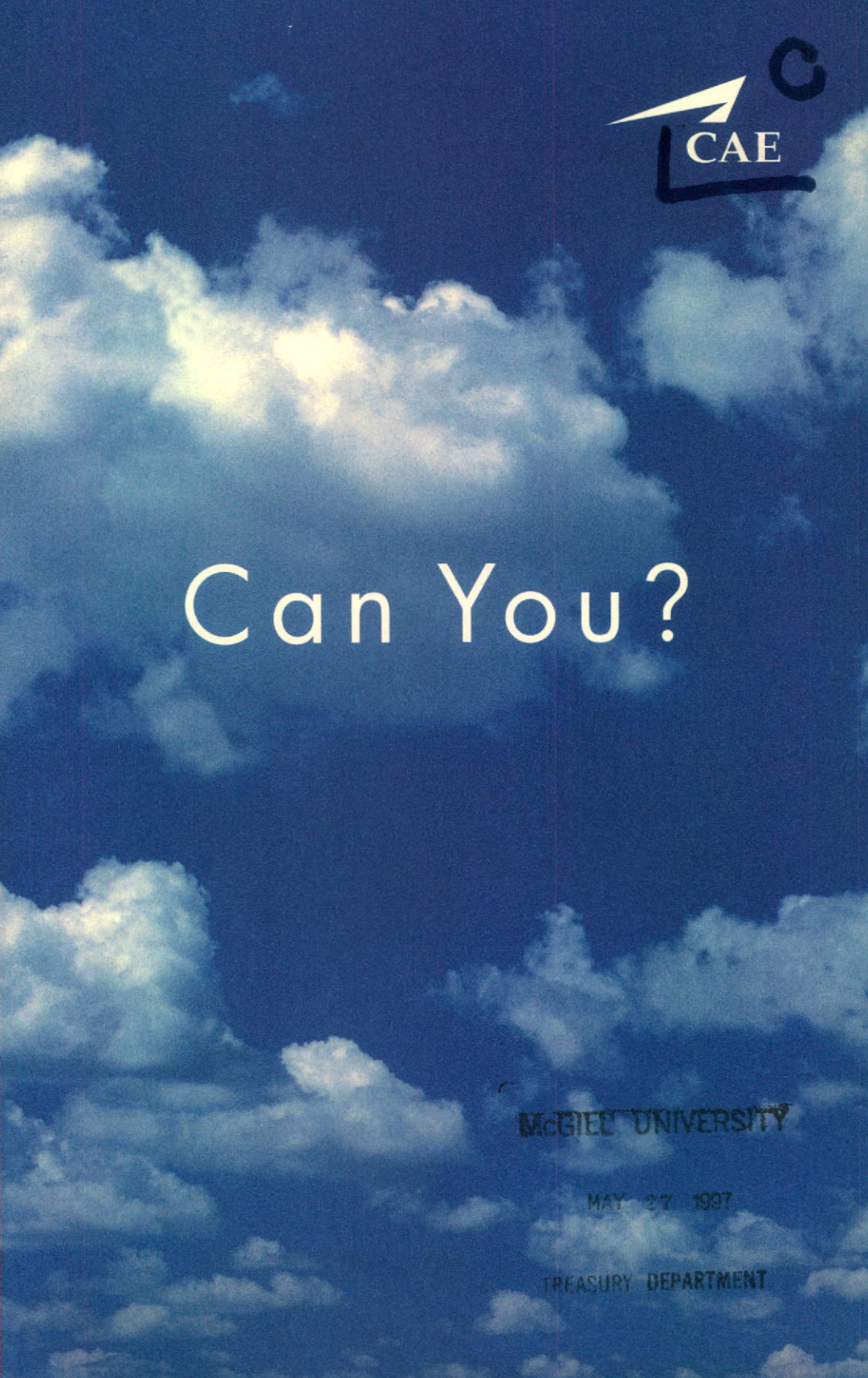
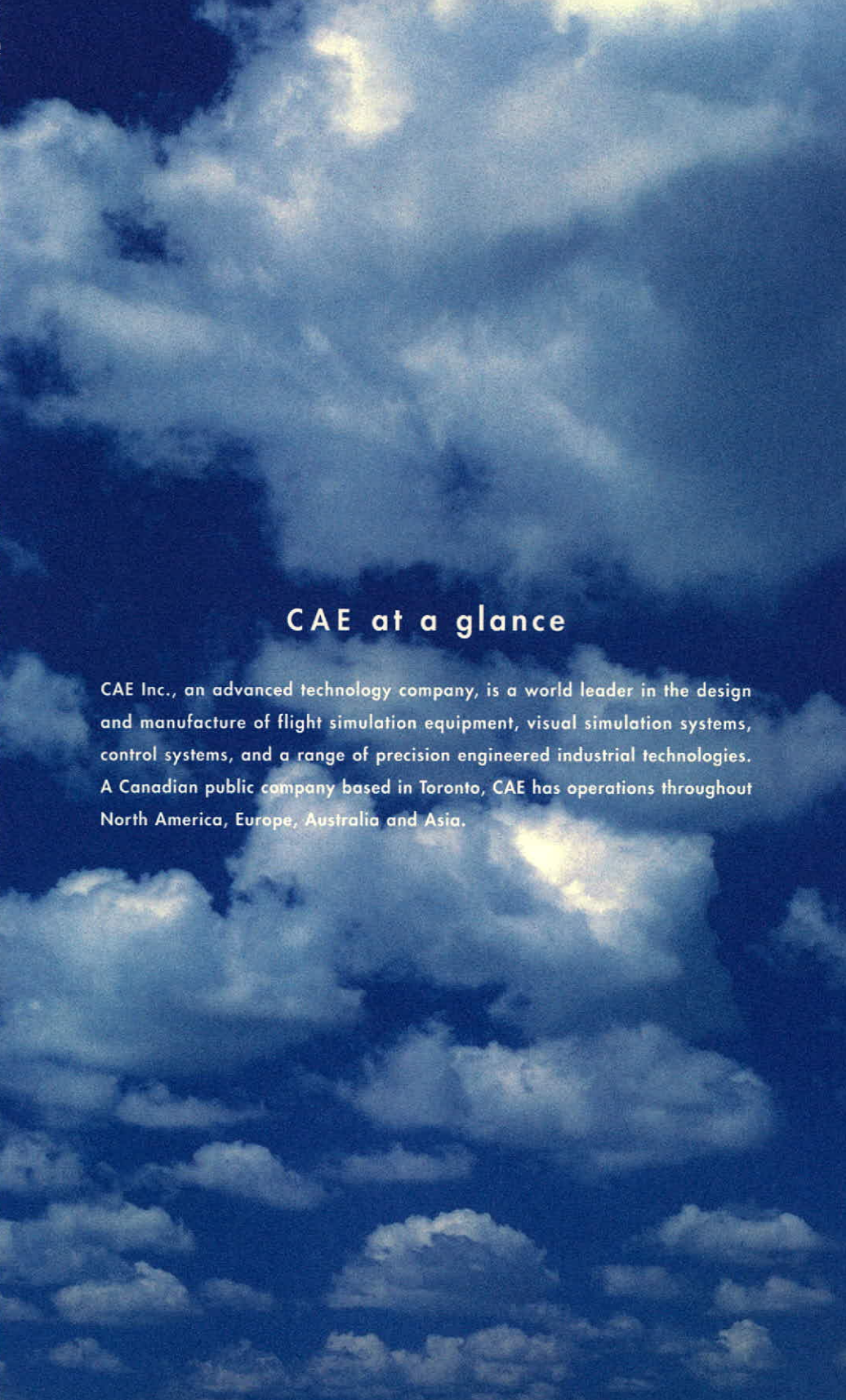


	A Few of Our Customers
ection, maintenance, repair, modification, and overhaul nd others. The company is the only independent Hercules oe C130 Hercules aircraft. CAE Aviation is also a related industries.	Bell Helicopter Textron, Canadian Airlines, Canadian Department of National Defence, Northwest Territorial Airways, US Coast Guard
cross CAE Electronics' entire product line. The company laide, Australia, the company is a world leading supplier ilitary radar testing and training markets.	Qantas Airways Limited, Rail Access Corporation, The Royal Australian Air Force, The Royal Australian Army, The Royal Australian Navy, Solaris Power, Transfield Defence Systems
l biomedical simulation systems.	Avondale Alliance, DARPA, General Dynamics Bath Ironworks Division, The U.S. Navy
roduction of commercial full flight simulators and flight manufacturer of military full flight simulators, visual sim- rine applications and electric power generation, transmis- for air traffic management and space exploration.	Bombardier Inc., Boeing Commercial Airplane Group, Boston Edison, Canadian Space Agency, KLM Royal Dutch Airlines, The Korean Navy, Powerlink Queensland, Sichuan Electric Power Corporation, Singapore International Airlines
CAE Invertron and CAE Electronics. The company was tinct markets it serves. CAE Invertron develops and supplies focuses its activities on the growing U.K. flight simulation U.K.-based capability in these key business areas.	Austrian Army, Royal Netherlands Army, Royal Netherlands Marines, Turkish Army, U.K. Ministry of Defence, U.K. Royal Navy
ight simulators, aircrew selection systems and training aintenance, repair, overhaul, and modification services ata processing and visual systems is further applied to	Contraves GmbH, DARA GmbH, Federal Ministry of Defense, German Ministry of Defense's Procurement Agency (BWB), German Navy, Kernkraftwerk Stade GmbH, Republic of Austria

	A Few of Our Customers
f engineered equipment for the forest products and pulp and in the production of oriented strand board, waferboard,	Georgia-Pacific Corporation, Louisiana-Pacific Corporation, MacMillan Bloedel Limited, Norbord Industries Inc., Stone-Consolidated Corporation, Weyerhaeuser, Weyerhaeuser Canada Ltd.
lesign and custom-manufacture of environmentally parts. The company has one operating subsidiary acquired in the field of ultrasonic cleaning equipment and	Allied Signal, Chrysler Corporation, Ford Motor Company, General Motors, Mitsubishi, Nippondenso, Robert Boch Corporation
anufactured stainless steel screen plates, cylinders,	A. Ahlstrom, Beloit Company, Black Clawson Company, Fiberprep Inc., Kvaerner Hymac Inc., Voith Sulzer Paper Technology
ated wedge wire filtering and separation products used in it industries.	Air Products (UK), Chemviron Carbon (Belgium), Dorr Oliver (USA), Mann & Hummel (Germany), Royal Dutch Shell (The Netherlands)
services to North American railways. ld rights to an exclusive electrochemical	Burlington Northern & Santa Fe Railroad, Canadian National Railroad, Canadian Pacific Railroad, CSX Corporation, GE Transportation Systems, Norfolk Southern, Union Pacific Railroad, VIA Rail Canada

