CAE Annual Report for the year ended March 31, 2001

CAE

Realizing Growth and Value

CAE Annual Report for the year ended March 31, 2001

CAE at a Glance

Business Profile

CAE is the world's premier provider of simulation and control technologies for training and optimization solutions in Aerospace, Defence and Forestry. Headquartered in Canada and operating globally, the Company employs approximately 7,000 people and has revenues in excess of $1 billion (CAD.).

Commercial Simulation and Training

CAE is the world leader in the design and production of commercial flight simulators and visual systems. CAE is making a major move into the flight training market to fuel future growth.

Military Simulation and Training

CAE is the premier designer and manufacturer of military flight and land-based simulation and training systems.

Marine Controls

CAE is the world leader in the supply of control and training systems for marine and power plant applications.

Forestry Systems

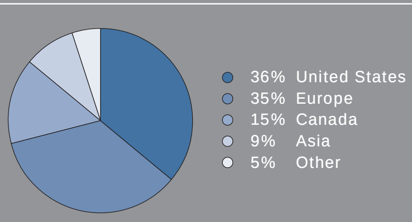
CAE is the world leader in providing optimization and control solutions for the softwood, engineered wood and pulp and paper sectors.

All illustrations in CAE's 2001 annual report were created by the CAE Creative Services group:
Zbynek Najser, Martin Petit, Jean-Marc Laverdure, Sean Poole, Keith Selevich, Graphic Designers and Gilles Guitard, Manager.

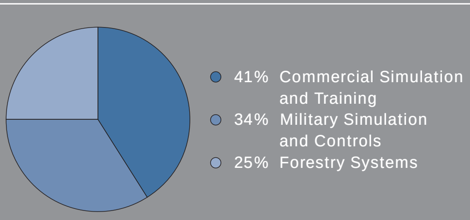
Financial Highlights

(amounts in millions except per share amounts)	2001	2000
Operating results		
Continuing operations		
Revenue	$ 1,191.4	$ 1,164.3
Earnings	$ 134.7	$ 90.7
Net earnings	$ 108.1	$ 98.5
Financial position		
Total assets	$ 1,327.5	$ 1,224.2
Total debt, net of cash	$ 110.2	$ 108.1
Per share		
Earnings from continuing operations	$ 1.25	$ 0.83
Net earnings	$ 1.00	$ 0.90
Dividends	$ 0.20	$ 0.19
Shareholders' equity	$ 4.29	$ 3.53

Geographic Distribution of Revenue



Revenue by Business Segment



Realizing Growth and Value

During the first year of our "Repositioning for Value" strategy, CAE has delivered record results and generated significant value for our shareholders.

Having divested our non-core businesses, we are now focused on our primary activities:

> Commercial Simulation and Training
> Military Simulation and Training
> Marine Controls
> Forestry Systems

We are a global leader in each of these businesses and are determined to enhance our position with a major move into pilot training and with an expansion of products and services from all business units. These initiatives will be reinforced by investments and innovation in technology, a commitment to quality and by acquisitions which offer strategic benefit.

/ D.H. Burney / L.R. Wilson

BAE Tampa – C130 Flight Simulator

UK Tactical Control Centre Facility

We are fixing the manner in which we operate all businesses: reducing costs, consolidating management and streamlining our manufacturing processes. CAE's Operations and Engineering groups are reducing the cost and time of our production while simultaneously improving the quality of what we produce. Taken together, these achievements are contributing to a strong increase in our operating margins (from 12% to 17% in fiscal 2001) and delivering substantial benefits to our bottom line.

In February, CAE received American Airlines' prestigious Platinum award as the best in class supplier. This is a most welcome endorsement of the quality of our core simulation product.

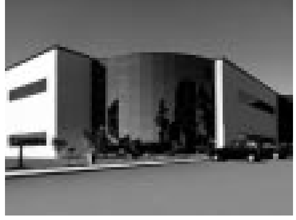
Our growth initiatives are well underway. Our first Flight Training Centre was launched in São Paulo on budget and on schedule in April. Next in line are facilities in Toronto and Madrid.

Our new generation simulator, Sim XXI™, will go into production later this year and will reinforce our marketing efforts as well as our entry into training.

We are also developing interactive learning programmes to bolster training solutions for all of our businesses, using simulation expertise as a catalyst for state-of-the-art techniques.

CAE's MAXVUE™ remains the dominant visual system in the commercial market and we have equally high expectations for its innovative PC-based replacement named ATMOS™. Our Medallion visual product aimed at the military market is also best in class with the most realistic image in the market today.

The acquisition of BAE's Simulation and Training business in Tampa, Florida, will strengthen our access to the huge US defence market and the partnership with Agusta/Westland will enhance our ability to win new contracts globally. Meanwhile, our helicopter facility in the UK is a showcase of the very best technology for military simulation and training.



Brazil Flight Training Centre

Our Marine Controls business is expanding its market and product scope and will provide training facilities and services to submarine crews of the Royal Navy. Power Systems and Simulation continues to lead in the deployment of conventional power plant simulators and is developing a Web-based simulation solution to address the rapidly growing global fossil fuel power market.

Although the lumber segment of our Forestry business is weathering a severe market downturn, the Pulp and Paper and Engineered Wood segments have delivered record results this past year developing innovative products and new global markets.

Most importantly, the combined performance of CAE business units in fiscal 2001 registered a 51% increase in earnings per share from continuing operations. Reflecting this exceptional operational performance, the market cap of the Company has more than doubled during the year to the benefit of all shareholders.

The Board and management remain fully committed to the “Repositioning for Value” strategy which is already paying substantial dividends. We intend to build on the success of our first full year and sustain the momentum of profitable growth in fiscal 2002.

The effort and dedication of CAE’s employees around the globe assures our success, now and in the future.

/ D.H. Burney
President and Chief Executive Officer

/ L.R. Wilson
Chairman

1

Reinforcing
Flight Training

2

Investing in
Core Technology

Stimulating Growth

All CAE businesses operate in rigorous global markets where success comes from providing state-of-the-art performance at a reasonable cost. That's why constant innovation is key in everything we do. In this respect, 2001 was a banner year and in the following pages we show a few of the many technological breakthroughs that will build value for our shareholders in the years ahead.

3

Enhancing
Visual Systems

4

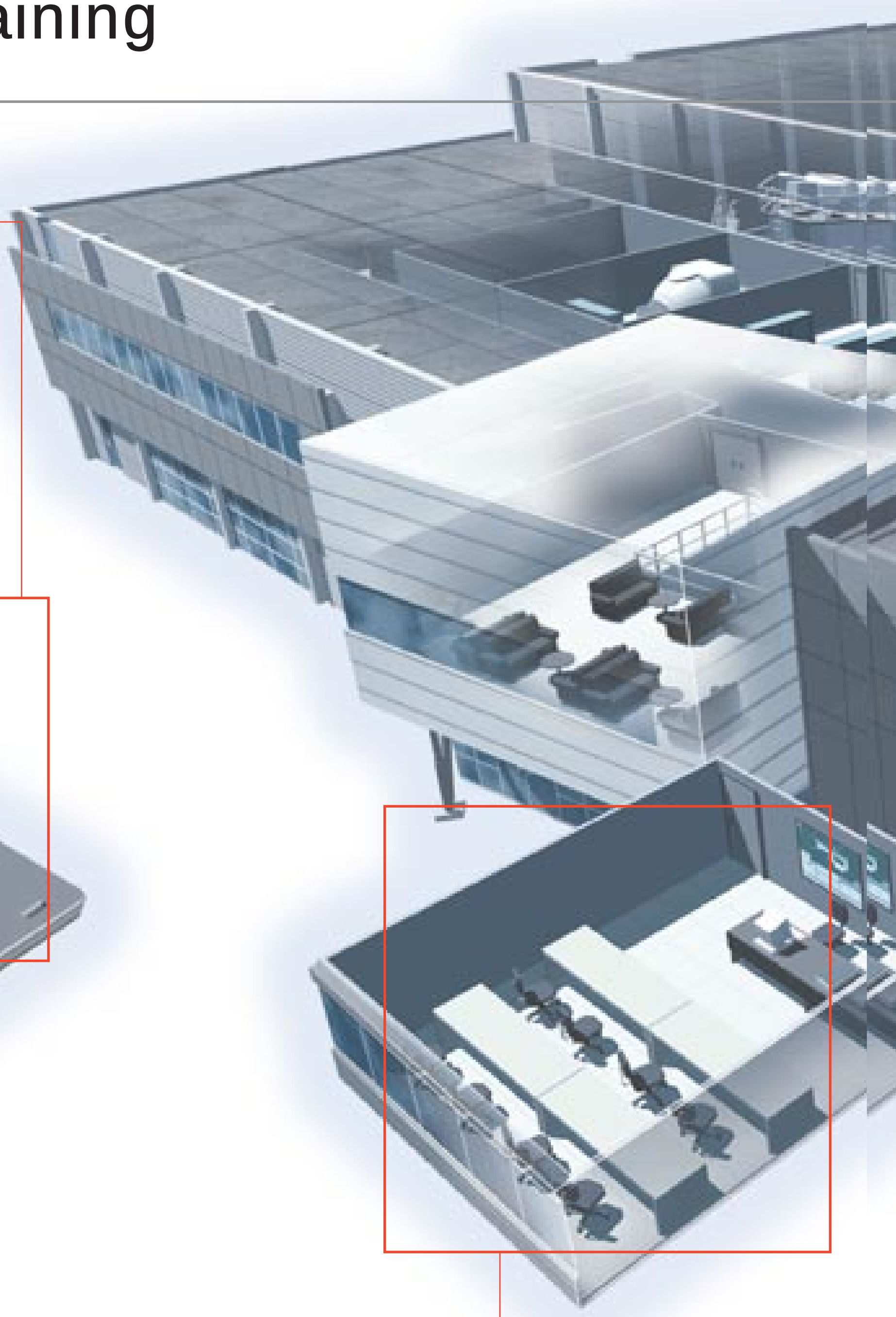
Initiating
Marine Training

5

Innovating
Forestry Products

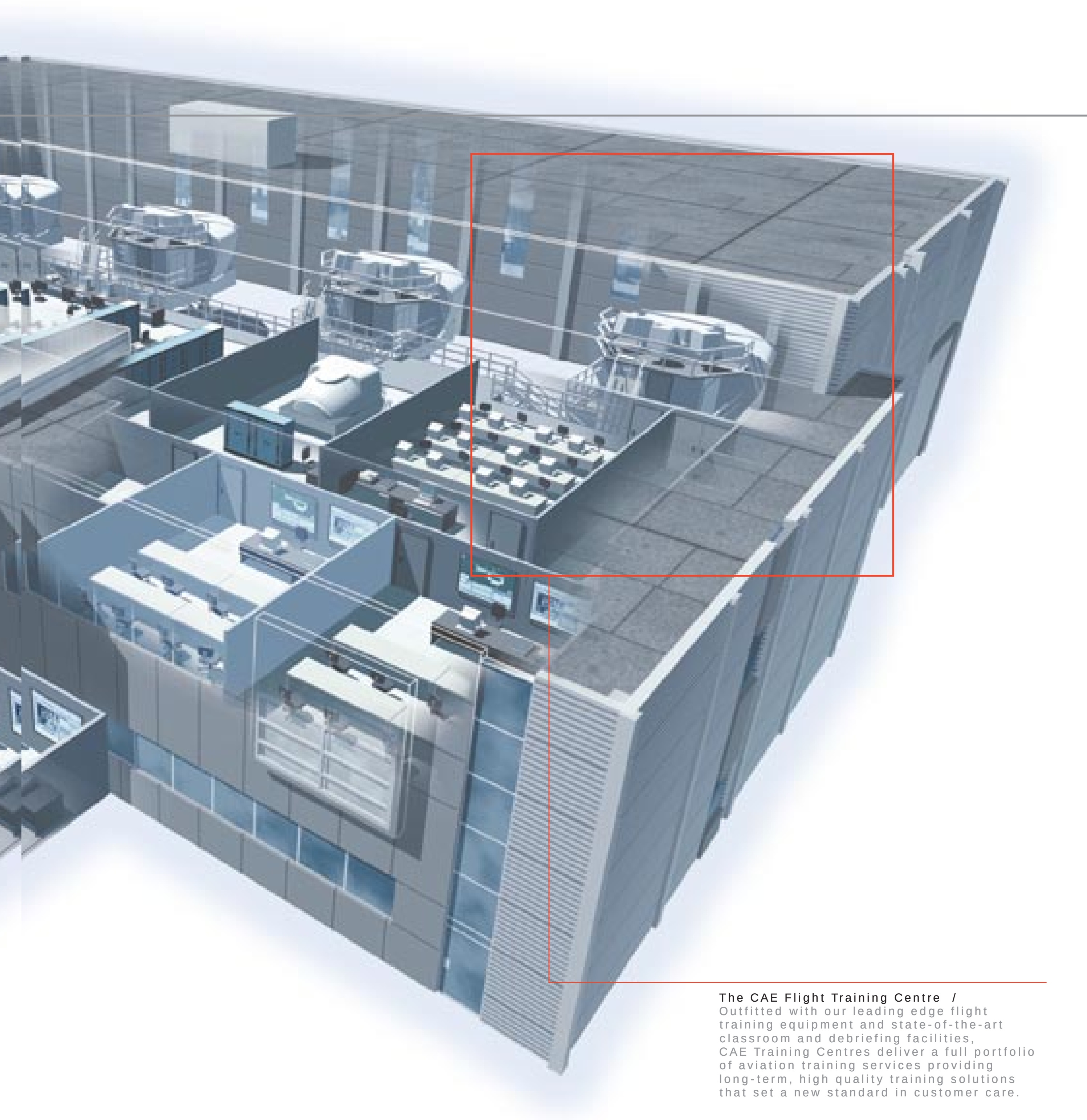
1

Reinforcing Flight Training



The Simfinity™ System / Based on the same high fidelity simulation software used in CAE's full flight simulators, the Simfinity™ System delivers innovative pilot and maintenance training via a standard PC environment. Training can be accessed either remotely or locally to provide a self-paced learning environment whenever and wherever needed.

Optimized Training Solutions / In addition to new desktop simulation, our centres provide design and delivery services for courseware and curriculum as part of CAE's optimized training solution. Our Training Services customers also benefit from advanced technology for the management of centre operations, automated student record-keeping and archiving services at CAE Centres.



