

ANNUAL REPORT

For the year ended March 31, 1995





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## ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of shareholders will be held at the Metro Toronto Convention Centre, John W. Bassett Theatre - Lower Level, on Thursday, June 8, 1995, at 11:30 a.m.

## CAE WELCOMES YOU TO MONTREAL

You are cordially invited to join us at our next Annual and General Meeting on Wednesday, June 12, 1996 in Montreal. This exciting, cosmopolitan city is home to CAE Electronics, and we plan to offer a tour of our newly expanded facilities following the meeting. There you will have a first hand opportunity to see our industry-leading technology in action, including our full flight simulators.

CAE Electronics is part of a thriving centre for the aviation and aerospace industries in Montreal. We are located strategically near the Canadian Space Agency, the International Civil Aviation Organization, the International Air Transport Association and the International Society of Aeronautical Telecommunications, as well as aircraft manufacturers like Bombardier-Canadair.

Montreal itself combines the zest of a vibrant urban centre with the rich history and culture of one of North America's oldest cities. Its dynamic combination of French, English, Native Canadian and other cultures is truly unique - as is its famed joie de vivre. We hope you will join us there for a memorable meeting in 1996.

## ABOUT THE COVER

Collage of photographs taken at the Civil Aviation Flying College in Guanghan, China.

The Chinese writing on the emblem is translated, "to work together hand in hand". The phrase was written by the Director General of the Civil Aviation Administration of China to express the strong atmosphere of cooperation between the CAAC, the Flying College, Boeing and CAE.



PROFILE

With headquarters in Toronto, Canada, we are the world leader in advanced technology solutions in a variety of markets. Founded in 1947, CAE has operations throughout Canada, the United States, Europe, Australia and Asia. It is divided into two groups:

**AEROSPACE & 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 and transmission.

**CAE ELECTRONICS INC.**

(Binghamton and Crystal City, United States) is CAE's new U.S.-based company, formed to manage and market retained product lines from CAE-Link. The company is highly skilled in a number of areas, including marine control systems and biomedical simulation systems.

**CAE ELECTRONICS (AUSTRALIA) PTY LTD.**

(Silverwater, NSW, Australia) was acquired by CAE in November 1994. CAE Electronics (Australia) will operate as a subsidiary of CAE Electronics Ltd. This team of highly skilled software engineering and systems integration specialists will pursue opportunities across CAE Electronics' entire product line.

**CAE ELECTRONICS GMBH**

(Stolberg, Germany) provides maintenance, repair, overhaul, and modification services to flight and tactics 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 Electronics GmbH develops and produces telecommunications equipment and related software for telefax and telex communications.

**CAE AVIATION LTD.**

(Edmonton, Alberta) 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, Varkaus, Finland; Norrkoping, Sweden; Glens Falls, United States) is the leading global supplier of precision manufactured stainless steel screen plates, cylinders, and baskets for pulp and paper, mining, food and beverage, waste processing, and other industries.

**CAE TRISLOT**

(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.

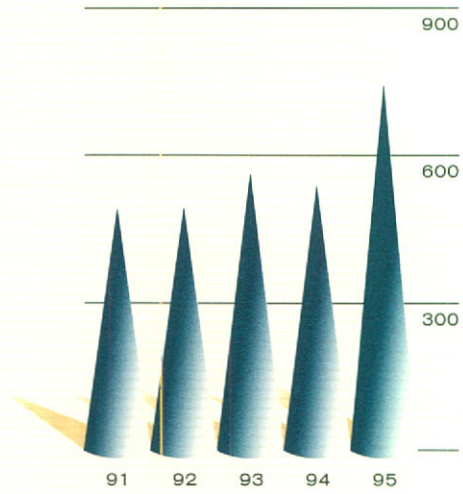
**CAE MACHINERY LTD.**

(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 waferboard, oriented strand board, and other wood-based composites.

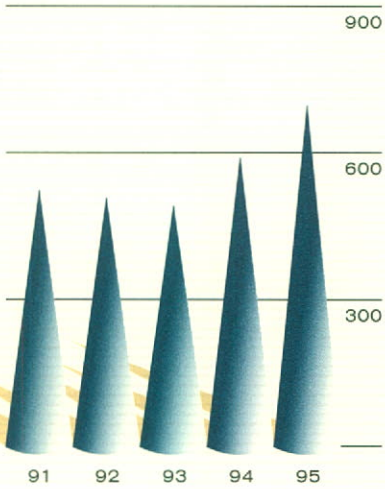
**CAE VANGUARD LTD.**

(Montreal and Winnipeg, Canada; Minneapolis, Lincoln, Sacramento, Pocatello, Little Rock, Knoxville, and Greenup, 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.

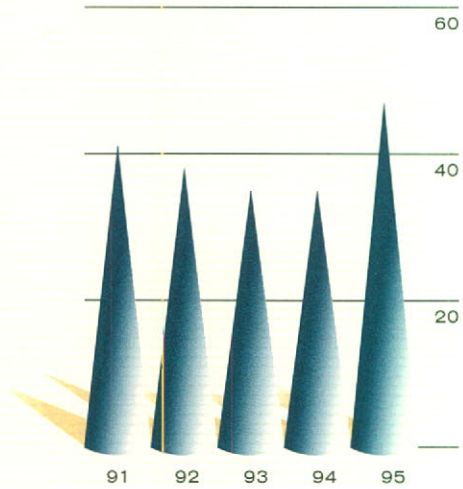
**BACKLOG**  
(Millions of dollars)



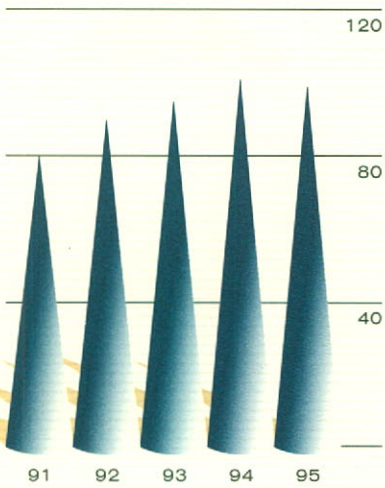
**REVENUE**  
(Millions of dollars)



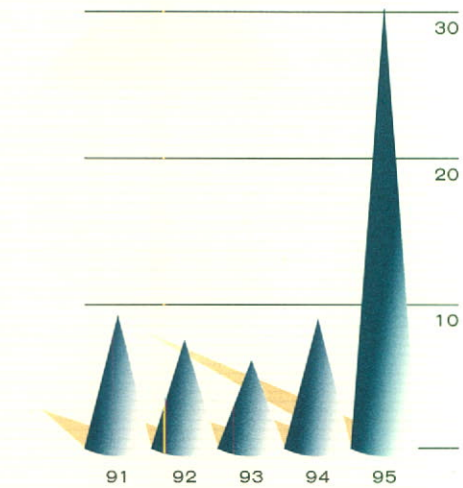
**EARNINGS FROM CONTINUING OPERATIONS**  
(Millions of dollars)



**R&D SPENDING**  
(Millions of dollars)



**RETURN ON AVERAGE SHAREHOLDERS' EQUITY FROM CONTINUING OPERATIONS**  
(Percent)





**HIGHLIGHTS***(Figures in thousands except per share amounts)***OPERATING RESULTS**

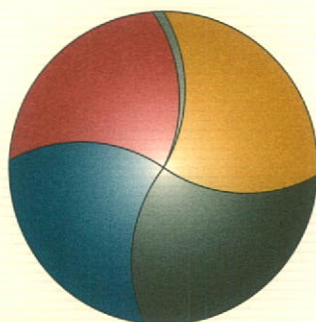
	1995	1994
Continuing Operations		
Revenue	\$ 657,592	\$ 591,147
Earnings	\$ 47,327	\$ 34,741
Net earnings (loss)	\$ 15,631	\$ (394,960)

**FINANCIAL POSITION**

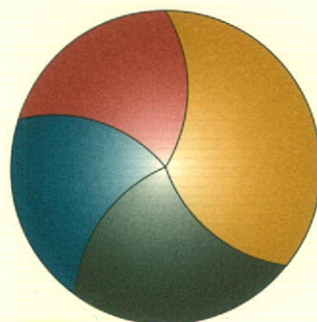
Total assets	\$ 540,235	\$ 804,692
Total debt, net of cash	\$ 14,717	\$ 191,484

**PER SHARE**

Earnings from continuing operations	\$ 0.44	\$ 0.32
Net earnings (loss)	\$ 0.14	\$ (3.64)
Dividends	\$ 0.16	\$ 0.16
Shareholders' equity	\$ 1.28	\$ 1.61

**GEOGRAPHIC DISTRIBUTION**  
(Percent)

- Asia/Africa 26%
- Canada 26%
- United States 24%
- Europe 23%
- Other 1%

**REVENUE BY PRODUCT LINE**  
(Percent)

- Commercial Simulation 36%
- Military and Space Simulation 24%
- Other Aerospace and Electronics 20%
- Industrial Technologies 20%



## OF TERMS

**CAE AVIATION****PROGRAMMED DEPOT MAINTENANCE (PDM):**

Major aircraft structural inspection program which is performed to determine the structural condition of an aircraft and to repair any structural discrepancies.

**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 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.

**COMPUTER AIDED TRAINING SYSTEM (CATS):**

High level classroom training device used for instructor-led and self-paced learning. It consists of realistic, dynamic representations of the flight deck instrumentation, exterior panels required for maintenance training, full dynamic systems schematics, and an instructor station.

**DISTRIBUTION MANAGEMENT SYSTEM (DMS):**

Real-time applications used to monitor, control and improve the efficiency of electrical distribution networks for electrical utilities.

**EMERGENCY EVACUATION TRAINER:**

Exact replica of commercial airline fuselages which features a motion system to simulate the sensation of flight, take-off and landing. Allows airline cabin crews to receive regular training to maintain proficiency with cabin safety devices and to practice emergency evacuation procedures.

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

**FULL FLIGHT SIMULATOR:** 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.

**GEN 3:** Distributed open architecture (computer and applications) environment upon which real-time mission critical applications are built such as Scada, DMS and Energy Management Systems.

**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.

**REAR CREW TRAINERS:** Designed to train tactical crew members in the effective operation and utilization of the avionics, weapons, sensors and software systems installed in the aircraft.

**POWER CONTROL SYSTEM:** Distributed control system used to control the numerous processes within an electrical generation station.

**CAE ELECTRONICS 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 procedures.

**PILOT SELECTION SYSTEM:** Simulation-based selection system that measures psychological dimensions such as information processing strategy, problem solving capabilities, spatial abilities and psychomotor coordination.

**CAE MACHINERY**

**COMPOSITE WOOD PRODUCTS:** Value added wood products that are engineered by turning logs 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 flakes with resins which are then compressed to produce OSB.

**RING STRANDER:** Machine that will cut logs into wafer thin "strands" or long pieces of wood. These wood strands can be cut up to 12 inches long.

**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 from pulp.

**WATER JET CUTTING TECHNOLOGY:** High pressure focussed 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 DOWNSIZING/REMANUFACTURING:** Axle journals that are unusable for the original tonnage they were meant to carry are machined down to the next smaller size axle allowing them to be used for lower capacity freight cars.

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



**MANAGEMENT DISCUSSION & ANALYSIS**

**SUMMARY OF CONSOLIDATED RESULTS**

Consolidated earnings from continuing operations increased 36 percent to \$47.3 million, or \$0.44 per share in fiscal 1995 compared with \$34.7 million, or \$0.32 per share in fiscal 1994. Net earnings, after reflecting the loss from discontinued operations of \$31.7 million, were \$15.6 million or \$0.14 per share. The loss from discontinued operations is composed of two items: a loss on the sale of CAE-Link of \$29.9 million and an operating loss at CAE-Link after deducting goodwill and interest expense, for the eleven months ended February 24, 1995, of \$1.8 million.

On February 24, 1995, CAE Inc. completed the sale of virtually all the assets of its U.S. defense simulation and training company, CAE-Link Corporation to Hughes Electronics Corporation. The proceeds of the sale of \$215.5 million (US\$155.0 million) were used to repay long-term debt.

The decision to sell Link was based upon a thorough review of the trends and outlook for the U.S. defense industry. This analysis focused on the simulation and training sector, the level of capacity utilization and the forecast performance of CAE-Link. It confirmed the view that, in the post-Cold War era, the U.S. defense industry will continue to contract, resulting in overcapacity and intensified competitive pressure. With virtually no new major aircraft programs likely to occur until beyond the year 2000 and severe overcapacity in the simulation and training segment, it became clear that industry consolidation was necessary and the potential for growth for CAE-Link was limited. After evaluating all options including a possible merger or joint venture, it became evident that the best alternative for CAE was to divest of CAE-Link.

Consolidated revenue from continuing operations increased to \$657.6 million compared with \$591.1 million recorded in fiscal 1994. Revenue was higher in both the Aerospace and Electronics Group and the Industrial Technologies Group, rising 11 percent.

Revenue and operating earnings at CAE Electronics increased due to strong order bookings for commercial aircraft simulators in the preceding year, increased sales of marine control systems and further market penetration of the MAXVUE visual simulation system. Increased military aircraft simulator modifications and the success of a new battlefield simulation technology improved results at CAE Electronics GmbH. CAE Aviation's revenue and operating earnings increased over last year's level due to the commencement of both the C130 avionics update program and the Tutor refurbishment program.

