

**CALIAN TECHNOLOGY LTD.
MANAGEMENT PROXY CIRCULAR
DECEMBER 3, 2004**

SOLICITATION OF PROXIES

This Management Proxy Circular is furnished in connection with the solicitation by the management of CALIAN TECHNOLOGY LTD. (the "Corporation") of proxies to be used at the annual and special meeting of shareholders of the Corporation to be held on Wednesday, February 2, 2005 at 3:00 p.m. (Ottawa time) at the Brookstreet Hotel, Kanata, Ontario for the purposes set forth in the enclosed notice of meeting or any adjournment thereof (the "Meeting"). It is expected that the solicitation will be primarily by mail, but employees of the Corporation may also solicit proxies personally. The cost of solicitation by management will be borne by the Corporation.

APPOINTMENT OF PROXYHOLDERS AND REVOCATION OF PROXIES

A vote at all meetings of shareholders of the Corporation may be given in person or by proxy whether or not the proxy holder is a shareholder. The persons named in the Form of Proxy enclosed with this Management Proxy Circular are officers of the Corporation. **Each shareholder is entitled to appoint a person other than the individuals named in the Form of Proxy to represent such shareholder at the Meeting.** A shareholder desiring to appoint some other person to represent that shareholder at the Meeting may do so either by inserting such person's name in the blank space provided in the appropriate Form of Proxy or by completing another proper Form of Proxy and, in either case, delivering the completed proxy to the Corporation's transfer agent, the CIBC Mellon Trust Company, 320 Bay Street, P.O. Box 1, Toronto, Ontario, M5H 4A6, in the addressed envelope enclosed or to the Secretary of the Corporation no later than 5:00 p.m. (Ottawa time) on Monday, January 31, 2005.

The officers named in the Form of Proxy will vote or withhold from voting the common shares in the capital of the Corporation (the "Common Shares") for which they are appointed proxy holders (including on any ballot that may be called for) in accordance with the instructions of the shareholder appointing them. **In the absence of such instructions, such Common Shares will be voted FOR the election of Directors, FOR the appointment of auditors, FOR the approval of the 2004 Stock Option Plan and FOR the approval of the change of the Corporation's name to Calian Technologies Ltd.** The Form of Proxy confers discretionary authority with respect to amendments or variations to matters identified in the notice of meeting and other matters, which may properly come before the Meeting. At the date hereof, management of the Corporation is not aware of any other matters to come before the Meeting. Any amendment, variation or other matter, which is not known to management, which may properly come before the Meeting, will be voted upon by the proxies hereby solicited in accordance with the best judgment of the person or persons voting such proxies.

Pursuant to Section 148(4) of the *Canada Business Corporations Act* (the "CBCA"), a proxy given pursuant to this solicitation may be revoked (1) by instrument in writing, executed by the shareholder or by the shareholder's attorney authorized in writing and deposited at the registered office of the Corporation at 2 Beaverbrook Road, Kanata, Ontario, K2K 1L1 at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, (2) by delivering the revocation prior to voting to the chair of the Meeting on the day of the Meeting, or any adjournment thereof or (3) in any other manner permitted by law. **If a shareholder appoints some person other than the officers named in the Form of Proxy to represent him, such person will vote the Common Shares in respect of which such person is appointed proxy holder in accordance with the direction of the shareholder appointing such person. In the absence of such direction, such person may vote such shares at such person's discretion. It is the responsibility of the shareholder appointing some other person to represent such shareholder to inform such person that such person has been so appointed.**

VOTING SHARES AND RECORD DATE

As of the date of this Management Proxy Circular, 8,290,725 Common Shares were issued and outstanding, the holders of which are entitled to one vote for each Common Share held. The board of directors of the Corporation (the "Board") has fixed the close of business on December 17, 2004 as the record date for the purpose of determining shareholders entitled to receive notice of and to vote at the Meeting. The failure of any shareholder to receive notice of a meeting of the shareholders does not, however, deprive such shareholder of a vote at such meeting.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of the Common Shares as of December 3, 2004 with respect to each person who, as of such date, is known to the directors or officers of the Corporation to be the beneficial owner of or exercise control or direction over more than 10% of the Common Shares:

<u>Name of Beneficial Owner</u>	<u>Number of Common Shares Held</u>	<u>Percentage of Voting Common Shares</u>
Bissett Investment Management, a division of Franklin Templeton Investments Corp.	1,352,800	16.3%
Fidelity Management & Research Company and Fidelity Management Trust Company	1,090,000	13.1%

ELECTION OF DIRECTORS

The Board is elected annually. The number of directors of the Corporation to be elected at the Meeting is set at six (6). Each of the persons listed below is proposed to be nominated as a director of the Corporation to serve until the next annual meeting or until such person's successor is elected or appointed, and each has agreed to serve as director if elected. Unless a shareholder directs that such shareholder's Common Shares are to be withheld from voting for the election of directors, it is the intention of the persons designated in the enclosed proxy to vote FOR the election of the proposed nominees listed in the table below, and with the exception of Raymond Basler, all of whom are currently directors of the Corporation:

<u>Name and Present Principal Occupation</u>	<u>Period of Service as a Director</u>	<u>Number of Common Shares Held</u>
Larry O'Brien ⁽³⁾ , Ottawa, ON Chairman of the Board of Directors	1982 - 2005	642,555 ⁽⁴⁾
Kenneth J. Loeb ⁽¹⁾⁽²⁾⁽³⁾ , Ottawa, ON President, Capital Box of Ottawa Limited	2001 - 2005	2,210
Major Gen.(Ret'd) C. William Hewson ⁽¹⁾⁽²⁾⁽³⁾ Calabogie, ON, Consultant	2003 - 2005	710
Senator David Tkachuk ⁽¹⁾⁽²⁾⁽³⁾ , Saskatoon, SK Member of the Senate of Canada	2003 - 2005	200

<u>Name and Present Principal Occupation</u>	<u>Period of Service as a Director</u>	<u>Number of Common Shares Held</u>
Richard A Vickers, FCA ⁽¹⁾⁽²⁾⁽³⁾ , Manotick, ON Consultant, R.A. Vickers Management Inc.	2003 - 2005	3,210
Raymond Basler, Saskatoon, SK President and Chief Operating Officer of the Corporation	–	83,177

- (1) Member of the Audit Committee of the Board.
- (2) Member of the Compensation Committee of the Board
- (3) Member of the Governance Committee of the Board.
- (4) The Common Shares are held 100% by Cinnatek Corporation, an Ontario corporation wholly owned by Larry O'Brien.