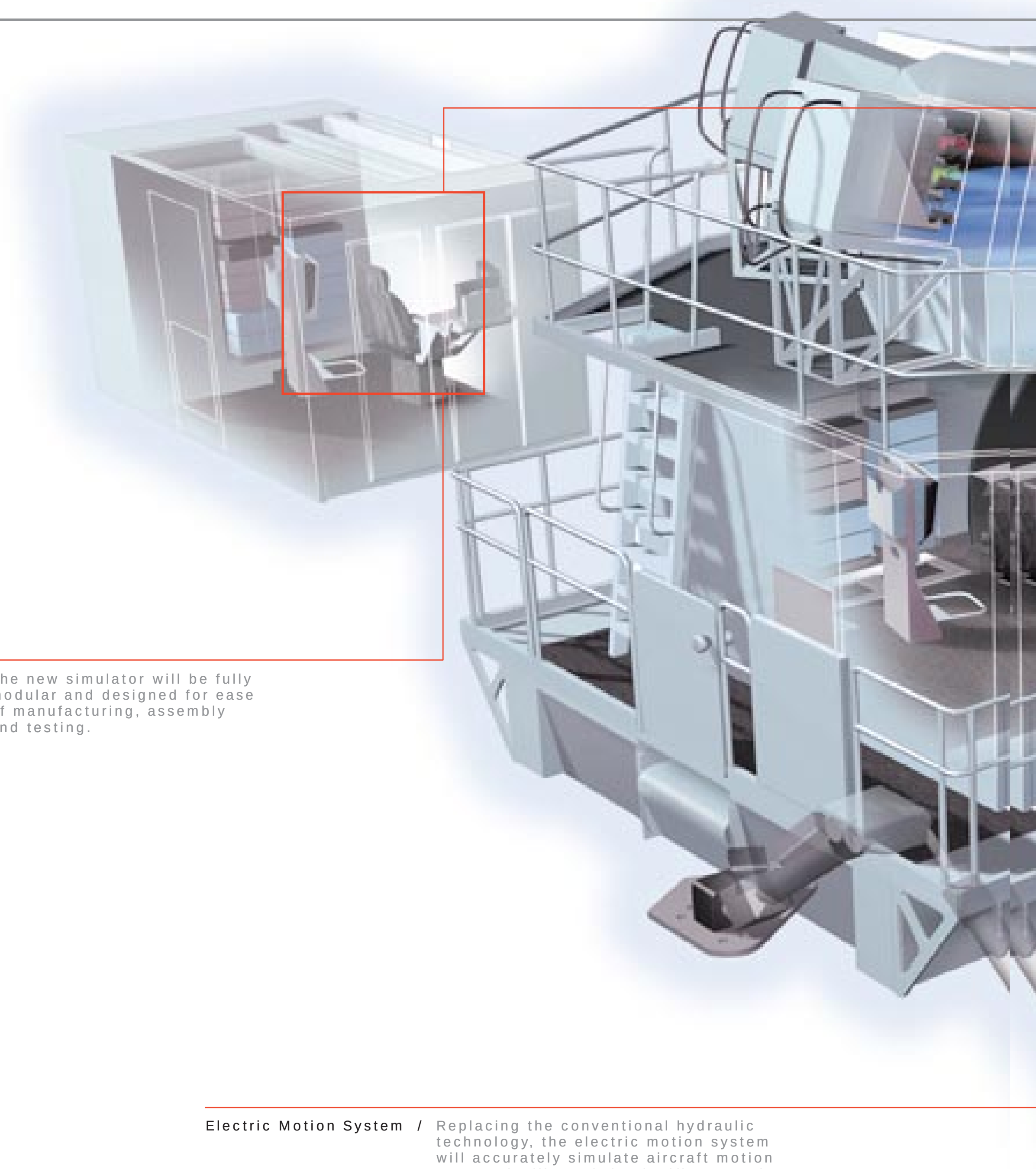
The CAE Flight Training Centre /
Outfitted with our leading edge flight training equipment and state-of-the-art classroom and debriefing facilities, CAE Training Centres deliver a full portfolio of aviation training services providing long-term, high quality training solutions that set a new standard in customer care.

"CAE's capabilities in simulation-based interactive learning complement our traditional strengths in full flight simulators and flight training devices. By teaming our growing network of training centres around the world with our interactive learning programmes, we can offer airlines a range of training options that is unrivalled for quality and cost efficiency. The Simfinity™ System also allows pilots to make the most effective use of their time for maintaining and upgrading their professional skills, while our strategically located training centres will give airlines new accessibility to aviation training of the highest quality."

Kamilia Sofia
Vice President, Interactive Learning Services, Commercial Simulation and Training

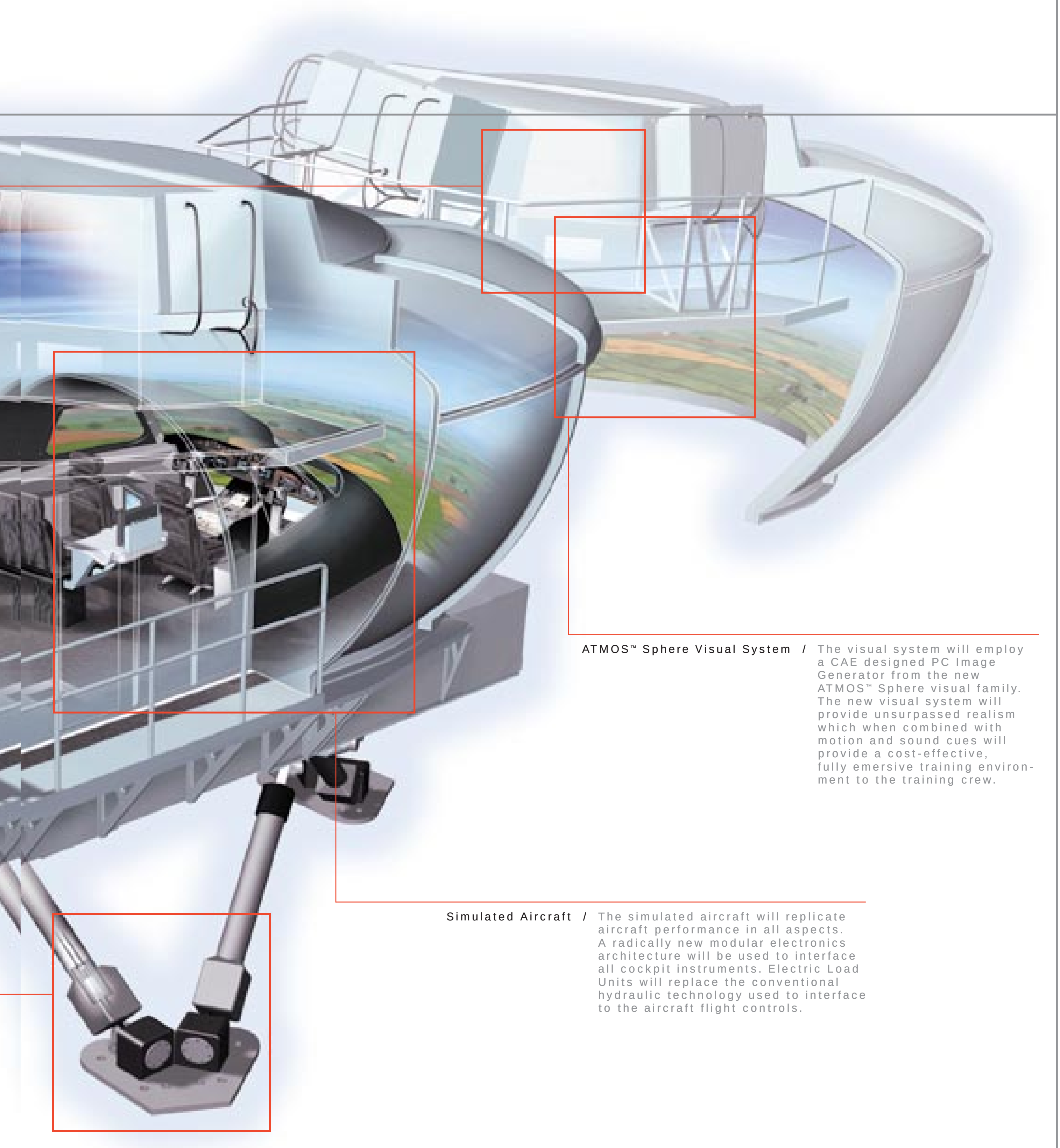
2

Investing in Core Technology



Modular Design / The new simulator will be fully modular and designed for ease of manufacturing, assembly and testing.

Electric Motion System / Replacing the conventional hydraulic technology, the electric motion system will accurately simulate aircraft motion cues and will result in significant savings in simulator power consumption for CAE's customers.



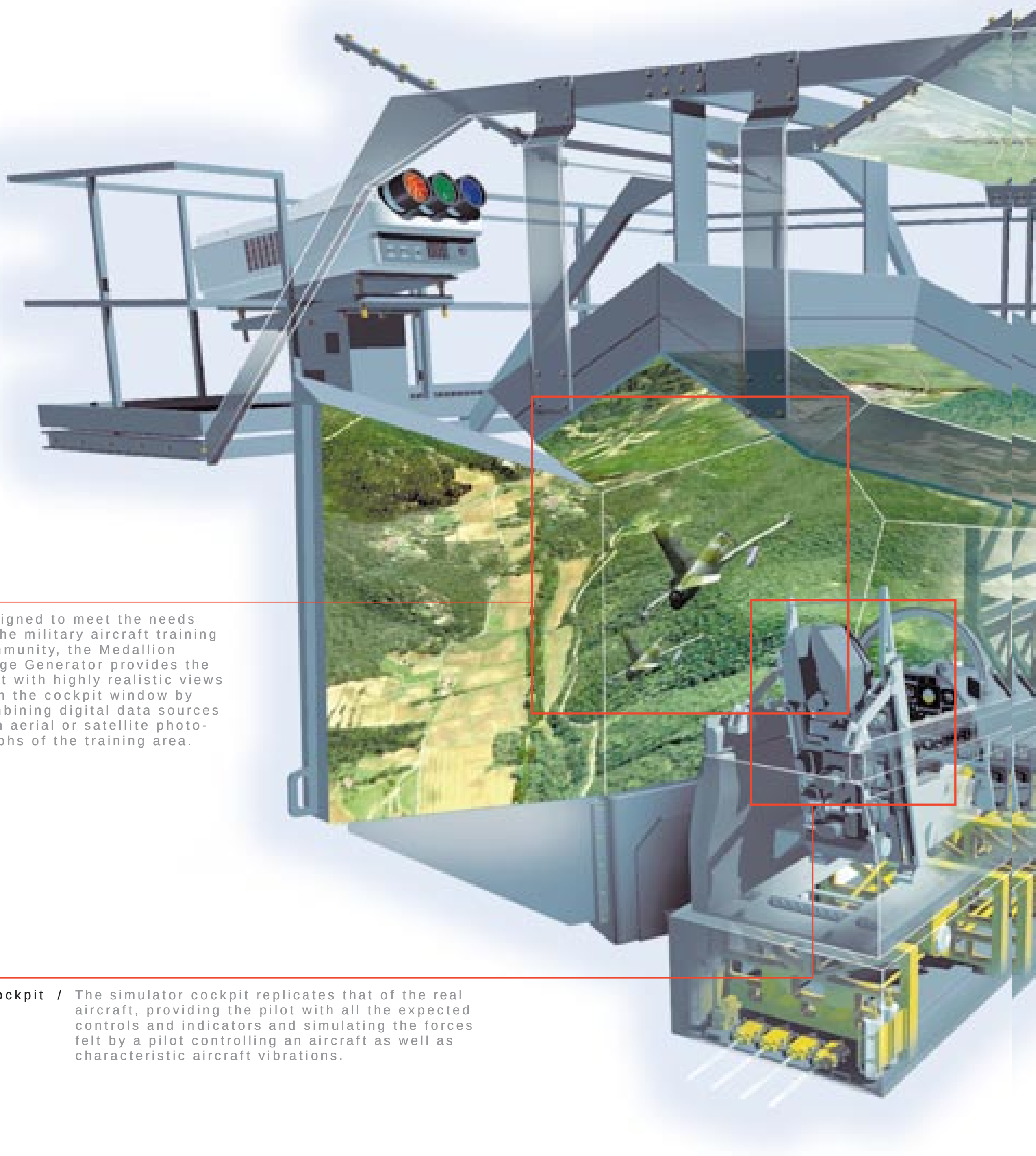
ATMOS™ Sphere Visual System / The visual system will employ a CAE designed PC Image Generator from the new ATMOS™ Sphere visual family. The new visual system will provide unsurpassed realism which when combined with motion and sound cues will provide a cost-effective, fully emersive training environment to the training crew.

Simulated Aircraft / The simulated aircraft will replicate aircraft performance in all aspects. A radically new modular electronics architecture will be used to interface all cockpit instruments. Electric Load Units will replace the conventional hydraulic technology used to interface to the aircraft flight controls.

"CAE is investing in a strategic research and development initiative to create Sim XXI™, the next generation of full flight simulator. Enabling PC-based technology, an innovative modular design and electric motion are being employed to produce a simulator design that will set the standard for the simulation industry. By combining these technologies with advances in design and production processes, we will achieve new levels of productivity, including shorter production schedules. We expect Sim XXI™ to win significant share for CAE in the rapidly growing regional and business jet training markets. It will also provide significant spin-off benefits for our entire simulation and training product suite."