The Industrial Technologies Group once again made major gains in earnings and revenue as market conditions improved in the forest products and railway industries. Due to capacity expansion in the forest products sector both CAE Machinery and CAE ScreenPlates reported record sales this year. The inclusion of revenue and earnings from newly acquired CAE Trislot, combined with productivity improvements resulting from the consolidation of production facilities at CAE ScreenPlates' European operations, further boosted revenue and earnings in this group.

At the end of fiscal year 1995, CAE's net bank indebtedness was reduced to \$14.7 million from \$191.5 million a year ago. The significant improvement is due to the receipt of the proceeds from the divestiture of CAE-Link and improved cash flow from continuing operations. This was partially offset by cash utilized for acquisitions, and the restructuring costs incurred at CAE-Link prior to the divestiture.

CAE continued its commitment to research and development, spending approximately \$100 million or 15 percent of revenue.



Order backlog from continuing operations at March 31, 1995 was a record \$740 million, compared with \$536 million in fiscal 1994. The growing backlog reflects increased orders for commercial and military simulators, increased aircraft overhaul and simulator maintenance orders from the Canadian and German military and improved activity levels in the Industrial Technologies Group.

## **AEROSPACE AND ELECTRONICS GROUP**

### **FINANCIAL AND OPERATIONAL REVIEW**

Financial performance from continuing operations for the Aerospace and Electronics Group improved compared with last year's levels. Revenue increased to \$523.3 million from \$481.0 million in fiscal 1994. All companies in the group reported higher revenue and earnings.

<i>(Millions of dollars)</i>	<b>1995</b>	<b>1994</b>
Revenue	<b>\$ 523.3</b>	<b>\$ 481.0</b>
Earnings from Operations	<b>42.1</b>	<b>34.9</b>
Capital Expenditures	<b>15.1</b>	<b>11.3</b>
Backlog	<b>657.7</b>	<b>493.5</b>

The financial performance, operational highlights and outlook for each of the companies are discussed below.

## **CAE ELECTRONICS LTD.**

### **FINANCIAL PERFORMANCE AND OPERATIONAL HIGHLIGHTS**

Revenue and operating earnings at CAE Electronics improved in fiscal 1995 due to strong order bookings in fiscal 1994. The increase in commercial flight simulator sales was supplemented by higher revenue from MAXVUE visual systems and marine control systems. Operating earnings not only benefited from the higher order activity but also improved due to production efficiencies, most notably for commercial simulators, and lower expenditures on the development of MAXVUE, now in its third year since the product launch.

CAE Electronics is now recognized as a worldwide player in the areas of design and manufacture of sophisticated, complex, real-time computer-based systems for Military Systems, Air Traffic Management, Energy Control Systems, Marine Systems, Power Plant Simulators, Space, and Commercial Flight Simulators.

Thus, CAE Electronics' suite of product lines engage most aspects of the vigorous growth of infrastructure activities in the developing world. The company's expansion effort, based upon exploiting CAE Electronics' core technologies, has led to significantly higher order levels in the current fiscal year. Order backlog rose significantly to \$430 million, compared with \$373 million at the end of fiscal 1994.

### **Civil Flight Simulators and Visual Systems**

CAE Electronics maintained its leadership in the commercial simulation market, capturing 14 out of 18 full flight simulator and 5 out of 8 flight training device contracts awarded worldwide, representing a 73 percent combined market share.

The company's leadership position in the visual simulation system market was solidified with MAXVUE capturing an 80 percent market share.

Many of the orders came from long-standing customers, including Bombardier/Canadair, Boeing and KLM Royal Dutch Airlines. In addition, CAE Electronics gained yet another first-time customer in the Pacific Rim: PT Garuda Indonesia. The airline ordered two simulators: an MD-11 and a Boeing 737-400. Both simulators will feature CAE's MAXVUE visual system.

CAE Electronics' new orders to Asia rose by more than 45 percent to over \$170 million in fiscal 1995. This includes CAE's largest-ever contract in China with Air China for three full flight simulators with MAXVUE visual systems, three flight training devices and a computer aided training system.

Also included are orders from Cathay Pacific for a flight training device and CAE Electronics' new emergency evacuation trainer for the A330 and A340 aircraft, Japan Airlines and Japan Air System for a Boeing 777 full flight simulator and flight management system trainer.

A significant accomplishment during the year was the delivery of the world's first Boeing 777 simulator to Boeing Commercial Airplane Group in Seattle. Prior to the inaugural flight of the aircraft, Boeing pilots trained on this simulator.

#### **Military Systems**

Work continues on schedule to design and manufacture five simulators for the EH-101 program in the U.K., known as the Merlin helicopter program. The contract includes one full flight simulator with MAXVUE, one cockpit procedures trainer and three rear crew trainers for mission rehearsal training. It is the first major military simulator program for CAE in the U.K. and the first sale of MAXVUE in a military training application. The contract will take three years to complete and is valued at \$89 million.

#### **Air Traffic Management**

CAE Electronics won a bid to develop the world's first satellite-based Oceanic Air Traffic Control System for the Airways Corporation of New Zealand. The project is the first in a worldwide effort to introduce the Future Air Navigation System specified by the International Civil Aviation Organization. This is an important win for CAE Electronics because it will clearly demonstrate the company's technological leadership as the air traffic control industry moves to greater use of the Global Positioning Satellite System.

#### **Energy Control Systems**

In December 1994, CAE Electronics entered into a long-term cooperative agreement with the city of Scarborough's Public Utilities Commission (Scarborough PUC), located just outside Toronto, Canada. The first project under this arrangement comprises the delivery of a Distribution Management System for the operation of the electrical distribution network for the city of Scarborough. CAE also successfully installed two Gen 3 systems for Electricidad de Caracas in Venezuela and Boston Edison in Massachusetts.

#### **Marine Systems**

CAE Electronics was the successful bidder for the award of on-board training equipment for the Canadian TRUMP Destroyers, a shore based trainer for the U.S. Navy Osprey Class Minehunter. CAE also won its first international sale of its Marine Control System to Korea for the Korean Navy Minelayer.

#### **Power Plant simulators**

The Korea Electric Power Company (KEPCO) awarded CAE Electronics a contract worth \$17 million to supply a CANDU simulator for the Wolsong station. CAE Electronics is the sole supplier of CANDU simulators to utilities worldwide. This is the company's ninth CANDU simulator sale.

#### **Space**

CAE Electronics continues its efforts on the International Space Station Alpha's Mobile Servicing System. It is producing hardware which will be incorporated into the video sub-system of the Space Station's robot arm as well as providing simulation software for Engineering design activities. In March 1995, the Canadian Space Agency awarded CAE Electronics a contract to supply an Operations and Training Simulator to train astronauts, Space Station Operators and ground controllers to use the Space Station's robotic arm.



Acquisitions and Joint Ventures

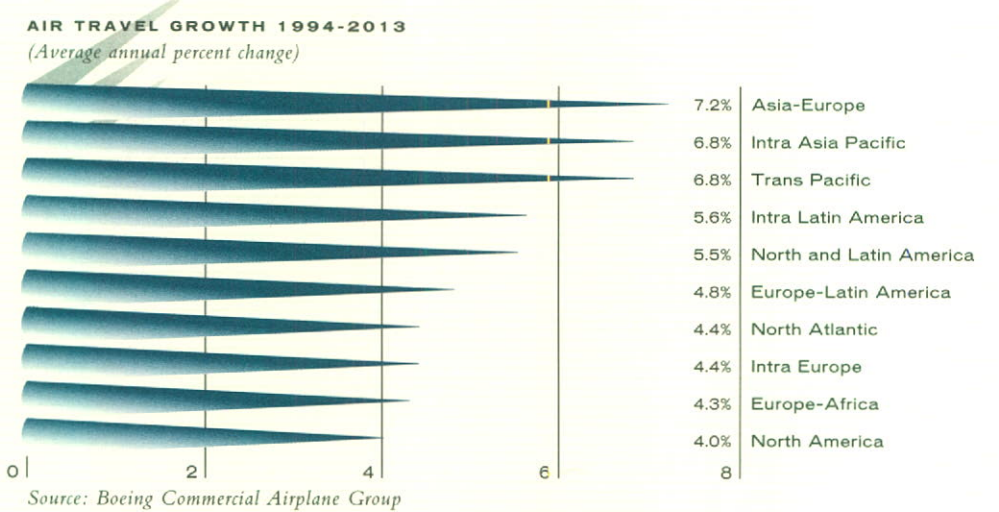
Beyond the significant volume of new orders, CAE Electronics has and will continue to acquire or form strategic alliances with complementary businesses.

In November 1994, CAE purchased the assets of Ferranti Computer Systems (Australia) Pty Ltd. and created CAE Electronics (Australia) Pty Ltd. The team of people who make up this new CAE unit are highly experienced and skilled in software engineering and systems integration. They will pursue opportunities across CAE Electronics' entire product line. CAE Electronics (Australia) is also completing a Railway Signalling and Control System for the State Rail Authority of New South Wales' City Rail Network. This system will automate the scheduling and control of the largest commuter rail network in Australia. The technology applied in this program adds a significant new dimension to CAE's control systems business and is expected to lead to overseas sales.

OUTLOOK

Orders and deliveries of new commercial aircraft are expected to increase over the next few years as the airline industry continues to recover. This is expected to increase demand for aircraft simulation products at CAE Electronics.

The MAXVUE visual simulation system is also well positioned to grow in fiscal 1996 – both in the military and the commercial fields. CAE Electronics continues to invest in further innovations for the MAXVUE visual system which are being developed for broader military applications. The company expects to grow its military simulation business in fiscal 1996. At the same time, CAE Electronics anticipates further growth in the areas of air traffic and power control systems. With its current backlog and new order outlook, the company is well positioned to improve its overall revenue and earnings next year.



**An industry ready for take off: Orders for new, quieter and more efficient aircraft are expected to begin in earnest towards the end of the decade. In the short term, The International Air Transport Association also forecasts that international scheduled passengers will increase in number at an average rate of 6.6 percent annually between 1994 and 1998 to reach 437.3 million.**

CAE ELECTRONICS INC.

As part of the sale of CAE-Link, CAE retained a few Link product lines including Shipboard Machinery Control Systems and Biomedical Simulation Systems. These product lines are now part of a new U.S.-based subsidiary of CAE, CAE Electronics Inc. Recently, CAE Electronics Inc. announced the sale of CAE's Medical Patient Simulation System to Toronto's Sunnybrook Health Science Centre. This is the first sale of such a system in Canada.

In addition, testing of the Marine Control System prototype for use on the new state-of-the-art U.S. Navy Arleigh Burke Class DDG 51 Combattant continues to proceed well. This system, the most advanced in the world, includes such unique features as on-board training which allows operators to train on the control system at the same time as it is operating the ship's systems.

## **CAE ELECTRONICS GMBH**

### **FINANCIAL PERFORMANCE AND OPERATIONAL HIGHLIGHTS**

CAE Electronics GmbH's financial performance improved significantly in fiscal 1995.

Revenue and earnings were substantially higher than last year. Increased simulator modification and support activities were supplemented by sales of a new battle-field simulation technology.

In fiscal 1995, in-plant maintenance activities on the UH-1D helicopter simulators and Tornado simulators increased. The company was awarded a number of simulator modification contracts and was also chosen to supply a pilot selection system to Air China as part of a larger contract with CAE Electronics Ltd.

Throughout the year, CAE Electronics GmbH continued to pursue its strategy of expanding its existing markets and product lines. In December, the company was awarded a contract to supply seven combat simulation systems to the German Armed Forces.

### **OUTLOOK**

CAE Electronics GmbH expects continued improvement in fiscal 1996. Activity will increase as a result of further modifications to the Tornado simulators. There are also a number of potential sales of battlefield simulation technology to other European military agencies. More importantly, the German Armed Forces are moving towards increasing their use of simulation as a major training support tool. This is expected to stimulate renewed growth in simulator sales.

## **CAE AVIATION**

### **FINANCIAL PERFORMANCE AND OPERATIONAL HIGHLIGHTS**

Revenue and operating earnings at CAE Aviation were up compared with fiscal 1994. Continued funding for specific Canadian government aircraft repair, overhaul, modification and upgrade programs, supplemented by foreign military aircraft overhaul programs and extremely strong engineering and technical publications activity contributed to the improved results.

Fiscal 1995 saw the opening of a second Aviation facility in Edmonton to accommodate new programs for the overhaul of Tutor aircraft and a major avionics update program for the Canadian Forces fleet of C130 Hercules aircraft.

In December 1994, CAE was awarded a \$51 million-dollar contract to update the avionics systems in five Canadian Forces C130 Hercules aircraft. In March 1995, the program was extended to the entire C130 Hercules fleet, increasing the contract value to \$126 million for all thirty aircraft. This program will be executed over a period of five years. The avionics upgrade will increase the operation and life of the Canadian Forces C130 Hercules aircraft by providing a new automatic flight control and display system, an integrated flight management system, and state-of-the-art communications and navigation avionics. The contract has provided CAE with an opportunity to significantly expand its avionics integration and test capabilities, to add to its already renowned structural engineering expertise.

Over the past two years, CAE Aviation has implemented a program to significantly redesign its processes and organizational structure to reduce its cost base and improve productivity. This program, known as ACE (Achieving the Competitive Edge), is enabling CAE Aviation to improve the effectiveness of defense spending, and to expand its presence in the international marketplace.



