

C



ANNUAL REPORT

FOR THE YEAR ENDED MARCH 31, 1994

LIBRARY USE ONLY

A COMMON UNDERSTANDING	1
CORPORATE PROFILE	2
FINANCIAL HIGHLIGHTS	3
CHAIRMAN'S MESSAGE	4
PRESIDENT'S MESSAGE	5
A PROMISING FUTURE	7
CAE'S CAPABILITIES	8
REVIEW OF OPERATIONS AND MANAGEMENT DISCUSSION & ANALYSIS	18
SUMMARY OF CONSOLIDATED RESULTS	18
AEROSPACE AND ELECTRONICS GROUP — FINANCIAL AND OPERATIONAL REVIEW	19
INDUSTRIAL PRODUCTS GROUP — FINANCIAL AND OPERATIONAL REVIEW	23
LIQUIDITY AND CAPITAL RESOURCES	25
MANAGEMENT AND AUDITORS' REPORTS	27
CONSOLIDATED FINANCIAL STATEMENTS AND NOTES	28
SIX YEARS IN REVIEW AND QUARTERLY FINANCIAL INFORMATION	39
CORPORATE GOVERNANCE	40
DIRECTORS AND OFFICERS	41
CORPORATE DIRECTORY	42

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, July 7, 1994, at 11:30 a.m.

If you would like to receive a copy of our annual report on CD ROM, please contact the Vice President, Corporate Relations, Royal Bank Plaza, P.O. Box 30, Toronto, Ontario M5J 2J1.

A COMMON UNDERSTANDING

WE ARE CUSTOMER-FOCUSED

Serving customer needs — competitively and innovatively — has guided CAE's growth and success for more than 45 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 for 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 with the wider community in which we operate, are performed with integrity to maintain our high standard of ethics. Our customers are assured of receiving value — in every sense — from CAE products and services. Our employees are aware of the trust customers place in them, and of the expectation that everyone at CAE lives up to this trust.

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 remain ever mindful that clear communication and a broad exchange of ideas build a common understanding of purpose and beliefs.

CORPORATE PROFILE

WE ARE THE WORLD LEADER IN SIMULATION AND TRAINING SYSTEMS. WITH HEADQUARTERS IN TORONTO, CANADA, OUR COMMON SHARES ARE LISTED ON THE TORONTO AND MONTREAL STOCK EXCHANGES UNDER THE SYMBOL "CAE". FOUNDED IN 1947, CAE — WITH OPERATING COMPANIES THROUGHOUT CANADA, THE UNITED STATES, AND EUROPE — IS THE LARGEST TRAINING FOCUSED ORGANIZATION IN THE WORLD. IT IS DIVIDED INTO TWO GROUPS.

AEROSPACE & ELECTRONICS GROUP

CAE Electronics

(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 Link

(Binghamton, Falls Church, and Houston, United States) is the leading supplier of simulation and training devices and services to the military and space agencies. The company provides advanced technologies and services to diverse customers worldwide to enhance safety, efficiency, cost-effectiveness, and value.

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

(Edmonton, Canada) is the leading supplier in Canada of maintenance, repair, modification, and overhaul services for military aircraft for the Canadian Armed Forces and others. It operates the largest center in Canada for these services, and is the authorized North American service center for the C-130 Hercules aircraft. CAE Aviation is also a leading producer of technical publications for the aerospace and related industries, providing translation, production, and management services.

INDUSTRIAL PRODUCTS GROUP

CAE ScreenPlates

(Lennoxville, Canada; Katwijk, The Netherlands; Varkaus, Finland; Norrköping, 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 Machinery

(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

(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.

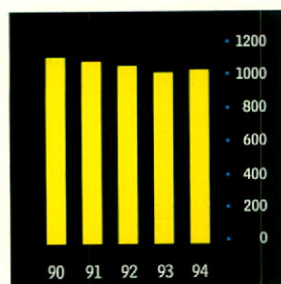
FINANCIAL HIGHLIGHTS

(\$ thousands except per share figures)

	1994	1993
OPERATING RESULTS		
Revenue	\$1,027,311	\$1,001,554
Net earnings excluding unusual items	\$ 34,593	\$ 32,244
Net (loss) earnings	\$ (394,960)	\$ 32,244
FINANCIAL POSITION		
Total assets	\$ 804,692	\$1,208,142
Total debt, net of cash	\$ 191,484	\$ 194,935
PER SHARE		
Net earnings excluding unusual items	\$ 0.32	\$ 0.30
Net (loss) earnings	\$ (3.64)	\$ 0.30
Dividends	\$ 0.16	\$ 0.16

REVENUE

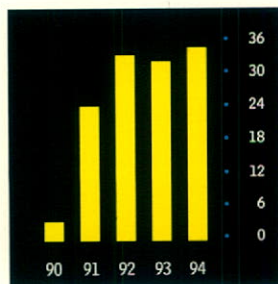
(Millions of dollars)



NET EARNINGS

EXCLUDING UNUSUAL ITEMS

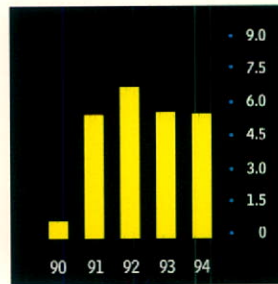
(Millions of dollars)



RETURN ON AVERAGE SHAREHOLDERS' EQUITY

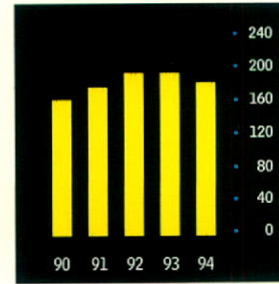
EXCLUDING UNUSUAL ITEMS

(Percent)



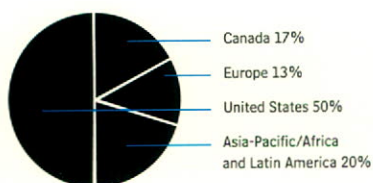
R&D SPENDING

(Millions of dollars)



REVENUE

Geographic Distribution



REVENUE

Major Markets



CHAIRMAN'S MESSAGE

At CAE, leadership is more than position in the marketplace; it is the philosophy upon which the company has been built. This leadership philosophy extends to and governs CAE's Board of Directors.

In keeping with this philosophy and recognizing an increasingly dynamic international business environment, the Board of Directors undertook new, important initiatives during the year.

The Board completed the orderly succession of the positions of Chairman of the Board and President and Chief Executive Officer. Following the annual general meeting held on June 10, 1993, Mr. R. Fraser Elliott stepped down from the Chairmanship after more than three decades of superb leadership. The Board and the company are indebted to Mr. Elliott for his prudent judgment and unfailing support. CAE will continue to benefit from Mr. Elliott's counsel and knowledge of the company, as he remains a member of the Board. At that time, I announced my retirement from the position of President and Chief Executive Officer and was appointed Chairman of the Board of Directors. Mr. John E. Caldwell, formerly Executive Vice President, was named President and Chief Executive Officer.

During the year, the Board modified and streamlined the structure and mandates of its committees. In addition to the Audit and Executive Committees, a new Governance Committee was established, and the Retirement, Stock Option and Compensation Committees were unified into a single Compensation Committee.

The Board was very active in the year, meeting eight times, including full-day visits to two of CAE's companies. Committees of the Board undertook many new assignments and met an aggregate of 17 times during the year.

Two Board members, J. Douglas Creighton and F. Cameron Wilkinson, are not standing for reelection at the July 7, 1994 Annual and Special Meeting. Mr. Creighton and Mr. Wilkinson have served the Board and the company well over their long tenure. On behalf of the shareholders, I convey to these two gentlemen a sincere thank-you.

This has been a year of transition for CAE as it prepares to extend its horizons. The success with which this transition has been accomplished augurs well for the company.

On behalf of the shareholders, the Board extends its appreciation to all CAE personnel.

A handwritten signature in dark ink, reading "David Race". The signature is fluid and cursive, with a long horizontal flourish extending from the end of the name.

David H. Race

Chairman of the Board of Directors

PRESIDENT'S MESSAGE

Fiscal 1994 was a year of solid performance for CAE, particularly in light of the difficult market conditions our companies faced. Despite these challenges, I am pleased to report that, excluding unusual items, all CAE companies were profitable and maintained or strengthened their leadership positions in virtually every market they serve.

In recent years, many of our traditional markets have matured — in some cases declined — and have become more competitive. For CAE to grow and achieve superior long-term shareholder value in this environment, we must expand beyond our established product lines and markets into new areas.

The foundation of our strategy for building CAE into a stronger, more diversified company is to leverage the tremendous knowledge and capabilities of our 8,500 employees. CAE has one of the most highly skilled workforces in the world. This year, we completed a comprehensive evaluation of our core capabilities. We are now identifying and assessing those business opportunities most attractive to CAE. To capitalize on these opportunities, CAE will develop and introduce new and enhanced products in current markets, and enter new markets directly or through acquisitions, joint ventures, and alliances.

Our expertise in areas such as hardware and software design, systems engineering and integration, and precision manufacturing is unsurpassed. We have consistently used these capabilities to convert innovative technology into new products and services that meet or exceed our customers' expectations. At CAE, one of our great strengths is our ability to exploit technologies in growth markets with strong barriers to entry, where relatively high margins and returns can be achieved.

For example, our expertise in the development of database technologies, and our capabilities in optical design and real-time three-dimensional graphic and image generation, have allowed us to develop the MAXVUE visual simulation system. This system, because of its superior characteristics, has become the market leader, capturing 42 percent share in just two years.

Our software development expertise and our understanding of complex systems has also enabled us to successfully create and market our leading-edge open architecture Gen 3 power control system. This sophisticated technology was developed under contracts awarded by Boston Edison and the Power Authority of the City of Caracas, Venezuela. The new technology was instrumental in Hydro-Quebec selecting CAE for a major contract in fiscal 1994 involving an innovative energy control network.

In our Industrial Products Group, comprising CAE Machinery, CAE ScreenPlates, and CAE Vanguard, we follow the same strategy to expand leadership positions in narrow-niche, profitable markets, by continuously strengthening and improving product lines. In some instances, we have also acquired new, complementary businesses.

CAE ScreenPlates is but one example of how our successful acquisition strategy can provide growth opportunities for the company. The merger of A. Ahlstrom Corporation's screen plate operations with our own operations proceeded very smoothly, and this year the combined company grew both in revenue and in profit. CAE Vanguard — which brought together Canadian Bronze and Vanguard — is another example of a merger that has produced a strong increase in revenue and earnings.

While our objective for growth is clear, we are also realistic about valuing and structuring our businesses to be competitive in the markets they serve. For this reason and in light of the decline in U.S. military spending, this year we took a writedown in the carrying value of CAE-Link and a one-time charge to earnings to further downsize that business.

