CAE

Repositioning for Value

CAE Annual Report for the year ended March 31, 2000

CAE at a Glance

Business Profile >

CAE is the world's premier provider of simulation and control technologies for training and optimisation solutions in Aerospace, Defence and Forestry.

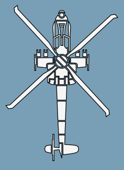
Business Units >

Commercial Simulation and Training

CAE's Commercial Simulation and Training business is the world leader in the design and production of commercial flight simulators and visual systems.

CAE is making a major, disciplined move into the pilot training market to fuel growth. Together with the pursuit of simulator maintenance and support activities, specific emphasis will be placed on the establishment of independent training centres and alliances with major airlines and other flight training companies.

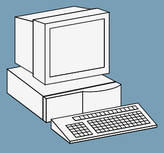
Military Simulation and Controls



In the military simulation and training industry, CAE is the premier designer and manufacturer of military flight and land-based simulation and training systems.

In the marine controls industry, CAE is the world leader in the supply of control systems for marine applications.

Forestry Systems



CAE's Forestry Systems business is the world leader in providing advanced technology solutions to enable customers to increase the recovery of fibre and the value of their wood products.

In the wood products industry, CAE combines proprietary software, sensors and control systems with advanced mechanical designs to provide leading-edge sawmill optimisation and wood processing solutions for the hardwood, softwood and engineered wood industries.

In the pulp and paper industry, CAE provides advanced screening solutions worldwide.

Cover Image >

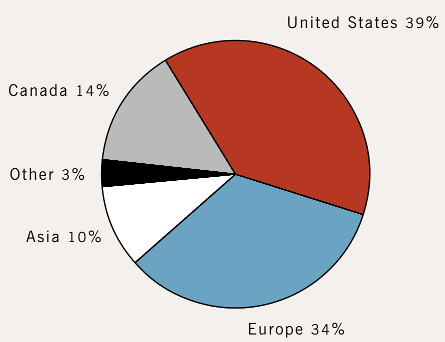
An image of Dorval airport, Montreal, Canada, captured from CAE's MAXVUE™ image generator running in real-time. MAXVUE Plus™ offers the highest polygon capacity available in the market today for an interactive, high fidelity visual system, thereby increasing the realism of the scene.

Financial Highlights

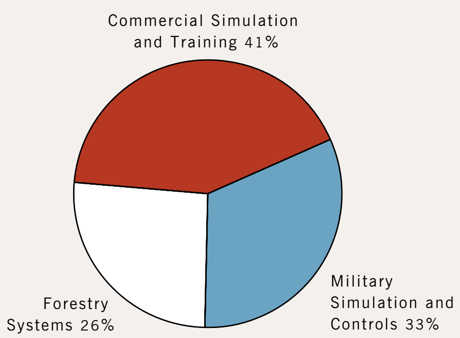
(amounts in millions except per share amounts)

	2000	1999
Operating results		
Continuing operations		
Revenue	$ 1,164.3	$ 905.9
Earnings	$ 90.7	$ 73.7
Net earnings	$ 98.5	$ 77.3
Financial position		
Total assets	$ 1,224.2	$ 1,065.2
Total debt, net of cash	$ 108.1	$ 271.5
Per share		
Earnings from continuing operations	$ 0.83	$ 0.66
Net earnings	$ 0.90	$ 0.70
Dividends	$ 0.19	$ 0.16
Shareholders' equity	$ 3.53	$ 3.03

Geographic Distribution of Revenue



Revenue by Business Segment



Chairman's Message

CAE is one of Canada's success stories – an advanced technology company with significant opportunities to build upon its achievements as a leading global supplier of simulation and control technologies for training and optimisation.

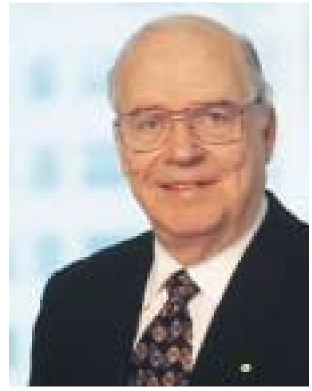
I became Chairman of CAE in June, 1999, upon David Race's retirement after 48 years' service, during which he made an enormous contribution to the growth and development of this company. While his experience will be greatly missed, we wish him well in his retirement. We also want to thank John Caldwell for his important contribution to the company over eleven years, the last six as Chief Executive, and wish him continued success in his new endeavours.

I want to extend special thanks to two long-serving directors retiring this year – Roderick "Huck" Henry and Hasso von Falkenhausen. Hasso von Falkenhausen has been unfailing in his support of CAE and particularly helpful to our efforts in Germany. As a senior Canadian businessman, "Huck" Henry has also been a tremendous supporter of CAE, and has worked diligently over many years at enhancing the working relationship between the Board and senior management.

We are pleased to welcome Derek Burney as CAE's new President and CEO. A seasoned senior executive, Derek comes to CAE after six years as Chairman and CEO of Bell Canada International, and four years as Canada's Ambassador to the United States. The Board is very pleased with the rapid progress to date in focusing the CAE team around well-defined core business activities, and in clarifying the future direction of the Corporation.

On behalf of the Board, we are very proud to be working together with CAE's management and employees – an outstanding group of women and men – in the development of one of this country's great technology assets, one which I am confident will deliver real value to customers and shareholders.

Chairman of the Board



Repositioning CAE for Value

When I joined CAE on October 1, 1999, the challenge was clear. Despite an impressive financial performance in recent years, CAE had not delivered acceptable returns to shareholders. There were doubts about our ability to sustain growth in our core simulation business, questions about our business mix, and concerns about productivity and margin levels.

In February, the Board approved a strategy intended to respond to these concerns and, more fundamentally, to improve shareholder value. The new strategy, developed from an intensive review of CAE's core strengths and an analysis of key growth opportunities, has three main elements:

Focus > Divesting non-core businesses and concentrating on three high growth, high margin businesses: Commercial Simulation and Training, Military Simulation and Controls, and Forestry Systems. These actions give clarity and coherence to our strategic direction.

Fix > A combination of integration, consolidation and productivity measures intended to reduce costs, increase efficiency, and enhance CAE's competitiveness.

Grow > Most importantly, a series of growth initiatives enabling us to expand the scope of our core businesses.

By repositioning CAE in this manner, we expect to double net earnings over the next three years. This is an ambitious goal, especially following a very strong fiscal 2000, which saw revenue increase by 29% and earnings up 23%. Nevertheless, it is achievable, based on the confidence and full commitment of the CAE team.

Strategy in Action

The initial steps in our strategy are already well underway:

Focus > We concluded the sale of our Railway Technologies and Services group, resulting in an after-tax gain of $13.6 million.
> We have signed an agreement to sell our Energy Control Systems business and expect the transaction to be finalised in the month of May.
> We expect to conclude the divestiture of our Cleaning Technologies group by the end of this summer.

Fix > Through a combination of divestments and consolidations we have reduced the number of profit centres from 21 to 5, signifying most dramatically how we are changing the manner in which we manage our businesses.
> The corporate functions – finance, human resources, communications and business development – are fully integrated into the businesses.
> Specific productivity goals have been established for each profit centre.

Grow > The most significant growth initiative was our decision to make a major, but disciplined, move into pilot training. We are launching our first training centre in Brazil and we intend to aggressively pursue other opportunities worldwide. Pilot training is a natural extension of our simulator market. It is 15 times larger on an annual basis and offers the potential of a steady revenue stream as well as higher margins.
> We are investing in software and hardware innovations that will sustain our leading edge technologies and complement our entry into pilot training.
> We are determined to increase our access to the US and European military markets, building on recent successes through teaming and partnership arrangements.
> In July, we will officially open our Medium Support Helicopter Aircrew Training Facility at RAF Benson in the UK. This will be a showcase for state-of-the-art helicopter training and is a leading example of the advantages to be gained from a partnership between government and private industry. We intend to leverage the experience gained through this programme to exploit other opportunities in the delivery of training services to the military.

- We will expand the scope of our Marine Controls product offering to include other key control systems and we are actively exploring a move into the commercial marine sector.
- Our Forestry Systems group is best known for product innovation. We are investing in order to do even more in the future and look to generate 25% of our revenue from new products in the next three years.
- In addition, we are exploring opportunities to leverage CAE's expertise in real-time simulation software to take advantage of emerging opportunities created through the Internet and e-commerce.