Aerospace and Electronics Group		Overview
CAE Aviation Ltd. **Edmonton, Canada** 	*670 employees*	*CAE Aviation Ltd. is the leading supplier in Canada of inst services for military aircraft for the Canadian Armed Forces Service Center in North America authorized to fully service t leading producer of technical publications for the aerospace &*
CAE Electronics (Australia) Pty Ltd. **Silverwater, Australia** 	*160 employees*	*CAE Electronics (Australia) Pty Ltd. pursues opportunities a has one operating subsidiary – CAE MRAD. Located in Ad of integrated sensor stimulation products and systems for the w*
CAE Electronics Inc. **Binghamton, United States** 	*90 employees*	*CAE Electronics Inc. is a leader in marine control systems an*
CAE Electronics Ltd. **Montreal, Canada** 	*3,700 employees*	*CAE Electronics Ltd. is the world leader in the design and pr training devices. The company is also a leading designer and ulation systems, power plant simulators, control systems for ma sion, and distribution, as well as other computer-based systems*
CAE Electronics plc **Burgess Hill, U.K.** 	*210 employees*	*CAE Electronics plc is comprised of two operating divisions: reorganized in this way in 1996 to better focus on the two div land systems simulators to armies worldwide. CAE Electronics and marine control systems markets and on developing a stron*
CAE Elektronik GmbH **Stolberg, Germany** 	*520 employees*	*CAE Elektronik GmbH designs and produces military full fl systems for various applications. The company also provides m for flight and tactical simulators. Its expertise in real-time d European research and development programs.*
Industrial Technologies Group		**Overview**
CAE Machinery **Vancouver, Canada** 	*150 employees*	*CAE Machinery, whose principal business is the manufacture paper industries, is the world's largest supplier of flakers used and other wood-based composites.*
CAE Ransohoff **Cincinnati, United States** 	*275 employees*	*CAE Ransohoff is the acknowledged technology leader in the compliant aqueous-based cleaning machinery for manufactured in fiscal 1997, CAE Blackstone, a recognized industry leade associated systems.*
CAE ScreenPlates **Lennoxville, Canada; Varkaus, Finland** 	*540 employees*	*CAE ScreenPlates is the leading global supplier of precision and baskets primarily for the pulp and paper industry.*
CAE Trislot **Waregem, Belgium** 	*75 employees*	*CAE Trislot is a leading European manufacturer of sophistic the food and beverage, petrochemical and waste water treatme*
CAE Vanguard **Minneapolis, United States** 	*190 employees*	*CAE Vanguard is the leading provider of axle reconditioning In addition to supplying new axles, the company owns the we deposition process for rebuilding axles.*



CAE at a glance

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

Can you imagine

a company that answers your questions

before they're asked?

At CAE, our goal is to understand the operational issues our customers are facing, then create advanced technologies that address them. Through constant innovation, on-time delivery, and service of the highest quality, we create value for our customers and contribute to their success. Good relationships are critical. We work hard at collaborating with customers so every installation is a model of its kind. And we pay attention. For every customer, we are always looking ahead to the next emerging technology, the next valuable breakthrough. So when asked, as we frequently are, "Can you?" we are able to answer "We can."

Can you help our pilots become certified to fly an aircraft that has never flown?

GERARD WYNN

Managing Director, Air Operations Division Training,

Federal Express Corporation


ANTI ICE
EXT LT
APU
START
FUEL PUMP
SPD/MACH
ALT SEL
HDG SEL
V/S
A/THR
ALT HLD
PROFILE
NAV
LAND
CATEGORY III B
LANDING ELEVATION
LDG GEAR
MEMO
STATUS
FUEL FEED MAN CTL
PARKING BRAKE ON
EXT PWR CONNECTED
WHEEL
ECON CLB

That was the challenge Federal Express Corporation put to CAE at the onset of the most ambitious aircraft conversion program ever contracted.

The world's largest express delivery company, with annual revenue of over $10 billion, FedEx has grown since 1992 from handling an average of 1.5 million packages daily to over 2.5 million per day in 1996. It delivers to 211 countries. Its fleet of 562 aircraft is crewed in rotation by more than 3,450 pilots worldwide.

In 1995, to meet rising volumes, the company decided to refurbish its contingent of 34 McDonnell-Douglas DC10s. While retaining the superb structural integrity of the DC10 airframe, FedEx contracted McDonnell-Douglas to replace the entire three-pilot flight deck with a two-pilot advanced avionics suite from Honeywell Corporation.

CAE Electronics is supplying two MD10 simulators and one MD11 simulator capable of training both pilots and maintenance personnel. Computer managed instruction combined with diagnostic equipment in the simulators will train maintenance workers to troubleshoot the aircraft. Pilots will be trained to achieve Federal Aviation Authority certification for the MD10 on the first simulator CAE delivers in early 1999.

CAE was awarded the contract largely on the basis of past performance. FedEx already owns four CAE full flight simulators that are operated 24 hours a day, 362 days a year with 99% reliability. FedEx's other criteria for the contract was its own greatest strength: on-time delivery. "CAE has done this kind of tight parallel development before," says Gerard A. Wynn, FedEx's Managing Director, Air Operations Division Training, "both on the MD11 with Douglas and more recently on the Boeing 777."

While numerous DC10 aircraft are being modified for Federal Express by McDonnell-Douglas, hundreds of FedEx pilots will be training to fly them on CAE MD10 flight simulators.

Can you
train our soldiers
to monitor
heavy artillery
without firing a
single shot?

MALCOLM MOXON

Project Manager, Procurement Executive, U.K. Ministry of Defence

Yes. When the British Army wanted a simulator for training operators of its Warrior forward observation vehicles, it gave the job to CAE Invertron.

During the Gulf War, a new and highly maneuverable field vehicle called the Warrior proved to be extremely valuable as a forward observation post. Armored and fast, it's equipped with electronic image intensifiers, laser range finders, and other sophisticated systems to ascertain the accuracy of outgoing artillery fire. The job of the five-man crew is to observe the fire fall then recommend adjustments by radio to hone the accuracy of the artillery. Committed to an inventory of Warriors, the British Army faced the challenge of training soldiers in both the U.K. and Germany to operate the vehicles in realistic conditions. The problems: environmental damage, the use of real ammunition, and the impracticality of training five soldiers in a confined space. So in 1996, the Ministry of Defence tendered an international contract for Warrior simulation trainers.

The winner of that tender was CAE Invertron. By mid-1998, the company will deliver the first of five portable trainers able to be transported between British Army training sites in both the U.K and Germany. While providing visually accurate artillery fire and communications simulations, the trainers will almost eliminate the need to use Warrior vehicles for training, thereby offsetting their significant running cost in a relatively short time.

"Invertron won in stiff competition," says Malcolm Moxon, Project Manager in the Procurement Executive, Ministry of Defence, "Their technical solution was an excellent one. They have a good track record with us. And they are an easy company to work with. They identify strongly with their customers and work to satisfy the customer's requirements."

After the succes of the Warrior forward observation vehicle during the Gulf War, the British Ministry of Defence committed itself to procuring a significant number of the vehicles. To ensure that its troops are well trained to operate the Warrior, the MOD has ordered five portable simulation trainers from CAE.

Can you develop a system that will automate the nerve center of a Navy cruiser?

COMMANDER R.T. RUSHTON

U.S.S. Yorktown, United States Navy


48

CAE's marine control systems on the U.S.S. Yorktown (CG-48) "Smart Ship" do just that. While greatly reducing the need for manpower, they provide the captain with unprecedented centralized control of the ship's major systems.

The operation of Navy ships has traditionally been labor-intensive, with a sailor assigned to every function from using a wheel to control the rudder to watching a row of gauges and lights in the event of a malfunction. The United States Navy has begun to change that outmoded way of operating with its innovative Smart Ship program, a major initiative to introduce automation technologies. The Navy's key goals are to reduce manpower requirements while centralizing operational control so the captain and his crew can manage the ship more efficiently.

CAE Electronics is a key part of this revolutionary change by virtue of marine systems now installed and guiding the cruiser U.S.S. Yorktown (CG-48), the ship selected by the U.S. Navy for advanced systems testing. CAE was contracted in 1996 to install Standard Monitoring and Control System (machinery control) and Damage Control System software and 28 mini Remote Terminal Units that allow the officers and crew to run the ship through a simple Windows™-based operating environment.

Results have exceeded expectation. Where formerly, eleven men were needed for an underway engineering watch, only four are needed today. If there is any malfunction or maintenance alert in any part of the ship's mechanical systems, it is remotely sensed and immediately evident to the crew. And the systems have proven a major cost-saving because of their simplicity and reliability. "The most interesting attributes that weren't originally considered," says Commander R.T. Rushton, U.S. Navy, the Yorktown's commanding officer, "are the tremendous flexibility of the systems and the ease the crew has in learning how to use them." For the U.S. Navy, this is the beginning of a new era. For CAE, it's the first important success in a promising future of similar conversions for navies throughout the world.

The CAE marine control systems on the U.S.S. Yorktown allow the officers and crew to manage the critical operating systems of the ship from a single array of computer monitors.

Can you provide a machine that will do twice the work with half the energy?

DENNIS WIDDIFIELD

Groundwood Production Engineer, Stone-Consolidated Corporation

That's what CAE's remarkable King debarker has done for Stone-Consolidated Corporation at its groundwood pulp mill near Fort Frances, Ontario.

Like most forest products companies producing pulp, Stone-Consolidated was using conventional "wet drum" technology at its Fort Frances mill to remove bark from logs. Two massive drums tumbled the logs in a watery slurry, loosening and gradually breaking off the bark. But they required over 1,000 horsepower of electrical energy and often came close to hindering production in the winter when bark adheres stubbornly to frozen aspen logs. Worse still, the effluent that flowed from the drums in the winter could cause the mill to exceed its provincially regulated water contamination levels. The company was faced with a costly upgrade of its water treatment facilities to meet more stringent environmental limits in 1996.

Instead, the Fort Frances mill became the first in the world to replace existing debarking technology with King dry debarkers. The King debarker is a revolutionary advancement in the technology. Smaller and much more energy efficient than drum systems, it rapidly removes all traces of bark with a patented rotary mechanism that easily handles frozen logs of mixed species and variable dimensions.

Since the three King debarkers were installed at Fort Frances in 1996, performance has been exceptional. Water contamination is no longer a concern. There is plenty of surplus production capacity even on the coldest days. Fiber recovery has improved considerably. And all three units operate on only 360 horsepower, representing an energy saving of over $200,000 per year. In addition, maintenance, which was formerly a constant and expensive problem with the wet debarkers, is almost non-existent.

