

ANNUAL REPORT

For the year ended March 31, 1996

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FINANCIAL HIGHLIGHTS

(Figures in thousands except per share amounts)

OPERATING RESULTS

	1996	1995
Continuing Operations		
Revenue	\$ 809,803	\$ 657,592
Earnings	\$ 58,591	\$ 47,327
Net earnings	\$ 58,591	\$ 15,631

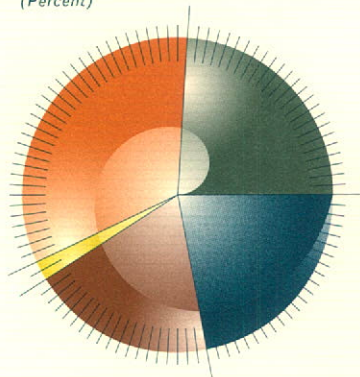
FINANCIAL POSITION

Total assets	\$ 557,474	\$ 540,235
Total debt, net of cash	\$ 15,008	\$ 14,717

PER SHARE

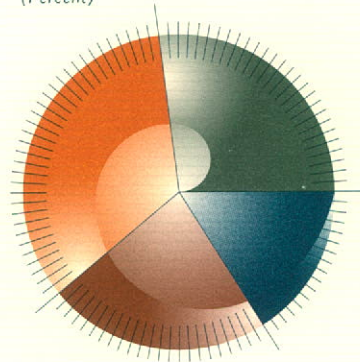
Earnings from continuing operations	\$ 0.54	\$ 0.44
Net earnings	\$ 0.54	\$ 0.14
Dividends	\$ 0.16	\$ 0.16
Shareholders' equity	\$ 1.65	\$ 1.28

GEOGRAPHIC DISTRIBUTION
(Percent)



- Europe 33%
- Canada 24%
- Asia/Africa 22%
- United States 19%
- Other 2%

REVENUE BY PRODUCT LINE
(Percent)



- Military Simulation 34%
- Commercial Simulation 27%
- Other Aerospace and Electronics 16%
- Industrial Technologies 23%

CORPORATE PROFILE

CAE Inc., an advanced technology company, is a world leader in the design and manufacture of flight simulation equipment, visual simulation systems, control systems, and a range of precision engineered industrial technologies. A Canadian public company based in Toronto, CAE has operations throughout North America, Europe, Australia and Asia. The company is divided into two groups:

AEROSPACE & ELECTRONICS GROUP

THE CAE ELECTRONICS GROUP

CAE ELECTRONICS LTD.

(Montreal, Canada) is the world leader in the design and production of commercial full flight simulators, flight training devices, and visual simulation systems. The company is also a leading designer and manufacturer of military full flight simulators, power plant simulators, electronic control systems, and other computer-based systems for air traffic management, space exploration, marine applications, and electric power generation, transmission, and distribution.

CAE ELEKTRONIK GMBH

(Stolberg, Germany) provides maintenance, repair, overhaul, and modification services to flight and tactical simulators, and designs and develops training and aircrew selection systems, primarily for military applications. The company's expertise in real-time data processing and visual systems is further applied to European research and development programs and industrial manufacturing processes. In addition, CAE Elektronik GmbH develops and produces telecommunications equipment and related software for telefax and telex communications.

CAE INVERTRON LTD.

(Burgess Hill, U.K.) acquired in May 1995, is a world leader in the design and manufacture of Army trainers and simulators, particularly Artillery and Armoured Fighting Vehicle Simulators, as well as Target Recognition systems and Battle Trainers.

CAE ELECTRONICS (AUSTRALIA) PTY LTD.

(Silverwater, Australia) was acquired by CAE in November 1994. With its team of highly skilled software engineers and systems integration specialists, CAE Electronics (Australia) pursues opportunities across CAE Electronics' entire product line. The company has one operating subsidiary acquired in October 1995 – CAE MRAD. Located in Adelaide, Australia, the company is a world leading supplier of integrated sensor stimulation products and systems for the military radar testing and training markets.

CAE ELECTRONICS INC.

(Binghamton, United States) is CAE's U.S.-based company, is a leader in marine control systems and biomedical simulation systems.

CAE AVIATION LTD.

(Edmonton, Canada) is the leading supplier in Canada of inspection, maintenance, repair, modification, and overhaul services for military aircraft for the Canadian Armed Forces and others. The company is the only independent Hercules Service Center in North America authorized to fully service the C130 Hercules aircraft. CAE Aviation is also a leading producer of technical publications for the aerospace & related industries, providing French translation, production and management services.

INDUSTRIAL TECHNOLOGIES GROUP

CAE SCREENPLATES

(Lennoxville, Canada; Katwijk, The Netherlands) is the leading global supplier of precision manufactured stainless steel screen plates, cylinders, and baskets for pulp and paper, food and beverage, waste processing, and other industries.

CAE TRISLOT N.V.

(Waregem, Belgium) is a leading European manufacturer of sophisticated wedge wire filtering and separation products used in the food and beverage, petrochemical and waste water treatment industries.

CAE MACHINERY LTD.

(Vancouver, Canada) whose principal business is the manufacture of engineered equipment for the forest product and pulp and paper industries, is the world's largest supplier of flakers used in the production of oriented strand board, waferboard, and other wood-based composites.

CAE VANGUARD, LTD.

(Minneapolis, United States) is the leading provider of axle reconditioning services to North American railways. In addition to supplying new axles, the company owns the world rights to an exclusive electrochemical deposition process for rebuilding axles.

CAE RANSOHOFF INC.

(Cincinnati, United States) acquired in October 1995, is the acknowledged technology leader in the design and custom-manufacture of environmentally compliant aqueous-based cleaning machinery for manufactured parts. The company's machinery is currently sold to a variety of industries, including automotive parts, housewares and other metal parts manufacturers.

GLOSSARY OF TERMS

CAE AVIATION

TECHNICAL PUBLICATIONS UNIT: Provides an array of services, ranging from technical writing, editing and translation to illustration and production in printed CD-ROM or display formats.

CAE ELEKTRONIK GMBH

BATTLEFIELD SIMULATION SOFTWARE/GESI: Supports the dynamics of combat and confronts the exercising commander and his staff with realistic developments of situations in order to practice and apply all command and control tactics and procedures.

CAE ELECTRONICS

AIR TRAFFIC MANAGEMENT (ATM): Global term for the management of airspace through the use of sensors such as radars and satellites, aircraft avionics, communication links, controller workstations with flight and radar data processing and the controller. Sub-sets of ATM include Oceanic Air Traffic Control and Domestic Air Traffic Control.

DISTRIBUTION MANAGEMENT SYSTEM (DMS): Real-time applications used to monitor, control and improve the efficiency of electrical distribution networks for electrical utilities.

ENERGY MANAGEMENT SYSTEM (EMS): System used to monitor and control the transmission of electricity from the generation station to the distribution network.

FLIGHT TRAINING DEVICE (FTD): Less complex simulator that replicates the actual aircraft cockpit, but does not have a visual system or a motion system. FTDs are a cost-effective method of providing initial and procedure training prior to advancing to a full flight simulator.

FULL FLIGHT SIMULATOR (FFS): Accurately replicates an actual aircraft cockpit and flight characteristics. It is equipped with a six-degrees-of-freedom motion system to simulate the aircraft's movements and a visual simulation system.

FUTURE AIR NAVIGATION SYSTEM (FANS): The world acronym FANS is used to describe the future use of satellites, radar, VHF radio and datalink to enable communications, navigation and surveillance of air traffic.

MARINE CONTROL SYSTEM: System used to monitor and control a ship's propulsion machinery; auxiliary machinery and systems such as compressed air and air conditioning; electrical generation and distribution system; steering machinery and damage control systems.

MAXVUE™ VISUAL SIMULATION SYSTEM: Computer image generation and display system that creates the visible scene that the simulated aircraft flies through,

reproducing all weather conditions. MAXVUE™ is setting new standards for commercial visual systems by achieving fidelity and precision previously found only in military visual systems.

CAE INVERTRON

INTREST™: Trainer designed to train military personnel in identifying and recognizing air, sea and ground targets, in both the visual and thermal wavebands.

INFRONT™: Off-the-shelf trainer for forward observers, forward air controllers and naval gunfire operators. Targets, artillery fire and its effects are simulated on a screen or monitor allowing the student to practice the full act of fire control.

CAE MACHINERY

COMPOSITE WOOD PRODUCTS: Value added wood products that are engineered by turning wood fibre into products such as Oriented Strand Board (OSB). These products are bonded together with various resin applications by heat and pressure.

FLAKER: Machine that will cut logs into wafer thin "flakes". These flakes are then mixed with resins and compressed to produce OSB and other forms of engineered wood products.

ORIENTED STRAND BOARD (OSB): Cost-effective alternative to plywood, used in the construction industry. It is produced by mixing wood flakes with resins which are then compressed.

STRANDER: Machine that will cut logs into wafer thin "strands" or long pieces of wood.

CAE RANSOHOFF

AQUEOUS-BASED CLEANING MACHINERY: Machine used to clean manufactured parts using environmentally friendly chemicals in a water-based solution.

CAE SCREENPLATES

CONTOUR: Surface geometry of a screen plate.

SCREEN PLATE: Cylinder with very fine openings (holes or slots) used in the pulp & paper and food industries to separate contaminants.

WATER JET CUTTING TECHNOLOGY: High pressure focused water spray containing fine abrasive material used to cut hard steel.

CAE TRISLOT

WEDGE WIRE FILTERING PRODUCTS: Spiral wound wire welded to a support frame used in fine liquid-solid separation.

CAE VANGUARD

AXLE REBUILDING/RECONDITIONING: Worn axles are restored to original dimensions using CAE Vanguard's exclusive electrochemical deposition process.

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 fairly the corporation's financial position, results of operations, and changes in financial position.

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 Corporation also maintains an internal audit department 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 corporation'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.

J.E. CALDWELL
President and
Chief Executive Officer

P.G. RENAUD
Vice President, Finance,
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, 1996 and 1995 and the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 corporation as at March 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

PRICE WATERHOUSE
Chartered Accountants

Toronto, Canada
April 30, 1996

CONSOLIDATED BALANCE SHEETS

as at March 31 (Amounts in thousands of dollars)

ASSETS	1996	1995
CURRENT ASSETS		
Cash	\$ 14,183	\$ 43,040
Accounts receivable	162,939	187,169
Inventories (note 3)	84,564	73,471
Prepaid expenses	3,570	4,166
Income taxes recoverable	251	5,237
	265,507	313,083
PROPERTY, PLANT AND EQUIPMENT, NET (note 4)	161,746	141,680
GOODWILL	78,471	36,859
OTHER ASSETS (note 5)	51,750	48,613
	\$ 557,474	\$ 540,235

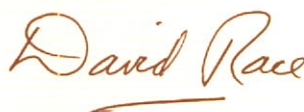
LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 197,065	\$ 195,748
Deposits on contracts	112,085	105,048
Long-term debt due within one year	930	1,421
	310,080	302,217
LONG-TERM DEBT (note 6)	28,261	56,336
OTHER LONG-TERM LIABILITIES	29,394	35,999
DEFERRED INCOME TAXES	8,970	6,844
	376,705	401,396
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	137,779	135,174
Retained earnings (Deficit)	39,347	(1,769)
Currency translation adjustment	3,643	5,434
	180,769	138,839
	\$ 557,474	\$ 540,235

Approved by the Board:



John E. Caldwell
Director



David H. Race
Director

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended March 31 (Amounts in thousands except per share amounts)

	1996	1995
REVENUE	\$ 809,803	\$ 657,592
COSTS AND EXPENSES		
Manufacturing	603,465	495,458
Selling and administrative	100,414	82,816
Depreciation and amortization	22,719	16,613
Interest expense, net (note 6(i), (ii), 14(i))	2,697	352
	729,295	595,239
Earnings before Income Taxes	80,508	62,353
Income Taxes (note 9)	21,917	15,026
Earnings from Continuing Operations	58,591	47,327
Loss from Discontinued Operations (note 14)	-	31,696
NET EARNINGS	\$ 58,591	\$ 15,631
EARNINGS PER SHARE FROM CONTINUING OPERATIONS	\$ 0.54	\$ 0.44
NET EARNINGS PER SHARE	\$ 0.54	\$ 0.14
AVERAGE NUMBER OF SHARES OUTSTANDING	109,150	108,701

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

Years ended March 31 (Amounts in thousands of dollars)

	1996	1995
DEFICIT AT BEGINNING OF YEAR		
AS PREVIOUSLY REPORTED	\$ (1,769)	\$ (249,319)
Adjustment due to Reduction in Stated Capital (note 8(c))	-	249,319
Deficit at Beginning of Year		
as Restated	(1,769)	0
Net Earnings	58,591	15,631
Dividends	(17,475)	(17,400)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	\$ 39,347	\$ (1,769)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended March 31 (Amounts in thousands of dollars)

	1996	1995
OPERATING ACTIVITIES		
Earnings from continuing operations	\$ 58,591	\$ 47,327
Add items not affecting cash		
Depreciation and amortization	22,719	16,613
Deferred income taxes	4,049	17
Other	1,453	1,822
	86,812	65,779
Working capital provided by		
continuing operations (note 10)	26,950	2,555
CASH PROVIDED BY CONTINUING OPERATIONS	113,762	68,334
CASH USED IN DISCONTINUED OPERATIONS	-	(51,422)
	113,762	16,912
INVESTING ACTIVITIES		
Proceeds on sale of subsidiary	-	215,540
Acquisitions (note 2)	(55,348)	(12,011)
Purchase of property, plant and equipment,		
net of proceeds from disposal	(31,802)	(22,048)
Increase in other assets	(3,137)	(532)
CASH (USED IN) PROVIDED BY		
INVESTING ACTIVITIES	(90,287)	180,949
FINANCING ACTIVITIES		
Net repayment of long-term debt	(25,783)	(151,092)
Dividends	(17,186)	(17,118)
Other	(9,363)	2,637
CASH USED IN FINANCING ACTIVITIES	(52,332)	(165,573)
CASH (DECREASE) INCREASE DURING THE YEAR	(28,857)	32,288
CASH AT BEGINNING OF YEAR	43,040	10,752
CASH AT END OF YEAR	\$ 14,183	\$ 43,040

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended March 31, 1996 and 1995 (Amounts in thousands of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies of the corporation and its subsidiaries conform with generally accepted accounting principles in Canada and reflect practices appropriate to the industries in which they operate.