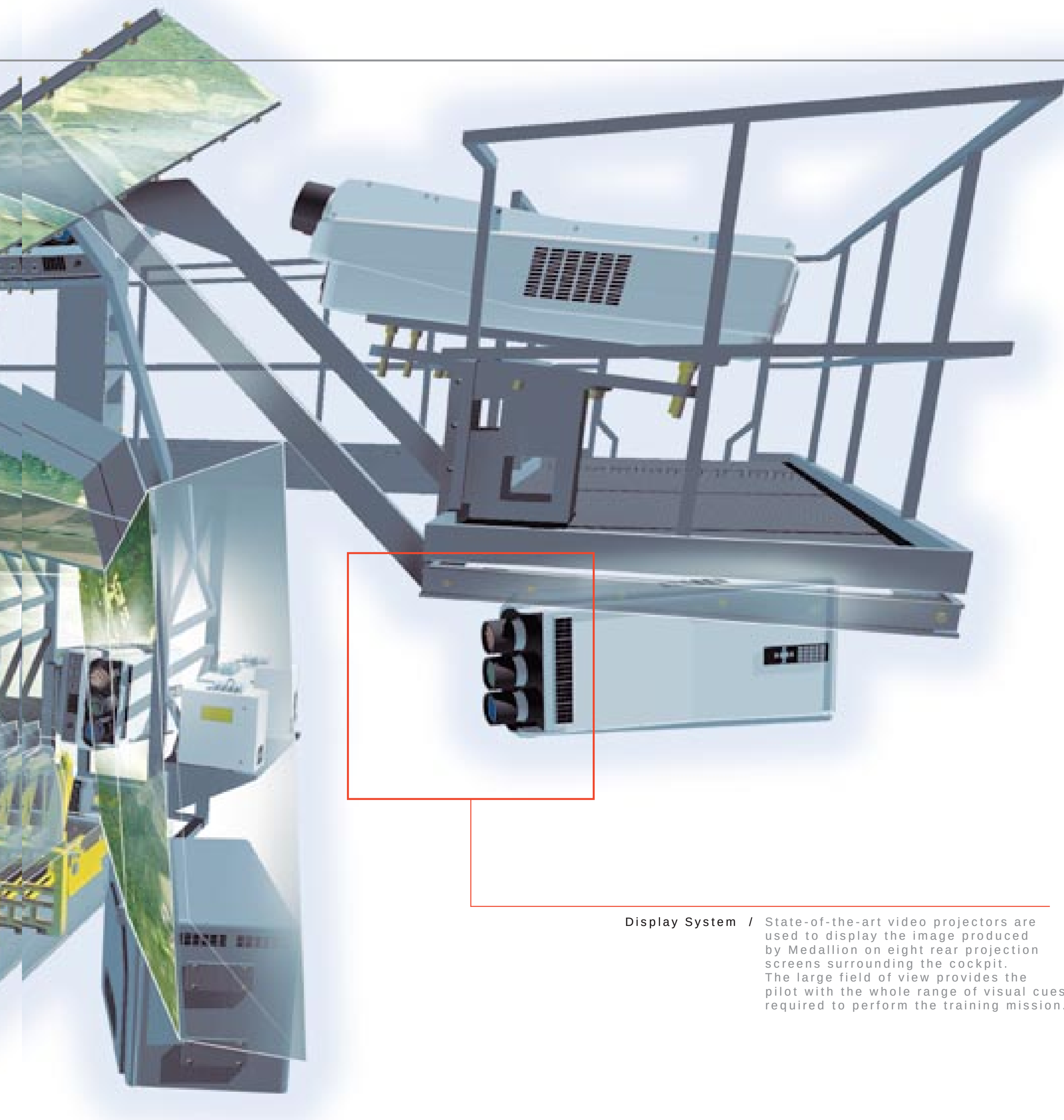
Hugh Dunkley
Director, New Generation Simulator Development, Commercial Simulation and Training

3 Enhancing Visual Systems



Medallion / Designed to meet the needs of the military aircraft training community, the Medallion Image Generator provides the pilot with highly realistic views from the cockpit window by combining digital data sources with aerial or satellite photographs of the training area.

Pilot Cockpit / The simulator cockpit replicates that of the real aircraft, providing the pilot with all the expected controls and indicators and simulating the forces felt by a pilot controlling an aircraft as well as characteristic aircraft vibrations.

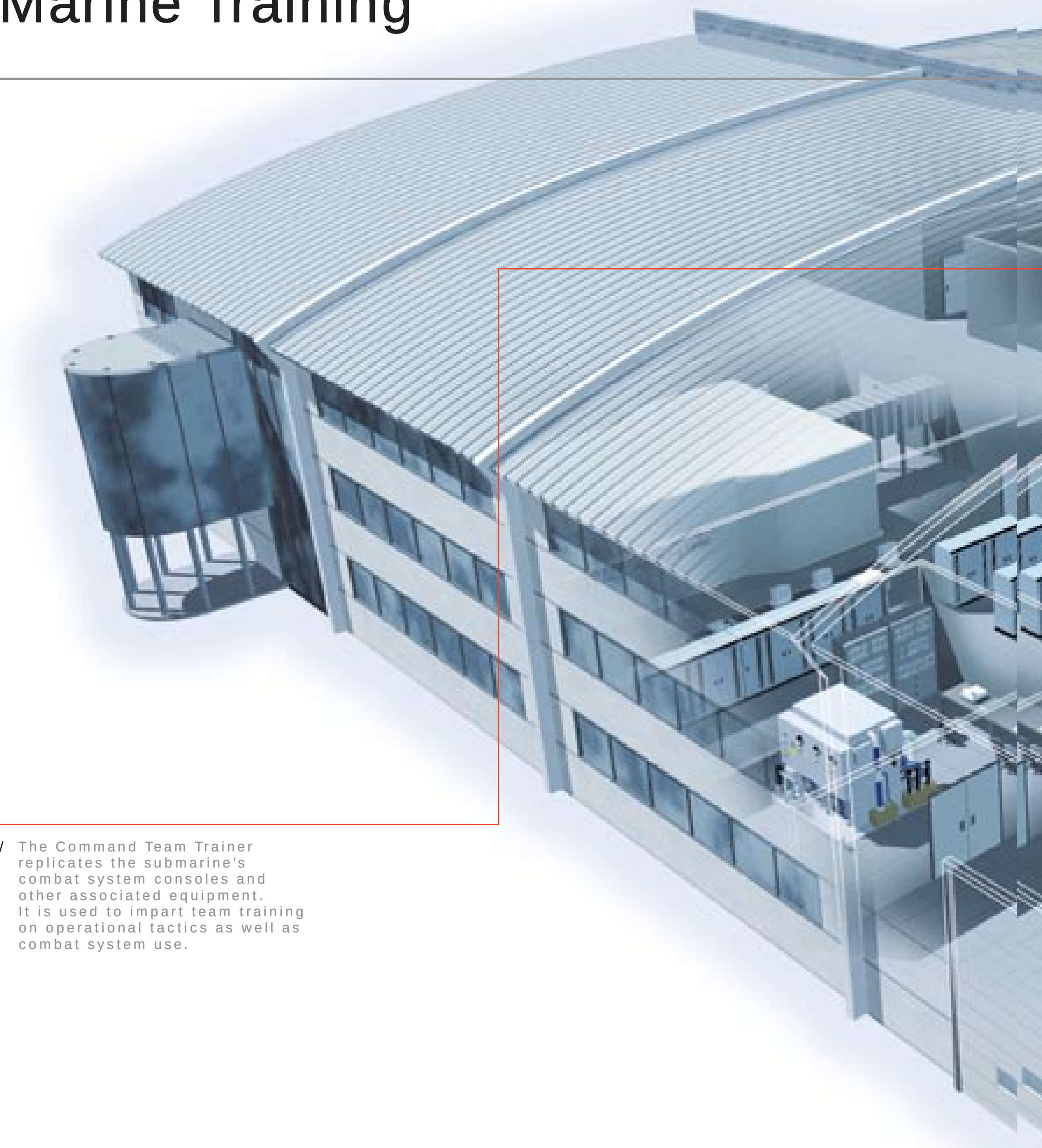


Display System / State-of-the-art video projectors are used to display the image produced by Medallion on eight rear projection screens surrounding the cockpit. The large field of view provides the pilot with the whole range of visual cues required to perform the training mission.

"The market for military simulators is extremely demanding with many unique training requirements such as flying in formation, specific mission rehearsals and battle scenarios that involve hostile aircraft and ground weapons. It's a huge challenge to meet such demands. Our visual systems team has pulled it off in spades with our state-of-the-art Medallion Image Generator. With its high fidelity image rendering quality and configuration flexibility it is ideal for fast jet, helicopter and transport applications. CAE is committed to remain at the forefront of visual systems technology and to deliver the best training system on the market to its customers."

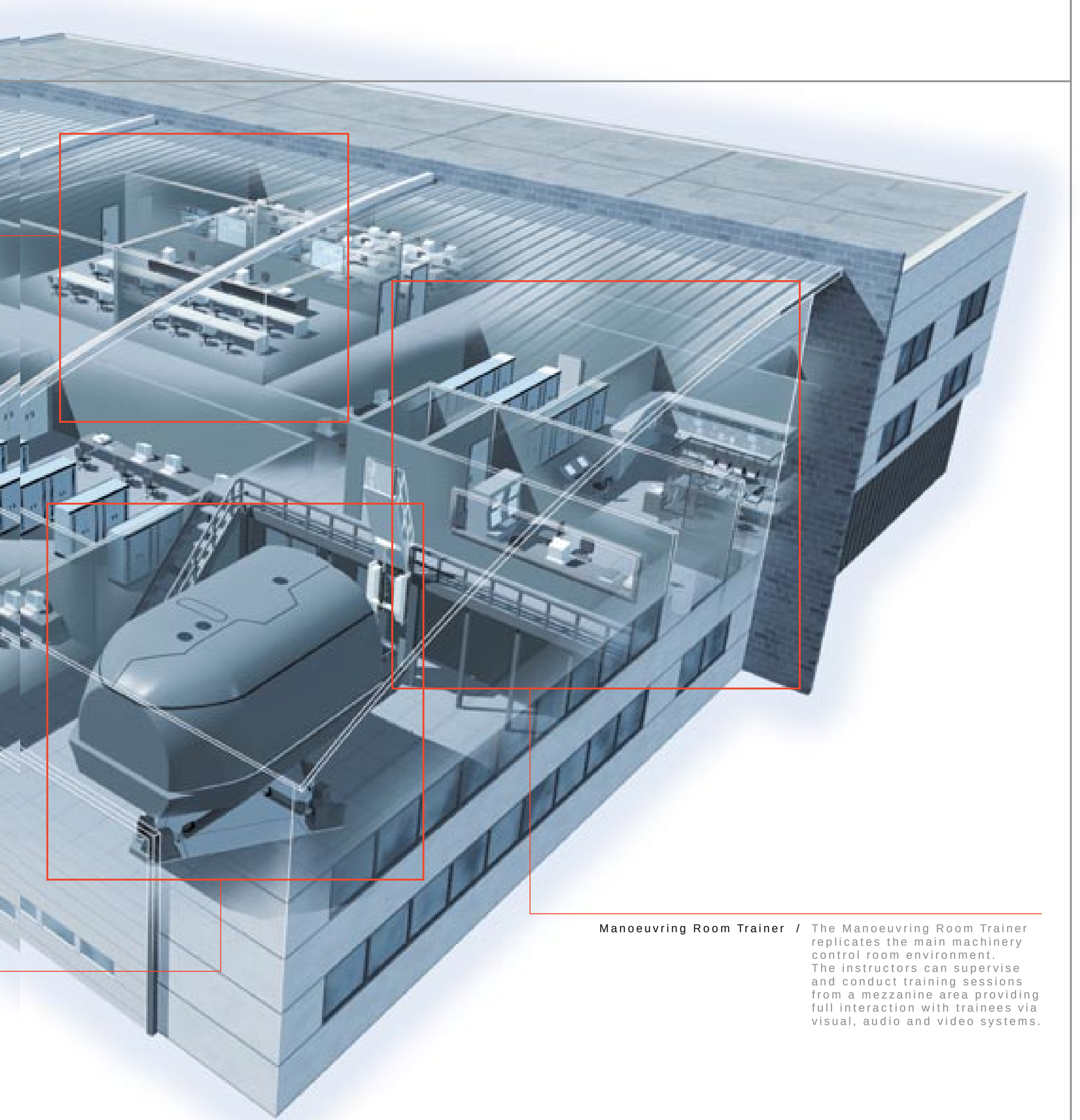
Martin Gagné
Vice President, Visual Systems

4 Initiating Marine Training



Command Team Trainer / The Command Team Trainer replicates the submarine's combat system consoles and other associated equipment. It is used to impart team training on operational tactics as well as combat system use.

Submarine Control Trainer / Mounted on a motion platform, the Submarine Control Trainer provides a high fidelity training environment for the main console operators responsible for steering and diving operations. The simulator's cab also incorporates a comprehensive instructor station.



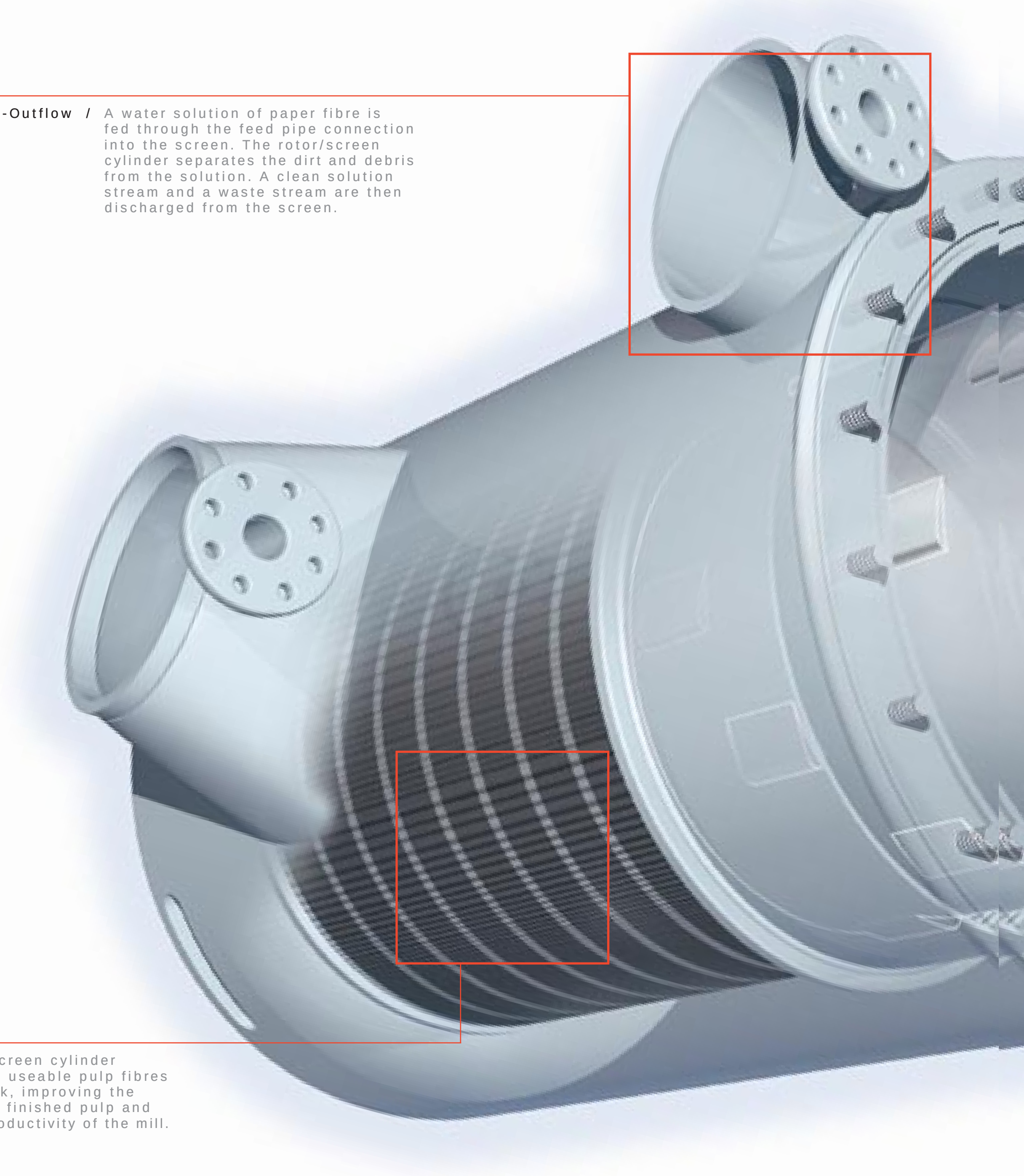
Manoeuvring Room Trainer / The Manoeuvring Room Trainer replicates the main machinery control room environment. The instructors can supervise and conduct training sessions from a mezzanine area providing full interaction with trainees via visual, audio and video systems.