CAE Aviation is now successfully leveraging its expertise into niche markets outside Canada.

Early in this fiscal year, CAE successfully completed a Programmed Depot Maintenance and repainting of a C130 Hercules 'B' model aircraft for the Argentine Air Force, a new customer.

CAE Aviation's Technical Publications business unit continued to grow in fiscal 1995. The company was awarded a contract to develop an Interactive Electronic Technical Manual (IETM) for the Department of National Defense's fleet of T-33 training aircraft. The manual will be distributed on CD-ROM. In addition, towards the end of fiscal 1995, CAE Aviation's Technical Publications business unit opened a new facility in Mirabel, Quebec to support continued growth in the provision of technical publications services to aerospace companies.

#### OUTLOOK

CAE Aviation expects to improve its financial performance in fiscal 1996 due to the C130 Avionics Update Program and the Tutor Refurbishment Program. Continued pressure on defense spending around the world is providing opportunities for CAE to expand further. Through the development of innovative, cost-effective solutions to customers' needs, and its extensive experience in fleet maintenance management, CAE Aviation is well positioned to benefit from the emphasis on upgrades and life extension programs for aging aircraft. Opportunities for growth include aircraft engineering, integrated logistics, maintenance and training services.

### INDUSTRIAL TECHNOLOGIES GROUP

#### FINANCIAL AND OPERATIONAL REVIEW

Financial performance improved significantly in the Industrial Technologies Group. Revenue and operating income increased 22 percent and 47 percent respectively over fiscal 1994 levels. This follows a 27 percent and 25 percent increase respectively, realized in the preceding year.

This growth is not only the result of general economic recovery in their respective industries. These companies are strengthening their positions as market leaders and introducing new technologies. The consolidation of CAE ScreenPlates' European operations in late fiscal 1994 and the acquisition of CAE Trislot in January 1995 also contributed to the improved results. The Industrial Technologies Group is currently pursuing other, complementary acquisitions.

*(Millions of dollars)*

	1995	1994
Revenue	\$ 134.3	\$ 110.2
Earnings from Operations	22.6	15.4
Capital Expenditures	7.2	3.7
Backlog	82.8	42.0

### CAE SCREENPLATES

#### FINANCIAL PERFORMANCE AND OPERATIONAL HIGHLIGHTS

CAE ScreenPlates achieved improved results in fiscal 1995. Revenue and earnings in both the European and North American operations were well ahead of last year's levels, reflecting improved market conditions in the pulp and paper industry, production efficiencies from the consolidation of operations in Europe, and the rapid market acceptance of new technologies.

One of the reasons the company continues to grow is its ability to bring new products to the marketplace, such as CAE's water jet cutting technology. This innovative process incorporates patented manufacturing technologies to produce CAE Profile™ and other contours, which are made exclusively by CAE ScreenPlates. This process provides screens of superior performance characteristics to CAE ScreenPlates' customers.

In addition, the company is exclusively licensed by Black Clawson, one of its major customers, to supply screen plates manufactured with a new proprietary laser cutting technology early in fiscal 1996.

#### **OUTLOOK**

Continued focus on product development and improved production techniques will enable CAE ScreenPlates to provide its customers with superior screening products. The company expects to improve financial performance in fiscal 1996 and to maintain its position as the industry's world market leader.

#### **CAE TRISLOT**

##### **FINANCIAL PERFORMANCE AND OPERATIONAL HIGHLIGHTS**

In the fourth quarter, CAE acquired Trislot Systems N.V., a privately held Belgian company.

This new CAE company, called CAE Trislot N.V., is a leading European producer of sophisticated wedge wire filtering and separation products used in the food and beverage, petrochemical and waste water treatment industries. This acquisition complements the product lines of CAE ScreenPlates and allows both companies to offer a larger selection of products and broaden their respective customer base. For instance, significant opportunities exist in the pulp and paper industry for CAE Trislot.

Pursuing its mandate to expand its international sales, CAE Trislot delivered reactor internals for the largest Shell reactor in the world. After in-house acceptance the entire set of reactor internals was shipped to the Rayong refinery in Thailand.

#### **OUTLOOK**

CAE Trislot, enjoys a technological leadership position in providing precision-engineered wedge wire screening, filtering and separation products to customers worldwide. Under CAE's ownership, CAE Trislot will be better positioned to develop and market products to new customers. Improving economic conditions in Europe, will further enhance CAE Trislot's opportunities for growth.

#### **CAE MACHINERY**

##### **FINANCIAL PERFORMANCE AND OPERATIONAL HIGHLIGHTS**

CAE Machinery reported significantly higher revenue and operating earnings in fiscal 1995.

Market conditions continued to improve for the company's proprietary machinery for the forest products industry in general and the composite wood products industry specifically. CAE Machinery's backlog at the end of fiscal 1995 was the highest in the company's history.

The company's success was due to the significant growth in sales of Oriented Strand Board (OSB) to the construction industry. The growth in OSB is displacing other structural panels, primarily plywood. A record number of OSB mills are now under construction. CAE Machinery is the largest supplier of flakers and stranders utilized in these mills. The company solidified its market position with continued strong flaker sales and the introduction of its new Ring Strander. Testing of the prototype at the Georgia-Pacific, Woodland, Maine, mill site progressed well in 1995 and CAE has received orders for four Stranders since selling the prototype.

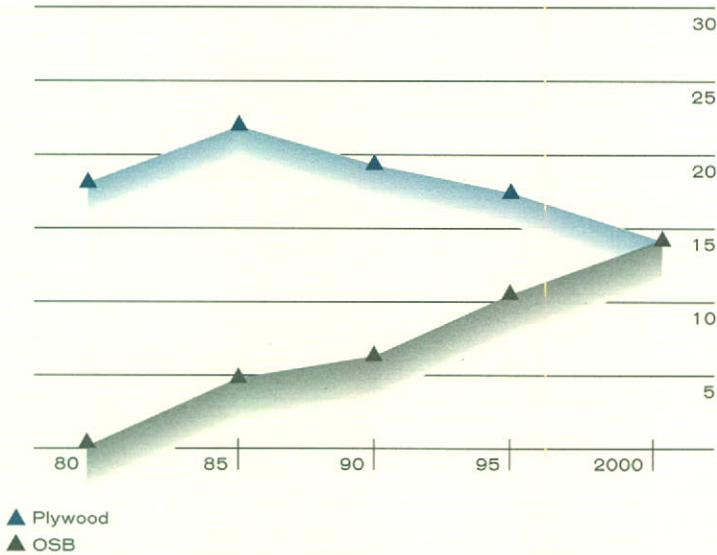
The King Debarker has also been very successful since its introduction in fiscal 1994. CAE has the exclusive sales and manufacturing license in North America from Fuji Kogyo in Japan. This machine permits a higher fibre recovery as it removes bark from smaller or crooked logs and branches which cannot be debarked by conventional machines. In fiscal 1995, CAE installed a King Debarker at its customer's operations in Slave Lake, Alberta. It is the first installation to operate successfully in adverse conditions on frozen wood.



OUTLOOK

Order backlog for the company's proprietary machinery for the production of composite wood panels is at the highest level in the company's history. Combined with this are opportunities for the Ring Strander, the King Debarker and the initial development of the European, Latin American and South East Asian OSB markets, which should lead to further improvement in CAE Machinery's performance. CAE Machinery is also seeking to increase the opportunities for sales of spare parts and consumables for its proprietary equipment.

GROWTH IN NORTH AMERICAN OSB  
(Billions of square feet)



Source: APA, Statistics Canada  
Forecast: R.E. Taylor Associates Limited

**A high growth industry in North America: A record number of new OSB plants were announced worldwide in 1994, while plywood production continued to gradually decline. The growth trend reflects the fact that OSB uses less costly raw materials than plywood, which consumes high-priced logs. If all planned and proposed North American production is brought onstream, OSB capacity will jump from 11.8 billion square feet in 1994 to 18.3 billion by the end of 1996, an increase of 55 percent. Continued high growth, worldwide, is anticipated beyond the turn of the century.**

CAE VANGUARD

FINANCIAL PERFORMANCE AND OPERATIONAL HIGHLIGHTS

CAE Vanguard recorded a solid performance in fiscal 1995 and strengthened its leadership position in axle remanufacturing and reconditioning services. Revenue and operating earnings increased as market conditions in the North American railway industry continued to improve. Productivity improvements were achieved through changes in plant layouts and technological advances which further improved operating margins. CAE Vanguard increased market share in the provision of new axles for both freight cars and locomotives. In addition, the company has benefited from the establishment of a temporary wheel demounting operation while its customer, Norfolk Southern Railway, refurbished its facility.

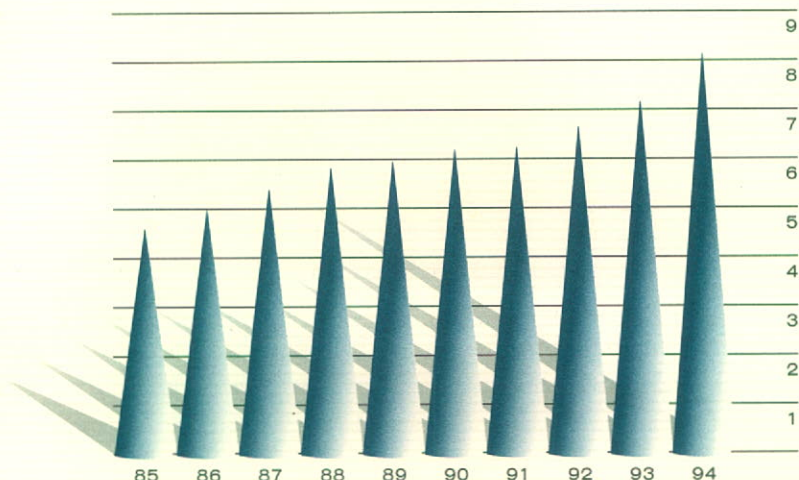
OUTLOOK

Performance at CAE Vanguard should improve in fiscal 1996 due to strong North American markets and geographic expansion. In North America the industry will maintain its strong performance, reflecting exceptional growth in intermodal traffic and solid growth in standard freight. This will continue to result in major new investments in locomotives and freight cars causing a

shortage of new axles. This shortage will provide opportunities for CAE Vanguard in its efforts to serve the maintenance market for refurbished, rebuilt and new replacement axles for existing locomotives and freight cars.

In addition, CAE Vanguard will continue to expand its presence in new geographic markets. CAE Vanguard is already selling axles in the Australian market and is in the process of establishing a rebuilding and machining shop there. The company also commenced selling to the Mexican railways and is evaluating opportunities in China and India.

**INTERMODAL TRAFFIC**  
(Millions)



Source: Association of American Railroads

**Railway recovery continues strong: Reports from the AAR show that intermodal traffic in North America increased 36 percent from 1989 to 1994. Growth in intermodal traffic is expected to continue.**

#### LIQUIDITY AND CAPITAL RESOURCES

CAE's net bank indebtedness was reduced to \$14.7 million at March 31, 1995, compared with \$191.5 million a year ago. The sale of the principal assets of CAE-Link for \$215.5 million (US \$155.0 million), combined with improved cash flows from continuing operations contributed to the significant improvement. At March 31, 1995, CAE had cash of \$43.0 million and long-term debt of \$57.7 million. The long-term debt is comprised of obligations under capital leases and bank term borrowings which have been maintained in certain international jurisdictions to optimize CAE's tax structure.

The company's available long-term debt facility is divided into two components: a US\$180 million unsecured revolving term loan, and a 50 million Deutschmark unsecured revolving term loan. The three year credit facilities are due on November 24, 1997 and are subject to annual extensions. CAE expects to continue renewing these facilities annually.

Cash flow of \$68.3 million was provided by continuing operations. Working capital from continuing operations improved mainly due to higher customer deposits on commercial aircraft simulation contracts.

Net capital expenditures from continuing operations totalled \$22.0 million compared to \$14.0 million last year. Facilities expansion and upgrades to computer systems at CAE Electronics and equipment modernization in the Industrial Technologies Group accounted for most of the expenditures.

Cash of \$51.4 million was used in discontinued operations. Working capital required to fund military simulation contracts and restructuring costs at CAE-Link accounted for the utilization. In addition, cash of \$12.0 million was used for the acquisitions of Ferranti Computer Systems (Australia) Pty Ltd. and Trislot Systems N.V.

CAE paid dividends of \$17.4 million during fiscal 1995, unchanged from fiscal 1994. The annual dividend rate of \$0.16 per share was also unchanged.



CAE's investment in working capital, capital equipment and acquisitions is generally financed from cash flow from operations and long-term debt. In addition, financing is provided through customer deposits received when the contract is signed, and progress payments based on costs incurred or milestones achieved. The majority of the long-term debt was repaid upon receipt of the proceeds from the disposition of CAE-Link on February 24, 1995.

CAE has financial resources available to it in the form of tax loss carry-forwards which may be used to offset taxes payable on future earnings from U.S. operations. After utilizing US\$120.0 million of loss carry-forwards to offset taxes that otherwise would have been payable on the disposition of the principal assets of CAE-Link, CAE maintains non-capital losses of US \$165.0 million which do not begin to expire until 2005.