CONSOLIDATION

The consolidated financial statements include the accounts of the corporation and all subsidiaries. All inter-corporate 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.

REVENUE RECOGNITION

Revenue from long-term commercial and military contracts is recognized using the percentage of completion method, where sales, earnings and unbilled accounts receivable are recorded as related costs are incurred. Profit rates are adjusted currently as a result of revisions to projected contract revenues and estimated costs at completion. 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.

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost. The declining balance and straight-line methods are used in computing depreciation of plant and equipment based on the following useful lives: buildings and improvements - 20 to 25 years; machinery and equipment - 3 to 10 years; property under capital lease - over the term of the lease.

FINANCIAL INSTRUMENTS AND 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.

The corporation enters into forward contracts to manage exposures resulting from foreign exchange fluctuations in the ordinary course of business. The contracts are used as hedges of known and expected foreign denominated cash flows. The unrealized gains and losses on outstanding contracts are offset against the gains and losses of the hedged item at the maturity of the underlying transactions.

GOODWILL

Goodwill is amortized over forty years using the straight-line method.

INCOME TAXES

The corporation follows the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes relating to reported earnings. Differences between such taxes and taxes currently payable or recoverable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the accounts and the time they are reported for income tax purposes. 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 fixed assets are deducted from the cost of those assets with depreciation calculated on the net amount.

POST-RETIREMENT BENEFITS

PENSIONS

Pension expense includes the cost of pension benefits, related to defined benefit plans, accrued for employees' services for the year and the past service costs, adjustments for plan amendments, and experience gains and losses amortized on a straight-line basis over the expected average remaining service life of the plan participants.

BENEFITS OTHER THAN PENSIONS

The corporation accrues estimates of future costs of retiree health care, life insurance and other benefits over the employees' average remaining service life.

Other Long-Term Liabilities on the consolidated balance sheet primarily comprises the long-term portion of all post-retirement benefits.

EARNINGS PER SHARE

The calculation of earnings per share from continuing operations and earnings per share is based on the weighted average number of shares outstanding. Conversion of the outstanding share options would not materially dilute earnings per share.

2. ACQUISITIONS

During the fiscal year, the corporation made the following acquisitions:

- Effective May 18, 1995, the corporation acquired the outstanding common shares of Invertron Simulated Systems Ltd., a manufacturer of artillery and armoured fighting vehicle simulators located in the United Kingdom for cash;
- Effective October 2, 1995, the corporation acquired the outstanding common shares of Ransohoff Company, a U.S. manufacturer of aqueous-based cleaning machinery, for cash and future consideration based on future earnings of the acquired company; and
- Effective October 18, 1995, the corporation acquired the outstanding common shares of MRAD Pty Ltd., a supplier of integrated sensor simulation products and systems located in Australia for cash.

During fiscal 1995, the corporation made the following acquisitions:

- Effective November 30, 1994, the corporation acquired the principal assets of Ferranti Computer Systems (Australia) Pty Ltd. for cash; and
- Effective January 10, 1995, the corporation purchased the outstanding common shares of Trislot Systems N.V. for cash.

The net assets acquired from these acquisitions, at fair values, are summarized as follows:

	1996	1995
Net working capital	\$ 5,036	\$ 356
Property, plant and equipment	7,546	3,795
Goodwill	42,766	7,860
	<u>\$ 55,348</u>	<u>\$ 12,011</u>

3. INVENTORIES

	1996	1995
Work-in-progress	\$ 55,602	\$ 52,104
Raw materials, supplies and manufactured products	28,962	21,367
	<u>\$ 84,564</u>	<u>\$ 73,471</u>

4. PROPERTY, PLANT AND EQUIPMENT

1996	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	\$ 6,773	\$ —	\$ 6,773
Buildings and improvements	104,973	38,907	66,066
Machinery and equipment	183,455	104,616	78,839
Property under capital leases	14,925	4,857	10,068
	<u>\$ 310,126</u>	<u>\$ 148,380</u>	<u>\$ 161,746</u>

1995	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	\$ 6,631	\$ —	\$ 6,631
Buildings and improvements	90,129	33,448	56,681
Machinery and equipment	150,394	89,821	60,573
Property under capital leases	22,640	4,845	17,795
	<u>\$ 269,794</u>	<u>\$ 128,114</u>	<u>\$ 141,680</u>

5. OTHER ASSETS

Other assets include \$47.0 million (1995 – \$43.6 million) of investment tax credits which are available to reduce future federal income taxes payable in Canada.

6. LONG-TERM DEBT

	1996	1995
Three year revolving term loan, to a maximum of US\$100,000 (1995: US\$180,000) extendible annually, unsecured, due November 24, 1998 (i), (iii)	\$ —	\$ —
Three year revolving term loan, to a maximum of Deutschmark 50,000 extendible annually, unsecured, due November 24, 1998 (1996: DM 23,000, 1995: DM 43,751) (i), (iii)	21,243	44,464
364 day revolving term loan, to a maximum of US\$80,000 (1995: US\$0) extendible annually, unsecured, due November 24, 1996 (i), (iii)	—	—
Obligations under capital lease commitments (ii), (iii)	7,948	13,293
	<u>29,191</u>	<u>57,757</u>
Less: Long-term debt due within one year	930	1,421
	<u>\$ 28,261</u>	<u>\$ 56,336</u>

(i) Interest on long-term debt is charged at rates approximating LIBOR. Interest expense on long-term debt related to continuing operations was \$3.9 million (1995 – \$1.6 million).

(ii) The interest rate on obligations under capital leases was approximately 7.0% (1995 – 6.6%).

(iii) 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,	1997	\$	930
	1998		1,053
	1999		22,363
	2000		1,084
	2001		1,059
	Thereafter		2,702
		\$	<u>29,191</u>

7. FINANCIAL INSTRUMENTS

At March 31, 1996, the corporation had outstanding forward contracts to hedge its foreign currency cash flows into Canadian dollars. These forward exchange contracts have maturity dates up to October 1998. The fair value of these contracts if marked to market at March 31, 1996 would result in a gain of approximately \$1.8 million. This would be equally offset by future losses of foreign denominated cash flows over the remaining terms of the contracts.

The corporation enters into forward contracts solely for the purpose of hedging known and expected foreign currency risks.

8. CAPITAL STOCK

i) The corporation'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 corporation has not issued any preferred shares.

ii) A reconciliation of the issued common shares of the corporation follows:

	1996		1995	
	Number of Shares	Stated Value	Number of Shares	Stated Value
Balance at beginning of year	108,947,223	\$ 135,174	108,627,411	\$ 382,619
Stock options (a)	387,725	2,309	280,600	1,592
Stock dividends (b)	29,726	296	39,212	282
Reduction in stated capital (c)				(249,319)
Balance at end of year	<u>109,364,674</u>	<u>\$ 137,779</u>	108,947,223	\$ 135,174

a) On December 6, 1995, the corporation granted 627,500 options, exercisable at \$10.00 per share to purchase common shares to certain officers and key employees of the corporation and its subsidiaries. The option price was equivalent to the share market price on the date of the grant.

Stock options were outstanding at March 31, 1996 for the purchase of 2,520,175 common shares at prices ranging from \$5.00 to \$10.00 and expiring during the period from 1997 to 2001. There were 387,725 options exercised in the year, and 140,100 options which expired.

b) The corporation provides that its shareholders may elect to receive common stock dividends in lieu of cash dividends.

c) On July 7, 1994 the corporation's shareholders approved a reduction in the stated capital of the outstanding common shares of the corporation by \$249.3 million representing the corporation's deficit at March 31, 1994 with a corresponding reduction in the deficit.

d) The corporation has a shareholder protection rights plan whereby one right has been issued for each outstanding common share of the corporation. The rights remain attached to the shares and are not exercisable until the occurrence of certain designated events. The rights expire on March 7, 2000, unless terminated at an earlier date by the board of directors.

9. INCOME TAXES

The provision for income taxes comprises:

	1996	1995
Current	\$ 17,868	\$ 15,009
Deferred	4,049	17
	<u>\$ 21,917</u>	<u>\$ 15,026</u>

The corporation's effective income tax provision has been determined as follows:

	1996	1995
Combined federal and provincial statutory rate (1996-44.6% and 1995-44.3%)	\$ 35,924	\$ 27,647
Income taxed at different rates in other jurisdictions	(6,268)	(4,545)
Manufacturing and processing allowance	(4,301)	(2,434)
Tax benefit of losses not previously recognized	(1,498)	(2,524)
Research and development investment tax credits	(2,088)	(2,281)
Other	148	(837)
Income taxes	<u>\$ 21,917</u>	<u>\$ 15,026</u>

At March 31, 1996, the corporation had accumulated non-capital losses for income tax purposes relating to operations in the United States, the potential benefit of which has not been recognized in the financial statements, as follows:

	U.S.\$000's
Losses for income tax purposes	\$ 137,000
Amounts provided for in the financial statements which have not yet been claimed for income tax purposes	32,000
	<u>\$ 169,000</u>

The losses for income tax purposes expire in the years 2005 through 2011.

10. SUPPLEMENTARY CASH FLOW INFORMATION

Working capital provided by (used for) continuing operations:

	1996	1995
Accounts receivable	\$ 39,121	\$ (16,830)
Inventories	(14,439)	(23,770)
Prepaid expenses	800	(225)
Income taxes recoverable (payable)	4,455	(4,528)
Accounts payable and accrued liabilities	(2,426)	(1,900)
Deposits on contracts	(561)	49,808
	<u>\$ 26,950</u>	<u>\$ 2,555</u>

11. **LEGAL PROCEEDINGS**

Through the normal course of operations, the corporation is party to a number of legal actions. Although the outcome of these claims cannot be determined, in the opinion of management the resolution of these matters will not have a material adverse effect on the corporation's financial position.

12. **OPERATING LEASE COMMITMENTS**

The corporation has entered into various operating leases for its continuing operations under which the minimum annual lease payments are as follows:

Year ending March 31,	1997	\$	5,417
	1998		2,838
	1999		1,439
	2000		747
	2001		503
	Thereafter		995
		\$	<u>11,939</u>

13. **PENSIONS**

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

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:

	<u>1996</u>	<u>1995</u>
Discount rate for pension benefit obligations, and return on plan assets	8.0%	8.0%
Compensation rate increases	5.5%	5.5%
The funded status of the defined benefit pension plans at March 31 was as follows:		
Market related value of assets	\$ 90,633	\$ 88,811
Present value of accrued pension benefits	\$ 87,284	\$ 80,852

14. DISCONTINUED OPERATIONS

On February 24, 1995, the corporation completed the sale of the business and principal net assets of CAE-Link Corporation ("Link"), a wholly owned subsidiary of the corporation which supplies simulator and training devices and services to military and space agencies.

The corporation received net cash proceeds of \$237.2 million (US\$170.9 million), of which \$215.5 million (US\$155.0 million) was received in fiscal 1995, which resulted in a loss on disposal of \$29.9 million. The cash proceeds were used to reduce bank indebtedness.

The results of Link for the year ended March 31, 1995 have been reported separately under the caption "Loss from Discontinued Operations". The results are summarized as follows:

	1995
Revenue	<u>\$ 364,132</u>
Earnings from operations before goodwill amortization, net of income taxes (i)	\$ 4,836
Goodwill amortization	<u>(6,677)</u>
Loss from operations	(1,841)
Loss on sale of discontinued operations, net of income tax provision of \$4,859	<u>(29,855)</u>
Loss from discontinued operations	<u>\$ (31,696)</u>

(i) Earnings from operations before goodwill amortization, net of income taxes includes interest directly attributable to the discontinued operation of \$17.4 million.

15. BUSINESS SEGMENTS

The Aerospace and Electronics segment of the corporation is engaged in the development and production of electronic simulation training systems and devices for commercial airlines, the military, and space agencies. This segment also provides repair and overhaul services for military aircraft.

The Industrial Technologies segment of the corporation is engaged in the manufacture of engineered machinery for the forest products industry, the manufacture of custom-made steel screen plates and baskets for the pulp and paper and food industries, the manufacture of environmentally compliant aqueous cleaning machinery for machined parts, and the provision of wheel and axle services for railways.

Financial information on the corporation's industry and geographic segments is shown in the following table. All information relates to continuing operations.