"CAE was a pioneer in modern marine control systems. With our on-board simulation-based training capabilities we are now a leader in the global market for naval control and instrumentation systems. Our reputation for rigorous standards was recognized two years ago when we won the contract for the control and instrumentation system for the United Kingdom Royal Navy's new Astute Class nuclear submarines. With our consortium partner Alenia Marconi we are now the preferred bidder for a major 40-year training service programme for the Astute Class. Looking ahead, we will leverage our skills and established reputation to enter the commercial marine market, as well as the important markets for marine navigation and other ship systems."

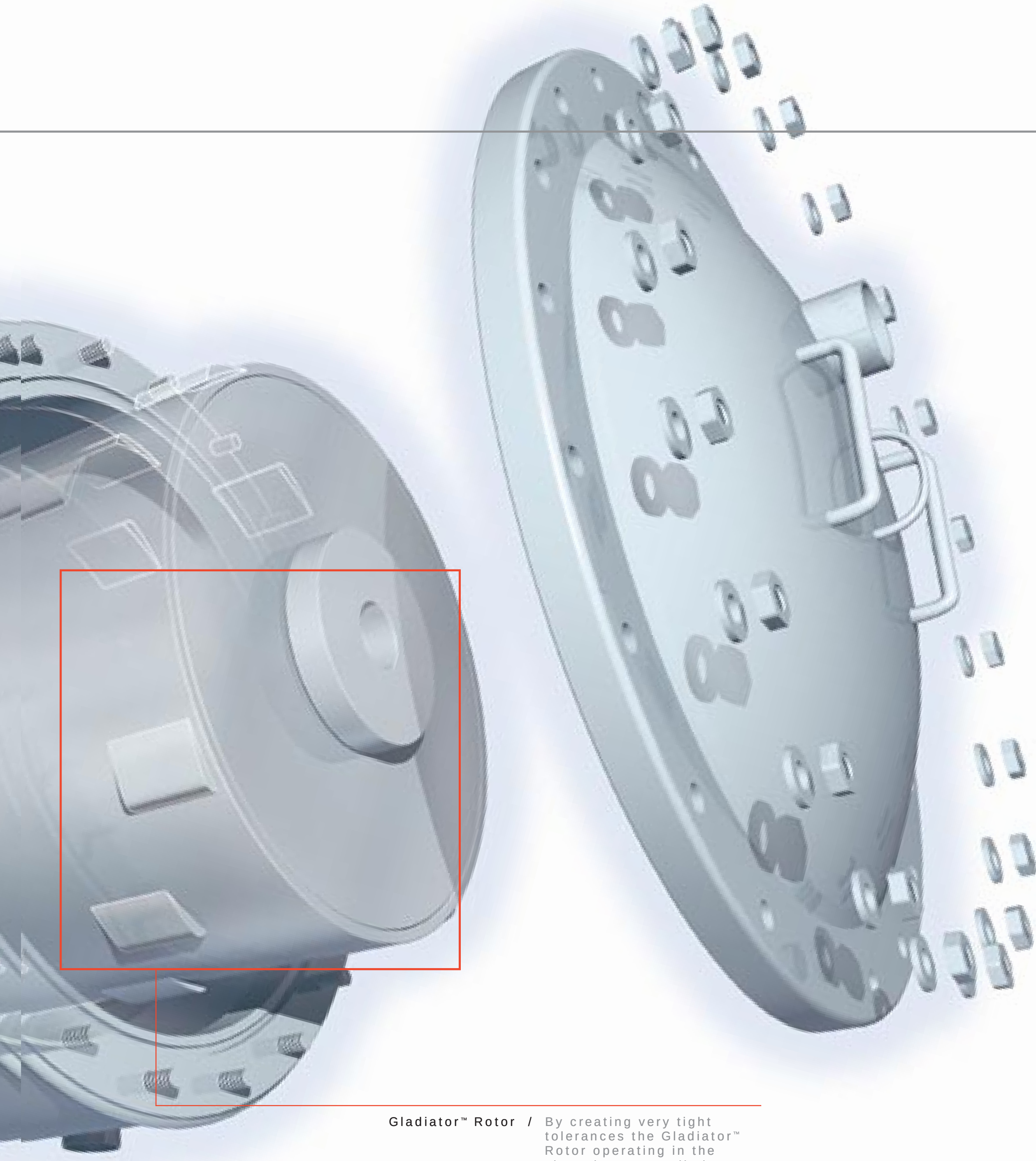
Rangesh Kasturi
Director, Marketing and Sales, Marine Systems

5 Innovating Forestry Products

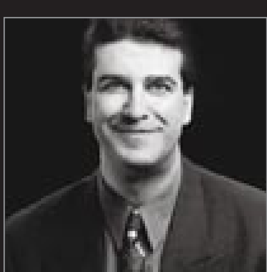
Inflow-Outflow / A water solution of paper fibre is fed through the feed pipe connection into the screen. The rotor/screen cylinder separates the dirt and debris from the solution. A clean solution stream and a waste stream are then discharged from the screen.



Cylinder / The slotted screen cylinder separates the useable pulp fibres from the stock, improving the quality of the finished pulp and the overall productivity of the mill.



Gladiator™ Rotor / By creating very tight tolerances the Gladiator™ Rotor operating in the slotted screen cylinder allows a recovery of clean, useable pulp fibre from the tertiary or fine position within a pulp mill.



"In September 2000 CAE launched the Gladiator™, a highly innovative product that is CAE's first entry in the market for pulp and paper mill rotors. By combining a rotor with a screening cylinder, the Gladiator™ runs at a tighter tolerance than traditional models, with no loss of good quality useable fibre. This means higher productivity for the mills, fewer waste products and ultimately, better profitability. The market for the Gladiator™ is worldwide and initial response has been encouraging, while our new joint venture in Korea gives us a presence in the important Asian market for this product."

Robert Trochimchuk
Sales Engineer, Forestry Systems

Commitment and Ingenuity = Value

Patrizia Caroselli
Senior Production Planner
Operations
CEO Award Recipient

Patrizia's initiatives have provided continuous planning visibility through the simulator manufacturing cycle. Production cells work together more efficiently, shortening the cycle time and bringing significantly lower costs. "CAE values creativity" she says, "and personally, I enjoy working for a company that can compete with the best in the world."

Benoit Durand
Senior Project Manager
Military Simulation and Training
CEO Award Recipient

Benoit's proven leadership talents have made him the leader of the cross-functional team charged with bringing home the important CF-18 networked simulation training system contract. A good choice, since he believes that "It's people who make the difference. No matter what the challenge, we have the people to handle it – that's what makes CAE such an exciting place to work in."

Andrew Fernie
Manager, Display Systems
Visual Systems
CEO Award Recipient

Andrew's experience on the team bidding for the visual systems in the Eurofighter simulators will serve him well in designing complete visual systems that meet a customer's specific needs cost-effectively. "CAE gives you a chance to work on many different products" he says. "I've already worked in four separate fields within CAE and look forward to working in many more."

Olaf Knutson
Manager, Marketing and Sales
Marine Systems
CEO Award Recipient

Olaf's success in pursuing major sales opportunities has won him an assignment marketing customized solutions to key projects and customers in Europe and South America. "CAE's competitive edge is our human resources" in Olaf's view. "The commitment and training of our people allow us to meet customers' needs with tailor-made solutions that give them the best value for their money."

Daniel Roy
Senior Technical Specialist
Commercial Simulation and Training
CEO Award Recipient

Daniel has been a leader in designing the electronic interface of Sim XXI™, CAE's new generation simulator which combines greatly improved speed of throughput with ease of maintenance and repair. "At CAE you have the chance to use your own judgement" Daniel reflects. "It's demanding, but it also gives you the freedom to go full speed ahead."

Risto Weckroth
Technical Support Manager
Forestry Systems
CEO Award Recipient

Solution selling is the key to success in the growing end-user market. Risto has pioneered the concept at CAE and along the way has learned that "Things happen faster at CAE. There is a lot of freedom, and a lot of responsibility – but you can see the results of your work and know that you are making a difference."

Leading through Innovation

Bob Bridgeman
Director, Electronic Engineering Operations
CEO Innovation Award Recipient

“At CAE we get exposure to a lot of different challenges” according to electronic engineer Bob Bridgeman. Bob’s work at CAE has ranged widely but it is his analysis of production systems and their impact on productivity that has won him the CEO Innovation Award. “I find it’s especially rewarding to work with something all the way from concept to a finished top-quality product” he adds.

Financial Review

20	29	31	34	52	53
Review of Operations and Management's Discussion and Analysis	Management and Auditors' Reports	Consolidated Financial Statements	Notes to Consolidated Financial Statements	Board of Directors and Officers	Information for Shareholders

Review of Operations and
Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of fiscal 2001's financial results focuses on the core businesses of CAE Inc. (CAE or the Company), Commercial Simulation and Training, Military Simulation and Controls, and Forestry Systems and includes a review of the operations and financial situation of each segment. This MD&A should be read in conjunction with the audited consolidated financial statements on pages 31 to 50.

This MD&A contains forward-looking statements with respect to CAE and its subsidiaries based on assumptions which CAE considers reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. CAE cautions the reader that the assumptions regarding future events, many of which are beyond the control of CAE and its subsidiaries, may ultimately prove to be incorrect. Factors that could cause actual results or events to differ materially from current expectations are discussed on page 28.

/ Summary of Consolidated Results /

Continuing Operations

Earnings from Continuing Operations

Consolidated earnings from continuing operations climbed to $134.7 million, a 49% improvement from last year's level of $90.7 million. Earnings per share reached $1.25, an increase of 51% over last year's $0.83 per share, reflecting both the earnings improvement and the per share impact of the Company's common share purchases under the Normal Course Issuer Bid. The growth in earnings is anchored by margin improvements across all business units arising from a combination of cost savings from consolidation and integration, tangible productivity improvements in our core manufacturing and the growth in volume. Operating earnings for Commercial Simulation and Training outpaced growth in revenue, as the incremental volume to meet demand for direct sales as well as the manufacture of simulators for our own training centres combined with productivity improvements contributed to a significant increase in margins. Operating earnings for Military Simulation and Controls increased 127%, due to an improvement in the mix of programme activity and the completion early in the year of certain higher cost programmes. Forestry Systems contributed a 6% increase in operating earnings on strong results in the Oriented Strand Board (OSB) and pulp sectors, partially offset by low order intake, plant rationalization and employee layoffs, in the fourth quarter, in the lumber sector.

Revenue

Consolidated revenue for fiscal 2001, at $1,191 million, reflects an increase of 2% over the fiscal 2000 level of $1,164 million. Revenue for Military Simulation and Controls grew by 7% or $25 million due to higher activity on certain US military simulation programmes, in marine controls applications attributable to the Astute Class nuclear submarine and from the Medium Support Helicopter Aircrew Training Facility (MSHATF) at Royal Air Force (RAF) base Benson in Oxfordshire, England. Commercial Simulation and Training revenue increased slightly over fiscal 2000 reflecting the continued buoyant market and CAE's success in capturing a major share of full flight simulator orders. Forestry Systems matched last year's revenue level on strong results in the OSB and pulp sectors offset by low order intake in the last half of the year, in the lumber sector.

Discontinued Operations

On February 2, 2000, the Board of Directors approved a plan to divest its Cleaning Technologies and Energy Control Systems businesses. On May 31, the Company completed the sale of substantially all of the assets of the Energy Control Systems businesses to SNC-Lavalin. CAE expects to conclude the sale of the Cleaning Technologies group during the first quarter of fiscal 2002.

The results of these operating units along with the results of Railway Technologies and Services have been reported as discontinued operations. The results of discontinued operations amounted to a net loss of $26.6 million, relating primarily to the Cleaning Technologies business, as compared to net earnings of $7.8 million in fiscal 2000, which included an after-tax gain of $13.6 million from the sale of the Railway Technologies and Services group.

Net Earnings

Consolidated net earnings increased 10% to $108.1 million or $1.00 per share compared with consolidated net earnings of $98.5 million or $0.90 per share in fiscal 2000.

Cash Flow

CAE's cash and short-term investments increased by a combined $45 million during the year to $156.8 million and $122.8 million, respectively. The increase reflects the higher earnings and significantly lower working capital, offset by higher capital expenditures in support of growth in commercial flight training.

Backlog

Order backlog as at March 31, 2001, was unchanged at $1.8 billion.

/ Review of Operations /

Commercial Simulation and Training

CAE's Commercial Simulation and Training business is the world leader in the design and production of commercial flight simulators, visual systems and training systems. CAE's move into the flight training market to fuel growth has been successful. The Company officially opened its first independent training centre – CAE South America Flight Training centre in São Paulo, Brazil, on April 19, 2001. Two other centres, in Toronto, Canada, and Madrid, Spain, are scheduled to open in the coming fiscal year. CAE will accelerate the establishment of independent training centres and alliances with aircraft manufacturers and major airlines to address their individual flight training needs, and will continue the pursuit of simulator maintenance and support activities.

Financial Results

(amounts in millions of dollars)		2001	2000	1999	1998	1997
Revenue	$	481.5	480.2	352.8	296.8	186.3
Operating earnings	$	117.0	82.3	55.9	56.7	27.4
Operating margin	%	24.3	17.1	15.8	19.1	14.7
Backlog	$	649.5	527.8	482.7	339.9	154.2
Capital expenditures	$	72.9	11.7	23.2	27.4	9.0

Operating earnings of Commercial Simulation and Training climbed 42% over last year's level, to a record $117.0 million. Revenue was up slightly over last year. The revenue reflects very little training revenue as yet for the simulators we are building for our own training centres. Productivity improvements and the leverage on costs resulting from the high volume level, from both external orders and training centre requirements, has driven significant improvement in operating earnings.

Capital expenditures increased significantly in the fiscal year, the majority of which relates to the construction of three training facilities.

Operational Highlights

Demand for flight training equipment remained strong during fiscal 2001 due to ongoing fleet renewal, fleet expansion, strong demand in the regional and business jet markets and pilot attrition. The use of simulators for training continues to expand due to improved technology and the significant cost savings as compared with flight training aboard an actual aircraft. Furthermore, simulation allows for training pilots to cope with high risk situations such as engine fires and windshear, which cannot safely be attempted on the actual aircraft.