Looking ahead, CAE is well positioned to further strengthen our leadership in core markets and extend into new areas through leveraging the talents and capabilities of our highly motivated entrepreneurial team.

All in all, this is an exciting time for this company, and I believe it will prove to be a rewarding chapter in CAE's history for customers, shareholders, and employees.

A handwritten signature in black ink, appearing to read 'John E. Caldwell', with a stylized flourish at the end.

John E. Caldwell

President and Chief Executive Officer

Like many companies which have been successful over time, CAE's strengths are based on its employees' extensive capabilities, entrepreneurial spirit and innovative thinking. The company is far more than the sum of its parts because of these numerous integrated capabilities combined with its unified goals. • These goals are straightforward: to continue to serve traditional core markets; to strengthen leadership position in those markets; and to grow CAE by developing new products and services, and by seeking out new business and market opportunities. • Such ambitions are as relevant for CAE's Industrial Product companies as they are for its Aerospace and Electronics Group. Despite the differences in their markets, a clear vision and a steadfast commitment to excellence and innovation drives each business to be the leader in its field.

CAE continues to operate in a demanding environment. In the last few years in particular, overcapacity in the commercial airline industry, reductions in defense spending, and the economic recession have led to a decrease in the number of new opportunities from the industry sectors the company serves. • Despite these challenges, CAE continues to perform well, leading the world in commercial aviation and military simulation and training, and creating new opportunities where it can leverage its extensive capabilities.

A PROMISING FUTURE

By drawing upon the strengths that have served it so well in the past, CAE is forging the links for a promising future. The depth of knowledge and expertise of its highly skilled workforce will enable CAE to move into many new areas, while continuously creating the most technologically advanced products for each market it serves. It is confidently applying these capabilities in new ways and in new markets for strong performance and realistic growth. • The following pages demonstrate how employee excellence contributes to innovative products, quality services, and customers' evolving needs and demands. By building on the successes of yesterday and today, CAE is reaching out and securing the opportunities of tomorrow.

AEROSPACE
AND
ELECTRONICS
GROUP

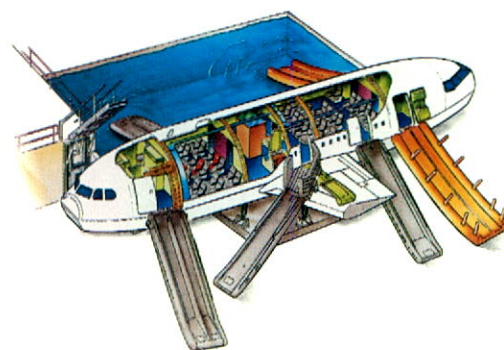
▼ THE HEART OF
TECHNOLOGY

Imagine...an artificial heart with batteries that can actually be recharged through a person's skin. Currently under development by CAE and the University of Ottawa Heart Institute, the world's first permanently implantable artificial heart – if realized – could help address the shortage of transplants for people with heart disease – the number one cause of death in North America.



▼ IN CASE OF FIRE...

From explosive fires and collapsed landing gear to oxygen mask drops and over-wing ocean exits, our new Emergency Evacuation Trainer can simulate each scenario, replicating exactly how it might happen. No matter how rare the emergency, CAE can help train cabin crews to prepare and respond.



▶ OUT OF THIS WORLD

CAE's worldwide reach extends beyond Earth itself. Not only have we trained every American and Canadian astronaut who has ever flown in space, but our capability in control systems – integral to the operation of the Canadarm – made possible the recent, successful repair of the Hubble telescope.



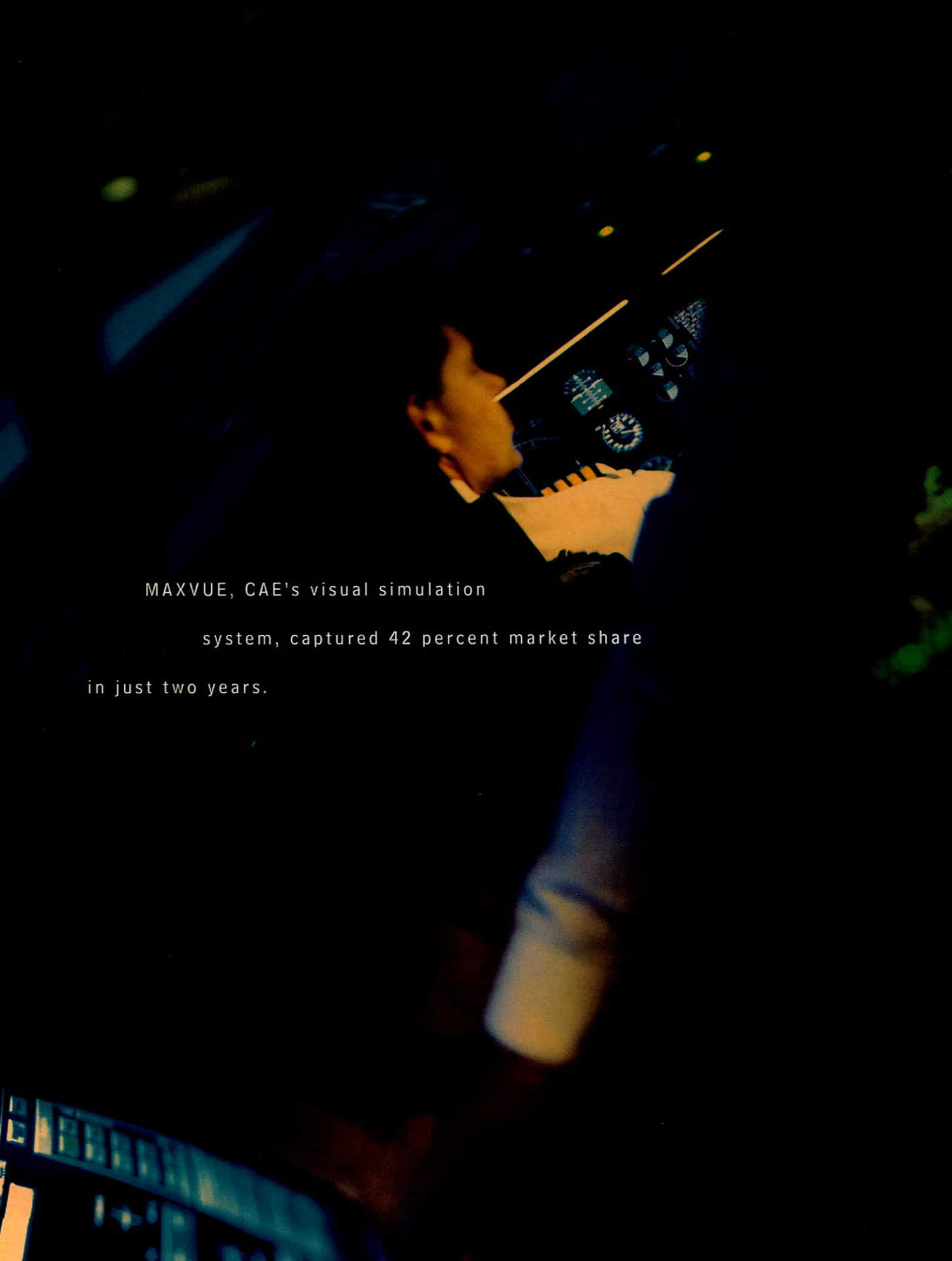
▲ ALL TOGETHER NOW

CAE's design of the world's first full flight simulator for Boeing's new 777-200 is a unique story, underscored by a solid customer relationship. The simulator was developed for Boeing concurrently with the actual design and development of the aircraft. Boeing further demonstrated its confidence in CAE by selecting MAXVUE, CAE's visual simulation system.



◀ PRECISION POWER

CAE is helping electric utilities provide power to people. The state-of-the-art software contained in our energy management control systems delivers the precise data utilities need to determine both energy production and distribution, and energy transfer with neighboring networks.



MAXVUE, CAE's visual simulation
system, captured 42 percent market share
in just two years.

CAE will continue to
leverage its capabilities into
new areas and new markets.



OUT OVER THE OCEAN

The North Atlantic is one of the world's busiest non-radar-controlled airspaces in the world. CAE's Oceanic Flight Data Processing System will help make it safer, by monitoring air traffic where radar can't operate. Not only will the new system aid air traffic controllers in handling air traffic growth over the next decade, but its design and capabilities will improve the performance and economy of flight operations by determining the shortest and safest route for each aircraft.



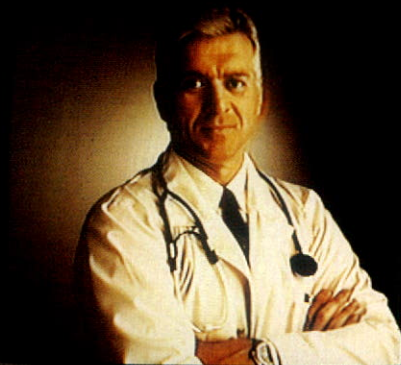
SAFE SKIES, SAFE LANDING

As air traffic increases in the skies, so do the challenges for air traffic controllers on land. CAE's sophisticated air traffic control (ATC) training systems – with Virtual Controller and Virtual Tower simulators – use the technology and techniques of tomorrow to train controllers today. Totally integrated, these systems provide a realistic presentation of airspace and all ATC operations.



SAVING LIVES, SAVING MONEY

CAE's Telemedicine System – an innovative computer-based network – allows medical specialists to examine patients in remote areas without either party travelling over long distances. This saves costs and, on occasion, saves lives by eliminating the time required to transfer the individual to a hospital.



TOTAL TRAINING

Within the military, economical and flexible training programs are a key priority – and CAE is helping deliver them. We were recently awarded a contract to manage the combined U.S. Air Force E-3/Navy E-6 flight crew training program. This represents our fourth "total training system" program – the most for any one contractor.

CRANKING UP COMPETITIVENESS

CAE is continually looking for ways to improve competitiveness and boost productivity. This means re-engineering processes for greater efficiency – such as those involved in a key Hercules program, in which each Canadian C-130 aircraft is structurally inspected every 3600 flying hours. Using a new team approach, CAE is now aiming to get the overhaul work done more quickly and also cut costs by up to 20 percent.



HAVE HELMET, WILL TRAVEL

From squadron command posts to navy ships mid-ocean, CAE can provide the military with smaller, portable trainers which can go virtually anywhere. When set up, the entire system, including the ClearVue Helmet Mounted Display with its MAXVUE image generator, can fit in an area the size of a small office – whereas a traditional full flight simulator requires the space of a building.

▶ TAKING THE LEAD

CAE is exploring new possibilities in mission/battle simulation for the defense technologies of the future. As the lead contractor in a six-European-nation R&D program, we will be using our capabilities to help simulate complex air warfare scenarios for improved mission rehearsal.