BUSINESS SEGMENTS:

	Aerospace and Electronics		Industrial Technologies		Consolidated	
	1996	1995	1996	1995	1996	1995
Revenue	\$ 620,972	\$ 523,257	\$ 188,831	\$ 134,335	\$ 809,803	\$ 657,592
Earnings	\$ 53,115	\$ 42,124	\$ 31,928	\$ 22,568	\$ 85,043	\$ 64,692
Other expense, net					(1,838)	(1,987)
Interest expense					(2,697)	(352)
Earnings before income taxes					\$ 80,508	\$ 62,353
Identifiable assets	\$ 368,563	\$ 396,145	\$ 178,072	\$ 127,364	\$ 546,635	\$ 523,509
Other assets, net					10,839	16,726
Total assets					\$ 557,474	\$ 540,235
Capital expenditures, net of proceeds from disposal	\$ 24,401	\$ 15,027	\$ 7,401	\$ 7,021	\$ 31,802	\$ 22,048
Depreciation and amortization	\$ 14,268	\$ 10,685	\$ 8,451	\$ 5,928	\$ 22,719	\$ 16,613

GEOGRAPHIC SEGMENTS:

	North America		Europe & Australia		Consolidated	
	1996	1995	1996	1995	1996	1995
Revenue	\$ 620,488	\$ 552,825	\$ 189,315	\$ 104,767	\$ 809,803	\$ 657,592
Earnings	\$ 65,608	\$ 53,879	\$ 19,435	\$ 10,813	\$ 85,043	\$ 64,692
Other expense, net					(1,838)	(1,987)
Interest expense					(2,697)	(352)
Earnings before income taxes					\$ 80,508	\$ 62,353
Identifiable assets	\$ 390,092	\$ 417,225	\$ 156,543	\$ 106,284	\$ 546,635	\$ 523,509
Other assets, net					10,839	16,726
Total assets					\$ 557,474	\$ 540,235
Capital expenditures, net of proceeds from disposal	\$ 27,278	\$ 18,885	\$ 4,524	\$ 3,163	\$ 31,802	\$ 22,048
Depreciation and amortization	\$ 16,793	\$ 13,019	\$ 5,926	\$ 3,594	\$ 22,719	\$ 16,613

EXPORTS SALES FROM CANADA:

	1996	1995
Asia, Africa	\$ 169,080	\$ 170,186
United States	109,050	110,449
Europe	86,680	50,126
Other	11,937	6,480
	\$ 376,747	\$ 337,241

RESEARCH AND DEVELOPMENT

Research and development expenditures aggregated \$90.1 million during the year (1995-99.0 million).

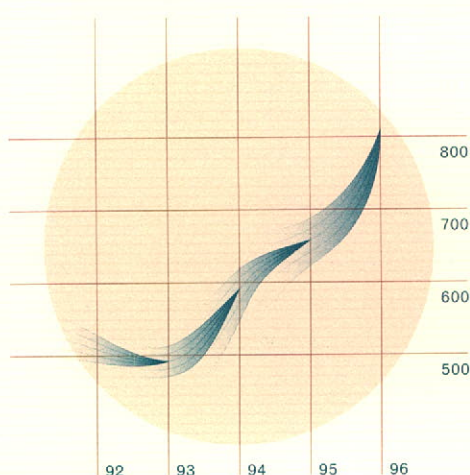
REVIEW OF OPERATIONS AND MANAGEMENT DISCUSSION & ANALYSIS

SUMMARY OF CONSOLIDATED RESULTS

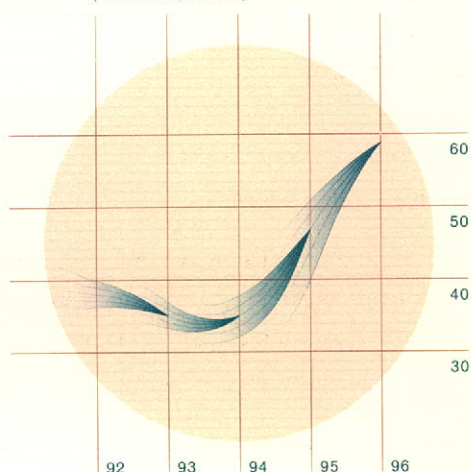
With a strong year in both our business groups, earnings from continuing operations increased to a record \$58.6 million or \$0.54 per share in fiscal 1996 – up 24 percent from \$47.3 million or \$0.44 per share in fiscal 1995. Net earnings were the same as earnings from continuing operations in fiscal 1996, whereas, net earnings of \$15.6 million in fiscal 1995 reflected a loss of \$31.7 million from discontinued operations.

Revenue increased 23 percent to \$809.8 million, from \$657.6 million in fiscal 1995. Revenue gains were widespread among all CAE divisions – buoyed by strong international markets and successful implementation of growth strategies. As well, the company gained \$55.4 million additional revenue from the acquisition of CAE Invertron, CAE MRAD and CAE Ransohoff, and from the first full year of operations of CAE Trislot and CAE Electronics (Australia).

REVENUE
(Millions of dollars)



**EARNINGS FROM
CONTINUING OPERATIONS**
(Millions of dollars)



CASH FLOW

Despite cash requirements for acquisitions of \$45.9 million, net bank indebtedness as at March 31, 1996 remained virtually unchanged from last year. The higher earnings and lower working capital provided significantly higher cash from continuing operations.

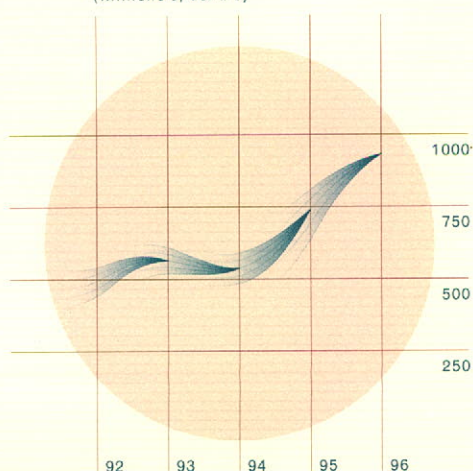
TAX RATE

CAE's effective income tax rate was 27 percent in fiscal 1996 compared with 24 percent last year, reflecting changes in the income mix among our Canadian, U.S., European and Australian operations. This effective tax rate is more favorable than the combined Canadian federal-provincial statutory rate due to lower tax rates applicable to some of our subsidiaries outside Canada and to accumulated non-capital losses used to offset income subject to income taxes in the United States.

BACKLOG

Order backlog increased to \$931 million at March 31, 1996, up 26 percent from the \$740 million reported at the end of fiscal 1995. The increase reflects strong order bookings at most of our businesses – particularly military simulation orders in the Aerospace and Electronics Group.

BACKLOG
(Millions of dollars)



AEROSPACE AND ELECTRONICS GROUP

CAE's Aerospace and Electronics Group serves commercial aviation and defense markets around the world through six operating subsidiaries.

Five of these operations – CAE Electronics Ltd. (the largest subsidiary), CAE Elektronik GmbH, CAE Electronics Inc., CAE Invertron and CAE Electronics (Australia) – produce a variety of interrelated commercial and military simulation and training systems, control systems, electronic products and other computer-based systems. The distribution of activity among these operations is determined by a variety of factors, including the operation's core capabilities and government contract requirements which may stipulate that components of the contract must be produced locally.

The sixth operation in the Aerospace and Electronics Group, CAE Aviation, provides maintenance, modification and upgrade services for military aircraft. CAE Aviation is also a leading producer of technical publications for aerospace and related industries.

FINANCIAL RESULTS

(Figures in thousands)

	1996	1995	1994	1993	1992
AEROSPACE & ELECTRONICS					
Revenue	\$ 620,972	523,257	480,983	405,621	429,427
Operating Earnings	\$ 53,115	42,124	34,892	40,990	53,756
Backlog	\$ 831,022	657,665	493,515	531,178	467,867
Capital Expenditures, net of proceeds from disposal	\$ 24,401	15,027	10,702	13,822	6,754

With considerable strength in existing markets, ongoing development of new markets, and acquisitions, the Aerospace and Electronics Group achieved significant gains in both revenue and earnings during the year; revenue was up by 19 percent over fiscal 1995, and operating earnings climbed by 26 percent.

ACQUISITIONS

CAE positioned itself even more strongly for future growth, particularly in military markets, with acquisitions in the U.K. and Australia this fiscal year. These acquisitions not only bring added expertise and a number of complementary product lines to the CAE Electronics Group, but also provide CAE with local marketing support, in-country systems integration and product support to meet the stringent local content or offset requirements needed to compete for most defence contracts.

CAE INVERTRON

In May, 1995, CAE acquired Invertron Simulated Systems Limited, a U.K.-based company which is a world leader in the design and manufacture of Army trainers and simulators, particularly Artillery and Armoured Fighting Vehicle Simulators. Just prior to the acquisition, Invertron successfully launched two important new training product lines: the Invertron Forward Observation Trainer (INFRONT™), which was selected by Armed Forces in the U.S., Austria, The Netherlands, Turkey, and the U.K., and the Invertron Target Recognition System (INTREST™) which was selected by the U.K. Ministry of Defence.

The company exports to more than two dozen nations. With this acquisition, CAE has strengthened its presence in the United Kingdom and Europe while gaining complementary product lines.

CAE MRAD

In October, 1995, CAE doubled the size of its Australian operations with the acquisition of CAE MRAD – a world leading supplier of integrated sensor stimulation products and systems for military radar testing and training markets. CAE MRAD brought complementary product lines to CAE Electronics (Australia) and strengthened the company's ability to participate in additional military markets.

OPERATIONAL HIGHLIGHTS

In fiscal 1996, CAE built on its position as a leader in all its markets, gaining new contracts in all its different product lines.

Following are the operational highlights for the year.

COMMERCIAL FULL FLIGHT SIMULATORS AND FLIGHT TRAINING DEVICES

During the year, CAE maintained its position as the world's leading supplier of commercial flight simulators, capturing 9 out of 19 full flight simulator and all five flight training device contracts awarded worldwide, representing a combined market share of 58 percent.

A number of significant orders were awarded to CAE in the Asia Pacific region including:

- a \$52 million contract from China Airlines for an A300-600R full flight simulator with MAXVUE™, three level six flight training devices for the A300-600R, Boeing 747-400 and MD-11, and upgrades for existing China Airlines simulators, including a retrofit of a MAXVUE™ visual system on one unit;
- a \$16.5 million contract for Korean Air for a Boeing 777 full flight simulator (our eighth Boeing 777 full flight simulator contract and fifth simulator sale to Korean Air) equipped with a MAXVUE™ visual system; and
- a contract for a second A330 full flight simulator with MAXVUE™ for Cathay Pacific Airways.

Contracts were also won from long-standing customers such as:

- Boeing, to upgrade an existing simulator to produce the first Boeing 737-700 full flight simulator;
- Scandinavian Airline System, for a Dash 8 full flight simulator with their first MAXVUE™ visual system and a second contract for a Boeing 737-600/700/800 full flight simulator equipped with MAXVUE™ bringing the number of CAE simulators bought by SAS to five; and
- Lufthansa German Airlines, for an Airbus A321 full flight simulator, the first A321 simulator CAE has ever developed.

BOMBARDIER AEROSPACE TRAINING CENTRE

In December 1995, the Bombardier Aerospace training centre, built at CAE's location in Montreal, was officially opened. The training centre is a joint venture with the Bombardier Aerospace Group designed to provide total training support for operators of the Canadair Regional Jet Airliner and the Canadair Challenger widebody business jet. The training centre features three full flight simulators, with MAXVUE™ visual systems, and numerous other computer-aided training devices which will be used to train Canadair customers' aircrews. Other key training aids include a computer-based training (CBT) system consisting of ten individual computer workstations which present each aircraft system as a self-study tutorial lesson, allowing students to proceed at their own pace. Classrooms are also equipped with an instructor-fed computer aided training system (CATS). In total, the training centre has been designed to initially accommodate four full flight simulators.

The centre also houses a new research facility for CAE, providing a state-of-the-art setting for research and development.

MILITARY SIMULATION SYSTEMS

CAE's pursuit of opportunities in selected international military markets has been successful as governments seek to benefit from the improved training and reduced costs resulting from simulation. CAE is currently the leading supplier of military aviation simulation equipment outside the United States.

The CAE Electronics Group gained significant orders from:

- the Royal Malaysian Air Force for a MiG-29 operational flight trainer and full mission simulator, valued at approximately \$48 million;
- the UK Royal Navy for a Lynx Mk8 helicopter full flight and mission simulator, valued at approximately \$30 million;
- the Australian Army for a Black Hawk helicopter full flight and mission simulator, valued at approximately \$40 million;

- the Royal Australian Navy for an AP-3C operations mission simulator, valued at approximately \$13.5 million;
- the Royal Australian Air Force for the testing and evaluation of its F-18 radar; and
- the UK Army and Royal Air Force for the Rapier Air Defence Missile Training System, valued at approximately \$8 million.

Spending by the German Military on CAE's traditional simulator modification and support product lines also increased during the year. Of particular note was a \$54 million contract for the upgrade of seven TORNADO full mission simulators for the German Air Force and Navy. This contract includes the replacement of computer systems, the development and integration of the latest instructor consoles and mission debriefing station and the integration of various real-time components for radar simulation.

As well, the company saw solid market acceptance of the GESI battlefield simulation system which was introduced in fiscal 1995. CAE won a new contract for command and control simulators for the Austrian Army's training academies.

Sales of INFRONT™ (INvertron's FoRward Observation Trainer) and INTREST™ (INvertron Target REcognition System Trainer) continued to be strong. CAE was awarded one of the largest computer-based training contracts ever placed by a single customer – a customized version of INTREST™ for the U.K. Ministry of Defence which includes 400 computer-based training stations.

During the year, CAE also won a significant order for INFRONT™ Artillery Simulators from the Royal Netherlands Navy. This contract brings CAE's total sales of Artillery trainers to well over 200 systems installed in 28 countries worldwide.

MAXVUE™ VISUAL SIMULATION SYSTEMS

On the commercial side, MAXVUE™'s success continues with 12 systems sold representing a market share of 50 percent. Over its brief four year history, MAXVUE™ has captured 41 orders out of 82, or an average of 50 percent of the commercial visual systems market worldwide.

CAE continues to leverage this capability into new areas, particularly in the defense arena. A year ago, an enhanced version of MAXVUE™ was selected for the U.K. Ministry of Defence Merlin helicopter program. This year, the enhanced MAXVUE™ system was selected for the MiG-29, the Black Hawk, and the Lynx programs. The demands of the helicopter field-of-view and the aircraft dynamics will result in a number of innovations that will further enhance CAE's preeminent position for these systems.