A Compelling Value Proposition

Fundamentally, our strategy is to do more of what we do best, thereby firmly establishing CAE as a global leader with a range of advanced simulation and control technologies for training and optimisation solutions. With greater focus and commitment we are providing a platform for innovation and growth.

Much more remains to be done but I am encouraged by the progress to date. Most of all, I am convinced that we have a plan and are building a team that will deliver greater value for shareholders.

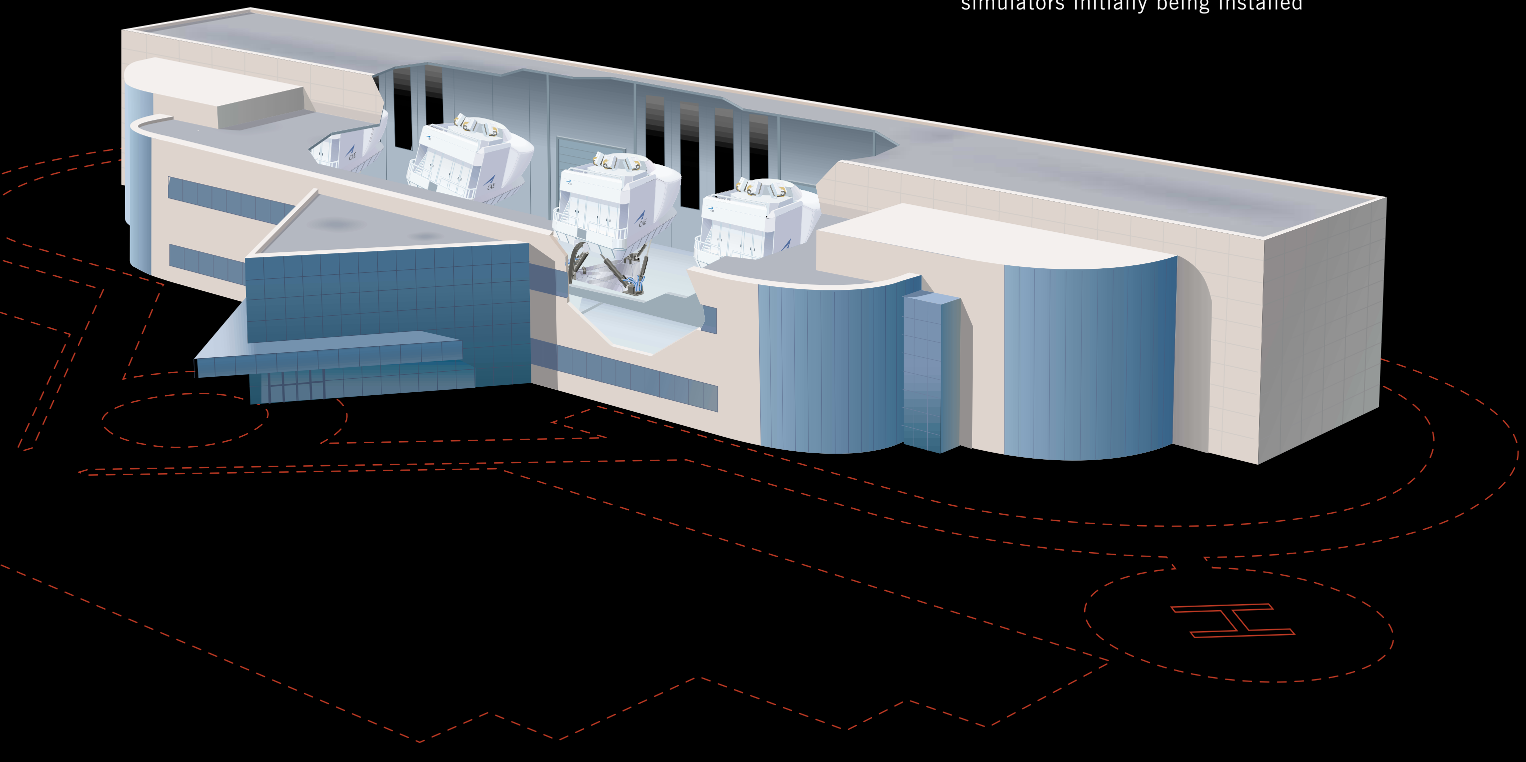
D. H. Burney
President and Chief Executive Officer

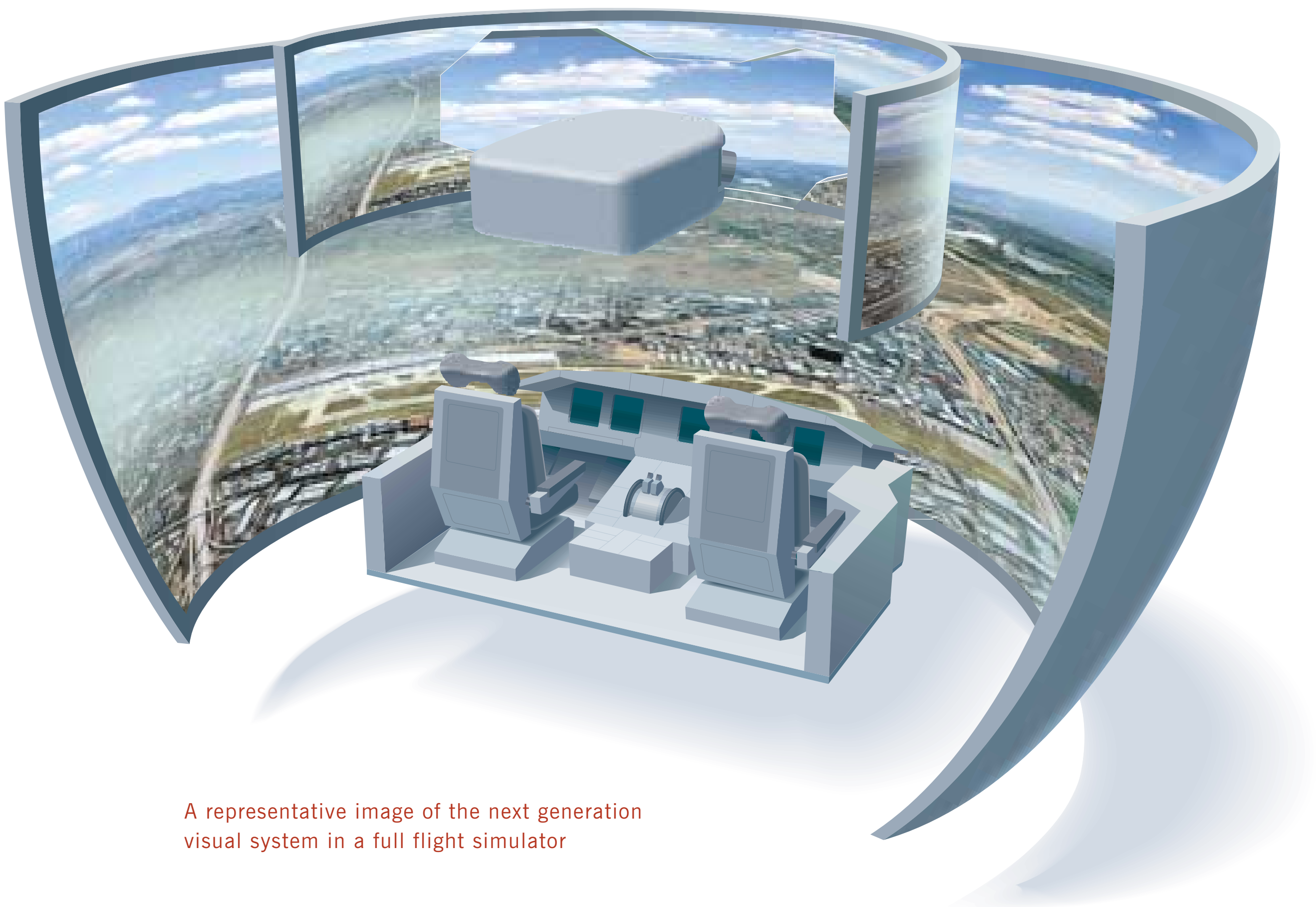
A Major Disciplined Move into Pilot Training

Chris Fauquier is Managing Director, CAE Flight Training, South America, Sao Paulo, Brazil

CAE broke ground in April 2000 on a six-simulator pilot training facility in Sao Paulo, Brazil, near South America's largest airport. The facility will open in 2001 as the first independently owned and operated flight training centre in South America. Local airlines will have access to simulators close to home, eliminating the costs associated with training abroad. This centre will meet the requirements of several regional airlines and can expand to eight simulators as demand grows. Classroom computer training will familiarise pilots with aircraft systems prior to training on CAE's state-of-the-art simulators. Debrief rooms are also provided for performance evaluation in post-simulator sessions. This major investment demonstrates our commitment to the pilot training market and establishes our credibility as we explore opportunities around the world to rapidly expand this part of our business.

