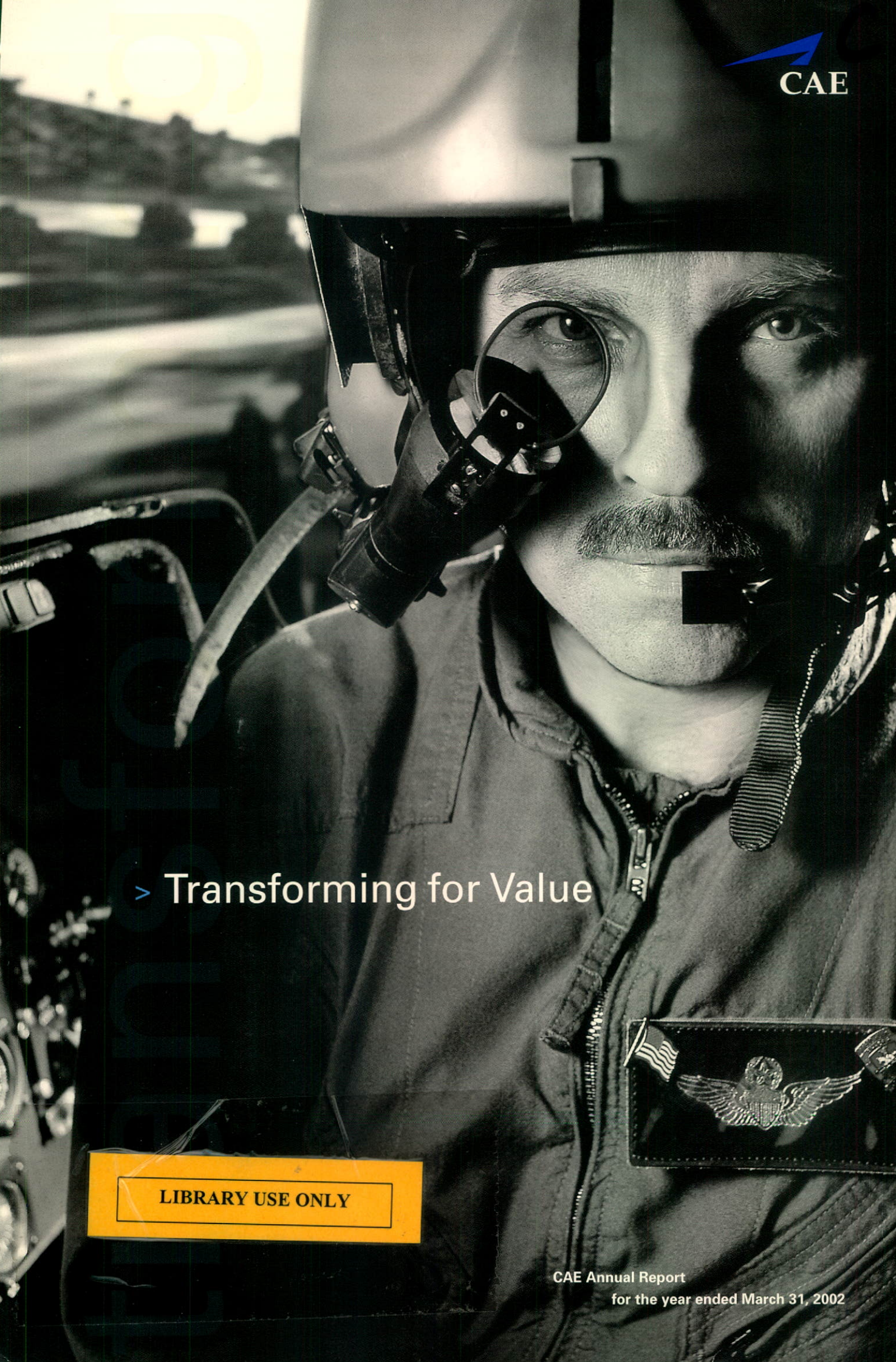


CAE

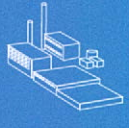
> Transforming for Value

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CAE Annual Report
for the year ended March 31, 2002

> Corporate Profile

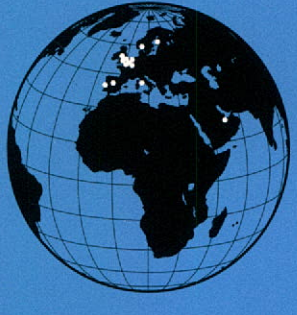
CAE is a global leader in providing advanced simulation and controls equipment and integrated training solutions for customers in the civil aviation, military and marine markets. CAE employs more than 6,000 people in Canada, the United States and around the globe. With annual revenues in excess of $1 billion, CAE is the world leader in the sale of civil flight simulators and the second largest independent civil aviation training provider, as well as the largest Canadian-based defence contractor.

Civil Simulation and Training	Military Simulation and Training	Marine Controls
Commercial 	Fast Jets 	Cruiseships 
Regional 	Rotary Wing 	Submarines 
Business 	Transport 	Warships 
	Land 	Power 

CAE Worldwide



The Americas	
Locations	17
Employees	5,250



Europe and Middle East	
Locations	12
Employees	1,050



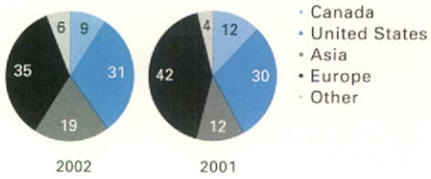
Asia and Australia	
Locations	3
Employees	75

Cover photo: US Army Apache pilots train on the attack helicopter's Back-Up Control System in a CAE-built simulator at the Army Research Institute in Ft. Rucker, Alabama.

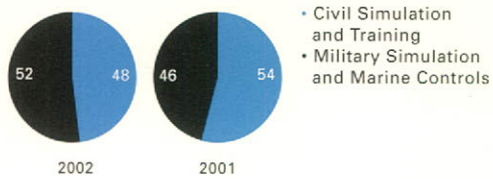
> Financial Highlights

(amounts in millions except per share amounts)	2002	2001
Operating results		
Continuing operations		
Revenue	$ 1,126.5	$ 891.4
Earnings	$ 149.3	$ 105.2
Net earnings	$ 150.6	$ 108.1
Financial position		
Total assets	$ 2,384.8	$ 1,372.1
Total long-term debt, net of cash	$ 837.7	$ 108.5
Per share		
Earnings from continuing operations	$ 0.69	$ 0.49
Net earnings	$ 0.69	$ 0.50
Dividends	$ 0.11	$ 0.10
Shareholders' equity	$ 2.84	$ 2.15

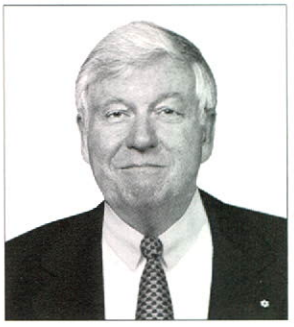
Geographic Distribution of Revenue



Revenue by Business Segment



> Message from the Chairman



L.R. Wilson

During the past year, we were all stunned by the terrorist attacks and the collapse of two of the world's largest buildings, at great loss of life. We also witnessed the financial collapse of one of the world's largest corporations. The former tragedy was a product of hate and fear. The latter calamity appears to have been a product not of rapidly changing market conditions, but of greed and hubris. Both tragedies were due to a failure of effective surveillance.

The mandate of a board of directors is to supervise the management of the business affairs of a corporation. This mandate is fulfilled at CAE through regular meetings of the Board of Directors as a whole and through the work of the Audit, Governance, Compensation and Executive Committees. Of particular value, in my opinion, is the active participation of all Directors with management in an intensive, annual strategic review process.

CAE has earned a reputation as the world's leader in the sale of flight simulation equipment. The Company's goal is to earn an equally solid reputation as a provider of training services. The individuals who serve as CAE's Directors all have reputations for integrity and business acumen. They bring to CAE a wide range of skills, expertise and experience, which are of great value to the Company. All the Directors are independent save for the Chief Executive Officer. All are shareholders in their own right.

On behalf of the Board, I can assure shareholders that we intend to continue to meet our fiduciary obligations to you through effective oversight and exemplary corporate governance practices.

On behalf of my fellow Directors, I would like to express my personal appreciation to Derek Burney, his management team and the more than 6,000 CAE employees around the world for their performance during the past year. It has not been easy, but through their efforts, the Corporation continues to achieve exceptional results.

Sincerely,



L.R. Wilson
Chairman of the Board

> Letter to Shareholders



D.H. Burney

This was a pivotal year for CAE. We achieved our fundamental goal of more profitable growth with net earnings from continuing operations increasing 42% from the previous year. This was driven by strong productivity improvements and significant growth from each of our core businesses – the Civil and Military Simulation and Training units, as well as Marine. On a restated basis, net earnings have more than doubled in two years. Our future growth is underpinned by a record $2.7 billion backlog of orders.

Most importantly, we made four strategic acquisitions during the year intended to expand the scope and scale of each core business. As well, we initiated the sale of our Forestry group. Taken together, these decisions are enabling us to transform CAE from being primarily a supplier of flight simulation equipment and control systems to a major provider of integrated training solutions for civilian and military customers engaged in flight, marine and land-based activities.

CAE is best known as the world's leader in the sale of full flight simulators used to train airline pilots, with a global full flight simulator market share exceeding 80%. We sustained our leading market position during the year and, more significantly, accelerated our position as a provider of aviation training. In addition to developing our own training centres in São Paulo, Toronto, Madrid, Denver and Dubai, we acquired a broad network of existing training facilities through the acquisition of Schreiner Aviation in August and SimuFlite in December. Schreiner brought us three training centres in Europe and one in the US giving us instant profitability along with credibility. Based in Dallas, SimuFlite – now CAE SimuFlite – gives us a prominent position in the US-centred business aviation market, which is the largest addressable market for independent training companies. After only 18 months, CAE is now the world's second largest independent provider of aviation training with an installed base and dedicated staff operating 59 simulators worldwide. We are confident that our expanding position in training will help offset the current slowdown in the full flight simulator market resulting from the traumatic events of September 11 and will assure stronger, more balanced growth for CAE in the years ahead.

Our Military Simulation and Training unit had a banner year almost doubling operating margins while securing more than $600 million in orders. Our world-leading expertise in visual systems enabled us to secure major contracts in both the Eurofighter and the US Army's Apache (helicopter) training programs. More recently, by combining the talents and expertise of our Montreal and our newly acquired Tampa-based operations, we have

made a major breakthrough in the growing US defence market as the prime contractor for the US "ASTARS" program, building the world's first "Little Bird" helicopter simulator for the US Army's Special Forces. We intend to be a major player in the military market, building on our growing success in the United States of America.

Our Marine Controls unit is also rapidly expanding its training activities, notably with a $400 million plus contract – a first – to provide long-term training for the Royal Navy's Astute Class submarine crews. The unit's core control technology is now deployed in over 100 ships in 13 navies. Meanwhile, the acquisition of Valmarine of Norway means Marine's product offering has been expanded beyond naval into commercial marine markets.

The backbone for our improved productivity performance has been our Operations group. New business processes and manufacturing techniques have transformed both the pace and the quality of our equipment production. We fully expect to sustain this performance going forward, notably with the introduction of our new, next generation simulator – CAE Sim XXI™. The benefits of this initiative will be extended across the manufacture of other CAE simulators.

Through the continuing growth of our Military and Marine businesses, the strength of our technology and, particularly, our rapid expansion into aviation training, we believe CAE is poised for substantial, balanced growth in the future.

In what has been a turbulent as well as highly successful year, I am grateful for the steady support and counsel from our Board of Directors. Our success is due to the outstanding effort and applied intelligence of our more than 6,000 employees around the world. Our future success will depend on our continuing ability to execute, integrate and innovate – as we identify and implement best practices, deliver on our commitments and find new and valuable applications for our suite of world-class technologies.

CAE is determined to be the best in the world in what we do. We are determined, as well, to continue to bring quality products and services to our customers and value to our shareholders.