AIR TRAFFIC MANAGEMENT SYSTEMS

CAE delivered the first phase of the revolutionary Oceanic Control System for New Zealand – the first, and to-date the only, operational Automatic Dependent Surveillance (ADS) and Controller Pilot Data Link Communications System (CPDLC) in the world. ADS and CPDLC are satellite-based means of aircraft surveillance and communications.

Before the fiscal year end, the company won a contract for a similar trial system for Hong Kong – establishing CAE as the world leader in Future Air Navigation System Technology (FANS).

MARINE CONTROL SYSTEMS

With its industry leading marine control systems, the company made further gains in existing markets and in penetrating foreign markets. CAE was awarded its first marine control system contract from the UK Ministry of Defence. Under the contract, CAE will develop, supply, install and commission a Type 22 Frigate Procedural Trainer for the British Royal Navy. The new CAE Procedural Trainer is more modern, sophisticated, and flexible than the one in current use. It is a single facility that can be reconfigured to train on the operation of all machinery systems, including standard and emergency procedures, on any one of three different frigates in the British Navy.

In addition, CAE commenced the development of the first prototype marine control system and damage control system for the U.S. Navy's SMARTSHIP program. SMARTSHIP is a pilot program designed to automate many of the ship's mobility functions. The proposed technologies will reduce shipboard manning, while at the same time improve the overall operational performance.

Testing of the Marine Control System advanced development model for the new state-of-the-art U.S. Navy Arleigh Burke Class DDG 51 Combattant continues to proceed well. The U.S. Navy began hot plant testing using CAE's system in August 1995 and is expected to continue these tests into September 1996.

In Canada, CAE was also awarded a number of contracts from the Department of National Defence for the Halifax Class Canadian Patrol Frigate including the development of an On Board Training System and a Patrol Frigate trainer update. In addition, four Canadian Navy DDH-280 Class Destroyers were fitted with CAE's On Board Training system.

ENERGY CONTROL SYSTEMS

CAE saw strong growth in both the energy management system (EMS) and distribution management system (DMS) areas. Distribution management systems were commissioned for Boston Edison and delivered to the Scarborough Public Utilities Commission, while energy management systems were delivered to the Power Dispatching Centres of Northwest and Ningxia in China.

The company achieved a record volume of new orders including an energy management system for Gansu, China, an energy management and distribution management system for Queensland, Australia, valued at \$16 million; and three distribution management systems and a supervisory control center for Alexandria, Egypt valued at \$22 million. Hawaii Electric Company also purchased a distribution management system.

In addition, CAE was awarded a contract to design and manufacture a \$7 million energy management system for Electricidad de Caracas, Venezuela. This is the second contract for this utility following the successful installation of the distribution management system earlier this year.

POWER PLANT SIMULATION

Business continued to grow in the power plant simulation area as CAE was awarded a \$17 million contract by Korea Electric Power Corporation (KEPCO) to supply a full-scope replica power plant training simulator for the Wolsong Unit 2 nuclear power plant.

CAE also completed an on-site retrofit for the Houston Lighting and Power Company – the first project of its kind in the industry and proceeded with upgrades for several other American power authorities.

AIRCRAFT MAINTENANCE AND MODIFICATIONS

Activity levels were much higher in fiscal 1996 compared with fiscal 1995. The \$135 million C130 Hercules avionics update program commenced early this fiscal year and will extend over a five year period. The hot bench, a fully operational test stand which reproduces the avionics systems of the aircraft used for system integration tests as a risk reduction step towards aircraft ground and flight tests, was successfully completed. The critical design review is also nearing completion. The next major milestone will be the completion of the cockpit mock-up followed by the installation of the new avionics suite in a prototype aircraft, scheduled for acceptance by April 1997.

Activity also increased due to the \$15.8 million contract awarded to CAE by Canada's Department of National Defence for the manufacture and installation of 30 Electronic Warfare Self-Protection Suites and Forward Dispenser Kits on the C130 Hercules fleet. These systems will allow Hercules aircrews to identify potential missile threats and incorporate evasive tactics by dispensing flares and/or chaff, thus protecting and increasing the safety of the Hercules aircraft and their crews in hostile environments.

AIRCRAFT MAINTENANCE JOINT VENTURE IN PAKISTAN

In February, 1996, CAE Aviation announced its first major move into the international marketplace with the signing of a memorandum of understanding with the Shaheen Foundation of Pakistan to work jointly towards the development of an aircraft overhaul "Centre of Excellence" in Pakistan.

In the year ahead, CAE expects to form a joint venture company with the Shaheen Foundation (the leader in Pakistan's aviation and airport services industry) in Islamabad to staff and manage the new Centre – which should be operational in 1996. The Centre's first customer will be the Pakistani Airforce, to service and provide modifications required for its fleet of twelve C130 Hercules aircraft. The ultimate goal is to expand the Centre into a regional facility serving commercial and military aircraft markets across the Middle East and Asia.

PRODUCT DEVELOPMENT

CAE continued to develop new technologies, making considerable progress with a new Automated Aircraft Paint Removal System – the world's first environmentally compliant paint stripping process. Research also focused on new applications for simulation, virtual reality and virtual prototyping (prototyping design and testing using three-dimensional graphics and specific modeling and simulation techniques).

The March 6, 1996 announcement by the federal government of Technology Partnerships Canada, a new \$250 million Technology Superfund designed to assist Canadian corporations in the areas of aerospace, biotechnology, environmental and communication technologies, and advanced-manufacturing technologies, is a positive development for CAE.

OUTLOOK

At year end, the Aerospace & Electronics Group's order backlog stood at \$831 million, compared with \$658 million at the end of fiscal 1995, reflecting increased orders for commercial and military simulators as well as continued growth in our other business areas. Military and commercial simulation systems represent 49 percent and 21 percent of backlog respectively.

The new order outlook is very positive, given forecast growth in commercial aviation, significant opportunities in the military simulation and training market, particularly in Europe and the Pacific Rim, and demand for energy management systems worldwide.

The commercial simulation market remains very competitive. Going forward, CAE remains confident it will retain the majority of the commercial flight simulation market. CAE has taken and will continue to emphasize cost reduction and efficiency improvement initiatives with a view to improving overall margins.

In Montreal, the U.K. and Australia, CAE is embarking on further facilities expansion and is adding significantly to its workforce to meet the current and forecast market demand.

Further order growth is anticipated in the year ahead, and the Group will also benefit from its existing backlog and the impact of the acquisitions completed in fiscal 1996.

INDUSTRIAL TECHNOLOGIES GROUP

The five companies of CAE's Industrial Technologies Group design and manufacture precision engineered products for industrial applications worldwide. CAE ScreenPlates is the world leading supplier of precision stainless steel screen plates, primarily for the pulp and paper industry; CAE Trislot designs and manufactures wedge wire products for the food and beverage, petrochemical and waste water treatment industries; CAE Machinery is the predominant supplier of flaking machinery for engineered wood products and of debarkers for the forest products industry; CAE Vanguard is the world's leading provider of railway axle reconditioning and rebuilding services; CAE Ransohoff, which was acquired in fiscal 1996, is the leading North American designer and custom manufacturer of environmentally compliant aqueous-based cleaning equipment for machined parts.

FINANCIAL RESULTS

(Figures in thousands)

	1996	1995	1994	1993	1992
INDUSTRIAL TECHNOLOGIES					
Revenue	\$ 188,831	134,335	110,164	86,428	79,519
Operating Earnings	\$ 31,928	22,568	15,370	15,620	10,195
Backlog	\$ 100,136	82,831	42,032	31,786	23,794
Capital Expenditures, net of proceeds from disposal	\$ 7,401	7,021	3,390	3,439	2,094

Once again, the Industrial Technologies Group reported exceptionally strong gains in fiscal 1996. Revenue was up by 41 percent over the previous year, following growth of 22 percent in fiscal 1995; operating earnings also climbed by 41 percent, after a 47 percent increase in fiscal 1995. Approximately 75 percent of the Group's revenue is derived from sales outside Canada.

The growth pace partly reflects market share gains due to technological leadership and strengthened customer relationships. As well, CAE benefited from the generally strong economic conditions in most of the markets served by the Group – particularly in the forest products sector. The acquisition of CAE Ransohoff and a full year of operations of CAE Trislot (which was acquired in the fourth quarter of fiscal 1995) also contributed to the Group's improved results. The Group's trend of profitable growth is expected to continue with internal growth and potential acquisitions as primary drivers.

CAE SCREENPLATES

Strong demand from the pulp and paper industry fueled solid growth in both revenue and earnings at all CAE ScreenPlates operations. The company once again demonstrated its ability to introduce and market improved technologies – such as higher capacity screens using proprietary water jet cutting and licensed laser technologies, and the patented CAE Profile™ contour.

To meet the growing demand, CAE ScreenPlates recently completed an initial expansion phase in both the Varkaus, Finland and Glens Falls, United States facilities. In Finland, the expansion included the addition of a second water jet cutting machine to meet customer demand for this new type of screen plate.

OUTLOOK

The growth in sales of CAE's screen plate products is primarily due to an increase in the company's market share for screens in the pulp and paper industry. Growth continues as the market is demanding larger screen cylinders with much smaller apertures.

CAE ScreenPlates also benefits somewhat from peak periods of capital equipment investment in new pulp and paper mills, however, a majority of its business is for replacement parts and for technological upgrades in existing mills, via original equipment manufacturers, thus ensuring a reasonable level of stability.

In fiscal 1997, significant capacity and facilities expansion is planned at the Lennoxville, Quebec and Norrköping, Sweden plants as well as a continuation of current programs underway at the plant in Varkaus, Finland. These initiatives will enable the company to better meet customer requirements.

CAE ScreenPlates expects continued gains in its industry position and financial results in fiscal 1997, driven by technological and market leadership and continued efforts in improving all aspects of customer service. The company will continue its close collaboration with original equipment manufacturers to achieve longer term growth.

CAE TRISLOT

CAE Trislot, which is based in Belgium, made a positive contribution to earnings in its first full year of operations as a CAE division. The company has pursued its strategy of focusing on the more advanced technology sector in its markets by developing new products for the waste water, petrochemical and food and beverage industries.

OUTLOOK

Revenue and earnings growth is expected to be moderate in fiscal 1997. A number of markets, particularly Central Europe, may be entering an economic slowdown which would affect CAE Trislot's overall business. The company will endeavor to offset any slowdown in Europe by focusing on introducing new products and developing offshore markets.

CAE MACHINERY

CAE Machinery, based in Vancouver, achieved exceptional growth in revenue and significantly increased its earnings in fiscal 1996. Equipment sales for the production of Oriented Strand Board (OSB) reached a new peak with the company sustaining its dominant market share and shipping 14 flakers and 4 stranders to various customers within North America.

CAE Machinery also had considerable success with the King Debarker, a product CAE began marketing and manufacturing under license in 1993. Twelve units have already been sold to North American customers. The King Debarker is particularly effective in debarking thin and crooked logs, even when frozen. During the fourth quarter, a further breakthrough was achieved by selling the first King Debarker into the European market.

The company also benefited from an increase in demand for pulpmill repair work and parts supply as the pulp industry continued to be buoyant during 1995.

CAE Machinery's focus, as a long time supplier to the wood products industry, is on advanced technologies which increase the economic yield from an ever scarcer, and therefore increasingly costly, wood resource. In doing so, the company contributes to preserving the environment.

OUTLOOK

New equipment orders for the OSB industry peaked in 1995, as required capacity came on stream. Equipment for new mills is expected to decline in North America in the year ahead. To partially offset this decline, CAE Machinery is:

- developing a smaller capacity flaker for export opportunities in South East Asia and Europe,
- pursuing increased after-market sales, and
- introducing new products.

In addition, CAE Machinery is expanding its product line with the CAE/SRC Chip Sorter, in an exclusive licensing agreement with SRC Vision Systems of Medford, Oregon. This new sorter, which uses advanced optical technology to sort wood chips, thereby improving pulp mill productivity and offering the potential for a reduction in chemicals consumption, is expected to gain wide acceptance in the pulp and paper industry.

CAE VANGUARD

CAE Vanguard experienced a slight decline in revenue and earnings in fiscal 1996 due to continued consolidation in the railroad industry and a softening in demand for intermodal rail cars in North America after several years of strong growth. In addition, the company was unable to source sufficient axle cores for the new axle replacement market.

During the year, CAE Vanguard continued to explore international markets and increase its product line range. In September 1995 the company opened its first overseas facility with an axle rebuilding shop in Kewdale, Western Australia. This new location will enable CAE Vanguard to service a new maintenance market where railroad industry standards are similar to those in North America. In February 1996, the company opened a new workshop in Kansas City to service locomotive traction motors and wheel sets – a new line of business for CAE Vanguard.

OUTLOOK

Revenue and earnings are expected to improve in fiscal 1997. As well, CAE Vanguard has contracted with overseas suppliers for new axle cores and has targeted offshore markets such as South Africa, India and China for further development.

CAE RANSOHOFF

In October 1995, CAE acquired the Ransohoff Company, an acknowledged leader in the design and custom-manufacture of environmentally compliant aqueous-based cleaning equipment for manufactured parts. CAE Ransohoff serves the automotive parts and housewares industries, and other metal parts manufacturers. This acquisition enables CAE to enter a new, growing niche market with technically advanced products and services. During its first six months as a CAE subsidiary, CAE Ransohoff made a positive contribution to earnings.

CAE Ransohoff recently appointed a new representative in Japan, Nichimen Mechatronics Corporation, which secured a \$1.4 million order for two high pressure liquid deburring systems for Mitsubishi Heavy Industries prior to year end. The company also established an Environmental Systems Group to focus on the growing market for waste minimization technologies and products.

OUTLOOK

The capacity in Cincinnati is being increased with a plant expansion which will allow for the consolidation of operations into one location, contributing to cost improvements and capacity expansion to meet the growing demand.

