTS revenue base and related margins are generally quite secure. The completion of the call centre services contract will have an impact on the BTS division in the short term, but management is confident in its ability to replace the operating contribution from this contract with business along traditional lines. Overall, margins are expected to increase slightly due to the revised mix of business. While SED has recently been successful in singing new business, the impact of competitive pressure is expected to be evident in reduced margins moving forward. Given the above factors, it is expected that the SED proportion of revenues will increase slightly and that overall consolidated margins will remain similar to last year.

Additional Information

Additional information about the Company such as the Company's 2006 Annual Information Form and Management Circular can be found on SEDAR at www.SEDAR.com

Dated: November 30, 2006

Management's Statement of Responsibility

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

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

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

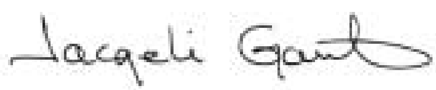
In fulfilling its responsibilities, management of Calian and its subsidiaries has developed and continues to maintain systems of internal accounting controls including written policies and procedures and segregation of duties and responsibilities.

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

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

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

Ray Basler
President and CEO
Kanata, Ontario
October 31, 2006



Jacqueline Gauthier
Chief Financial Officer

Auditors' Report

To the Shareholders of Calian Technologies Ltd.

We have audited the consolidated balance sheets of Calian Technologies Ltd. as at September 30, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Ottawa, Ontario
October 31, 2006

Calian Technologies Ltd.

Consolidated Statements of Earnings and Retained Earnings

Years Ended September 30, 2006 and 2005

(dollars in thousands, except per share data)

	2006	2005
Revenues	$ 182,846	$ 177,777
Cost of revenues	149,881	145,208
Gross profit	32,965	32,569
Selling and marketing	5,019	5,180
General and administration	12,527	10,568
Facilities	2,723	2,698
Amortization of capital assets	992	1,139
Amortization of intangibles	312	396
Prior years investment tax credits (Note 4)	(409)	(984)
Earnings before other expense, interest and income tax expense	11,801	13,572
Litigation settlement cost (Note 11)	(2,000)	-
Interest income, net	584	545
Earnings before income tax expense	10,385	14,117
Income tax expense (Note 4):		
Current	3,426	5,159
Future	336	209
	3,762	5,368
NET EARNINGS	6,623	8,749
Retained earnings, beginning of year	25,807	19,740
Excess of purchase price over stated capital on repurchase of shares (Note 9)	(1,186)	-
Dividend	(2,796)	(2,682)
Retained earnings, end of year	$ 28,448	$ 25,807
Net earnings per share (Note 10)		
Basic	$ 0.78	$ 1.04
Diluted	$ 0.78	$ 1.03
Weighted average number of shares (Note 10)		
Basic	8,465,246	8,389,688
Diluted	8,500,079	8,489,121

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

Calian Technologies Ltd.
Consolidated Balance Sheets
As at September 30, 2006 and 2005

(dollars in thousands)

		2006		2005
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	17,018	$	17,889
Accounts receivable		27,529		35,843
Note receivable (Note 3)		186		172
Work in process		3,721		3,609
Prepaid expenses and other		493		825
Future income taxes (Note 4)		1,857		2,166
		50,804		60,504
NOTE RECEIVABLE (Note 3)		-		186
LONG-TERM INVESTMENT (Note 5)		3,623		-
CAPITAL ASSETS (Note 6)		3,584		3,551
INTANGIBLES (Note 7)		704		1,016
GOODWILL (Note 8)		9,518		9,518
	$	68,233	$	74,775
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$	18,785	$	24,343
Unearned contract revenue		4,017		7,312
		22,802		31,655
FUTURE INCOME TAXES (Note 4)		70		43
		22,872		31,698
CONTINGENCIES (Note 12)				
COMMITMENTS (Note 13)				
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		17,236		17,270
Retained earnings		28,448		25,807
Cumulative translation adjustment		(323)		-
	$	45,361	$	43,077
	$	68,233	$	74,775