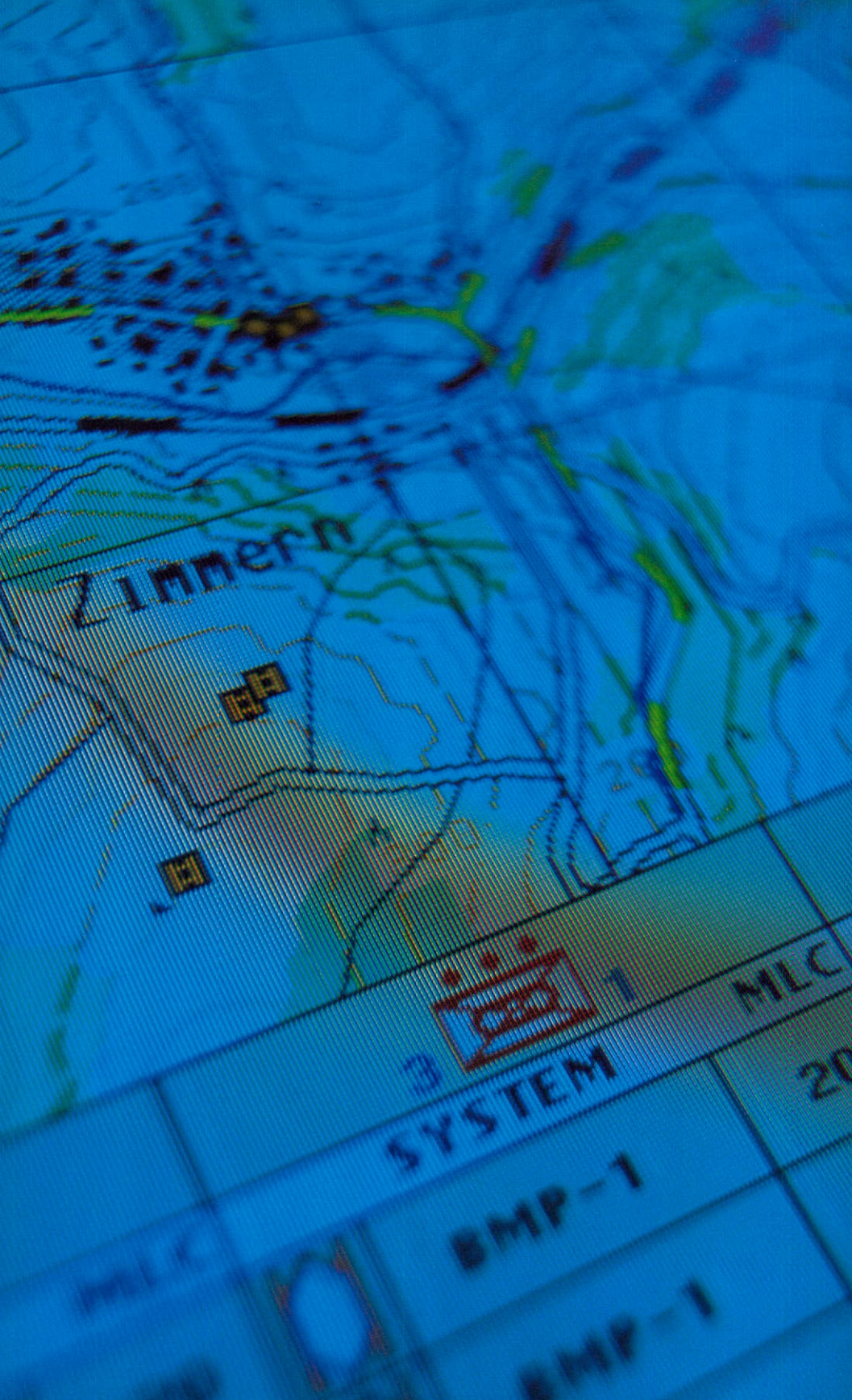
"When a technology turns your system around like this," says Dennis Widdifield, Groundwood Production Engineer at the Fort Frances mill, "it's a true paradigm shift. The King debarker is a paradigm shift. Nothing else compares."

CAE's King dry debarker has helped Stone-Consolidated improve production, reduce energy costs, and eliminate the need for expensive water treatment facilities.

Can you keep an entire army battle-ready without battlefields to train on?

LIEUTENANT COLONEL GOTTSCHLICH

Section Chief, Simulation Section, German Army


Zinnern
SYSTEM
BMP-1
BMP-1

For battalion commanders of the German Army, seven real-time battlefield simulation systems from CAE Elektronik GmbH are their primary means of tactical training.

All army commanders must conduct regular basic field training under realistic conditions or risk losing their skills and tactical judgment. But for the German Army, real-life training is limited by the lack of open space and a strong political opposition within the country. The sophistication of modern military weaponry, the cost of moving troops, and need to use live ammunition further complicate the situation. By the early 1990s, it was evident to the top staff officers that many of their battalion commanders were training too sporadically to be effective. An alternative would have to be found.

Between 1992 and 1994, the army tested simulation systems from both European and North American suppliers, based on required system programming of actual German army procedures and strategies. "The best results were clearly from CAE," says Lt. Col. Hans Jürgen Gottschlich, Section Chief of Simulation Section. "I was a battalion commander at that time. For me, the CAE simulator was an incredible way to see how my orders led to or prevented losses and casualties. It was better training than you could accomplish in real life. It remains to say that it was a real pleasure and a challenge to work with CAE because of its flexibility and cooperative approach."

The army has since purchased seven CAE SIRA (Simulation System für Rahmenübungen) systems and ordered three more that will be upgraded to brigade level. Located throughout Germany, the seven battalion systems have become the mainstay of German tactical training with each battalion using one of the SIRA systems twice a year for one week at a time. "Some of our generals," explains Lt. Col. Gottschlich, "were unsure about the effectiveness of computer assisted training. We recently presented the CAE system to the Chief of Army Staff. His reaction was, 'Gentlemen, this is the battalion training system of the future. This is my system. Go!'"

The seven CAE SIRA systems used by the German Army to train battalion commanders have solved the problems posed by lack of space for army maneuvers and political opposition to using live ammunition.

Can you provide overnight service for two hundred and sixty-ton locomotives?

RICHARD TESMAN

Manager, Americas Service, GE Transportation Systems

Yes. In fact, CAE established a facility in Kansas City to provide GE Transportation Systems with exclusive overnight wheel-set service for locomotives GE provides to its customers.

GE Transportation Systems, a division of General Electric Company, is the world's leading manufacturer of railroad locomotives. At its plant in Erie, Pennsylvania, it builds almost 70% of the new locomotives sold in North America. Its customers include most of the "Class One" railroads: CSX, Union Pacific, Burlington Northern/Santa Fe, Norfolk Southern, Canadian Pacific, and Canadian National.

Since the early 1990s, GE Transportation Systems has been providing its locomotives to the railroads, along with service contracts that include the full range of maintenance work. This service often required shipping large part assemblies from all over the United States to its Erie plant, resulting in additional inventories and added out-of-service time. With the recent strong growth of its manufacturing operations and a strategic desire to focus on that core competency, GE decided to seek another source of specialized service for its contract service fleets.

That source is CAE Vanguard. In 1996, Vanguard was awarded a three-year contract to regularly service and recondition the wheel sets and perform light motor repair for more than 500 GE locomotives operated by Burlington Northern/Santa Fe. As part of the contract, CAE Vanguard renovated a 40,000-square-foot facility in Kansas City, close to one of GE's major service locations and central to the Burlington Northern/Santa Fe main lines. CAE guarantees overnight turnaround and local service for GE and the end user, BN/SF. And GE will save significantly on shipping and inventory costs. "It was important for us to work with a partner who would be this responsive," says Richard Tesman, Manager, Americas Service, "and one who would provide us with the quality our customers expect. CAE is that partner."

By contracting routine service work on its locomotives to CAE Vanguard, GE Transportation Systems has reduced costs while maintaining its quality standards and rapid turnaround.

Can you help us achieve environmental compliance while improving product quality?

GERRY QUINLAN

Plant Engineer, Ford Motor Company

With an aqueous cleaning system from CAE Ransohoff, Ford Motor Company's Basildon, England plant was able to eliminate a hazardous solvent from its manufacturing process while lowering costs and improving product quality.

Several years ago, Ford committed itself to eliminating the solvent trichlorethylene from its worldwide automotive operations. Trichlorethylene, long used as a de-greaser to remove oils and chips prior to brazing, is a process that is not without risk. Nevertheless, it is especially effective in cleaning complex parts such as aluminium radiators, condensers, evaporators, and intercoolers in automotive climate control systems.

The alternative for Ford has been aqueous cleaning systems from CAE Ransohoff. Since 1990, Ford Climate Control Operations has purchased 22 CAE Ransohoff systems for its North American operations. In 1995, Ford's Basildon, England plant, one of the world's leading manufacturers of climate control systems, sought a similar wash unit from European manufacturers. Unable to find comparable technology, it too purchased a CAE Ransohoff system, the first to be shipped and installed in Europe.

"For a major process change, this was by far the smoothest operation I've ever experienced," says Gerry Quinlan, Plant Engineer, at Basildon. "It has been trouble-free basically." The system went into production in April of 1996 and has been cleaning 216 parts per hour ever since. Not only has it eliminated trichlorethylene, but it has lowered Ford's chemical costs by over 75 percent and reduced waste disposal costs by almost as much. "Plus," says Gerry Quinlan, "our cleanliness levels are higher with the aqueous system than they were with trichlorethylene, which means our product quality has improved... To our knowledge, CAE Ransohoff is the only company in the world competent enough to offer this technology."

The Ford Motor Company's self-imposed worldwide mandate to stop using chlorinated solvent trichlorethylene will be achieved with the help of CAE Ransohoff's unique aqueous parts cleaning technologies.

Letter from John E. Caldwell

Fiscal 1997 was another good year for CAE, with both revenue and net income attaining record levels. The company also made progress in many key markets, particularly in military simulation with important awards in Germany and the United Kingdom. The market for commercial simulators was not as buoyant as expected despite considerable new aircraft orders and deliveries. We anticipate orders to measurably increase in the immediate years ahead. Other traditionally strong markets for CAE products, particularly in the forestry industry, were soft through most of the year. All CAE companies maintained or enhanced their leadership positions during the fiscal period.

As we look ahead, all CAE companies will be driven by five imperatives: focus on customers; a commitment to innovation and technology; creation of long-term value for our shareholders; leadership in all critical aspects of our business; and, creating a motivating and challenging environment for CAE employees.

CAE's focus on customers is to consistently add value to their businesses by understanding their requirements and developing and delivering the best products and solutions to meet their expectations. At CAE, we strive to build and retain relationships with our customers through our performance and conduct every day.

Technology is fundamental to CAE. We are committed to innovation and the development of relevant technologies to address the needs of the marketplace and to foster a deep rooted belief in continuous product improvement.

Much has been written about shareholder value. At CAE, we believe in creating enhanced shareholder value through superior performance, growth and prudent management of our balance sheet.

Leadership means establishing and retaining the pre-eminent position in every key market worldwide served by the company. Leadership also involves achieving the highest level of performance in all disciplines such as engineering, manufacturing and sales and marketing. Leadership reaches the individual at CAE, as we select people to lead our companies who have vision, determination and the special ability to inspire and motivate others.

Finally, we strive to create a progressive climate at CAE built around teamwork, trust and mutual respect. Such an environment, we believe, is both energizing and rewarding to all CAE employees.

We look forward to fiscal 1998 and beyond with a sense of anticipation and confidence.

JOHN E. CALDWELL

President and Chief Executive Officer

Five imperatives will drive CAE companies: focus on customers, a commitment to innovation and technology,

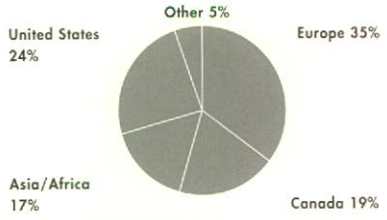
creation of shareholder value, leadership, and creating a motivating and challenging environment for employees.