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

MAJOR GENERAL (retired) C. WILLIAM HEWSON is a consultant specializing in planning and project management. Major General Hewson has extensive experience in the Canadian Armed Forces and, prior to 2000, was Director General, Signals Intelligence Production at the Communications Security Establishment (CSE).

RAYMOND BASLER was, from November 25, 1998 to September 30, 2004, President of the Corporation's Systems Engineering division and, from September 28, 2001 to August 5, 2002, Executive Vice-President and Chief Operating Officer of the Corporation. Mr. Basler is currently President and Chief Operating Officer of the Corporation and will be named Chief Executive Officer of the Corporation immediately following the Meeting.

LARRY O'BRIEN was prior to May 9, 2000, and from April 16, 2001 to August 5, 2002, Chairman, President and Chief Executive Officer of the Corporation and is currently Chairman and Chief Executive Officer. Between May 9, 2000 and April 16, 2001 Mr. O'Brien was Chairman of the Corporation. Mr. O'Brien will continue as Chairman of the Corporation following the Meeting.

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

Directors' Attendance

For the 12-month period ended September 30, 2004, the Board met on five occasions and the Audit Committee of the Board (the "Audit Committee") met on four occasions. Compensation and Governance issues are discussed during the quarterly Board meetings with all the Board members present. All of the Directors were present to all the meetings either by phone or in person.

STATEMENT OF EXECUTIVE COMPENSATION

The following table, presented in accordance with the regulations to the *Securities Act* (Ontario), sets forth all compensation paid in respect of the individuals who were the Chief Executive Officer during the year ended September 30, 2004 and the other four most highly compensated executive officers of the Corporation (the “named executive officers”) who earned more than \$100,000 in salary and bonus during the last fiscal year.

SUMMARY COMPENSATION TABLE

(all dollar amounts rounded to nearest dollar)

Name and Principal Position	Year	Annual Compensation		Other Annual Compensation ⁽¹⁾	Long-Term Compensation Awards	
		Salary	Bonus		Securities Under Options SARs Granted ⁽²⁾	All Other Compensation
Larry O’Brien ⁽³⁾	2004	\$ 225,454	\$ 350,000	-	40,000	Nil
Chairman of the Board and Chief Executive Officer	2003	\$ 214,285	\$ 225,000	-	70,000	Nil
	2002	\$ 167,206	\$ 175,000	-	145,714	Nil
Ray Basler ⁽⁴⁾	2004	\$ 238,095	\$ 350,000	-	60,000	Nil
President and Chief Operating Officer	2003	\$ 214,285	\$ 225,000	-	105,000	Nil
	2002	\$ 170,941	\$ 175,000	-	247,000	Nil
Tom Coates	2004	\$ 171,267	\$ 75,000	-	23,000	Nil
Vice President and General Manager Business and Technology Services	2003	\$ 165,000	\$ 85,000	-	64,000	Nil
	2002	\$ 159,315	\$ 55,000	-	105,000	Nil
Brent McConnell	2004	\$ 145,000	\$ 325,000	-	8,000	Nil
Vice President and General Manager Systems Engineering Division	2003	\$ 137,000	\$ 210,000	-	14,000	Nil
	2002	\$ 131,000	\$ 170,000	-	24,000	Nil
Jacqueline Gauthier ⁽⁵⁾	2004	\$ 146,035	\$ 145,000	-	45,000	Nil
Vice President and Chief Financial Officer	2003	\$ 135,000	\$ 75,000	-	59,820	Nil
	2002	\$ 120,827	\$ 35,000	-	93,300	Nil

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

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

(3) Prior to May 9, 2000, and from April 16, 2001 to August 5, 2002, Larry O’Brien was Chairman, President and Chief Executive Officer of the Corporation. Between May 9, 2000 and April 16, 2001, Mr. O’Brien was Chairman of the Corporation.

(4) Ray Basler was, from November 25, 1998 to September 30, 2004, President of the Corporation’s Systems Engineering division and, from September 28, 2001 to August 5, 2002, Executive Vice-President and Chief Operating Officer of the Corporation.

(5) Jacqueline Gauthier was promoted to Chief Financial Officer of the Corporation on March 7, 2002. From October 16, 2000 to March 6, 2002 Ms Gauthier was Vice President, Finance of the Corporation. Prior to that, Ms Gauthier was Director, Special Projects of Domtar Inc.

Stock Option Plans

On July 22, 1993, the Corporation established a Director and Employee Stock Option Plan (the “Old Plan”) administered by the Compensation and Governance Committee of the Board, (the “Compensation and Governance Committee”) which had the authority to select those directors and employees to whom options were granted, the number of options to be granted to each director and employee and the price at which Common Shares under such options may be purchased, provided that such price was to be based upon the market price of the Common Shares on the date the option was granted. Options granted under the Old Plan are non-transferable and each option, unless terminated pursuant to the Old Plan, expires on a date determined by the Compensation and Governance Committee, which date will not be later than 10 years from the date the option was granted.

The Old Plan was amended by the Board on November 6, 1995 to establish, among other matters, that the maximum number of Common Shares reserved under the Old Plan be set at 1,071,342. The shareholders of

the Corporation approved this amendment at the Corporation's annual and special meeting of shareholders held on February 7, 1996.

On May 15, 1997, the Board approved in principle amendments to the Old Plan to allow for the granting of options to service providers and to non-Canadian residents, subject to regulatory approvals.

On January 8, 1998, the form of the amended Old Plan, acceptable to the Toronto Stock Exchange (the "TSX"), was approved by the Board.

The Old Plan was further amended by the Board on January 5, 1999 to establish that the maximum number of Common Shares reserved under the Old Plan be set at 1,298,150. The shareholders of the Corporation approved this amendment at the Corporation's annual and special meeting of shareholders held on February 11, 1999.

The Old Plan was also amended by the Board on March 23, 2000, to establish that the maximum number of Common Shares reserved under the Old Plan be set at 1,700,000. The shareholders of the Corporation approved this amendment at the Corporation's annual and special meeting of shareholders held on March 23, 2000.

On November 12, 2002 the Board voted not to renew the Old Plan, which expired on July 22, 2003. All options granted under the Old Plan until that date will remain outstanding and exercisable in accordance with their respective terms.

In the fiscal year ended September 30, 2003, the Corporation did not grant any stock options pursuant to the Old Plan.

As of September 30, 2004, there were outstanding options granted pursuant to the Old Plan to purchase an aggregate of 218,125 Common Shares at prices ranging from \$2.45 to \$6.90 per share and expiring at various dates through August 2, 2007. Of such options, the five executive officers of the Corporation held options to purchase an aggregate of 176,000 Common Shares and there were no options outstanding for any of the directors.