A cutaway view of our new training centre in Sao Paulo, Brazil, showing three of four simulators initially being installed





A representative image of the next generation
visual system in a full flight simulator

Next Generation Visuals Excite the Eyes

Nick Leontidis is Vice President,
Visual Systems, Montreal, Canada

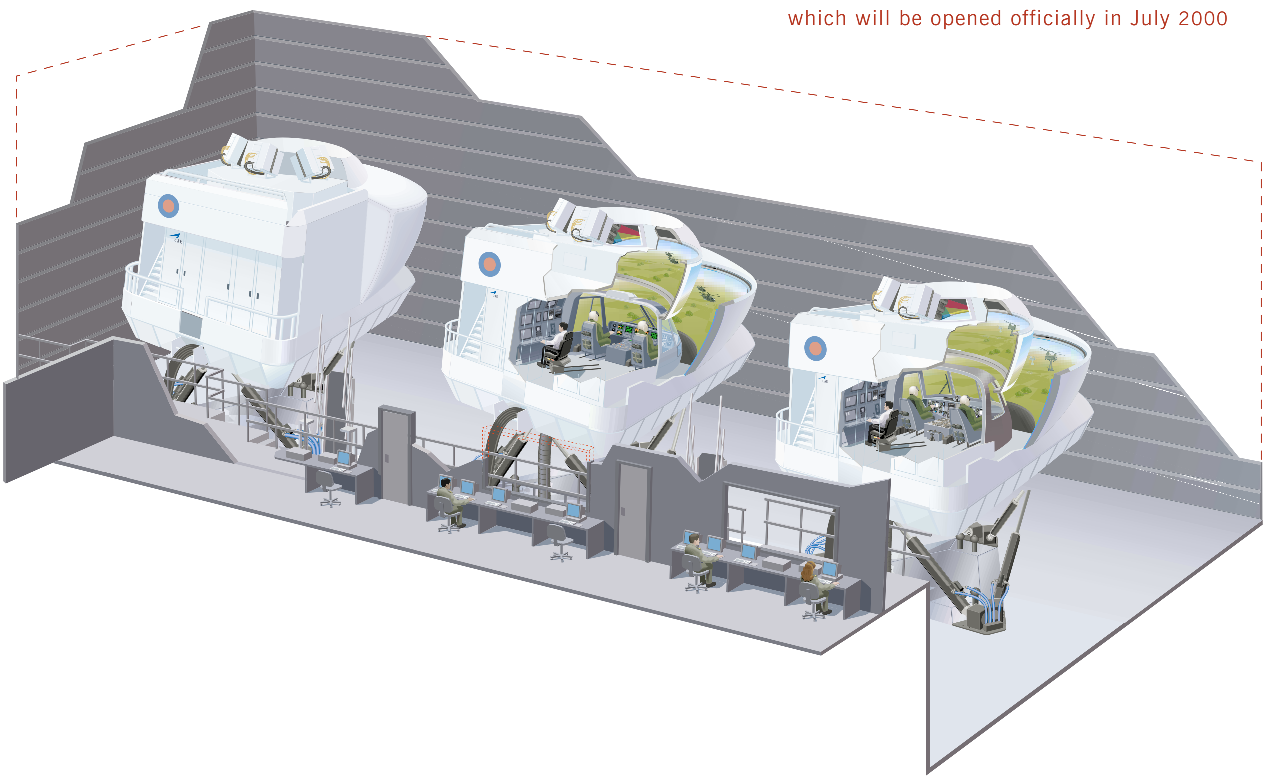
CAE's MAXVUE™ visual system produces all the computer-generated graphics that pilots see in the "out of the window" view during simulator sessions. As part of our commitment to produce innovative products, we're developing a next generation PC-based image generator. By leveraging PC-based 3D graphics technology, we can improve the realism and more completely immerse a pilot in the training environment. It is CAE's objective, going forward, to base future image generators on this emerging technology, which will ultimately provide customers with a superior training product.

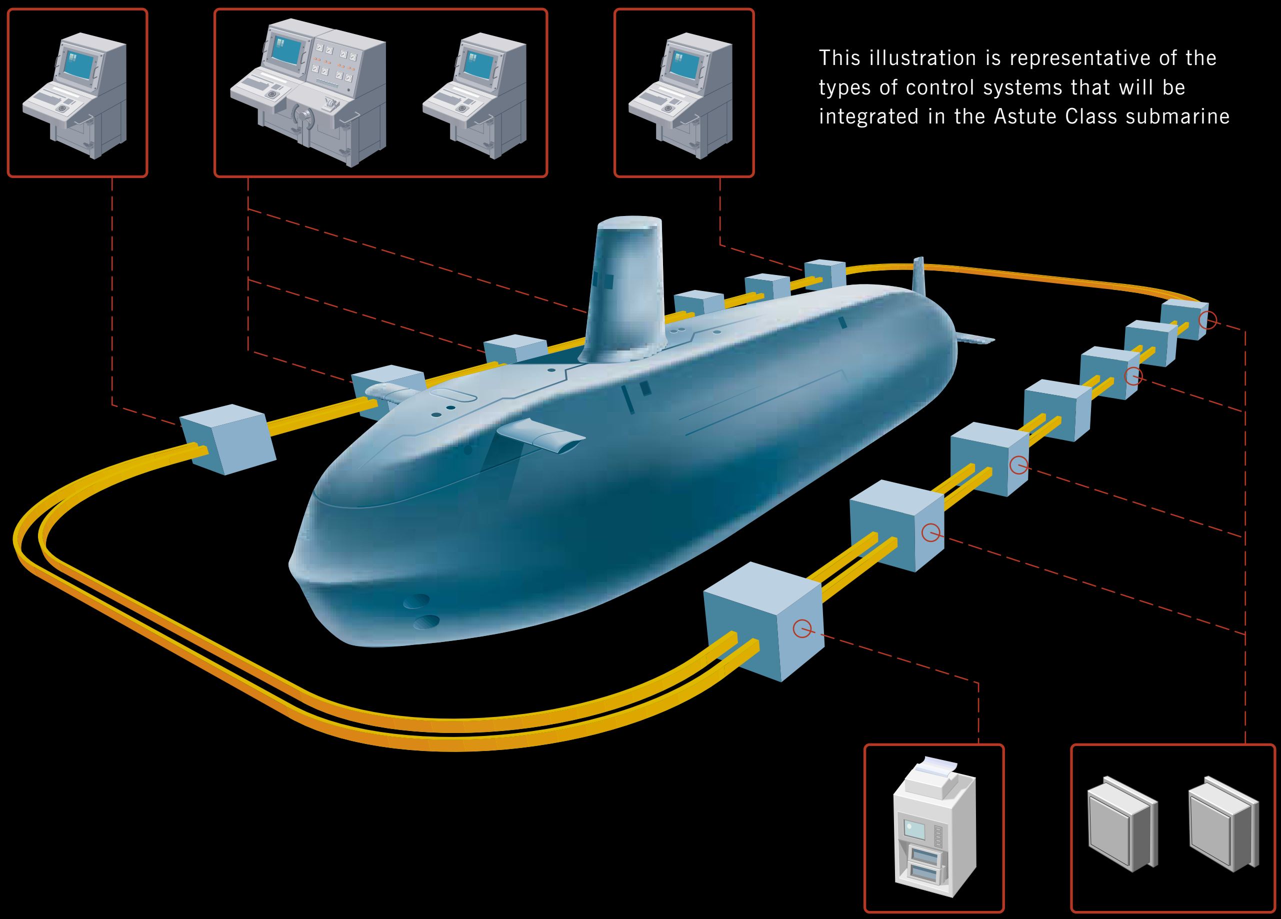
Delivering Military Helicopter Training in the New Millennium

Brian Symes is Managing Director,
MSHATF, RAF Benson, UK

In October 1997, the UK Ministry of Defence awarded CAE an initial 20-year contract to design, construct, manage, finance and operate a flight simulator training facility for Royal Air Force helicopter crews. The Medium Support Helicopter Aircrew Training Facility (MSHATF) programme marked the first transfer of a complete military training function to a commercial contractor. Using six state-of-the-art networked flight simulators, and CAE's proprietary ITEMS™ tactical simulation software, this facility provides tactical training and mission rehearsal for pilots in an environment that can include up to 500 computer-generated players – both friendly and hostile. MSHATF established CAE's leading position in the demanding and uncompromising area of military helicopter simulation. It also showcases our expertise in building and managing training centres in support of our major growth initiatives in both commercial and military pilot training.