CAE continues to achieve outstanding results in the Commercial Flight Simulation and Visual Systems market. In fiscal 2001, the Company won 35 of 42 competed full flight simulators (FFS), representing a worldwide market share of 83%. CAE's commercial MAXVUE™ visual system captured 29 out of 43 competed orders, or a 67% market share.

During the year CAE obtained FFS orders from five new customers, Air France, Air New Zealand, Southwest Airlines, Ryan Air and WestJet. The Company won all FFS orders for regional jets.

CAE made significant progress in its strategic move into the commercial flight training business. The training facility in São Paulo, Brazil, one of the fastest growing aviation markets worldwide, was completed and is now in operation. During the year, agreements with Varig, Gol Transportes Aéreos of Brazil and LAPA of Argentina were signed for B737 training. These agreements are in addition to the long-term agreement, signed last year, with São Paulo-based Transportes Aéreos Regionais S.A. (TAM) for Fokker 100 and Airbus A320 training in the new facility. Training centres in Toronto and Madrid are targeted to become operational in fiscal 2002. In Toronto, Canada 3000 and Skyservice are the anchor customers and discussions are ongoing with additional clients. In Madrid, Air Nostrum, the regional feeder of Iberia, is our anchor customer.

Outlook

The market for commercial flight simulation equipment is expected to remain strong in fiscal 2002. The factors which drove the market to record levels in recent years remain largely unchanged.

These factors, combined with the anticipated continued growth in air travel, the generally strong financial position of the airline industry and the order backlog for delivery of new aircraft, should lead to a strong market for this equipment.

The Company plans to invest substantially over the next three years in expanding the scope of its commercial simulation business through its entry into the flight training market. CAE will capitalize on its solid reputation and its strong relationship with the aircraft manufacturers and major airlines to grow the flight training business worldwide in partnership with its customers and other third party suppliers.

CAE expects to increase its advantage in lead-time, cost, quality and reputation for performance through operational improvements and research and development (R&D) programmes. The Company launched a large-scale R&D programme to improve its flight simulator products. A next generation full flight simulator, Sim XXI™, which will employ innovative technologies and advances in design and production processes will be introduced this fall. CAE is also developing an interactive learning capability, which has the potential to revolutionize how pilot and maintenance training is conducted. These projects are on track to initially generate incremental improvements to existing products and in the longer term, lead to the introduction of new products with the potential to significantly alter market dynamics.

In addition, CAE is investing in the development of a next generation visual system, capitalizing on the improvements in off-the-shelf PC-based 3D graphics technology. These technical innovations will enable the Company to develop a visual system at a lower cost while significantly improving the realism of the virtual image. Incremental growth in this market is anticipated from demand for FFS simulators and visual system upgrades required as the installed base of aging visual systems reach the end of their economic life. This trend is occurring in the military market as well.

CAE expects to maintain its commanding leadership position in commercial simulation and visual systems due to its focus on customer relationships, its commitment to innovation and technology, product quality, reliability and efficiency, and its continuing efforts to shorten delivery cycles through process improvements.

Military Simulation and Controls

CAE's Military Simulation and Controls business is a premier designer and manufacturer of military flight and land-based simulation and training systems, and is the world leader in the supply of marine control systems.

Financial Results

(amounts in millions of dollars)		2001	2000	1999	1998	1997
Revenue	$	409.9	384.9	355.7	334.2	370.1
Operating earnings	$	34.9	15.4	25.2	20.6	30.9
Operating margin	%	8.5	4.0	7.1	6.2	8.3
Backlog	$	1,103.3	1,219.3	1,242.6	1,242.2	489.4
Capital expenditures, net	$	3.4	10.1	45.7	25.4	16.2

Revenue increased by $25.0 million or 7% while operating earnings increased by $19.5 million or 127% in the fiscal year. The revenue increase reflects higher activity on the US Air Force E-3A Airborne Warning and Control (AWAC) Flight Crew Training Programme and in marine control applications attributable to the UK Royal Navy on the Astute Class nuclear submarine. Higher revenues were also generated from the Medium Support Helicopter Aircrew Training Facility (MSHATF) at Royal Air Force (RAF) base Benson in Oxfordshire, England, which officially opened in July 2000. The increase in operating earnings reflects the effect of the repositioning strategy whereby four independent military simulation and training businesses were successfully integrated into one focused profit centre.

Operational Highlights

CAE reached an agreement with BAE SYSTEMS North America to buy BAE SYSTEMS Flight Simulation and Training of Tampa, Florida. This purchase was concluded on April 2, 2001. The acquisition strengthens CAE's access to the US defence market and a relationship with BAE SYSTEMS PLC, which enhances CAE's global position in the defence simulation and training sector.

CAE continued its efforts to establish itself as a significant training equipment provider. CAE has been awarded contracts for the Holloman base Cockpit Procedure Trainer, C130J upgrade for the Commonwealth of Australia, upgrade for NATO E3A, update for UK MoD Maintenance Training System and Lynx Mk8 and Eurofighter 2000. CAE was also successful in enhancing its position as a training service provider. CAE continues to focus on expanding its relationship with current customers through long-term service agreements, upgrades of current devices and provision of additional training equipment.

On July 17, 2000, His Royal Highness The Duke of York attended the inauguration of the Medium Support Helicopter Aircrew Training Facility (MSHATF) at Royal Air Force (RAF) base Benson in Oxfordshire, England. This showcase facility represents the first turnkey training services programme for CAE. This achievement is an important milestone in relation to CAE's entry into the military and commercial training services business. For the inauguration, five of the six flight simulators that form the core of the Medium Support Helicopter Aircrew Training Facility in the UK were delivered and certified Ready for Training. The one remaining flight simulator was delivered and certified in April 2001. Recently, the Company signed its first contract for third party training with Canadian Air Force pilots.

CAE won contracts to provide the Integrated Platform Management System for three of the Korean Navy's new KDX-II class Destroyers. The Korean Navy plans to build up to six of these 5,000-ton warships in a continuing modernization of its forces.

During the year the FAST Consortium, owned 50/50 by CAE and Alenia Marconi Systems, was selected as the Preferred Bidder by the Defence Procurement Agency of the UK Ministry of Defence for the Astute Class submarines Training Service. This Private Finance Initiative contract is for the provision of comprehensive training services to the Royal Navy for up to 40 years in the operation and maintenance of the Astute Class submarines. A new training centre will be built in Scotland to house the simulators and provide classroom-training facilities. Contract negotiations should be completed in the first quarter of fiscal 2002 and will add over $250 million to backlog.

Outlook

The military simulation and training market is driven by the introduction of new aircraft platforms, upgrades and life extensions to existing aircraft and a shift to greater use of simulation in flight training programmes due to the high degree of realism and the significantly lower cost. In addition to technology and price, the customers' – in most cases, governments – key purchase criteria include the contractor's local geographic presence. CAE is well positioned to capitalize on opportunities in the international market, with operations in Canada, the United States, Germany, the United Kingdom and Australia, as well as teaming and/or collaboration arrangements in other countries.

The procurement of helicopter and transport aircraft is expected to increase over the next few years and this growth will translate into many simulation opportunities for CAE to pursue worldwide.

Key upcoming programmes include simulators for the Chinook CH-47 helicopter and Infantry Gunnery and Tactical Simulator (IGTS) programmes for Asia, Canadian CF-18 Advanced Distributed Combat Training System (ADCTS) programme, US Army AH-64 Apache simulator upgrade programme, the Italian Navy's EH-101 helicopter and a range of training systems to support the NH-90 helicopter programme in Europe.

CAE is also targeting new opportunities for turnkey training centres in Europe, the Americas and Australia based on the model developed for the Royal Air Force Medium Support Helicopter programme in the UK. CAE's capability to provide comprehensive tactical mission training is proving to be a significant incentive as potential customers consider their options.

In addition, with hundreds of flight simulators deployed worldwide, the market for lifetime support of training equipment and upgrades is a clear target market for CAE to pursue. CAE is recognized as a leading company for upgrades and support, having successfully upgraded and/or maintained its own and third party simulators worldwide.

CAE expects to increase its advantage in lead-time, cost, quality and reputation for performance through continued operational improvements and research and development (R&D) programmes. In particular, the Company launched an R&D programme to introduce Networked Tactical Training Systems (NeTTS), a new PC-based architecture to address the requirement for scalable, reconfigurable, lower cost training devices.

With its leading edge technology solution, CAE is well positioned to capitalize on upcoming international marine programmes in Europe, the US and Asia with the market expected to remain strong in the coming years. In addition, CAE has launched initiatives to broaden its scope of supply to include other key control systems within a ship and the utilization of its vast investments in warship automation technology in the commercial marine sector.

Forestry Systems

CAE's Forestry Systems business is the world leader in providing innovative solutions for the forest products sector. The Company's advanced technologies enable customers to increase the value of products recovered from wood fibre resources. Forestry Systems is comprised of two profit centres: Wood Products and Pulp and Paper.

The Wood Products division provides proprietary machinery and equipment for both softwood and hardwood lumber and engineered wood producers. Operating out of British Columbia and California, CAE combines proprietary software, sensors and control systems with advanced mechanical design to provide leading edge optimization solutions to the global wood products industry.

The Pulp and Paper division provides advanced screening solutions for pulp and paper companies. CAE operates out of Quebec, Finland and South Korea and has market access worldwide via a combination of regional offices, technical support engineers and strategic alliances.

Financial Results

(amounts in millions of dollars)		2001	2000	1999	1998	1997
Revenue	$	300.0	299.2	197.4	109.4	138.7
Operating earnings	$	46.5	43.8	32.8	16.2	19.8
Operating margin	%	15.5	14.6	16.6	14.8	14.3
Backlog	$	51.3	86.6	64.0	23.9	28.3
Capital expenditures, net	$	7.7	9.1	7.4	6.3	13.3

The recent softening of the lumber sector's order book held revenue this year at the same level as the prior year. Operating earnings, however, have increased by $2.7 million or 6% primarily due to productivity and operational cost savings. This increase in operating earnings also covered the cost of the closure of the Portland fabrication facility and the lay off of close to 100 employees in Salmon Arm announced last January.

Operational Highlights

CAE demonstrated global reach for its sawmill optimization expertise with the start-up of an entire sawmill for Balcas Timber in Northern Ireland during fiscal 2001. The project is significant as it showcases CAE's Mill Host™ concept, whereby a single software solution is determined for each log in relation to the sales order file before it reaches the first saw blade. This optimized solution is then utilized throughout the mill until the resulting lumber is sorted and stacked for ultimate sale.

CAE captured 100% of the market this year for its flaking and stranding technology for the Oriented Strand Board (OSB) market, including its first ever sale in South America. CAE continued its tradition of introducing new technology to the wood products industry during fiscal 2001. The first of seven new QuickScan Cant Optimizers was delivered during the year and the first PanelMSR® (Machine Stress Rated) machine was installed at an OSB mill. The PanelMSR® measures panel stiffness to ensure structural quality is maintained and will ultimately provide mill operators a tool for process optimization.

Global pulp and paper operations were integrated during fiscal 2001. The resulting global focus positions CAE well to service the rapidly consolidating pulp and paper industry.

New product development efforts have been directed at leveraging CAE's core simulation and control capabilities into the pulp and paper sector. The preliminary introduction of a pulp mill simulation model that allows mill managers to assess the efficiency of their various screening applications has been received enthusiastically.

The Pulp and Paper group entered into a joint venture agreement with the leading screen cylinder manufacturer in the Asian market, Poong Nam Screens based in Inchon, South Korea. The Company's 35% interest in the venture will add a third pulp and paper manufacturing base for CAE in the fastest growing market in the world, Asia.

Outlook

The housing market in North America continues to be strong, with US housing starts forecast to remain above 1.6 million during calendar 2001. However, the market has been overshadowed by low prices for lumber which has dampened demand for sawmill capital equipment. Also in Canada, the expiration of the Softwood Lumber Agreement on March 31, 2001, and the resulting American charges of Canadian dumping and price subsidies have left the Canadian sawmill industry in a state of confusion. These issues should be clarified by September 2001, with business returning to normal shortly thereafter. Meanwhile, in the first quarter of fiscal 2002, lumber prices have increased significantly. Engineered wood producers are continuing to take advantage of new technology to optimize their wood fibre utilization and thereby improve competitiveness. CAE is well positioned as the leading supplier in North America to benefit from global demand for forestry products. Also, efforts are focused on extending the Company's reach more aggressively overseas as additional upside potential is identified.

Pulp prices rose during the first quarter of calendar 2000 to their highest levels in four years. Asian pulp and paper producers have seen capacity utilization levels rise significantly as economic conditions have improved. Both of these factors will contribute to a strong year for CAE in fiscal 2002 as a leading supplier to the pulp and paper industry. The planned introduction of new technology-based solutions will further bolster the Company's opportunities.

/ Liquidity and Capital Resources /

CAE's cash and short-term investment position increased by $45 million during the year. Throughout the year surplus cash balances were invested in short-term investments ($122.8 million at March 31, 2001) comprised of high grade commercial paper with maturity under nine months. CAE's higher cash balances resulted from the increase in net earnings and a significant reduction in working capital, due to the achievement of several contract milestones, which more than offset the increase in capital expenditures.

Capital expenditures totalled $84 million compared with $30.9 million in fiscal 2000, the majority of which relates to the construction of the building and the manufacture of simulators for the São Paulo, Toronto and Madrid training centres.

CAE employs foreign exchange forward contracts to manage the exposure created when sales are made in foreign currencies. The amount and timing of forward contracts varies depending on a number of factors, including milestone billings and the use of foreign materials and/or subcontractors on the programme. As at March 31, 2001, CAE had $309.5 million in Canadian equivalent foreign exchange contracts which, if marked to market at that date, would result in a foreign exchange loss of $5.5 million. These would be equally offset by future gains of foreign denominated cash flows over the balance of the contracts.

CAE also uses financial instruments to manage its exposure to changing interest rates and to adjust its mix of fixed and floating interest rate debt. In order to benefit from the low short-term interest rates prevailing in the Canadian market, CAE concluded interest rate swap agreements in 1997 with three Canadian financial institutions for periods of between eight and fifteen years. At March 31, 2001, CAE had interest rate swaps covering long-term debt amounting to $92 million, which if marked to market at that date would result in a gain of $2.6 million. CAE deals only with sound counterparties in executing any of its financial instruments.

As at March 31, 2001, CAE had US$143 million of accumulated non-capital loss carryforwards that can be used to offset income taxes payable on future earnings from US operations. For financial reporting purposes, a future tax asset of $15.8 million has been recognized in respect of these loss carryforwards.