During fiscal 1995 the corporation's shareholders approved a \$249.3 million reduction in the stated capital of the outstanding common shares effective March 31, 1994. The reduction was equivalent to CAE's deficit at March 31, 1994. The reduction in stated capital was offset by a corresponding elimination of the deficit.

The loss on disposition of the principal assets of CAE-Link included a foreign exchange gain of \$43.3 million. With the realization of this gain, the currency translation adjustment account has been reduced to \$5.4 million at March 31, 1995, from \$41.3 million last year. The balance remaining in the currency translation adjustment account is comprised of the cumulative impact of foreign currency translation rate changes on CAE's remaining foreign subsidiaries, all of which are self-sustaining.

#### **BUSINESS ENVIRONMENT AND RISKS**

CAE's business consists of the design, manufacture and supply of simulation and training equipment and services for commercial aviation and defense, and advanced products and services for industrial applications worldwide.

CAE's commercial simulation operations are influenced by the number of aircraft deliveries, development of new aircraft platforms and training regulations. Recent examples affecting CAE were the launch of the Boeing 777 jumbo jet, new Federal Aviation Administration proposals to increase training on regional aircraft and new training equipment needs for the fast growing Asia-Pacific region.

CAE's military business is also affected by new procurements which by its very nature is dependent upon defense spending. CAE's Canadian and German operations have a solid base of maintenance and support work on existing aircraft platforms. Procurement of new aircraft will impact 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 aftermarket product spending in the forest product sector and to railway traffic volume.

## 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 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 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  
and Secretary

### AUDITORS' REPORT TO THE SHAREHOLDERS OF CAE INC.

We have audited the consolidated balance sheets of CAE Inc. as at March 31, 1995 and 1994 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, 1995 and 1994 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 28, 1995



# Consolidated

## BALANCE SHEETS

as at March 31 (Amounts in thousands of dollars)

### ASSETS

	1995	1994
<b>CURRENT ASSETS</b>		
Cash	\$ 43,040	\$ 10,752
Accounts receivable (note 2)	187,169	129,064
Inventories (note 4)	73,471	48,607
Prepaid expenses	4,166	3,738
Income taxes recoverable	5,237	7,088
Discontinued assets (note 2)	-	402,392
	<b>313,083</b>	601,641
<b>PROPERTY, PLANT AND EQUIPMENT,</b>		
<b>NET (note 5)</b>	<b>141,680</b>	125,226
<b>GOODWILL</b>	<b>36,859</b>	28,192
<b>OTHER ASSETS (note 6)</b>	<b>48,613</b>	49,633
	<b>\$ 540,235</b>	\$ 804,692

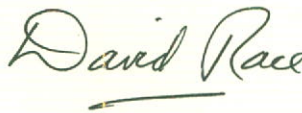
### LIABILITIES AND SHAREHOLDERS' EQUITY

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 195,748	\$ 175,592
Deposits on contracts	105,048	54,288
Long-term debt due within one year	1,421	1,241
Discontinued liabilities (note 2)	-	155,298
	<b>302,217</b>	386,419
<b>LONG-TERM DEBT (note 7)</b>	<b>56,336</b>	200,995
<b>OTHER LONG-TERM LIABILITIES</b>	<b>35,999</b>	32,759
<b>DEFERRED INCOME TAXES</b>	<b>6,844</b>	9,933
	<b>401,396</b>	630,106
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 8)	135,174	382,619
Deficit	(1,769)	(249,319)
Currency translation adjustment (note 2 (iv))	5,434	41,286
	<b>138,839</b>	174,586
	<b>\$ 540,235</b>	\$ 804,692

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)

	1995	1994
<b>REVENUE</b>	<b>\$ 657,592</b>	<b>\$ 591,147</b>
<b>COSTS AND EXPENSES</b>		
Manufacturing	495,458	459,184
Selling and administrative	82,816	70,102
Depreciation and amortization	16,613	15,318
Interest expense, net (note 2(i), 7(iv))	352	831
	<u>595,239</u>	<u>545,435</u>
Earnings before Income Taxes	62,353	45,712
Income Taxes (note 9)	15,026	10,971
Earnings from Continuing Operations	47,327	34,741
Loss from Discontinued Operations (note 2)	31,696	429,701
<b>NET EARNINGS (LOSS)</b>	<b>\$ 15,631</b>	<b>\$ (394,960)</b>
<b>EARNINGS PER SHARE FROM CONTINUING OPERATIONS</b>	<b>\$ 0.44</b>	<b>\$ 0.32</b>
<b>NET EARNINGS (LOSS) PER SHARE</b>	<b>\$ 0.14</b>	<b>\$ (3.64)</b>
<b>AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>108,701</b>	<b>108,588</b>

# Consolidated

## STATEMENTS OF RETAINED EARNINGS (DEFICIT)

Years ended March 31 (Amounts in thousands of dollars)

	1995	1994
<b>(DEFICIT) RETAINED EARNINGS AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED</b>	<b>\$ (249,319)</b>	<b>\$ 206,631</b>
Cumulative Adjustment due to Accounting Policy Change (note 14)	-	(43,616)
Adjustment due to Reduction in Stated Capital (note 8(c))	249,319	-
Retained Earnings at Beginning of Year as Restated	0	163,015
Net Earnings (Loss)	15,631	(394,960)
Dividends	(17,400)	(17,374)
<b>DEFICIT AT END OF YEAR</b>	<b>\$ (1,769)</b>	<b>\$ (249,319)</b>



**STATEMENTS OF CHANGES IN FINANCIAL POSITION***Years ended March 31 (Amounts in thousands of dollars)*

	1995	1994
<b>OPERATING ACTIVITIES</b>		
Earnings from continuing operations	\$ 47,327	\$ 34,741
Add (deduct) items not affecting cash		
Depreciation and amortization	16,613	15,318
Deferred income taxes	17	5,860
Other	1,822	1,673
	<u>65,779</u>	<u>57,592</u>
Working capital provided by (used for)		
continuing operations (note 10)	2,555	(11,463)
<b>CASH PROVIDED BY CONTINUING OPERATIONS</b>	<b>68,334</b>	<b>46,129</b>
<b>CASH (USED IN) PROVIDED BY</b>		
<b>DISCONTINUED OPERATIONS</b>	<b>(51,422)</b>	<b>13,681</b>
	<u>16,912</u>	<u>59,810</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds on sale of subsidiary	215,540	10,250
Acquisitions (note 3)	(12,011)	—
Purchase of property, plant and equipment		
for continuing operations	(22,048)	(14,026)
Increase in other assets	(532)	(11,918)
<b>CASH PROVIDED BY (USED IN)</b>		
<b>INVESTING ACTIVITIES</b>	<b>180,949</b>	<b>(15,694)</b>
<b>FINANCING ACTIVITIES</b>		
Net repayment of long-term debt	(151,092)	(50,577)
Dividends	(17,118)	(17,082)
Other	2,637	2,509
<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(165,573)</b>	<b>(65,150)</b>
<b>CASH INCREASE (DECREASE) DURING THE YEAR</b>	<b>32,288</b>	<b>(21,034)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>10,752</b>	<b>31,786</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 43,040</b>	<b>\$ 10,752</b>

## FINANCIAL STATEMENTS

*Years ended March 31, 1995 and 1994 (Amounts in thousands of dollars)*

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### 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.

### 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.

### 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.

### 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.

The long-term portion of all post-retirement benefits for continuing operations is disclosed as other long-term liabilities on the consolidated balance sheet.

### 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.

## 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 \$215.5 million (US\$155.0 million), resulting in a loss on disposal of \$29.9 million. The proceeds from the sale were used to reduce bank indebtedness. In addition to the net cash proceeds, a further \$38.2 million (US \$27.3 million) is receivable from the purchaser representing the increase in the principal net assets sold between September 30, 1994, the reference date on which the transaction was negotiated, and the closing date of February 24, 1995.

The results of Link for the years ended March 31, 1995 and 1994 have been reported separately under the caption "Loss from Discontinued Operations". The results are summarized as follows:

	1995	1994
Revenue	\$ 364,132	\$ 436,164
Earnings (loss) from operations before goodwill amortization and writedown, net of income taxes (i), (ii)	\$ 4,836	\$ (17,605)
Amortization and writedown of goodwill (iii)	(6,677)	(412,096)
Loss from operations	(1,841)	(429,701)
Loss on sale of discontinued operations, net of income tax provision of \$4,859 (iv)	(29,855)	-
Loss from discontinued operations	\$ (31,696)	\$ (429,701)

The assets and liabilities of Link at March 31, 1994 have been reported separately in the consolidated balance sheet as discontinued assets and liabilities, and are summarized as follows:

	1994
<b>ASSETS</b>	
Current assets	\$ 105,508
Property, plant and equipment, net	43,954
Goodwill	250,953
Other assets	1,977
	<u>\$ 402,392</u>
<b>LIABILITIES</b>	
Current liabilities	\$ 105,966
Other liabilities	49,332
	<u>\$ 155,298</u>

- (i) Earnings (loss) from operations before goodwill amortization and writedown, net of income taxes includes interest directly attributable to the discontinued operation of \$17.4 million in 1995 (1994-\$17.4 million).
- (ii) During fiscal 1994, the corporation provided for costs relating to additional restructuring of Link. The estimated cost of the restructuring program of \$33.0 million, consisting primarily of the employee severances, early retirement, plant closure and disposal of redundant capital assets, has been included with loss from discontinued operations in the consolidated statements of earnings.
- (iii) As at December 31, 1993, the corporation reduced the carrying value of Link. As a result, the corporation wrote down the carrying value of goodwill related to its investment in this subsidiary by \$396.5 million.
- (iv) Included in the loss on sale of discontinued operations is a realized foreign exchange gain of \$43.3 million representing the increase in value of Link's US dollar-based net assets since acquisition.

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### ACQUISITIONS

Effective November 30, 1994, the corporation acquired the principal assets of Ferranti Computer Systems (Australia) Pty Ltd. for cash. Effective January 10, 1995, the corporation purchased the outstanding common shares of Trislot Systems N.V. for cash. Both acquisitions were accounted for using the purchase method. Accordingly, operating results for the acquired businesses have been included in the consolidated financial statements from the dates of purchase.

#### ASSETS ACQUIRED, AT FAIR VALUES:

Net working capital	\$ 356
Property, plant and equipment	3,795
Goodwill	7,860
	<u>\$ 12,011</u>

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### INVENTORIES

	1995	1994
Work-in-progress	\$ 52,104	\$ 32,826
Raw materials, supplies and manufactured products	21,367	15,781
	<u>\$ 73,471</u>	<u>\$ 48,607</u>



		Accumulated Depreciation & Amortization	Net Book Value
1995	Cost		
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>
1994			
Land	\$ 6,384	\$ -	\$ 6,384
Buildings and improvements	83,151	29,877	53,274
Machinery and equipment	121,512	71,152	50,360
Property under capital leases	18,824	3,616	15,208
	<u>\$ 229,871</u>	<u>\$ 104,645</u>	<u>\$ 125,226</u>

## OTHER ASSETS

Other assets include \$43.6 million (1994 - \$43.0 million) of investment tax credits which are available to reduce future federal income taxes payable in Canada.

## LONG-TERM DEBT

	1995	1994
Three year revolving term loan, to a maximum of US \$180,000 extendable annually, unsecured, due November 24, 1997 (1995: US \$0, 1994: US \$110,000)	\$ -	\$ 152,186
Three year revolving term loan, to a maximum of Deutschmark 50,000 extendable annually, unsecured, due November 24, 1997 (1995: DM 43,751, 1994: DM 39,500)	44,464	36,506
Obligations under capital lease commitments (iii)	13,293	13,544
	<u>57,757</u>	<u>202,236</u>
Less:		
Long-term debt due within one year	1,421	1,241
	<u>\$ 56,336</u>	<u>\$ 200,995</u>

- (i) During fiscal 1995 the corporation had interest rate swap agreements outstanding which fixed the interest rate on US\$100.0 million of long-term debt to a rate approximating 8.2%. During fiscal 1994 interest rate swap agreements were outstanding which fixed the interest rate on US\$125.0 million of long-term debt to a rate approximating 8.8%. There were no interest rate swap agreements outstanding as at March 31, 1995. Interest on the balance of long-term debt is at rates approximating LIBOR.
- (ii) The interest rate on obligations under capital leases was approximately 6.6% (1994 - 6.7%)

- (iii) The aggregate amount of payments required in each of the next five years to meet the retirement provisions of the long-term debt is as follows:

Year ending March 31, 1996	\$	1,421
1997		1,483
1998		45,820
1999		1,223
2000		1,296
Thereafter		6,514
	\$	<u>57,757</u>

- (iv) Interest expense on long-term debt for the year ended March 31, 1995 was \$17.3 million (1994 - \$19.1 million).

## 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:

	1995 Number of Shares	Stated Value	1994 Number of Shares	Stated Value
Balance at beginning of year	108,627,411	\$ 382,619	108,564,958	\$ 382,246
Stock options (a)	280,600	1,592	13,400	81
Stock dividends (b)	39,212	282	49,053	292
Reduction in stated capital (c)		(249,319)		
Balance at end of year	<u>108,947,223</u>	<u>\$ 135,174</u>	108,627,411	\$ 382,619

- a) On December 16, 1994, the corporation granted 726,000 options, exercisable at \$7.25 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, 1995 for the purchase of 2,420,500 common shares at prices ranging from \$5.00 to \$7.25 and expiring during the period from 1997 to 2000. There were 280,600 options exercised in the year, and 486,700 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) In July, 1994, the shareholders of the corporation approved the extension of the shareholder protection rights plan whereby one right was issued for each common share of the corporation then outstanding. 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.