A cutaway view showing three of six helicopter simulators at the MSHATF facility in the UK, which will be opened officially in July 2000





This illustration is representative of the types of control systems that will be integrated in the Astute Class submarine

Expanding Marine Controls into Submarine Technology

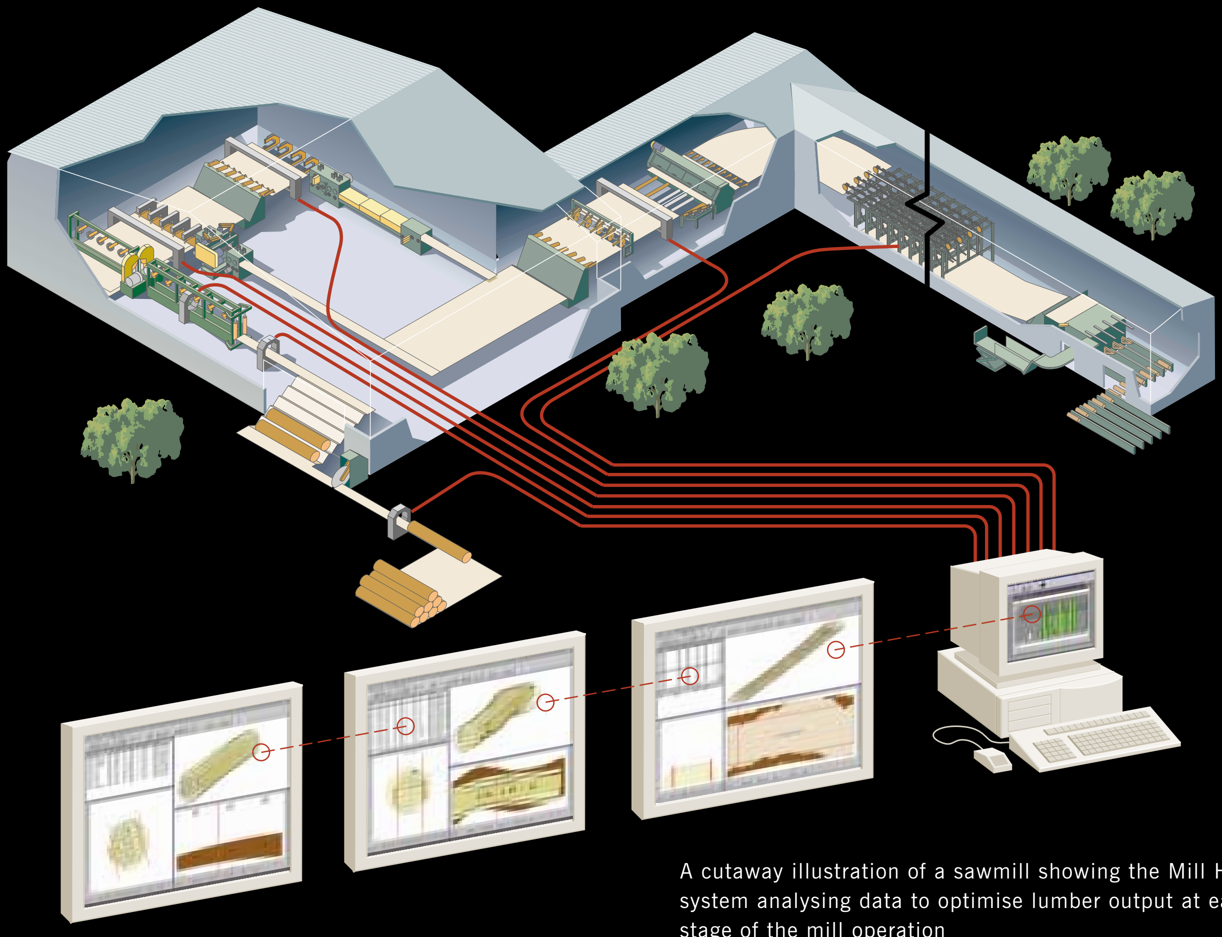
Janet Browne is Program Manager, the Astute Project, the BAE Systems Shipyard, Barrow-In-Furness, UK

CAE has won its first contract to provide the Controls and Instrumentation (C&I) for the UK Royal Navy's new Astute Class nuclear submarines. With extensive expertise in marine controls, CAE is working under a wider requirements-based contract where it must specify the systems, develop the software, build/select the hardware and then provide reasoned justifications against agreed safety and operability criteria developed between CAE and its customer, BAE Systems. We are teaming with specialist firms such as Rolls-Royce (UK) and Imtech (Holland) to provide specific elements of the propulsion control, and steering and diving control systems that are within our scope of responsibility as prime contractor for the C&I system. Thanks to this jointly developed and integrated solution, the resulting new technology and broader applications associated with this contract will benefit our customers.

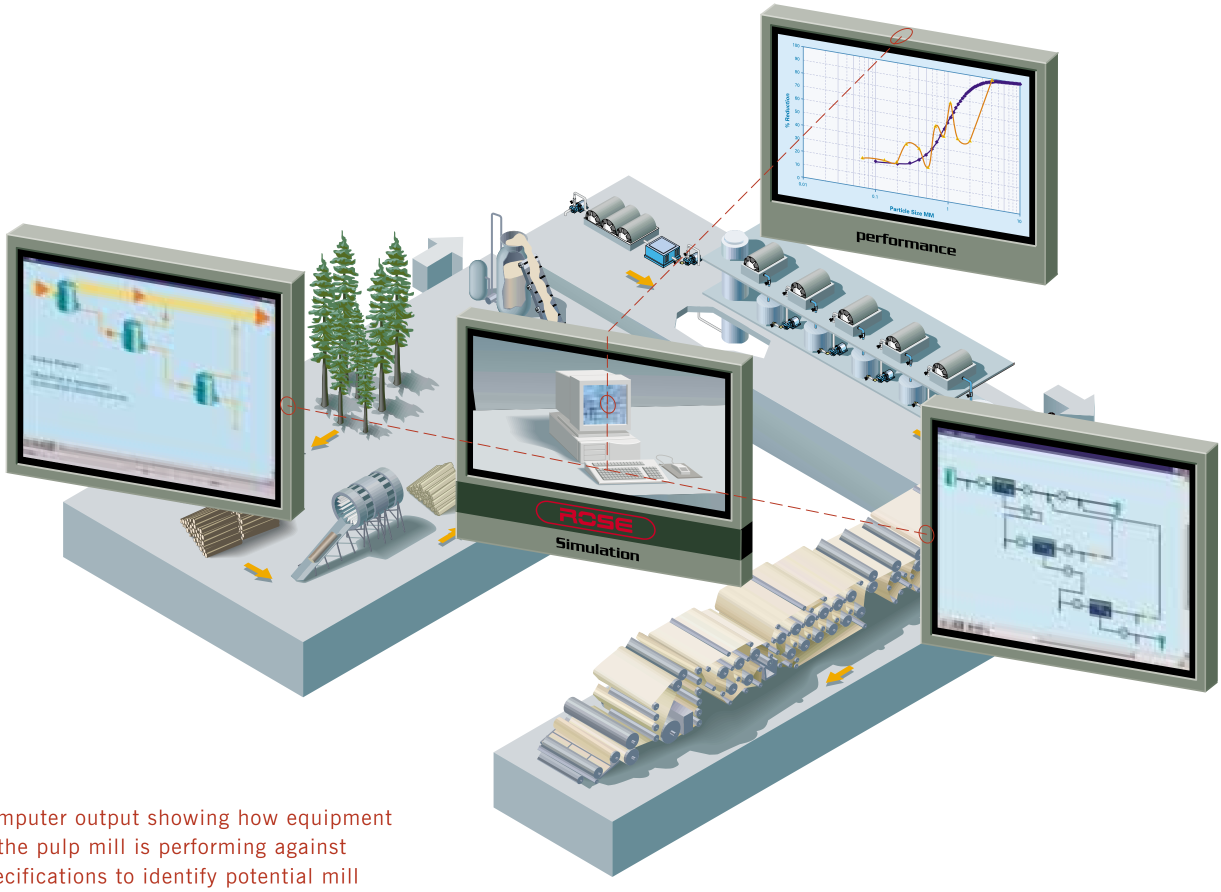
CAE Technology Integrates Operations and Optimises Sawmill Output