New Accounting Standards

On April 1, 2000, CAE adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, Income Taxes and Section 3461, Employee Future Benefits, without restating prior years. The cumulative effect of adopting the new recommendations was to reduce retained earnings by $4.3 million and $1.7 million, respectively.

Business Risks and Uncertainties

CAE operates in different industry segments that involve various risk factors and uncertainties, which are carefully considered in the Company's management policies.

Market Cycles

CAE companies participate in competitive global markets that are subject to worldwide economic trends and political influences. Many of the Company's products are affected by industry market cycles. The commercial simulation market generally follows the trend established in the commercial airline industry, particularly the delivery of new aircraft. Military simulation programmes, awarded mainly by governments, are dependent on price, technology, life cycle costs, delivery, quality and government spending on defence programmes, and may also be influenced by in-country presence. Lead times on military programmes can easily surpass 12 months. Forest product commodity prices such as the price of pulp, sawn lumber and OSB panel board, which, in turn, are governed by the demand for paper and the health of the construction industry, impact demand for various equipment and services offered by Forestry Systems.

CAE has positioned itself in three core business segments, geographically and by industry sector, and is expanding the scope of its product offerings to help moderate these risks.

Product Innovation

CAE emphasizes product innovation in all segments. Its success is dependent upon the advancement of technology on existing products and the introduction of new products. In response, CAE expends a significant amount on research and development, which in many cases is sponsored by the customer. Certain initiatives also receive the support of the Canadian Government through the Technology Partnerships Canada programme.

Changes in Contract Cost

CAE's operating results may fluctuate from a change in the cost to complete long-term fixed-price contracts. Typically these contracts incorporate new technological solutions, the costs of which are difficult to estimate.

Key Personnel

CAE is dependent on the continued service of qualified technical personnel, and its ability to attract and retain them. CAE applies a compensation philosophy designed to mitigate this risk.

Management and Auditors' Reports

/ Management Report /

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial and operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, using policies and procedures established by management, and reflect the Company's financial position, results of operations and cash flow.

Management has established and maintains a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate. The Company also maintains an internal audit function that evaluates and formally reports to management and the Audit Committee on the adequacy and effectiveness of internal controls.

The financial statements have been examined by external auditors appointed by the shareholders. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition. They obtain an understanding of the Company's accounting systems and procedures and conduct such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements.

Ultimate responsibility to the shareholders for the financial statements rests with the Board of Directors. An Audit Committee is appointed by the Board to review the financial statements in detail and to report to the Directors prior to such statements being approved for publication. The Audit Committee meets regularly with management, the internal auditors and the external auditors to discuss their evaluation of internal accounting controls, audit results and the quality of financial reporting. The external auditors have free access to the Audit Committee, without management's presence, to discuss the results of their audit.

DH Burney

/ D.H. Burney
President and Chief Executive Officer

Paul G. Renaud

/ P.G. Renaud
Executive Vice President,
Chief Financial Officer and Secretary

Auditors' Report to the Shareholders of CAE Inc.

We have audited the Consolidated Balance Sheets of CAE Inc. as at March 31, 2001 and 2000, and the Consolidated Statements of Earnings, Retained Earnings and Cash Flow 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 as to 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 March 31, 2001 and 2000, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Montreal, Canada, April 30, 2001

Consolidated Balance Sheets

as at march 31 (amounts in millions of dollars)	2001	2000
Assets		
Current assets		
Cash	$ 156.8	$ 163.5
Short-term investments	122.8	71.1
Accounts receivable	286.1	325.3
Inventories (note 3)	136.6	108.1
Prepaid expenses	9.8	14.5
Income taxes recoverable	5.0	28.6
	717.1	711.1
Net assets of discontinued operations (note 2)	91.3	105.2
Property, plant and equipment, net (note 4)	277.9	214.8
Goodwill	141.0	144.1
Other assets (note 5)	83.6	49.0
Future income taxes (note 10)	16.6	–
	$ 1,327.5	$ 1,224.2
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 375.4	$ 306.7
Deposits on contracts	181.5	219.2
Long-term debt due within one year (note 6)	2.4	0.9
	559.3	526.8
Long-term debt (note 6)	264.6	270.7
Long-term liabilities	24.6	40.6
Future income taxes (note 10)	14.9	6.8
	863.4	844.9
Shareholders' equity		
Capital stock (note 7)	159.4	152.3
Retained earnings	321.2	241.9
Currency translation adjustments	(16.5)	(14.9)
	464.1	379.3
	$ 1,327.5	$ 1,224.2

Approved by the Board:

/ D.H. Burney
Director

/ L.R. Wilson
Director

Consolidated Statements of Earnings

years ended march 31 (amounts in millions except per share amounts)	2001	2000
Revenue		
Commercial Simulation and Training	$ 481.5	$ 480.2
Military Simulation and Controls	409.9	384.9
Forestry Systems	300.0	299.2
	$ 1,191.4	$ 1,164.3
Operating earnings		
Commercial Simulation and Training	$ 117.0	$ 82.3
Military Simulation and Controls	34.9	15.4
Forestry Systems	46.5	43.8
Earnings from continuing operations before interest and income taxes	198.4	141.5
Interest income (expense), net	4.1	(10.0)
Earnings from continuing operations before income taxes	202.5	131.5
Income taxes (note 10)	67.8	40.8
Earnings from continuing operations	134.7	90.7
Results of discontinued operations (note 2)	(26.6)	7.8
Net earnings	$ 108.1	$ 98.5
Earnings and diluted earnings per share from continuing operations	$ 1.25	$ 0.83
Net earnings and diluted net earnings per share	$ 1.00	$ 0.90
Average number of shares outstanding	107.8	109.5

Consolidated Statements of Retained Earnings

years ended march 31 (amounts in millions of dollars)	2001	2000
Retained earnings as previously stated at beginning of year	$ 241.9	$ 194.2
Adjustments for changes in accounting policies (note 1)	(6.0)	–
Excess of common share purchase price over amount charged to capital stock (note 7(b))	(1.2)	(30.2)
Net earnings	108.1	98.5
Dividends	(21.6)	(20.6)
Retained earnings at end of year	$ 321.2	$ 241.9

Consolidated Statements of Cash Flow

years ended march 31 (amounts in millions of dollars)	2001	2000
Operating activities		
Earnings from continuing operations	$ 134.7	$ 90.7
Adjustments to reconcile earnings to cash flows from operating activities:		
Amortization	29.7	33.7
Future income taxes	(11.3)	(7.6)
Investment tax credit	(22.5)	(18.3)
Other	(10.9)	(0.3)
Decrease in non-cash working capital (note 11)	69.6	151.8
Net cash provided by continuing operating activities	189.3	250.0
Investing activities		
Proceeds on disposition of business units (note 2)	5.7	52.5
Short-term investments	(51.7)	(71.1)
Capital expenditures	(84.0)	(30.9)
Proceeds from sale of leaseback assets	–	35.5
Other assets (note 5)	(25.7)	(11.4)
Net cash used in continuing investing activities	(155.7)	(25.4)
Financing activities		
Repayments of long-term debt borrowings	(17.6)	(5.5)
Dividends paid	(21.2)	(20.4)
Purchase of capital stock	(1.3)	(36.3)
Common stock issuance	6.9	4.2
Other	(7.8)	(4.0)
Net cash used in continuing financing activities	(41.0)	(62.0)
Net cash used in discontinued activities (note 2)	(5.3)	(21.6)
Effect of foreign exchange rate changes on cash	6.0	(3.1)
Net (decrease) increase in cash	(6.7)	137.9
Cash at beginning of year	163.5	25.6
Cash at end of year	$ 156.8	$ 163.5

Note.01 / Summary of Significant Accounting Policies /

Accounting policies of CAE Inc. (CAE or the Company) and its subsidiaries conform with Canadian generally accepted accounting principles (GAAP) and reflect practices appropriate to the industries in which they operate.

New Accounting Standards

On April 1, 2000, CAE adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, Income Taxes, which replaces the deferral method with the liability method of tax allocation. CAE applied the new recommendations retroactively without restating prior years. The cumulative effect of adopting the new recommendations as at April 1, 2000, was to increase net future income tax assets by $12.8 million, increase net future income tax liabilities by $27.0 million, increase other assets by $30.8 million, reduce income taxes recoverable by $18.3 million, reduce net assets of discontinued operations by $2.8 million and reduce retained earnings by $4.3 million.

On April 1, 2000, CAE adopted the recommendations of the CICA Handbook Section 3461, Employee Future Benefits, which changes the accounting for pensions and other types of employee future benefits. The new recommendations were adopted retroactively through an adjustment to retained earnings and prior year results have not been restated. As a result, a liability for employee future benefits of $1.7 million was recorded and a corresponding charge to retained earnings was taken.

In the March 31, 2001, Consolidated Statements of Earnings, CAE adopted the new CICA recommendations for earnings per share (EPS). The revised recommendations require the use of the treasury method to compute the dilutive effect of options as opposed to the previously used imputed earnings approach. These new recommendations were adopted retroactively, resulting in the restatement of diluted EPS for 2000.

Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. All inter-company accounts and transactions have been eliminated. Acquisitions are accounted for by the purchase method and accordingly the results of operations of subsidiaries are included from the dates of acquisition. Portfolio investments are accounted for using the cost method.

Revenue Recognition

Revenue from long-term contracts is recognized using the percentage of completion method, where revenue, earnings and unbilled accounts receivable are recorded as related costs are incurred. Revisions in cost and earnings estimates during the term of the contract are reflected in the period in which the need for revision becomes known. Losses, if any, are recognized fully when first anticipated.

All other revenue is recorded and related costs transferred to cost of sales at the time the product is shipped or the service is provided.

Cash and Short-Term Investments

Cash consists of cash and cash equivalents which are short-term, highly liquid investments with maturity of 90 days and less. Short-term investments include money market instruments and commercial paper carried at the lower of cost or market value.

Inventories

Inventories are stated at the lower of average cost and net recoverable value.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. The declining balance and straight-line methods are used in computing amortization of property, plant and equipment based on the following useful lives: buildings and improvements, 20 to 40 years; and machinery and equipment, three to 10 years.

Foreign Currency Translation

Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Translation gains or losses are included in the determination of earnings, except for gains or losses arising on translation of accounts of foreign subsidiaries considered self-sustaining and gains or losses arising from the translation of foreign currency debt that has been designated as a hedge of the net investment in subsidiaries, which are deferred as a separate component of shareholders' equity. Gains or losses arising from the translation of foreign currency debt not designated as a hedge of the net investment in subsidiaries are deferred, included in other assets and amortized on a straight-line basis over the term of the debt.

Research and Development Costs

Research costs are charged to earnings in the periods in which they are incurred. Development costs are also charged in the period incurred unless they meet the criteria for deferral. Government assistance arising from research and development costs is deducted from the related cost. Amortization of development costs deferred to future periods commences with the commercial production of the product and is charged to earnings based on anticipated sales of the product, over a period not exceeding five years.

Goodwill

The excess purchase price paid on the acquisition of businesses over the value assigned to identifiable net assets acquired is allocated to goodwill. Goodwill is stated at cost less accumulated amortization and is being amortized on a straight-line basis over 40 years. The Company assesses whether there has been impairment in the value of goodwill. This is accomplished in a number of ways, including determining whether projected undiscounted future cash flows from operations exceed the net book value of goodwill as of the assessment date.

Income Taxes

Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Investment tax credits arising from research and development are deducted from the related costs and are accordingly included in the determination of earnings in the same year as the related costs. Investment tax credits arising from the acquisition of property, plant and equipment and deferred development costs are deducted from the cost of those assets with amortization calculated on the net amount.

Pensions

The Company accrues its obligations under employee pension plans and the related costs, net of plan assets. The cost of pensions is actuarially determined using the projected benefits method prorated on service, expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair market value.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service period of active employees.

Stock-Based Compensation Plans

The Company's stock-based compensation plans consist primarily of the Employee Stock Option Plan (ESOP) and the Employee Stock Purchase Plan (ESPP) which are described in note 8. No compensation expense is recognized for the ESOP when stock options are issued to employees. Consideration paid by employees on the exercise of stock options is credited to capital stock. A compensation expense is recognized for the Company's portion of the contributions made under the ESPP.

Derivative Financial Instruments

The Company enters into forward, swap and option contracts to manage its exposure to fluctuations in interest rates and foreign exchange rates. These derivative financial instruments are effective in meeting the risk reduction objectives of the Company by generating offsetting cash flows related to the underlying position in respect of amount and timing. CAE does not hold or issue derivative financial instruments for trading purposes.

The foreign currency risk associated with purchase and sale commitments denominated in a foreign currency is hedged through a combination of forward contracts and options. The foreign currency gains and losses on these contracts are not recognized in the consolidated financial statements until the underlying firm commitment is recorded in earnings. At that time, the gains or the losses on such derivatives are recorded in earnings as an adjustment to the underlying transaction. Premiums paid with respect to options are deferred and charged to net earnings over the contract period.

Interest rate swap contracts are designated as hedges of the interest rate of certain financial instruments. The interest payments relating to swap contracts are recorded in net earnings over the life of the underlying transaction on an accrual basis as an adjustment to interest income or interest expense.

Earnings per Share

The calculation of earnings per share is based on the weighted average number of shares issued and outstanding. Diluted earnings per share is calculated by dividing net earnings available to common shareholders by the weighted average shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding using the treasury stock method. Conversion of the outstanding stock options would not materially dilute earnings per share.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of the contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Actual results could differ from those estimates.

Note.02 / Discontinued Operations /

On February 2, 2000, the Board of Directors approved a plan to divest its Cleaning Technologies and Energy Control Systems businesses. On May 31, the Company completed the sale of substantially all the assets of the Energy Control Systems business to SNC-Lavalin. CAE expects to conclude the sale of Cleaning Technologies during the first quarter of fiscal 2002.

The results of these operating units along with the results of Railway Technologies and Services, which was sold on December 3, 1999, (together the “Discontinued Operations”) have been reported as Discontinued Operations. The results prior to the measurement date (December 3, 1999, for Railway Technologies – February 2, 2000, for the other Discontinued Operations) have been reported separately in the Consolidated Statements of Earnings. The previously reported financial statements have been reclassified. Interest expense has been allocated to the Discontinued Operations based on their share of the Company’s net assets.