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

Approved by the Board:

Larry O'Brien
Chairman

Richard Vickers
Director

Calian Technologies Ltd.
Consolidated Statements of Cash Flows
Years Ended September 30, 2006 and 2005
(dollars in thousands)

	2006	2005
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 6,623	$ 8,749
Items not affecting cash		
Interest on note receivable	(28)	(42)
Employee stock purchase plan compensation expense	35	32
Amortization	1,304	1,535
Future income taxes (Note 4)	336	209
	8,270	10,483
Change in non-cash working capital		
Accounts receivable	8,314	(17,117)
Work in process	(112)	138
Prepaid expenses and other	332	50
Accounts payable and accrued liabilities	(2,036)	2,612
Unearned contract revenue	(3,295)	(6,782)
	11,473	(10,616)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Issuance of common shares	241	807
Dividend	(2,796)	(2,682)
Repurchase of common shares, including cost (Note 9)	(1,461)	-
	(4,016)	(1,875)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Note receivable	200	200
Acquisition of capital assets	(1,025)	(817)
Business acquisition (Note 12)	(3,557)	-
Investment (Note 5)	(3,623)	-
	(8,005)	(617)
FOREIGN CURRENCY TRANSLATION	(323)	-
NET CASH OUTFLOW	(871)	(13,108)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,889	30,997
CASH, END OF YEAR	$ 17,018	$ 17,889
SUPPLEMENTARY INFORMATION:		
Income taxes paid	$ 2,996	$ 4,090

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

Calian Technologies Ltd.
Notes to the Consolidated Financial Statements
As at September 30, 2006 and 2005

(dollars in thousands, except per share data)

1. Nature of Operations

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

2. Accounting Policies

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

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Calian Ltd., Calian Inc.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Company's management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Significant areas requiring the use of estimates relate to the determination of percentage of completion and estimated project costs and revenues for contract revenue recognition, contingencies, estimated amount for income tax balances, allowance for doubtful accounts, business acquisitions and the related goodwill and intangibles and the impairment of goodwill, based on currently available information. Actual results could differ from those estimates.

Revenue recognition

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

Revenue derived from per-diem contracts is recognized in the period the services are provided.

Work in process

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

Long-term investment

Investments where significant influence by the Company do not exist are recorded at cost with earnings from investments recognized when received or receivable. Any loss in value that is other than a temporary decline is recorded as a reduction of the investment and included in net income.

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%. The Company's policy is to review all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company will estimate the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition and record an impairment loss if required.

2. Accounting Policies *(Continued)*

Intangibles

Intangibles are comprised of acquired customer relationships, non-competition agreements, order backlog and consultant database. Intangibles are amortized on a straight-line basis over their estimated useful life not exceeding five years. The intangibles are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of a reporting unit's goodwill exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. An impairment charge is recorded for goodwill that is considered impaired. The Company performs its annual review of goodwill on September 30th each year. Based on the impairment tests performed at September 30, 2006 and 2005, the Company concluded that no goodwill impairment charge was required.

Income taxes

The Company accounts for income taxes using the liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of tax losses available to be carried forward to future years if these are more likely than not to be realized.

Research and development costs and related investment tax credits

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. No such costs have been deferred at September 30, 2006 and 2005.

Research and development costs incurred under contract are included in cost of sales net of related government assistance. Investment tax credits are accounted for using the cost reduction method, whereby the benefit is recognized as a reduction in the cost of the related asset or expenditure when there is reasonable assurance the tax credits will be received and if it is more likely than not that they will be utilized to reduce taxes payable.

Stock-based compensation

The Company has a stock option plan for executives and other key employees and an employee stock purchase plan. The Company measures and recognizes compensation expense based on the fair-value of the stock or stock options issued. Consideration paid by employees on the purchase of shares under the employee stock purchase plan and exercise of stock options is recorded as share capital when the shares are issued.