The following table sets forth each exercise of stock options under the Old Plan during the fiscal year ended September 30, 2004 by the named executive officers:

AGGREGATED OPTION / SAR EXERCISES DURING THE FISCAL YEAR ENDED SEPTEMBER 30, 2004 AND FISCAL YEAR-END OPTION / SAR VALUES				
Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options / SARs at September 30, 2004 Exercisable/Unexercisable (#)	Value of Unexercised in-the- Money Options / SARs at September 30, 2004 Exercisable / Unexercisable (\$)
Larry O'Brien	30,000	\$308,100	Nil/40,000	Nil/\$316,800
Ray Basler	45,000	\$423,783	Nil/60,000	Nil/\$475,200
Tom Coates	41,000	\$376,080	15,000/8,000	\$90,300/\$63,360
Brent McConnell	6,000	\$63,120	Nil/8,000	Nil/\$63,360
Jacqueline Gauthier	14,820	\$155,188	15,000/30,000	\$101,550/\$210,100

EMPLOYMENT AGREEMENTS AND MANAGEMENT CONTRACTS

Larry O'Brien

Pursuant to a memorandum of agreement with the Corporation dated July 22, 1993, Larry O'Brien is employed by the Corporation as Chairman and Chief Executive Officer. As of the date of this Management Proxy Circular, the compensation payable to Mr. O'Brien under this agreement is comprised of salary in the amount of \$224,000 per year, a pension allowance equal to 5% of annual salary, a cash bonus in such amount determined from time to time by the Compensation Committee or the Board based on the Corporation's financial performance and a car allowance in the amount of \$650 per month. In the event Mr. O'Brien is terminated by the Corporation for convenience, the Corporation is required to pay Mr. O'Brien an amount equal to three times the remuneration Mr. O'Brien earned in the 12 months prior to his termination.

Ray Basler

Pursuant to an employment agreement dated May 15, 1997, Ray Basler is employed by the Corporation as President and Chief Operating Officer. As of the date of this Management Proxy Circular, the compensation payable to Mr. Basler under this agreement is comprised of salary in the amount of \$252,000 per year, a pension allowance equal to 5% of annual salary, a cash bonus in such amount determined from time to time by the Compensation Committee or the Board based on the Corporation's financial performance and a car allowance of \$720 per month. In the event Mr. Basler is terminated by the Corporation for convenience, the Corporation is required to pay Mr. Basler an amount equal to 18 months' salary and benefits plus an amount equal to the outstanding bonus earned to the date of termination on the basis of the financial statements for the previous month.

Tom Coates

Pursuant to an employment agreement dated June 1, 2000, Tom Coates is employed by the Corporation as Vice President and General Manager, Business and Technology Services. As of the date of this Management Proxy Circular, the compensation payable to Mr. Coates under this agreement is comprised of salary in the amount of \$175,000, a pension allowance equal to 5% of annual salary, a cash bonus in such amount determined from time to time by the Compensation Committee or the Board based on the Corporation's financial performance and a car allowance of \$650 per month. In the event Mr. Coates is terminated by the Corporation for convenience, the Corporation is required to pay Mr. Coates an amount equal to 18 months' salary and benefits plus an amount equal to the outstanding bonus earned to the date of termination on the basis of the financial statements for the previous month.

Jacqueline Gauthier

Pursuant to an employment agreement dated March 19, 2002, Jacqueline Gauthier is employed by the Corporation as Vice President, Chief Financial Officer and Corporate Secretary. As of the date of this Management Proxy Circular, the compensation payable to Ms. Gauthier under this agreement is comprised of salary in the amount of \$153,000, a cash bonus in such amount determined from time to time by the Compensation Committee or the Board based on the Corporation's financial performance and a car allowance of \$650 per month. In the event Ms. Gauthier is terminated by the Corporation for convenience, the Corporation is required to pay Ms. Gauthier an amount equal to 12 months' salary and benefits plus an amount equal to the outstanding bonus earned to the date of termination on the basis of the financial statements for the previous month.

REPORT FROM THE COMPENSATION COMMITTEE

During the fiscal year ended September 30, 2004, the Compensation Committee reviewed the compensation paid to senior executives of the Corporation and the Corporation's compensation policies.

COMPOSITION OF THE COMPENSATION COMMITTEE

The members of the Compensation Committee up to the date of the Corporation's 2003 Annual General Meeting were Anthony F. Griffiths, Chairman, William Hewson and Senator David Tkachuk. Subsequent to the Corporation's 2003 Annual General Meeting, the members of the Compensation Committee have been Senator David Tkachuk Chairman, William Hewson, Richard Vickers and Ken Loeb.

EXECUTIVE COMPENSATION

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

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

Base salaries are competitive in the industry and are determined on the basis of outside market data as well as individual performance and experience level. The Chief Executive Officer's base salary is determined based on general understanding of chief executive officer salaries and the comparison of the Chief Executive Officer's salary to a 2000 report on compensation of management (excluding chief executive officer compensation) prepared for the Corporation by an independent third party. This report indicated that executives reporting to the chief executive officer of a publicly traded company of similar size to the Corporation would receive in 2000, on average, compensation of approximately \$150,000. A chief executive officer would typically be compensated at a higher level based on experience and expertise. Mr. O'Brien is the founding shareholder of the Corporation and has been with the Corporation for 22 years. Mr. O'Brien has extensive knowledge of the Corporation and its industry. Base salaries for senior managers of the Corporation are based on the report referred to above and the experience and performance of each executive.

The annual bonus paid to the Chief Executive Officer is based on the overall financial performance of the Corporation. No specific weight is assigned to individual measures of financial performance. Annual bonuses are also paid to the senior managers of the Corporation based on a percentage of divisional profitability and individual performance. Each member of the executive team is primarily responsible for the financial performance of a specific division. During 2004, Messrs. Basler and McConnell were responsible for the performance of the Systems Engineering division of the Corporation while Mr. Coates and Ms. Gauthier were responsible for the performance of the Business and Technology Services division of the Corporation.

During 2004, the annual base salary increases for the Chief Executive Officer and for the President and Chief Operating Officer and the annual bonuses for the top five executive officers were submitted to the Compensation Committee and to the Board for their review and approval. For the fiscal 2005 period, the Corporation expects that any base salary increases for the Chief Executive Officer and any annual bonuses for the top four executive officers will continue to be submitted to the Compensation Committee and to the Board for review and approval. The overall compensation program of the Corporation is intended to attract and retain competent, committed individuals, who will ensure the long-term success of the Corporation. The compensation for all remaining executives (except for that contractually provided for) is determined by the Chief Executive Officer.