Summarized financial information for the Discontinued Operations is as follows:

	2001	2000
Revenue	$ 119.5	$ 173.7
Results of operations prior to measurement dates, net of income taxes recovery of $3.1	$ –	$ (6.0)
Net (loss) gain from discontinued operations, net of income tax recovery of $18.9 (2000 – income taxes of $2.7)	(26.6)	13.8
Results of discontinued operations	$ (26.6)	$ 7.8
Current assets	$ 82.7	$ 68.9
Property, plant and equipment, net	16.6	19.4
Goodwill	17.4	40.0
Deferred income taxes	–	0.3
Other assets	0.9	1.0
Total assets	117.6	129.6
Current liabilities	26.1	23.6
Other liabilities	0.2	0.8
Net assets of discontinued operations	$ 91.3	$ 105.2
Net cash used in operating activities	$ (5.3)	$ (10.4)
Net cash used in investing activities	(4.4)	(10.5)
Net cash (used in) provided by financing activities	4.4	(0.7)
Net cash used in discontinued operations	$ (5.3)	$ (21.6)

Note.03 / Inventories /

	2001	2000
Work-in-progress	$ 94.1	$ 60.3
Raw materials, supplies and manufactured products	42.5	47.8
	$ 136.6	$ 108.1

Note.04 / Property, Plant and Equipment /

	2001			2000		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 11.8	$ –	$ 11.8	$ 9.9	$ –	$ 9.9
Buildings and improvements	154.9	41.0	113.9	152.9	42.4	110.5
Machinery and equipment	208.6	130.3	78.3	213.8	119.4	94.4
Assets under construction						
Buildings	5.8	–	5.8	–	–	–
Equipment	68.1	–	68.1	–	–	–
	$ 449.2	$ 171.3	$ 277.9	$ 376.6	$ 161.8	$ 214.8

Note.05 / Other Assets /

	2001	2000
Investment tax credits (i)	$ 25.4	$ 14.8
Investment in and advances to CVS Leasing Ltd. (ii)	21.0	16.4
Deferred charges (ii), (iii)	13.7	10.4
Deferred development costs (iv)	13.7	–
Other	9.8	7.4
	$ 83.6	$ 49.0

(i) Investment tax credits are available to reduce future federal income taxes payable in Canada.

(ii) The Company led a consortium which was contracted by the UK Ministry of Defence (MoD) to design, construct, manage, finance and operate an integrated simulator-based aircrew training facility for the Medium Support Helicopter fleet of the Royal Air Force. The contract covers a 40-year period, which can be terminated by the MoD after 20 years, in 2018.

In connection with the contract, the Company has established a subsidiary, CAE Aircrew Training Plc (Aircrew), of which it owns 74%, with the balance held by the other consortium partners. This subsidiary has leased the land from the MoD, has built the facility and operates the training centre, and has been consolidated with the accounts of the Company.

The pre-operating expenditures in connection with this contract were deferred until the aircrew training facility commenced training on April 1, 2000, and are being amortized over the remaining life of the initial 20-year period of the contract.

In addition, the Company has a minority shareholding of 11% in, and has advanced funds to, CVS Leasing Ltd., a corporation established to acquire the simulators and other equipment that is leased to Aircrew.

(iii) The pre-operating costs of the commercial training centres are being deferred and amortized over a five-year period.

(iv) Research and development expenditures aggregated $111.4 million during the year (2000 – $116.1 million). The Company has deferred the costs incurred to develop its next generation full flight simulator.

Note.06 / Debt Facilities /

A. Long-Term Debt

		2001		2000
Senior notes (i)	$	190.4	$	177.0
Five-year revolving term loan, to a maximum of US$220.0 unsecured, due May 31, 2002 (note 18(ii))		–		–
Five-year revolving term loan, to a maximum of Deutschmark 100.0 unsecured, due May 31, 2002 (2001 – 65.0 DM; 2000 – 87.0 DM) (ii)		46.1		61.9
Eighteen-year term loan, to a maximum of £12.7 secured, maturing April 1, 2001 to October 1, 2015 (2001 – £12.0; 2000 – £11.9) (iii)		26.8		27.6
Obligations under capital lease commitments (iv)		3.7		5.1
		267.0		271.6
Less: Long-term debt due within one year		2.4		0.9
	$	264.6	$	270.7

(i) Pursuant to a private placement with certain investors, the Company borrowed US$108 million and $20 million. These unsecured senior notes, which rank equally with the term bank financing with fixed repayment amounts in 2005, 2007, 2009 and 2012. Fixed interest of approximately 7.5% is payable semi-annually in June and December.

(ii) Interest on bank term loans is charged at rates approximating LIBOR.

(iii) The Company arranged project financing for its subsidiary to finance the Company's Medium Support Helicopter programme for the Ministry of Defence in the United Kingdom. This term loan is secured by the project assets of the subsidiary and is repayable over 18 years to October 1, 2015. Interest on the loan is charged at a rate approximating LIBOR (note 5(ii)).

(iv) The effective interest rate on obligations under capital leases was approximately 5.2% (2000 – 7.0%).

(v) Payments required in each of the next five years to meet the retirement provisions of the long-term debt are as follows:

Year ending March 31,		
2002	$	2.4
2003		50.3
2004		3.3
2005		23.0
2006		2.6
Thereafter		185.4
	$	267.0

Interest expense on long-term debt was $17.7 million (2000 – $14.5 million).

B. Short-Term Debt

The Company has unsecured bank lines of credit available in various currencies totalling $85.0 million (2000 – $80.4 million). The effective interest rate on short-term borrowings was 8.4% (2000 – 7.6%).

Note.07 / Capital Stock /

i) The Company's articles of incorporation authorize the issue of an unlimited number of preferred shares, issuable in series, and an unlimited number of common shares. To date the Company has not issued any preferred shares.

ii) A reconciliation of the issued and outstanding common shares of the Company follows:

	2001			2000		
	Number of Shares		Stated Value	Number of Shares		Stated Value
Balance at beginning of year	107,579,185	$	152.3	111,466,032	$	154.2
Stock options exercised	706,538		6.9	414,637		3.9
Stock dividends (a)	17,205		0.3	34,016		0.3
Purchase of Capital Stock (b)	(103,000)		(0.1)	(4,335,500)		(6.1)
Balance at end of year	108,199,928	$	159.4	107,579,185	$	152.3

(a) The Company provides that its shareholders may elect to receive common stock dividends in lieu of cash dividends.

(b) During the first quarter the Company purchased 103,000 common shares on The Toronto Stock Exchange under its normal course issuer bid. The Company has purchased 4,438,500 common shares since the inception of the programme on June 21, 1999. Shares purchased by the Company were cancelled. The bid expired on June 20, 2000.

(c) The Company has an amended and restated shareholder protection rights plan agreement whereby one right has been issued for each outstanding common share of the Company. The rights remain attached to the shares and are not exercisable until the occurrence of certain designated events. Upon the occurence of such an event, the right entitles a shareholder of the Company to acquire additional common shares from treasury at half their market value. The rights expire on the date immediately after the Company's Annual Meeting of Shareholders to be held in 2003, unless terminated at an earlier date by the Board of Directors.

Note.08 / Stock-Based Compensation Plans /

Employee Stock Option Plan

Under the long-term incentive programme of the Company, options may be granted to officers and other key employees of the Company and of its subsidiaries to purchase common shares of the Company at a subscription price of 100% of market value. Market value is determined as the closing price of the common shares on The Toronto Stock Exchange on the last day of trading prior to the effective date of the grant.

At March 31, 2001, a total of 6,787,611 common shares remained authorized for issuance under the Plan. The options are exercisable during a period not to exceed six years and are not exercisable during the first 12 months after the date of the grant. The right to exercise all of the options accrues over a period of four years of continuous employment. However, if there is a change of control of the Company, the options become immediately exercisable.

A reconciliation of the outstanding options is as follows:

as at march 31	2001		2000	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding at beginning of year	2,739,663	$ 9.92	2,500,800	$ 10.68
Granted	1,009,200	$ 13.68	1,307,000	$ 8.41
Exercised	(706,538)	$ 9.79	(414,637)	$ 9.33
Forfeited/expired	(485,150)	$ 10.12	(653,500)	$ 10.16
Options outstanding at end of year	2,557,175	$ 11.40	2,739,663	$ 9.92
Options exercisable at March 31	634,250	$ 10.68	787,000	$ 10.77

The following table summarizes information about the Company's ESOP as at March 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$8.20 to $11.40	1,276,125	3.6	$ 9.31	514,500	$ 10.05
$12.85 to $13.30	1,207,050	4.7	$ 13.18	119,750	$ 12.85
$18.40 to $18.80	74,000	5.4	$ 18.48	–	–
Total	2,557,175	4.2	$ 11.40	634,250	$ 10.68

Employee Stock Purchase Plan

Effective April 1, 2000, the Company introduced an ESPP to enable employees of the Company and its participating subsidiaries to acquire common shares of the Company through regular payroll deductions plus employer contributions. The plan allows employees to contribute up to 10% of their annual base salary. The Company and its participating subsidiaries match the first $500 employee contribution and contribute $1 for every $3 on additional employee contributions, to a maximum of 2% of the employee's base salary. Participation at March 31, 2001, was 2,639 employees.

Common shares of the Company are purchased by the ESPP trustee on behalf of the participants on the open market, through the facilities of The Toronto Stock Exchange.

Note.09 / Financial Instruments /

Foreign Currency Risk

The fair value of the forward foreign exchange contracts and foreign currency options is represented by the estimated amounts that the Company would receive or pay to settle the contracts at the balance sheet date, taking into account the unrealized open gain or loss on open contracts.

The Company entered into currency rate swap contracts maturing on December 13, 2002, in respect of certain inter-company loan transactions. The Company receives interest, calculated semi-annually on a notional balance of US$21 million, at a weighted average interest rate of LIBOR plus 3.6% (effective rate of 10.3%). The Company pays interest, calculated semi-annually on notional balances of Euro 16.5 million and SEK 27.4 million, at weighted average interest rates of EURIBOR plus 3.4% (effective rate of 8.1%) and STIBOR plus 2.9% (effective rate of 7.2%) respectively.

Credit Risk

The Company is exposed to credit risk on billed and unbilled accounts receivable. However, its customers are primarily established companies with good credit ratings or government agencies, factors that minimize the risk. In addition, the Company typically receives substantial nonrefundable deposits on contracts.

The Company is exposed to credit risk in the event of non-performance by counterparties to its derivatives financial instruments, but does not expect non-performance by any of the counterparties. The counterparties for financial instruments are major, highly rated financial institutions.

Interest Rate Risk

The Company is exposed to fixed interest rate risk with respect to its short-term investments and long-term debt. The Company entered into interest rate swap agreements with two different financial institutions to mitigate the risk with respect to $72 million of fixed rate long-term debt, whereby in the first instance the Company will receive a fixed interest rate of 7.2% semi-annually for 8 years and in the second instance the Company will receive a fixed interest rate of 7.7% semi-annually for 15 years. Correspondingly, the interest rate swap contracts require that the Company pay in the first instance semi-annually and in the second instance quarterly.

Pursuant to the requirements of its long-term project financing, the Company's subsidiary entered into an interest rate swap agreement with two financial institutions for a maximum total nominal value of £12.7 million whereby the subsidiary will receive payments of floating rate interest and will pay a fixed interest rate of 6.8% semi-annually for 13 years.

Fair Value of Financial Instruments

The following methods and assumptions have been used to estimate the fair value of the financial instruments:

- Cash and short-term investments, accounts receivable, accounts payable and accrued liabilities are valued at their carrying amounts on the balance sheet, which represent an appropriate estimate of their fair values due to their near-term maturities.
- Capital lease obligations are valued using the discounted cash flow method.
- Long-term debt value is estimated based on the quoted market price for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating and remaining maturity.
- Interest rate and currency swap contracts reflect the present value of the potential gain or loss if settlement were to take place on March 31, 2001.

The fair value of the financial instruments, as at March 31, is as follows:

	2001		2000	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Long-term debt	$ 276.7	$ 263.3	$ 277.3	$ 266.5
Capital lease obligation	3.7	3.7	5.1	5.1
Forward exchange contracts	304.0	309.5	355.3	350.4
Interest rate swap contracts	2.6	–	2.1	–
Currency swap contracts	4.5	–	3.7	–

Guarantees

CAE had outstanding as at March 31, 2001, letters of credit and performance guarantees in the amount of $68 million issued in the normal course of business.

Note.10 / Income Taxes /

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes is as follows:

	2001	2000
	Liability Method	Deferral Method
Earnings from continuing operations before income taxes	$ 202.5	$ 131.5
Statutory income tax rates in Canada	44.6%	44.6%
Income taxes at Canadian statutory rates	90.3	58.7
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(7.9)	(7.3)
Manufacturing and processing allowance	(11.1)	(9.0)
Losses not tax effected	3.6	–
Tax benefit of losses not previously recognized	(4.7)	(3.2)
Research and development investment tax credit	(1.1)	(0.7)
Reduction in Canadian statutory rate	(0.6)	–
Other	(0.7)	2.3
Total income tax expense	$ 67.8	$ 40.8

Significant components of the provision for income tax expense attributable to continuing operations are as follows:

	2001
	Liability Method
Current tax expense	$ 79.1
Change in temporary differences	(13.2)
Recognition of loss carryforwards	2.5
Tax rate changes	(0.6)
Future income tax benefit	(11.3)
Total income tax expense	$ 67.8

The tax effects of temporary differences that gave rise to future tax liabilities and assets are as follows:

at march 31	2001
Non-capital loss carryforwards	$ 49.6
Investment tax credits	(31.7)
Capital assets	(14.7)
Employee pension plans	(2.5)
Amounts not currently deductible	20.2
Percentage of completion versus completed contract	(19.7)
Other	0.5
Total future income taxes	$ 1.7
Future income taxes comprise:	
Future income tax asset – current portion	$ 16.6
Future income tax asset – long-term portion	16.0
Future income tax liability – current portion	(16.0)
Future income tax liability – long-term portion	(14.9)
Total future income taxes	$ 1.7

As of March 31, 2001, the Company has accumulated non-capital tax losses carried forward relating to operations in the United States for an amount of approximately US$142.6 million. The losses for income tax purposes expire in 2005 through 2013. For financial reporting purposes, a future tax asset of US$15.8 million has been recognized in respect of these loss carryforwards.

Note.11 / Supplementary Cash Flow Information /

Cash provided by (used in) non-cash working capital:

	2001	2000
Accounts receivable	$ 31.4	$ (54.6)
Inventories	(41.9)	9.3
Prepaid expenses	5.7	0.3
Income taxes recoverable	49.6	29.2
Accounts payable and accrued liabilities	62.4	88.4
Deposits on contracts	(37.6)	79.2
	$ 69.6	$ 151.8
Net cash paid during the year		
Income taxes	$ 8.8	$ 0.5
Interest	$ 20.1	$ 13.1
Amortization costs of:		
Property, plant and equipment	$ 25.6	$ 29.0
Goodwill	$ 4.1	$ 4.7

Note.12 / Contingencies /

Through the normal course of operations, the Company is party to a number of lawsuits, claims and contingencies. Accruals are made in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company has no reason to believe that the ultimate outcome of these matters will have a material impact on its financial position.