Tim Mosher is Team Leader,
Sawmill Optimization, Salmon Arm, Canada

CAE is a leader in advanced sawmill technology. The Mill Host™ is proprietary software developed to allow customers to set up, monitor, manage and optimise sawmill operations from one central Windows-based desktop computer. It links CAE's entire suite of proprietary mill optimisation programs, covering log breakdown through to final cut and sorting. Customers use the Mill Host to graphically define their lumber output requirements, which are then optimally distributed in the mill. The system also acts as an order desk tool to prioritise production and report real-time mill productivity information. The offline simulation utility enables customers to test alternative product configurations to maximise both output and profits. Software solutions such as Mill Host will increase the benefits of CAE's optimisation products by providing a fully integrated sawmill management platform.



A cutaway illustration of a sawmill showing the Mill Host system analysing data to optimise lumber output at each stage of the mill operation



Computer output showing how equipment in the pulp mill is performing against specifications to identify potential mill deficiencies and improvement options

Pulp Mill Simulation Expands Customer Service

Peter LeBlanc is Technical Director, Pulp and Paper, Glens Falls, US

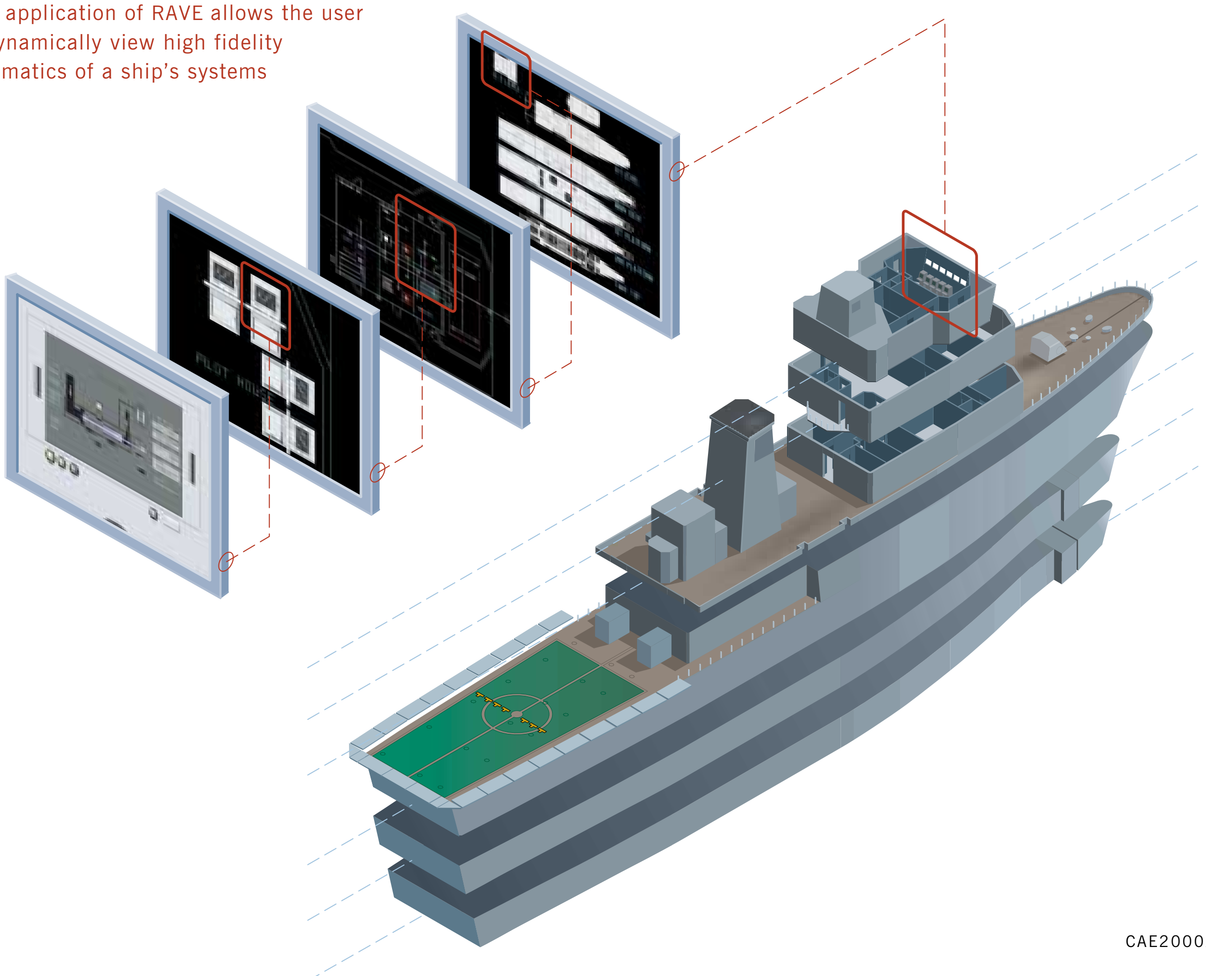
With a focus on improving productivity for our customers, we applied the ROSE® software program used in modelling flight simulators to simulate the operation of hundreds of pieces of equipment in the pulp mill environment. This new application of the ROSE software evaluates key elements and measures performance levels according to equipment specifications to identify mill deficiencies and assist in investment decisions for new capital equipment. Products such as pulp mill simulation allow us to innovate and expand the breadth of our offering, providing significant economic value for our customers.

Software Technology Positions CAE in the New Economy

Mansour Brek is Manager,
User Interface Technologies, Montreal, Canada

CAE has developed software tools to support some of the most demanding real-time interactive simulation applications in the world. Networking technology, and in particular the Internet, is creating new commercial opportunities for our network-based simulation products. The use of simulation in Web-based training, design and e-commerce represents a significant opportunity for CAE. For example, CAE's Real-time Advanced Visualization Environment (RAVE™) can create a dynamic graphical interface to access simulations over the Web. RAVE is one of several integrated software development initiatives that will leverage our expertise in high fidelity real-time simulation into the new economy of the Internet.

This application of RAVE allows the user to dynamically view high fidelity schematics of a ship's systems



Financial Review

Review of Operations and Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of fiscal 2000's financial results focuses on the core businesses of CAE Inc.: Commercial Simulation and Training, Military Simulation and Controls, and Forestry Systems, and includes a review of the operations and financial situation of each segment. This MD&A should be read in conjunction with the audited consolidated financial statements on pages 28 to 43.

This MD&A contains forward-looking statements with respect to CAE Inc. and its subsidiaries based on assumptions that CAE Inc. considered 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 Inc. cautions the reader that the assumptions regarding future events, many of which are beyond the control of CAE Inc. 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 24.

Summary of Consolidated Results

Continuing Operations >

Revenue

Consolidated revenue for fiscal 2000 reached $1.2 billion, an increase of 29% over the fiscal 1999 level of $906 million. All businesses experienced significantly higher revenue. Commercial Simulation and Training revenue increased 36% or $127.4 million over fiscal 1999, reflecting the buoyant market and CAE's continued success in capturing a major share of full flight simulator orders. Revenue in Military Simulation and Controls grew by 8% or $29.2 million due to increased activity on contracts in progress, including the Medium Support Helicopter programme in the UK and the NATO Flying Training programme in Canada. Forestry Systems enjoyed a 52% or $101.8 million increase in revenue as a result of improved market sector dynamics and the full year contribution from the fiscal 1999 acquisitions of Newnes and McGehee.