Presented by the Compensation Committee:

David Tkachuk; Chairman of the Compensation Committee; C. William Hewson; Richard Vickers and Ken

Loeb.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes the number of Common Shares authorized for issuance from treasury under the Corporation's equity compensation plans as at September 30, 2004.

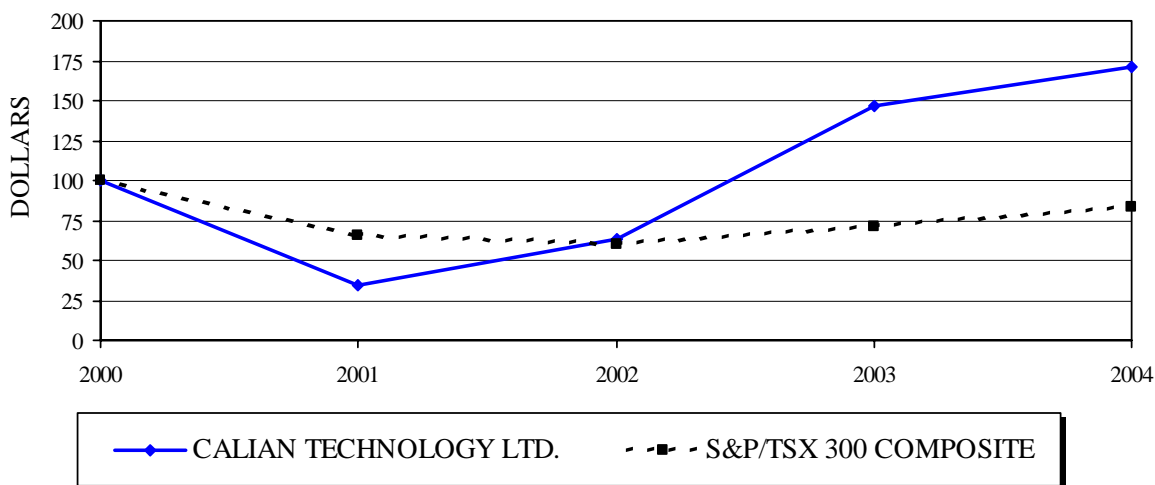
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by securityholders	218,125 ⁽¹⁾	\$2.99	Nil

(1) These securities include Common Shares issuable under the Old Plan (see "Statement of Executive Compensation - Stock Option Plans" above) but do not include Common Shares authorized for issuance pursuant to the Corporation's employee stock purchase plan (the "Purchase Plan"). Under the Purchase Plan, the Corporation expects to issue approximately 21,000 Common Shares in February 2005 at a purchase price of approximately \$9.41, and thereafter approximately 315,245 Common Shares will be available for issuance under the Purchase Plan, all in accordance with the terms and conditions of the Purchase Plan as disclosed to and approved by securityholders on February 26, 2003.

PERFORMANCE GRAPH

The following graph compares the percentage change in the cumulative total shareholder return on the Common Shares with the cumulative total return of the TSE 300 Stock Index for the five year period ended September 30, 2004.

COMPARE CUMULATIVE TOTAL RETURN AMONG CALIAN TECHNOLOGY LTD AND S&P/TSX 300 COMPOSITE



ASSUMES \$100 INVESTED ON OCT. 1, 2000
 ASSUMES DIVIDEND REINVESTED
 FISCAL YEAR ENDING SEPT. 30, 2004

COMPENSATION OF DIRECTORS

During 2004, each director of the Corporation who is not an employee was entitled to an annual retainer in the

amount of \$25,000 and reimbursement of out of pocket expenses. The directors of the Corporation are not required to hold a minimum number of Common Shares. For 2005, each director of the Corporation who is not an employee will be entitled to an annual retainer in the amount of \$25,000 and reimbursement of out of pocket expenses.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation maintains directors' and officers' liability insurance in the aggregate principal amount of \$20,000,000. The premium payable for such insurance during the period from October 26, 2004 to October 26, 2005 is \$105,000. The by-laws of the Corporation generally provide that the Corporation shall indemnify a director or officer of the Corporation against liability incurred in such capacity to the extent permitted or required by the CBCA. To the extent the Corporation is required to indemnify the directors or officers pursuant to its by-laws, the insurance policy provides that the Corporation is liable for the initial \$150,000 in the aggregate for each loss claimed (\$150,000 for securities claims).

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

There was no indebtedness owed to the Corporation during the fiscal year ended September 30, 2004 by any individual who was a director, executive officer and senior officer of the Corporation (and any associate of the foregoing).

APPROVAL OF 2004 STOCK OPTION PLAN

At the Meeting, the shareholders of the Corporation will be asked to consider, and if thought fit, to approve with or without variation, a resolution approving the adoption of the "Calian Technology Ltd. 2004 Employee Stock Option Plan" (the "New Plan"), the full text of which resolution is set out in Appendix 2 to this Management Proxy Circular (the "New Plan Adoption Resolution"). A copy of the New Plan is attached as Exhibit "A" to the New Plan Adoption Resolution.

The Corporation proposes to adopt the New Plan pursuant to which the Corporation will grant options to purchase Common Shares to selected employees, officers and directors of the Corporation, its subsidiaries and affiliates.

The New Plan will fill the void created by the expiry of the Old Plan pursuant to its terms on July 22, 2003 so that the Corporation may continue to grant stock options to selected employees, officers and directors to encourage individual contribution to improve the Corporation's business performance and shareholder value, as evidenced by growth in the value of the Common Shares, and to motivate such persons to remain with the Corporation. The Board approved the New Plan, subject to shareholder approval, on November 4, 2004. The New Plan provides that the maximum number of Common Shares issuable pursuant to the exercise of options is 250,000 Common Shares.

The New Plan provides that the Board or a committee of the Board to which the Board has delegated its authority, shall designate those persons to whom stock options shall be granted and the number of Common Shares to be subject to each stock option. Stock options, which are non-assignable and non-transferable, except in the case of death and certain other limited circumstances, shall expire on the date established by the Board or committee, as the case may be, provided that such date shall not extend beyond the tenth anniversary of the date of grant. The exercise price of any stock options granted shall be determined by the Board or committee, as the case may be, but shall not be less than the closing price of the Common Shares on the TSX on the day immediately preceding the date of grant. The exercise price of each stock option must be paid in full before any Common Shares issuable thereunder will be delivered.