Financial Review

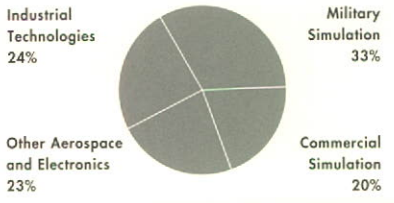
Financial Highlights

(Figures in thousands except per share amounts)	1997	1996
Operating Results		
Revenue	$ 867,344	$ 809,803
Net earnings	$ 60,276	$ 58,591
Financial Position		
Total assets	$ 698,761	$ 557,474
Total debt, net of cash	$ 135,696	$ 15,008
Per Share		
Net earnings	$ 0.55	$ 0.54
Dividends	$ 0.16	$ 0.16
Shareholders' equity	$ 2.08	$ 1.65

Geographic Distribution

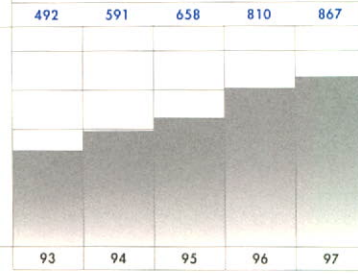


Revenue by Product Line



Revenue

(millions of dollars)

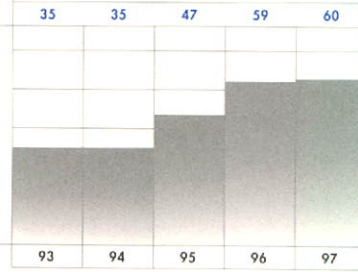


Commentary

Consolidated revenue rose seven percent in fiscal 1997 due to higher military simulation and energy control systems sales and the first full year financial contribution of CAE Ransohoff.

Earnings from Continuing Operations

(millions of dollars)

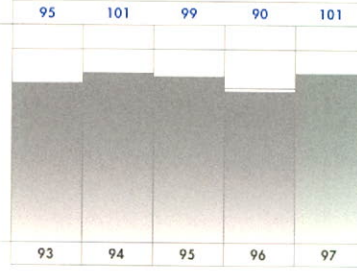


Commentary

Consolidated net earnings in fiscal 1997 increased largely due to higher activity in the military simulation sector.

Research and Development Spending

(millions of dollars)

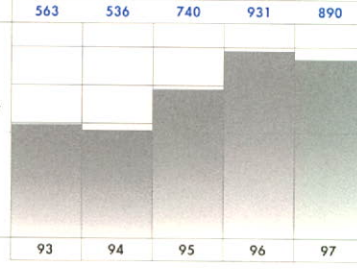


Commentary

CAE remains strongly committed to research and development, investing an average of 14 percent of revenue over the past five years.

Backlog

(millions of dollars)



Commentary

Order backlog was $890 million in fiscal 1997. The $625 million contract for the medium support helicopter program in the U.K., expected to be finalized in the first quarter of fiscal 1998, is not included in the fiscal 1997 backlog.

Review of Operations and Management Discussion & Analysis

Summary of Consolidated Results

Consolidated revenue rose seven percent to $867.3 million, from $809.8 million in fiscal 1996. Revenue from the Aerospace and Electronics Group rose six percent, primarily due to higher military simulation and energy control systems sales. In the Industrial Technologies Group, revenue rose twelve percent, largely from CAE Ransohoff's first full year financial contribution.

Consolidated net earnings increased three percent to $60.3 million or $0.55 per share compared with $58.6 million or $0.54 per share in fiscal 1996. The higher activity level for military simulators contributed to the increase in operating earnings for the Aerospace and Electronics Group. This improvement more than offset CAE's higher interest expense and the lower margins and operating earnings for the Industrial Technologies Group.

Net earnings growth was affected by various factors including an expected cyclical downturn in certain industrial technologies markets, investments in new product development by CAE Industrial Technologies companies, the timing of the award of certain commercial simulator contracts, further investment in expanding capabilities in the U.S., the U.K. and Australia in preparation for work on significant military simulation programs, as well as higher costs to complete a railway control system program for the State Rail Authority of Australia.

Cash Flow

By the end of fiscal 1997, net bank indebtedness had increased to $135.7 million from $15.0 million at the end of fiscal 1996. The increase reflects higher capital expenditures to keep pace with the growth of certain businesses, the advanced build of several commercial simulators to meet shorter delivery schedules, the acquisition of CAE Blackstone and a higher level of working capital. The increase in working capital is attributable to the timing of contract awards and related deposits on contracts, as well as the timing of achieving program milestones.

Tax Rate

CAE's effective tax rate was 26 percent in fiscal 1997 compared with 27 percent in fiscal 1996. The lower tax rate arose from a reorganization of the company's international corporate structure and changes in the income mix among the Canadian, U.S., European, and Australian operations.

Backlog

Order backlog of $890 million was slightly below the $931 million reported in fiscal 1996. In March 1997, CAE was selected for the medium support helicopter program by the U.K. Ministry of Defence. The contract, valued at approximately $625 million, is expected to be finalized in the first quarter of fiscal 1998 and has been excluded from the fiscal 1997 backlog.

Aerospace and Electronics Group

Five of the six operations in the Aerospace and Electronics Group – CAE Electronics Ltd. (Canada), CAE Elektronik GmbH (Germany), CAE Electronics Inc. (U.S.), CAE Electronics plc (United Kingdom) and CAE Electronics (Australia) Pty Ltd. – produce a variety of commercial and military simulation and training systems, control systems, and other computer-based systems.

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

Financial Results

(Figures in thousands)	1997	1996	1995	1994	1993
Aerospace and Electronics					
Revenue	$ 656,310	620,972	523,257	480,983	405,621
Operating Earnings	$ 57,790	53,115	42,124	34,892	40,990
Backlog	$ 787,407	831,022	657,665	493,515	531,178
Capital Expenditures, net of proceeds from disposal	$ 29,856	24,401	15,027	10,702	13,822

The financial performance of the Aerospace and Electronics Group improved over fiscal 1996. Revenue increased six percent to $656.3 million, due to higher military simulation systems and energy control systems sales in fiscal 1997.

Operating earnings for the Aerospace and Electronics Group rose to $57.8 million from $53.1 million in fiscal 1996. Operating earnings benefitted from the increased sales of military simulators and margin improvements on commercial simulators with the company's continued focus on improving its production and software development.

As of March 31, 1997, the Aerospace and Electronics Group's order backlog was $787 million, compared with $831 million at the same time last year. Several commercial and military simulator contract awards were deferred to fiscal 1998.

Operational Highlights

Commercial flight simulators

CAE maintained its leadership position in the commercial flight simulator industry capturing 55 percent of the worldwide commercial simulation market in fiscal 1997 or 11 simulators out of a total of 20 devices compared with 14 simulators sold out of 24 last year.

CAE was selected by Boeing Aircraft to build the first simulators for the new Boeing 737-700 aircraft by upgrading two existing CAE Boeing 737-300 simulators already owned by Boeing. The introduction of this new aircraft type bodes well for CAE as airlines begin to purchase this aircraft and require training equipment. SAS Flight Academy also awarded CAE a contract to design and manufacture a new Boeing 737-700 full flight simulator equipped with the MAXVUE™ visual system.

During the year, CAE was awarded its ninth Boeing 777 full flight simulator contract since the introduction of the aircraft in 1993. The contract, valued at $15 million, was awarded to CAE by Singapore Airlines.

Federal Express Corporation awarded CAE a contract to design and manufacture two MD-10 level-seven fixed-base simulators and an MD-11 fixed-base simulator, with follow-on options for two MD-11 full flight simulators and two MD-11 level-six flight training devices. The MD-10 fixed-base simulator will be the first of its kind delivered in the world.

Bombardier Aerospace Group awarded CAE a contract to design the world's first Global Express full flight simulator with MAXVUE™ visual system. As often is the case for CAE, the design and development of the new aircraft dovetails with the design and development of the flight training equipment.

CAE Electronics

CAE has recently implemented an ISO 9001 quality system governing software development for the Simulation and Control Systems product lines. Our objective is to strengthen our focus on continuous improvement to provide our customers with products of the highest quality, on-time.

BRUCE STAMM *Manager, Software Quality Engineering*

Outlook

Commercial simulator orders are driven by a number of factors including growth in aircraft fleets, changes in aircraft mix, regulatory changes in training requirements and pilot attrition. In addition, the use of simulators for training has continued to increase over the years due to improving technology and regulatory changes as well as the significant cost savings as compared to real flight time training.

These factors, combined with the expected continued growth in air travel, the strong financial position of the airline industry, and the order backlog for delivery of new aircraft should lead to increased simulator purchases for the balance of the decade.

Military Simulation Systems

CAE continued its success in the international military simulation market during fiscal 1997. The company was selected for the two largest programs awarded this year.

CAE Elektronik GmbH enhanced its leadership position in the German military simulation market with the Night Time low level Flight (NTF) contract to design, develop and manufacture four full flight simulators and eight primary flight training helicopter simulators for the German Army Aviation School, worth $226 million. This is the largest contract in CAE Elektronik GmbH's 35 year history. The simulation requirements, developed with the customer, are based on a forward-looking, modular and cost-efficient system which will set new standards in this field. CAE Elektronik will be well positioned to offer its expertise for other future national and multinational projects using the same concept.

In March 1997, CAE was selected to provide six flight simulators for the U.K. Ministry of Defence Royal Air Force's fleet of medium support helicopters. This is a turnkey contract in which CAE and its subcontractors will build, equip, operate and finance a training center for the medium support helicopters for a twenty year period. The contract includes an option for an additional twenty years. Of the total contract, valued at

CAE Electronics

The U.S. Navy is developing a new class of amphibious ship called the LPD-17. It's the only new ship-building program on the books before the next century. CAE has won the contract to provide the machinery and damage control systems because we have production-ready technologies that reduce manpower, have been proven at sea, and are ready to install.
HARVEY MCKELVEY *Director, Navy Programs*

$625 million, CAE will be responsible for providing approximately $150 million in capital equipment and as much as 30 percent of the services portion. The balance of the contract consists of subcontract work and separate, third party financing.

Following the award of a $38 million contract for a new Australian Black Hawk helicopter simulator at the end of fiscal 1996, CAE was awarded a contract from the Royal Australian Air Force (RAAF) worth another $38 million in fiscal 1997 for a Boeing 707 simulator, a Lockheed C130J Hercules simulator, and the management and support of both systems. The company's success in winning this contract is due in part to its strategic investment in the Australian market with the 1994 acquisition of CAE Electronics (Australia). This is the first time CAE will design and manufacture a J-model C130 flight simulator.

SAS Flight Academy contracted CAE Electronics to design and manufacture a full flight simulator for the Bell 412/212 helicopter. It will be equipped with the MAXVUE™ visual system. CAE is now the leading player in helicopter simulation, having won six out of the eight programs completed over the last three years.

CAE Invertron was also awarded the largest contract in its history. The contract, valued at approximately $36 million, calls for CAE to develop and supply the U.K. Ministry of Defence with five advanced simulators for the Warrior Observation Post Vehicle. The three-year contract positions CAE Invertron as a key international supplier of combined sophisticated artillery and gunnery training solutions and simulation protocols for the modern battlefield.

Outlook

The military simulation market is dependent upon the introduction of new aircraft platforms, upgrades to existing aircraft and a shift to a greater use of simulators in the pilot training program.

Similar to the commercial simulation industry, the military's use of simulation has increased due to the high degree of realism and the significantly lower cost of training that can be achieved using simulators.

CAE Invertron

The Ministry of Defence has invested billions of pounds in modern indirect fire weaponry. But there was a widening gap in skills training. The Warrior Observation Post Vehicle simulators from CAE Invertron are an extremely efficient means of honing skills, then maintaining those skills at peak levels over time thus providing the Artillery with their most sophisticated training equipment to date.