Earnings from Continuing Operations

Consolidated earnings from continuing operations climbed to $90.7 million or $0.83 per share, reflecting a 23% improvement from last year's level of $73.7 million or $0.66 per share. Operating earnings in Commercial Simulation and Training outpaced the growth in revenue, as the incremental volume, combined with productivity improvements, contributed to an increase in margins. Operating earnings in Military Simulation and Controls decreased, despite the higher revenue, due to a change in the mix of programme activity and higher costs to complete certain simulator programmes. Forestry Systems also generated a significant increase in operating earnings resulting from the revenue growth and partially offset by the cost to close the corporation's screen plate manufacturing facility in Sweden during the fourth quarter.

Discontinued Operations > CAE completed the sale of substantially all of the assets of its Railway Technologies and Services group on December 3, 1999, resulting in an after-tax gain of $13.6 million. Total proceeds from the sale will approximate $65 million, $52.5 million of which was received on closing. The balance will be received during the first half of fiscal 2001.

On February 2, 2000, the Board of Directors approved the plan for CAE to focus on three strong growth, high margin businesses: Commercial Simulation and Training, Military Simulation and Controls, and Forestry Systems. The Board also approved the divestiture of the Cleaning Technologies group of companies and the Energy Control Systems business. These divestments are expected to be completed during fiscal 2001. The results of these operating units, along with the results of Railway Technologies and Services, have been reported as discontinued operations.

The results of discontinued operations amounted to $7.8 million and include the $13.6 million net gain on disposal of Railway Technologies and Services, as compared to net earnings of $3.6 million in fiscal 1999.

Net Earnings > Consolidated net earnings increased 27% to $98.5 million or $0.90 per share compared with consolidated net earnings of $77.3 million or $0.70 per share in fiscal 1999.

Cash Flow > CAE's cash and short-term investments increased by a combined $209 million during the year, to $163.5 million and $71.1 million respectively, from the cash position of $25.6 million last year. The increase reflects the higher earnings, significantly lower non-cash working capital, the initial proceeds from the sale of the Railway Technologies and Services group, funds received from the sale and leaseback of two simulators, and lower capital expenditures. The Corporation also expended $36.3 million to purchase 4.3 million shares at an average price of $8.37 under its Normal Course Issuer Bid.

Backlog > Order backlog as at March 31, 2000, reflects the company's continuing strong growth potential and is at a record $1.8 billion.

Review of Operations

Commercial Simulation and Training

CAE's Commercial Simulation and Training business is the world leader in the design and production of commercial flight simulators and visual systems. In addition, CAE is making a major, disciplined move into the pilot training market to fuel growth. Together with the pursuit of simulator maintenance and support activities, specific emphasis will be placed on the establishment of independent training centres and alliances with major airlines to address their individual pilot training needs.

Financial Results

(amounts in millions of dollars)	2000	1999	1998	1997	1996
Revenue	$ 480.2	352.8	296.8	186.3	230.3
Operating earnings	$ 82.3	55.9	56.7	27.4	15.7
Backlog	$ 527.8	482.7	339.9	154.2	233.6
Capital expenditures	$ 11.7	23.2	27.4	9.0	10.4

Revenue and operating earnings in Commercial Simulation and Training climbed significantly over last year's levels, up 36% and 47%, respectively. The increase reflects the high level of order activity over the last two years, productivity improvements, and the leverage on costs resulting from the increase in volume.

Backlog increased in the year to a record $527.8 million, representing a 9% increase over last year.

Capital expenditures declined significantly in the fiscal year. Expenditures in fiscal 1999 included costs for completing the facility expansion and the construction of four full flight simulators for long-term lease.

Operational Highlights

Demand for flight training equipment remained strong during fiscal 2000 due to ongoing fleet renewal, fleet expansion, strong growth in the regional jet market and pilot attrition. In addition, the use of simulators for training has continued to increase due to improving technology and the significant cost savings as compared with flight training aboard an actual aircraft.

CAE achieved outstanding results in the commercial flight simulation and visual systems market in fiscal 2000. The Corporation won 31 of 41 full flight simulators (FFS) and three of five flight training devices ordered, representing a worldwide market share of 74%. CAE's commercial MAXVUE™ visual system captured 28 out of 50 competed orders, or a 56% market share.

In the fourth quarter, CAE announced a major thrust into the commercial pilot training business with a plan to build a training facility in Sao Paulo, Brazil. South America is one of the fastest growing aviation markets worldwide and currently lacks an independent training facility. CAE also secured a long-term contract with Sao Paulo–based Transportes Aéreos Regionais S.A. (TAM) for Fokker 100 and Airbus A-320 training in the new facility. Contracts with additional airlines for these and other airframes are currently under negotiation. When operational in the spring of 2001, this facility will contain four FFSs with ancillary training equipment and classrooms.

Outlook

The market for commercial flight simulation equipment is expected to remain strong in fiscal 2001. The factors which drove the market to record levels in recent years remain largely unchanged, although the simulator equipment market is moving away from the sale of major aircraft simulator types to regional and business aircraft simulators. This shift is driven by a strong aircraft delivery forecast over the next few years in the latter two markets.

These factors, combined with the anticipated continued growth in air travel, the generally strong financial position of the airline industry and the order backlog for delivery of new aircraft, should lead to a consistent order level of approximately 30 to 40 devices over the next few years.

As noted earlier, the Corporation plans to invest substantially over the next three years in expanding the scope of its commercial simulation business by entering the $8 billion pilot training market. CAE will capitalise on its solid reputation and its strong relationship with the major airlines to grow the pilot training business worldwide in partnership with its customers and other third-party suppliers. CAE's first training facility, in Sao Paulo, Brazil, is expected to generate approximately $10 million in revenue annually.

CAE expects to increase its advantage in lead time, cost, quality and reputation for performance through operational improvements and research and development (R&D) programmes. In particular, during late fiscal 2000, the Corporation launched a large-scale R&D programme to improve its flight simulator products. These R&D projects should initially result in incremental improvements to existing products and, in the longer term, lead to the introduction of new products with the potential to significantly alter market dynamics.

In addition, CAE is investing in the development of a next generation visual system, capitalising on the significant improvements in off-the-shelf PC-based 3D graphics technology. These technical innovations will enable the Corporation to develop a visual system at a lower cost while significantly improving the realism of the virtual image.

Incremental growth in this market is anticipated from demand for FFS simulators and visual system upgrades required as the installed base of aging visual systems reach the end of their economic life. This trend is occurring in the military market as well.

CAE expects to maintain its commanding leadership position in commercial 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.

Military Simulation and Controls

CAE's Military Simulation and Controls business is a premier designer and manufacturer of military flight and land-based simulation and training systems, and is the world leader in the supply of marine control systems. During fiscal 2000, CAE's four independent military simulation and training operations were integrated into one focused profit centre.

Financial Results

(amounts in millions of dollars)	2000	1999	1998	1997	1996
Revenue	$ 384.9	355.7	334.2	370.1	300.8
Operating earnings	$ 15.4	25.2	20.6	30.9	36.5
Backlog	$ 1,219.3	1,242.6	1,242.2	489.4	421.8
Capital expenditures, net	$ 10.1	45.7	25.4	16.2	10.6

Revenue in this business increased 8% while operating earnings declined by $9.9 million in the fiscal year. The revenue increase reflects higher activity on the Medium Support Helicopter (MSH) and NATO Flying College military simulation programmes and the recent marine control system contract for the UK Royal Navy's Astute Class nuclear submarine programme. The decrease in operating earnings reflects a change in product mix and the impact of contract cost increases on certain military simulation programmes, including the estimated cost for the termination of the Hornet Radar Evaluation Programme and resulting closure of the operating facility in Adelaide, Australia.

The new facility in Burgess Hill, UK, and the construction of the training facility for the MSH programme were substantially completed last year, resulting in lower capital expenditures this year.

Operational Highlights

In fiscal 2000, CAE continued its efforts to establish itself as a significant training equipment provider in the United States. CAE was awarded contracts from Flight Safety Services Corp. for the US Air Force C5 Weapon System Trainer #9 and the C5 Avionics Modernisation programme. In addition, Raytheon awarded CAE a contract for the production of three training devices for the E3A Airborne Warning and Control (AWAC). This programme is the first to include the MAXVUE™ Medallion visual system. MAXVUE™ Medallion is the first product resulting from the alliance with Sogitec Industries SA, announced last year. These contracts are valued at over $124 million.