THE RIGHT STUFF

What does it take to be a pilot today? CAE is helping both the military and commercial aviation firms find out, with its Aircrew Selection System. The system uses psychological and physical reaction data to measure and predict the abilities of potential pilots, and how they might cope with the challenges and stress of aircrew operations.



▲ IN THE SKIES, FROM SEA TO SEA

As one of Canada's largest and most experienced maintenance, repair, overhaul, and modification centers for military aircraft, CAE provides services for the Armed Forces fleet of CT-133s, CT-114s (Tutors), CC-130s (Hercules), and CF-18s — as well as for those of other military and commercial operators.



▲ SHIPSHAPE EFFICIENCY

To boost performance and achieve greater efficiency, CAE has designed new software to control the intricate workings of a modern navy ship. Our prototype Standard Monitoring and Control System, now being developed for the U.S. Navy, reduces the number of ship personnel required while streamlining control operations.



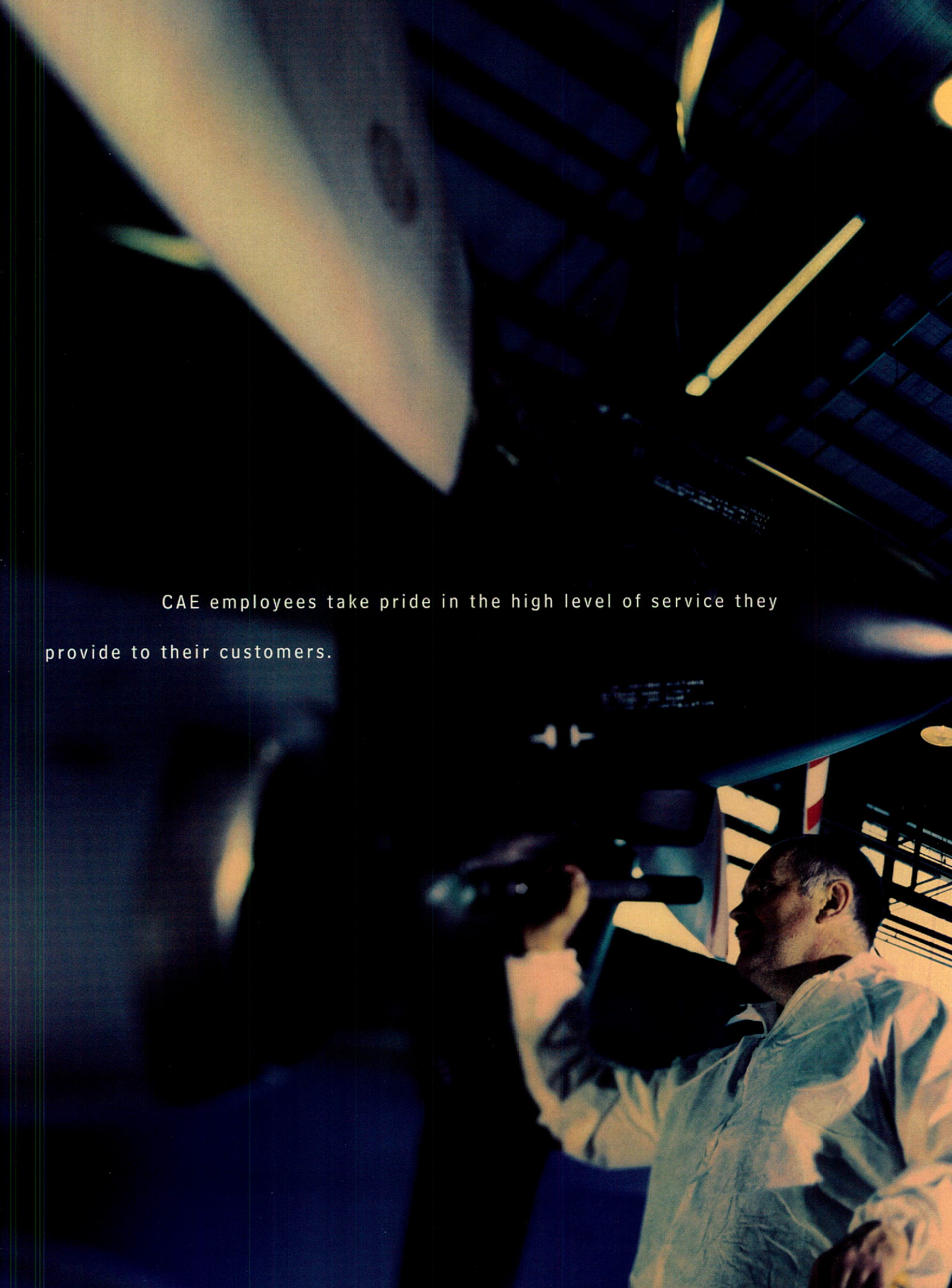
◀ FROM RUSSIA WITH LOVE

Question: what package — bigger than a bread box — was bequeathed to the German Air Force after the fall of the Berlin Wall? Answer: a Russian MIG-29 Mission Simulator, neatly boxed in separate pieces, with handwritten assembly instructions. The Air Force, which also inherited 24 MIG-29s from former East Germany, called in CAE to help put it all together.

▶ BUT WILL IT FLY?

Since 1954, our Technical Publications Department has been satisfying CAE customers by providing and publishing the flight manuals they need. For the Department of National Defense alone, we maintain some 100,000 pages of Canadian Forces technical publications for the CC-130, CF-18, and CT-133. Now, with the introduction of new and innovative technology, we are adapting CC-130 manuals onto CD-ROMs.



A man in a white lab coat is working on a large aircraft engine in a hangar. The scene is dimly lit with blue and yellow tones. The man is in the foreground, looking up at the engine. The engine is a large, complex structure with many parts. The hangar has a high ceiling with a grid of lights. The overall mood is professional and technical.

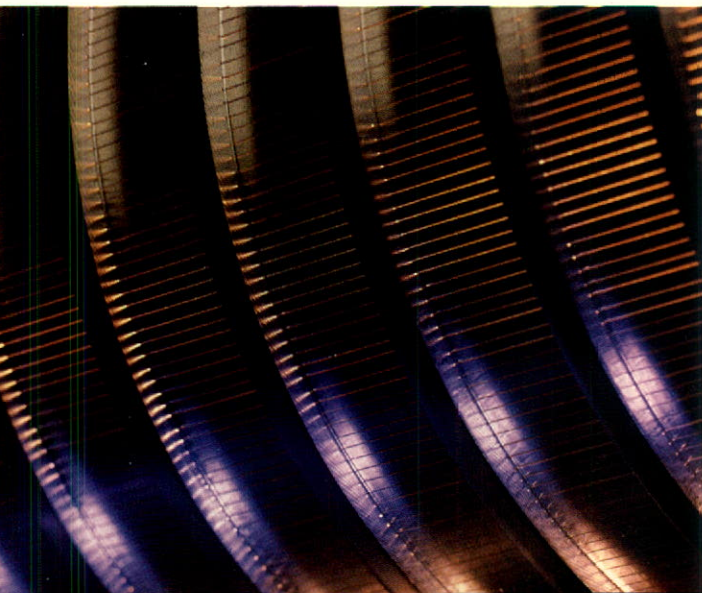
CAE employees take pride in the high level of service they
provide to their customers.

CAE's strengths are based on its employees' capabilities,

entrepreneurial spirit and innovative thinking.



INDUSTRIAL
PRODUCTS
GROUP

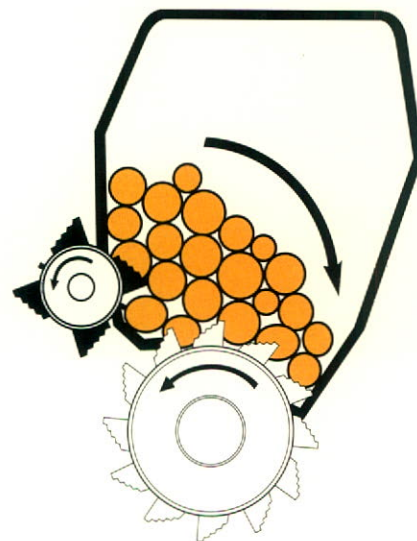


▲ A BETTER SOLUTION

CAE's new JR Screen Solution is a screen plate basket that shows great promise for the pulp and paper industry. Currently being tested, the basket is designed to screen out more impurities and achieve cleaner pulp, which benefits our customers.

▶ THE CUTTING EDGE

At CAE, we continually challenge ourselves to make a better screen plate – and our new patented technology for water-jet cutting is helping us do exactly that. Using 60,000 pounds of water pressure per square inch, this technology can pierce extremely hard steel. It is designed to improve the efficiency of screen plates for certain applications.



▲ WASTE NOT

CAE's exclusive manufacturing and marketing agreement with the Fuji Kogyo Company of Japan is allowing us to introduce a unique patented log debarker to North America. Known as the King Debarker, this machinery allows bark to be removed from trees and branches which were never before commercially viable.



▶ SETTING THE STANDARD

TTX – a group of half a dozen railways which manufacture container cars – is generally agreed to be one tough customer. In fact, its new standards for rail car axles surpass even those of the Association of American Railroads. Others may find the TTX standards a stretch, but at CAE successfully meeting exacting requirements is our hallmark.



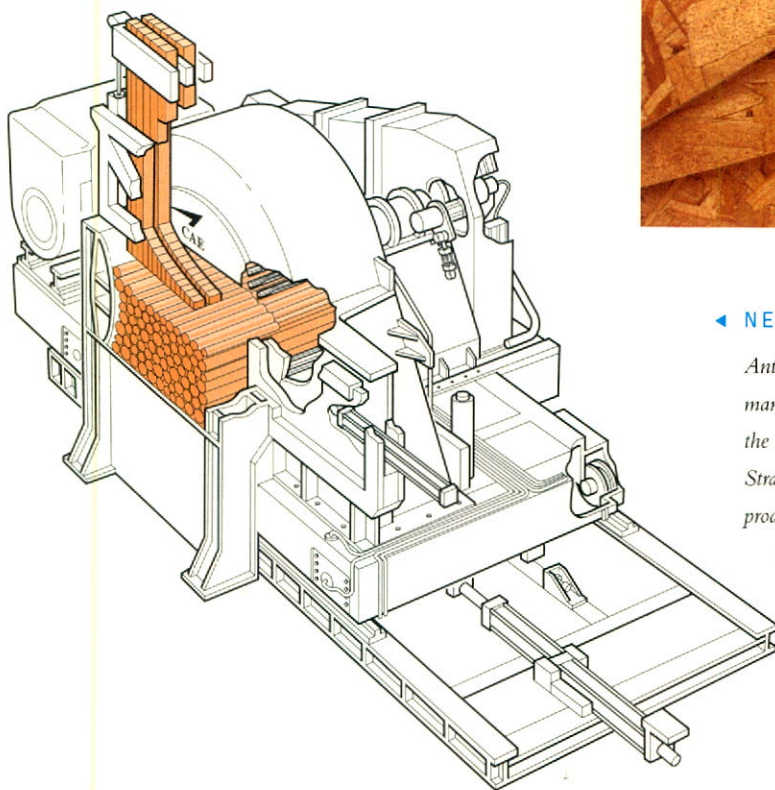
▲ ONE-STOP SHOPPING

CAE will go to any length – or distance – to meet our customers' axle needs. By expanding our services to include new axles which have been rough-machined in the Ukraine, CAE has become North America's only "one-stop shop", offering customers a choice of new, machined or rebuilt axles.