PAUL MATTHEWS *Sales and Marketing Manager*

In addition to technology and price, the customer's key purchase criteria also includes the contractor's local presence. CAE has enhanced its position as a global supplier of military simulation products through its local presence in Canada, Germany, the U.K., Australia and the United States.

In the near term, CAE will benefit from its many successes in the international marketplace. In the longer term, simulation demand for the next generation of military aircraft is significant, particularly in Europe with such programs as the Eurofighter 2000, the Tiger and NH-90 helicopters, the Hawk and upgrades for the Tornado tactical aircraft.

Marine Control Systems

CAE is the automation supplier of choice for the world's bluewater navies and has supplied integrated platform management systems to six major navies worldwide, leveraging its technology developed for the Canadian Patrol Frigates. Fiscal 1997 was a record year for the marine control systems business with order bookings of approximately $60 million. CAE won the majority of marine control system contracts for major new naval vessels this year. This success is attributable to the technological solution offered by CAE's products and the team approach through the active involvement of CAE's international operating presence.

During the year, the company was awarded the following strategically significant programs to provide:

- a marine control system for the U.K. Royal Navy valued at approximately $11 million. This system will be installed in the Navy's new amphibious Landing Platform Dock vessels HMS Albion and HMS Bulwark. It will monitor and control the ships' platform machinery and systems, including propulsion and electrical machinery, auxiliaries, damage surveillance, and the ballasting system;
- two marine control systems for the Royal Netherlands Navy Air Defence and Command Frigate (LCS) valued at approximately $10 million; and
- a marine control system for the Korean Navy minehunter program.

CAE Electronics

CAE Electronics is the first company to update a U.S. Navy front line combattant warship with a fully integrated digital machinery and damage control system. The benefits accrued from the U.S.S. Yorktown update include substantial cost savings in reduced manpower and life cycle costs over the remaining life of the ship. CAE accomplished this update in an unrivalled eight months. It's important as the U.S. Navy looks ahead to modernizing as many as 50 major warships.

WENDY ALLERTON *Marketing Manager, Marine Control Systems*

Shortly after year-end, CAE was awarded a contract to develop the machinery control and monitoring systems and the battle damage control system for the new U.S. Navy amphibious class ship, the LPD-17. This is the largest U.S. Navy shipbuilding order on the books until early in the new millennium. The first phase of the contract is for three ships followed by nine more ships to be authorized and built over the next ten to fifteen years.

Outlook

The marine control system products can be provided for new ships as well as retrofitted for mid-life modernization of existing ships, which improves operating performance and reduces manpower requirements.

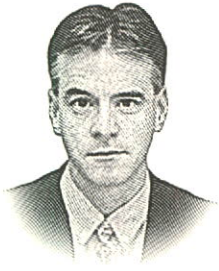
With its installed base and having been selected for several strategic ship programs – the LPD-17 and Smart Ship – CAE is well positioned to participate in the global retrofit market as navies continue to search for means to reduce manpower, minimize expenditures for new platforms and maintain the state-of-the-art technology for their fleets.

Energy Control Systems

In fiscal 1997, CAE won Industry Canada's Canada Export Award in recognition of the significant international sales of the GEN 3 energy management system. During the year, the company won the following contracts:

- An advanced state-of-the-art Supervisory Control and Data Acquisition/Distribution Management System (SCADA/DMS) contract from Reykjavik Electricity, the electricity distribution company for the city of Reykjavik, Iceland and neighboring communities. This is CAE's first European sale of an SCADA/DMS and will allow CAE to showcase its technology in the rapidly deregulating market, where such systems will be in increasing demand.

- An advanced Distribution Management System (DMS) for the Canal Electricity Distribution Company, the second-largest utility in Egypt. Valued at $19.8 million, this is CAE's second large



CAE Aviation

As the only independent maintenance organization currently servicing Boeing 737s in Canada, we are able to save airline customers the time and expense of flying their aircraft outside the country for servicing. Our Edmonton facility is being called "the best-kept secret in the commercial aviation world."
TERRY MACEWAN *Manager, Marketing*

contract in Egypt, confirming the company's position as that country's leading supplier of distribution management systems.

- A Distribution Management System (DMS) contract from Solaris Power in Australia. Solaris supplies electricity to over 230,000 customers in Victoria's competitive electricity market. CAE's system is a key operational asset that Solaris will use to improve the reliability of supply and network utilization. This DMS will be the first of its kind in service in Australia. CAE will be able to leverage its expertise to assist other electricity utilities who will have to operate in the deregulating electricity market.

China holds great potential for CAE in the control systems area over the next few years. The following contracts confirm CAE's strengthening market position for energy control systems in China:

- A $4-million contract to manufacture Remote Terminal Units (RTU) for Shenzhen Telecom Equipment Co. (STEC), a major supplier of communications equipment to Chinese utilities. This contract advances CAE's strategy to serve the growing RTU market in China.

- A $4-million contract from the Sichuan Electric Power Corporation for the supply of a Hydro Management System (HMS) that will monitor and control two hydropower stations on the Dadu River. The system will allow for centralized, remote, real-time control of the two stations while maximizing hydro generation, scheduling, and planning. This is the sixth control system sold by CAE in China since the mid 1980s.

Outlook

The worldwide trend toward deregulation of power markets and increasing requirements for electrical power bodes well for the company's future sales of energy control systems worldwide. The increased need for efficiency positions CAE's open architecture well as it allows customers to incorporate existing software and hardware while offering flexible expansion for future growth.

CAE Machinery

For faster and better customer service, we've been equipping our sales people and service technicians with notebook computers. From a sales standpoint, it means rapid response to a customer's queries. On the technical side, our service people are now able to connect their computers directly to many customers' equipment for instant diagnostics.

JOAN COSFORD *MIS Manager*

Aircraft Maintenance & Modification

CAE's overhaul facility in Pakistan is set to begin operations. This "Center of Excellence" is being developed jointly with Pakistan's Shaheen Foundation to provide repair and overhaul services to the country's fleet of 12 C130 aircraft. Eventually, it plans to pursue military and commercial aircraft maintenance and modification programs throughout South Asia.

In fiscal 1997, CAE was certified by Transport Canada as an Approved Maintenance Organization able to complete Boeing 737 Heavy Maintenance and Modifications. Following this certification, the company won a contract with Canadian Airlines for the maintenance of a Boeing 737. As part of the company's strategic plan to diversify beyond Canadian military aircraft programs, the recent success with the Boeing 737 reinforces CAE Aviation's ability to leverage its core strengths into the commercial aircraft maintenance marketplace.

During the year, the company completed the avionics equipment installation on the prototype C130 Hercules aircraft. Once testing is complete, the company will commence production for the Canadian fleet of thirty C130 Hercules.

Outlook

While Canadian military funding constraints have slowed repair and overhaul work on a number of the aircraft serviced by the company, CAE expects to maintain its current level of involvement, and will continue to benefit from the avionics update program for the Canadian fleet of C130 aircraft. CAE Aviation will focus on expanding its services in the international military and commercial markets.

Industrial Technologies Group

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

Revenue rose twelve percent compared with the previous year. This increase was largely attributable to the reporting of a full year's results for CAE Ransohoff, which was acquired at the midpoint of fiscal 1996. This, combined with improved revenue at CAE Vanguard due to the successful entry into the locomotive motor and wheel set repair and refurbishment business more than offset the lower revenue at CAE Machinery resulting from the anticipated slowdown in investments in new oriented strand board plants. CAE ScreenPlates' revenue was comparable with the prior year despite the dramatic downturn in the pulp and paper industry in the latter half of the fiscal year.

As a consequence of the weaker markets for CAE ScreenPlates and CAE Machinery products and additional spending for new product developments, the Industrial Technologies Group reported lower operating earnings.

Financial Results

(Figures in thousands)		1997	1996	1995	1994	1993
Industrial Technologies						
Revenue	$	211,034	188,831	134,335	110,164	86,428
Operating Earnings	$	28,046	31,928	22,568	15,370	15,620
Backlog	$	102,516	100,136	82,831	42,032	31,786
Capital Expenditures, net of proceeds from disposal	$	16,699	7,401	7,021	3,390	3,439

During the year, facilities expansions were completed at CAE ScreenPlates and CAE Ransohoff. CAE Ransohoff's growth potential was further strengthened with the acquisition of CAE Blackstone, a recognized leader in the field of ultrasonic cleaning equipment and associated systems.

CAE ScreenPlates

Operational Highlights

In recent years, the pulp and paper industry has undergone significant changes. Globally some 40 percent of the fibers used for the manufacture of paper and board are recycled. While this percentage is still increasing, the market is demanding a higher degree of quality paper. CAE ScreenPlates is helping its customers attain this goal by improving screening technologies with several new, innovative products.

During the year, CAE ScreenPlates successfully carried out a sizeable development program, aimed at improving screening technology by decreasing the size of the screen slots and increasing the open area. This new, non-conventional proprietary product will be introduced on the market during fiscal 1998.

Also during fiscal 1997, the company developed a new slotted screen cylinder with a new contour named the CAE Profile™ "C" for coarse screening. This cylinder will be used primarily to produce new, recycled corrugated cardboard. Tests in various applications indicate a significant increase in capacity with a major decrease of required energy to operate the equipment.

Outlook

Continued market share gains and new product developments position the company well for further growth in fiscal 1998 as conditions in the pulp and paper industry gradually improve. CAE ScreenPlates will continue its efforts to expand its reach into the Far East where the pulp and paper industry is on the up-swing.

CAE ScreenPlates

We developed a new screen in 1996 called a 'bar flow' which is a significant improvement on existing technology. With a larger processing area and excellent mechanical strength, it will improve the screening capacity of our customers and be much more reliable than anything else on the market.

FRANK AALTONEN *Development Manager*

CAE Trislot

Operational Highlights

Machines critical to manufacturing were fundamentally redesigned during the year to improve performance, increase process speeds and decrease operating costs. The machine development team effectively has achieved performance breakthroughs that will enable CAE Trislot to remain at the forefront of precision wedge wire technology.

The company continued to make inroads into the rapidly developing food & beverage processing equipment markets in the Far East and South America and the waste water treatment business by participating in a major project in Egypt.

Outlook

The company expects growth to continue in fiscal 1998, primarily through geographic market expansion and new product development. CAE Trislot will focus on its strength as the leader in the upper segment of producing wedge wire products for food and beverage processing.

CAE Machinery

Operational Highlights

CAE Machinery maintained its leadership position in composite products machinery for oriented strand board, capturing 85 percent of the market with the sale of six long log disc flakers and five stranders. The company also continued its success in the fibre processing machinery market with the sale of six King debarkers during the year. As a further step to meet its customer needs, CAE Machinery has designed a mobile debarker, providing the flexibility and cost-effective means to use the debarker at various sites.

In addition, CAE Machinery was the recipient of the 1996 Canada Award for Excellence in the "Innovation" category as a result of the company's successful development and marketing of the CAE strander. This award, which is co-sponsored by Industry Canada and the National Quality Institute, recognizes dedication to quality, excellence and high performance.

CAE Machinery

There has never been an effective way to remove undesirable material such as bark, stain, and rot from pulp chips. Now there is. Starting in 1997, we'll be offering an optical chip sorter that will help our customers lower their bleaching costs and improve the quality of their pulp and paper.