**INCOME TAXES**

The provision for income taxes comprises:

	1995	1994
Current	\$ 15,009	\$ 5,111
Deferred	17	5,860
	<u>\$ 15,026</u>	<u>\$ 10,971</u>

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

	1995	1994
Combined federal and provincial statutory rate (1995 and 1994 44.3%)	\$ 27,647	\$ 20,269
Income taxed at different rates in foreign jurisdictions	(4,545)	(4,139)
Manufacturing and processing allowance	(2,434)	(2,403)
Tax benefit of losses not previously recognized	(2,524)	-
Research and development investment tax credits	(2,281)	(3,705)
Other	(837)	949
Income taxes	<u>\$ 15,026</u>	<u>\$ 10,971</u>

At March 31, 1995, 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	\$ 126,000
Amounts provided for in the financial statements which have not yet been claimed for income tax purposes	39,000
	<u>\$ 165,000</u>

The losses for income tax purposes expire in the years 2005 through 2009.

**SUPPLEMENTARY CASH FLOW INFORMATION**

Working capital provided by (used for) continuing operations:

	1995	1994
Accounts receivable	\$ (16,830)	\$ (20,157)
Inventories	(23,770)	(1,222)
Prepaid expenses	(225)	542
Income taxes recoverable	(4,528)	(3,532)
Accounts payable and accrued liabilities	(1,900)	34,552
Deposits on contracts	49,808	(21,646)
	<u>\$ 2,555</u>	<u>\$ (11,463)</u>

**LEGAL PROCEEDINGS**

- (i) The corporation settled a proceeding against the Canadian Commercial Corporation (CCC) to recover unpaid amounts and damages in connection with the T-39 aircraft maintenance program which was terminated for the convenience of the United States Government in April 1971. The settlement had no significant impact on the consolidated financial position of the corporation.
- (ii) 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.

**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, 1996	\$	3,316
1997		2,351
1998		1,627
1999		804
2000		749
Thereafter		2,142
	\$	<u>10,989</u>

**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:

	1995	1994
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	\$	88,811	\$	85,525
Present value of accrued pension benefits	\$	80,852	\$	75,415

**POST-RETIREMENT BENEFITS OTHER THAN PENSIONS**

During fiscal 1994 the corporation adopted an accrual method of accounting for post-retirement benefits other than pensions similar to that prescribed by the Financial Accounting Standards Board (FASB) Statement 106, "Accounting for Post-Retirement Benefits Other Than Pensions", effective April 1, 1993. Previously, such costs had been recognized on a pay-as-you-go basis. The change in accounting policy has resulted in a charge to retained earnings as at April 1, 1993 of \$43.6 million. The effect of this change in accounting policy on future periods is not expected to be significant.

**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, and the provision of wheel and axle services for railways. On January 7, 1994, the corporation sold its 75% interest in CAE Fiberglass Ltd.



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

#### BUSINESS SEGMENTS:

	Aerospace and Electronics		Industrial Technologies		Consolidated	
	1995	1994	1995	1994	1995	1994
Revenue	\$ 523,257	\$ 480,983	\$ 134,335	\$ 110,164	\$ 657,592	\$ 591,147
Earnings	\$ 42,124	\$ 34,892	\$ 22,568	\$ 15,370	\$ 64,692	\$ 50,262
Other expense, net					(1,987)	(3,719)
Interest expense					(352)	(831)
Earnings before income taxes					\$ 62,353	\$ 45,712
Identifiable assets	\$ 396,145	\$ 284,641	\$ 127,364	\$ 100,284	\$ 523,509	\$ 384,925
Discontinued assets		\$ 402,392				402,392
Other assets, net					16,726	17,375
Total assets					\$ 540,235	\$ 804,692
Capital expenditures	\$ 15,088	\$ 11,293	\$ 7,240	\$ 3,659	\$ 22,328	\$ 14,952
Depreciation and amortization	\$ 10,685	\$ 9,544	\$ 5,928	\$ 5,774	\$ 16,613	\$ 15,318

#### GEOGRAPHIC SEGMENTS:

	North America		Europe & Australia		Consolidated	
	1995	1994	1995	1994	1995	1994
Revenue	\$ 552,825	\$ 519,162	\$ 104,767	\$ 71,985	\$ 657,592	\$ 591,147
Earnings	\$ 53,879	\$ 42,358	\$ 10,813	\$ 7,904	\$ 64,692	\$ 50,262
Other expense, net					(1,987)	(3,719)
Interest expense					(352)	(831)
Earnings before income taxes					\$ 62,353	\$ 45,712
Identifiable assets	\$ 417,225	\$ 314,721	\$ 106,284	\$ 70,204	\$ 523,509	\$ 384,925
Discontinued assets		\$ 402,392				402,392
Other assets, net					16,726	17,375
Total assets					\$ 540,235	\$ 804,692
Capital expenditures	\$ 18,968	\$ 12,799	\$ 3,360	\$ 2,153	\$ 22,328	\$ 14,952
Depreciation and amortization	\$ 13,019	\$ 12,157	\$ 3,594	\$ 3,161	\$ 16,613	\$ 15,318

#### EXPORT SALES FROM CANADA:

	1995	1994
United States	\$ 110,449	\$ 112,052
Europe	50,126	46,731
Asia, Africa	170,186	156,363
Other	6,480	2,980
	<u>\$ 337,241</u>	<u>\$ 318,126</u>

Research and development expenditures approximated \$100.0 million during the year, virtually unchanged from 1994.

## Five years in

### REVIEW

(Figures in thousands except where indicated by \*)

	1995	1994	1993	1992	1991
Continuing Operations					
Revenue	\$ 657,592	591,147	492,049	508,946	525,212
Depreciation and amortization	\$ 16,613	15,318	13,741	11,623	11,131
Earnings	\$ 47,327	34,741	35,063	37,821	41,277
Earnings per share	\$ 0.44	0.32	0.32	0.35	0.43
Net earnings (loss)	\$ 15,631	(394,960)	32,244	32,785	24,157
Net earnings (loss) per share*	\$ 0.14	(3.64)	0.30	0.31	0.25
Ratio of current assets to current liabilities*	1.0	0.9	0.9	0.7	0.7
Number of registered shareholders*	3,800	4,200	4,500	4,900	5,100
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
<b>1995</b>				
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

1994

Continuing Operations				
Revenue	\$ 141,920	141,225	154,050	153,952
Earnings	\$ 7,535	6,737	11,685	8,784
Earnings per share	\$ 0.07	0.06	0.11	0.08
Net earnings (loss)	\$ 7,613	5,986	(418,683)	10,124
Net earnings (loss) per share	\$ 0.07	0.06	(3.86)	0.09
Common share trading range:				
High	\$ 5.375	6.000	7.125	7.250
Low	\$ 4.850	4.800	5.500	5.625



## 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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**MESSAGE**

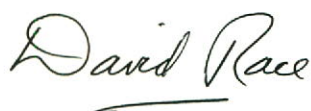
The Board of Directors was very active in fiscal 1995, meeting on 12 occasions during the course of the year, including visits to CAE facilities in Canada, Germany and Finland. All of the Board committees functioned well and met an aggregate of 14 times throughout the year.

In addition to the regular activities of the Board, emphasis was placed on the disposition of CAE-Link, CAE's longer-term acquisition and growth strategy and on considerations pertaining to proposed acquisitions including those of CAE Electronics (Australia) and CAE Trislot. Strategic planning continued to be a primary matter for the Board's attention.

The Board is pleased with the results achieved by the Company and the progress it has made in fiscal 1995. The strength the Company has demonstrated in its markets and the strategic direction it is taking augurs well for continuing success and satisfactory returns to its shareholders.

This year's Annual Meeting, to be held on June 8, 1995, is notable in that it will mark the retirement of a long-standing Board member, corporate officer and former employee. On behalf of the company's shareholders – past and present – we wish to record our thanks for the contribution of C. Douglas Reekie to the growth and success of CAE over the past four decades. Mr. Reekie joined the accounting staff of Canadian Aviation Electronics Ltd. in Montreal in 1956, and was appointed President and Chief Executive Officer of CAE Industries Ltd. in 1967. At the same time he was elected a director of the Company and in 1985 on stepping down as President and Chief Executive Officer he was appointed Vice Chairman. I have had the pleasure of serving with Doug Reekie during most of the years he has been associated with CAE and I have experienced and valued first-hand his innate understanding of the Company and his candid and wise counsel. Both will be missed.

CAE's success is, in a large measure, a reflection of the talents and the dedication of its employees. In recognizing this, the Board, on behalf of the shareholders, thanks all employees for their contribution to the company's achievements during the past year. Together we look forward to the continued leadership, growth and success of CAE next year and for many years to come.



**DAVID H. RACE**

Chairman of the Board of Directors

**MESSAGE**

Fiscal 1995 was a year of growth and significant change for CAE. Consolidated results from continuing operations for the year were excellent with revenue increasing 11 percent and operating earnings rising by 36 percent. All CAE divisions performed well in fiscal 1995, reporting increased revenue and operating earnings. These positive results reflect our commitment to deliver value-added products and services that meet or exceed our customers' expectations.

One of the most significant actions we took this past year was to sell CAE-Link Corporation to Hughes Electronics Corporation of Los Angeles for US\$155 million.

We decided to divest of CAE-Link for a number of reasons. Chief among these was the contraction in U.S. defense spending. In our view, in the post-Cold War era, the U.S. defense industry will continue to contract until well into the next century. CAE-Link's primary marketplace was thus characterized by declining volume, clear overcapacity and low margins. It was apparent industry consolidation was necessary and inevitable.

After reviewing our options, it became clear that the divestiture of CAE-Link was the most feasible course of action for CAE.

CAE is now very focused on profitable growth. Without exception, our companies are leaders in their industries. We operate in strong niche markets with high barriers to entry. We compete successfully against the world's best in such areas as hardware and software design, systems engineering and integration, aircraft repair and overhaul, and precision manufacturing. We are international in scope and are proud of a highly experienced, skilled and committed workforce. Based on this strong foundation and with a very sound financing capability, we can take full advantage of our growth strategy to increase returns to our shareholders.

There are seven dimensions to our strategy for growth: participate in expanding markets; increase market share; geographic expansion; product line extension; acquisitions and joint-ventures; entry into emerging markets; and development of new emerging technologies.

All our companies serve customers in markets that are growing and our market share continues to increase. CAE Electronics, for example, ended fiscal 1995 with a 73 percent share in the world commercial simulation market and 80 percent of the visual systems market.

By investing appropriately in R&D, CAE continues to leverage its core capabilities to bring new and enhanced technologies to the marketplace. In fiscal 1995, we invested approximately \$100 million in R&D on projects such as new developments for our MAXVUE visual system for military applications.



Very often, working with our customers, we develop new technologies which spark breakthroughs in our customers' industries, ultimately benefiting us all. We are also developing new geographic markets, such as China and the Pacific Rim, both through the Aerospace and Electronics Group and Industrial Technologies Group.

In addition, we are looking for opportunities to acquire companies to complement our existing portfolio of businesses and support our plans for growth. For example, during fiscal 1995 we acquired Trislot Systems, a privately held Belgian company. This new CAE company produces sophisticated wedge wire filtering and separation products.

Through the acquisition, CAE expands the range of its precision screening products and gains access to new markets. By joining CAE ScreenPlates, CAE Trislot in turn gains access to the resources needed to compete globally. Both companies will therefore benefit and grow.

We created a similar positive situation when we acquired the assets of Ferranti Computer Systems (Australia) Pty Ltd. This new CAE company, CAE Electronics (Australia) Pty Ltd., will pursue opportunities across CAE Electronics' entire product line. In turn, this acquisition will assist CAE in pursuing defense contracts in Australia and the Pacific Rim.

We are also establishing a presence for CAE Electronics in the U.K. The award of the EH-101 program, known as the Merlin helicopter program, gave us a good starting point to penetrate this market. We intend to build on this foundation for further growth. This successful award and our acquisition in Australia demonstrate our continued commitment to aggressively pursue defense business in growth markets worldwide.

Finally, it is vital to our leadership that we remain at the forefront of emerging markets and technologies. We continue to explore opportunities to leverage our existing technologies and capabilities into new areas.

This is an exciting time at CAE with many new initiatives underway. Our focus in fiscal 1996 is growth. With the skills and enthusiasm of our people, we are committed to creating opportunities that will allow CAE to thrive and deliver the best value to our customers and our shareholders.

A handwritten signature in black ink, appearing to read 'John E. Caldwell', with a long horizontal stroke extending to the right.