Note.13 / Government Cost Sharing /

During fiscal 1997, the Company signed an agreement with the Government of Canada under which the Government shares in the cost of certain visual research and development programmes. Funding in the amount of $31.2 million was completed during 2001 and is repayable in the form of royalties based on future sales levels related to the programmes funded. The royalty payments will continue until March 31, 2012, up to an amount not to exceed $41.9 million.

Note.14 / Operating Lease Commitments /

Future minimum lease payments under operating leases, the most significant of which relate to the Medium Support Helicopter contract with the UK MoD as described in note 6(ii), are as follows:

Year ending March 31,		
2002	$	33.7
2003		35.9
2004		34.2
2005		33.3
2006		29.1
Thereafter		201.8
	$	368.0

Note.15 / Pensions /

The Company has defined benefit plans that provide benefits based on length of service and final average earnings. The Company has an obligation to ensure there are sufficient funds in the plans to pay the benefits earned.

Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equities and government and corporate bonds.

For the year ended March 31, 2001, the changes in the pension obligations and in the fair value of assets and the funded status of the defined benefit plans were as follows:

at march 31		Pension Benefits 2001
Change in pension obligations		
Pension obligation, beginning of year, as restated	$	111.5
Current service cost		3.3
Interest cost		7.8
Employee contributions		2.3
Loss on plan amendments		1.6
Pension benefits paid		(8.4)
Actuarial loss		7.9
Pension obligation, end of year	$	126.0
Change in fair value of plan assets		
Fair value of plan assets, beginning of year	$	120.8
Return on plan assets		10.7
Pension benefits paid		(7.7)
Employee contribution		2.3
Actuarial loss		(4.6)
Fair value of plan assets, end of year	$	121.5
Funded status-plan deficit	$	(4.5)
Unamortized actuarial loss		12.5
Unamortized loss on plan amendments		1.6
Accrued pension asset	$	9.6

The actuarial present value of accrued pension benefits has been estimated taking into consideration economic and demographic factors over an extended future period. Significant assumptions used in the calculation are as follows:

	2001	2000
Return on plan assets	9.0%	9.0%
Discount rate for pension benefit obligations	6.5%	8.0%
Compensation rate increases	2.75% to 5.25%	3.5% to 6.0%

The net pension expense for the year ended March 31, 2001, included the following components:

	Pension Benefits 2001
Current service cost	$ 3.3
Interest cost on projected pension obligations	7.8
Expected return on plan assets	(10.7)
Net pension expense	$ 0.4

The following table summarizes the components of CAE's net pension credit for fiscal 2000:

	2000
Current service cost	$ 2.3
Interest cost on projected plan benefits	7.7
Expected return on plan assets	(10.2)
Net amortization and other	(1.5)
Net pension credit	$ (1.7)

Note.16 / Business Segments /

The Company's significant business segments include:

(i) Commercial Simulation and Training – the world-leading supplier of commercial flight simulators and visual systems, and training systems.

(ii) Military Simulation and Controls – a premier supplier of military flight simulators, visual systems and training systems. The segment also supplies a variety of other land-based military simulation and training systems and marine control systems.

(iii) Forestry Systems – the world leader in providing solutions for the forest products sector. The business segment is comprised of two divisions, Wood Products and Pulp and Paper, supplying proprietary machinery and equipment for softwood lumber and engineered wood producers and advanced screening solutions for pulp and paper companies.

Each operating segment is led by a senior executive and offers different products and uses different technology and marketing strategies. The Company evaluates performance based on operating earnings before interest and income taxes and uses capital employed to assess resources allocated to each segment. Capital employed includes accounts receivable, inventories, prepaid expenses, property, plant and equipment, goodwill and other assets less accounts payable and accrued liabilities, deposits on contracts and contingent consideration due on acquisitions included in other long-term liabilities.

Financial information on the Company's operating and geographic segments is shown in the following tables:

Business Segments

	2001	2000
Capital employed		
Commercial Simulation and Training	$ 74.5	$ 36.7
Military Simulation and Controls	79.0	68.8
Forestry Systems	181.6	165.6
Other	18.4	18.2
Total capital employed	$ 353.5	$ 289.3
Cash	156.8	163.5
Short-term investments	122.8	71.1
Income taxes recoverable	5.0	28.6
Accounts payable and accrued liabilities	375.4	306.7
Deposits on contract	181.5	219.2
Future income taxes – long-term	16.6	–
Long-term liabilities	24.6	40.6
Net assets of discontinued operations	91.3	105.2
Total assets	$ 1,327.5	$ 1,224.2
Capital expenditures		
Commercial Simulation and Training	$ 72.9	$ 11.7
Military Simulation and Controls	3.4	10.1
Forestry Systems	7.7	9.1
	$ 84.0	$ 30.9
Amortization		
Commercial Simulation and Training	$ 9.3	$ 11.3
Military Simulation and Controls	9.8	11.0
Forestry Systems	10.6	11.4
	$ 29.7	$ 33.7
Deletions to goodwill		
Forestry Systems	$ –	$ (11.0)

Geographic Segments

	2001	2000
Revenue from external customers		
Canada	$ 181.3	$ 168.2
US	434.1	450.1
Europe	418.4	391.6
Other countries	157.6	154.4
	$ 1,191.4	$ 1,164.3
Capital assets and goodwill		
Canada	$ 194.4	$ 205.8
US	56.3	52.1
Europe	104.7	85.4
Other countries	63.5	15.6
	$ 418.9	$ 358.9

Note.17 / Comparative Financial Statements /

Certain comparative figures for 2000 have been reclassified to conform to the presentation adopted in 2001.

Note.18 / Subsequent Events /

(i) On April 2, 2001, the Company acquired all the outstanding shares of BAE SYSTEMS Flight Simulation and Training Inc. of Tampa, Florida, for total cash consideration of approximately US$80 million. BAE SYSTEMS has a well-established position in the US defence market for the manufacture of transport and helicopter simulation equipment and has significant training and support services activities for both the commercial and military markets. BAE SYSTEMS recorded annual revenues of approximately US$80 million for its fiscal year ended December 31, 2000. The purchase price is subject to adjustment to reflect the final determination of BAE SYSTEMS' net asset values based on the closing balance sheet.

(ii) On April 26, 2001, CAE concluded a new five-year global revolving credit facility of US$350 million and Euro 100 million, to replace its existing facilities due to expire in May 2002 (note 6). The new facility expires in April 2006.

Five-Year Review

(amounts in millions of dollars except where indicated by *)	2001	2000	1999	1998	1997
Continuing operations					
Revenue	$ 1,191.4	1,164.3	905.9	799.2	762.4
Amortization	$ 29.7	33.7	28.6	25.9	25.1
Earnings	$ 134.7	90.7	73.7	73.4	57.8
Earnings per share*	$ 1.25	0.83	0.66	0.67	0.53
Net earnings	$ 108.1	98.5	77.3	70.2	60.3
Net earnings per share*	$ 1.00	0.90	0.70	0.64	0.55
Ratio of current assets to current liabilities*	1.3	1.4	1.4	1.7	1.4
Number of registered shareholders*	2,130	2,392	2,600	2,800	3,100
Cash dividends paid per common share*	$ 0.20	0.19	0.16	0.16	0.16

Quarterly Financial Information

(amounts in millions of dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Continuing operations				
Revenue	$ 286.4	295.0	318.9	291.1
Earnings	$ 30.5	35.7	34.5	34.0
Earnings per share	$ 0.28	0.33	0.32	0.32
Net earnings	$ 13.0	34.6	31.5	29.0
Net earnings per share	$ 0.12	0.32	0.29	0.27
Common share trading range:				
High	$ 15.75	20.75	25.30	25.95
Low	$ 12.75	15.00	17.75	19.90

(amounts in millions of dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000				
Continuing operations				
Revenue	$ 240.5	257.8	342.9	323.1
Earnings	$ 19.1	21.4	25.7	24.5
Earnings per share	$ 0.18	0.20	0.23	0.22
Net earnings	$ 16.7	20.7	37.5	23.6
Net earnings per share	$ 0.15	0.19	0.34	0.22
Common share trading range:				
High	$ 9.45	9.75	10.60	17.00
Low	$ 7.80	8.00	7.30	9.65

Board of Directors

Left to right (seated): D.H. Burney, G.K. Petty, J.W. McCutcheon, J.A. Grant, R.F. Elliott, L.R. Wilson
Left to right (standing): J.F. Hankinson, H.G. Emerson, A.S. Fell, L.N. Stevenson, J.A. Craig

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Chairman of the Board,
CAE Inc.
Oakville, Ontario

Derek H. Burney, O.C.[1]
President and
Chief Executive Officer,
CAE Inc.
Toronto, Ontario

John A. (Ian) Craig[3]
Business Consultant
Wilmington, North Carolina

R. Fraser Elliott, C.M., Q.C.[1]
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Stikeman Elliott
Toronto, Ontario

H. Garfield Emerson, Q.C.[2]
President and
Chief Executive Officer,
NM Rothschild & Sons
Canada Limited
Toronto, Ontario

Anthony S. Fell[3,4]
Chairman,
RBC Dominion Securities Inc.
Toronto, Ontario

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James A. Grant, P.C., Q.C.**[1,2]
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Stikeman Elliott
Montreal, Quebec

James F. Hankinson[3]
President and
Chief Executive Officer,
New Brunswick Power
Corporation
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**James W. McCutcheon,
Q.C.**[3]
Counsel,
McCarthy Tétrault
Toronto, Ontario

George K. Petty[2,4]
Business Consultant
San Luis Obispo, California

Lawrence N. Stevenson[4]
President and
Chief Executive Officer,
Pathfinder Capital Inc.
Toronto, Ontario

[1] Member of the Executive Committee
[2] Member of the Compensation Committee
[3] Member of the Audit Committee
[4] Member of the Governance Committee

Officers

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Chairman of the Board

Derek H. Burney
President and
Chief Executive Officer

Donald W. Campbell
Executive Vice President,
Military Simulation and
Training

Glenn R. Frederick
Executive Vice President,
Business Processes and
Human Resources

Rashid A. Khan
Executive Vice President,
Marine Controls

Hani R. Macramallah
Executive Vice President,
Operations

Paul G. Renaud
Executive Vice President,
Chief Financial Officer
and Secretary

Stephen E. Wilson
Executive Vice President,
Commercial Simulation
and Training

Roch Leblanc
President, Forestry Systems,
Pulp and Paper

Darrell S. Madill
President, Forestry Systems,
Wood Products

Michael A. Cossar
Treasurer

Robert C. Hedges
Controller and
Assistant Secretary

Information for Shareholders

CAE Common Shares
CAE's shares are traded on the Toronto Stock Exchange under the symbol "CAE".

Dividend Reinvestment Plan
Registered shareholders of CAE Inc. wishing to receive dividends in the form of CAE Inc. common shares rather than a cash payment may participate in CAE's dividend reinvestment plan.

Through this plan, quarterly dividends can be reinvested in CAE common shares at the average market price. This price will be the weighted average trading prices of the common shares on the Toronto Stock Exchange for the five (5) trading days immediately preceding the dividend payment date.

In order to obtain the dividend reinvestment plan form or for additional information regarding CAE's common shares, please contact:
Computershare Trust Company of Canada
100 University Avenue, 11th Floor
Toronto, Ontario M5J 2Y1
Tel: (416) 981-9633
1-800-663-9097
Fax: (416) 981-9507
caregistryinfo@computershare.com
www.computershare.com

Direct Deposit Dividend
Registered shareholders who receive cash dividends may elect to have the dividend payment deposited directly to their bank accounts instead of receiving a cheque. In order to obtain the direct deposit dividend form please contact:
Computershare Trust Company of Canada
100 University Avenue, 11th Floor
Toronto, Ontario M5J 2Y1
Tel: (416) 981-9633
1-800-663-9097
Fax: (416) 981-9507
caregistryinfo@computershare.com
www.computershare.com

Tentative Quarterly Results Release Dates for Fiscal 2002
August 8, 2001
November 7, 2001
February 6, 2002
May 8, 2002

Additional Information
If you wish to receive additional copies of CAE's annual report or copies of the annual information form, please contact:
CAE Inc.
Corporate Relations
PO Box 30, Suite 3060
Royal Bank Plaza
Toronto, Ontario M5J 2J1
Tel: (416) 865-0070
1-800-760-0667
Fax: (416) 865-0337
www.cae.com

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La version française du rapport annuel est disponible sur demande au service des relations d'entreprise, Royal Bank Plaza, Bureau 3060, C.P. 30, Toronto, Ontario M5J 2J1

Annual General Meeting
The Annual General Meeting will be held at the Glenn Gould Studio, CBC building, 250 Front Street West, Toronto, Ontario, Wednesday, June 20, 2001, at 11:30 a.m.

Auditors
PricewaterhouseCoopers,
Chartered Accountants
Toronto, Ontario

Transfer Agent and Registrar
Computershare Trust Company of Canada
Toronto, Ontario
Montreal, Quebec
Vancouver, British Columbia

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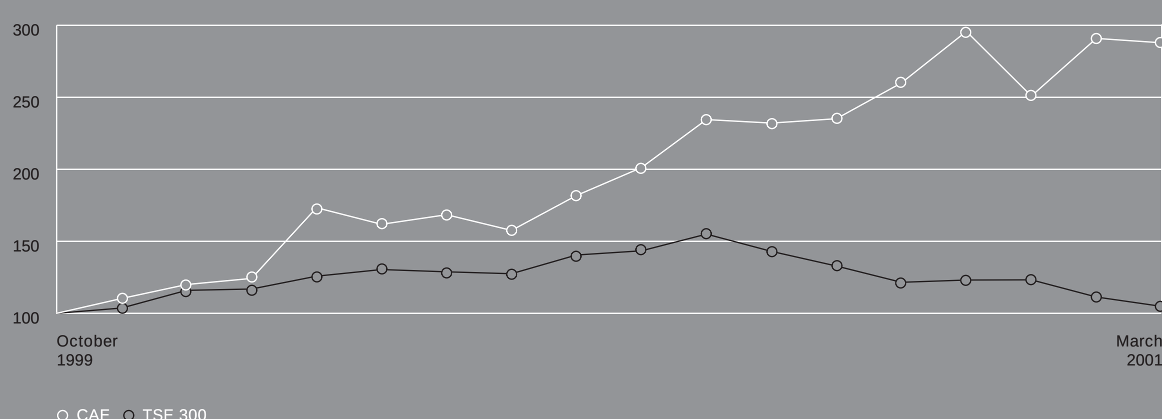
CAE Share Performance vs TSE 300 Index

Assumes $100 invested in the common shares of the Company on October 31, 1999



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PO Box 30, Suite 3060, Royal Bank Plaza
Toronto, Ontario, Canada M5J 2J1
www.cae.com