Foreign currency translation

Accounts denominated in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate of change in effect at year-end. Non-monetary items are translated at rates in effect on the dates of the transactions. Revenues and expenses are translated at rates in effect during the year except for amortization, which is translated at the same rate as the assets to which it relates. Gains and losses from translation are included in earnings in the period in which they occur.

The accounts of a wholly-owned subsidiary, which is considered to be a self-sustaining foreign operation, have been translated into Canadian dollars using the current rate method of foreign currency translation. Under this method, assets and liabilities are translated at the rate of exchange in effect at year-end. Revenues and expenses are translated at rates in effect during the year. Translation gains and losses are included in cumulative translation adjustment as a separate component of shareholders' equity.

2. Accounting Policies *(Continued)*

Financial instruments and risk management

The carrying amount of the Company's current monetary assets and liabilities approximates fair value. The carrying value of the note receivable represents the discounted value of the note using current market interest rates and as such approximates fair value.

The Company utilizes derivative financial instruments in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm contractually related commitments on projects.

The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company hedges foreign currency exposures by entering into offsetting forward exchange contracts. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency denominated contracts are deferred and recognized as an adjustment of either the hedged revenues or the hedged project costs.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current and non-current assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is extinguished, settled or is no longer probable of occurring prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized as an adjustment to revenue or cost of the related project.

Earnings per share

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

Cash and cash equivalents

Cash and cash equivalents include investments with a major Canadian chartered bank and money market instruments that 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.

(dollars in thousands, except per share data)

3. Note Receivable

As at September 30, 2006, the nominal value of the note receivable is $200. The note is non-interest bearing and is secured by a general security agreement over the assets of Square Peg Communications Inc. second to any bank indebtedness. The balance of the note is repayable on September 30, 2007. The payment can be delayed by one year at which time interest will accrue at a rate of prime + 3%. The book value of the note of $186 represents the fair value at September 30, 2006 after considering an implied interest rate of prime + 3%.

4. Income Taxes

The balances of future income tax assets and liabilities (current and long-term) at September 30, 2006 and 2005 represent the future benefits of temporary differences between the tax and accounting bases of assets and liabilities, consisting mainly of future tax deductions. The future tax assets of the Company are comprised of the following elements:

	2006	2005
Book base of liabilities in excess of tax base	$ 1,857	$ 2,166
	1,857	2,166
Current	1,857	2,166
Non-current	$ -	$ -

The non-current future tax liability of the Company is comprised of the book base of assets in excess of tax base for $70 (2005: $43). None of the goodwill is expected to be deductible for tax purposes.

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

	2006	2005
Earnings before income taxes	$ 10,385	$ 14,117
Tax provision at the combined basic Canadian federal and provincial income tax rate of 36.5% (2005: 37.0%)	3,791	5,223
Increase (decrease) resulting from:		
Permanent differences	63	69
Impact of rate reductions on valuation of future income tax assets	65	-
Other	(158)	76
	$ 3,761	$ 5,368

During 2006, and 2005, the Company received assessments from the Canada Revenue Agency regarding its 2005, 2004 and 2003 scientific research and experimental development (R&D) activities allowing additional R&D costs to be claimed. As a result the Company recorded $409 ($984) of investment tax credits (ITC) which resulted in a recovery of taxes already paid. During 2006 the Company recorded $91 of ITC related to $330 of research and development costs incurred during the year. These costs and related ITC have been recorded in cost of sales.