The New Plan provides that: (a) the number of Common Shares reserved for issuance pursuant to options granted to insiders under the New Plan, together with Common Shares issuable to insiders under the Corporation's other share compensation arrangements, must not exceed 10% of the outstanding Common

Shares; (b) number of Common Shares issued to insiders within any twelve-month period pursuant to the New Plan, together with Common Shares issuable to insiders during that twelve-month period under the Corporation's other share compensation arrangements, must not exceed 10% of the outstanding Common Shares; (c) the number of Common Shares reserved for issuance to any one person pursuant to options must not exceed 5% of the issued and outstanding Common Shares; and (d) the number of Common Shares issued pursuant to the New Plan to any one person and such person's associates within a twelve-month period, together with Common Shares issuable to such persons within that twelve-month period under the Corporation's other share compensation arrangements, must not exceed 5% of the outstanding Common Shares. An insider is defined in the Plan in accordance with the TSX's policy on stock options and includes any director or senior officer of the Corporation.

Stock options may be exercised only during an optionholder's continued employment with the Corporation, subject to the following:

1. if an optionholder becomes disabled, all vested stock options may continue to be exercised by the optionholder for a maximum period of 180 days from the date of disability;
2. in the case of an optionholder's death during employment, all vested stock options may continue to be exercised by the optionholder's legal representatives for a maximum period of 180 days following the date of death;
3. if an optionholder retires, all vested stock options may continue to be exercised by the optionholder for a maximum period of 180 days from the date of retirement;
4. if an optionholder is terminated or voluntarily resigns, all vested stock options may continue to be exercised by the optionholder for a maximum period of 30 days after the date of termination.

In the event that there is a change in control of the Corporation (including an acquisition of 50% or more of the Corporation's then issued and outstanding securities, a merger, an amalgamation or a sale of all or substantially all of the Corporation's assets), the Plan provides that the Board may, at its sole discretion, accelerate the vesting of any or all outstanding stock options or shall make adequate provisions to ensure that, upon completion of the proposed transaction resulting in a change in control, the number and kind of securities subject to outstanding stock options and/or the exercise price of such options shall be appropriately adjusted to prevent substantial dilution or enlargement of the rights granted to optionholders.

Although the Old Plan expired pursuant to its terms on July 22, 2003, as of December 3, 2004, there remained stock options outstanding to purchase up to 215,125 Common Shares, which stock options will continue to be exercisable in accordance with the terms of the Old Plan.

In addition to 250,000 Common Shares issuable under the New Plan and the outstanding options to purchase up to 215,125 Common Shares under the Old Plan, the Corporation has in place an employee stock purchase plan that has been approved by the shareholders of the Corporation, pursuant to which the Corporation has reserved an aggregate of up to 500,000 Common Shares for issuance of which 164,000 Common Shares have been issued as of December 3, 2004.

The Corporation has received conditional approval for the New Plan from the TSX. In order for the New Plan to become effective, the New Plan Adoption Resolution to approve the New Plan must be passed by a majority of the votes cast by the shareholders who vote in respect of the New Plan Adoption Resolution.

Recommendation of the Board

The Board recommends that the shareholders approve the adoption of the New Plan and vote for the New Plan Adoption Resolution. In order to be effective, the New Plan Adoption Resolution must be approved

by a majority of the votes cast in person or by proxy at the Meeting.

CHANGE OF NAME

At the Meeting, the shareholders of the Corporation will be asked to consider, and if thought fit, to approve with or without variation, a special resolution approving an amendment to the Corporation's articles of incorporation to change of the Corporation's name from "Calian Technology Ltd." to "Calian Technologies Ltd.", the full text of which resolution is set out in Appendix 3 to this Management Proxy Circular (the "Amendment Resolution"). On November 30, 2004, the Board approved "Calian Technologies Ltd." as the Corporation's new name. The change of the Corporation's name is subject to regulatory and shareholder approval.

In the Corporation's opinion, the name "Calian Technology Ltd." does not properly reflect the true nature of the Corporation's business, which is made up of the Systems Engineering division and the Business and Technology Services division. Each of these divisions provides services with respect to a number of technologies in the satellite communications and information technologies areas and the Corporation believes that its name should properly reflect such multiple technology services. The Corporation believes that the proposed name change will have no material impact on the Corporation's operations or financial condition. The Corporation's trading symbol on the TSX will not be affected by the proposed name change and will continue to be "CTY".

Recommendation of the Board

The Board recommends that the shareholders approve the change of the Corporation's name to "Calian Technologies Ltd." and vote for the Amendment Resolution. In order to be effective, the Amendment Resolution must be approved by two-thirds of the votes cast in person or by proxy at the Meeting.

APPOINTMENT OF AUDITORS

It is intended to vote the proxy solicited hereby (unless the shareholder directs therein that such shareholder's Common Shares be withheld from voting in the appointment of auditors) to re-appoint Deloitte & Touche, LLP, as auditors of the Corporation to hold office until the next annual meeting of shareholders and to authorize the directors to fix the auditors' remuneration.

Fees paid to Deloitte & Touche LLP

For the year ended September 30, 2004, Deloitte & Touche, LLP and its affiliates were paid \$215,000. Of this amount, \$113,000 related to audit services. The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditor's independence. The Audit Committee has adopted a policy that limits the type of services provided by the auditors and requires pre-approval of all non-audit services.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The TSX has adopted as a listing requirement that every company listed on the TSX disclose its approach to corporate governance on an annual basis with specific reference to each of the 14 guidelines for effective corporate governance (the "TSX Guidelines"). A complete description of the Corporation's approach to corporate governance, with a specific reference to each guideline is set out in the "Statement of Corporate Governance Practices" attached as Appendix 1 to this Management Proxy Circular.

PARTICULARS OF OTHER MATTERS

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

ADDITIONAL INFORMATION

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

Additional information relating to the Corporation can also be found on SEDAR at www.sedar.com

DIRECTORS' APPROVAL

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

DATED: December 3, 2004



Jacqueline Gauthier, Secretary
CALIAN Technology Ltd.
Ottawa, Ontario

Appendix 1 – Statement of Corporate Governance Practices

Guideline 1

The Board assumes responsibility for the stewardship of the Corporation, in discharging its responsibility for which, the Board:

- (a) annually participates in strategic planning through a detailed presentation and review of the strategic plans proposed and developed by management, which strategic planning process culminates with a three-year plan and a detailed one-year operating plan and objectives and is the responsibility of management;
- (b) considers the principal risks of the Corporation's business through the strategic planning process. As part of the Corporation's three-year strategic plan, management identifies the Corporation's principal business risks and the related mitigation strategy for those risks. In addition, the Board is apprised of risks through quarterly operational update reports from senior management;
- (c) takes responsibility for appointing and monitoring the Chief Executive Officer. As part of the annual planning process, management objectives are set and the Board monitors the performance of the Chief Executive Officer against these objectives on a quarterly basis. The Corporation is in the process of developing a succession plan for the Chief Executive Officer and its senior executives;
- (d) regularly monitors how the Corporation communicates with its various stakeholders and reviews and approves the Corporation's communications policy annually; and
- (e) directly and through its Audit Committee, assesses the integrity of the Corporation's internal control and management information systems.