▲ CAE MOVES PEOPLE

For commuters who ride a train daily from home to office and back again, we're working to help ensure that their trip is a smooth one. The new rail cars now being manufactured by Bombardier – to move people between Montreal and Hudson, Quebec – will benefit from CAE's precision-machined axles.



◀ NEW HORIZONS

The composite wood products industry is an industry in a hurry. Growing from 12 North American plants producing Oriented Strand Board in 1981 to 45 in 1993, overall production of this alternative to plywood has increased by more than 1,500 percent. CAE has and will continue to play a major role in this market growth, thanks to its manufacture of engineered equipment. Holding 90 percent of the market for flakers, we've just made our first off-shore sale to a plant in Inverness, Scotland.

◀ NEXT-GENERATION STRANDER

Anticipating our customers' needs, CAE has designed, manufactured, and sold next-generation equipment for the composite wood products industry. Our new Ring Strander can produce high-quality, long strands for the production of engineered wood. By using under-utilized species, such as aspen, the CAE Strander can reduce costs for customers and decrease the demand on traditional forest resources.

CAE invested 18 cents for
every dollar of revenue back into
research and development.



REVIEW OF OPERATIONS AND MANAGEMENT DISCUSSION & ANALYSIS

(All figures are in Canadian dollars unless otherwise stated.)

SUMMARY OF CONSOLIDATED RESULTS

Consolidated net loss for the year was \$395.0 million, or \$3.64 per share, which includes the \$396.5 million write-down in the carrying value of CAE-Link and the \$33.0 million provision for further downsizing at CAE-Link. Excluding these charges, net earnings rose to \$34.6 million or 32 cents per share, compared to net earnings of \$32.2 million or 30 cents per share in the previous year.

Contributing to the improved consolidated earnings was the first full year of earnings from the screen plate business acquired from A. Ahlstrom Corporation in November 1992. In addition, improved market conditions at CAE Machinery and productivity improvements at CAE Vanguard led to higher earnings. Operating margins also continued to improve at CAE-Link despite lower revenue.

Consolidated revenue increased to \$1,027.3 million, compared to \$1,001.6 million in fiscal 1993. Revenue from the Aerospace and Electronics Group was higher. CAE Electronics' revenue increased, while, as expected, revenue from military simulation programs was lower. The Industrial Products Group achieved excellent revenue growth due to improved market conditions and the inclusion of a full year's revenue from the screen plate operations.

The writedown in the carrying value of CAE-Link, which will not affect cash expenditures, was undertaken to reflect the impact on CAE-Link of changing conditions in the U.S. defense market. The provision for future downsizing was in recognition of further restructuring necessary to sustain CAE-Link's performance.

Net interest expense increased to \$18.3 million in fiscal 1994 from \$16.3 million in the previous year. This was the result of an increased average borrowing level and higher U.S. dollar translation rates.

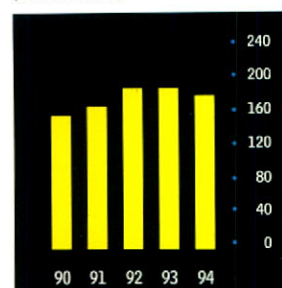
CAE's effective income tax rate on income excluding the two unusual items was 24 percent, down from 28 percent last year. The lower rate was due to changes in the income mix from Canada, the U.S., and Europe.

At the end of fiscal 1994, net debt decreased slightly to \$191.5 million from \$194.9 million at the end of last year. Cash flow provided by certain non-recurring transactions offset the impact of higher working capital requirements for commercial simulator contracts.

INVESTING IN INNOVATION

R&D SPENDING

(Millions of dollars)



CAE is consistently ranked at the very top when it comes to how much Canadian companies invest in research and development.

Over the last five years an average of 17 cents for every dollar of revenue has been plowed back into the company for creative innovation and continuous improvement.

CAE's strong commitment to R&D has enabled the company to enter new markets, and provide a superior product to customers. Two examples of the success of this strategy are MAXVUE, CAE's visual system, and the company's Gen 3 energy management system. Rather than working to reinvent the wheel, CAE collaborates directly with customers to meet their specific needs and challenges.

CAE's bottom line is that R&D must result in products and services that are available to the customer within five years. Investment in R&D must deliver tangible and valuable results to the customer.

CAE sustained its strong commitment to research and development, spending \$180.6 million or 18 percent of consolidated revenue.

Order backlog at March 31, 1994 was approximately \$1.0 billion, compared with \$1.3 billion in fiscal 1993. Reduced orders at CAE-Link, due to the decline in U.S. defense and space-related spending, accounted for virtually all of the shortfall.

AEROSPACE AND ELECTRONICS GROUP FINANCIAL & OPERATIONAL REVIEW

Financial performance for the Aerospace and Electronics Group, excluding the writedown and restructuring charges affecting CAE-Link, improved over the levels achieved in fiscal 1993. Revenue was marginally higher, with growth in revenue from commercial simulators and control systems more than offsetting an anticipated decline in defense-related activities. Despite lower revenue at CAE-Link, operating margins and earnings continued to improve, reaching 7 percent this year. Earnings from operations at both CAE Electronics and CAE Electronics GmbH were similar to last year. Lower repair and overhaul activities at CAE Aviation reduced its operating earnings.

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

\$ millions	1994	1993
Revenue	\$ 917.1	\$ 915.1
Earnings from Operations	52.1	51.6
Capital Expenditures	21.7	23.4
Backlog	957.3	1,268.3

CAE Electronics

Financial Performance

Revenue at CAE Electronics surpassed last year's level, as a result of strong order bookings in fiscal 1993. Earnings were similar to last year's level, as higher costs were incurred for the accelerated development of MAXVUE, CAE's visual simulation system, in response to strong customer acceptance. Also, margins for commercial simulators were adversely affected by competitive market conditions.

Operational Highlights

In fiscal 1994, CAE Electronics maintained its leadership position in the commercial flight simulator market. The company won several orders from customers in the growth markets of the Middle East and Asia-Pacific, including sales to Emirates, the international airline of the United Arab Emirates; Asiana Airlines of Seoul, Korea; and China Southern Airlines (formerly part of the Civil Aviation Administration of China).

For Asiana, a first-time customer, CAE Electronics is supplying a Boeing 747-400 full flight simulator and MAXVUE visual system, while for China Southern, it is manufacturing two full flight simulators, a Boeing 737-300 and a Boeing 777. Both these simulators will also include MAXVUE visual systems. The company also sold another MAXVUE system to Emirates, as well as a flight training device for an Airbus A310/A300-600R, and an Emergency Evacuation Trainer — which marked the first sale of this new product.

In summary, CAE Electronics sold 10 of 18 full flight simulators purchased during the fiscal year, representing a 55 percent market share. The company also captured three out of eight flight training devices sold. Most noteworthy, however, is the success of MAXVUE, CAE Electronics' visual system. The company's ability to deliver a superior product has allowed CAE Electronics to become the market leader, winning eight of the 19 contracts for visual systems in fiscal year 1994. This represents 42 percent market share gained in just over two years since the initial sale of MAXVUE to KLM Royal Dutch Airlines.

CAE Electronics has experienced similar success in its control systems. The development of an open and distributed processing architecture led Hydro-Quebec to select CAE to provide a sophisticated energy control computer system for its new network control center. This system will help provide the data required to determine energy production and transportation and energy transfers with neighboring networks.

This technology also contributed toward CAE receiving contracts for energy management systems from Boston Edison and the Power Authority of the City of Caracas, Venezuela.

In addition, CAE Electronics continued its activities in oceanic air traffic control systems with a contract from Portugal's Air Traffic Services. This system will be used to monitor and control air traffic within the Santa Maria flight information region over the Atlantic ocean.

During the year, CAE Electronics signed a Memorandum of Understanding with the University of Ottawa Heart Institute for the evaluation, manufacture and commercialization of a totally implantable artificial heart, the Electrohydraulic Ventricular Assist Device (EVAD), developed by the Heart Institute. The EVAD is currently undergoing evaluation and certification tests.

Outlook

Demand for new aircraft promises to grow in the years ahead, especially among Asian carriers. Passenger travel in China alone — a market CAE is carefully nurturing — is growing at an annual rate of 30 percent. And the U.S. airline industry is showing signs of returning to good health. These factors should lead to improved performance by CAE Electronics.

In addition, industry consolidation and CAE's success with MAXVUE should further allow CAE Electronics to strengthen its leadership position in the commercial simulator market.

CAE-Link

Financial Performance

Excluding the writedown in value of CAE-Link and the provision for restructuring, CAE-Link's operating earnings improved over last year. Operating margins improved from 6 percent in fiscal 1993 to 7 percent, excluding goodwill amortization, due to the company's sustained focus on improving its competitiveness through optimizing resources and streamlining operations.

CAE-Link's revenue for fiscal 1994 was \$443.5 million, compared to \$509.5 million last year. The lower revenue was the result of reductions in spending on a number of programs which involve CAE-Link, including the F-16, anti-submarine warfare training, and the NASA space station.

At March 31, 1994, CAE-Link's order backlog was \$483 million, compared with \$737 million at the end of last year, reflecting reduced orders from the U.S. military and revisions in the schedule for the space station by NASA.

Operational Highlights

During the year, CAE-Link won a number of important U.S. military contracts, chief among them a U.S.\$106 million award from the U.S. Air Force for upgrade engineering changes to the B-2 Aircrew Training Devices.

This was in addition to significant contracts for a joint Air Force/Navy flight crew training program and a U.S. Navy award for a prototype Standard Monitoring and Control System for various shipboard functions.

CAE-Link was also awarded a contract involving new and cost-effective technology by UND Aerospace, an international leader in aviation education and training based at the University of North Dakota. CAE-Link will

provide UND Aerospace with three general aviation flight training devices, which can be reconfigured into multiple aircraft types in less than an hour, for greater training and scheduling flexibility.

CAE-Link is also extensively involved in training and field services on behalf of the U.S. military. With revenue of \$135.4 million in fiscal 1994, this segment continues to be a profitable and stable contributor to the company's overall business performance.