(dollars in thousands, except per share data)

5. Long-term investment

On July 11, 2006, the Company invested $3,623 in Med-Emerg International Inc. (Med-Emerg) in the form of convertible preferred shares. The investment cost includes acquisition costs of $116. The preferred shares, which have a face value of $3,897, will be convertible into 8,750,000 common shares of Med-Emerg at the Company's option. After two years, Med-Emerg is also entitled to cause the preferred shares to be converted into common shares when trading volumes of Med-Emerg common shares exceed 600,000 shares and the weighted average share price is at least $0.46 USD in the preceding 60 days. On a fully converted basis, this investment represents a 13% interest based on the current number of common shares outstanding. In the event the shares are not converted by July 11, 2011, the preferred shares will be redeemed, and at the option of Med-Emerg the face value will be satisfied either in cash or in Med-Emerg common shares based on the then fair market value of the common shares.

6. Capital Assets

			2006	2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment, furniture and fixtures	$ 11,153	$ 7,569	$ 3,584	$ 3,551

7. Intangibles

			2006	2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Acquired customer relationships	$ 788	$ 407	$ 381	$ 576
Non-competition agreements	480	200	280	376
Contractual arrangements with customers	126	126	-	-
Consultant database	88	45	43	64
	$ 1,482	$ 778	$ 704	$ 1,016

8. Goodwill

The change in the book value of goodwill is as follows:

	2006	2005
Balance, beginning of year	$ 9,518	$ 5,923
Acquired during year	-	3,595
Balance, end of year	$ 9,518	$ 9,518

(dollars in thousands, except per share data)

9. Share Capital

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

Issued: Common shares as follows:

	2006		2005	
	Shares	Amount	Shares	Amount
Balance, beginning of year	8,503,313	$ 17,270	8,287,725	$ 16,431
Shares issued under stock option plan	14,245	42	193,880	585
Shares issued under employee share purchase plan	15,663	199	21,708	254
Shares repurchased for cash	(134,000)	(275)	-	-
Balance, end of year	8,399,221	$ 17,236	8,503,313	$ 17,270

During fiscal 2006, the Company acquired 134,000 of its outstanding common shares at an average price of $10.88 per share for a total of $1,461 including related expenses, through a normal course issuer bid initiated in November 2005. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings.

Share options

In 1993, the Company established a stock option plan, whereby grants were made at the sole discretion of the Company's Board of Directors (the Old Plan). The Old Plan expired in 2003. During 2005, the Company established a new plan (the New Plan). A total of 250,000 common shares have been authorized for issuance under the New Plan. Under both plans, 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 were granted but in no circumstances below fair market value of the shares at the date of the grant. During the year no options were granted.

The purchase options granted under the Old Plan vested over three years with a maximum term to expiry of five years, and are contingent on the option holders maintaining their employment. All options expire December 14, 2006.

	2006		2005	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	24,245	$2.73	218,125	$2.99
Exercised	(14,245)	$2.95	(193,880)	$3.02
Outstanding, end of year	10,000	$2.45	24,245	$2.73

Employee stock purchase plan

The Company has an Employee Stock Purchase Plan (ESPP) under which most full-time employees may register once a year to participate in one of two offering periods. Eligible employees may purchase common shares by payroll deduction throughout the year at a price of 80% of the fair market value at the beginning of the initial offering period or may purchase common shares at a price of 90% of the fair market value at the beginning of the interim offering period. Such shares are issued from treasury once a year at the end of the offering periods.

A total of 500,000 common shares have been authorized for issuance under the plan. During fiscal 2006, the Company issued 15,663 (2005: 21,708) common shares under the ESPP and employees subscribed to approximately 24,071 common shares, which will be issued during fiscal 2007 at an average price of $8.19. Since inception and including the issuance of shares in 2006, 201,126 shares have been issued under the plan.During the twelve-month period ending September 30, 2006, the Company recorded a compensation expense of $35 (2005: $32) relating to its ESPP.

(dollars in thousands, except per share data)

10. Earnings Per Share

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

	2006	2005
Weighted average number of common shares–basic	8,465,246	8,389,688
Additions to reflect the dilutive effect of employee stock options	10,381	73,408
Shares to be issued for the Titan acquisition (Note 12)	24,452	26,025
Weighted average number of common shares–diluted	8,500,079	8,489,121

11. Litigation settlement

On July 11, 2006 the Company paid $2.0 million in return for a complete and full release and discharge of the previously disclosed $100 million claim. The release confirms that the Company does not admit and in fact denies all allegations. This payment was recorded at June 30, 2006 in accounts payable and accrued liabilities.