CAE was also successful in enhancing its position as a training service provider. The Corporation was awarded the Canadian Forces Air Simulators and Trainers Contracted Maintenance Programme to provide maintenance services for seven flight simulators and training devices at five locations across Canada. Long-term contractor maintenance programmes were also initiated for the Royal Navy Lynx Mk. 8 and the Royal Air Force Medium Support Helicopter Aircrew Training Facility (MSHATF) programmes in the UK, as well as the Royal Australian Air Force Airlift programme in Australia. The total value of these contracts is in excess of $72 million. CAE continues to focus on expanding its relationship with current customers through long-term service agreements, upgrades of current devices and provision of additional training equipment.

The delivery of training services to the Royal Air Force at CAE's MSHATF has started. As of April 2000, four of the six flight simulators that form the core of this facility have been certified Ready for Training by the customer. The fifth simulator is scheduled to achieve Ready for Training in May 2000. The last simulator should be ready, as originally scheduled, early in 2001. This showcase facility represents the first turnkey training services programme for CAE. This achievement is an important milestone in relation to CAE's entry into the military and commercial training services business.

CAE won every major military marine control system contract awarded in fiscal 2000, excluding contracts for repeat orders of existing competitors' control system designs. These contracts include awards from three different navies around the world.

During the year, CAE was awarded its first ever submarine control system contract by BAE Systems. CAE will be the Controls and Instrumentation (C&I) integrator for the UK Royal Navy's three new Astute Class nuclear submarines. This initial contract is valued at approximately $75 million, with an option for two more submarines. The C&I system to be delivered provides the integrated control of steering, diving, depth control, and platform management of these new generation submarines. Employing digital controls technology, this system enables manpower reduction while decreasing construction costs and providing enhanced operational effectiveness.

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 programmes due to the high degree of realism and the significantly lower cost. In addition to technology and price, the customers' – in most cases, governments – key purchase criteria include the contractor's local geographic presence. CAE is well positioned to capitalise on opportunities in the international market, with operations in Canada, the United States, Germany, the United Kingdom and Australia, as well as teaming and/or collaboration arrangements in other countries.

The procurement of helicopter and transport aircraft is expected to increase over the next few years and this growth will translate into many simulation opportunities for CAE to pursue worldwide. The Corporation has identified over $2.5 billion in military simulation opportunities over the next three to five years.

Key upcoming programmes include simulators for the Tiger attack helicopter, the US Army Light Assault Attack Reconfigurable combat simulator (LASAR), the Eurofighter 2000, the Eurocopter 135/155 and the NH-90 tactical transport helicopter.

CAE is also targeting new opportunities for turnkey training centres in Europe, the Americas and Asia based on the model developed for the Royal Air Force MSH programme. CAE's capability to provide comprehensive tactical mission training is proving to be a significant incentive as potential customers consider their options.

In addition, with hundreds of flight simulators deployed worldwide, the market for lifetime support of training equipment and upgrades is a clear target market for CAE to pursue. CAE is recognised as a leading corporation for upgrades and support, having successfully upgraded and/or maintained its own and third-party simulators worldwide.

With its leading edge technology solution, CAE is well positioned to capitalise on upcoming international marine programmes in Europe, the US and Asia, with the market expected to remain strong in the coming years. In addition, CAE is launching initiatives to broaden its scope of supply to include other key control systems within a ship and the utilisation of its vast investments in warship automation technology in the commercial marine sector.

Forestry Systems

CAE's Forestry Systems business is the world leader in providing innovative solutions for the forest products sector. The Corporation's advanced technologies enable customers to increase the value of products recovered from wood fibre resources. During fiscal 2000, the forestry businesses were integrated into two focused profit centres: Wood Products and Pulp and Paper.

The Wood Products division provides proprietary machinery and equipment for softwood lumber and engineered wood producers. Operating out of British Columbia and California, CAE combines proprietary software, sensors and control systems with advanced mechanical design to provide leading-edge sawmill optimisation solutions to the global wood products industry.

The Pulp and Paper division provides advanced screening solutions for pulp and paper companies. CAE operates out of Quebec, Finland and Belgium, and has market access worldwide via a combination of regional offices, technical agents and strategic alliances.

Financial Results

(amounts in millions of dollars)		2000	1999	1998	1997	1996
Revenue	$	299.2	197.4	109.4	138.7	149.1
Operating earnings	$	43.8	32.8	16.2	19.8	28.0
Backlog	$	86.6	64.0	23.9	28.3	51.0
Capital expenditures, net	$	9.1	7.4	6.3	13.3	4.7

Revenue and operating earnings in Forestry Systems increased 52% and 34%, respectively, during the fiscal year. The strong North American housing market and a global recovery of pulp prices during calendar year 1999 drove the improvements. In addition, the inclusion of a full year of the operations of the sawmill optimisation businesses (acquired in fiscal 1999) contributed to the growth.

Backlog climbed $22.6 million or 35% in the year, reflecting the sustained demand for equipment in this market sector.

Capital expenditures increased 23% over fiscal 1999. Expenditures incurred to expand the manufacturing facility in California and equipment upgrades in Finland contributed to the increase.

Operational Highlights

CAE demonstrated global reach for its sawmill optimisation expertise with the installation of an entire sawmill for Balcus Timber in Northern Ireland during fiscal 2000. The order is significant as it showcases CAE's Mill Host™ concept, whereby a single software solution is determined for a log (before it reaches the first saw blade). This optimised solution is then utilised throughout the mill until the resulting lumber is sorted and stacked for ultimate sale. This order positions CAE well for future success in the European market.

CAE continued its tradition of introducing new technology to the wood products industry during fiscal 2000. The first Linear Planermill Optimizer (LPO) was delivered during the fourth quarter. The LPO utilises a combination of x-ray and moisture detection technology to grade finished lumber for optimum market value. In addition, the first prototype PanelMSR® (Machine Stress Rated) machine will be installed at an Oriented Strand Board (OSB) mill in May 2000. The PanelMSR® measures panel stiffness to ensure structural quality is maintained, and will ultimately provide mill operators with a tool for process optimisation.

The expansion of CAE's Ukiah, California facility, to be completed in the first quarter of fiscal 2001, will further the Corporation's ability to respond to the strong market demand for its products.

In addition, new product development efforts have been directed at leveraging CAE's core simulation and control capabilities into the pulp and paper sector. The preliminary introduction of a pulp mill simulation model that allows mill managers to assess the efficiency of their various screening applications has been received enthusiastically.

During the fourth quarter of fiscal 2000, the screen plate manufacturing plant in Sweden was closed and its drilling operations consolidated into the facility in Finland to improve operational efficiency. In addition, a strategic alliance with a Korean manufacturer was achieved that provides improved access to the Asian market.

Outlook

The continued strong housing market in North America, with housing starts forecast to remain above 1.5 million during 2000, and stable lumber prices bode well for CAE. Lumber and engineered wood producers are continuing to take advantage of new technology to optimise their wood fibre utilisation and thereby improve competitiveness. CAE is well positioned as the leading supplier in North America to benefit from this trend going forward. As efforts are focused on extending the Corporation's reach more aggressively overseas, additional upside potential exists.

Pulp prices rose during the first quarter of 2000 to their highest levels in four years. Asian pulp and paper producers have seen capacity utilisation levels rise significantly as economic conditions have improved. Both of these factors will contribute to a strong year for CAE in fiscal 2001 as a leading supplier to the pulp and paper industry. The planned introduction of new technology-based solutions will further bolster the Corporation's opportunities.

Liquidity and Capital Resources

CAE's cash and short-term investments position increased by $209 million during the year. Cash increased to $163.5 million from the March 31, 1999, level of $25.6 million. Surplus cash flow in the fourth quarter was invested in short-term investments ($71.1 million) comprised of high grade commercial paper with maturity under nine months. CAE's higher cash balances resulted from the increase in net earnings, a significant reduction in working capital due to the achievement of several contract milestones and advance deposits on new orders, $52.5 million in cash received on the sale of its Railway Technologies and Services and the $35.5 million in proceeds received on the sale and leaseback of two simulators. The increase was partially offset by the $36.3 million expended to purchase 4.3 million shares under CAE's Normal Course Issuer Bid.