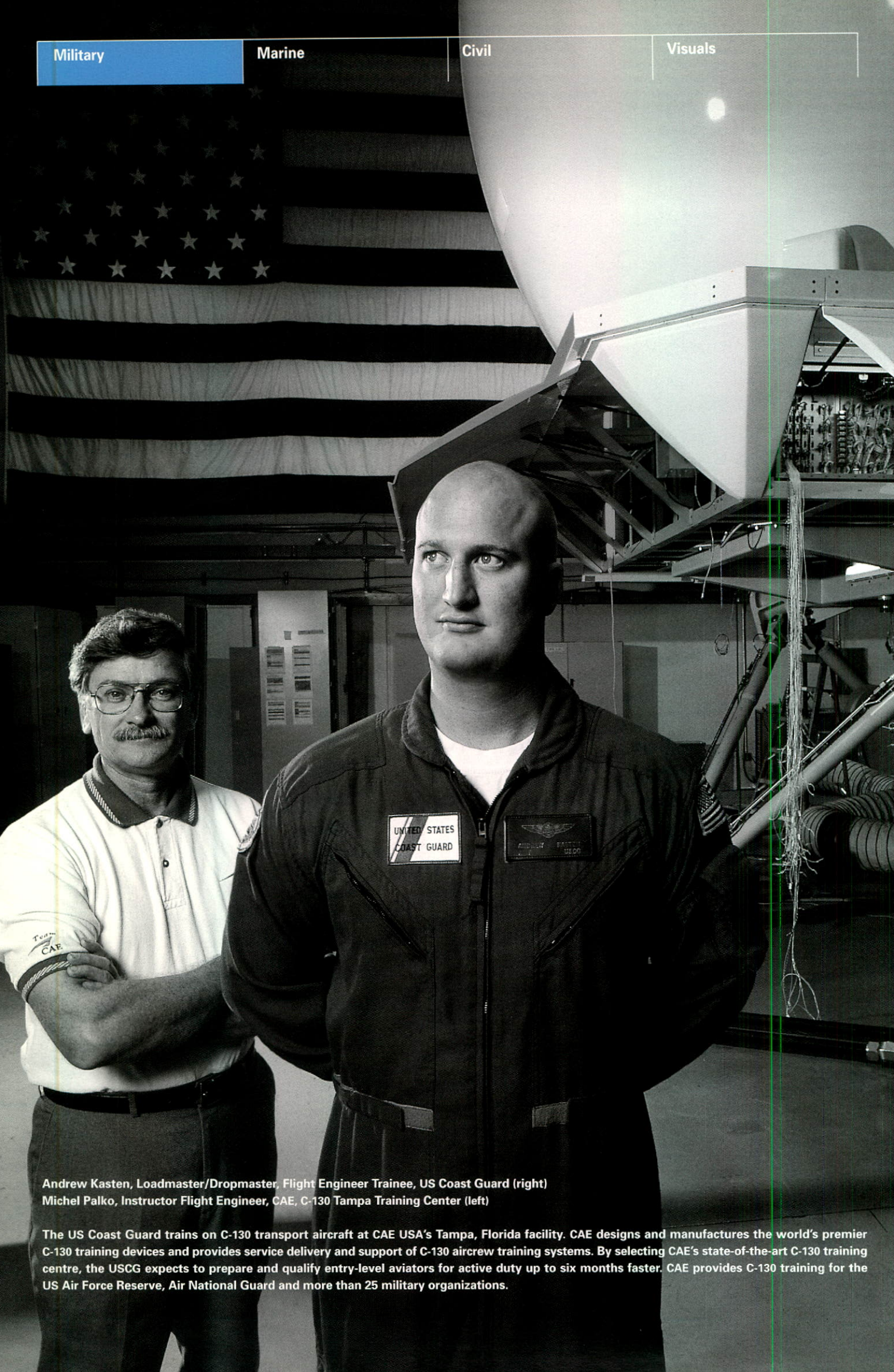
D.H. Burney
President and Chief Executive Officer

transforming

> Transforming for Value

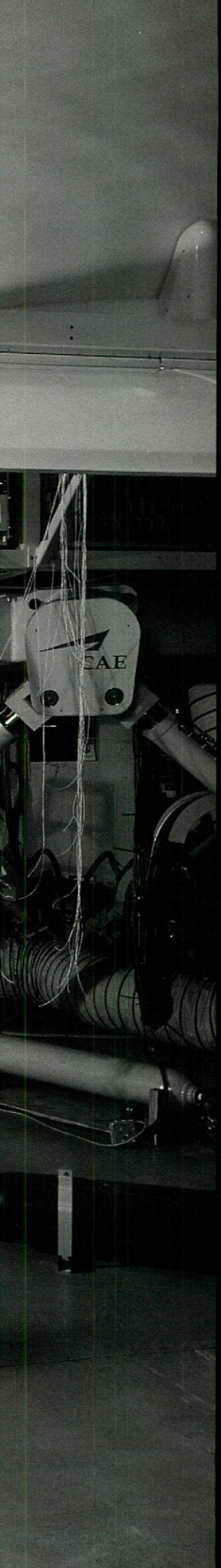
During fiscal 2002, CAE accelerated its transformation from being primarily a supplier of simulation and controls equipment to a provider of integrated training solutions for the military, marine and civil aviation markets. We have divested non-core assets to sharpen our focus and made several strategic acquisitions to increase our share of the US military market, extend the scope of our control systems to the commercial ship market and expand our civil aviation training network.

The following pages highlight some of the key steps taken during the fiscal year to form a platform for balanced, profitable growth and value creation into the future.



Andrew Kasten, Loadmaster/Dropmaster, Flight Engineer Trainee, US Coast Guard (right)
Michel Palko, Instructor Flight Engineer, CAE, C-130 Tampa Training Center (left)

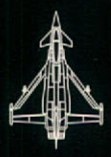
The US Coast Guard trains on C-130 transport aircraft at CAE USA's Tampa, Florida facility. CAE designs and manufactures the world's premier C-130 training devices and provides service delivery and support of C-130 aircrew training systems. By selecting CAE's state-of-the-art C-130 training centre, the USCG expects to prepare and qualify entry-level aviators for active duty up to six months faster. CAE provides C-130 training for the US Air Force Reserve, Air National Guard and more than 25 military organizations.



Partner to Prime

CAE's acquisition of BAE SYSTEMS' flight simulation and training operations in Tampa, Florida strategically positions CAE as a prime contractor in the United States, the largest defence market in the world. With integrated operations around the world and a local presence in the United States, the United Kingdom, Germany, Australia and Canada, CAE is now competitively positioned to win military programs and provide total training solutions for military forces worldwide.

Growth in Military Aviation Training



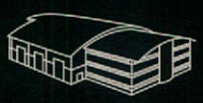
CAE is a prime provider of training systems for forces around the world across all military platforms. Over the last year, CAE has won nearly every competitive bid for procurement of a helicopter simulation program. In Europe, CAE has the largest combined workshare of the Eurofighter Aircrew Synthetic Training Aids program while in the US, the US Air Force's recent commitment to a multi-year acquisition plan for C-130J aircraft likely means additional growth for CAE.

ASTARS



CAE is the prime contractor for the US Army Special Operations Forces ASTARS program with an initial $50 million delivery to design the world's first AH/MH-6 "Little Bird" Combat Mission Simulator. The device will be used to train the 160th Special Operations Aviation Regiment, an elite unit known as the "Night Stalkers", who have played a key role in Afghanistan. CAE is well positioned to win other sensitive and demanding training programs in the rapid growth US market as a result of its experience, leading edge technology and status as a prime contractor.

Providing Total Training Solutions



The Medium Support Helicopter Aircrew Training Facility (MSHATF) in the UK is a model for CAE total training solutions. It was the first transfer of a complete military training program to a commercial contractor under terms of a private finance initiative contract. MSHATF is now attracting third-party customers such as the Canadian, Royal Jordanian and Royal Netherlands air forces providing further growth in turnkey training services.

Land-Based Training



CAE has established a leading position in Europe by providing army command team land-based systems to the forces of Germany, Austria, Italy and Norway. CAE intends to expand its position in the land training market through new technologies such as CAE's STRIVE™ synthetic and tactical environment software.



Knut Skeisvold, Senior Superintendent, Electrical, Royal Caribbean International Newbuilding and Marine Operation (right)
Ingvald Lovdal, Vice President Customer Support, CAE Valmarine, Norway (left)

CAE's acquisition of Norway-based Valmarine positions it at the forefront of the commercial marine controls market. Having supplied advanced ship automation systems to over 450 vessels worldwide, CAE Valmarine is the preferred supplier to most of the world's cruise lines, premier passenger ferry companies and shipbuilders. When Royal Caribbean needed an integrated system for the Voyageur Class, the world's largest cruise vessels, they selected CAE for its proven track record and the reliability of the Damatic™ system. Royal Caribbean has selected the same system for its newbuilding programs on a total of 13 other ships.



Naval to Commercial

CAE's advanced automation technology has been selected for more than 450 commercial ships worldwide and over 100 ships in 13 of the world's premier navies. CAE's experience in providing marine controls systems, together with its renowned simulation capability, is enabling it to offer integrated training solutions for both naval and commercial customers.

Warship Controls



CAE continues to win contracts based on its leading Integrated Platform Management System (IPMS) technology, which manages all platform machinery including propulsion, electrical, damage control and auxiliary machines and systems. The Royal Malaysian Navy recently selected CAE control systems for six new MEKO® 100 RMN Patrol Vessels. The Indian Navy also awarded CAE the integrated machinery control system for three new Project 17 Nilgiri gas turbine frigates, the first phase of a larger program.

VICTORIA Class Submarine Trainers



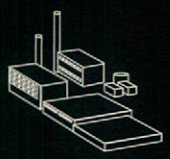
As part of its move into integrated training solutions, CAE is partnering with General Dynamics Canada and Irving Shipbuilding Inc. to relocate eight submarine training systems for the Canadian Navy from the UK to a new training centre at Halifax, Nova Scotia. Under this contract, CAE will operate and maintain the trainers for three years with an option for two more.

Largest Marine Contract



CAE signed a milestone contract for the world's first naval training PFI with the UK Ministry of Defence valued at $740 million for the Astute Class Submarine Training Service in partnership with Alenia Marconi Systems. CAE's portion of this contract is $420 million. CAE and its partner will provide comprehensive training services to the Royal Navy for 30 years to operate and maintain the first three new generation Astute Class nuclear submarines with an option for another 10 years and an additional three boats.

Power



Already an established world leader in the supply of power plant simulators, CAE entered the growing market for gas turbine based (GT) power plant simulators with its award of contracts with ALSTOM (Switzerland) to develop two first-of-a-kind simulators. With their highly sophisticated control system, GT simulators are expected to play a larger role in operator training and in-plant process and maintenance efficiency. Natural gas powered turbines will continue to be the primary source of electricity generation to meet the world's ever-increasing energy demands and provide a growth area in the power sector for CAE.



Jeff Taylor, Director of Aviation/Chief Pilot for Radical Ventures L.L.C. (left)
Bill Dolny, Director Worldwide Sales, CAE SimuFlite, Dallas (right)

With the acquisition of SimuFlite in Dallas, CAE gained entry to the high growth US business jet training market. Business aviation training customers will benefit from access to additional training centres in the CAE network while CAE's manufacturing capability increases the breadth of CAE SimuFlite's offering in a highly cost-effective manner, giving it a competitive edge. Business jet pilot Jeff Taylor holds type ratings on a number of models of Learjet and Gulfstream aircraft and trains at CAE SimuFlite for the high quality service, convenient location and efficiency of the training operation.

Zero to Second Largest

In just two years, CAE has transformed itself from being primarily a supplier of simulation equipment into the second largest independent Civil aviation training provider in the world. Through strategic acquisitions and the launch of strategically located new training centres, CAE has developed an installed base of 59 simulators, and will increase that number to over 80 by the end of the current fiscal year. CAE is now leveraging the quality, experience, technology and innovation capabilities that reside in individual operations to all locations in its global training network.

Dominance in Simulation Equipment



The move into aviation training builds on CAE's experience and expertise in the production and maintenance of market leading flight simulators and visual systems. This fiscal year, CAE won 85% of the competed bids for full flight simulators in the world. CAE's complete customer support service provides upgrades on CAE equipment and visuals contributing significantly to overall performance.

CAE Simfinity™



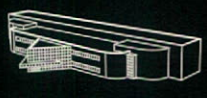
Boeing signed a five-year contract with CAE to use its internet-based CAE Simfinity™ to improve customer service. Boeing's customer support engineers and field service representatives will access the sophisticated troubleshooting and training tool to deal with diagnosis and maintenance of today's complex aircraft systems.

Schreiner Acquisition



Through the acquisition of Schreiner Aviation Training in the Netherlands, CAE gained 80 people including a highly experienced management team and instructors with strong airline training courseware and curricula capability. In addition to providing CAE's first US training centre in Dallas, Schreiner contributed three established European training centres, in Amsterdam, Maastricht and Brussels, that rapidly increased CAE's training network for major and regional airlines.

CAE Training Centres



CAE's global network serves the pilot training needs of major and regional airlines and business jet operators distinguished by the world's best simulation equipment, courseware capability and total customer care. Strategically located, new, state-of-the-art training centres in São Paulo, Toronto and Madrid are already in operation, with Denver scheduled to open in the summer of 2002 and a centre in partnership with the fast-growing Emirates airline also scheduled to open in Dubai in the summer of 2002. CAE's integrated training solutions approach allows airline operators maximum flexibility, which has resulted in long-term contracts with established airline customers for all of these centres.



Walter Mancini, Director of Procurement, Eurofighter Simulation Systems, Munich (left)
Keith Gladstone, Eurofighter Visual Program Manager, CAE, Montreal (right)

CAE recorded a milestone achievement as the supplier of visual systems for the Eurofighter combat jet's Aircrew Synthetic Training Aids (ASTA) program. Valued at $170 million, this multi-year contract is the largest visual contract ever awarded to CAE. CAE is the lead contractor for the delivery of the state-of-the-art Medallion™ image generator and will design, develop, produce, install and support complete visual systems for 27 flight simulation devices including Full Mission Simulators and Cockpit Trainers. These devices will duplicate all aspects of fast jet full mission training to create a fully immersive environment. Specialized projectors will provide an enhanced display of airborne targets while CAE's database modeling tools will allow users to quickly meet the demands of future training requirements.

Pioneer to Leader

CAE's Visuals group continued to thrive this year, capturing a significant share of the visual systems bids in both the Military and Civil markets. Known for the highest fidelity representation of the world, CAE's total solutions approach seamlessly integrates projectors, image generators, displays and synthetic environments to provide the ultimate in visual simulation that enhances the training experience.