CAE Ransohoff is the leader in a market that is growing due to environmental regulatory requirements and increased focus on product quality. CAE Ransohoff is aggressively pursuing market opportunities in the Pacific Rim and is also assessing product line extensions and new products.

These initiatives combined with CAE Ransohoff's established base of customers should result in significant gains in both revenue and earnings in the years ahead.

LIQUIDITY AND CAPITAL RESOURCES

CAE maintained a strong balance sheet in 1996. Net bank indebtedness stood at \$15.0 million at March 31, 1996, virtually unchanged from \$14.7 million a year ago.

During the year, the company amended its bank credit agreement with its syndicated bank group. Prior to the amendment, the agreement was comprised of two unsecured three year revolving term facilities: one of US\$180 million and a second one of 50 million Deutschmark. The amendment has reduced the US dollar three year facility by US\$80 million and established a US\$80 million 364 day term facility. The amended facility will reduce borrowing costs. As at March 31, 1996, CAE had unused credit facilities of \$270 million.

CAE employs hedging programs, primarily through the use of foreign exchange forward contracts, to manage the foreign exchange exposure which occurs when commitments are made to deliver products which have been quoted in foreign currencies. The amount and timing of forward contracts depend on a number of factors including anticipated production delivery schedules and anticipated production costs which may be paid in foreign currency. CAE does not enter into speculative positions through the use of derivatives in hedging its foreign currency exposure and deals only with financially sound counterparties in managing its foreign exchange forward contracts.

CAE's investment in working capital, capital equipment and acquisitions is generally financed with cash flow from operations, and bank borrowings. Additional financing is provided through customer deposits received when the contract is signed, and progress payments based on costs incurred or milestones achieved.

Cash provided by continuing operations was \$113.8 million in 1996 compared with \$68.4 million in 1995. This improvement resulted from the increase in net earnings and a reduction in working capital. Despite the growth in operations, working capital decreased with the receipt of the final purchase price adjustment related to the sale of the principal assets of CAE-Link of U.S.\$15.9 million and an improvement in progress payments on contracts.

Capital expenditures, net of proceeds from disposals, totaled \$31.8 million compared to \$22.0 million the previous year. Facilities expansion, notably the Bombardier Aerospace training facility in Montreal, new equipment designed to increase productive capacity in the Industrial Technologies Group and upgrades to computer systems accounted for most of the expenditures.

Cash was also used to fund the acquisition of Invertron Simulated Systems Limited, the Ransohoff Company and MRAD Pty. Ltd. The combined purchase price of these acquisitions was \$55.3 million, made up of cash of \$45.9 million and a contingent consideration of \$9.4 million. The contingent consideration is payable if certain performance targets are achieved.

CAE has further financial resources available in the form of tax loss carry-forwards which may be used to offset taxes payable on future earnings from U.S. operations. At March 31, 1996, these tax loss carry-forwards stood at US\$169 million.

DIVIDENDS

During fiscal 1996, CAE paid dividends of \$0.16 per share or \$17.5 million, unchanged from the previous year.

**BUSINESS ENVIRONMENT
AND RISKS**

CAE's commercial simulation operations are influenced by various external factors. Significant among these are the number of aircraft deliveries and the development of new aircraft platforms, pilot training requirements and training regulations. For instance, similar to the prior year, CAE benefited from the launch of the Boeing 777 jumbo jet, having won eight full flight simulator orders over the last two years.

CAE's military business is affected by the level and timing of defense spending. The company's German and Canadian operations have a solid base of maintenance and support work on existing aircraft platforms. Procurement of new aircraft will have an impact on new training equipment opportunities which are further influenced by the international political environment.

Operating results for the Industrial Technologies Group are sensitive to changes in the level of plant capacity expansion and after-market product spending in the forest products sector, production volume and the introduction of new powertrains in the automotive sector, and railway traffic volume.

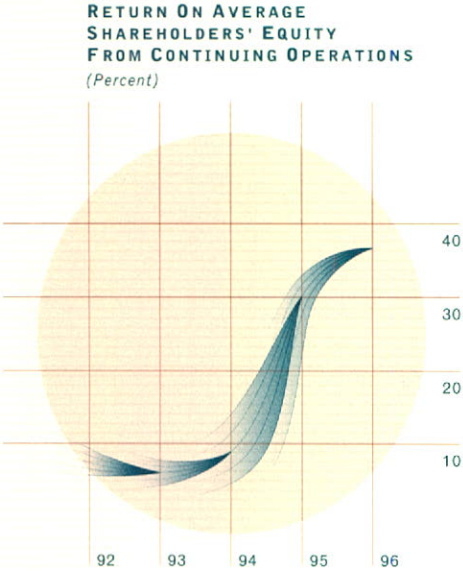
The company's overall diversification – geographically and by business sector – moderates market and political risk.

OUTLOOK

CAE begins fiscal 1997 with a higher order backlog, internal momentum, and a strong balance sheet that provides financial flexibility as the company executes its core growth strategies: participation in growth markets, market share growth, development of new products and services, geographic expansion, entry into emerging markets, acquisitions and joint ventures, and development of emerging technologies. These strategies are discussed in a special section of the annual report, beginning on page 36.

Modest economic growth is expected to continue in North America, Europe and Asia – CAE's major international markets. There are a number of significant opportunities in the commercial aviation and defense markets which the Aerospace and Electronics Group of companies can capitalize on during the up-coming year, and the Industrial Technologies Group is well placed to enhance its leadership position in current markets while developing new geographic markets, and introducing new, innovative products and services.

CAE is well positioned to continue to grow both in revenue and earnings in fiscal 1997.



FIVE YEARS

IN REVIEW

*(Figures in thousands except where indicated by *)*

	1996	1995	1994	1993	1992
CONTINUING OPERATIONS					
Revenue	\$ 809,803	657,592	591,147	492,049	508,946
Depreciation and amortization	\$ 22,719	16,613	15,318	13,741	11,623
Earnings	\$ 58,591	47,327	34,741	35,063	37,821
Earnings per share*	\$ 0.54	0.44	0.32	0.32	0.35
Net earnings (loss)	\$ 58,591	15,631	(394,960)	32,244	32,785
Net earnings (loss) per share*	\$ 0.54	0.14	(3.64)	0.30	0.31
Ratio of current assets to current liabilities*	0.9	1.0	0.9	0.9	0.7
Number of registered shareholders*	3,400	3,800	4,200	4,500	4,900
Cash dividend paid per common share*	\$ 0.16	0.16	0.16	0.16	0.16

QUARTERLY FINANCIAL

INFORMATION

(Figures in thousands except per share amounts)

	First quarter	Second quarter	Third quarter	Fourth quarter
1996				
Revenue	\$ 197,620	174,741	221,384	216,058
Net earnings	\$ 12,620	13,199	17,812	14,960
Net earnings per share	\$ 0.12	0.12	0.16	0.14
Common share trading range:				
High	\$ 9.875	9.875	10.750	11.875
Low	\$ 8.000	8.625	8.750	10.000
1995				
Continuing Operations				
Revenue	\$ 152,223	157,353	175,016	173,000
Earnings	\$ 10,328	10,351	14,061	12,587
Earnings per share	\$ 0.10	0.09	0.13	0.12
Net earnings (loss)	\$ 10,348	10,872	(16,224)	10,635
Net earnings (loss) per share	\$ 0.10	0.10	(0.15)	0.09
Common share trading range:				
High	\$ 8.000	7.625	7.500	8.625
Low	\$ 6.125	6.625	6.625	6.750

A COMMON UNDERSTANDING

WE ARE CUSTOMER-FOCUSED

Serving customer needs – competitively and innovatively – has guided CAE's growth and success for almost 50 years. Achieving customer satisfaction directs our day-to-day business decisions; it shapes our long-term planning and perspective. Customer service defines our common purpose. We recognize that we will achieve profitable growth only as long as we provide superior value to our customers.

WE ARE COMMITTED TO ENSURING VALUE FOR SHAREHOLDER INVESTMENT

CAE's continued success depends upon our providing a profitable return to our shareholders. To this end, we will continue to pursue steady growth by achieving market leadership within our core businesses. We will also actively seek out promising new opportunities for CAE technologies and capabilities, in markets which offer potential for long term growth. The financial strength of our organization will be reinforced daily through prudent business management and responsible decision-making.

WE BELIEVE INNOVATION DEMANDS SUSTAINED INVESTMENT

Research and development is driven by employee capability and ingenuity. These are the valued resources of changing times. Yet R&D is not a product solely of knowledge or imagination; it demands long term financial investment, patience, and judicious management. We will continue to support and emphasize the importance of research and development within our companies, so our customers benefit from leading-edge technology.

WE ARE ACCOUNTABLE FOR THE WAY WE DO BUSINESS

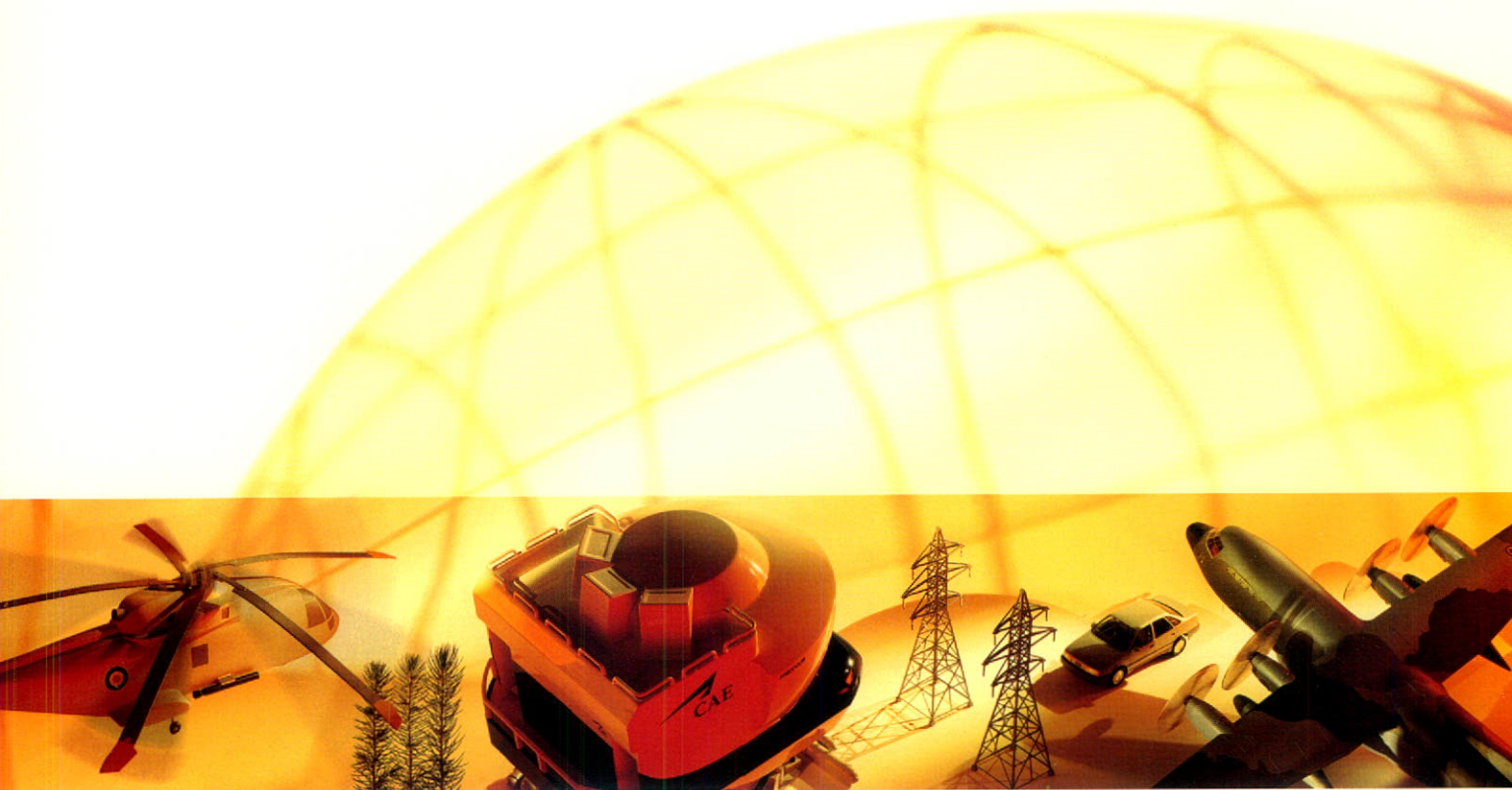
All of our dealings with customers, governments, suppliers, and in the wider community in which we operate will be performed with integrity to maintain our high standard of ethics. Our customers will be assured of receiving value – in every sense – from CAE products and services. Our employees will be made aware of the trust customers place in them, and of our expectations that everyone at CAE lives up to this trust.

WE ARE COMMITTED TO PROTECTING THE ENVIRONMENT

We take environmental issues very seriously at CAE. Our advanced technical and engineering skills give us a strong foundation for achieving leadership in pollution control, prevention and regulatory compliance. We also work to build cooperation between industry, government and the public. Together, we are committed to achieving a fundamental shared goal: to minimize pollution at its source and improve the quality of life in our communities.

WE DRAW STRENGTH FROM OUR PEOPLE AND WE VALUE THEIR CONTRIBUTIONS

Employee excellence is key to customer satisfaction and successful corporate performance. To ensure our employees continue to learn and grow – serving customers with expertise and experience – we will challenge their capabilities and recognize their accomplishments. Our commitment to teamwork will not allow us to lose sight of our recognition and respect for the individual. We will remain ever mindful that clear communication and a broad exchange of ideas builds a common understanding of purpose and beliefs.



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CAE's GROWTH STRATEGY

CAE is building on the core strengths of each of its divisions. Every CAE company is a market and technological leader, is international in scope, operates in niche markets with strong barriers to entry, and boasts a highly skilled workforce dedicated to providing innovative, value-added products and services that meet or exceed customers' expectations.