Rob McNicol *Manager, Fibre Processing Machinery*

Outlook

The operations of CAE Machinery will be impacted by new investment in oriented strand board mills which is not anticipated until the latter part of 1998, and the timing of the recovery of pulp prices.

The company continues to develop and introduce new technology-based products with resources being focused on a number of areas including: the wood chip sorter, a product which uses patented light identification and air-jet separation technology to sort pulpwood chips; a disposable knife system for use in flaking machinery; and a new technology used to stress rate structural wood panels. Penetration of emerging markets such as South East Asia is also a focus of the company.

CAE Vanguard

Operational Highlights

In the latter part of fiscal 1996, CAE Vanguard opened a new workshop in Kansas City to service locomotive motors and wheel sets. The success of this new business combined with a steady supply of axle cores from the Ukraine to meet the demand for the new axle replacement market contributed to the company's improved performance.

CAE Vanguard's leading market position and demand for its maintenance axles (rebuilt axles through an electrochemical deposition process or downsizing through machinery) was consistent with the prior year.

Outlook

The Class I railroad companies continue to be the company's largest customers and with their trend towards focusing on their core "hook and haul" business, and outsourcing of additional services (similar to that described for locomotive motors) provides an excellent opportunity for growth. The company is also looking to expand its services to the rail transit sector. CAE Vanguard is evaluating new products and services such as

CAE Vanguard

We specialize in the machining of locomotive and transit wheel sets. For all our customers, we either provide new components or reconditioned parts. It's all on a just-in-time basis, so it saves them time and money by reducing inventory levels.
RICHARD CAZA *General Manager,*
Locomotive and Transit Division

traction motor conversion, to improve the efficiency and reduce the operating costs of certain older locomotives. If successful, this and other initiatives could contribute significantly to the future growth of the company.

CAE Ransohoff

Operational Highlights

CAE Ransohoff achieved record sales and earnings in its first full year as a CAE company. In fiscal 1997, the company gained market share and customer demand for aqueous-based cleaning equipment continued to improve with record-high orders. Production became more efficient with the consolidation of the company's two facilities and the expansion of its Cincinnati plant.

The company won an $8.5-million order from Chrysler Corporation to supply 71 individual cleaning systems and nine central solution supply modules for a new transmission plant being built in Kokomo, Indiana. The systems include a patented membrane filtration technology which will clean various components of Chrysler's new 45 RFE rear-wheel-drive transmission. The company's recent plant expansion proved to be a key factor in Chrysler's decision to single source the cleaning equipment business for this major program.

CAE Ransohoff was also awarded a multi-million dollar contract from Ford Motor Company to supply 19 individual satellite type cleaning systems with a common central solution supply system for their new "FN" automatic transmission project in Sharonville, Ohio and Van Dyke, Michigan. Ford Motor Company will use CAE Ransohoff's new membrane filtration technology for this project. The system is expected to become the model for future transmission plant component part cleaning operations.

CAE Ransohoff continued to market its products successfully in the international arena, with new sales in Japan, Thailand, Hungary, the U.K., South Korea and Singapore.

CAE Ransohoff

Minimizing liquid waste for our customers is our priority. With our new patent pending membrane filtration system, oil and other contaminants are effectively separated from cleaning fluids. This allows our customers to recycle the fluids back into their parts cleaning systems. In most cases, waste water is reduced by as much as one hundredfold, and the filter will last much longer than conventional alternatives.

Lyle Carman *Sales/Technical Director*

In the fourth quarter, CAE Ransohoff acquired Blackstone Ultrasonics, a recognized leader in the field of ultrasonic cleaning equipment and associated systems. The new company, named CAE Blackstone Inc., designs and manufactures a full line of ultrasonic cleaning equipment for the industrial, medical, research, and military markets. The acquisition allows CAE Ransohoff and CAE Blackstone to offer a larger selection of products while broadening their respective customer bases.

Outlook

Demand for CAE Ransohoff's products will increase as environmental regulators continue to require alternatives to solvent-based cleaning systems and the industry continues to improve product quality. CAE Ransohoff intends to further broaden its product lines and pursue new opportunities in international markets. CAE Blackstone, which will operate as a division of CAE Ransohoff, will enable the combined operation to enter new and more diverse markets while offering existing customers an enhanced product.

The growth and productivity initiatives undertaken in fiscal 1997, combined with the company's solid position with existing customers, are expected to generate significant growth in fiscal 1998.

Liquidity and Capital Resources

Positioning itself for the future, CAE's record capital expenditures, investment in working capital and the acquisition of a new business contributed to an increase of $120.7 million in the company's net bank indebtedness to $135.7 million as at March 31, 1997. These investments were financed with cash flow from operations and bank borrowings.

Cash used in operations was $44.5 million in fiscal 1997 compared with $113.8 million of cash provided from operations in fiscal 1996. Lower customer deposits and increases to accounts receivable due to the timing of program awards and milestone payments, combined with the advance build of certain commercial simulators to shorten delivery time, contributed to the significant change in the utilization of cash in operations.

Capital expenditures, net of proceeds from disposals, totaled $46.6 million compared with $31.8 million in 1996. Most of the expenditures were accounted for by facilities expansions at CAE Electronics (Canada), CAE ScreenPlates, and CAE Ransohoff, as well as upgrades to computer systems and new equipment to improve productivity in the Industrial Technologies Group. Capital expenditures for fiscal 1998 will likely exceed those of fiscal 1997 as the company invests in a new facility in the U.K., manufacturing equipment, and information systems.

CAE employs foreign exchange forward contracts to manage the exposure created when commitments are made to deliver products quoted in foreign currencies. The amount and timing of forward contracts depends on a number of factors including anticipated production delivery schedules and anticipated production costs which may be paid in foreign currency. CAE deals only with sound counterparts in executing its foreign exchange forward contracts.

CAE's available long-term debt facility is comprised of two unsecured three-year revolving term facilities: one of US$100 million and the other of 50 million Deutschmark. The company has a further US$80 million 364-day term facility and other available demand facilities, which total approximately $100 million. As at March 31, 1997, CAE had access to unused credit of $231 million.

CAE also has tax loss carry forwards that can be used to offset taxes payable on future earnings from U.S. operations. At March 31, 1997, these loss carry forwards stood at US$170 million.

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

Business Environment and Risks

CAE's companies operate in competitive global markets. The businesses are subject to worldwide economic and political influences, the economic strength of its customers and changes in technology. The company's results are dependent on its ability to develop, manufacture and market products that satisfy its customers needs. Critical to the company's success is its ability to maintain its highly skilled workforce. The company's overall diversification, geographically and by business sector, helps moderate market and political risk.

CAE begins fiscal 1998 well positioned to capitalize on growing demand for flight simulation

equipment,
and is in a strong
financial position
to continue
the execution
of its growth
strategies.

Management and Auditors' Reports

Management Report

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

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

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

Ultimate responsibility to the shareholders for the financial statements rests with the Board of Directors. An Audit Committee is appointed by the Board to review the financial statements in detail and to report to the Directors prior to such statements being approved for publication. The Audit Committee meets regularly with management, the internal auditors and the external auditors to discuss their evaluation of internal accounting controls, audit results and 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.

JOHN E. CALDWELL
President and
Chief Executive Officer

PAUL G. RENAUD
Vice President, Finance,
Chief Financial Officer, and Secretary

Auditors' Report to the Shareholders of CAE Inc.

We have audited the consolidated balance sheets of CAE Inc. as at March 31, 1997 and 1996 and the consolidated statements of earnings, 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, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

PRICE WATERHOUSE
Chartered Accountants

TORONTO, CANADA
APRIL 29, 1997

Consolidated Balance Sheets

as at March 31 (Amounts in thousands of dollars)	1997	1996
Assets		
Current Assets		
Cash	$ 23,852	$ 14,183
Accounts receivable	239,815	162,939
Inventories (note 3)	92,443	84,564
Prepaid expenses	6,442	3,570
Income taxes recoverable	14,328	251
	376,880	265,507
Property, Plant and Equipment, net (note 4)	181,229	161,746
Goodwill	82,817	78,471
Other Assets (note 5)	57,835	51,750
	$ 698,761	$ 557,474
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 219,385	$ 197,065
Deposits on contracts	46,834	112,085
Long-term debt due within one year	1,238	930
	267,457	310,080
Long-Term Debt (note 6)	158,310	28,261
Other Long-Term Liabilities	25,483	29,394
Deferred Income Taxes	18,930	8,970
	470,180	376,705
Shareholders' Equity		
Capital stock (note 8)	142,046	137,779
Retained earnings	82,081	39,347
Currency translation adjustment	4,454	3,643
	228,581	180,769
	$ 698,761	$ 557,474

Approved by the Board:

JOHN E. CALDWELL
Director

DAVID H. RACE
Director

Consolidated Statements of Earnings

Years ended March 31 (Amounts in thousands except per share amounts)	1997	1996
Revenue	$ 867,344	$ 809,803
Costs and Expenses		
Manufacturing	645,173	603,465
Selling and administrative	108,209	100,414
Depreciation and amortization	28,317	22,719
Interest expense, net (note 6(i), (ii))	4,190	2,697
	785,889	729,295
Earnings before Income Taxes	81,455	80,508
Income Taxes (note 9)	21,179	21,917
Net Earnings	$ 60,276	$ 58,591
Net Earnings per Share	$ 0.55	$ 0.54
Average Number of Shares Outstanding	109,528	109,150

Consolidated Statements of Retained Earnings

Years ended March 31 (Amounts in thousands of dollars)	1997	1996
Retained Earnings (Deficit) at Beginning of Year	$ 39,347	$ (1,769)
Net Earnings	60,276	58,591
Dividends	(17,542)	(17,475)
Retained Earnings at End of Year	$ 82,081	$ 39,347

Consolidated Statements of Changes in Financial Position

Years ended March 31 (Amounts in thousands of dollars)	1997	1996
Operating Activities		
Net earnings	$ 60,276	$ 58,591
Add items not affecting cash		
Depreciation and amortization	28,317	22,719
Deferred income taxes	8,395	4,049
Other	1,398	1,453
	98,386	86,812
(Used for) provided from non-cash working capital (note 10)	(142,871)	26,950
Cash (Used in) Provided by Operating Activities	(44,485)	113,762
Investing Activities		
Acquisitions (note 2)	(7,992)	(55,348)
Purchase of property, plant and equipment, net of proceeds from disposal	(46,555)	(31,802)
Increase in other assets	(6,075)	(3,137)
Cash Used in Investing Activities	(60,622)	(90,287)
Financing Activities		
Net advance (repayment) of long-term debt	133,440	(25,783)
Dividends, net of stock dividends	(17,268)	(17,186)
Other	(1,396)	(9,363)
Cash Provided by (Used in) Financing Activities	114,776	(52,332)
Cash Increase (Decrease) During the Year	9,669	(28,857)
Cash at Beginning of Year	14,183	43,040
Cash at End of Year	$ 23,852	$ 14,183

Notes to Consolidated Financial Statements

Years Ended March 31, 1997 and 1996

(Amounts in thousands of dollars)

1. Summary of Significant Accounting Policies

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

Consolidation

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

Acquisitions are accounted for by the purchase method and accordingly the results of operations of subsidiaries are included from the dates of acquisition.

Revenue Recognition

Revenue from long-term 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 property, plant and equipment based on the following useful lives: buildings and improvements, 20 to 40 years; machinery and equipment, 3 to 10 years; property under capital lease, over the term of the lease.