CAE-Link made a notable advance into the competitive air traffic control (ATC) market with a sale to the Air Navigation Services Department of the Civil Aviation Administration in Finland for a comprehensive ATC training system, which included the Virtual Tower and Virtual Controller simulators. This award was followed by a sale to the Pan Am International Flight Academy for six ATC training simulators, which included the first application of CAE-Link's next-generation Virtual Controller software.

Another example of CAE-Link applying its expertise to new business markets included the sale of a Virtual Patient Anesthesiology Training Simulation System to a group of Boston-area hospitals affiliated with the Harvard Medical School. In addition, the company signed a Memorandum of Agreement with Geotechnology Development Inc. of Virginia to explore the marketing of two new CAE-Link products — the LinkTrak cellular position locating system and the LinkTrak 911 emergency system.

Outlook

CAE-Link is a world leader in military simulation, and simulation is and will remain an integral part of the U.S. defense industry mission. However, with virtually no programs for new military aircraft expected in the near future, CAE-Link's role will primarily involve upgrading the large base of existing simulation equipment and technology which it has installed for the U.S. military. The sweeping extent of this installed base and CAE-Link's comprehensive experience provide the company with a significant advantage when competing for upgrade programs. This should also produce opportunities in international markets, when foreign governments purchase U.S.-manufactured aircraft.

SECURING WORLDWIDE SUCCESS

As growth and business opportunities escalate in the world's emerging markets, CAE's long-established international reputation is securing new success.

For nearly half a century, CAE's employees have been selling the world on their technological expertise and high quality products. This extensive experience and the capabilities of CAE's seasoned workforce are paying off in the fast-paced economies of the Middle East and Asia-Pacific.

In commercial aviation, CAE — over the last two years — has won a number of important simulator contracts from airlines in Egypt, the United Arab Emirates, India, Korea, Japan, Hong Kong, Singapore and China. Robust air traffic growth continues to be predicted for these markets, particularly for the Asia-Pacific region. Over the past three years, CAE has captured 83 percent market share in Asia-Pacific and 75 percent market share in the Middle East. MAXVUE, CAE's visual system, has won two out of every three orders in both these regions over the last two years when it first became available.

CAE also continues to make important inroads with worldwide sales of control systems to electric utilities.

For example, in South America, CAE is currently designing a Distribution Management System which will use its sophisticated Gen 3 open and distributed processing architecture to control and monitor the flow of electricity to the city of Caracas. The Guri hydroelectric project in Venezuela, one of the world's largest, already benefits from a CAE Supervisory Control and Data Acquisition System.

Several control systems are also installed or being manufactured for utility customers in China. These include the Ministry of Water Resources and Electric Power in Gezhouba; the Hebei Province Electric Power Industry Bureau; the Qing Jiang Development Corporation in Geheyan; the Ningxia Electric Power Bureau; and the Northwest Electric Power Administration.

CAE has taken a number of steps to downsize and restructure CAE-Link in response to changes in the U.S. defense industry. This has involved the closing of facilities and a reduction of the workforce by more than half. As a consequence productivity and efficiency have improved, and earnings and margins have risen. The most recent move, announced in February 1994, to consolidate the tactical operations in Silver Spring into the Binghamton, New York location and to further downsize that facility, should position CAE-Link to become more cost-competitive in its core business.

CAE-Link continues its involvement with the NASA training systems contract, which was awarded in 1989. This contract extends beyond the year 2000 and includes the space shuttle mission training program as well as training for the Space Station Freedom. CAE-Link's continued involvement in these programs is dependent upon the U.S. government's future funding of the space station,

which is currently under review. In the event that the space station program is curtailed or reduced, CAE-Link expects a reduction in activity at the Houston operations; should the program proceed, the company anticipates a significant increase in its involvement.

In addition, CAE-Link will continue to apply the leading-edge technological capability it has gained in military applications to new products and services in related commercial applications, and to new growth markets.

CAE Electronics GmbH

Financial Performance

Despite cutbacks in German military spending, CAE Electronics GmbH's simulation modification, support, and commercial business remained relatively stable. As a result, revenue and earnings were consistent with fiscal 1993.

CAPABILITIES — A CASE HISTORY

Core capabilities, by definition, are those which a company can use to build a sustainable and differentiated business. At CAE, these capabilities are key to current products, recognized by customers, respected by peers, and distinct from the competition.

CAE Electronics provides a good example of the core capabilities nurtured by CAE. The systems it sells require a unique combination of expertise in state-of-the-art hardware and software design, advanced mechanical design for hydraulic and robotic systems, and system engineering skills to integrate the diverse platforms.

In addition, due to the nature of its business, CAE Electronics requires cost-efficient manufacturing skills for low volume manufacture. And it also must have the ability to ensure that quality conforms to strict industrial, military, and space standards.

Designing and developing such sophisticated systems have advanced the company's core capabilities in a number of crucial areas. These include information technology, digital signal processing and database technologies, and several — often customized — computer system and network technologies.

In the case of flight simulation, CAE Electronics has the capability to model and simulate a real system to exacting standards. With over four decades of experience, CAE has developed an extensive and unique suite of techniques, tools, and skills to design and manufacture these simulated environments.

With such core capabilities, CAE Electronics is well positioned for future growth and continued success.

Operational Highlights

During the year, CAE Electronics GmbH completed the integration of the prototype Digital Radar Land Mass System into the Full Mission Simulator for the Tornado tactical fighter aircraft. Another prototype of this system is being developed for the German Air Force F-4 aircraft simulator.

The German Air Force announced that CAE's prototype Tornado low-level simulator had met military expectations, and further modifications and upgrades to the technology were likely. Due to defense funding restraints, the production phase of the low-level program is unlikely to proceed, at least for the next few years.

CAE Electronics GmbH, as a leader of an international consortium, was awarded a research and technology program related to the networking of tactical simulators in a complex computer-controlled scenario for multforce tactical training. This program is being carried out within the framework of the European Co-operation for the Long-Term in Defense (EUCLID).

Outlook

CAE Electronics GmbH expects to maintain the current year's level of performance in fiscal 1995. Required modifications to a number of simulators will likely make up for any shortfalls caused by changing priorities in the German Armed Forces budget.

CAE Aviation

Financial Performance

Revenue and operating earnings for fiscal 1994 were below last year's level at CAE Aviation. Canadian government financial restraint contributed to delays and reduced activity levels on a number of aircraft inspection and overhaul programs.

Operational Highlights

During the year, CAE Aviation completed the conversion of five Canadian Armed Forces Hercules aircraft for the in-flight refuelling program.

The CC-130 Hercules avionics update program, which was awarded in March 1993, is proceeding on schedule. The contract encompasses the installation of a new suite of modern generation equipment, including autopilot, instrumentation, flight management, navigation, and communications systems, in the 30 Canadian Hercules aircraft. The update will result in lower operating costs, increased

reliability, and greater operational effectiveness for the Canadian Air Force. CAE will be responsible for the procurement of the equipment, modification of the aircraft, and the associated tests for certifiability to FAA standards. After delivery of the updated aircraft, CAE will be responsible for in-service support and training.

The company also continued to expand its technical publication business. CAE Aviation was awarded a two-year contract, with a three-year extension option, from Bell Helicopter Textron. This is the third contract to produce technical manuals that CAE Aviation has received from that company.

Outlook

While Canadian military funding constraints are slowing repair and overhaul work on a number of aircraft serviced by CAE Aviation, including the CC-130 Hercules, the company expects to maintain its current level of performance. The extent to which the Canadian government rationalizes its defense spending could have an impact on CAE Aviation, which derives more than 95 percent of its business from the Canadian Armed Forces.

INDUSTRIAL PRODUCTS GROUP

FINANCIAL AND OPERATIONAL REVIEW

The Industrial Products Group demonstrated excellent financial performance in fiscal 1994, with revenue and operating earnings increasing significantly, 27 percent and 25 percent respectively, over the previous year. This was partly due to the inclusion of the first full year of results from the combined operations of CAE ScreenPlates Europe and North America, and an improvement in the market served by CAE Machinery and productivity improvements at CAE Vanguard.

In January 1994, CAE sold its 75 percent interest in CAE Fiberglass.

\$ millions	1994	1993
Revenue	\$110.2	\$86.4
Earnings from Operations	15.4	12.3
Capital Expenditures	3.7	3.6
Backlog	42.0	31.8

CAE ScreenPlates

Financial Performance

The acquisition of the A. Ahlstrom Corporation screen plate assets in fiscal 1993 has positioned CAE ScreenPlates as the world leader in this industry. The North American and European operations showed good results.

Operational Highlights

During fiscal 1994, CAE reorganized its screen plate operations into a North American business unit and a European business unit. The latter is consolidating its production requirements from the Schweighouse, France facility to the Norrköping, Sweden and Varkaus, Finland operations. This will increase operating efficiencies and provide improved customer service.

CAE ScreenPlates has traditionally focused on original equipment manufacturers for the majority of its sales. This philosophy was successfully adopted by the European unit.

Outlook

With the integration of the European screen plate business now complete, CAE ScreenPlates is well positioned to further improve its position as the industry's world market leader. CAE ScreenPlates' outlook will be further strengthened as pulp and paper markets improve, initially in North America and the Nordic countries, and then in continental Europe.

A significant percentage of screen plates sold by CAE incorporates proprietary technology which provides customers with superior screening performance. Continuous product development will ensure that the company retains this preferred position.

CAE Vanguard

Financial Performance

CAE Vanguard continued to strengthen its leadership position in axle remanufacturing and reconditioning services. Despite moderately lower revenue, operating earnings increased over last year.

Operational Highlights

During the year, CAE Vanguard continued to concentrate its efforts on expanding its services for railway customers. The company launched its sale of new axles to the North American railway market. These axles, which are forged and rough-machined in the Ukraine, are then imported for machine finishing at the CAE Vanguard shops in Canada and the United States.

The growth of axle machining services is expected to offset a decline in axle reconditioning, which resulted from a change in the interpretation of the American Association of Railroads specifications for axle bearing seats.

At its Knoxville, Tennessee plant, CAE Vanguard won a significant contract from Norfolk Southern Railway to demount wheels and bearings from their axles while that railway rebuilds its demounting facilities.

During the year, production of locomotive axles for one of the locomotive manufacturers commenced. This represents a new business for CAE Vanguard at a time when railroads are increasingly reequipping their locomotive fleets with more efficient units.

Outlook

Financial performance at CAE Vanguard is expected to also improve in fiscal 1995. CAE Vanguard is continuing to explore international markets for its services. Identified opportunities for further productivity improvements will be pursued.

CAE Machinery

Financial Performance

Revenue and earnings were significantly higher at CAE Machinery, as markets improved for the company's proprietary machinery for composite wood panels.