Based on this strong foundation and with a very sound financing capability, CAE is focused on growth through seven strategies:

- participation in expanding markets,
- increased market share,
- development of new products and services and product line extensions,
- acquisitions and joint ventures,
- development of emerging technologies,
- geographic expansion, and
- entry into emerging markets.

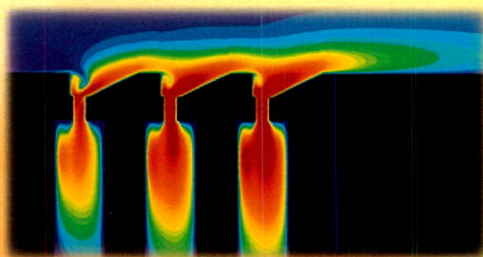
CAE的發展戰略

CAE正在她的每一個分支機構中建立核心力量。

每一個CAE公司都是一個市場和技術的領導，以全球為活動範圍，在與其相稱的市場中以別人難以介入的方式運作，並且自信擁有一支高度專業化的技術力量，能夠勝任提供全新的增值產品和服務來滿足或超越客戶的期望。

基於這一堅實基礎以及她強大的財政實力，CAE着重於謀求在如下七個方面的發展：

- 參與市場的擴展，
- 增加市場股份，
- 新產品和服務的開發和生產線擴建，
- 兼並和聯合投資，
- 開發新興技術，以及
- 地理開拓，
- 進入新興市場。



STRATÉGIES DE CROISSANCE DE CAE

CAE profite des points forts de chacune de ses divisions. Chaque société CAE est un chef de file en matière de technologie et dans son marché. Chacune est d'envergure internationale, chacune oeuvre dans des créneaux dont l'accès est restreint et se targue d'une main-d'oeuvre hautement qualifiée qui se consacre à fournir des produits et services innovateurs à valeur ajoutée qui répondent aux attentes des clients ou les dépassent.

Sur ces fondations solides, et dotée de moyens financiers très sains, CAE est axée sur la croissance grâce à sept stratégies :

- participation aux marchés en expansion
- accroissement de notre part de marché
- mise au point de nouveaux produits et services et élargissement des gammes de produits
- acquisitions et coentreprises
- développement de technologies nouvelles
- expansion géographique
- pénétration des marchés émergents.

DE GROEISTRATEGIE VAN CAE

CAE is aan het opbouwen van de kracht van alle afdelingen ervan. Elke CAE maatschappij is een markt - en technologieleider, is internationaal op schaal, actief in nismarkten met sterke hinderpalen voor intrede, en is trots op hoogbekwaam personeel dat bezielde is om permanent nieuwigheden in te voeren en om meest hedendaagse en altijd verbeterde producten en dienst te verschaffen die aan de verwachtingen van klanten voldoen of te boven gaan.

Gebaseerd op deze sterke grondslag en met een heel krachtig financieel vermogen concentreert CAE zich op groei door zeven strategieën:

- deelnemen in uitzettende markten
- vergroot marktaandeel
- ontwikkeling van nieuwe produkten en diensten en produktlijnuutstrekkingen
- verwervingen en medeondernemingen
- ontwikkeling van opkomende technologieën
- geografische uitbreiding
- intrede een de markten die te voorschijn komen.



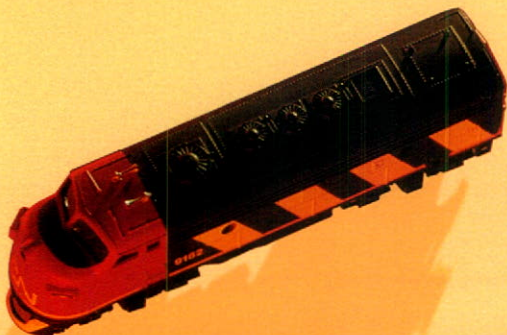
CAE:N KASVUSTRATEGIA

CAE luottaa jokaisen jaostonsa perusvahvuuksiin.

Jokainen CAE-yhtiö on markkinoilla ja teknologisesti johtava, kansainvälinen, toimii erittäin hyvin suojatuissa markkinaroissa, ja koostuu ammattitaitoisista työntekijöistä, jotka omistautuvat tuottamaan uudistavia, arvolisätyjä tuotteita ja palveluja, jotka vastaavat tai ylittävät asiakkaan odotuksia.

Perustuen tähän voimakkaaseen pohjaan ja terveeseen rahoituskyvyn tuella CAE tähtää kasvuun seitsemän strategian kautta:

- osallistumalla laajeneviin markkinoihin,
- lisäämällä markkinaosuutta,
- kehittämällä uusia tuotteita ja palveluja sekä tuotelinjojen laajennuksia,
- hankinnoilla ja yhteisyrityksillä,
- kehittämällä ilmaantuvia teknologioita, sekä
- maantieteellisesti laajentamalla,
- etenemällä nouseville markkinoille.



CAEs WACHSTUMSSTRATEGIE

CAEs Erfolg beruht auf der Stärke all unserer Abteilungen. Und unsere Vorteile sind beachtlich: Wir sind weltweit im technischen Bereich marktführend, wir sind in von außen schwer zugänglichen Märkten angesiedelt, und wir beschäftigen hochqualifizierte Fachkräfte, die innovative und qualitativ hochwertige Produkte und Dienstleistungen herstellen, welche die Erwartungen der Kunden nicht nur erfüllen, sondern häufig sogar übertreffen.

Wir haben eine äußerst solide Basis und setzen die vorhandenen Finanzmittel höchst effizient ein. Wir sind wachstumsorientiert und setzen gezielt auf folgende sieben Strategien:

- Beteiligung an Wachstumsmärkten
- Vergrößerung unseres Marktanteiles
- Entwicklung neuer Produkte und Dienstleistungen sowie Erweiterung vorhandener Produktreihen
- Firmenübernahmen und Joint Ventures
- Weiterentwicklung von Zukunftstechnologien
- Räumliche Expansion
- Erobern von Zukunftsmärkten.

CHAIRMAN'S MESSAGE

Fiscal 1996 was a good year for your Company and a satisfying and rewarding one for the Board of Directors. Eight regular board meetings were held throughout the year and the various committees of the Board met in aggregate 12 times. In keeping with the practice established some years ago, two of the board meetings were held at CAE company locations: one at CAE Electronics in Montreal and one at CAE Vanguard facilities in Lincoln, Nebraska.

The Board's emphasis this year continued to be placed on strategic planning in the broadest sense, and on company growth, with the Board actively supporting the acquisition of three new companies: CAE Invertron, CAE Ransohoff and CAE MRAD.

Mr. Ward Pitfield will be retiring from the Board in June. He was first elected to the Board in January, 1968 and has served continuously as a CAE director since that time. He has been a member of the Executive Committee since 1976, and at various times a member and chairman of the Audit Committee and of the Governance Committee, and a member of the Retirement, Compensation, Nominating, and Compensation and Stock Option Committees.

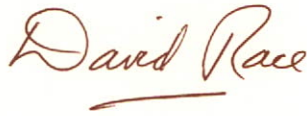
In 1968, the Company's revenue and earnings were respectively \$42.8 million and \$1.2 million. Some 28 years later our revenue and earnings are \$809.8 million and \$58.6 million. Ward Pitfield, as a director, may take pride in participating and contributing to this growth.

I have had the privilege of Ward Pitfield's support as a director of the Company when I was an officer of the Company and then its CEO. During the past three years as Chairman of the Board, I have greatly valued Mr. Pitfield's counsel. On the occasion of his retirement from the Board and on behalf of the Company's shareholders, we wish to express to Mr. Pitfield our thanks for his dedicated service to CAE.

March 17, 1996 marks the start of CAE's 50th year in business. In recognition of this occurrence, the Annual General Meeting to be held on June 12, 1996 is to take place at CAE Electronics Ltd. in St-Laurent, Quebec. This was the original Canadian Aviation Electronics company and its present site has been occupied since 1953.

The 1996 Annual Meeting should be an exciting and memorable event affording shareholders an inside look at this exciting company. I extend a personal invitation to all shareholders to attend the 1996 Annual Meeting as the company embarks upon its 50th year.

A continuous and strong thread throughout our 50 years has been the dedication of the employees to the Company's success. Again, it is the Board's pleasure on behalf of the shareholders to thank employees for their support throughout the past year and to thank all employees, past and present, for their part in the creation of a wonderful Canadian company known for its advanced technology the world over.



David H. Race

Chairman of the Board of Directors

PRESIDENT'S MESSAGE

PERSPECTIVE ON GROWTH

In fiscal 1996 CAE achieved considerable growth on all fronts. Not only did the company show significantly improved revenue and earnings, we expanded and strengthened our base of business worldwide.

The exceptional results of the past year are in large part due to the internal strengths of CAE companies – particularly the outstanding efforts of our employees – combined with the successful implementation of our primary growth strategies. These strengths and strategies are discussed in the special section that follows this letter.

Reflecting back over the fifty year history of the company, we take pride in how CAE has benefited and prospered in a dynamic international marketplace. Our successful growth is due to numerous factors but is premised upon having the confidence to pursue opportunities and to perform to meet customer expectations.

Our long term goal is unchanged. We plan to enhance our position as a world-leading advanced technology company with sustainable growth and create superior returns to our shareholders.

CAE's approach to growth is disciplined. We are aggressive in capitalizing on attractive opportunities, provided we are comfortable in assessing risk. We draw upon experience and technical competencies to determine potential risks in programs the company wishes to pursue. We collaborate closely with customers in developing new technological applications. We utilize our company-wide knowledge and relationships in developing international markets where, often, in-country support is critical for success. The company's acquisition program is highly targeted and potential investments are assessed against well-defined criteria.

The company's financing strategy is conservative. While we understand the value of prudent leverage, we believe in maintaining a strong balance sheet to provide CAE with the flexibility to capitalize on investment opportunities.

CAE is committed to growth and innovation. These attributes always carry an element of risk. But failing to grow through the pursuit of sound strategies carries far greater risk. We are solidly positioned in expanding markets and we plan to grow further in the years ahead, building upon our forward momentum.



John E. Caldwell

President and Chief Executive Officer

FOCUS ON STRENGTH



FOCUS ON STRATEGY



FOCUS ON STRENGTH



TECHNOLOGICAL LEADERSHIP

DEMONSTRATED BY THE 128 FULL COLOR PHOTO-TEXTURED MAXVUE™

DATABASES DEVELOPED BY CAE ELECTRONICS ENGINEERS.

WHAT MAKES A CAE COMPANY?

CAE has 11 different operating divisions – developing different products for different markets. Yet they share fundamental strengths – which transcend the differences and define CAE.

MARKET LEADERSHIP... IN HIGH GROWTH NICHE MARKETS...

All CAE companies are market leaders – clear leaders in highly specialized growth niche markets. We focus primarily on niche markets where we know we have a significant amount of expertise and, more particularly, where we can add value to our customers. In most cases, our companies have a market share exceeding 50 percent, and have at least double the market share of their nearest competitors.

The niche markets served by our various companies vary greatly both in terms of customers and industries, from the current worldwide market for commercial flight simulation and visual systems served by CAE Electronics to the railway axle reconditioning market served by CAE Vanguard.

...WITH STRONG BARRIERS TO ENTRY

But while the markets vary, they all provide strong growth prospects – particularly for the market leaders. And all have significant barriers to entry – due to the technology, technical expertise, and resources required to be a major player. As market leaders, our companies set the pace in their industries. Each has been able to achieve product innovation and economies of scale that translate into better value for customers and above average returns for our shareholders – all the while enhancing our competitive position and adding to our market leadership.

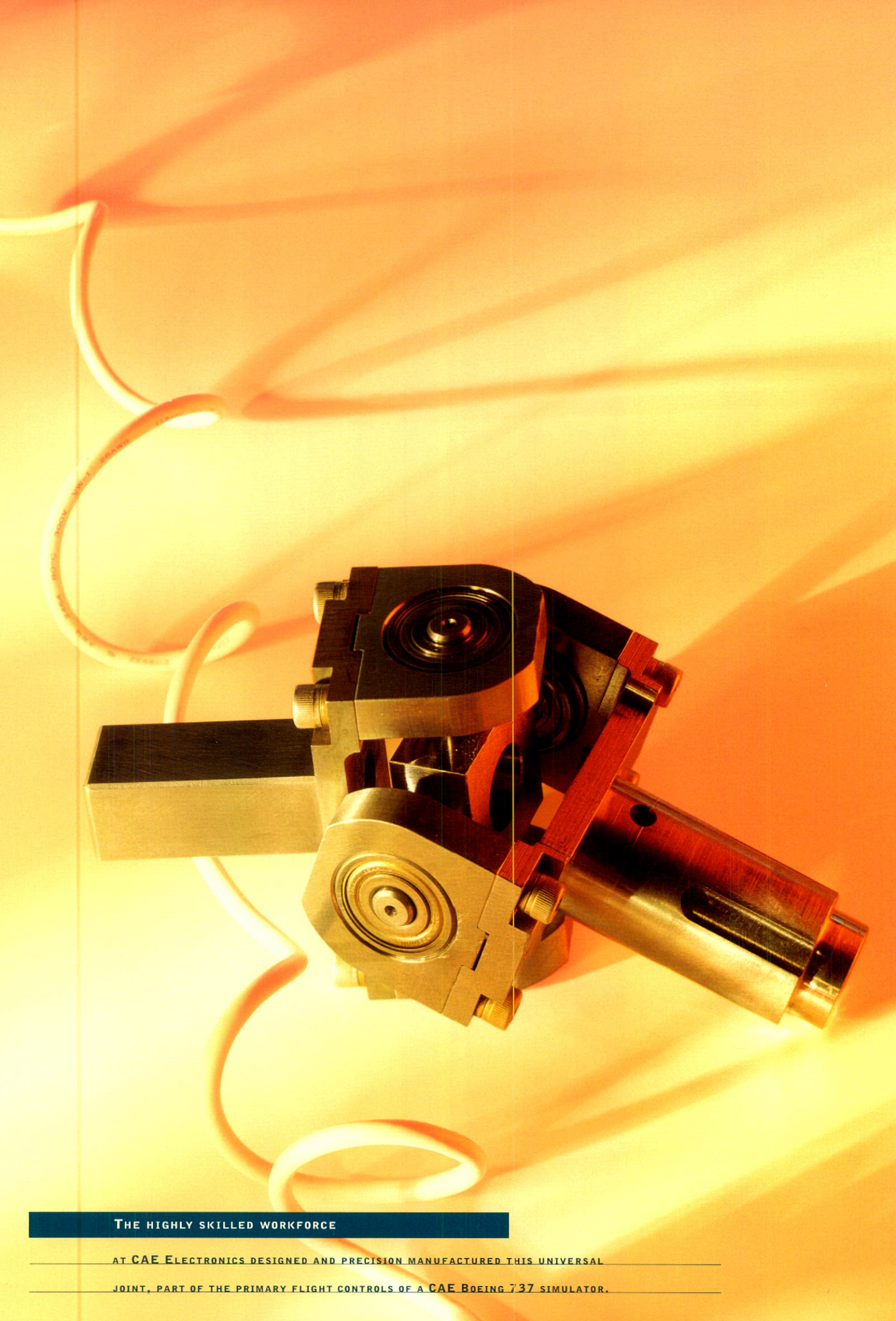
TECHNOLOGICAL LEADERSHIP...