12. Contingencies

Based on the original purchase price agreement for the acquisition of Titan Consulting Group Ltd, during 2006 the Company made a payment of $2,847 to settle the first 90% of the purchase price. Under the original agreement, the final 10% of the purchase price was to be paid through the issuance of Calian common shares on February 28, 2006 at the then-prevailing market prices. During 2006, the Company amended the agreement to allow the final payment to be made, at the discretion of the Company, either in cash or by the issuance of Calian shares. The Company elected to settle in cash and therefore during 2006, the Company paid an additional amount of $710 for a total cash payment of $3,557. The full amount was recorded at September 30, 2005 in accounts payable and accrued liabilities. Throughout the year, contingently issuable shares were included in the dilutive earnings per share calculation.

As part of its e-business strategy, during the year 2000, the Company entered into a 10-year lease for an office building in the Ottawa area expiring in April 2010. Upon exit of the e-business sector in 2001, the Company did not have any requirements for the space and accordingly sublet the excess space to a third party for a period of 5 years ending May 2006. During 2005, the Company entered into a new agreement with the existing sub-tenant to lease a significant portion of the space for a 5-year period extending to April 2010 at the current market price. As a result, the Company will be required to assume a portion of the costs associated with this facility. Unless the sub-lessee defaults on future payments, it is expected that the current provision of $1,724 will be sufficient to cover the Company's share of the costs. The lease payments including operating costs relating to the excess space amount to approximately $988 per year. During the year, the Company received lease revenues of $567 (2005: $838).

13. Commitments

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

2007	$ 3,001
2008	$ 2,926
2009	$ 2,329
2010	$ 1,731

(dollars in thousands, except per share data)

14. Guarantees

In the normal course of business, the Company enters into agreements that may provide for indemnification and guarantees to customers in transactions such as staffing, outsourcing and engineering. These indemnification undertakings and guarantees may require the Company to compensate customers for costs and losses incurred as a result of various events, including breaches of representations and warranties, intellectual property right infringement, claims that may arise while providing services, or as a result of litigation that may be suffered by customers. The Company mitigates its responsibility by removing from its contracts clauses relating to liability for indirect or special damages such as loss of revenue or profit in all of its engineering agreements. The Company also mitigates the risk of loss by including similar indemnification clauses in the agreements entered into with its subcontractors. The term and nature of these indemnifications vary based upon the agreement, which often provides no limit. Consequently, the Company is unable to make a reasonable estimate of the maximum potential amounts that the Company could be required to pay to its customers. Historically, the Company has not been obligated to make significant payments under these indemnification clauses.

15. Segmented Information

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

The Company operates in two reportable segments described below, defined by their primary type of service offering, namely Systems Engineering and Business and Technology Services.

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

- Business and Technology Services involves short and long-term placements of personnel to augment customers' workforces as well as the long-term management of projects, facilities and customer business processes.

The Company evaluates performance and allocates resources based on earnings before interest and income taxes. The accounting policies of the segments are the same as those described in Note 2.

For the Fiscal Year ending September 30, 2006

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	$ 36,689	$ 146,157	$ -	$ 182,846
Operating expenses	31,664	135,867	2,619	170,150
Amortization	467	837	-	1,304
Prior year investment tax credits (Note 4)	(409)	-	-	(409)
Earnings before other expense, interest and income tax expense	$ 4,967	$ 9,453	$ (2,619)	$ 11,801
Litigation settlement cost (Note 11)				(2,000)
Interest income, net				584
Income tax expense (Note 4)				3,762
Net earnings				$ 6,623
Total assets other than cash and goodwill	$ 10,403	$ 30,972	$ 322	$ 41,697
Goodwill	-	9,518		9,518
Cash				17,018
Total assets				$ 68,233
Capital asset expenditures	$ 675	$ 350	$ -	$ 1,025