Operational Highlights

During the year, CAE Machinery launched two new products and secured several new export orders for long log disc flakers and blenders to the composite wood products industry. The new products are the recently developed Ring Strander and the King Debarker.

CAE Machinery's Ring Strander is capable of producing longer, high-quality wood strands compared to the shorter flakes produced on the company's popular disc flaker. This machine uses under-utilized species, such as aspen, as raw material rather than old growth trees. The first Strander sale was made to the Georgia-Pacific Corporation in February 1994.

The King Debarker, for which CAE obtained the exclusive sales and manufacturing rights for North America from Fuji Kogyo, Japan, is particularly effective in debarking branches, and small diameter and crooked logs that cannot be properly debarked by traditional machines. The first sale of this equipment was to Smurfit Newsprint Corporation of Oregon, with further sales to Georgia-Pacific Corporation for the company's new plant in Virginia.

During the year, the company sold its sawmill machinery product line. The sale is in keeping with the company's strategic direction in its machinery product line, which focuses on the maximum utilization of wood fibers in structural and composite wood products.

TECHNOLOGICAL STRENGTH IN THE INDUSTRIAL PRODUCTS GROUP

Within CAE's varied mix of businesses, the

role of its Industrial Products companies is increasing in both consequence and scope. Once viewed as supplementary earners to the traditional core business of simulation and training, these companies are now key players in achieving strategic growth.

It's not hard to see why — the Industrial Products companies share the same strengths that have made CAE's Aerospace and Electronics companies a continued success.

Despite the diversity of their customer base, the Industrial Products companies are leaders both in their technology and in their markets. Their products and services are cost-effective and provide added value to their customers. Furthermore, they share the same international outlook, and the same commitment to solid customer relations.

The future for these companies is bright. There is significant potential to increase their market share as well as the real promise of new customers in emerging markets. With a strong commitment to research and development, each division continues to develop innovative new products, and provide enhanced and more efficient models of their existing product lines for their customers.

Always important contributors, CAE's Industrial Products companies are also influential players in the company's expanding business areas. CAE expects to acquire both complementary and new businesses to further strengthen the overall performance of its Industrial Products Group.

Outlook

CAE Machinery's performance has strengthened due to improvement in the North American housing industry. Orders for capital equipment have increased significantly over those of recent years, and are expected to improve still further in fiscal 1995. CAE Machinery's focus on new technology to meet customer needs in the composite wood products industry positions it well for future growth. Repair and refurbishing of equipment for the pulp and paper industry should improve as the North American markets strengthen.

Liquidity and Capital Resources

In December 1993, CAE completed a global refinancing of its long-term credit facilities with a syndicate of Canadian, U.S., and European banks. The company's new long-term debt facility is divided into two components: a U.S.\$230 million unsecured revolving term loan, and a 50 million Deutschmark unsecured revolving term loan. The new credit facility is due on November 24, 1996 and is subject to annual one-year extensions. CAE intends to continue renewing this facility as part of its overall financing strategy.

CAE's net bank indebtedness was reduced by \$3.5 million from last year's level to \$191.5 million.

Cash flow of \$56.7 million was generated from operations. Working capital, excluding the provision for restructuring at CAE-Link, increased mainly due to cash flows on simulation contracts, which consist of costs incurred less deposits and progress payments received.

Other sources of cash totalling \$23.8 million included the proceeds received from the disposition of the company's 75 percent interest in CAE Fiberglass, and the final payment from Bicoastal Corporation for claims submitted to the Bankruptcy Court in Tampa, Florida.

Net capital expenditures totalled \$24.4 million, compared with \$26.7 million in the previous year. Upgrades to computer systems at CAE Electronics and CAE-Link and the expansion of facilities at CAE Aviation accounted for most of the expenditures.

CAE paid \$17.4 million in dividends during fiscal 1994, unchanged from fiscal 1993. The annual dividend rate of \$0.16 per share was also the same as last year.

Changes in the rate used to translate U.S. dollar-denominated debt increased reported net borrowings. CAE's debt is financed principally in U.S. dollars to hedge its investment in U.S. dollar-denominated assets, represented primarily by CAE-Link operations. Net debt denominated in U.S. dollars at March 31, 1994 was U.S.\$138.3 million compared to U.S.\$133.9 million the previous year. The exchange rate used to translate this debt into Canadian dollars increased to 1.38 from 1.26 at March 31, 1993. At March 31, 1994, the company had unutilized credit facilities of \$261.0 million.

CAE has entered into a series of interest rate swap agreements which convert the interest rate on U.S.\$125 million of debt to approximately 8.8 percent. The remaining agreements expire by June 1996 and fix the interest rate on a large portion of CAE's outstanding debt, thereby limiting the company's exposure to interest rate fluctuations.

CAE's investment in working capital and fixed assets is financed with cash flow from operations and long-term bank borrowings. In addition, a portion of long-term contracts is financed through customer deposits received when the contract is signed, and progress payments based on costs incurred or milestones achieved. CAE has available to it additional financial resources in the form of tax loss carry-forwards. At March 31, 1994, the company had accumulated U.S.\$207 million of non-capital losses for income tax purposes, which can be used to offset taxes payable on future earnings from the U.S. operations through the year 2009.

As previously noted, the company recorded two significant charges in reporting its third quarter earnings: a \$396.5 million writedown in the carrying value of CAE-Link resulting in a corresponding adjustment to goodwill, and a \$33.0 million provision for further restructuring at CAE-Link. In addition, during fiscal 1994 CAE changed its accounting policy for post-retirement benefits other than pensions to an accrual method similar to that prescribed by the U.S. Financial Accounting Standards Board (FASB) Statement 106, "Accounting for Post-retirement Benefits Other Than Pensions". Previously, such costs had been recognized on a pay-as-you-go basis. The new accounting policy more accurately matches future costs of retiree health care, life insurance, and other benefits, as the liability for these costs is incurred over the employee's service life. The change in accounting policy has resulted in a charge to retained earnings of \$43.6 million as at April 1, 1993. Prior years' financial statements have not been restated. The effect of the change in accounting policy on future periods is not expected to be significant. The accrual of these costs has been disclosed as "Other Long-Term Liabilities".

Primarily as a result of these charges and the change in accounting policy, CAE has an accumulated deficit of \$249.3 million as at March 31, 1994.

Goodwill of \$279 million at March 31, 1994 was significantly lower than last year. The reduction was due primarily to the writedown in the carrying value of CAE-Link as at December 31, 1993. Goodwill was also reduced due to the annual amortization charges and the receipt of funds from Bicoastal Corporation, which represents a reduction in the purchase price paid for CAE-Link. The increase in the U.S. dollar translation rate, used to translate the U.S. dollar-denominated goodwill, increased goodwill in Canadian dollar terms and partially offset this reduction. Goodwill amortization was reduced to \$16.3 million from the \$18.3 million recorded in fiscal 1993. In future years, annual amortization will be reduced by a further \$9 million as a result of the adjustment in goodwill carrying value.

The cumulative impact of foreign currency translation rate changes on CAE's investment in foreign subsidiaries is shown in the foreign currency translation adjustment account. The latter increased by \$30.3 million over the previous year due primarily to the increase in the U.S. dollar translation rate.

Business Environment and Risks

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

CAE's simulation and training operations are influenced by various external factors. Chief among these are the level of orders from the commercial airline industry, the level of defense spending — particularly in the U.S. — and complex government and commercial contract requirements, which may result in additional costs to satisfy the technical criteria of certain programs.

Defense spending cutbacks in the U.S. and other countries have resulted in cancellations and delays of certain programs, in turn increasing competition for the remaining contracts. In fiscal 1994, CAE continued to respond to defense budget reductions in part by focusing on cost reduction and process improvement, which has favorably impacted margins and earnings. In addition, the company will continue to apply the technological expertise it has developed for military markets to commercial applications and vice versa. This will position the company to aggressively compete in the defense market, while continuing to pursue innovative new business opportunities in growth markets.

Accounting for Long-Term Contracts

CAE recognizes revenue from long-term commercial and military contracts using the percentage of completion method. This method is dependent upon estimates of costs required to complete long-term contracts, which are regularly updated based on past experience and anticipated performance.

MANAGEMENT AND AUDITORS' REPORTS

MANAGEMENT REPORT

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

Management has established and maintains a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate. The system of internal control is periodically reviewed by an independent internal audit function to ensure its continued proper operation.

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
CAE Inc., Toronto, Canada

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. (formerly CAE Industries Ltd.) as at March 31, 1994 and 1993 and the consolidated statements of earnings, (deficit) retained earnings 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, 1994 and 1993 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.

Toronto, Canada
April 29, 1994

Price Waterhouse
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at March 31 (Amounts in thousands of dollars)

	1994	1993
ASSETS		
Current Assets		
Cash	\$ 10,752	\$ 31,786
Accounts receivable	216,310	232,249
Inventories (note 4)	66,039	66,202
Prepaid expenses	4,568	5,015
Income taxes recoverable	7,088	3,796
	304,757	339,048
Property, Plant and Equipment, net (note 5)	169,180	169,937
Goodwill (note 6)	279,145	659,465
Other Assets (note 7)	51,610	39,692
	\$ 804,692	\$1,208,142
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 284,555	\$ 270,404
Deposits on contracts	63,950	81,104
Long-term debt due within one year	1,241	19,218
	349,746	370,726
Long-Term Debt (note 8)	200,995	207,503
Other Long-Term Liabilities (note 16)	69,432	23,185
Deferred Income Taxes	9,933	6,866
	630,106	608,280
Shareholders' Equity		
Capital stock (note 9)	382,619	382,246
(Deficit) retained earnings	(249,319)	206,631
Currency translation adjustment	41,286	10,985
	174,586	599,862
	\$ 804,692	\$1,208,142

Approved by the Board:

David H. Race, Director

John E. Caldwell, Director

CONSOLIDATED STATEMENTS OF EARNINGS

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

	1994	1993
Revenue	\$1,027,311	\$1,001,554
Costs and Expenses		
Manufacturing	815,047	794,530
Selling and administrative	105,261	101,381
Depreciation and amortization	43,237	44,738
Interest expense, net (note 8(v))	18,265	16,267
	981,810	956,916
Earnings before Unusual Items and Income Taxes	45,501	44,638
Writedown in the Carrying Value of CAE-Link (note 6(i))	396,510	—
Provision for Restructuring Costs (note 10)	33,043	—
(Loss) Earnings before Income Taxes	(384,052)	44,638
Income Taxes (note 11)	10,908	12,394
Net (Loss) Earnings	\$ (394,960)	\$ 32,244
Net (Loss) Earnings per Share	\$ (3.64)	\$ 0.30
Average Number of Shares Outstanding	108,588	108,530

CONSOLIDATED STATEMENTS OF (DEFICIT) RETAINED EARNINGS

Years ended March 31 (Amounts in thousands of dollars)