Medallion™



Medallion™ is CAE's state-of-the-art image generator, designed to meet the demanding tactical requirements of military simulation training such as formation flight and mission rehearsal with air-to-air and air-to-ground tactical scenarios. The Medallion™ image generator combines the sharp imagery necessary for advanced tactical training with comprehensive Forward Looking Infrared and Night Vision Goggles sensor simulation. With the Eurofighter and Apache contract wins, Medallion™ is now established globally as the clear choice for high performance fast jet and rotorcraft training.

Upgrading the US Army's Apache Simulators



CAE was selected this year to upgrade the US Army's AH-64A combat mission simulator used to train Army aviators who fly the Apache helicopters. Under this contract CAE will provide its Medallion™ visual system with sensor capabilities, develop new visual databases and integrate a new tactical threat environment. The award of this contract, under a US Army Omnibus Contract that allows the acquisition of a full range of simulation, training and modeling products and services from pre-qualified contractors, greatly strengthens CAE's presence in the US market. The contract includes options for upgrading another six of the Army's AH-64A simulators.

CAE Tropos™



CAE Tropos™ is the first image generator in CAE's new CAE Atmos™ family of visual products. It incorporates the rapid advances in 3-D realism achieved by today's graphic chip technologies and combines them with CAE's extensive expertise in high-end image generators. CAE Tropos™ is the only image generator based on commercially available graphic processors that offer the calligraphic light point used to generate realistic runway lighting, a requirement for Level D certification. In addition to its lower life cycle costs and easier maintainability, CAE Tropos™ offers sharper images with more realistic textures and advanced weather effects.

Airbus Chooses CAE for the A380



When Airbus' new flagship aircraft, the A380, enters into service in 2006 it will be the largest passenger aircraft in service and offer the option of adding an on-board casino or mini movie theatre. CAE has been selected to provide key visual simulation equipment to support the development and performance evaluation of this new super jumbo aircraft. CAE will provide a moveable visual system that can be used with multiple cockpits and features the display system, airport databases and the innovative CAE Tropos™ image generator.

> Realizing Value through Operational Excellence

The assembly line traffic light system indicates the current status of each simulator. A red signal means top priority for solving a problem whereas green means everything is on target.

Each of CAE's manufacturing cells (such as this one focused on the cockpit assembly) engage in workshops where all employees directly participate in managing and optimizing processes within their areas.



In Montreal, one of the first changes was modularizing the simulator into a series of major assemblies. This precision assembly cell produces the completed control box for the simulator, which is then mounted on the simulator platform.

"By identifying and solving at source all recurring problems within the production process – getting things right the first time – we improved quality, reduced waste and eliminated rework and design errors."
Serge Rière, Manager Manufacturing Facilities Mechanical

Cycle time was improved significantly by giving each cell responsibility for planning, expediting and supply chain management of their station's requirements.

A key element of CAE's "focus, fix and grow" strategy initiated in 2000 was an ambitious program to improve manufacturing productivity by reducing the time required to produce each simulator while maintaining the quality that is CAE's trademark. Through designing and implementing a cellular approach to manufacturing where each cell completes a major module of the flight simulator, CAE has created a faster and more efficient production line. Each cell combines the skills required to complete the assembly of the module and has full responsibility for planning and managing all activities to meet a fixed delivery window.

A key to cycle time reduction was the improved benchmarking of performance including the setting of aggressive targets.

CAE also has production facilities in Stolberg, Germany (left photo) and Tampa, Florida (right photo). These operations complement the Montreal manufacturing facilities and extend CAE's customer services reach by offering maintenance support.





Concurrent with initiatives which increased manufacturing speed, CAE implemented strategic initiatives to improve quality during the design and build process. The S.O.S. cell is a multi-disciplined team responsible for quickly analyzing and correcting quality issues – they can be summoned by any cell on the line to problem solve on the spot.

"CAE Sim XXI™, CAE's next generation simulator, incorporates all the key lessons learned during the manufacturing improvement process. Both lighter and simpler than previous generations, CAE Sim XXI™ will have minimum maintenance requirements throughout its life cycle. Its modular design will also enable rapid customization for the high growth regional and business jet market."
Robert Leclerc,
Senior Director Manufacturing

In two years, CAE's Operations employees have cut the manufacturing cycle time by more than half – from 32 to 14 weeks – reducing the overall production time from eighteen to fourteen months. Key initiatives included adding significant employee participation in process improvement, creating specialist expertise, shortening the number of recurring steps at each stage of the process and immediately applying the lessons learned in one cell across the entire manufacturing process.

> CEO Excellence and Innovation Award Winners

CAE recognizes the performance, leadership and potential of individuals within the Company, as well as their creative ideas and suggestions that lead to innovative solutions.



Suzan Autry, Dallas
Leader,
Client Services,
Civil Simulation and Training
CEO Excellence Award Recipient

By overhauling CAE SimuFlite's methodologies and metrics, Suzan forged a stronger customer service relationship with Bombardier. She also helped to expand our key airline contract with American Airlines.



Marc-Olivier Gagnon, Montreal
Group Leader,
Mechanical Engineering, Operations
CEO Innovation Award Recipient

As the lead design engineer on the CAE Sim XXI™ Operations Design and Build team, Marc-Olivier used high-end Computer-Aided Design tools to help synthesize CAE Sim XXI™ modules and building blocks in order to validate constraints, minimize parts count and ensure cycle time reduction targets were achieved.



Michele Asmar, Montreal
Senior Group Leader,
ILS, Graphics & Courseware Development,
Civil Simulation and Training
CEO Innovation Award Recipient

As the key person in the Interactive Learning Service (ILS) courseware development strategy, Michele ensured that the Virtual Cockpit product was Web-ready at the same time that it was available on the desktop, saving precious development time.



Andreas Hartmann, Stolberg
Department Head,
Core Software Development,
Military Simulation and Training
CEO Excellence Award Recipient

Andreas has developed GESI (Combat Simulation Systems) applications that translate into successful product improvements. Andreas has identified significant new applications for GESI in the areas of disaster management and operations, other than war.



Christyn Cianfarani, Montreal
Group Leader,
Visual Technical Proposal, Visual Systems
CEO Excellence Award Recipient

Christyn's understanding of the visual system, and her dedication to a superior technical proposal contributed to CAE's win of the Eurofighter, Apache CMS and Singapore CH-47 programs.



Michel Allard, Montreal
Manager,
Software Engineering, Marine Controls
CEO Excellence Award Recipient

Michel is responsible for getting the ISO 9001 certification for the Marine business unit, and his leadership role on the Astute initiative is bringing success to this complex program.

Other CEO Excellence Award Recipients: **Jo Hanssen**, Technical Manager, Civil Simulation and Training, Maastricht. **Pierre Ilantzis**, Program Manager, MSHATF, Military Simulation and Training, Montreal. **Alain Lavoie**, Manager, Engineering Updates, Civil Simulation and Training, Montreal. **Thierry Ouellette**, Hardware Quality Analyst, Operations, Montreal. **Richard Pontbriand**, Group Leader, Controller Software, Civil Simulation and Training, Montreal. **Serge Rière**, Manager, Mechanical Facilities, Operations, Montreal. **Raffi Shnorhokian**, Flight System Specialist, Military Simulation and Training, Montreal. **Paul Wedlake**, Computer Systems Manager, Military Simulation and Training, Tampa.

Other CEO Innovation Award Recipients: **Demetrios Christopoulos**, Group Leader, Mechanical Engineering, Operations, Montreal. **Dr. Mehrez Hached**, Manager, IG Software Development, Visual Systems, Montreal. **Ehtisham Haque**, Project Manager, Civil Simulation and Training, Montreal.

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> Review of Operations and Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of the fiscal 2002 financial results focuses on the core businesses of CAE Inc. (CAE), Civil (formerly Commercial) Simulation and Training and Military Simulation and Marine Controls (formerly Military Simulation and Controls). During the year CAE accelerated its transformation from a supplier of simulation equipment to a provider of integrated training solutions in the civil aviation training market with the December 2001 acquisition of SimuFlite Training International ("SimuFlite") of Dallas, Texas and the August 2001 acquisition of Schreiner Aviation Training ("Schreiner") of the Netherlands. CAE's Military Simulation and Marine Controls segment strengthened its position in the US military market with the first quarter acquisition of BAE SYSTEMS Flight Simulation and Training Inc. ("BAE SYSTEMS") in Tampa, Florida and entered the commercial marine systems market with the second quarter acquisition of Valmarine AS ("Valmarine") in Drammen, Norway. On December 18, 2001, the Board of Directors approved the divestiture of the Company's Forestry Systems segment to further sharpen CAE's focus and to enhance its growth potential. The results of this segment are reported as discontinued operations and comparative amounts have been restated. The MD&A includes a review of the operations and financial condition of each segment and should be read in conjunction with the audited financial statements contained on pages 28 to 49.

This MD&A contains forward-looking statements with respect to CAE and its subsidiaries based on assumptions that CAE considers reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. CAE cautions the reader that the assumptions regarding future events, many of which are beyond the control of CAE and its subsidiaries, may ultimately prove to be incorrect. Factors that could cause actual results or events to differ materially from current expectations are discussed on page 26.

Summary of Consolidated Results

Continuing Operations

Earnings

Consolidated earnings from continuing operations for the year climbed to $149.3 million, a 42% increase over the fiscal 2001 $105.2 million result. Earnings per share increased from $0.49 to $0.69, reflecting the effect of the restatement of Forestry Systems earnings as discontinued operations and the impact of the 100% stock dividend declared on June 20, 2001, effectively a stock split. All segments reported significantly improved performances this year resulting from productivity improvements and cost reductions. Operating margins reached 21.5% for the year as compared to 17.0% last year. This improvement stems from the reduction in the manufacturing time to build a civil simulator, better execution on several military programs and cost containment initiatives. In addition, the Military Simulation and Marine Controls segment achieved robust results for the year due mainly to improved performance on its major programs, the first quarter acquisition of BAE SYSTEMS and the August 2001 acquisition of Valmarine. The Civil Simulation and Training segment's accelerated move into aviation training, through the

two strategic acquisitions, helped to drive a 30% increase in this segment's operating earnings. In the fourth quarter, the segment absorbed the $7.0 million provision for workforce reductions announced in February 2002, the majority of which was expended by March 31, 2002.

The earnings growth more than offset an increase in interest expense. Interest expense for the year, at $22.7 million, is higher than last year due primarily to the acquisition of four strategic businesses and capital spending in support of our growth initiatives in pilot training. In addition to cash flow from operations, this growth has been financed through the use of proceeds from the disposition of discontinued operations, utilization of CAE's cash balances, short-term investments and long-term credit facilities.

Revenue

Consolidated revenue for fiscal 2002, at $1.13 billion, reflects a 26% increase over the $891.4 million reported for the prior year. Revenue for Military Simulation and Marine Controls grew by 42% or $171.4 million, due primarily to the acquisition of BAE SYSTEMS, which significantly enhanced CAE's access to the US Military market, and Valmarine, which facilitated entry into the commercial marine control systems market. Civil Simulation and Training rose 13%, driven by the acquisitions of SimuFlite in December and Schreiner in the second quarter, combined with the December opening of the Toronto Aviation Training Centre, the first quarter opening of the São Paulo Centre and other training centre initiatives.

Discontinued Operations

On December 18, 2001, the Board of Directors approved the divestiture of the Company's Forestry Systems segment. Commencing in the third quarter the results of Forestry Systems were reported in discontinued operations and combined with the results of the Cleaning Technologies segment. Prior year amounts have been restated, accordingly. On March 28, 2002, CAE closed the sale of the Pulp and Paper division of Forestry Systems to Advanced Fiber Technologies Income Fund (AFT), a publicly traded income trust. The proceeds of the AFT offering, net of commissions, were approximately $123.0 million. AFT used the proceeds and an additional $39.0 million to acquire the business from CAE. In February, CAE completed the sale of CAE Ransohoff Inc. and CAE Ultrasonics Inc., two of the five Cleaning Technologies operations, to the former management of these operations, for US$21.4 million in the form of cash and subordinated notes. The result of these transactions, combined with an estimate of the net realizable value of the remaining discontinued operations contributed to a $1.3 million gain from discontinued operations for the year. Negotiations to sell the remaining businesses are proceeding and the Company expects to conclude agreements to dispose some or all of the divestitures in the first half of fiscal 2003.

Net Earnings

Consolidated net earnings increased 39% to $150.6 million or $0.69 per share in fiscal 2002 compared with consolidated net earnings of $108.1 million or $0.50 per share in fiscal 2001.

Cash Flow

CAE's cash and short-term investments decreased by a combined $169.5 million to $88.8 million and $21.3 million, respectively, and long-term debt increased by $560.2 million. These changes are the result of the four strategic acquisitions totalling $757.6 million and capital expenditures of $249.6 million primarily related to CAE's expansion into aviation training. Total proceeds amounting to $187.1 million, received primarily in the fourth quarter from the disposition of the Pulp and Paper division of Forestry Systems and the sale of CAE Ransohoff Inc. and CAE Ultrasonics Inc., were used to pay down debt. The Company received $42.6 million in the third quarter on the completion of a tax efficient sale and leaseback of the first two simulators installed in the Toronto Training Centre.

In addition, on January 15, 2002, CAE completed a US$36.4 million project financing transaction with Banco ITAU of Brazil for the São Paulo Aviation Training Centre. This project financing comprises a 7.5-year term loan issued by the Brazilian bank and enables CAE to borrow exclusively on the strength of its Brazilian operations.