Financial Instruments and Foreign Currency Translation

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

The corporation enters into forward contracts to manage exposures resulting from foreign exchange fluctuations in the ordinary course of business. The contracts are normally for terms up to twelve months and are used as hedges of foreign denominated cash flows. The unrealized gains and losses on outstanding contracts are offset against the gains and losses of the hedged item at the maturity of the underlying transactions. The company negotiates forward contracts only with financially sound counterparties

The carrying value of assets and liabilities approximate fair value except where indicated.

Goodwill

The period of goodwill amortization arising from acquisitions is determined based on particular circumstances of each investment. Goodwil is currently amortized on a straight-line basis over forty years, and is written down when there has been an impairment of its value.

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 post-employment benefits over the employees' average remaining service life.

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

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.

Use of Estimates

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

2. Acquisitions

During fiscal 1997, the corporation acquired the outstanding common shares of Sonicstar International Ltd., a U.S. manufacturer of ultrasonic cleaning equipment and associated systems, for cash and future consideration based on future earnings of the acquired company.

During fiscal 1996, the corporation made the following acquisitions:

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

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

	1997	1996
Net working capital	$ 1,810	$ 5,036
Property, plant and equipment	928	7,546
Goodwill	5,254	42,766
	$ 7,992	$ 55,348

3. Inventories

	1997	1996
Work-in-progress	$ 58,351	$ 55,602
Raw materials, supplies and manufactured products	34,092	28,962
	$ 92,443	$ 84,564

4. Property, Plant and Equipment

1997	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	$ 6,902	$ –	$ 6,902
Buildings and improvements	118,320	44,993	73,327
Machinery and equipment	210,826	120,473	90,353
Property under capital leases	15,667	5,020	10,647
	$ 351,715	$ 170,486	$ 181,229

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

5. Other Assets

Other assets include $52.8 million (1996 – $47.0 million) of investment tax credits which are available to reduce future federal income taxes payable in Canada.

6. Debt Facilities

A. Long-Term Facilities

	1997	1996
Three year revolving term loan, to a maximum of US$100,000 extendible annually, unsecured, due November 24, 1999 (1997 – US$93,910, 1996 – US$0) (i), (iii)	$ 130,000	$ –
Three year revolving term loan, to a maximum of Deutschmark 50,000 extendible annually, unsecured, due November 24, 1999 (1997 – DM 26,000, 1996 – DM 23,000) (i), (iii)	21,588	21,243
364 day revolving term loan, to a maximum of US$80,000 extendible annually, unsecured, due November 24, 1997 (i), (iii)	–	–
Obligations under capital lease commitments (ii), (iii)	7,960	7,948
	159,548	29,191
Less: Long-term debt due within one year	1,238	930
	$ 158,310	$ 28,261

(i) Interest on long-term debt is charged at rates approximating LIBOR. Interest expense on long-term debt was $3.7 million (1996 – $3.9 million).

(ii) The effective interest rate on obligations under capital leases was approximately 7.0% (1996 – 7.0%).

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

Year ending March 31,		
	1998	$ 1,238
	1999	1,183
	2000	153,138
	2001	1,560
	2002	1,028
	Thereafter	1,401
		$ 159,548

B. Short-Term Facilities

The corporation has unsecured bank lines of credit available in various currencies totaling $101.6 million (1996 – $99.3 million). The effective interest rate on short-term borrowings was 6.3% (1996 – 8.8%).

7. Financial Instruments

At March 31, 1997, the corporation had outstanding forward contracts to hedge its foreign currency cash flows into Canadian dollars. These forward exchange contracts have maturity dates up to October 1998. The fair value of these contracts if marked to market at March 31, 1997, would result in a loss of approximately $3.8 million. This would be equally offset by future gains of foreign denominated cash flows over the remaining terms of the contracts.

8. Capital Stock

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

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

	1997		1996	
	Number of Shares	Stated Value	Number of Shares	Stated Value
Balance at beginning of year	109,364,674	$ 137,779	108,947,223	$ 135,174
Stock options (a)	649,813	3,993	387,725	2,309
Stock dividends (b)	25,659	274	29,726	296
Balance at end of year	110,040,146	$ 142,046	109,364,674	$ 137,779

a) During the year, the corporation granted 637,500 options, exercisable at prices between $10.50 and $10.80 per share, to purchase common shares to certain officers and key employees of the corporation and its subsidiaries. The option price was equal to the closing price of the common shares on the Toronto Stock Exchange on the trading day immediately prior to the day the options were issued.

Stock options were outstanding at March 31, 1997 for the purchase of 2,379,850 common shares at prices ranging from $5.00 to $10.80 and expiring during the period from 1997 to 2002. There were 649,813 options exercised in the year, and 128,012 options which expired.

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

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

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

9. Income Taxes

The provision for income taxes comprises:

	1997	1996
Current	$ 12,784	$ 17,868
Deferred	8,395	4,049
	$ 21,179	$ 21,917

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

	1997	1996
Combined federal and provincial statutory rate (1997 and 1996 – 44.6%)	$ 36,347	$ 35,924
Income taxed at different rates in other jurisdictions	(7,832)	(6,268)
Manufacturing and processing allowance	(4,424)	(4,301)
Tax benefit of losses not previously recognized	(2,245)	(1,498)
Research and development investment tax credits	(1,274)	(2,088)
Other	607	148
Income taxes	$ 21,179	$ 21,917

At March 31, 1997, 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:

	US$ 000's
Losses for income tax purposes	$ 143,000
Amounts provided for in the financial statements which have not yet been claimed for income tax purposes	27,000
	$ 170,000

The losses for income tax purposes expire in the years 2005 through 2012.

10. Supplementary Cash Flow Information

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

	1997	1996
Accounts receivable	$ (75,506)	$ 39,121
Inventories	(6,706)	(14,439)
Prepaid expenses	(2,847)	800
Income taxes recoverable (payable)	(13,887)	4,455
Accounts payable and accrued liabilities	21,504	(2,426)
Deposits on contracts	(65,429)	(561)
	$ (142,871)	$ 26,950

11. Commitments and Contingencies

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

12. Government Cost Sharing

During the year, the corporation signed an agreement with the Government of Canada under which the Government will share in costs of certain research and development programs over the period of 1997 to 2001. Funding under this program will not exceed $31.2 million and is repayable in the form of royalties based on future sales levels related to the projects funded. Funding received or receivable under this program of $4.8 million reduced research and development expenses.

13. 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,		
	1998	$ 4,511
	1999	2,574
	2000	1,451
	2001	813
	2002	714
	Thereafter	1,478
		$ 11,541

14. Pensions

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

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

	1997	1996
Return on plan assets	9.0%	8.0%
Discount rate for pension benefit obligations	8.0%	8.0%
Compensation rate increases	5.5%	5.5%

The funded status of the defined benefit pension plans at March 31 was as follows:

Market related value of assets	$ 105,514	$ 90,633
Present value of accrued pension benefits	$ 98,294	$ 87,284

15. Business Segments

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

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

Financial information on the corporation's industry and geographic segments is shown in the following table.

Business Segments:

	Aerospace and Electronics		Industrial Technologies		Consolidated	
	1997	1996	1997	1996	1997	1996
Revenue	$ 656,310	$ 620,972	$ 211,034	$ 188,831	$ 867,344	$ 809,803
Earnings	$ 57,790	$ 53,115	$ 28,046	$ 31,928	$ 85,836	$ 85,043
Other expense, net					(191)	(1,838)
Interest expense					(4,190)	(2,697)
Earnings before income taxes					$ 81,455	$ 80,508
Identifiable assets	$ 489,863	$ 368,563	$ 196,554	$ 178,072	$ 686,417	$ 546,635
Other assets, net					12,344	10,839
Total assets					$ 698,761	$ 557,474
Capital expenditures, net of proceeds from disposal	$ 29,856	$ 24,401	$ 16,699	$ 7,401	$ 46,555	$ 31,802
Depreciation and amortization	$ 18,447	$ 14,268	$ 9,870	$ 8,451	$ 28,317	$ 22,719

Geographic Segments:

	North America		Europe & Australia		Consolidated	
	1997	1996	1997	1996	1997	1996
Revenue	$ 650,316	$ 620,488	$ 217,028	$ 189,315	$ 867,344	$ 809,803
Earnings	$ 72,839	$ 65,608	$ 12,997	$ 19,435	$ 85,836	$ 85,043
Other expense, net					(191)	(1,838)
Interest expense					(4,190)	(2,697)
Earnings before income taxes					$ 81,455	$ 80,508
Identifiable assets	$ 511,003	$ 390,092	$ 175,414	$ 156,543	$ 686,417	$ 546,635
Other assets, net					12,344	10,839
Total assets					$ 698,761	$ 557,474
Capital expenditures, net of proceeds from disposal	$ 33,975	$ 27,278	$ 12,580	$ 4,524	$ 46,555	$ 31,802
Depreciation and amortization	$ 19,918	$ 16,793	$ 8,399	$ 5,926	$ 28,317	$ 22,719

Export Sales From Canada:

	1997	1996
Asia, Africa	$ 133,956	$ 169,080
United States	119,454	109,050
Europe	107,317	86,680
Other	33,374	11,937
	$ 394,101	$ 376,747

Research and Development

Research and development expenditures aggregated $101.3 million during the year (1996 – $90.1 million).

Five Year Review

(Figures in thousands except when indicated by *)	1997	1996	1995	1994	1993
Continuing Operations					
Revenue	$ 867,344	809,803	657,592	591,147	492,049
Depreciation and amortization	$ 28,317	22,719	16,613	15,318	13,741
Earnings	$ 60,276	58,591	47,327	34,741	35,063
Earnings per share*	$ 0.55	0.54	0.44	0.32	0.32
Net earnings (loss)	$ 60,276	58,591	15,631	(394,960)	32,244
Net earnings (loss) per share*	$ 0.55	0.54	0.14	(3.64)	0.30
Ratio of current assets to current liabilities*	1.4	0.9	1.0	0.9	0.9
Number of registered shareholders*	3,100	3,400	3,800	4,200	4,500
Cash dividends paid per common share*	$ 0.16	0.16	0.16	0.16	0.16

Quarterly Financial Information

(Figures in thousands except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter
1997				
Revenue	$ 221,517	222,997	204,246	218,584
Net earnings	$ 13,165	12,041	17,181	17,889
Net earnings per share	$ 0.12	0.11	0.16	0.16
Common share trading range:				
High	$ 12.550	11.850	11.400	12.200
Low	$ 11.100	10.050	9.900	10.300

(Figures in thousands except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter
1996				
Revenue	$ 197,620	174,741	221,384	216,058
Net earnings	$ 12,620	13,199	17,812	14,960
Net earnings per share	$ 0.12	0.12	0.16	0.14
Common share trading range:				
High	$ 9.875	9.875	10.750	11.875
Low	$ 8.000	8.625	8.750	10.000

Board of Directors

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

John E. Caldwell †
President and Chief Executive Officer
CAE Inc.
Toronto, Ontario

R. Fraser Elliott, C.M., Q.C. †
Senior Partner
Stikeman, Elliott
Toronto, Ontario

H. Garfield Emerson, Q.C. ♦ ✧
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Rothschild Canada Limited
Toronto, Ontario

The Honourable James A. Grant, P.C., Q.C. † ♦ •
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Montreal, Quebec

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President and Chief Executive Officer
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President and Chief Executive Officer
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Deutschland GmbH
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Chairman of the Board of Directors
DataCard Corp.
Minneapolis, Minnesota, U.S.A.