Guideline 2 and Guideline 3

The Board currently consists of five members, four of whom are unrelated directors and one of whom is the Chief Executive Officer.

Guideline 4

Nominations to the Board are largely the result of recruitment efforts of the Chairman of the Board. Potential nominees are discussed initially with the Lead Director before being brought to the Board as a whole. The Board feels that the current approach is appropriate.

Guideline 5

The Chairman of the Board and the Lead Director have the ongoing responsibility of assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors. Evaluation criteria include such factors as the attendance record of individual Board members and the effectiveness of their participation at Board meetings. Annually, the Chairman of the Board and the Lead Director prepare and approve the list of nominees to be presented at the Annual General Meetings of shareholders.

Guideline 6

The Corporation does not have a formal process of orienting new members of the Board, however, an informal orientation occurs at the first Board meeting following the election of new directors. The Governance Committee has the responsibility of monitoring the existing process in order to determine if a more formal orientation process is warranted.

Guideline 7

The Board has concluded that the number of directors in the range as presently constituted is appropriate for a company of the size and complexity of the Corporation. The Board, as presently constituted, brings together a mix of skills, backgrounds and attitudes that is appropriate to the stewardship of the Corporation. The periodic review of the size of the Board will be part of the ongoing mandate of the Governance Committee.

Guideline 8

The Board, through its Compensation Committee, periodically reviews the adequacy and form of compensation of directors.

Guideline 9

The Compensation Committee and the Audit Committee each consist of four outside directors. The Chairman of each committee is an outside, unrelated director.

Guideline 10

The responsibility for developing an approach to corporate governance issues has been delegated to the Governance Committee. The Governance Committee regularly reviews new developments in corporate governance practices and recommends changes to the Board that are appropriate and relevant to this Corporation.

Guideline 11

The Corporation has not developed detailed position descriptions for the Board and the Chief Executive Officer. The Board believes that the Board as a whole and its committees can operate effectively without detail position descriptions for its members. Currently, the Board as a whole, annually approves the business objectives and key results for which the Chief Executive Officer is responsible.

Guideline 12

The Board functions independently of management, as required. The Board has not appointed an unrelated director as chair for two main reasons: firstly, the nature of the business of the Corporation, the constitution and make-up of the Board and background of the current Chairman (the founder of the Corporation) make it appropriate that he chair the Board; secondly, the role of the chair in setting the Board agenda and ensuring that adequate and proper information is made available to the Board, a crucial element for effective corporate governance, is best filled by an individual who has intimate knowledge of the Corporation and its operations. The Board regularly reviews the quantity and quality of information provided to it by management, however, the Board has appointed a Lead Director with the responsibilities to make sure the Board discharges its corporate governance responsibilities. Following the February 2, 2005 Annual General Meeting, The Chairman of the Board and the Chief Executive Officer of the Corporation positions will be held by two different individuals.

The Board regularly meets with management in order to discuss Corporation business. The Board considers management's recommendations on issues prior to making its decisions. Management regularly brings issues of both tactical significance and strategic importance to the Board for consultation prior to formulating recommendations.

As part of the regular quarterly Board meetings, the Board met four times this past year without the Chief Executive Officer present.

Guideline 13

The Audit Committee of the Board is composed of four outside directors. The majority of the members of the Audit Committee are financially literate and one member has accounting and related financial expertise. The roles and responsibilities of the Audit Committee have been specifically defined and include oversight responsibility for management reporting on internal control. During 2004, the Corporation developed and began implementing an internal audit plan.

The Audit Committee maintains a direct communication channel with the Corporation's external auditors and is directly responsible for the oversight of the work of the external auditors. The Audit Committee has the authority and responsibility to recommend the appointment and revocation of appointment of the external auditors and to fix their remuneration.

Guideline 14

The Board has created a system which will enable the chair of each committee to engage outside advisors at the expense of the Corporation in appropriate circumstances.

Appendix 2 – New Plan Adoption Resolution

BE IT RESOLVED THAT:

1. The Calian Technology Ltd. 2004 Employee Stock Option Plan as described in the Management Proxy Circular of the Corporation for its annual and special meeting of shareholders to be held on February 2, 2005 and a copy of which is attached at Exhibit “A” hereto (the “New Plan”) be and is hereby approved.
2. Any director, officer, or other person duly authorized by the Corporation, be and is hereby authorized and directed to execute and deliver all such deeds, documents, instruments and assurances and to do all such acts and things as in his or her option may be necessary or desirable to give effect to this resolution.
3. Notwithstanding that this resolution has been duly passed by the shareholders of the Corporation, the Board of Directors, in its discretion, may choose to revoke this resolution before it is implemented without further notice to or the approval of the shareholders of the Corporation.

Appendix 3 – Amendment Resolution

BE IT RESOLVED THAT:

1. The articles of incorporation of the Corporation be amended to change the name of the Corporation to “Calian Technologies Ltd.”
2. Any director, officer, or other person duly authorized by the Corporation, be and is hereby authorized and directed to execute and deliver all such deeds, documents, instruments and assurances and to do all such acts and things as in his or her option may be necessary or desirable to give effect to this resolution.
3. Notwithstanding that this resolution has been duly passed by the shareholders of the Corporation, the Board of Directors, in its discretion, may choose to revoke this resolution before it is implemented without further notice to or the approval of the shareholders of the Corporation.

Exhibit “A”
CALIAN TECHNOLOGY LTD.
2004 EMPLOYEE STOCK OPTION PLAN

ARTICLE 1
PURPOSE

1.1 Purpose

The purpose of the Calian Technology Ltd. 2004 Employee Stock Option Plan is to develop the interest and incentive of eligible employees and directors of the Company and Affiliated Companies in the Company’s growth and development by giving eligible employees and directors an opportunity to purchase Common Shares on a favourable basis, thereby advancing the interests of the Company, enhancing the value of the Common Shares for the benefit of all shareholders of the Company and increasing the ability of the Company to attract and retain skilled and motivated individuals in the service of the Company.