**JOHN E. CALDWELL**

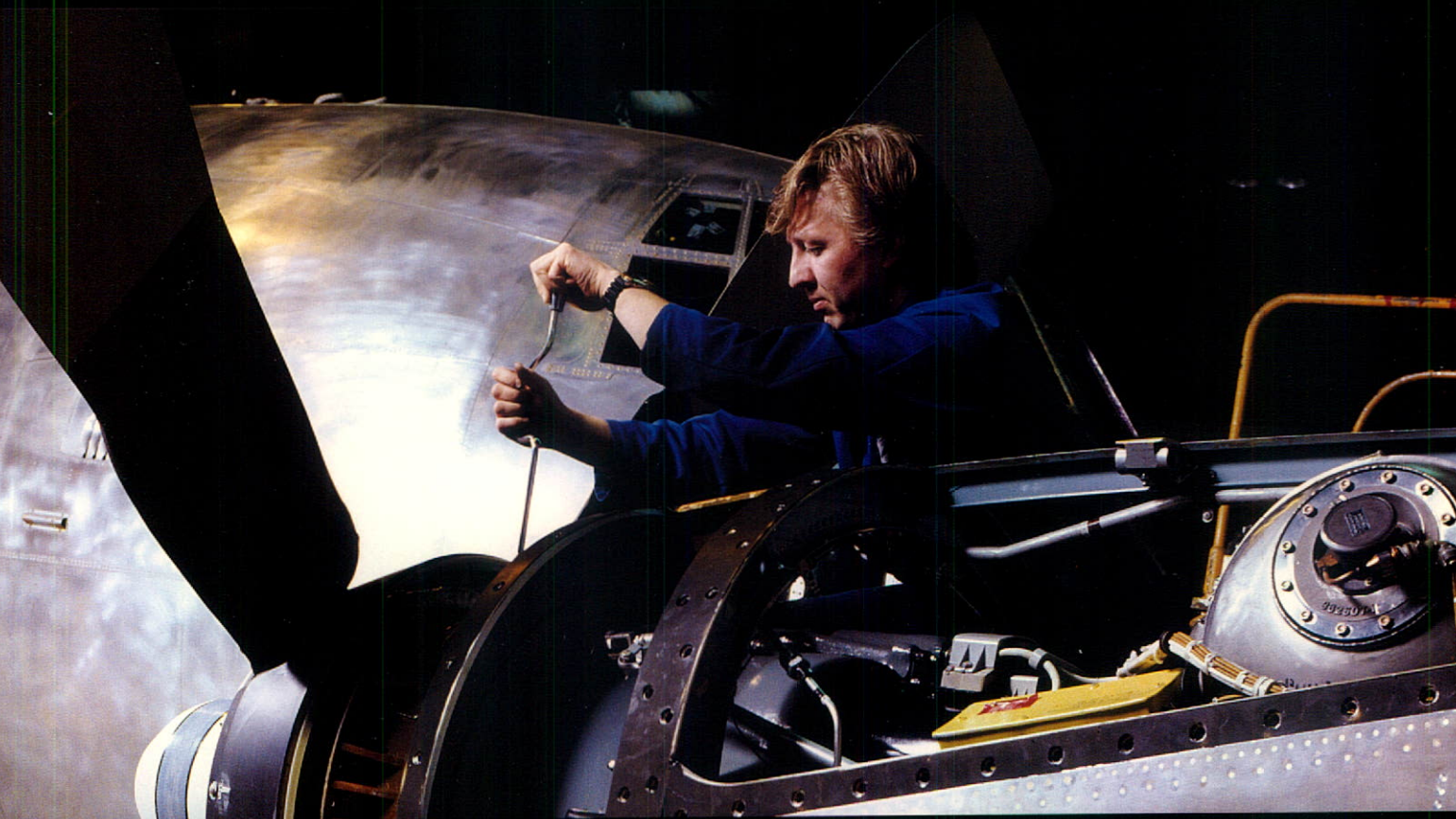
President and Chief Executive Officer



Leadership and Growth... CAE today and tomorrow

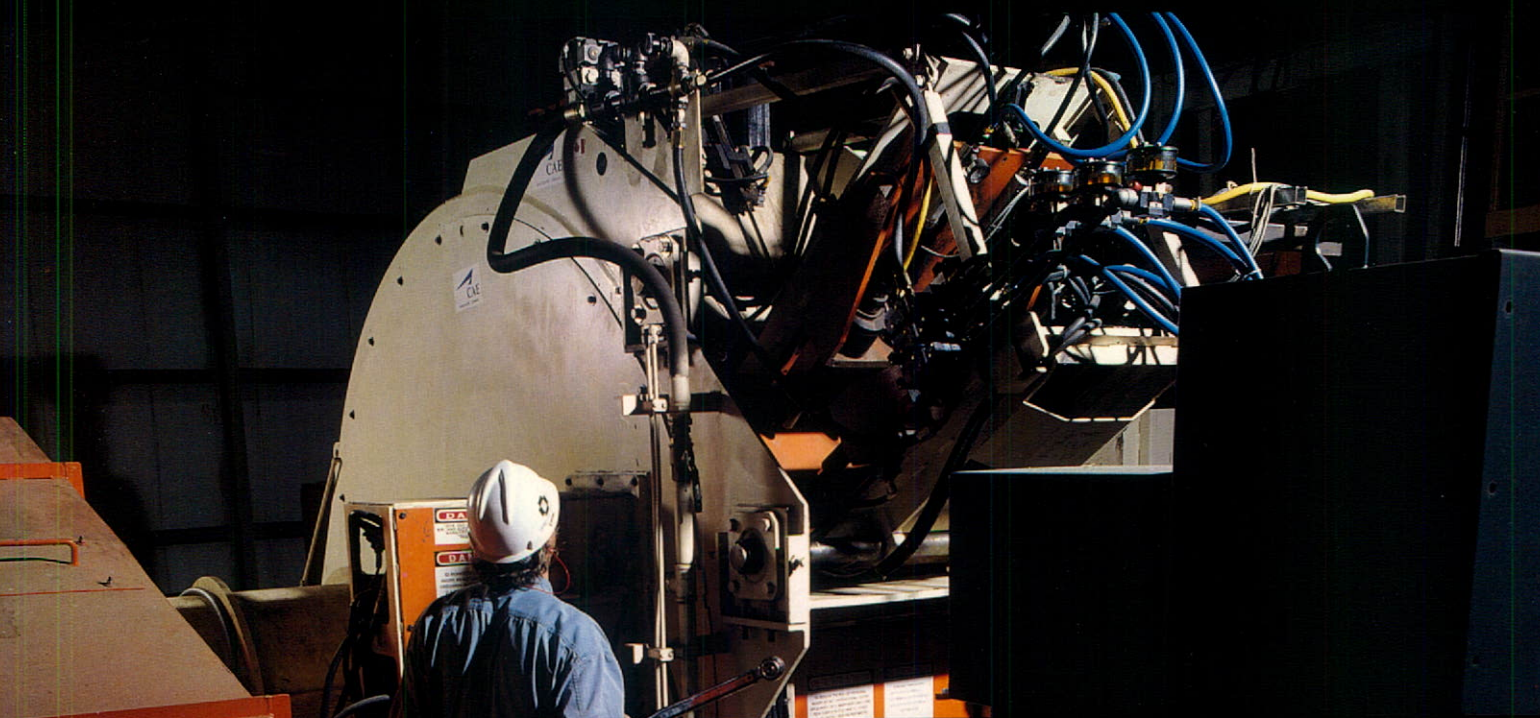
CAE IS A **WORLD LEADER IN ADVANCED TECHNOLOGY SOLUTIONS**

**FOR A VARIETY OF MARKETS.**



ALL CAE BUSINESSES HAVE A COMMON BOND OF UNSURPASSED

**TECHNICAL EXPERTISE AND HIGHLY SKILLED EMPLOYEES.**



BASED ON THIS SOLID FOUNDATION WE HAVE MADE TWO PRIMARY COMMITMENTS: TO

**STRENGTHEN OUR LEADERSHIP POSITION IN ALL OUR MARKETS**

**AND TO GROW.**



CAE ELECTRONICS

The pilot and aircrew of the next plane you board were likely to have been trained using CAE simulation technology. For decades, CAE Electronics has been the world leader in recreating the actual experience of flying commercial and military aircraft for training purposes – right down to the hum of the engines and the vibration in the cockpit.

The results benefit us all: pilot and crew training that's thorough, economical and timely – and air travel that is decidedly safer.

This year, CAE delivered the world's first Boeing 777 full flight simulator and flight training device to the Boeing Commercial Airplane Group. Built in parallel with the aircraft, CAE engineers worked very closely with our customer to integrate complex new technologies and simulation tasks. This close co-operation helped our customer control costs and launch the aircraft in a safe and timely manner. In fact, Boeing pilots were training in CAE's simulator in preparation for the first flight well before the aircraft took to the skies.

CAE IS COMMITTED TO STRENGTHENING ITS LEADERSHIP IN

SIMULATION TECHNOLOGY WORLDWIDE. To enhance our global presence, we recently acquired a new company in Australia, CAE Electronics (Australia) Pty Ltd. This company brings together 60 of the highest calibre engineers and scientists with significant expertise in software engineering and systems integration. They will leverage their skills to grow CAE's presence in one of our fastest growing markets, Australia and Southeast Asia.

**CAE IS ON THE LEADING EDGE  
IN CHINA.** Along with numerous  
other simulator and power  
control system sales, CAE  
is also the main supplier of  
simulator equipment and visu-  
al systems for the new flying  
college in Guanghan, Sichuan  
Province. The college is oper-  
ated by China's Civil Aviation  
Administration and is designed  
to be one of the most modern  
and comprehensive centres  
of its kind in the world. In a  
country where name aware-  
ness and relationship building  
are essential to doing busi-  
ness, a visible presence at the  
college gives a great boost  
to CAE's future prospects.

**PHOTO:**

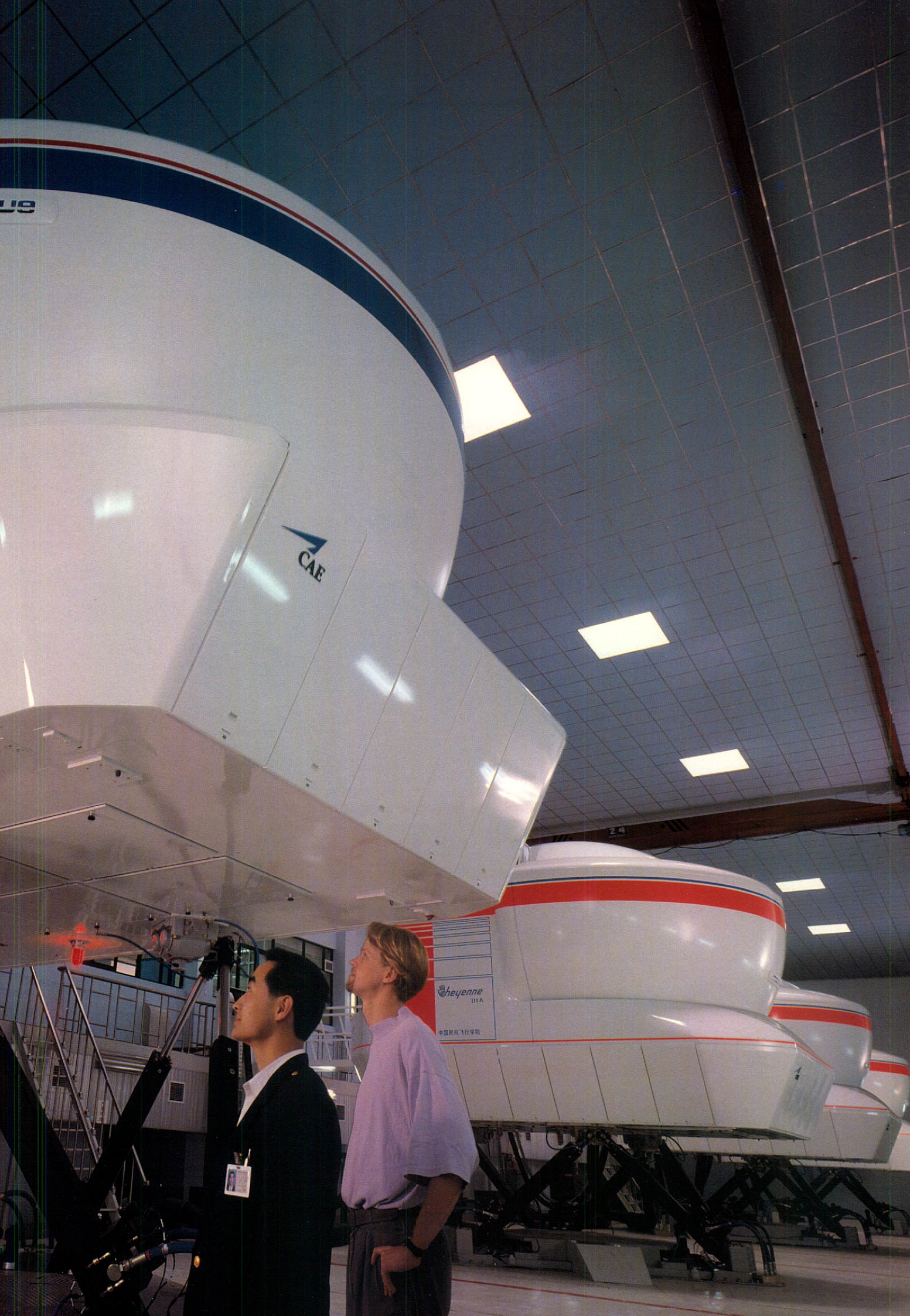
**CAAC Flying College  
Guanghan, China**

LEADING

THE WORLD  
IN

SIMULATION TECHNOLOGY











**CAE ELECTRONICS**

**CAE CONTINUES TO BE A LEADER IN POWER CONTROL SYSTEMS.** Earlier this year, a team of CAE engineers installed a new Distribution Management System for Boston Edison. This electrical power utility opened a new control centre in May 1995 which features CAE software. It will enable Boston Edison to operate its network more efficiently, reducing power outages and increasing utilization for more than 2 million people in greater Boston. CAE also installed a similar Gen 3 system in Caracas, Venezuela earlier this year.