	1994	1993
Retained Earnings at Beginning of Year as Previously Reported	\$ 206,631	\$ 191,752
Cumulative Adjustment due to Accounting Policy Change (note 2)	(43,616)	—
Retained Earnings at Beginning of Year as Restated	163,015	191,752
Net (Loss) Earnings	(394,960)	32,244
Dividends	(17,374)	(17,365)
(Deficit) Retained Earnings at End of Year	\$ (249,319)	\$ 206,631

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended March 31 (Amounts in thousands of dollars)

	1994	1993
Operating Activities		
Net (loss) earnings	\$ (394,960)	\$ 32,244
Add (deduct) items not affecting cash		
Writedown in the carrying value of CAE-Link	396,510	—
Provision for restructuring costs	33,043	—
Depreciation and amortization	43,237	44,738
Deferred income taxes	5,860	(1,022)
Other	1,673	(1,538)
	85,363	74,422
(Used for) provided from non-cash working capital (note 12)	(28,672)	33,993
Cash Provided by Operating Activities	56,691	108,415
Investing Activities		
Proceeds on sale of subsidiary	10,250	—
Acquisition (note 3)	—	(38,304)
Litigation settlements — Link acquisition		
Payment (note 13(ii))	—	(27,511)
Receipts (note 6(ii))	13,500	15,847
Purchase of property, plant and equipment, net of proceeds from disposal	(24,407)	(26,708)
Increase in other assets	(11,918)	(9,357)
Cash Used in Investing Activities	(12,575)	(86,033)
Financing Activities		
Net advance (repayment) of long-term debt	(50,577)	5,529
Dividends	(17,082)	(17,060)
Other	2,509	(1,382)
Cash Used in Financing Activities	(65,150)	(12,913)
Cash (Decrease) Increase During the Year	(21,034)	9,469
Cash at Beginning of Year	31,786	22,317
Cash at End of Year	\$ 10,752	\$ 31,786

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 1994 and 1993 (Amounts in thousands of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation

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

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 — 10 to 40 years; machinery and equipment — 3 to 10 years.

Foreign Currency Translation

Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Translation gains or losses are included in the determination of earnings, except for gains or losses arising on translation of accounts of foreign subsidiaries considered self-sustaining and gains or losses arising from the translation of foreign currency debt that has been designated as a hedge of the net investment in subsidiaries, which are deferred as a separate component of shareholders' equity.

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' expected average remaining service life.

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

Earnings per Share

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

2. CHANGE IN ACCOUNTING POLICY — POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The corporation has chosen to adopt 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. Prior years' financial statements have not been restated. The effect of this change in accounting policy on future periods is not expected to be significant.

3. ACQUISITION

Effective November 30, 1992, the corporation purchased the principal business assets of A. Ahlstrom Corporation's screen plate operations, comprised of manufacturing facilities in Finland, Sweden, France and the United States, for cash. The acquisition was accounted for using the purchase method. Accordingly, operating results of the acquired businesses have been included in the consolidated financial statements from the date of acquisition.

Assets acquired, at fair values:

	1993
Net working capital	\$ 6,710
Fixed assets	29,162
Goodwill	6,060
Other assets	1,268
Obligations under capital lease commitments	(4,896)
	\$ 38,304

4. INVENTORIES

	1994	1993
Work in progress	\$ 50,258	\$ 48,382
Raw materials, supplies and manufactured products	15,781	17,820
	\$ 66,039	\$ 66,202

5. PROPERTY, PLANT AND EQUIPMENT

	1994			1993		
	Cost	Accumulated depreciation & amortization	Net book value	Cost	Accumulated depreciation & amortization	Net book value
Land	\$ 6,838	\$ —	\$ 6,838	\$ 6,973	\$ —	\$ 6,973
Buildings	121,060	50,923	70,137	116,456	44,522	71,934
Machinery and equipment	247,055	170,058	76,997	228,947	152,570	76,377
Property under capital leases	18,824	3,616	15,208	17,625	2,972	14,653
	\$393,777	\$224,597	\$169,180	\$370,001	\$200,064	\$169,937

6. GOODWILL

A summary of the changes in goodwill is as follows:

	1994	1993
Balance at beginning of year	\$659,465	\$650,246
Writedown in the carrying value of CAE-Link (i)	(396,510)	–
Goodwill arising from acquisition (note 3)	–	6,060
Amortization	(16,259)	(18,303)
Currency translation adjustment	45,949	37,309
Payments received from Bicoastal (ii)	(13,500)	(15,847)
Balance at end of year	\$279,145	\$659,465

(i) As at December 31, 1993, the corporation reduced the carrying value of its CAE-Link Corporation subsidiary. As a result, the corporation wrote down the carrying value of goodwill related to its investment in this subsidiary to a level which reflects management's assessment of the current value of CAE-Link's operations. The writedown has been reflected in the consolidated statements of earnings.

(ii) In 1992, the Bankruptcy Court in Florida approved a comprehensive settlement of claims between the corporation and the Bicoastal Corporation, including the purchase price adjustment. The approved settlement allowed a claim against Bicoastal of U.S.\$31 million, to be deemed satisfied in full upon receipt of U.S.\$23 million cash. During 1994, the corporation received U.S.\$10.3 million (1993 – U.S.\$12.7 million) in settlement payments. These payments have been accounted for as an adjustment to the original purchase price of the four corporations comprising the Link Domestic Training and Simulation Division of Bicoastal which were acquired in August 1988, and the allocation of the excess of the acquisition cost over the fair value of the acquired net assets to goodwill has been revised accordingly. The corporation has received all payments allowed under the settlement.

7. OTHER ASSETS

Other assets include \$43.0 million (1993 – \$34.3 million) of investment tax credits which are available to reduce future federal income taxes payable in Canada.

8. LONG-TERM DEBT

	1994	1993
Revolving term loan, to a maximum of U.S.\$230,000 renewable annually, unsecured, due November 24, 1996 (1994: U.S.\$110,000) (i)	\$152,186	\$ –
Revolving term loan, to a maximum of Deutschmark 50,000 renewable annually, unsecured, due November 24, 1996 (1994: Deutschmark 39,500) (i)	36,506	–
Non-revolving term loan, unsecured, floating rate, U.S.\$3,625 repayable quarterly, commencing March 31, 1993 (1993: U.S.\$96,375)	–	121,288
Revolving term loan, to a maximum of U.S.\$125,000, unsecured, floating rate, due October 31, 1994 subject to annual one-year extensions (1993: U.S.\$73,210)	–	92,135
Obligations under capital lease commitments (iii)	13,544	13,298
	202,236	226,721
Less: Long-term debt due within one year	1,241	19,218
	\$200,995	\$207,503

(i) On November 24, 1993 the corporation entered into a bank credit agreement with a syndicate of Canadian, U.S. and European banks to replace its existing long-term credit facilities. The new revolving bank credit facility is divided into unsecured tranches of U.S.\$230,000 and 50,000 Deutschmarks.

(ii) The corporation has interest rate swap agreements outstanding which convert the interest rate on U.S.\$125,000 of long-term debt to a rate approximating 8.8%. The agreements expire as follows: U.S.\$25,000 in June 1994, U.S.\$50,000 in June 1995, and U.S.\$50,000 in June 1996. The effective interest rates of the agreements range from 8.6% to 8.9%. Interest on the balance of the long-term debt is at rates approximating LIBOR.

(iii) The interest rate on obligations under capital leases during fiscal 1994 was approximately 6.7% (1993 – 7.5%).

(iv) 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, 1995	\$ 1,241
1996	1,119
1997	189,883
1998	1,262
1999	1,165
Thereafter	7,566
	\$202,236

(v) Interest expense on long-term debt for the year was \$19,077 (1993 – \$17,950).

9. 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:

	1994		1993	
	Number of shares	Stated value	Number of shares	Stated value
Balance at beginning of year	108,564,958	\$382,246	108,509,867	\$381,941
Stock options (a)	13,400	81	–	–
Stock dividends (b)	49,053	292	55,091	305
Balance at end of year	108,627,411	\$382,619	108,564,958	\$382,246

(a) On January 21, 1993, the corporation granted 1,565,000 options, exercisable at \$5.00 per share, to purchase common shares to certain officers and key employees of the corporation and its subsidiaries.

Stock options were outstanding at March 31, 1994 for the purchase of 2,432,850 common shares at prices ranging from \$5.00 to \$6.63 and expiring during the period from 1997 to 1999. There were 13,400 options exercised in the year, and 512,600 options which expired.

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

(c) In June 1990, the shareholders of the corporation approved a 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, 1995, unless terminated at an earlier date by the Board of Directors.

10. PROVISION FOR RESTRUCTURING COSTS

During fiscal 1994, the corporation provided for costs relating to additional restructuring of its CAE-Link Corporation subsidiary. 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 reported as a provision for restructuring costs in the consolidated statements of earnings.

11. INCOME TAXES

The provision for income taxes comprises:

	1994	1993
Current	\$ 5,048	\$ 13,416
Deferred	5,860	(1,022)
	\$ 10,908	\$ 12,394

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

	1994	1993
Combined federal and provincial statutory rate (1994 and 1993 – 44.3%)	\$(170,289)	\$ 19,792
Writedown in the carrying value of CAE-Link	175,813	–
Provision for restructuring costs	7,264	–
Acquisition provisions, deducted for tax purposes as paid	–	(4,661)
Income taxed at different rates in foreign jurisdictions	(459)	(2,051)
Goodwill amortization not deductible for tax purposes	5,622	6,857
Inter-company transactions recognized for taxation purposes, eliminated on consolidation	(4,611)	(4,921)
Manufacturing and processing allowance	(1,457)	(2,276)
Other	(975)	(346)
Income taxes	\$ 10,908	\$ 12,394

At March 31, 1994, 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	\$207,000
Amounts provided for in the financial statements which have not yet been claimed for income tax purposes	54,000
	\$261,000

The losses for income tax purposes expire in the years 2004 through 2009.

12. SUPPLEMENTARY CASH FLOW INFORMATION

Cash (used for) provided from non-cash working capital:

	1994	1993
Accounts receivable	\$ 14,561	\$ 41,346
Inventories	(1,523)	(6,937)
Prepaid expenses	419	(22)
Income taxes recoverable	(3,532)	(4,607)
Accounts payable and accrued liabilities	(21,443)	(12,462)
Deposits on contracts	(17,154)	16,675
	\$ (28,672)	\$ 33,993

13. LEGAL PROCEEDINGS

(i) The corporation is proceeding against Canadian Commercial Corporation (CCC) to recover \$6.7 million (U.S.) in unpaid amounts and damages plus interest and costs of the action in connection with the T-39 aircraft maintenance program which was terminated for the convenience of the United States Government in April, 1971.