ARTICLE 2
INTERPRETATION

2.1 Definitions

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

- (a) **“Acquiror”** has the meaning set forth in sub-section 4.9(e) hereof;
- (b) **“Affiliated Company”** means a company which is an “affiliate” (as defined in the *Securities Act* (Ontario), as amended from time) of the Company;
- (c) **“Associate”** has the meaning set forth in the *Securities Act* (Ontario), as amended from time to time;
- (d) **“Board”** means the board of directors of the Company;
- (e) **“Business Day”** means a day that is not a Saturday, Sunday or a statutory or legal holiday in Ottawa, Ontario;
- (f) **“Change in Control”** has the meaning set forth in sub-section 4.9(f) hereof;
- (g) **“Committee”** has the meaning set forth in Section 3.2 hereof;
- (h) **“Common Shares”** means the common shares in the capital of the Company;
- (i) **“Company”** means Calian Technology Ltd.;
- (j) **“Date of Grant”** means, for any Option, the date specified by the Board at the time it grants the Option or, if no such date is specified, the date upon which the Option was granted;
- (k) **“Director”** means a member of the Board or a member of the board of directors of an Affiliated Company;
- (l) **“Disabled”** or **“Disability”** means the permanent and total incapacity of an Optionee as determined in accordance with procedures established by the Board for purposes of this Plan;

- (m) **“Employee Participant”** means a current full-time or part-time employee or contract employee (other than an Executive Participant) of the Company or of an Affiliated Company. “Employee Participant” includes any Registered Retirement Savings Plans or Registered Retirement Income Funds established by or for the individual employee (or under which such individual is the beneficiary) and a subsidiary entity of such individual. A **“subsidiary entity”** is defined in sub-section 2.2(d) hereof;
- (n) **“Exchange”** means The Toronto Stock Exchange or, if the Common Shares are not then listed and posted for trading on The Toronto Stock Exchange, on such stock exchange in Canada on which the Common Shares are listed and posted for trading as may be selected for such purpose by the Board;
- (o) **“Executive Participant”** means a Director or an officer of the Company or of an Affiliated Company. “Executive Participant” includes any Registered Retirement Savings Plans or Registered Retirement Income Funds established by or for the individual Director or officer (or under which such individual is the beneficiary) and a subsidiary entity of such individual;
- (p) **“Exercise Notice”** means a notice in writing, in the form set out in Schedule “B” hereto, signed by an Optionee and stating the Optionee’s intention to exercise a particular Option;
- (q) **“Exercise Price”** means the price at which a Common Share may be purchased pursuant to the exercise of an Option;
- (r) **“Exercise Period”** means the period of time during which an Option granted under this Plan may be exercised (provided, however, that the Exercise Period may not exceed ten (10) years from the relevant Date of Grant);
- (s) **“Market Price”** of any Common Share underlying any Option shall be the closing price of a Common Share on the Exchange on the trading day immediately preceding the date on which such Option is granted. In the event that the Common Shares are not listed and posted for trading on any stock exchange in Canada, the Market Price shall be determined by the Board in its sole discretion;
- (t) **“Offer”** has the meaning set forth in sub-section 4.9(e) hereof;
- (u) **“Option”** means a non-assignable, non-transferable right to purchase Common Shares under this Plan;
- (v) **“Optionee”** means an Employee Participant or Executive Participant who has been granted one or more Options;
- (w) **“Option Agreement”** means a signed, written agreement between an Optionee and the Company, in the form attached as Schedule “A” hereto, subject to any amendments or additions thereto as may, in the discretion of the Board, be necessary or advisable, evidencing the terms and conditions on which an Option has been granted under this Plan;
- (x) **“Outstanding Issue”** means the number of Common Shares outstanding at the applicable date;
- (y) **“Participant”** means an Employee Participant or Executive Participant;
- (z) **“Person”** includes an individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate and a natural person in his or her capacity as trustee, executor, administrator or other legal representative;

- (aa) **“Plan”** means this Calian Technology Ltd. 2004 Employee Stock Option Plan;
- (bb) **“Related Person”** means a director or senior officer of the Company or an associate of a director or senior officer of the Company;
- (cc) **“Retirement”** means retirement from active employment with the Company or an Affiliated Company at or after age 65 or, with the consent for purposes of the Plan of such officer of the Company as may be designated by the Board, at or after such earlier age and upon the completion of such years of service as the Board may specify; and
- (dd) **“Termination Date”** means in the case of an Employee Participant or Executive Participant whose employment or term of office with the Company or an Affiliated Company terminates in the circumstances set out in sub-section 4.7(b) or 4.7(c) hereof, the later of (A) the date that is the last day of any statutory notice period applicable to the Optionee pursuant to applicable employment standards legislation in Canada, and (B) the date that is designated by the Company or an Affiliated Company, as the case may be, as the last day of the Optionee’s employment or term of office with the Company or the Affiliated Company, as the case may be, and **“Termination Date”** specifically does not mean the date on which any period of reasonable notice that the Company or the Affiliated Company (as the case may be) may be required at law to provide to the Optionee, would expire.

2.2 Interpretation

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

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

ARTICLE 3 ADMINISTRATION

3.1 Administration

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

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

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

3.2 Delegation to Committee

To the extent permitted by applicable law, the Board may, from time to time, delegate to a committee (the “Committee”) of the Board all or any of the powers conferred on the Board under the Plan. In such event, the Committee will exercise the powers delegated to it by the Board in the manner and on the terms authorized by the Board. Any decision made or action taken by the Committee arising out of or in connection with the administration or interpretation of this Plan in this context is final and conclusive.

3.3 Eligibility

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

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

3.4 Total Common Shares Subject to Options

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

3.5 Option Agreements

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

3.6 Non-transferability

Subject to Section 4.6 hereof, Options granted under this Plan may only be exercised during the lifetime of the Optionee by such Optionee personally. No assignment or transfer of Options, whether voluntary, involuntary, by operation of law or otherwise, vests any interest or right in such Options whatsoever in any assignee or transferee and immediately upon any assignment or transfer, or any attempt to make the same, such Options will terminate and be of no further force or effect.

ARTICLE 4 GRANT OF OPTIONS

4.1 Grant of Options

The Board may, from time to time, subject to the provisions of this Plan and such other terms and conditions as the Board may prescribe, grant Options to any Participant.

4.2 Exercise Price

The purchase price of Common Shares purchasable under any Option shall be as determined by the Board but in any event shall not be less than the Market Price of the Common Shares on the Business Day immediately prior to the Date of Grant.

4.3 Term of Options

Subject to any accelerated termination as set forth in this Plan, each Option, unless otherwise specified by the Board, expires on the tenth anniversary of the Date of Grant, provided that in no event will the Exercise Period of an Option exceed ten (10) years from its Date of Grant.