**PHOTO:**

**Boston Edison DMS  
Boston, U.S.A.**

CAE Electronics continues to leverage its core capabilities to create new, superior technologies. The Gen 3 Distribution Management System is just one example of the many types of control systems CAE Electronics delivers worldwide.

This system can map out the electrical power supply for an entire city on a computer screen. If there's a problem, the system will sound the alarm – and even tell the operator what's gone wrong and exactly where repairs are needed.

A new Canadian customer, the Scarborough Public Utilities Commission, ordered such a system this year. CAE has designed the distribution management system so that it can easily expand as their requirements change – ensuring more flexible and reliable service to thousands of Scarborough homes.

**CAE CONTINUES TO EXPAND ITS MARKET SHARE** for power control systems. This marketplace is growing as utilities everywhere are adapting to a deregulated, more competitive environment. Growth is particularly strong in the Asia-Pacific region.

For example, forecasts indicate that over the next 10 years China will spend between \$100-150 billion on power generation projects and related infrastructure. The country expects to double its energy generation capacity by the year 2000. CAE has been successful in supplying power control systems to China since 1985 and is well positioned to tap this potential market.

**BUILDING**

**SUPERIOR CONTROL SYSTEMS**







IT TAKES ADVANCED SKILLS TO  
CREATE UNIQUE SIMULATION  
PRODUCTS, such as the  
Boeing 707 E-3A Cockpit  
Procedures Trainer (CPT).  
That's why most of the 500  
people at CAE Electronics  
GmbH are engineers and  
technicians. By drawing upon  
their depth of knowledge  
and expertise, we created a  
cockpit-only simulator which  
gives our customer, NATO, a  
low-cost training alternative.  
The CPT is used in the train-  
ing and advanced training of  
pilots, flight engineers and  
navigators for one of NATO's  
most commonly used planes.

PHOTO:

**NATO E-3A cockpit  
Gellenkirchen, Germany**

Imagine the exhilaration of taking a jet aircraft for a spin. That's exactly what the German Air Force has been offering the public at trade shows since January, 1995. As part of a combined public relations and recruiting effort, the Air Force asked CAE Electronics GmbH to develop the special technology required to create the demo jet. It's the first and only of its kind in the world.

OUR GERMAN COMPANY HAS BEEN MAKING ITS MARK BY  
DEVELOPING UNIQUE SIMULATION AND RELATED  
SYSTEMS for more than three decades. In response to customer requests, they have created new pilot and aircrew selection systems, as well as guidance and information systems. The company also provides permanent on-site support of simulators at 24 locations in Germany, the Netherlands, Italy and Portugal.

BUILDING ON THE HIGH LEVEL OF EXPERTISE OF ITS EMPLOYEES.  
CAE Electronics GmbH has also developed new battle-field simulation software. This system dramatically cuts training costs for our military customers. It recreates an actual battalion command post to give officers the opportunity to gain combat experience and learn from the success or failure of their actions. CAE Electronics GmbH has now been awarded a contract to supply this software to the German Armed Forces. A number of other European military agencies have also expressed interest – illustrating again CAE's ability to leverage its core capabilities to create successful new products and expand its markets.

**EXPANDING  
THE FRONTIERS  
OF  
SIMULATION IN EUROPE**



CAE AVIATION

NO ONE PUTS THE HERCULES C130 AIRCRAFT TO A TOUGHER

TEST THAN THE CANADIAN MILITARY. The 30 Canadian C130s have flown more hours in more difficult conditions than any other fleet in the world – from the frozen conditions of the Arctic, to peacekeeping in Bosnia and rescue missions in Rwanda. And whenever these planes need to be repaired or updated, CAE gets the nod.

THROUGH THE ADVANCED SKILLS OF OUR PEOPLE, CAE has

expanded the useful life of Canada's C130s by many years. Some of the original planes have been flying since the late 1960's and are considered among the world's most reliable and versatile aircraft. In fact, CAE is the only service centre in North America specifically approved by the manufacturer, Lockheed Corporation, for the repair, overhaul, maintenance and modification of the C130 Hercules.

AND NOW OUR CANADIAN EXPERIENCE IS GIVING US A

COMPETITIVE ADVANTAGE WORLDWIDE. In fiscal 1995, we completed a unique contract with a new customer, the Argentine Air Force, for the Programmed Depot Maintenance and repainting of their C130 B model aircraft. Our recent ISO 9001 certification will give us a further advantage in pursuing new business opportunities worldwide.

ALREADY A WORLD LEADER,

CAE AVIATION KEEPS GETTING BETTER. Two years ago, our employees started a process redesign program to reduce production costs and improve customer service. As part of this initiative, we re-engineered our Progressive Structural Inspection for the Canadian Forces C130 fleet. It is still early in the project, but benefits have already been achieved and more are developing. Additional cost savings are expected as employees embark on new Continuous Improvement projects.

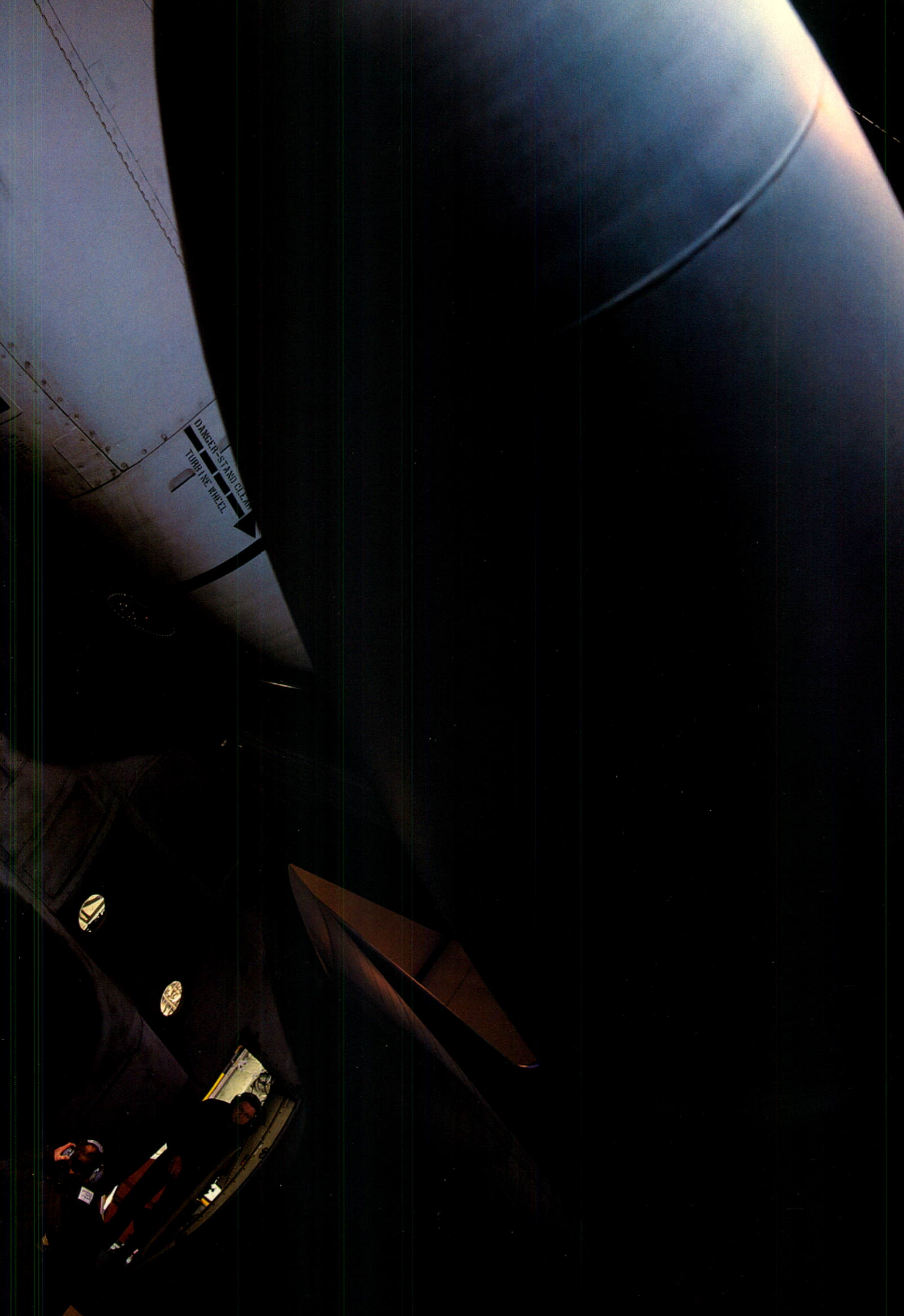
PHOTO:

Canadian Air Force C130  
Edmonton, Canada

OFFERING

UNMATCHED EXPERTISE  
IN  
AIRCRAFT REPAIR





DANGER-STOP AND CLEAR  
TURBINE WHEEL







**CAE MACHINERY**

**THE STRANDERS AND FLAKERS WE  
SELL TO OSB MANUFACTURERS  
ARE ACTUALLY HELPING PRESERVE  
OUR MATURE FORESTS. That's  
because OSB uses trees  
from sustainable fast growing  
forests such as aspen, poplar  
and mixed hardwoods. As  
well, the manufacturing of  
OSB uses nearly 90 percent  
of the log, so there's little  
waste – saving trees and  
reducing the cost to future  
homeowners around the world.**

**PHOTO:**

**Georgia Pacific  
Ring Strander  
Woodland, Maine, U.S.A.**

**CAE MACHINERY HELPS ADVANCE THE FOREST PRODUCTS**

**INDUSTRY WITH NEW AND INNOVATIVE PRODUCTS.**

including the world's most advanced flakers. One of the newest of these is the CAE 28/81 Ring Strander. Our customers use the strander to turn logs into strands of wood. These strands are then used for making engineered wood products such as Oriented Strand Board (OSB). OSB is now widely used in the construction industry as a substitute for plywood.

**WE DEVELOPED THE STRANDER IN CLOSE CONSULTATION WITH  
OUR CUSTOMERS TO MEET THEIR CHANGING NEEDS.**

For example, a typical ring strander contains a series of knives mounted inside a huge ring. These knives wear down frequently and need to be replaced. The ring itself is also susceptible to damage from rocks and other foreign bodies. Normally, our customers would require two to three days to change a strander ring. However, for our strander, our engineers designed a new patented method of changing the ring in 8 hours, enabling our customers to save valuable production time.

CAE Machinery also successfully introduced new licensed debarker technology in fiscal 1995. The King Debarker is particularly effective in debarking branches and small diameter and crooked logs, even under frozen conditions. This opens the door to new economies of production for our forest products customers – making better use of our forest resources.

**PROVIDING**

**INNOVATIVE TECHNOLOGY  
TO THE**

**FOREST PRODUCTS INDUSTRY**



## CAE SCREENPLATES

### IT TAKES SOPHISTICATED TECHNOLOGY AND KNOW-HOW TO

#### MANUFACTURE SCREEN PLATES THAT MEET OUR

CUSTOMERS' HIGH STANDARDS. Through an ongoing commitment to R&D, CAE ScreenPlates rises to the challenge and continues to introduce new technologies that fit the bill. Our patented water jet cutting technology (SF series) was developed in Finland to address the industry's need for superior product performance, in terms of screening efficiency, added capacity and durability. In fact, our innovative manufacturing process can cut slots to a width of about one third of the thickness of a business card.

Typical applications for our products include recycled paper operations and waste water treatment – all part of society's commitment to protecting the environment. We also provide this technology for food and beverage applications such as beer production. Our customers use CAE screen plates in their processes to separate out any impurities and ensure that the final products that reach you are of the highest quality. The report you now hold in your hands was printed on high grade recycled paper – which in turn was produced using CAE's screen plates in the recycling operation.

### THROUGHOUT CAE'S COMPANIES, ALL EMPLOYEES ARE

#### ENCOURAGED TO CONTRIBUTE TO THE CREATIVE

PROCESS OF PRODUCT DEVELOPMENT. For example, Jacques Riendeau, CAE ScreenPlates' Director of Engineering in Lennoxville, Quebec, pioneered a new way to manufacture screen plates. The process was named after him: the JR series. Still in development, this patented technology will provide CAE ScreenPlates and its customers with a unique product for specific niche applications.

CAE ScreenPlates is now exclusively licensed by Black Clawson, one of our major customers to supply them with screens manufactured with new propriety laser cutting technology. The process will make screen plates used mainly for paper recycling applications. As well, there are many potential applications for this technology in new markets beyond our traditional screen plate customers. That adds up to another opportunity for future growth for CAE ScreenPlates.

#### PHOTO:

Black Clawson  
patented laser  
cutting technology  
Minneapolis, U.S.A.

GROWING

OUR LEADERSHIP  
IN PRECISION  
SEPARATION TECHNOLOGIES







## CAE TRISLOT

In January 1995 we acquired Trislot Systems, a privately held Belgian company. Renamed CAE Trislot, this new CAE company produces sophisticated wedge wire filtering and separation products used in the food and beverage, petrochemical and waste water treatment industries.