Backlog

Order backlog as at March 31, 2002, reached $2.7 billion, up $0.9 billion or 50% over last year. The backlog includes two major programs, the Eurofighter visual system program and the Astute Class Submarine Training program for the UK Royal Navy, secured in the first half of the 2002 fiscal year.

Review of Operations

Civil Simulation and Training

CAE's Civil Simulation and Training business is a world leader in the design and production of commercial flight simulators, visual systems and training systems. The acquisitions of Schreiner in the second quarter and SimuFlite in December, combined with the December opening of the Toronto Training Centre, the first quarter opening of São Paulo Centre and other training centre initiatives, have accelerated CAE's move into aviation training. These strategic initiatives have facilitated CAE's transformation from a supplier of simulation equipment to a provider of integrated training solutions in the civil aviation training market and positioned CAE as the world's second largest independent aviation training company.

Financial Results

(amounts in millions of dollars)		2002	2001	2000	1999	1998
Revenue	$	545.2	481.5	480.2	352.8	296.8
Operating earnings	$	152.3	117.0	82.3	55.9	56.7
Operating margins	%	27.9	24.3	17.1	15.8	19.1
Backlog	$	641.2	649.5	527.8	482.7	339.9
Capital expenditures	$	216.7	72.9	11.7	23.2	27.4

Revenue for the fiscal year reached $545.2 million, $63.7 million or 13% ahead of last year. The increase in revenue from last year primarily stems from the Schreiner and SimuFlite acquisitions combined with the launch of the São Paulo, Toronto and Madrid training centres. In addition, higher visual upgrade and support service revenues were realized. Operating earnings of $152.3 million for the year were $35.3 million or 30% higher than last year. These results reflect the impact of the accelerated move into aviation training and significant margin improvement achieved through productivity gains and cost containment initiatives. In addition, these operating earnings reflect a fourth quarter $7.0 million provision for workforce reductions, the majority of which was spent by March 31, 2002.

Capital expenditures increased significantly in the fiscal year, the majority of which relate to the construction of five new training facilities.

Operational Highlights

During the first half of the fiscal year, CAE's strategy to expand and grow through pilot training gained significant momentum. The acquisition of Schreiner was announced along with plans to open a flight-training centre in Denver and an agreement to build and operate, with Emirates, the international airline of the United Arab Emirates (UAE), a new flight-training centre in Dubai. The acquisition of Schreiner in August 2001, and its four established training centres (Amsterdam and Maastricht in The Netherlands, Brussels, Belgium, and Dallas, Texas) added a total of 19 full flight simulators (FFS) to CAE's network of training facilities. On July 6, 2001, a long-term training agreement with Alitalia Linee

Aeree Italiane was signed for three FFSs to be built, installed and owned by CAE, to provide training to Alitalia and other carriers at the Alitalia training centre in Rome. On July 14, 2001, CAE and Emirates signed an agreement to build and operate jointly a new aviation training centre in Dubai. The centre is scheduled to open in the summer of 2002. CAE also signed a five-year training service agreement with Qatar Airways, the new centre's first anchor customer.

During the second quarter CAE concluded a contract with Frontier Airlines to train at CAE's new training centre in Denver, Colorado, scheduled to open in the summer of 2002. On December 13, CAE officially opened the Toronto Training Centre near Pearson International Airport and announced an agreement with Air Canada to train its Boeing 747-400 pilots at the new facility. Air Canada is the fourth Canadian airline anchor tenant at the Centre, joining Air Canada Jazz (formerly Air Canada Regional Inc.), Skyservice and Air Transat. The Centre provides training on three FFSs, an Airbus A330/340, an Airbus A320 and a Boeing 747-400. A fourth simulator for the Bombardier Dash 8-100/300 will be installed in early 2003. The acquisition of SimuFlite of Dallas, Texas was completed on December 31, 2001, for US$210.9 million, subject to an adjustment based on an audit of the closing balance sheet. Up until this strategic move, CAE's entry into aviation training had concentrated on the wide-bodied and regional jet markets in the civil sector. The acquisition of SimuFlite positions CAE in the business-aircraft training segment – and in the key US market. Next year, SimuFlite will have 29 FFSs, all but one in Dallas, serving the business-aircraft market (the largest addressable or outsourced aviation training market in the world). CAE sees this market segment as the one least affected by the events of September 11, 2001, and one with solid growth potential. It is also a market specifically suited to CAE's new, next generation simulator – CAE Sim XXI™. By the end of fiscal 2003, CAE expects to have in operation an installed base of over 80 FFSs. CAE will continue to execute its pilot training strategy, with the focus now on integrating the SimuFlite and Schreiner operations, ramping up utilization in the Toronto, Madrid and São Paulo training centres, and progressing as planned on the Denver, Rome and Dubai centres.

CAE achieved one of the most significant milestones on the CAE Sim XXI™ simulator program – its inaugural test flight in January. CAE Sim XXI™'s modular design is the result of the latest next-generation technologies, used to produce high quality high-fidelity FFSs faster than any other prototype that uses new technologies. CAE Sim XXI™ is easier to assemble, test, integrate, evaluate, deliver and maintain. Engineering activities for the first and second production of CAE Sim XXI™ simulators are underway and will be delivered to CAE's training centre in Dubai. CAE Sim XXI™ manufacturing techniques will be extended to all CAE simulator production. In addition, during the fourth quarter CAE's FFSs at both the Toronto and Madrid aviation training centres received Level D certification, the highest level in full flight simulation. These achievements clearly demonstrate CAE's commitment to maintaining its technological leadership.

During the fiscal year, CAE was awarded 22 of 26 FFS orders or 85% of the competed market (fiscal 2001 – 35 of 42 FFS orders). CAE also captured 16 of 27 competed visual systems, or 59%. New customers included a $100.0 million contract for four FFSs all equipped with CAE MAXVUE™ Plus visual systems, to Khalifa Airways and an Airbus A330 FFS equipped with CAE's new image generator, CAE Tropos™, to Taiwan-based Eva Airways Corp.

Outlook

CAE expects to maintain its commanding leadership position in civil simulation and visual systems due to its focus on customer relationships, its commitment to innovation and technology, product quality, reliability and efficiency, and its continuing efforts to shorten delivery cycles through process improvements. CAE expects to increase its advantage in lead-time, cost, quality and reputation for performance through operational improvements and research and development (R&D) programs. Last year CAE launched a large-scale R&D program to improve its flight simulator products. The next generation

FFS, CAE Sim XXI™, is expected to go into full production later this year and is targeted for the growing regional and business jet training markets. It will also provide significant spin-off benefits for CAE's entire suite of simulation and training products. CAE's capabilities in simulation-based interactive learning, including its CAE Simfinity™ system, will also complement CAE's traditional strength in FFSs and flight training devices. By teaming with the growing network of CAE training centres, CAE can offer airlines and business jet operators a range of training options.

The events of September 11, 2001, had a negative impact on commercial airlines, on aircraft manufacturers and, by extension, on CAE, which to some degree is dependent on the health and success of those industries. To date we have received no cancellations of orders. CAE has experienced some softening of near-term demand for civil simulators and anticipates a reduction in simulator orders in fiscal 2003. In addition, now that CAE has entered the civil aviation training market, the market for new simulators to third parties has been reduced, as CAE now manufactures these for its own use. The building of simulators for its own training centres, as well as for sale, the introduction of CAE Sim XXI™, a continued focus on productivity savings through cycle time reductions and other cost containment initiatives should enable CAE to maintain current operating margins. The growth CAE expects to come from training should offset the decline in simulator sales.

Military Simulation and Marine Controls

CAE's Military Simulation and Marine Controls business is a premier designer and manufacturer of military flight and land-based simulation and training systems, and is a world leader in the supply of marine control systems. Three major events occurred during the first half of fiscal 2002, which served to accelerate CAE's strategic initiatives in the military and marine markets. First, the acquisition of BAE SYSTEMS was completed on April 2, 2001, reflecting CAE's commitment to strengthen its access to the US Defence market. On August 1, 2001, CAE announced the acquisition of Valmarine for approximately $63.0 million. Valmarine is a leader in the commercial marine control systems market (namely cruise lines, large passenger ferries and specialized cargo vessels). This acquisition is the foundation for growth in the Marine Controls Division and meets a key strategic objective by accelerating CAE's entry into the commercial marine control systems market. In July, CAE was selected as one of several prime contractors under the US Air Force (USAF) Training Systems Acquisition II (TSA II) contract. This permits CAE to pursue USAF, Air Force Reserve, Air National Guard, and Foreign Military Sale training products and services programs.

Financial Results

(amounts in millions of dollars)		2002	2001	2000	1999	1998
Revenue	$	581.3	409.9	384.9	355.7	334.2
Operating earnings	$	90.0	34.9	15.4	25.2	20.6
Operating margins	%	15.5	8.5	4.0	7.1	6.2
Backlog	$	2,054.7	1,103.3	1,219.3	1,242.6	1,242.2
Capital expenditures	$	32.9	3.4	10.1	45.7	25.4

Revenue of $581.3 million for the year was $171.4 million or 42% above last year, driven by the acquisitions of BAE SYSTEMS and Valmarine and activity on major programs awarded earlier in the year (Astute, Eurofighter). Operating earnings of $90.0 million were $55.1 million or 158% better than last year. These results reflect the significant improvement in performance on major programs, including the E-3A Airborne Warning and Control System, the Astute Class Submarine Training program, the C-5B Weapon System Trainer, the NATO Flying Training in Canada program and the Medium Support Helicopter Aircrew Training Facility, in addition to the BAE SYSTEMS and Valmarine acquisitions and the continuing impact of productivity and cost saving initiatives.

Backlog, at a record $2.06 billion, almost doubled last year's amount and includes the Eurofighter visual system program and the Astute Class Submarine Training program.

Operational Highlights

This segment secured three major contracts in the year, reinforcing its strategy and accelerating initiatives. During the second quarter, Eurofighter Simulation Systems GmbH selected CAE for visual systems for the Eurofighter EF2000 combat aircraft Aircrew Synthetic Training Aids program. Valued at over $170.0 million, the contract extends over several years, with the first deliveries to take place in calendar year 2002. Also during the second quarter, the FAST Consortium, owned half by CAE's Marine Controls division and half by Alenia Marconi Systems, signed a contract with the Defence Procurement Agency of the UK Ministry of Defence for the Astute Class Submarine Training program. This Private Finance Initiative contract is for the provision of comprehensive training services to the Royal Navy for 30 years, with an option to renew for an additional 10 years, in the operation and maintenance of the Astute Class submarines. A new training centre is being built in Scotland to house the simulators and provide classroom-training facilities. The contract added over $400.0 million to CAE's backlog. During the fourth quarter, CAE signed a contract with the US Army to be the prime contractor for the Army Special Operations Forces Aviation Training and Rehearsal Systems (ASTARS). The initial delivery order, valued at approximately $50 million, is for the design of the world's first AH/MH-6 Light Assault/Attack Reconfigurable (LASAR) Combat Mission Simulator (CMS) to train aircrews of both the AH-6 and MH-6 helicopters. The helicopter simulator, which will feature a 24-foot dome display, will be used by the US Army 160th Special Operations Aviation Regiment (SOAR), the elite regiment of soldiers known as the "Night Stalkers", who have played a key role in Afghanistan. As prime contractor for the ASTARS program, CAE will also analyze the training and simulation needs of the US Army 160th SOAR and assist in the development of upgrades to existing systems and new training systems. This contract enhances CAE's prospects for securing other US military contracts at a time when military spending is on the rise.

Outlook

The military simulation and training market is driven by the introduction of new aircraft platforms, upgrades and life extensions to existing aircraft and a shift to greater use of simulation in pilot training programs due to the high degree of realism and the significantly lower cost compared to live training. CAE expects to increase its advantage in lead-time, cost, quality and reputation for performance through continued operational improvements and R&D programs. In particular, CAE launched an R&D program to introduce CAE Networked Tactical Training Systems (NeTTS), a new PC-based architecture to address the requirement for scalable, reconfigurable, cost-effective training devices. In addition to technology and price, the customers' – in most cases, governments – key purchase criteria often include the contractor's local geographic presence. With its leading edge technology solution, CAE is well positioned to capitalize on upcoming international Military and Marine programs in Canada, the United States, Europe, the United Kingdom, Asia and Australia, as well as teaming and/or collaboration arrangements in other countries. CAE's Military Simulation and Marine Controls segment has provided an exceptionally strong performance in fiscal 2002. Following the events of September 11, 2001, there was strong evidence of an increase in military spending, particularly in the United States. CAE expects to benefit from these increases especially now that the Company has a recognized presence in the US to bid as a prime on defence contracts. These factors coupled with the record backlog, the majority of which is long-term, provide a solid platform for the future.

Liquidity and Capital Resources

CAE's cash and short-term investments decreased by $169.5 million during the year. Cash decreased to $88.8 million from the March 31, 2001 level of $156.8 million. Short-term investments amounting to $21.3 million are composed of fixed term deposits maturing within the next year. Long-term debt increased by $755.8 million primarily on the utilization of new US$200.0 million and US$350.0 million long-term credit facilities and the completion of a US$36.4 million project financing transaction with Banco ITAU of Brazil for the São Paulo Aviation Training Centre. These changes in cash and long-term debt are also the result of the Company's strategic acquisitions, totalling $757.6 million for the year, and capital expenditures of $249.6 million relating to CAE's expansion into aviation training. In addition, $195.6 million in long-term debt was repaid from the proceeds received from the disposition of the Pulp and Paper division of Forestry Systems and the sale of CAE Ransohoff Inc. and CAE Ultrasonics Inc. totalling $187.1 million and from cash flow from operations.