As CAE is an advanced technology company, technological leadership is essential. That applies both to the advanced technologies in our Aerospace & Electronics Group of companies, and to those in our Industrial Technologies Group.

Technological leadership is a primary differentiator in the international markets we serve. Every CAE company is focused on being at the leading-edge of its industry – in terms of the products we deliver to customers, and the processes we use to develop and manufacture those products. Such leadership requires expert operational management, advanced facilities, and a focus on R&D.

DUE TO A HIGHLY SKILLED WORKFORCE

Technological leadership is however, primarily the result of the dedication and entrepreneurial spirit of CAE's workforce. Our employees develop new, innovative technologies – pushing the envelope and meeting if not exceeding our customers' expectations. Their tremendous depth of knowledge and expertise is at the heart of the development of leading-edge technologies that keep all of CAE's operating companies at the forefront of their industries.



THE HIGHLY SKILLED WORKFORCE

AT CAE ELECTRONICS DESIGNED AND PRECISION MANUFACTURED THIS UNIVERSAL

JOINT, PART OF THE PRIMARY FLIGHT CONTROLS OF A CAE BOEING 737 SIMULATOR.

WHAT MAKES A CAE COMPANY?

HIGH VALUE TO CUSTOMERS

CAE companies serve a wide variety of markets – from commercial aviation to the pulp and paper sector, to the defense industry. Yet despite the diversity of our customer base, our companies share many common attributes. The sales of all our companies are business to business which means each CAE company serves a demanding and sophisticated customer base, with very specific needs.

Each company produces goods and services that are essential to our customers' success – adding value to their operations. We spend a great deal of time developing customer relationships – not one-time sales of products, but relationships where we can meet a multiplicity of changing needs over time. That means all our operations are geared to customizing products to meet each customer's specific need – an ongoing route to product innovation and new market development for CAE.

By using market and technological leadership to deliver more value to customers, our companies deliver more value to shareholders.

INTERNATIONAL FOCUS

As each of our companies is a leader in growing niche markets, each is by definition internationally focused, and each has been expanding its markets and, frequently, its operations. Collectively, we have operations or major projects underway on every continent, and we have developed a deep pool of knowledge in operating successfully in the international marketplace.

While 75 percent of our workforce is located in Canada, more than 75 percent of our services are exported or produced outside of the country – to all the industrialized and newly industrializing nations of the world.

FOCUS ON STRATEGY



VALUE TO CUSTOMERS

THROUGH LEADING-EDGE TECHNOLOGIES SUCH AS CAE AVIATION'S CD-ROM TRAINING MANUALS, AND

CAE ELECTRONICS PRECISION COMPONENTS WHICH ENABLE PILOTS TO FINE TUNE THEIR FLYING SKILLS.

HOW ARE WE GROWING?

The core strengths shared by all CAE companies provide a solid foundation for growth. Our strategies enable us to build on that foundation. On the following pages, we review our seven interrelated growth strategies – building our businesses through acquisitions and joint ventures, increased market share and participation in growth markets, developing new products and services, developing emerging technologies, geographic expansion and entry into emerging markets.

CAE IS GROWING BY ACQUISITION AND JOINT VENTURES

Whether we are pursuing a small related company to enhance the competitive position of one of our existing operations or entering an entirely new business, our acquisition criteria are very straightforward. We seek out companies that reflect the core strengths of every CAE company: each candidate must participate in growing niche markets with high barriers to entry and where technology is a primary differentiator. It must either be, or have a clear path to becoming, a leader in its industry, have proprietary technological products that add value for our customers while maintaining a competitive cost structure, a strong management team, strong customer relationships and be internationally focused.

The three acquisitions completed in the past year are a clear demonstration of our criteria in action and are a fundamental part of our growth strategies.

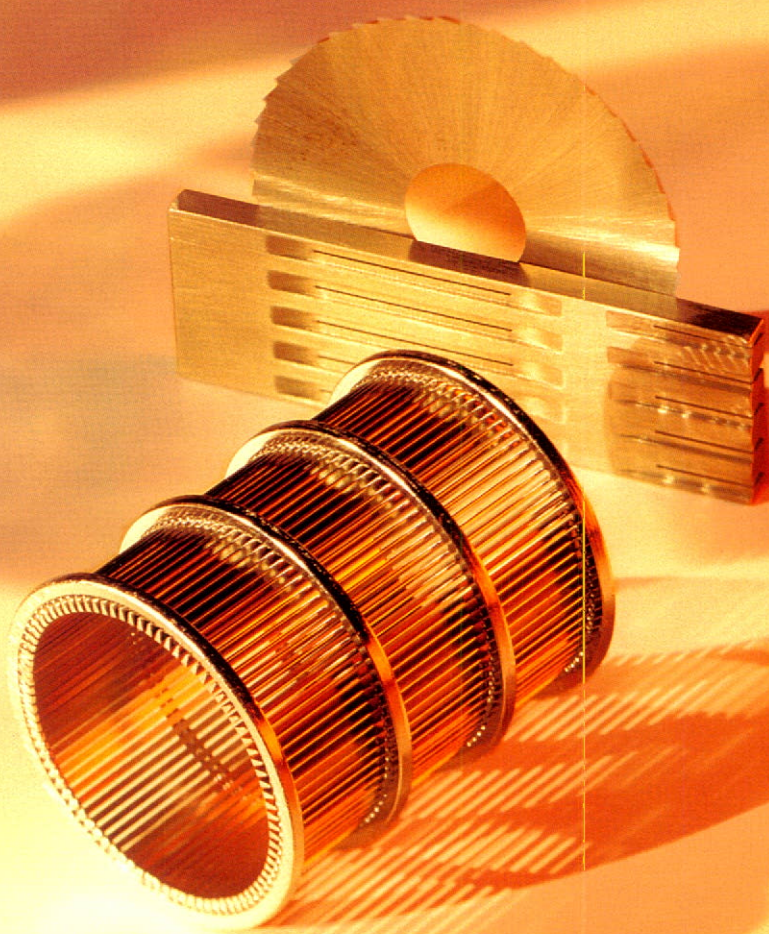
CAE Invertron – a world leader in the military simulation market – brings important new product lines into our Electronics Group and broadens our depth in the U.K. market while increasing our penetration of the 28 other markets it serves around the world.

CAE Electronics (Australia), with CAE MRAD, has expanded the international capabilities of our Electronics Group – opening up new opportunities in Australia while providing us with a new base of operations from which to serve growth markets of the Pacific Rim.

CAE Ransohoff brings us into an entirely new market – the highly specialized niche of aqueous-based cleaning equipment for machined parts – a market with significant growth potential in the United States automotive sector alone given the increased focus on product quality and changing environmental regulations. While based in the United States, CAE Ransohoff has set its sights on international expansion and is making inroads in Japan.

Joint ventures are another way for CAE to grow. The Bombardier Aerospace Training Centre, opened in December 1995, is a clear example of a successful joint venture – with CAE building and maintaining a new facility where Bombardier trains their customers' pilots on CAE-supplied simulation equipment.

As we focus on growth, we have the criteria, the experience of successfully integrating new operations, and the financial resources to take advantage of attractive new acquisition and joint venture opportunities as they arise.



BUILDING BUSINESSES

CAE SCREENPLATES-PRECISION MANUFACTURING WITH FOUR THOUSANDS OF AN INCH CUTTERS SHOWN ABOVE WITH A WEDGE-WIRE CYLINDER FROM CAE TRISLOT-HAS BEEN EXPANDING ITS FACILITIES TO ACCOMMODATE CUSTOMER DEMAND.

CAE IS GROWING BY BUILDING ITS BUSINESSES

While we made three acquisitions in 1996, most of our growth in revenue reflected strong internal growth – and gains in market share.

Each CAE company has growth potential – through the growth of the markets we serve, as well as through increased market penetration. Our strategy is to develop that growth potential to the fullest. That means investing and reinvesting in our businesses – providing them with the resources and mandate to build on their market and technological leadership.

That's why we reinvest substantially in every one of CAE's operations and divisions – focusing on the development of our workforce, on Research and Development, and on capital expenditures that will keep us at the forefront and enable us to serve our customers well.

Over the past five years, we committed an average 16 percent of revenue to R&D, and we invested a further three percent of revenue for capital expenditures – expanding or developing new facilities, technologies and equipment in each of our businesses.

The strong operational management at all our businesses have been given a mandate for growth, and our strategy is to focus resources in support of that mandate.



DEVELOPING NEW PRODUCTS

CAE MACHINERY ENGINEERS DESIGNED AN INNOVATIVE PLATE (TOP) TO DECREASE WEAR
ON STRANDER RINGS AND ARE JOINTLY DEVELOPING A DISPOSABLE KNIFE PACKAGE.

CAE IS GROWING BY DEVELOPING NEW PRODUCTS AND SERVICES

Key to our internal growth – and our relationship with customers – is the development of new products and services. In the rapidly changing world of technology, ongoing product and process development is essential – not just to market leadership, but to survival.

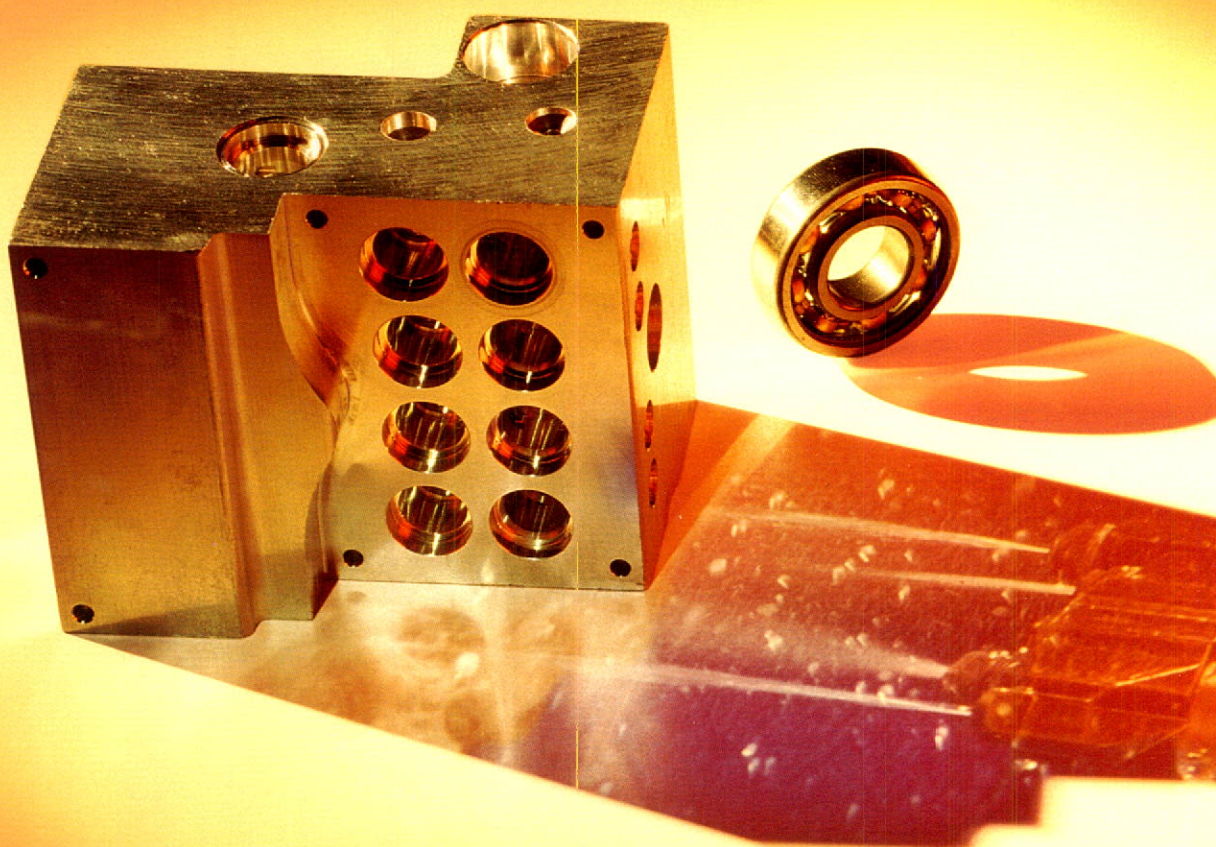
Our major commitment to R&D spending is a fundamental cost of doing business – an investment that has yielded impressive dividends over the years.