Wedge wire products are created by welding V-shaped wire to a support frame. This allows filtering to take place with a minimum of clogging and maximum throughput design. The production of wedge wire products requires extreme precision. For the very finest filters, the slots must be so small, not even a single hair can pass through.

### CAE TRISLOT IS WELL KNOWN AS A TECHNOLOGICAL LEADER AND FOR EXCELLENCE IN CUSTOMER SERVICE.

The development of proprietary production technology, derived from the innovative designs of Trislot's engineers together with a close partnership with a loyal customer base, is one of the main ingredients for the success and growth of this company.

For example, we have set new standards in the filtration industry by developing flat welded screens for the petrochemical industry. Our unique technology has allowed us to capture 30 percent of the European reactor internals market in just four years.

BUILDING ON THIS FOUNDATION, CAE TRISLOT IS WELL POSITIONED TO GROW BEYOND ITS CURRENT BOUNDARIES. By joining CAE, Trislot will have the resources needed to compete effectively anywhere in the world. The constant innovation brought by CAE Trislot employees and their flexibility to adapt to customer requirements are helping to ensure the continued success of the company.

CAE TRISLOT'S WEDGE WIRE PRODUCTS ARE CURRENTLY OUTPERFORMING SIMILAR TYPES OF FILTRATION MEDIA due to their high open area, flexibility in design, reliability and maintainability. The innovative screens are integrated in processing systems, helping provide maximum utilization of raw materials, maximum recuperation of side products and clean output of waste water. Along with achieving greater practical usage of materials, CAE Trislot is also contributing to the worldwide effort to maintain a clean and safe environment.

PHOTO:  
Primeur - Food  
Processing Plant  
Waregem, Belgium

## SETTING

**NEW STANDARDS  
IN PRECISION  
ENGINEERING**











**CAE VANGUARD**

**MANY OF THE INNOVATIONS AT CAE VANGUARD WERE DEVELOPED DIRECTLY BY OUR EMPLOYEES.** For example, this year a creative team at our engineering centre in Winnipeg developed new programming for our programmable logic controllers (PLC). PLCs are used at CAE Vanguard shops to automate our unique electrochemical plating process for rebuilding axles. The new application enables the engineering centre technicians in Winnipeg to remotely diagnose and make corrections to any PLC, anywhere – ensuring high quality standards and increased up time for our manufacturing shops.

**PHOTO:**

CP Rail

Winnipeg, Canada

CAE Vanguard's success is built on applying advanced precision

technology to the task of rebuilding and machining railcar and locomotive axles. Our customers' specifications are so exacting, they require accuracy to within one tenth of the thickness of a single sheet of paper. Vanguard has received numerous quality awards from our major customers and is the North American market leader for reconditioned axles today.

The company is now moving forward to expand its operations globally.

For example, CAE Vanguard is setting up a facility for axle reconditioning in Australia. Railway companies down under use the same kind of axles and bearings as the North American industry. That means we can easily leverage our expertise to serve this new, growing market.

**WE CAN ALSO GO THE EXTRA MILE FOR OUR CUSTOMERS.** When

U.S.-based Norfolk Southern decided to refurbish their demount shop – where heavy railcar wheels are pushed off their axles – they asked CAE to provide a temporary operation. In just four months, we constructed a whole new shop and we've been meeting their requirements ever since.

**CAE VANGUARD CONTINUES TO GROW THROUGH NEW**

**INITIATIVES LIKE THESE AND BY BUILDING CLOSER RELATIONSHIPS WITH OUR CUSTOMERS.**

The company has moved from two to eight plants – all strategically located close to our major customers. This allows us to deliver more value – and help them hold the line on railway transportation costs, which ultimately benefits us all.

**BRINGING**

**ADVANCED TECHNOLOGY  
TO  
AXLE REBUILDING**



GOVERNANCE

BOARD OF DIRECTORS

CAE maintains an active Board of Directors comprised of twelve members, each highly qualified, with complementary backgrounds and experience. Nine directors are unrelated to CAE, two members are former CAE executives and one – the President and Chief Executive Officer – is a current executive. The roles of Chairman of the Board and President and Chief Executive Officer have always remained separate at CAE.

The Board of Directors has established four committees with specific mandates and defined authorities to assist the Board in efficiently carrying out the Board's responsibilities. During the course of a year, the Board meets at least eight times, and more often if required. Typically two of the meetings are held at CAE plant sites.

In addition to fulfilling all statutory requirements, the Board actively oversees and reviews the performance and adoption of plans of the corporation, including interim and annual results; strategic and operating plans and budgets; shareholder communications; management development and succession; business development initiatives; and the integrity of management information systems. On an annual basis, the Board evaluates the performance of the President and Chief Executive Officer in the context of the position description and annual objectives and sets his compensation.

The Governance, Compensation and Audit Committees are comprised of not less than four members of the Board; the majority of whom, including the Committee Chairman, are unrelated directors. Each committee meets during the year as required, typically on at least three occasions.

GOVERNANCE COMMITTEE

The Governance Committee is responsible for developing the annual agenda for Board meetings; evaluating the performance of the Board as a whole and assessing the contribution of each director; reviewing the size and composition of the Board; establishing selection criteria for Board members; recommending annually for Board approval a slate of directors, including new nominees; and assessing the adequacy and form of the compensation of directors.

COMPENSATION COMMITTEE

The Compensation Committee oversees and approves all compensation and benefit plans and policies and, as appropriate, makes specific recommendations to the Board. Its responsibilities encompass monitoring pension plans and fund performance; administering CAE's stock option plan; reviewing and evaluating individual programs and accomplishments of key officers.

AUDIT COMMITTEE

In carrying out its statutory requirements the Audit Committee reviews directly with the internal and external auditors, plans, budgets and audit fees; reviews external financial reports, including the interim and annual consolidated financial statements, and recommends their approval by the Board of Directors; and reviews the auditors' assessment of, and recommendations to improve internal control, and management's response to such recommendations.

EXECUTIVE COMMITTEE

The Executive Committee meets as required, generally at intervals between the meetings of the Board. Its primary responsibility is to act on behalf of the Board in accordance with the corporation's by-laws and statutes.

The CAE Board of Directors strongly endorses the concept, principles and practices of sound corporate governance, and fully supports initiatives designed to strengthen Board accountability.



## DIRECTORS

## ★ ■ ▶ DAVID H. RACE

Chairman of the  
Board of Directors  
CAE Inc.  
Toronto, Ontario

## ★ † C. DOUGLAS REEKIE

Vice Chairman of the  
Board of Directors,  
CAE Inc.  
Toronto, Ontario

## ★ JOHN E. CALDWELL

President and  
Chief Executive Officer  
CAE Inc.  
Toronto, Ontario

## ★ R. FRASER ELLIOTT, C.M., Q.C.

Senior Partner,  
Stikeman, Elliott  
Toronto, Ontario

## ■ ▶ H. GARFIELD EMERSON, Q.C.

President and  
Chief Executive Officer,  
Rothschild Canada  
Limited  
Toronto, Ontario

## † DR.-ING. HASSO

VON FALKENHAUSEN  
President and  
Chief Executive Officer  
WorldCard International  
Deutschland GmbH,  
Bad Homburg, Germany,  
and Chairman of the Board  
of Directors, DataCard  
Corp. Minneapolis,  
Minnesota, U.S.A.

## † ▶ JAMES A. GRANT

Partner,  
Stikeman, Elliott  
Montreal, Quebec

## ■ RODERICK L. HENRY

Chairman and  
Chief Executive Officer,  
Wire Rope Industries Ltd.  
Montreal, Quebec

## † MICHAEL M. KOERNER, C.M.

President,  
Canada Overseas  
Investments Limited  
Toronto, Ontario

## † JAMES W. McCUTCHEON, Q.C.

Counsel,  
McCarthy Tétrault  
Toronto, Ontario

## ■ ALONZO L. McDONALD

Chairman and  
Chief Executive Officer,  
Avenir Group, Inc.  
Troy, Michigan, U.S.A.

## ★ ▶ WARD C. PITFIELD

Vice President and  
Special Advisor  
Canada Development  
Investment Corporation  
Toronto, Ontario

## OFFICERS

## DAVID H. RACE

Chairman of the  
Board of Directors

## JOHN E. CALDWELL

President and  
Chief Executive Officer

## C. DOUGLAS REEKIE

Vice Chairman of the  
Board of Directors

## FRED VEUGER

President,  
Industrial Technologies  
Group

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Vice President,  
Development,  
Aerospace and  
Electronics Group

## PAUL G. RENAUD

Vice President, Finance  
and Secretary

## ALLAN M. BIGNELL

Vice President,  
Business Development

## ROBERT E. WAITE

Vice President,  
Corporate Relations

## MICHAEL A. COSSAR

Treasurer

## JOHN C. BLACK

Controller  
and Assistant Secretary

★ Member of the Executive  
Committee

† Member of the Audit  
Committee

■ Member of the Compensation  
Committee

▶ Member of the Governance  
Committee



## DIRECTORY

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F (204) 775-3495

Lincoln, Nebraska  
Sacramento, California  
Pocatello, Idaho  
Knoxville, Tennessee  
Greenup, Kentucky  
Little Rock, Arkansas

### AUDITORS

Price Waterhouse,  
Chartered Accountants  
Toronto, Ontario

### TRANSFER AGENT & REGISTRAR

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

### TRADEMARKS

The CAE logo, and the terms MAXVUE and CAE Profile are all trademarks of CAE or its subsidiaries.

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:  
1995 © Eskind Waddell  
Photography: Bernard Bohn,  
Alfred Ko, cover and page 35  
Printing: Arthurs-Jones  
Lithographing Ltd.  
CD-ROM: CAE Aviation,  
Edmonton Canada

Printed in Canada



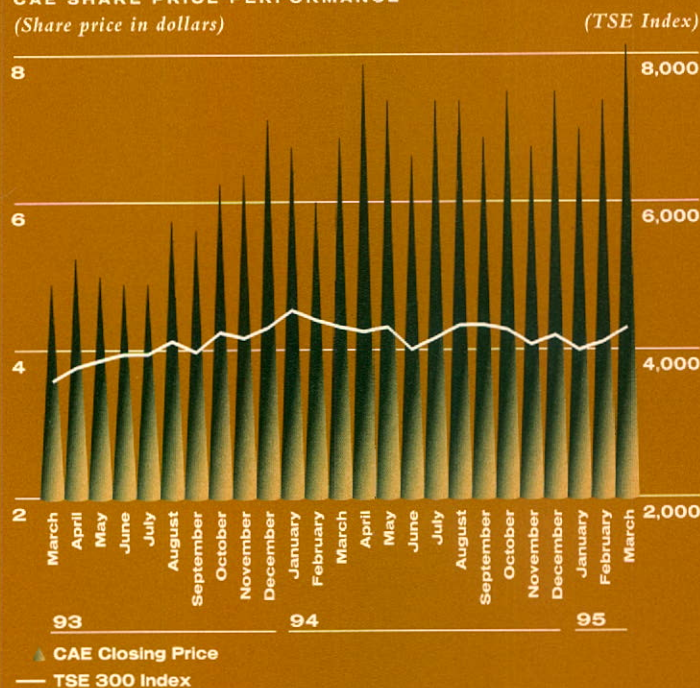
## SHAREHOLDERS

### CAE COMMON SHARES

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

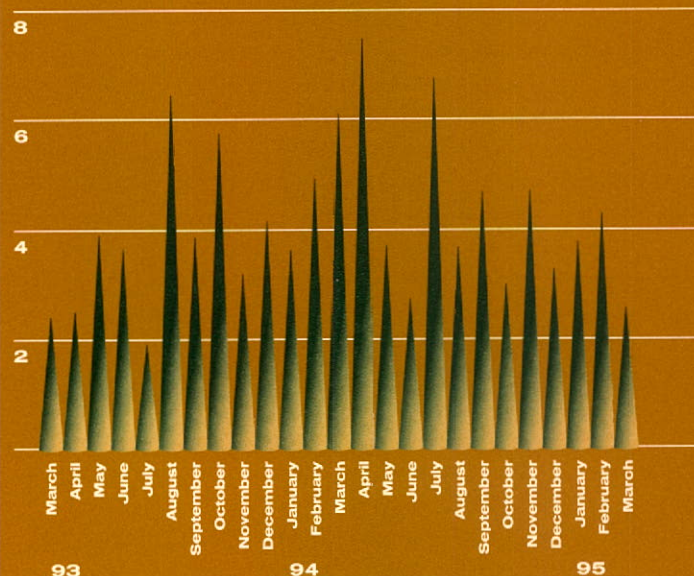
### CAE SHARE PRICE PERFORMANCE

(Share price in dollars)



### CAE TRADING VOLUME (TSE & ME)

(Millions of dollars)



### 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:

#### CAE INC.

Corporate Relations

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Tel: (416) 865-0070

1-800-760-0667

### CD-ROM ANNUAL REPORT

If you would like to receive a copy of our annual report on CD-ROM please contact the Corporate Relations Department at (416) 865-0070 or 1-800-760-0667.

### 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.

### TENTATIVE QUARTERLY RESULTS RELEASE

#### DATES FOR FISCAL 1996

August 2, 1995

November 1, 1995

February 7, 1996

May 1, 1996





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