CAE employs foreign exchange forward contracts to manage exposures created when sales are made in foreign currencies. The amount and timing of forward contracts varies on a number of project related factors, including milestone billings and the use of foreign materials and/or subcontractors. As at March 31, 2002, CAE had $144.1 million Canadian equivalent in forward contracts. The Company also entered into cross currency swap-contracts. Currently, three contracts are in effect and will mature in December 2002. Two of the contracts are in US dollars and have a total notional value of $21.0 million; the third is in Canadian dollars and has a notional value of $30.0 million. If both forward and swap-contracts were marked to market at year-end, a foreign exchange gain of $3.0 million would result. These would be equally offset by future losses of foreign denominated cash flows over the balance of the contracts.

CAE also uses financial instruments to manage its exposure to changing interest rates and to adjust its mix of fixed and floating interest rate debt. In order to benefit from the low short-term interest rates prevailing in the Canadian market, CAE concluded interest rate swap agreements in fiscal 2002 with three Canadian financial institutions for periods of between one and four years. Following the implementation of its strategy, the mix of fixed rate versus floating rate debt was 55% – 45% respectively. As at March 31, 2002, CAE had interest rate swaps converting mostly floating based long-term debt into fixed term debt totalling $334.1 million, which if marked to market at that date would result in a loss of $2.2 million. CAE deals only with sound counterparties in executing any of its financial instruments.

As at March 31, 2002, CAE had long-term debt and capital lease obligations totalling $926.5 million. This compares to long-term debt and capital lease obligations of $265.3 million in the prior year. This increase in long-term debt is due to the investments made during the year and sale and leaseback transactions. At March 31, 2002, the short-term portion of the long-term debt was $37.5 million compared to $2.3 million last year.

In addition to the Term Revolver Facilities totalling approximately $1.0 billion, the Company's liquidity is enhanced through access to $57.8 million in unsecured lines of credit with various banks, compared with $85.0 million in 2001. In the normal course of business, CAE issued letters of credit and performance guarantees for a total amount of $243.0 million.

As at March 31, 2002, CAE had approximately US$147.8 million of accumulated non-capital tax losses carried forward that can be used to offset tax payable on future earnings from US operations. CAE also has accumulated non-capital tax losses carried forward relating to its operations in other countries of approximately $64.0 million.

Sale and Leaseback Transactions

From time to time CAE has entered into sale and leaseback transactions to access low-cost capital to support its growth initiatives. In this fiscal year, CAE entered into three such transactions. With the acquisition of Schreiner, CAE acquired a lease for three FFSs valued at $50.0 million. As part of the acquisition of SimuFlite CAE entered into a 12-year sale and leaseback arrangement with the seller for five simulators valued at $86.0 million.

In December 2001, CAE entered into a sale and leaseback arrangement with a financial institution for two simulators manufactured for its Toronto Training Centre. Proceeds, at market value, amounted to $42.6 million, $12.2 million over the carrying value. The guaranteed residual value of $9.2 million will be deferred as a liability until the lease expiry date and the difference, $3.0 million will be realized over the term of the 22-year lease. Future minimum lease payments for all such arrangements, amounting to approximately $340.0 million as at March 31, 2002, are disclosed in Note 18 "Operating Lease Commitments" to the consolidated financial statements.

This transaction follows another sale and leaseback arrangement completed in December 1999 for two simulators manufactured for Air Canada. Proceeds amounted to $35.5 million, $17.2 million above its carrying value. The guaranteed residual value amounted to $8.3 million.

Non-Recourse Project Financing

During 1997, the Company arranged project financing for the Medium Support Helicopter Aircrew Training (MSHAT) program it entered into with the UK Ministry of Defence. The contract was awarded to a consortium, CAE Aircrew Training Services plc (Aircrew). The capital value of the assets required to be supplied by Aircrew is in excess of $200.0 million. The entity that owns the assets comprised in the training centre is CVS Leasing Ltd. (in which CAE has an 11% interest). CAE manufactured and sold the simulators to CVS Leasing Ltd., and CVS Leasing Ltd. then leased this equipment to Aircrew for the full term of the MSHAT contract. As Aircrew is majority-controlled by CAE, its financial position and results of operations are consolidated in the Company's financial statements. Future minimum lease payments associated with the simulators leased to Aircrew amount to approximately $278.0 million as at March 31, 2002, and are disclosed in Note 18 "Operating Lease Commitments" to the consolidated financial statements.

Both the Canadian Institute of Chartered Accountants and the United States Financial Accounting Standards Board are reviewing the existing accounting standards relating to transactions such as those described above. While no new guidance has yet been made public, any change in the standards could affect CAE's accounting for these transactions.

Critical Accounting Policies

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. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an ongoing basis and form the basis for making judgements regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results may differ from these estimates under different assumptions.

CAE's critical accounting policies are those that it believes are the most important in determining its financial condition and results, and require significant subjective judgement by management. A summary of the Company's significant accounting policies, including the critical accounting policies discussed below, is set out in the notes to the consolidated financial statements.

Revenue Recognition

CAE generates a significant portion of its revenue from long-term contracts. The payment terms under CAE's contracts varies with the type of project, typically taking 15 to 18 months for payment for a civil flight simulator and up to two years or longer for a military or marine project.

Revenue from long-term contracts is recognized using the percentage of completion method, where revenue, earnings and unbilled accounts receivable are recorded as related

costs are incurred, on the basis of percentage costs incurred to date on a contract, relative to the estimated total costs. Significant judgement is involved in estimating the total costs to complete a project. Revisions in cost and earnings estimates during the term of the contract are reflected in the period in which the need for revision becomes known. Losses, if any, are recognized fully when first anticipated. Generally, the terms of long-term contracts provide for progress billing based on completion of certain phases of work. Warranty provisions are recorded at the time revenue is recognized, based on past experience. Where customer support is billed separately, revenue is recorded ratably over the support period.

Training service revenues are recognized in the period such services are provided. All other revenue is recorded and related costs transferred to cost of sales at the time the benefits and the risks of ownership associated with the product are transferred to the customer.

Credit risk also exists but it is considered minimal because CAE's customers are primarily well-established companies with good credit ratings or government agencies. Before accepting an order, CAE makes a credit evaluation in order to properly assess the credit risk. When CAE identifies a collection risk, a provision for doubtful accounts is recorded.

Valuation of Intangible Assets and Goodwill

CAE accounts for its business combinations under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. Part of this allocation process requires that CAE identify and attribute values and estimated lives to the intangible assets acquired. CAE may engage experts to assist in these matters, however, these determinations involve considerable judgement. They often involve the use of significant estimates and assumptions, including those with respect to future cash flows, discount rates and asset lives. These determinations will affect the amount of amortization expense to be recognized in future periods.

Effective April 1, 2002, CAE adopted the Canadian Institute of Chartered Accountants Handbook Section 3062, "Goodwill and Other Intangible Assets". This section requires that goodwill and intangible assets with indefinite useful lives not be amortized. Other intangible assets are amortized over their estimated useful lives. Their fair value is to be assessed annually and, if necessary, written down for any impairment. Goodwill represents the cost of investments in subsidiaries in excess of the fair value of the net identifiable assets acquired. Goodwill for acquisitions made prior to fiscal 2002 was amortized up to March 31, 2001, using the straight-line method over 40 years.

Deferred Development Costs

Where CAE intends to produce or market a product under development that is clearly defined, has identifiable costs, is technically feasible, and has a clearly defined market or use, and CAE expects to have the financial resources to complete the project, the costs associated with the project are deferred to the extent their recovery through future sales or use of the product is reasonably assured. This requires CAE to make judgements about the likelihood of recovery of the costs. If CAE determines that recovery of the costs through future sales or use is no longer likely, any deferred costs not likely to be recovered are charged against earnings in the period. Once the project is complete, CAE amortizes the deferred costs by reference to sales of the product over a period not exceeding five years.

New Accounting Standards

During the year, CAE implemented certain changes to its accounting policies in order to conform to new Canadian Institute of Chartered Accountants (CICA) accounting standards.

On April 1, 2001, the Company adopted the new recommendations of the CICA Section 1581, "Business Combinations" and Section 3062, "Goodwill and Other Intangible Assets". Accordingly, all business acquisitions performed during the fiscal year were accounted for using the purchase method. In addition, CAE ceased amortizing goodwill from April 1, 2001, as it adopted the goodwill impairment model introduced by the new accounting rules. Goodwill amortization amounted to $5.1 million for the year ended March 31, 2001.

In addition, no write-down of goodwill arose from the application of the impairment model upon adoption of these new recommendations.

In accordance with CICA Section 1650, "Foreign Currency Translation", the Company will no longer amortize the exchange gains or losses arising on the translation of long-term foreign currency items. Exchange gains or losses arising on translation will be included in earnings as incurred. Effective April 1, 2002, the recommendations will be applied retroactively and consequently, prior years' financial statements will be restated. At March 31, 2002, the unamortized exchange loss relating to the existing long-term foreign currency debt amounted to $9.2 million (2001 – $7.6 million). The impact of this accounting change will be a charge to fiscal 2002 earnings of $1.1 million, net of $0.5 million in taxes, and a charge to fiscal 2002 opening retained earnings of $5.3 million net of $2.3 million in taxes.

Effective April 1, 2002, CAE will prospectively adopt the new recommendations of CICA Section 3870, "Stock-based Compensation and Other Stock-based Payments". The standard encourages but does not require that the fair value method of valuing stock options be used for transactions with employees. The Company will not change the method currently used to account for stock options granted to employees, but will provide the required pro forma disclosures on the impact of the fair value method, which produces estimated compensation charges. For the year ended March 31, 2002, had the new standard been adopted, a reduction of less than $0.01 on both earnings and diluted earnings per share from continuing operations and net earnings and diluted net earnings per share would have been presented.

Business Risks and Uncertainties

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

Market Cycles

CAE participates in competitive global markets that are subject to worldwide economic trends and political influences. Many of the Company's products are affected by industry market cycles. The Civil Simulation and Training market generally follows the trend established in the commercial airline industry, particularly the delivery of new aircraft. Military simulation programs, awarded mainly by governments, are dependent on price, technology, life cycle costs, delivery, quality and government spending on defence programs, and may also be influenced by in-country presence. Lead times on military programs can easily surpass 12 months. CAE has positioned itself in its core business segments, geographically and by industry sector, and is expanding the scope of its product offerings to help moderate these risks.

Product Innovation

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

Changes in Contract Cost

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

Key Personnel

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

> Management and Auditors' Reports

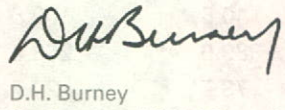
Management Report

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

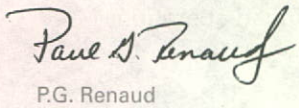
Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate. The Company also maintains an internal audit function that evaluates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

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

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



D.H. Burney
President and Chief Executive Officer



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

Auditors' Report to the Shareholders of CAE Inc.

We have audited the Consolidated Balance Sheets of CAE Inc. as at March 31, 2002 and 2001, and the Consolidated Statements of Earnings, Retained Earnings and Cash Flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and 2001, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



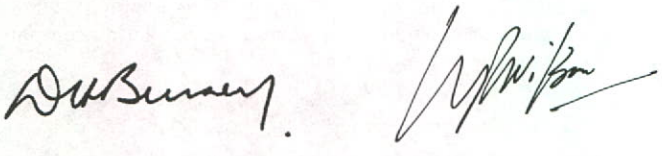
Chartered Accountants
Montreal, Canada, May 8, 2002

> Consolidated Balance Sheets

as at march 31 (amounts in millions of dollars)	2002	2001
Assets		
Current assets		
Cash	$ 88.8	$ 156.8
Short-term investments	21.3	122.8
Accounts receivable (note 4)	378.2	245.6
Inventories (note 5)	130.9	99.4
Prepaid expenses	9.9	8.6
Income taxes recoverable	15.8	8.2
Future income taxes (note 14)	28.9	15.4
	673.8	656.8
Assets of discontinued operations (note 3)	123.8	370.9
Property, plant and equipment, net (note 6)	838.5	227.2
Future income taxes (note 14)	71.3	15.9
Intangible assets (note 7)	163.4	–
Goodwill (note 8)	375.5	18.5
Other assets (note 9)	138.5	82.8
	$ 2,384.8	$ 1,372.1
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 420.5	$ 315.0
Deposits on contracts	189.1	175.9
Long-term debt due within one year	37.5	2.3
Future income taxes (note 14)	50.4	14.5
	697.5	507.7
Liabilities of discontinued operations (note 3)	40.5	106.6
Long-term debt (note 10)	889.0	263.0
Long-term liabilities	73.7	20.7
Future income taxes (note 14)	65.6	10.0
	1,766.3	908.0
Shareholders' equity		
Capital stock (note 11)	186.8	159.4
Retained earnings	446.8	321.2
Currency translation adjustment	(15.1)	(16.5)
	618.5	464.1
	$ 2,384.8	$ 1,372.1

Contingencies (note 16)

Approved by the Board:



D.H. Burney
Director

L.R. Wilson
Director

> Consolidated Statements of Earnings

years ended march 31 (amounts in millions, except per share amounts)	2002	2001
Revenue		
Civil Simulation and Training	$ 545.2	$ 481.5
Military Simulation and Marine Controls	581.3	409.9
	$ 1,126.5	$ 891.4
Operating earnings		
Civil Simulation and Training	$ 152.3	$ 117.0
Military Simulation and Marine Controls	90.0	34.9
Earnings from continuing operations before interest and income taxes	242.3	151.9
Interest expense (income), net (note 10A (xi))	22.7	(6.3)
Earnings from continuing operations before income taxes	219.6	158.2
Income taxes (note 14)	70.3	53.0
Earnings from continuing operations	149.3	105.2
Results of discontinued operations (note 3)	1.3	2.9
Net earnings	$ 150.6	$ 108.1
Earnings and diluted earnings per share from continuing operations	$ 0.69	$ 0.49
Net earnings and diluted net earnings per share	$ 0.69	$ 0.50
Average number of shares outstanding	217.6	215.7

> Consolidated Statements of Retained Earnings

years ended march 31 (amounts in millions of dollars)	2002	2001
Retained earnings at beginning of year	$ 321.2	$ 241.9
Adjustment for changes in accounting policies (note 1)	–	(6.0)
Excess of common share purchase price over amount charged to capital stock	–	(1.2)
Net earnings	150.6	108.1
Dividends	(25.0)	(21.6)
Retained earnings at end of year	$ 446.8	$ 321.2

> Consolidated Statements of Cash Flow

years ended march 31 (amounts in millions of dollars)	2002	2001
Operating activities		
Earnings from continuing operations	$ 149.3	$ 105.2
Adjustments to reconcile earnings to cash flows from operating activities:		
Amortization	43.1	19.1
Future income taxes	7.5	(7.7)
Investment tax credit	(19.0)	(22.5)
Other	(0.2)	(13.5)
Decrease (increase) in non-cash working capital (note 15)	(7.6)	79.1
Net cash provided by continuing operating activities	173.1	159.7
Investing activities		
Purchase of businesses (note 2)	(757.6)	–
Proceeds from disposal of businesses (note 3)	187.1	5.7
Short-term investments	101.5	(51.7)
Capital expenditures	(249.6)	(76.3)
Proceeds from sale and leaseback of assets	42.6	–
Deferred development costs	(31.1)	(13.7)
Deferred pre-operating costs	(15.1)	(4.2)
Other assets	(33.0)	(7.8)
Net cash used in continuing investing activities	(755.2)	(148.0)
Financing activities		
Proceeds from long-term debt	755.8	–
Repayments of long-term debt	(195.6)	(16.2)
Dividends paid	(24.8)	(21.2)
Purchase of capital stock	–	(1.3)
Common stock issuance	6.1	6.9
Other	(2.3)	(3.0)
Net cash provided by (used in) continuing financing activities	539.2	(34.8)
Net cash (used in) provided by discontinued activities (note 3)	(24.5)	10.4
Effect of foreign exchange rate changes on cash	(0.6)	6.0
Net decrease in cash	(68.0)	(6.7)
Cash at beginning of year	156.8	163.5
Cash at end of year	$ 88.8	$ 156.8

> Notes to Consolidated Financial Statements

years ended march 31, 2002 and 2001 (amounts in millions of dollars)

01 Summary of Significant Accounting Policies

The accounting policies of CAE Inc. ("CAE" or "the Company") and its subsidiaries conform with Canadian generally accepted accounting principles ("GAAP").

Nature of Operations

CAE designs and provides simulation equipment and services and develops integrated training solutions for the military, commercial airlines, business aircraft operators, aircraft manufacturers and marine vessel operators.

CAE's flight simulators replicate aircraft performance in normal and abnormal operations and a comprehensive set of environmental conditions, utilizing visual systems with an extensive database of airports, other landing areas and flying environments and motion and sound cues to create a fully immersive training environment. The Company offers a full range of flight training devices based on the same software used in its simulators. CAE is developing a global network of training centres in locations around the world.

The Company also provides simulators and training services for sea and land-based activities and supplies marine automation systems for military and civil applications. CAE's marine control systems monitor and control propulsion, electrical steering, ancillary, auxiliary and damage control systems.

Consolidation

The consolidated financial statements include the accounts of the Company 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. Entities jointly controlled, referred to as joint ventures, are proportionately consolidated. Portfolio investments are accounted for using the cost method.

Revenue Recognition

Revenue from long-term contracts for building simulators and training and control systems is recognized using the percentage-of-completion method where revenue, earnings and unbilled accounts receivable are recorded as related costs are incurred, on the basis of percentage costs incurred to date on a contract, relative to the estimated total costs. Revisions in cost and earnings estimates during the term of the contract are reflected in the period in which the need for revision becomes known. Losses, if any, are recognized fully when first anticipated. Generally, the terms of long-term contracts provide for progress billing based on completion of certain phases of work. Warranty provisions are recorded at the time revenue is recognized, based on past experience. No right of return or complimentary upgrades are provided to customers. Post-delivery customer support is billed separately and revenue is recorded ratably over the support period.

Training service revenues are recognized in the period such services are provided. All other revenue is recorded and related costs transferred to cost of sales at the time the product is delivered and the benefits and the risks of ownership associated with the product are transferred to the customer.

Cash and Short-Term Investments

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

Inventories

Inventories are stated at the lower of average cost and net realizable value. Cost includes material, labour and an allocation of manufacturing overhead.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The declining balance and straight-line methods are used in computing amortization over the estimated useful lives of the assets. Useful lives are estimated as follows:

Building and improvements	20 to 40 years
Machinery and equipment	3 to 10 years
Simulators	15 to 30 years

The Company regularly reviews the carrying value of its property, plant and equipment. If their carrying value exceeds the amount recoverable, a write-down is charged to earnings.

Leases

Leases entered into by the Company in which substantially all the benefits and risks of ownership are transferred to the Company are recorded as capital leases and classified as property, plant and equipment and long-term borrowings. All other leases are classified as operating leases under which leasing costs are expensed in the period in which they are incurred. Gains and losses on the sale and leaseback of assets are deferred and amortized over the term of the lease.

Business Combinations, Goodwill and Intangible Assets

During the first quarter of 2002, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1581, Business Combinations, which requires all business combinations to be accounted for using the purchase method. In addition, any goodwill and intangible assets with indefinite useful lives acquired in a business combination are to be accounted for under CICA Handbook Section 3062, Goodwill and Other Intangible Assets. This section requires that goodwill and intangible assets with indefinite useful lives not be amortized. Their fair value is to be assessed annually and, if necessary, written down for any impairment. (See note 8 for the impact of the adoption of the new standard.)

Goodwill represents the cost of investments in subsidiaries in excess of the fair value of the net identifiable assets acquired. Goodwill for acquisitions made prior to fiscal 2002 was amortized up to March 31, 2001, using the straight-line method over 40 years.

Intangible assets are recorded at their allocated cost at the date of acquisition of the related operating companies. Amortization is provided for all intangible assets on a straight-line basis over their estimated useful lives. Useful lives are estimated as follows:

	Amortization Period	Weighted Average Amortization Period
Trade names	20 to 25 years	20
Backlog and contractual agreements	1 to 10 years	6
Customer relationships	20 to 25 years	24
Other	10 to 20 years	11

Interest Capitalization

Interest costs relating to the construction of training centres are capitalized as part of the cost of property, plant and equipment. Capitalization of interest ceases when the training centre is completed and ready for productive use.

Foreign Currency Translation

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

Gains or losses arising from the translation of foreign currency debt not designated as a hedge of the net investment in subsidiaries are deferred, included in other assets and amortized on a straight-line basis over the term of the debt.

Effective April 1, 2002, the Company will no longer amortize the exchange gains or losses arising on the translation of long-term foreign currency denominated items, in accordance with a recent amendment to CICA Handbook Section 1650 on Foreign Currency Translation. The exchange gains or losses arising on translation will be included in earnings as incurred. At March 31, 2002, the unamortized exchange loss relating to the existing long-term foreign currency items amounted to $9.2 million (2001 – $7.6 million). This standard will be applied retroactively and consequently, prior years' financial statements will be restated through a charge to fiscal 2002 earnings of $1.1 million (2001 – $2.0 million), net of $0.5 million (2001 – $1.0 million) in taxes, and a charge to fiscal 2001 opening retained earnings of $3.3 million, net of $1.3 million of taxes.

Research and Development Costs

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

Pre-operating Costs

The Company defers expenditures related to the operation of all new training centres until the opening of the centre. Expenditures directly related to placing a new training centre into commercial service are incremental in nature and are considered by management to be recoverable from the future operations of the new training centre. Capitalization ceases at the opening of the training centre. Amortization of the deferred costs is taken over 5 to 20 years based on the expected period and pattern of benefit of the deferred expenditures.

Deferred Financing Costs

Costs incurred relating to the issuance of long-term debt are deferred and amortized over the term of the related debt.

Income Taxes

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

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

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

Pensions

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

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

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

Stock-Based Compensation Plans

The Company's stock-based compensation plans consist of an Employee Stock Option Plan (ESOP), an Employee Stock Purchase Plan (ESPP) and Deferred Share Unit (DSU) plans for directors and key executives which are described in note 12. No compensation expense is recognized for the ESOP when stock options are issued to employees. Consideration paid by employees on the exercise of stock options is credited to capital stock. A compensation expense is recognized for the Company's portion of the contributions made under the ESPP and for amounts due under the DSU plans.

The CICA has issued a new standard on the measurement of stock options and other stock-based compensation for fiscal years beginning on or after January 1, 2002. This standard applies to awards granted after January 1, 2002, and is to be applied prospectively. The Company will not change the method currently used to account for stock options granted to employees, but will provide the required pro forma disclosures on the impact of the fair value method, which produces estimated compensation charges. Stock compensation arrangements that can be settled in cash will continue to be recognized as compensation expense.

Derivative Financial Instruments

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

The continuity of goodwill by business segment is as follows:

	2002		2001	
	Civil Simulation and Training	Military Simulation and Marine Controls	Civil Simulation and Training	Military Simulation and Marine Controls
Beginning balance	$ –	$ 18.5	$ –	$ 22.2
Additions	219.0	134.7	–	–
Amortization	–	–	–	(0.6)
Foreign exchange	(1.2)	4.5	–	(3.1)
Ending balance	$ 217.8	$ 157.7	$ –	$ 18.5
Total goodwill		$ 375.5		$ 18.5

09 Other Assets

	2002	2001
Investment tax credits (i)	$ 0.7	$ 25.4
Investment in and advances to CVS Leasing Ltd. (ii)	24.0	21.0
Deferred pre-operating costs	26.6	13.7
Deferred development costs (iii)	30.1	13.7
Deferred financing costs	16.3	–
Restricted cash (note 10A (iv))	15.6	–
Other	25.2	9.0
	$ 138.5	$ 82.8

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

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

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

In addition, the Company has a minority shareholding of 11% in, and has advanced funds to, CVS Leasing Ltd. (CVS), a company established to acquire the simulators and other equipment that are leased to Aircrew. CVS obtained project financing which amounts to £79 million at March 31, 2002, and expires in October 2015. This financing is secured solely by the assets of CVS with no recourse to CAE.

(iii) Research and development expenditures aggregated $104.7 million during the year (2001 – $104.9 million). The Company has received government assistance of $15.8 million during the year (2001 – $3.5 million), of which $9.5 million (2001 – nil) was recorded against deferred costs incurred to develop new products.

10 Debt Facilities

A. Long-Term Debt

	2002	2001
Senior notes (i)	$ 192.1	$ 190.4
Revolving unsecured term credit facilities,		
5-years maturing April 2006, US$350.0 (ii)		
(outstanding March 31, 2002 – $25.0 and US$139.0)	246.4	–
5-years maturing April 2006, Euro100.0 (2001 – DM65.0) (ii)	–	46.1
18 months, maturing June 2003 (US$200.0) (iii)		
(outstanding March 31, 2002 – US$174.0)	277.3	–
Term loan of US$36.4, secured, maturing in 2009 (iv)	58.0	–
Term loan of £12.7, secured, maturing in 2015 (v)	25.9	26.8
Grapevine Industrial Development Corporation bonds, secured,		
(US$8.0 and US$19.0), maturing in 2010 and 2013 (vi)	43.1	–
Secured loans (US$5.8 and RMB29.0) (vii)	14.3	–
Unsecured loans (US$8.6 and £9.2) (viii)	34.4	–
Obligations under capital lease commitments (ix)	35.0	2.0
	926.5	265.3
Less: Long-term debt due within one year	37.5	2.3
	$ 889.0	$ 263.0

(i) Pursuant to a private placement with certain investors, the Company borrowed US$108.0 million and $20.0 million. These unsecured senior notes rank equally with the term bank financing with fixed repayment amounts in 2005, 2007, 2009 and 2012. Fixed interest at an average rate of 7.5% is payable semi-annually in June and December. The Company has entered into interest rate swap agreements converting the initial fixed interest rate into a 3-month BA borrowing plus 1.05% on $52.5 million of the senior notes.

(ii) These facilities are unsecured and the interest rate payable is based on LIBOR (BAs) or EURIBOR plus 0.50%. The Company has entered into interest rate swap agreements to fix the rate. Of this amount, $205 million is fixed until February 2003 with an average rate of 2.72%, and $35 million has been fixed until April 2006 at a rate of 4.97%. The average interest rate for the period ended March 31, 2002, is 5.2% (2001 – 4.6%).

(iii) The revolving credit facility of US$200 million expires in June 2003. The facility is unsecured and the interest rate payable is based on LIBOR plus 0.50%.