(dollars in thousands, except per share data)

15. Segmented Information (Continued)

For the Fiscal Year ending September 30, 2005

	Systems Engineering	Business and Technology Services	Corporate	Total
Revenues	$ 50,303	$ 127,474	$ -	$ 177,777
Operating expenses	42,369	119,344	1,941	163,654
Amortization	620	915	-	1,535
Prior year investment tax credits (Note 4)	(984)	-	-	(984)
Earnings before interest income and income tax expense	$ 8,298	$ 7,215	$ (1,941)	$ 13,572
Interest income, net				545
Income tax expense (Note 4)				5,368
Net earnings				$ 8,749
Total assets other than cash and goodwill	$ 14,578	$ 32,257	$ 533	$ 47,368
Goodwill		9,518		9,518
Cash				17,889
Total assets				$ 74,775
Capital asset expenditures	$ 414	$ 403	$ -	$ 817

Revenues from external customers are attributed as follows:

	2006	2005
Canada	83%	75%
United States	12%	10%
Europe	5%	15%

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 59% (2005: 43%) of the Company's total revenues. Both operating segments conduct business with this major customer.

In 2006, revenue from a certain customer in the call centre business accounted for 9% of the Company's total revenues (2005: 16%), all from the Business and Technology Services segment.

(dollars in thousands, except per share data)

16. Financial Instruments and Risk Management

The Company is exposed to foreign currency fluctuations on its cash balance, accounts receivable, accounts payable and future cash flows related to contracts denominated in a foreign currency. Future cash flows will be realized over the life of the contracts.

The Company 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, 2006, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars
SELL	19,670	USD	October 2006	$21,902
BUY	9,359	USD	October 2006	10,421
SELL	922	EURO	October 2006	1,306
BUY	339	EURO	October 2006	480
BUY	357	GBP	October 2006	755
SELL	117,432	JPY	October 2006	1,120

The fair value of the financial instruments at September 30, 2006 is $40 (2005: $171). The foreign exchange gain recorded in 2006 is $57 (2005: foreign exchange loss $25).

As at September 30, 2006 and 2005, the amount of unrecognized gain related to the Company's foreign exchange contracts was $71 and $572 respectively. These amounts will be recognized into income over the life of the contracts.

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

17. Pension Plan

The Company sponsors a defined contribution pension plan for its employees. Required contributions have been fully funded to September 30, 2006. For the year ended September 30, 2006, an amount of $578 (2005: $549) was expensed related to this pension plan.

Corporate Information

Corporate & Business and Technology Services

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

Systems Engineering (SED)

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

United States Office

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

Board of Directors

Kenneth J. Loeb
President, Capital Box of Ottawa Limited
Chairman, Calian Technologies Ltd.

Larry O'Brien
Mayor, City of Ottawa

Major General (retired) C. William Hewson
Consultant
Chair of the Governance Committee

David Tkachuk
Senator
Chair of the Compensation Committee

Richard Vickers, FCA
Consultant
Chair of the Audit Committee

Ray Basler
President and CEO, Calian Technologies Ltd.

Common Share Information

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

Dividend Policy

The Company intends to continue to declare a quarterly dividend in line with its overall financial performance and cash flow generation. Decisions on dividend payments are made on a quarterly basis by the Board of Directors.There can be no assurance as to the amount of such dividends in the future.

Annual Meeting of Shareholders

The Annual General Meeting of the Shareholders of Calian will be held on February 7, 2007 at 3:00 p.m. at the Brookstreet Hotel, Kanata, Ontario, Canada. All shareholders are invited to attend. The telephone number of the Brookstreet Hotel is 613.271.1800.

Calian Technologies Ltd.