† *Member of the Executive Committee*
♦ *Member of the Audit Committee*
• *Member of the Compensation Committee*
✧ *Member of the Governance Committee*
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Chairman of the Board of Directors

John E. Caldwell
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Fred Veuger
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Industrial Technologies Group

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Chief Financial Officer, and Secretary

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Corporate Relations and Marketing

Allan M. Bignell
Vice President
Business Development

Ruth H. Brothers
Vice President
Human Resources

Michael A. Cossar
Treasurer

John C. Black
Controller and Assistant Secretary

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Knoxville, Tennessee
Lincoln, Nebraska
Little Rock, Arkansas
Montreal, Quebec
Pocatello, Idaho
Sacramento, California

Information for Shareholders

CAE Common Shares

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

Dividend Reinvestment Plan

Registered shareholders of CAE Inc. wishing to receive dividends in the form of CAE Inc. Common Shares rather than a cash payment may participate in CAE's dividend reinvestment plan.

Through this plan, quarterly dividends can be reinvested in CAE Common Shares at the Average Market Price. This price will be the weighted average trading prices of the Common Shares on each of the Toronto Stock Exchange and the Montreal Stock Exchange for the five (5) trading days immediately preceding the dividend payment date.

In order to obtain the dividend reinvestment plan form or for additional information regarding CAE's Common Shares, please contact:
Montreal Trust Company
Tel: (416) 981-9500

Direct Deposit Dividend

Registered shareholders who receive cash dividends may elect to have the dividend payment deposited directly to their bank account instead of receiving a cheque. In order to obtain the direct deposit dividend form please contact:
Montreal Trust Company
Tel: (416) 981-9500

Tentative quarterly results release dates for fiscal 1998

August 7, 1997
November 6, 1997
February 5, 1998
May 7, 1998

Additional Information

If you wish to receive additional copies of CAE's annual report or copies of the annual information form, please contact:
CAE Inc.
Corporate Relations
Royal Bank Plaza, Suite 3060,
Toronto, Ontario M5J 2J1
Tel: (416) 865-0070 1-800-760-0667
Internet address: http://www.cae.ca

Version française

La version française du rapport annuel est disponible sur demande au département des relations d'entreprise, Royal Bank Plaza, Bureau 3060, C.P. 30, Toronto, Ontario M4J 2J1

Annual General Meeting

The Annual General Meeting of shareholders will be held at the Glenn Gould Studio, CBC Building, 250 Front Street West, Toronto, on Wednesday, June 18, 1997, at 11:30 a.m.

Auditors

Price Waterhouse, Chartered Accountants
Toronto, Ontario

Tranfer Agent and Registrar

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

Trademarks

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Letter from David H. Race

CAE's 50th year was fittingly one of expansion and record earnings, and an active and productive one for the Board of Directors.

The focus for the Board has been, and is, the oversight of the Company's strategic business plans. Of primary interest is the positioning of the Company for future growth.

At its meeting on August 7, 1996, the Board appointed Mr. George K. Petty as a Director of the company. Mr. Petty, President and Chief Executive Officer of TELUS Corporation, is a notable addition to our Board, and I know he will provide a valuable new perspective to the Board's deliberations.

One of the more gratifying events to transpire over the past year took place at our 1996 Annual General Meeting, held at our Electronics facility in St-Laurent. As part of a ceremony to start the celebration of CAE's fiftieth anniversary, we gathered together the Chief Executive Officers who have successively steered CAE's course since its inception on March 17, 1947: Ken Patrick, Jim Tooley, Doug Reekie, yours truly, and of course today's John Caldwell. It was a brief, wonderful bow to the past – something quite unique for a company that is rightfully known for keeping its gaze fixed firmly on the future.

As we embark on the next half century, your Board does so with confidence, knowing that the ingenuity and entrepreneurial spirit of our people will keep CAE on the forefront of success.

David Race

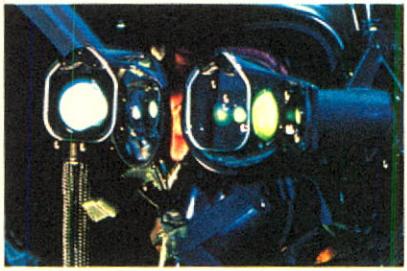
DAVID H. RACE

Chairman of the Board of Directors


50 years of innovation

xpands into four new
plant training simula-
for power generation,
bution, space products,
stems. Staffing increases
in 1970 to 4,000 by
es from $45 million to

In 1988 CAE acquired Singer Link Domestic Simulation and Training Systems. With the fall of the Berlin Wall in 1989, however, growth prospects for military simulation in the United States decline, and CAE later divests the company.



The military simulation market, particularly in Germany, also grows quickly during the 1970s. CAE is awarded a major military contract to develop and manufacture a prototype simulator for the Tornado aircraft. The Tornado project enables the company to develop advanced technologies for full-mission simulation.

1977 | **1977 - 1987** | **1987 - 1997**

ch of their crew train-
ng the 1970s. CAE's
ach simulator to a cus-
leads to technological
ol-loading, motion sys-
s, and the diagnostics

In 1992, CAE enters the visual systems market with MAXVUE™, capturing 34% of the world market in its first full year. In the same year, the company is selected to design and build a full flight simulator for the new generation Boeing 777-200 wide-bodied twin-jet.

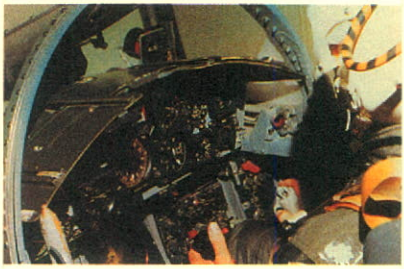
Through the early 1990s, CAE acquires CAE Blackstone, CAE Electronics (Australia), CAE Invertron, CAE MRAD and CAE Ransohoff. Fiscal 1997 is a record year for the company. With 6,600 highly skilled employees located around the world, CAE also inaugurates a state-of-the-art Staff Development Centre at its facilities in Montreal.

50 years of innovation

Canadian Aviation Electronics is founded on March 17, 1947, by Mr. Ken R. Patrick. Its primary business is the repair and overhaul of electronic and electromechanical equipment. By 1950, it has expanded into telecommunication and navigational systems. Revenue that year is $579,000.

1947 - 1957

In 1952, CAE enters the simulation market with a contract from the RCAF to develop a CF-100 flight simulator, followed by a contract to produce the first Canadian-built commercial flight simulator, an analogue DC-6B for Canadian Pacific Airlines.



In 1960, CAE is awarded the F-104 simulator contract from the Canadian government. For the first time, the company enters the international marketplace when other NATO countries purchase the same aircraft and require simulators. Within five years, CAE has sold 26 additional simulators to eight other countries.

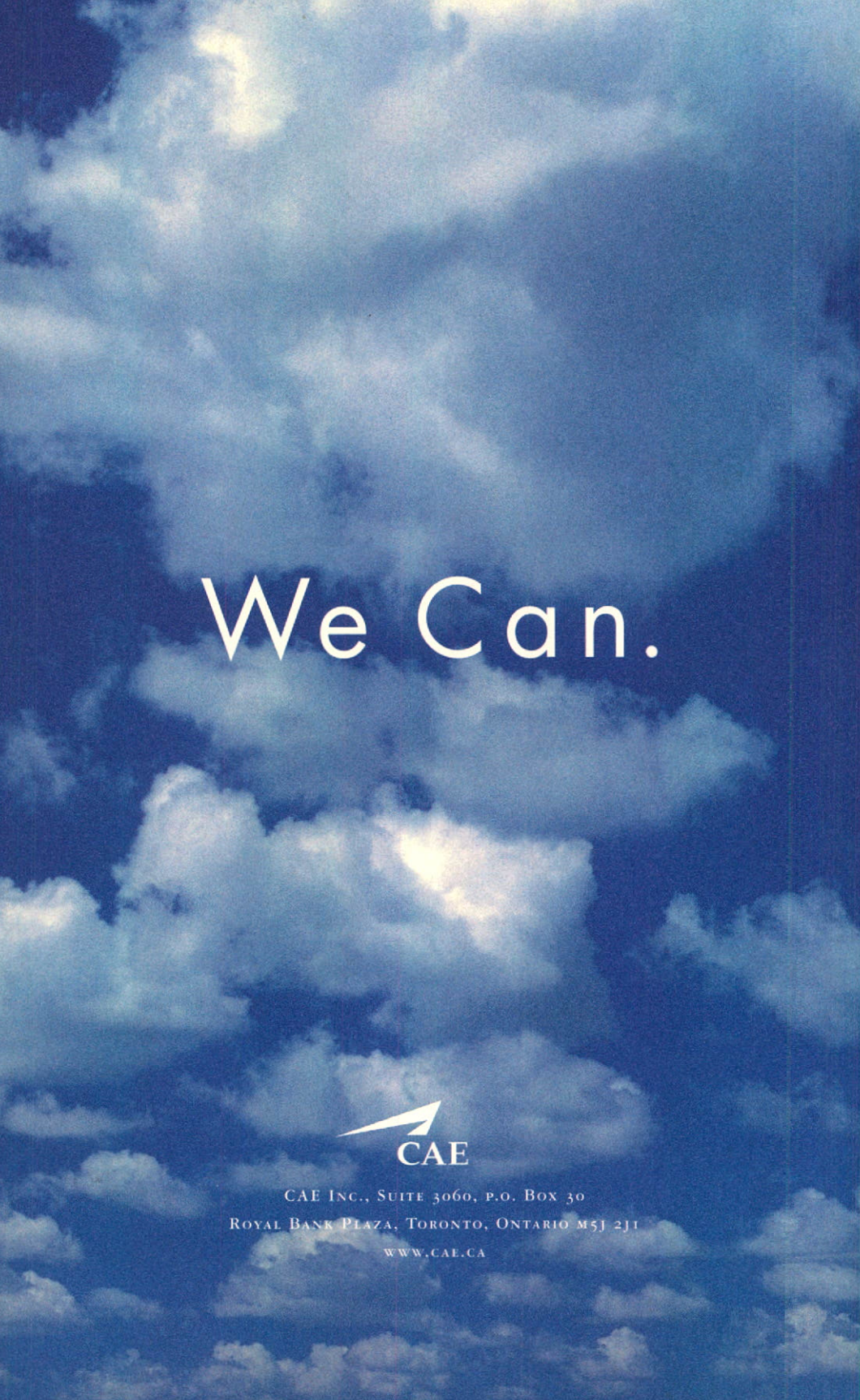
1957 - 1967

Eight corporate acquisitions are made in the 1960s, four of which remain CAE companies today: Northwest Industries, now CAE Aviation; USP, now CAE ScreenPlates; Canadian Sumner Iron Works, now CAE Machinery; and Canadian Bronze, now CAE Vanguard. There are 2,600 employees by 1969.

In the 1970s, CAE e product areas: power t tors, control systems transmission and distri and air traffic control sy from 3,260 employees 1979. Revenue increas $191 million.

1967

World airlines shift m ing to simulators dur approach to designing tomer's specific needs breakthroughs in contr tems, instructor conso of complex software.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