(iv) The Company arranged project financing for its training centre in São Paulo, Brazil. This term loan is secured by the assets of the training centre and $15.6 million in restricted cash and is repayable semi-annually until April 30, 2009. Interest on the loan is charged at a rate approximating 7.7%.

(v) The Company arranged project financing for one of its subsidiaries to finance the Company's Medium Support Helicopter program for the MoD in the United Kingdom. The credit facility includes a term loan that is secured by the project assets of the subsidiary and is repayable over 18 years to October 1, 2015. The facility also includes a standby loan of £4.0 million and a working capital loan of £1.0 million, both maturing in October 2015. Interest on the loans is charged at a rate approximating LIBOR plus 1%. The Company has entered into interest rate swaps totalling £10.3 million fixing the interest rate at approximately 6.82% (note 9(ii)).

(vi) Airport Improvement Revenue Bonds issued by Grapevine Industrial Development Corporation, Grapevine, Texas, for amounts of US$8.0 million and US$19.0 million and maturing respectively in 2010 and 2013. The Bonds are secured by real property improvements, fixtures and specified simulation equipment. The rate is the lesser of the lawful rate and 80% of the 91-day T-Bill rate, which approximates 2.83% for the period ended March 31, 2002.

(vii) Secured loans consist of a US$5.8 million loan secured by property, plant and equipment expiring in June 2002 with interest payable based on commercial paper (USA) plus 1% and a loan of RMB29 million expiring in December 2011 with interest at 6.83%.

(viii) Unsecured loans consists of a US$8.6 million loan expiring in 2002 with interest rate payable based on LIBOR plus 0.90% and a loan of £9.2 million expiring from September 2004 to March 2030 with interest at an average rate of 5.6%.

(ix) The effective interest rate on obligations under capital leases was approximately 5.3% (2001 – 5.2%).

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

Years ending March 31,	
2003	$ 37.5
2004	289.4
2005	14.0
2006	31.9
2007	258.4
Thereafter	295.3
	$ 926.5

(xi) Details of net interest expense (income) are as follows:

	2002	2001
Interest expense (income)	$ 30.2	$ (2.3)
Allocation of interest expense to discontinued operations	(3.6)	(4.0)
Interest capitalized	(3.9)	–
Interest expense (income) as reported	$ 22.7	$ (6.3)

B. Short-Term Debt

The Company has unused unsecured bank lines of credit available in various currencies totalling $57.8 million (2001 – $85 million). The effective rate on the short-term borrowings was 5.6% (2001 – 8.4%).

Certain of the Company's debt instruments include customary positive and negative covenants which include interest coverage, leverage ratios, and restrictions on the sale of assets. The Company is in compliance with its debt covenants.

11 Capital Stock

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

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

	2002		2001	
	Number of Shares (d)	Stated Value	Number of Shares (d)	Stated Value
Balance at beginning of year	216,399,856	$ 159.4	215,158,370	$ 152.3
Stock options exercised	1,118,400	6.1	1,413,076	6.9
Stock dividends (a)	17,605	0.2	34,410	0.3
Purchase of capital stock (b)	–	–	(206,000)	(0.1)
Treasury issue (note 2)	1,419,919	21.1	–	–
Balance at end of year	218,955,780	$ 186.8	216,399,856	$ 159.4

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

(b) During the first quarter of fiscal 2001 the Company purchased 206,000 common shares on the Toronto Stock Exchange under its normal course issuer bid. The Company has purchased 8,877,000 common shares since the inception of the program on June 21, 1999. Shares purchased by the Company were cancelled. The bid expired on June 20, 2000.

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

(d) On June 20, 2001, the Board of Directors declared a 100% stock dividend in respect of the common shares in the capital of the Company, effectively achieving a two-for-one split of CAE's outstanding common shares. The stock dividend was payable to shareholders of record at the close of business on July 9, 2001 ("Record Date"), on the basis of one additional share for each common share held as of the Record Date. CAE's common shares commenced trading on a split basis on July 5, 2001, on the Toronto Stock Exchange. The Company ascribed no monetary value to the stock dividend. The number of shares and options, the option exercise prices and the net earnings and diluted net earnings per share have been restated retroactively to reflect the stock dividend.

(e) The following is a reconciliation of the denominators for the basic and diluted earnings per share computations:

	2002	2001
Weighted average number of common shares outstanding – Basic	217,592,039	215,666,346
Effect of dilutive stock options	2,544,722	2,570,454
Weighted average number of common shares outstanding – Diluted	220,136,761	218,236,800

The effect of the conversion of the outstanding stock options would not materially dilute earnings per share.

12 Stock-Based Compensation Plans

Employee Stock Option Plan

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

At March 31, 2002, a total of 12,462,822 common shares remained authorized for issuance under the Plan. The options are exercisable during a period not to exceed six years and are not exercisable during the first 12 months after the date of the grant. The right to exercise all of the options accrues over a period of four years of continuous employment. However, if there is a change of control of the Company, the options become immediately exercisable. Options are adjusted proportionately for any stock dividends or stock splits attributed to the common shares of the Company.

A reconciliation of the outstanding options is as follows:

as at March 31 (note 11(d))	2002		2001	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding at beginning of year	5,114,350	$ 5.70	5,479,326	$ 4.96
Granted	1,698,012	$ 12.19	2,018,400	$ 6.84
Exercised	(1,118,400)	$ 5.41	(1,413,076)	$ 4.90
Forfeited/Expired	(694,884)	$ 7.63	(970,300)	$ 5.06
Options outstanding at end of year	4,999,078	$ 7.70	5,114,350	$ 5.70
Options exercisable at end of year	1,417,878	$ 5.70	1,268,500	$ 5.34

The following table summarizes information about the Company's ESOP as at March 31, 2002 (note 11(d)):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$4.10 to $5.70	1,596,000	2.8	$ 4.54	805,000	$ 4.88
$6.425 to $9.60	1,928,450	3.8	$ 6.83	604,750	$ 6.70
$12.225 to $14.60	1,474,628	5.2	$ 12.26	8,128	$ 0.17
Total	4,999,078	3.86	$ 7.70	1,417,878	$ 5.70

Employee Stock Purchase Plan

The Company maintains an ESPP to enable employees of the Company and its participating subsidiaries to acquire CAE common shares through regular payroll deductions plus employer contributions. The Plan allows employees to contribute up to 10% of their annual base salary. The Company and its participating subsidiaries match the first $500 employee contribution and contribute $1 for every $3 on additional employee contributions, to a maximum of 2% of the employee's base salary. Common shares of the Company are purchased by the ESPP trustee on behalf of the participants on the open market, through the facilities of the Toronto Stock Exchange. Participation at March 31, 2002, was 3,077 employees or 41.1% of CAE's employees (2001 – 2,639 or 41.8%). The Company recorded compensation expense in the amount of $1.9 million (2001 – $2.1 million) in respect of employer contributions under the Plan.

Deferred Share Unit Plan

Effective May 1, 2000, the Company adopted a DSU plan for key executives whereby an executive may elect to receive any cash incentive compensation in the form of deferred share units. The Plan is intended to enhance the Company's ability to promote a greater alignment of interests between such key executives and the shareholders of the Company. A deferred share unit is equal in value to one common share of the Company. The units are issued on the basis of the average closing board lot sale price per share of CAE common shares on the Toronto Stock Exchange during the last 10 days on which such shares traded prior to the date of issue. The units also accrue dividend equivalents payable in additional units in an amount equal to dividends paid on CAE common shares. Deferred share units mature upon termination of employment, whereupon a key executive is entitled to receive the fair market value of the equivalent number of common shares, net of withholdings, in cash.

In fiscal 2000, the Company adopted a DSU plan for non-employee directors. A non-employee director holding less than 10,000 common shares of the Company receives the Board retainer and attendance fees in the form of deferred share units. A non-employee

director holding at least 10,000 common shares may elect to participate in the Plan in respect of part or all of his or her retainer and attendance fees. The terms of the Plan are essentially identical to the key executive DSU plan except that the share price used to value the deferred share unit is based on the closing price per share of CAE common shares on the Toronto Stock Exchange on the day preceding the last business day of March, June, September and December.

The Company records the cost of the DSU plans as compensation expense. As at March 31, 2002, 194,581 units were outstanding at a value of $2.3 million (2001 – 53,220 units at a value of $1.3 million).

13 Financial Instruments

Foreign Currency Risk

The fair value of the forward foreign exchange contracts is represented by the estimated amounts that the Company would receive or pay to settle the contracts at the balance sheet date, taking into account the unrealized gain or loss. The Company entered into forward foreign exchange contracts totalling $144.1 million (buy contracts $42.3 million and sell contracts $101.8 million). The total unrealized loss as of March 31, 2002, is $0.9 million (on buy contracts of $0.5 million and sell contracts of $0.4 million). Unrealized gains or losses on outstanding forward contracts are not recognized in the statements of earnings until maturity of the contracts.

The Company entered into cross currency rate swap contracts maturing on December 13, 2002 in respect of certain inter-company loan transactions. The Company receives interest, calculated semi-annually on a notional balance of US$21 million and $30 million, at a weighted average interest rate of LIBOR plus 3.6% (effective rate of 5.5%) and BA plus 0.4% (effective rate of 2.6%). The Company pays interest calculated semi-annually on notional balances of Euro 16.5 million, SEK27.4 million and US$20.7 million at weighted average interest rates of EURIBOR plus 3.4% (effective rate of 6.65%), STIBOR plus 2.9% (effective rate of 6.82%) and LIBOR plus 0.5% (effective rate of 2.4%).

Credit Risk

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

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

Interest Rate Exposure

The Company is exposed to the volatility of interest rates on its long-term debt. As at March 31, 2002, the Company has entered into seven interest rate swap agreements with three different financial institutions to mitigate these risks for a total notional value of $334.1 million. One agreement, with a notional value of $52.6 million (US$33 million), has converted fixed interest rate debt into floating whereby the Company pays the BA rate plus 1.05% quarterly and receives a fixed interest rate of 7.76% up to June 2012. The remaining six contracts are converting floating interest rate debt into fixed for a notional value of $281.5 million whereby the Company will receive quarterly LIBOR and pay fixed interest payments as follows:

- Until February 2003 on two contracts totalling $205.6 million (US$129 million), the Company will pay annually a fixed interest rate of 2.72%;

- Until April 2006 on $35 million, the Company will pay quarterly a fixed interest rate of 4.97%;
- Until September 2005 on $17.5 million (US$11 million), the Company will pay monthly a fixed annual interest rate of 4.95%;
- Until October 2011 on two contracts totalling $23.4 million (£10.3 million), the Company will pay quarterly a fixed annual interest rate of 6.82%.

After taking into consideration these swap agreements, as at March 31, 2002, 55% of the long-term debt bears fixed interest rates.

Fair Value of Financial Instruments

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

- Cash and short-term investments, accounts receivable, accounts payable and accrued liabilities are valued at their carrying amounts on the balance sheet, which represent an appropriate estimate of their fair values due to their near-term maturities.
- Capital leases are valued using the discounted cash flow method.
- Long-term debt value is estimated based on discounted cash flows using current interest rates for debt with similar terms and remaining maturities.
- Interest rate and currency swap contracts reflect the present value of the potential gain or loss if settlement were to take place on March 31, 2002.

The fair value and the carrying amount of these financial instruments as at March 31 is as follows:

	2002		2001	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Long-term debt	$ 898.1	$ 889.0	$ 276.7	$ 263.3
Capital lease obligations	35.0	35.0	3.7	3.7
Net forward foreign exchange contracts	(0.9)	–	(5.5)	–
Interest rate swap contracts	(2.2)	–	2.6	–
Currency swap contracts	3.9	–	4.5	–

Guarantees

As at March 31, 2002, CAE had outstanding letters of credit and performance guarantees in the amount of $243 million (2001 – $68 million) issued in the normal course of business. These guarantees are issued under standby facilities available to the Company through various financial institutions.

14 Income Taxes

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

	2002	2001
Earnings from continuing operations before income taxes	$ 219.6	$ 158.2
Statutory income tax rates in Canada	40.9%	44.6%
Income taxes at Canadian statutory rates	$ 89.9	$ 70.6
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(2.3)	(10.7)
Manufacturing and processing allowance	(13.1)	(8.3)
Losses not tax effected	11.0	3.6
Tax benefit of losses not previously recognized	(6.7)	(0.2)
Research and development investment tax credit	(3.0)	(1.1)
Other	(5.5)	(0.9)
Total income tax expense	$ 70.3	$ 53.0

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

	2002	2001
Current tax expense	$ 62.8	$ 60.7
Change in temporary differences	9.4	(9.5)
Recognition of loss carryforwards	(2.3)	2.4
Tax rate changes	0.4	(0.6)
Future income tax expense (benefit)	7.5	(7.7)
Total income tax expense	$ 70.3	$ 53.0

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

at march 31	2002	2001
Non-capital tax loss carryforwards	$ 101.3	$ 120.0
Capital tax loss carryforwards	4.8	5.3
Investment tax credits	(22.6)	(31.5)
Capital assets	(40.8)	(12.8)
Employee pension plans	3.2	(3.1)
Amounts not currently deductible	20.5	20.9
Percentage of completion versus completed contract	(30.0)	(18.6)
Other	(5.6)	2.8
	$ 30.8	$ 83.0
Valuation allowance	(46.6)	(76.2)
Total future income taxes	$ (15.8)	$ 6.8

As of March 31, 2002, the Company has accumulated non-capital tax losses carried forward relating to operations in the United States for an amount of approximately US$147.8 million. The losses for income tax purposes expire in the years 2005 through 2013. For financial reporting purposes a future tax asset of US$26.9 million has been recognized in respect of these loss carryforwards.