An interest-free loan of \$3.9 million (CDN.) was advanced to the corporation repayable on settlement of the T-39 claim, and is included in accounts payable and accrued liabilities in the consolidated balance sheets. CCC has claimed that pursuant to a settlement effected by it with an agency of the United States Government, \$1.7 million of the interest-free loan is payable with interest from August 1976.

It is the opinion of management and its legal counsel that the corporation's claim is valid, that no amounts are payable under the interest-free loan agreement until final determination of the claim between the corporation and CCC, and that the corporation's legal action should be successful.

(ii) During 1993, the corporation paid U.S.\$22.2 million as part of a settlement agreement to resolve a civil suit filed against CAE-Link Corporation and Bicoastal Corporation, as co-defendants, by the U.S. Department of Justice in 1989. The original civil suit alleged that from 1980 to 1988 a division of the Link businesses acquired by the corporation in 1988 falsely represented estimates of costs required to perform work on certain government contracts, and sought damages in excess of U.S.\$231 million. The suit was settled for a total of U.S.\$55.9 million, with Bicoastal contributing U.S.\$33.7 million. The payment was charged against provisions recorded as at the date of the acquisition.

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

14. OPERATING LEASE COMMITMENTS

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

Year ending March 31, 1995	\$ 9,652
1996	8,514
1997	6,539
1998	4,653
1999	3,999
Thereafter	9,134
	\$42,491

15. PENSIONS

The corporation has defined benefit plans in Canada and the United States 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:

	Plans in Canada		Plans in the United States	
	1994	1993	1994	1993
Discount rate for pension benefit obligations, and return on plan assets	8.0%	8.0%	9.0%	9.0%
Compensation rate increases	5.5%	5.5%	6.0%	6.0%
The funded status of the defined benefit pension plans at March 31 was as follows:				
Market related value of assets	\$81,375	\$70,027	\$37,003	\$30,616
Present value of accrued pension benefits	\$71,265	\$63,674	\$50,563	\$39,361

16. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The corporation provides post-retirement benefits other than pensions for certain of its retirees located in the United States. These benefits include subsidized medical and dental care.

The actuarial present value of accrued post-retirement benefits other than pensions has been estimated taking into consideration economic and demographic factors over an extended future period.

17. COMPARATIVE FINANCIAL STATEMENTS

Certain comparative figures for 1993 have been reclassified to conform with the presentation adopted in 1994.

18. BUSINESS SEGMENTS

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

The Industrial Products segment of the corporation is engaged in repair and overhaul services and 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 provides 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 tables:

Business Segments	Aerospace and Electronics		Industrial Products		Consolidated	
	1994	1993	1994	1993	1994	1993
Total revenue	\$ 917,147	\$ 915,126	\$ 110,164	\$ 86,428	\$1,027,311	\$1,001,554
Segment earnings	\$ 52,115	\$ 51,591	\$ 15,370	\$ 12,274	\$ 67,485	\$ 63,865
Other expense, net					(3,719)	(2,960)
Interest expense					(18,265)	(16,267)
Earnings before unusual items and income taxes					\$ 45,501	\$ 44,638
Identifiable assets	\$ 687,033	\$1,097,093	\$ 100,284	\$ 94,052	\$ 787,317	\$1,191,145
Other assets, net					17,375	16,997
Total assets					\$ 804,692	\$1,208,142
Capital expenditures	\$ 21,740	\$ 23,438	\$ 3,659	\$ 3,629	\$ 25,399	\$ 27,067
Depreciation & amortization	\$ 37,463	\$ 40,986	\$ 5,774	\$ 3,752	\$ 43,237	\$ 44,738

Geographic Segments	Canada and Europe (i)		United States		Consolidated	
	1994	1993	1994	1993	1994	1993
Total revenue	\$ 561,237	\$ 477,360	\$ 466,074	\$ 524,194	\$1,027,311	\$1,001,554
Segment earnings	\$ 46,928	\$ 48,839	\$ 20,557	\$ 15,026	\$ 67,485	\$ 63,865
Other expense, net					(3,719)	(2,960)
Interest expense					(18,265)	(16,267)
Earnings before unusual items and income taxes					\$ 45,501	\$ 44,638
Identifiable assets	\$ 324,245	\$ 291,164	\$ 463,072	\$ 899,981	\$ 787,317	\$1,191,145
Other assets, net					17,375	16,997
Total assets					\$ 804,692	\$1,208,142
Capital expenditures	\$ 14,111	\$ 8,822	\$ 11,288	\$ 18,245	\$ 25,399	\$ 27,067
Depreciation & amortization	\$ 13,576	\$ 12,796	\$ 29,661	\$ 31,942	\$ 43,237	\$ 44,738

Export Sales from Canada	1994	1993
United States	\$ 112,052	\$ 115,810
Europe	46,731	54,560
Asia, Africa	156,363	97,987
Other	2,980	4,308
	\$ 318,126	\$ 272,665

Research and development expenditures aggregated \$180,612 during the year (1993 – \$190,623).

(i) Includes results of operations in Germany, Finland, Sweden, and France, which comprise 7.0% (1993 – 5.4%) of consolidated revenue.

SIX YEARS IN REVIEW

(Figures in thousands except where indicated by *)

	1994	1993	1992	1991	1990	1989
Revenue	\$1,027,311	\$1,001,554	\$1,045,812	\$1,097,728	\$1,119,546	\$838,827
Depreciation and amortization	\$ 43,237	44,738	41,719	41,019	37,904	24,256
Net earnings excluding unusual items	\$ 34,593	32,244	32,785	24,157	2,689	43,154
Net (loss) earnings	\$ (394,960)	32,244	32,785	24,157	2,689	42,755
Net earnings per share excluding unusual items*	\$ 0.32	0.30	0.31	0.25	0.03	0.56
Net (loss) earnings per share*	\$ (3.64)	0.30	0.31	0.25	0.03	0.55
Ratio of current assets to current liabilities*	0.9	0.9	0.9	0.9	0.9	0.9
Common shareholders' equity per share*	\$ 1.61	5.53	5.14	4.74	4.59	2.89
Number of registered shareholders*	4,200	4,500	4,900	5,100	5,300	5,500
Cash dividends paid per common share*	\$ 0.16	0.16	0.16	0.16	0.16	0.16

QUARTERLY FINANCIAL INFORMATION

(Figures in thousands except per share amounts)

	1994				1993			
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Revenue	\$252,965	\$251,321	\$263,874	\$259,151	\$239,658	\$239,968	\$253,731	\$268,197
Net earnings excluding unusual items	\$ 7,613	5,986	10,870	10,124	5,700	7,026	10,899	8,619
Net (loss) earnings	\$ 7,613	5,986	(418,683)	10,124	5,700	7,026	10,899	8,619
Net earnings per share excluding unusual items	\$ 0.07	0.06	0.10	0.09	0.05	0.07	0.10	0.08
Net (loss) earnings per share	\$ 0.07	0.06	(3.86)	0.09	0.05	0.07	0.10	0.08
Common share trading range:								
High	\$ 5.375	6.000	7.125	7.250	6.625	6.375	6.250	5.500
Low	\$ 4.850	4.800	5.500	5.625	5.250	5.875	5.000	4.750

CORPORATE GOVERNANCE

Board of Directors

CAE maintains an active Board of Directors which, in 1994, will be comprised of twelve members, each highly qualified, with complementary backgrounds and experience. Nine directors are unrelated to CAE, two 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 been 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 conduct 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; and 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 AND OFFICERS

BOARD OF 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

J. Douglas Creighton, C.M.
President,
Paper & Pen 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 Corporation
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

F. Cameron Wilkinson
Corporate Director,
Vancouver, British Columbia

■ Member of the Executive Committee

† Member of the Audit Committee

■ Member of the Compensation Committee

▲ Member of the Governance Committee

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
Vice President,
Industrial Products Group

David R. Tait
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

David L. Adams
Treasurer

John C. Black
Controller and Assistant Secretary

AUDITORS

Price Waterhouse,
Chartered Accountants
Toronto, Ontario

TRANSFER AGENT & REGISTRAR

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

CORPORATE DIRECTORY

HEAD OFFICE

CAE Inc.

Corporate Offices
Suite 3060, P.O. Box 30
Royal Bank Plaza
Toronto, Ontario M5J 2J1
Telephone: (416) 865-0070
Fax: (416) 865-0337

SUBSIDIARY COMPANIES

CAE Electronics Ltd.

Montreal, Quebec
Telephone: (514) 341-6780
Fax: (514) 341-7699

CAE Electronics GmbH

Stolberg, Germany
Telephone: (011) 49-2402-106-0
Fax: (011) 49-2402-106-270

CAE Aviation Ltd.

Edmonton, Alberta
Telephone: (403) 890-6300
Fax: (403) 890-7773

CAE-Link Corporation

Binghamton, New York
Telephone: (607) 721-5465
Fax: (607) 771-8477

Falls Church, Virginia
Telephone: (703) 578-5800
Fax: (703) 880-3344

Houston, Texas
Telephone: (713) 488-5510
Fax: (713) 280-4083

CAE Machinery Ltd.

Vancouver, British Columbia
Telephone: (604) 299-3431
Fax: (604) 299-4927

CAE Vanguard

Minneapolis, Minnesota
Telephone: (612) 896-3915
Fax: (612) 896-3913

Montreal, Quebec
Telephone: (514) 639-1785
Fax: (514) 639-1651

Winnipeg, Manitoba
Telephone: (204) 786-6821
Fax: (204) 775-3495

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

CAE ScreenPlates

Lennoxville, Quebec
Telephone: (819) 562-4754
Fax: (819) 562-6064

Glens Falls, New York
Telephone: (518) 761-2500
Fax: (518) 745-1624

Norrköping, Sweden
Telephone: (011) 46-11-129800
Fax: (011) 46-11-136950

Varkaus, Finland
Telephone: (011) 358-72-2021
Fax: (011) 358-72-53-951

Katwijk, The Netherlands
Telephone: (011) 31-1718-77012
Fax: (011) 31-1718-77092

TRADEMARKS

The CAE logo, and the terms MAXVUE, Virtual Tower, Virtual Controller, Virtual Anesthesiology, LinkTrak Telemedicine and ClearView 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.

VERSION FRANÇAISE

La version française du rapport annuel est disponible sur demande au Vice-président, Relations d'entreprise, bureau 3060, C.P. 30, Royal Bank Plaza, Toronto (Ontario) M5J 2J1.

Credits

Design:	Concrete Design Communications Inc. Toronto
Photography:	Ron Baxter Smith
Typesetting:	Moveable Type Inc.
Printing:	Arthurs-Jones Lithographing Ltd.
CD ROM:	CAE-Link Corporation Falls Church, Virginia
French Translation:	CAE Aviation Edmonton, Alberta
	Photo on page 8 is courtesy of NASA.

Printed in Canada