Some of our most important markets today reflect internal product development of the past. A recent example is MAXVUE™ – our groundbreaking visual system. MAXVUE™ has established its value in its own right, and has become an increasingly important component of broader simulation contracts of CAE Electronics. In fact, the newly developed version of MAXVUE™ for military applications has been well received with contracts awarded for the Merlin helicopter, the Black Hawk, the Lynx and the MiG-29 simulators.

Our strength in forging strong customer relationships has contributed significantly to product development: customizing and working with customers to meet their needs leads to ongoing innovations. CAE Machinery's strander, for one, was developed in conjunction with customers, as we looked for ways to extend the capabilities of our highly successful flakers. And working together with Black Clawson, CAE ScreenPlates is currently developing a horizontally slotted screen for specialized applications.

In the past year, many developments led to enhancements of existing products, and of our processes. For instance, CAE ScreenPlates added a second water jet cutting machine to produce the "Super Flow" screen – a screen which has found exceptionally strong market acceptance in a very short time frame.

And at CAE Electronics, we brought a highly promising and innovative concept to the stage of being commercially viable. This is our new proprietary Automated Aircraft Paint Removal System – a robotic approach that uses wheat starch, blasted at high pressure, to remove paint from aircraft without damaging the surfaces. As this approach eliminates the need for chemical solvents, there are significant growth prospects in both our commercial and military aviation markets.



ACQUISITIONS

NEWLY ACQUIRED CAE RANSOHOFF IS THE LEADING SUPPLIER OF AQUEOUS-BASED

CLEANING MACHINERY USED TO CLEAN AUTOMOTIVE PARTS SUCH AS THESE.

CAE IS GROWING BY DEVELOPING EMERGING TECHNOLOGIES

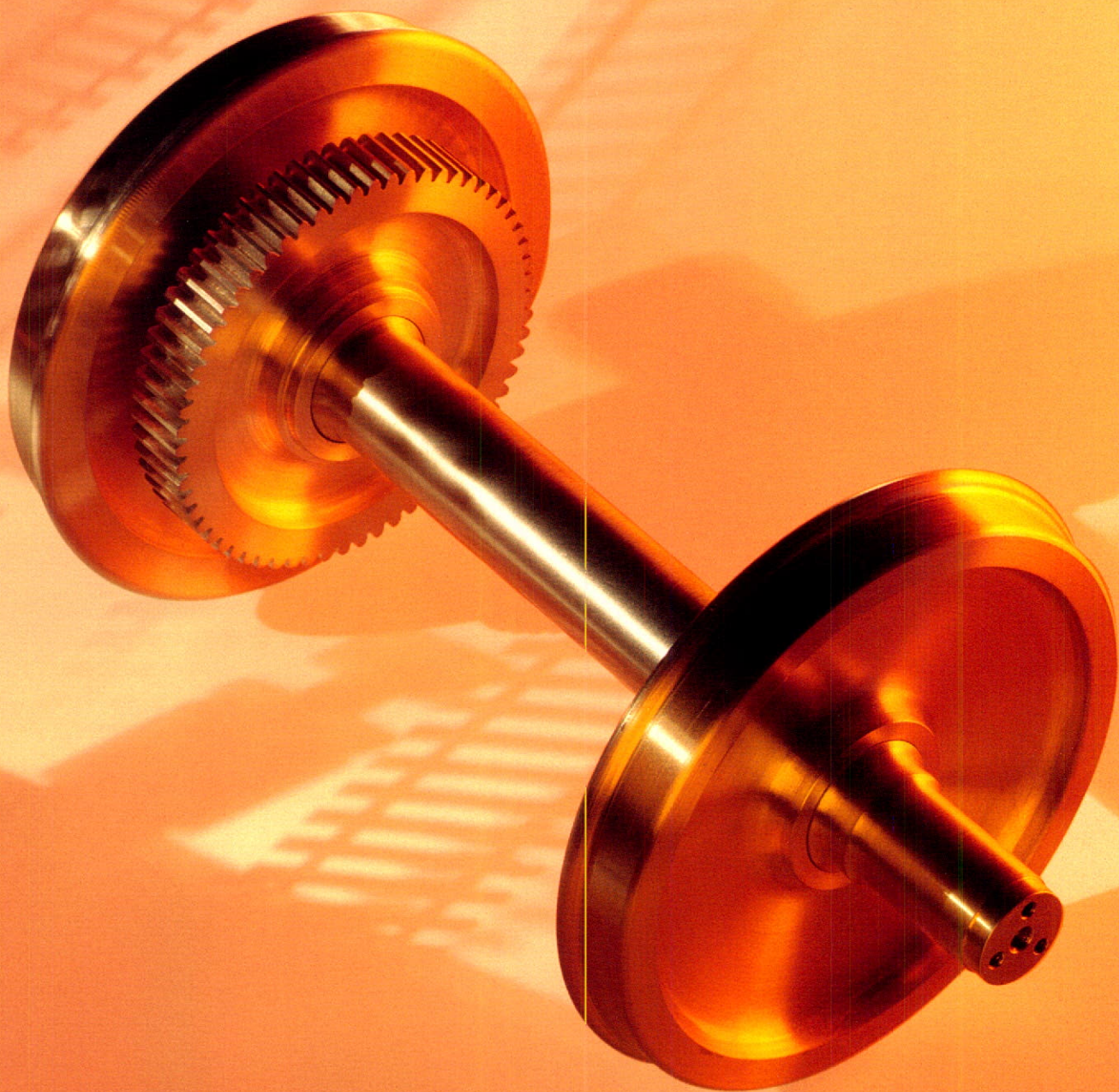
While developing new products and processes, we maintain a longer term view on new trends in technologies and in the markets we serve. Successfully identifying new technologies means identifying future markets and future prospects.

Identifying emerging trends, technologies and markets goes hand in hand with identifying declining markets, or those with limited prospects. Two years ago, we decided to divest CAE-Link, as it served the mature and rapidly consolidating U.S. defense market. This has enabled us to refocus – profitably – on the growth markets we have identified.

Among the trends we are following closely are environmental, entertainment, educational and process and product design technologies. We have assigned project teams to research and develop potential applications – and bring the best to commercial reality.

Where we have an ability to add value, we will pursue market entry – either by developing the technology internally (as with our automated aircraft paint removal system, which complements the visual system and robotics capabilities at CAE Electronics) or entering new technologies through acquisition (as with CAE Ransohoff, which represents a growth market in environmental technology), or through strategic partnerships.

One increasingly important trend in the advanced technology area is the convergence of technologies – the ongoing integration of mechanical, electrical, electronic and software technologies in products of the future. Through our diverse companies, we have leadership in all these areas.



EMERGING MARKETS

CAE VANGUARD, WHICH USES PROPRIETARY PROCESSES TO RECONDITION

LOCOMOTIVE WHEEL SETS, HAS TARGETED OVERSEAS MARKETS FOR GROWTH.

CAE IS GROWING BY GEOGRAPHIC EXPANSION AND ENTRY INTO EMERGING MARKETS

CAE keeps building on its position as one of Canada's leading exporters through geographic expansion and entry into emerging markets.

During the past year, we made further inroads in the global marketplace. While we entered some new geographic markets through the acquisitions of fiscal 1996, our existing companies also made major strides in building their international customer base.

An ideal example is CAE Aviation, which has been based in Canada, throughout its history, primarily serving the Canadian defense market. By developing technological leadership, CAE has opened up opportunities on the world stage, and is proceeding with a joint venture for a new "Centre of Excellence" for aircraft overhaul in Pakistan.

Another example is provided by CAE Machinery, which exported its first Fuji King Debarker to Europe in the past year; and CAE Vanguard establishing new operations in the United States and in Australia to expand its customer base and broaden the services it offers.

CAE Electronics companies – which have always had most of their business outside Canada – further increased their focus on international markets during the year, with the acquisition of CAE Invertron and CAE MRAD, and with new contracts in the emerging markets of Asia and South America.

Industrialized markets, characterized by their need for continuous improvements, still provide scope for growth in most of our businesses, and there is even greater potential in emerging markets – markets in Asia and South America which are industrializing at a rapid pace largely due to new technologies and processes which have enabled them to accelerate the industrialization process. For example, CAE Electronics' DATAPATH™ Datalink system will reduce the cost of future air traffic control equipment in emerging markets by providing state-of-the-art satellite-based communication, navigation and surveillance air traffic management (CNS/ATM) systems rather than the traditional, more costly, radar-based systems.

Market expansion did more than simply drive our growth in fiscal 1996; it increased our presence in emerging markets and enhanced our prospects for the future.

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Controller
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★ Member of the Executive Committee

† Member of the Audit Committee

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Knoxville, Tennessee

Perth, Australia

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Chartered Accountants
Toronto, Ontario

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Montreal Trust Company
Toronto, Ontario
Montreal, Quebec
Vancouver, British Columbia

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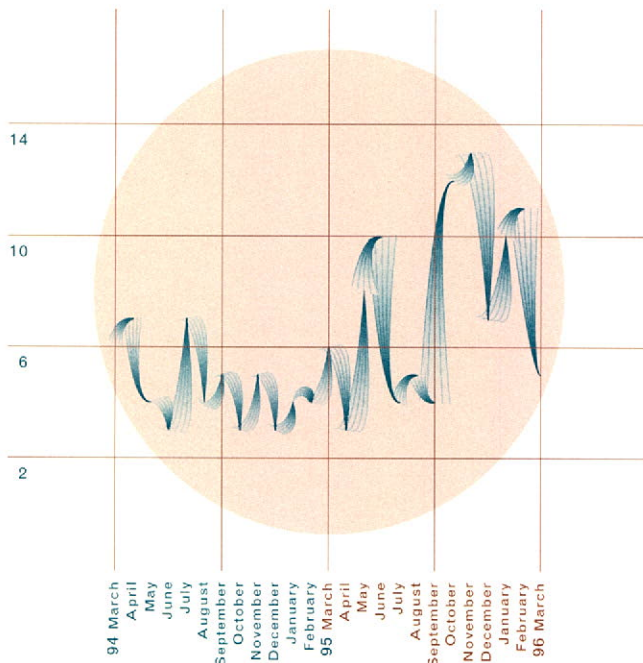
INFORMATION FOR SHAREHOLDERS

CAE COMMON SHARES

CAE's shares are traded both on the Toronto Stock Exchange and the Montreal Stock Exchange under the symbol "CAE".

CAE TRADING VOLUME (TSE & ME)

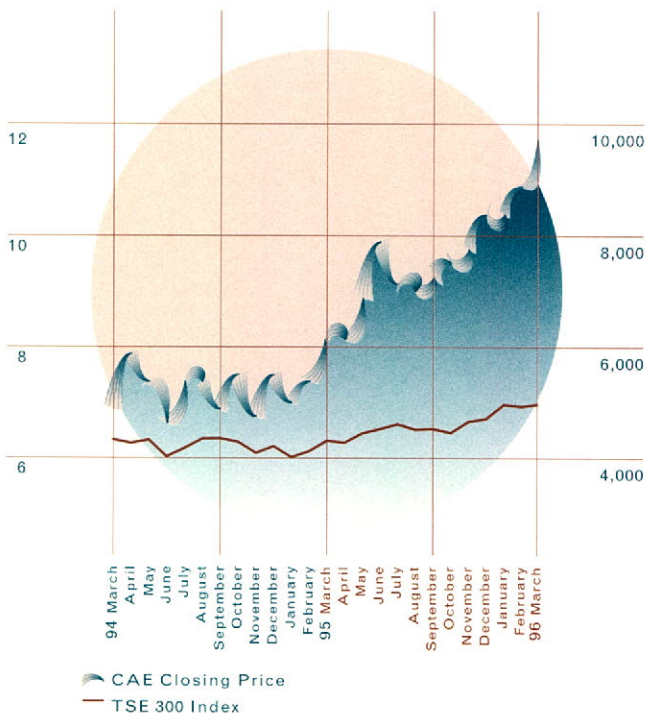
(Millions of dollars)



CAE SHARE PRICE PERFORMANCE

(Share price in dollars)

(TSE Index)



CAE Closing Price
TSE 300 Index

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 each of the Toronto Stock Exchange and the Montreal 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:

Montreal Trust Company
Tel: (416) 981-9500

DIRECT DEPOSIT DIVIDEND

Registered shareholders who receive cash dividends may elect to have the dividend payment deposited directly to their bank account, instead of receiving a cheque. In order to obtain the direct deposit dividend form please contact:

Montreal Trust Company
Tel: (416) 981-9500

ADDITIONAL INFORMATION

If you wish to receive additional copies of CAE's annual report or copies of the annual information form, please contact:

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VERSION FRANÇAISE

La version française du rapport annuel est disponible sur demande au département des relations d'entreprise au (416) 865-0070 ou au 1-800-760-0667.

ANNUAL MEETING

The Annual Meeting of shareholders will be held at CAE Electronics Ltd., 8585 Côte de Liesse, St-Laurent, Quebec, on Wednesday, June 12, 1996, at 11:30 a.m.

TENTATIVE QUARTERLY RESULTS

RELEASE DATES FOR FISCAL 1997

August 8, 1996
November 7, 1996
February 6, 1997
May 8, 1997

Environmental Note: The annual report text is printed on environmentally friendly, chlorine-free paper. The financial section paper contains 50 percent post-consumer waste and is considered chlorine-free.

Design and electronic production:
1996 © Eskin Waddell
Photography: Dominique Malterre, Tilt Inc.
CF18 and frigate courtesy of
The Canadian Department of National Defense
Film: Imaginex Inc.
Printing: Arthurs-Jones Inc.

Printed in Canada



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