4.4 Exercise Period

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

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

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

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

4.5 Payment of Exercise Price

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

4.6 Retirement, Death or Disability of Optionee

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

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

4.7 Termination of Employment or Services

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

- (e) Unless the Board, in its discretion, otherwise determines, at any time and from time to time, Options shall not be affected by any change of employment within or among the Company or an Affiliated Company for so long as an Employee Participant continues to be an employee of the Company or an Affiliated Company, or for so long as an Executive Participant continues to be a director or officer of the Company or an Affiliated Company, as the case may be.

4.8 Discretion to Permit Exercise

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

4.9 Change in Control

- (a) Notwithstanding anything else in this Plan or contained in any Option Agreement, the Board shall have the right to provide for the conversion or exchange of any outstanding Options into or for options, rights or other securities in any entity participating in or resulting from a “Change in Control” (as defined below).
- (b) Upon the Company entering into an agreement relating to and publicly announcing a transaction which, if completed, would result in a Change in Control, the Company shall give written notice of the proposed Change in Control to each Optionee, together with a description of the effect of such Change in Control on outstanding Options, not less than ten (10) Business Days prior to the closing of the transaction resulting in the Change of Control.
- (c) The Board may, in its sole discretion, accelerate the vesting of any or all outstanding Options to provide that, notwithstanding Section 4.4 hereof or any Option Agreement, such outstanding Options shall be fully vested and conditionally exercisable upon (or prior to) the completion of the Change in Control, provided, however, that the Board shall not, in any case, authorize the exercise of Options pursuant to this section beyond the Expiry Date of such Options. If the Board elects to accelerate the vesting of the Options, and if any of such Options are not exercised within ten (10) Business Days following the giving of the notice contemplated in sub-section 4.9(b) hereof, such unexercised Options shall terminate and expire upon the completion of the proposed Change in Control. If, for any reason, the Change in Control does not occur within the contemplated time period, the acceleration of the vesting of the Options shall be retracted and vesting shall instead revert to the manner provided in Section 4.4 hereof.
- (d) To the extent that the Change in Control would also result in a capital reorganization, arrangement, amalgamation or reclassification of the share capital of the Company and the Board does not accelerate the vesting of Options pursuant to sub-section 4.9(c) hereof, the Company shall make adequate provisions to ensure that, upon completion of the proposed Change in Control, the number and kind of shares subject to outstanding Options and/or the Exercise Price per share of Options shall be appropriately adjusted in such manner as the Board considers equitable to prevent substantial dilution or enlargement of the rights granted to Optionees.
- (e) If any individual, corporation or other entity (an “**Acquiror**”) makes an offer to purchase all of the outstanding Common Shares (together with any outstanding shares of any other class or series)(an “**Offer**”) and the Offer is accepted by all of the holders of Common Shares, other than those shareholders who acquired their Common Shares solely pursuant to the exercise of Options granted under the Plan (“**Option Shareholders**”), such Option Shareholders shall be required to sell all Common Shares which they have acquired or acquire pursuant to the exercise of any Options to the Acquiror on the same terms and conditions as set out in the Offer.

- (f) For purposes of this Section 4.9, a “Change in Control” means the happening of any of the following events: (i) any transaction pursuant to which (A) the Company goes out of existence or (B) any Person, or any Associate or Affiliated Company of such Person, (other than: the Company, a subsidiary of the Company or an employee benefit plan of the Company (including any trustee of such plan acting as trustee)) hereafter acquires the direct or indirect “beneficial ownership” (as such term is defined in the *Canada Business Corporations Act*) of securities of the Company representing 50% or more of the aggregate voting power of all of the Company’s then issued and outstanding securities; (ii) the sale of all or substantially all of the Company’s assets to a Person other than a Person that was an Affiliated Company; (iii) the dissolution or liquidation of the Company except in connection with the distribution of assets of the Company to one or more Persons which were Affiliated Companies prior to such event; or (iv) the occurrence of a transaction requiring approval of the Company’s shareholders involving the acquisition of the Company by an entity through purchase of assets, by amalgamation or otherwise.

4.10 Conditions of Exercise

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

ARTICLE 5 SHARE CAPITAL ADJUSTMENTS

5.1 General

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

5.2 Reorganization of Company’s Capital

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

5.3 Other Events Affecting the Company

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

5.4 Immediate Exercise of Options

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

5.5 Issue by Company of Additional Common Shares

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

5.6 Fractions

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

5.7 Conditions of Exercise

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

ARTICLE 6 MISCELLANEOUS PROVISIONS

6.1 Legal Requirement

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

6.2 Optionee's Entitlement

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

6.3 Withholding Taxes

The exercise of each Option granted under this Plan is subject to the condition that if at any time the Company determines, in its discretion, that the satisfaction of withholding tax or other withholding liabilities is necessary or desirable in respect of such exercise, such exercise is not effective unless such withholding has been effected to the satisfaction of the Company. In such circumstances, the Company

may require that an Optionee pay to the Company, in addition to and in the same manner as the Exercise Price for the Common Shares, such amount as the Company is obliged to remit to the relevant taxing authority in respect of the exercise of the Option. Any such additional payment is due no later than the date as of which any amount with respect to the Option exercised first becomes includable in the gross income of the Optionee for tax purposes.

6.4 Rights of Participant/Optionee

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

6.5 Compliance with Stock Exchange

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

6.6 Termination; Amendment

- (a) The Plan will terminate and, for greater certainty, all unexercised Options shall terminate and expire on the earliest of: (i) the date upon which no further Common Shares remain available for issuance pursuant to Options which may be granted under the Plan and no Options remain outstanding; (ii) if the Board accelerates the vesting of Options pursuant to Section 4.9 hereof upon the occurrence of a Change in Control, unless renewed for such further period and upon such terms and conditions as the Board may determine; and (iii) the tenth anniversary of the Plan.
- (b) The Board may, without notice, at any time or from time to time, amend, suspend or terminate this Plan or any provisions hereof in such respects as it, in its sole discretion, determines appropriate. No such amendment, suspension or termination of this Plan, without the consent of any Optionee or the representatives of his or her estate, as applicable, alters or impairs any rights or obligations arising from any Option previously granted to an Optionee under this Plan.

6.7 Indemnification

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

6.8 Quebec Stock Savings Plan

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

6.9 Participation in the Plan

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

6.10 Effective Date

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

6.11 Governing Law

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

DATED this ____ day of _____, 2005.

CALIAN TECHNOLOGY LTD.

Per: _____
Chief Executive Officer