The Company has accumulated non-capital tax losses carried forward relating to its operations in other countries of approximately $64 million. These losses can be carried forward without time limitation. For financial reporting purposes a future tax asset of $9.2 million has been recognized.

The valuation allowance relates principally to loss carryforward benefits where realization is not likely due to a history of loss carryforwards and to the uncertainty of sufficient taxable earnings in the future, together with time limitations in the tax legislation giving rise to the potential benefit. In 2002, $21.8 million (2001 – $13.7 million) of the valuation allowance balance was reversed when it became more likely than not that benefits would be realized.

15 Supplementary Cash Flow Information

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

	2002	2001
Accounts receivable	$ (50.4)	$ 21.8
Inventories	(23.8)	(45.7)
Prepaid expenses	1.9	5.9
Income taxes recoverable	36.9	49.7
Accounts payable and accrued liabilities	27.9	71.0
Deposits on contracts	(0.1)	(23.6)
	$ (7.6)	$ 79.1
Interest paid	$ 25.3	$ 20.6
Income taxes paid	$ 14.3	$ 8.8
Amortization of other assets	$ 3.2	$ –

16 Contingencies

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

17 Government Cost Sharing

The Company has signed agreements with the Government of Canada whereby the Government shares in the cost of certain visual research and development programs as well as advanced flight simulation technology for civil applications. Funding in the amount of $31.2 million related to the visual research and development programs was completed during 2001. Funding for flight simulation, which is ongoing, amounts to $41.4 million. These programs are repayable in the form of royalties based on future sales levels. The royalty payments on one of the programs have already started and will continue until March 31, 2012, up to an amount not to exceed $41.9 million for the visual research and development programs and $66 million for the flight simulation program.

18 Operating Lease Commitments

Future minimum lease payments under operating leases, the most significant of which relate to the Medium Support Helicopter contract with the UK MoD as described in Note 9(ii), are as follows:

Year ending March 31,	
2003	$ 64.4
2004	67.1
2005	63.2
2006	56.6
2007	42.4
Thereafter	307.8
	$ 601.5

19 Pensions

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

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

The changes in the pension obligations and in the fair value of assets and the funded status of the defined benefit plans were as follows:

at march 31	2002	2001
Change in pension obligations		
Pension obligation, beginning of year	$ 126.0	$ 111.5
Current service cost	4.2	3.3
Interest cost	8.1	7.8
Settlement gain on discontinued operations	(2.5)	–
Employee contributions	2.2	2.3
Loss on plan amendments	1.1	1.6
Pension benefits paid	(8.8)	(8.4)
Actuarial loss	1.1	7.9
Pension obligation, end of year	$ 131.4	$ 126.0
Change in fair value of plan assets		
Fair value of plan assets, beginning of year	$ 121.5	$ 120.8
Return on plan assets	10.6	10.7
Pension benefits paid	(8.8)	(8.4)
Settlement loss on discontinued operations	(2.5)	–
Employee contributions	2.2	2.3
Employer contributions	0.6	0.7
Actuarial loss	(11.9)	(4.6)
Fair value of plan assets, end of year	$ 111.7	$ 121.5
Funded status-plan deficit	$ (19.7)	$ (4.5)
Unrecognized net actuarial loss	24.9	12.5
Unamortized past service cost	2.6	1.6
Accrued pension asset	$ 7.8	$ 9.6

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

	2002	2001
Return on plan assets	9.0%	9.0%
Discount rate for pension benefit obligations	6.5%	6.5%
Compensation rate increases	2.75% to 5.25%	2.75% to 5.25%

The net pension expense for the year ended March 31, 2002, included the following components:

	2002	2001
Current service cost	$ 4.2	$ 3.3
Interest cost on projected pension obligations	8.1	7.8
Expected return on plan assets	(10.6)	(10.7)
Amortization of past service costs	0.1	–
Net pension expense	$ 1.8	$ 0.4

20 Business Segments

The Company's significant business segments include:

(i) Civil Simulation and Training – a world-leading supplier of civil flight simulators and visual systems, and a provider of business and civil aviation training.

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

Each operating segment is led by a senior executive and offers different products and uses different technology and marketing strategies. The Company evaluates performance based on operating earnings before interest and income taxes and uses capital employed

to assess resources allocated to each segment. Capital employed includes accounts receivable, inventories, prepaid expenses, property, plant and equipment, goodwill, intangible assets and other assets less accounts payable and accrued liabilities, deposits on contracts and contingent consideration due to acquisitions included in other long-term liabilities.

Financial information on the Company's operating segments is shown in the following table:

Business Segments

	2002	2001
Capital employed		
Civil Simulation and Training	$ 1,057.3	$ 74.5
Military Simulation and Marine Controls	273.3	79.0
Other	21.0	17.0
Total capital employed	$ 1,351.6	$ 170.5
Cash	88.8	156.8
Short-term investments	21.3	122.8
Income taxes recoverable	15.8	8.2
Accounts payable and accrued liabilities	420.5	315.0
Deposits on contract	189.1	175.9
Future income taxes – short-term	28.9	15.4
Future income taxes – long-term	71.3	15.9
Long-term liabilities	73.7	20.7
Assets of discontinued operations	123.8	370.9
Total assets	$ 2,384.8	$ 1,372.1
Total assets by segment		
Civil Simulation and Training	$ 1,380.9	$ 348.5
Military Simulation and Marine Controls	609.7	319.0
Capital expenditures		
Civil Simulation and Training	$ 216.7	$ 72.9
Military Simulation and Marine Controls	32.9	3.4
	$ 249.6	$ 76.3
Amortization of property, plant and equipment		
Civil Simulation and Training	$ 24.4	$ 9.3
Military Simulation and Marine Controls	12.5	9.2
	$ 36.9	$ 18.5
Amortization of goodwill		
Civil Simulation and Training	$ –	$ –
Military Simulation and Marine Controls	–	0.6
	$ –	$ 0.6

Geographic Segments

	2002	2001
Revenue from external customers based on their location		
Canada	$ 102.7	$ 109.8
US	347.0	268.7
Great Britain	127.4	141.9
Germany	91.2	101.2
Other European countries	173.8	128.1
Other countries	284.4	141.7
	$ 1,126.5	$ 891.4
Property, plant and equipment and goodwill		
Canada	$ 126.6	$ 95.7
US	500.7	6.2
Europe	435.5	79.6
Other countries	151.2	64.2
	$ 1,214.0	$ 245.7

21 Comparative Financial Statements

Certain comparative figures for 2001 have been reclassified to conform to the presentation adopted in 2002.

> Five-Year Review

(amounts in millions of dollars except where indicated by *)	2002	2001	2000	1999	1998
Continuing operations					
Revenue	$ 1,126.5	891.4	865.1	708.5	689.7
Amortization	$ 43.1	19.1	22.3	18.5	19.5
Earnings	$ 149.3	105.2	62.3	52.1	60.4
Earnings per share*	$ 0.69	0.49	0.28	0.23	0.27
Net earnings	$ 150.6	108.1	98.5	77.3	70.2
Basic and diluted net earnings per share*	$ 0.69	0.50	0.45	0.35	0.32
Ratio of current assets to current liabilities*	1.0	1.3	1.4	1.2	1.6
Number of registered shareholders*	2,114	2,130	2,392	2,600	2,800
Cash dividends paid per common share*	$ 0.11	0.10	0.10	0.08	0.08

> Quarterly Financial Information

(unaudited) (amounts in millions of dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002				
Continuing operations				
Revenue	$ 242.3	255.1	279.9	349.2
Earnings	$ 33.0	34.9	40.4	41.1
Earnings per share	$ 0.15	0.16	0.19	0.19
Net earnings	$ 34.4	38.3	40.9	37.0
Basic and diluted net earnings per share	$ 0.16	0.18	0.19	0.17
Common share trading range:				
High	$ 15.30	15.45	11.85	12.10
Low	$ 11.70	7.80	7.35	9.30

(amounts in millions of dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Continuing operations				
Revenue	$ 202.9	215.0	244.4	229.1
Earnings	$ 21.7	27.9	27.8	27.8
Earnings per share	$ 0.10	0.13	0.13	0.13
Net earnings	$ 13.0	34.6	31.5	29.0
Basic and diluted net earnings per share	$ 0.06	0.16	0.15	0.13
Common share trading range:				
High	$ 7.88	10.38	12.65	12.98
Low	$ 6.38	7.50	8.88	9.95

> Committed to our Communities

At CAE, we believe in playing an active and constructive role in the communities where we operate and our employees live, particularly in support of social services for the less fortunate and high quality higher education for young people of great promise.

Community Involvement

Each year, CAE's Canadian and US-based employees raise funds for the Centraide/United Way campaign, a volunteer-led non-profit organization that supports a vast network of charities and other non-profit agencies. Employees in several CAE locations volunteer their time to meet the needs of their respective communities. Employees in Leesburg, Virginia, for example, make monthly food donations to a local food bank that helps to feed 1,500 needy families.

Education

As a knowledge-based company, we recognize the value of education. Sixty percent of our donations go toward institutions of higher learning. In early 2002, CAE completed its first network of endowed scholarships at Canadian academic institutions. Montreal's McGill University, Concordia University, École Polytechnique, Université de Montréal, John Abbott College and Ontario-based McMaster University are all beneficiaries of CAE scholarships. CAE has also partnered with École Polytechnique and Université de Montréal to establish the CAE-R. Fraser Elliott Modelling and Simulation Laboratory which will be inaugurated in August 2002. The Laboratory is named in honour of Fraser Elliott, a Director of CAE for over 50 years whose philanthropic endeavours have benefited many Canadian communities.

Code of Business Conduct

At CAE, we know that maintaining the trust and respect of our customers, suppliers, investors and the general public is essential to our continued success. All CAE employees are expected to adhere to the ethical standards of honesty and integrity outlined in CAE's Code of Business Conduct. Compliance with the Code, which is publicly available on our corporate Web site, is subject to annual certification in all of our locations.

> Directors and Officers

Board of Directors

Lynton R. Wilson, O.C.[1,2,4]
Chairman of the Board
CAE Inc.
Oakville, Ontario

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

John A. (Ian) Craig[3]
Business Consultant
Ottawa, Ontario

Richard J. Currie, C.M.[3]
Non-Executive Chairman
BCE Inc.
Toronto, Ontario

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

H. Garfield Emerson, Q.C.[4]
National Chairman
Fasken Martineau DuMoulin
Toronto, Ontario

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

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

James F. Hankinson[3]
Business Consultant
Toronto, Ontario

E. Randolph Jayne II[2]
Senior Partner
Heidrick & Struggles International Inc.
Tysons Corner, Virginia

James W. McCutcheon, Q.C.[3]
Counsel
McCarthy Tétrault
Toronto, Ontario

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

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

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

Officers

Lynton R. Wilson
Chairman of the Board

Derek H. Burney
President and
Chief Executive Officer

Jim W. Best
President, Forestry Systems,
Wood Products

Donald W. Campbell
Group President,
Military Simulation and Training

Glenn R. Frederick
Executive Vice President,
Finance, Civil Simulation
and Training

Robert C. Hedges
Controller and
Assistant Secretary

Rashid A. Khan
Executive Vice President,
Marine Controls

Nick Leontidis
Executive Vice President,
Civil Simulation and Training

Hani R. Macramallah
Executive Vice President,
Operations

Hartland J.A. Paterson
Vice President,
Legal and General Counsel

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

Jean-François Thibodeau
Vice President and Treasurer

> Shareholder Information

CAE Common Shares

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

Transfer Agent and Registrar

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Tel: (416) 981-9633
1-800-663-9097
Fax: (416) 981-9507
caregistryinfo@computershare.com
www.computershare.com

Dividend Reinvestment Plan

Registered shareholders of CAE Inc. who wish to receive dividends in the form of CAE Inc. common shares rather than a cash payment may participate in CAE's dividend reinvestment plan. In order to obtain the dividend reinvestment plan form please contact Computershare Trust Company of Canada.

Direct Deposit Dividend

Registered shareholders of CAE Inc. who receive cash dividends may elect to have the dividend payment deposited directly to their bank accounts instead of receiving a cheque. In order to obtain the direct deposit dividend form please contact Computershare Trust Company of Canada.

Tentative Quarterly Results Release Dates for Fiscal 2003

August 7, 2002
November 6, 2002
February 5, 2003
May 7, 2003

Additional Information

If you wish to receive additional copies of CAE's annual report or copies of other corporate documents, please contact:
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PO Box 30, Suite 3060
Royal Bank Plaza
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1-800-760-0667
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investor.relations@cae.com
www.cae.com

Version française

Pour obtenir la version française du rapport annuel, prière d'adresser votre demande à CAE Inc., C.P. 30, Bureau 3060, Royal Bank Plaza, Toronto, Ontario M5J 2J1 ou investor.relations@cae.com

Annual General Meeting

The Annual General Meeting will be held on Wednesday, August 7, 2002 at 11:30 a.m. (Montreal time) at the following address:
International Civil Aviation Organization
999 University Street, Room 3
Montreal, Quebec H3C 5H7

Auditors

PricewaterhouseCoopers
Chartered Accountants
Toronto, Ontario

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