Capital expenditures totalled $30.9 million compared with $76.3 million in fiscal 1999. The fiscal 1999 level was the highest level ever recorded for CAE and included the completion of a new facility for CAE's UK operation, the MSHATF, and facilities expansion for Commercial Simulation and Training and for the Pulp and Paper division, as well as the completion of four simulators for long-term lease. The fiscal 2000 expenditures reflect normal capital asset replacement.

CAE employs foreign exchange forward contracts to manage the exposure created when sales are made in foreign currencies. The amount and timing of forward contracts vary on a number of factors, including milestone billings and the use of foreign materials and/or subcontractors on the programme. As at March 31, 2000, CAE had $416 million in Canadian equivalent foreign exchange contracts that, if marked to market at that date, would result in a foreign exchange gain of $2.5 million. 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 1997 with two Canadian financial institutions for periods between eight and fifteen years. At March 31, 2000, CAE had interest rate swaps covering long-term debt amounting to $96 million that, if marked to market at that date, would result in a gain of $5.8 million. CAE deals only with sound counter-parties in executing any of its financial instruments.

As at March 31, 2000, CAE had US$155 million of accumulated non-capital loss carry-forwards that can be used to offset income taxes payable on future earnings from US operations.

Recently Issued Accounting Standards Not Yet Implemented

In fiscal 2001, CAE will be required to adopt the recently issued accounting standards for financial reporting purposes from *CICA Handbook Section 3465 – Accounting for Income Taxes* and *Section 3461 – Employee Future Benefits*. The impact of adopting new standards on the Consolidated Statements of Earnings is not expected to be material.

Business Risks and Uncertainties >

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

Market Cycles

CAE companies participate in competitive global markets that are subject to worldwide economic trends and political influences. Many of the Corporation's products are affected by industry market cycles. The commercial simulation market generally follows the trend established in the commercial airline industry, particularly the delivery of new aircraft. Military simulation programmes, awarded mainly by governments, are dependent on price, technology, life cycle costs, delivery, quality and government spending on defence programmes, and may also be influenced by in-country presence. Lead times on military programmes can easily surpass 12 months. Forest product commodity prices such as the price of pulp, sawn lumber and OSB panel board, which, in turn, are governed by the demand for paper and the health of the construction industry, impact demand for various equipment and services offered by Forestry Systems.

CAE has positioned itself in three 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 emphasises 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 Canadian Government through the Technology Partnerships Canada Programme.

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 costs of which are 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.

Year 2000

CAE depends on technology for business applications (e.g., accounting and management systems), engineering design and support systems (e.g., CAD and communication systems) that could be date-sensitive. System dependency and the potential scope of the Year 2000 problem vary from operating company to operating company.

CAE completed the replacement, modification, testing and implementation of all important computer systems prior to December 31, 1999. Contingency plans, including alternative supply sources, were also formulated.

The Corporation has experienced no disruptions attributable to the Year 2000 issue to date, and accordingly believes that the issue now represents significantly reduced risk. CAE's operating companies will, however, continue to monitor their systems in line with their standard business risk management practices.

Management and Auditors' Reports

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

Management has established and maintains a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate. The Corporation also maintains an internal audit 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 Corporation's accounting systems and procedures and conduct such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements.

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

D. H. Burney
President and
Chief Executive Officer

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

Auditors' Report > to the Shareholders of CAE Inc.

We have audited the Consolidated Balance Sheets of CAE Inc. as at March 31, 2000 and 1999, and the Consolidated Statements of Earnings, Retained Earnings and Cash Flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and 1999, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
April 27, 2000

Consolidated Balance Sheets

as at march 31 (amounts in millions of dollars)	2000	1999
Assets		
Current assets		
Cash	$ 163.5	$ 25.6
Short-term investments	71.1	–
Accounts receivable	325.3	266.2
Inventories (note 3)	108.1	121.6
Prepaid expenses	14.5	14.9
Income taxes recoverable	28.6	26.8
	711.1	455.1
Net assets of discontinued operations (note 2)	105.2	147.6
Property, plant and equipment, net (note 4)	214.8	243.7
Goodwill	144.1	162.5
Other assets (note 5)	49.0	56.3
	$ 1,224.2	$ 1,065.2
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 306.7	$ 201.4
Deposits on contracts	219.2	141.1
Long-term debt due within one year	0.9	0.9
	526.8	343.4
Long-term debt (note 6)	270.7	296.2
Long-term liabilities	40.6	75.5
Deferred income taxes	6.8	11.8
	844.9	726.9
Shareholders' equity		
Capital stock (note 8)	122.1	154.2
Retained earnings	272.1	194.2
Currency translation adjustments	(14.9)	(10.1)
	379.3	338.3
	$ 1,224.2	$ 1,065.2

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)	2000	1999
Revenue		
Commercial Simulation and Training	$ 480.2	$ 352.8
Military Simulation and Controls	384.9	355.7
Forestry Systems	299.2	197.4
	$ 1,164.3	$ 905.9
Operating earnings		
Commercial Simulation and Training	$ 82.3	$ 55.9
Military Simulation and Controls	15.4	25.2
Forestry Systems	43.8	32.8
Earnings from continuing operations before interest and income taxes	141.5	113.9
Interest expense, net	10.0	9.6
Earnings from continuing operations before income taxes	131.5	104.3
Income taxes (note 9)	40.8	30.6
Earnings from continuing operations	90.7	73.7
Results of discontinued operations (note 2)	7.8	3.6
Net earnings	$ 98.5	$ 77.3
Earnings per share from continuing operations	$ 0.83	$ 0.66
Net earnings per share	$ 0.90	$ 0.70
Average number of shares outstanding	109.5	111.1

Consolidated Statements of Retained Earnings

years ended march 31 (amounts in millions of dollars)	2000	1999
Retained earnings at beginning of year	$ 194.2	$ 134.7
Net earnings	98.5	77.3
Dividends	(20.6)	(17.8)
Retained earnings at end of year	$ 272.1	$ 194.2

Consolidated Statements of Cash Flow

years ended march 31 (amounts in millions of dollars)	2000	1999 (note 1)
Operating activities		
Earnings from continuing operations	$ 90.7	$ 73.7
Adjustments to reconcile net earnings to cash flows from operating activities:		
Amortisation	33.7	28.6
Deferred income taxes	(7.6)	(1.6)
Other	(0.3)	(2.0)
Decrease (increase) in non-cash working capital (note 10)	133.5	(70.3)
Cash provided by continuing operating activities	250.0	28.4
Investing activities		
Proceeds on disposition of business unit (note 2)	52.5	–
Acquisitions (note 15)	–	(111.5)
Short-term investments	(71.1)	–
Capital expenditures	(30.9)	(76.3)
Proceeds from sale and leaseback of assets	35.5	–
Other	(11.4)	(4.1)
Net cash used in continuing investing activities	(25.4)	(191.9)
Financing activities		
Proceeds from (repayments of) long-term debt borrowings	(5.5)	8.7
Dividends paid, net of stock dividends	(20.4)	(17.6)
Purchase of capital stock	(36.3)	–
Other	0.2	(3.5)
Net cash used in continuing financing activities	(62.0)	(12.4)
Net cash used in discontinued operations (note 2)	(21.6)	(8.9)
Effect of foreign exchange rate changes on cash	(3.1)	7.6
Net increase (decrease) in cash	137.9	(177.2)
Cash at beginning of year	25.6	202.8
Cash at end of year	$ 163.5	$ 25.6

Notes to Consolidated Financial Statements

years ended march 31, 2000 and 1999 (amounts in millions of dollars)

Note 01 Summary of Significant Accounting Policies

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

New Accounting Standards

The Consolidated Statements of Cash Flow for the 12 months ended March 31, 1999, has been restated to reflect the new requirements under Section 1540 of the Canadian Institute of Chartered Accountants Handbook, *Cash Flow Statements*.

Consolidation

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

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

Portfolio investments are accounted for using the cost method.

Revenue Recognition

Revenue from long-term contracts is recognised using the percentage of completion method, where revenue, earnings and unbilled accounts receivable are recorded as related costs are incurred. 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 recognised fully when first anticipated.

All other revenue is recorded and related costs transferred to cost of sales at the time the product is shipped or the service is provided.

Cash and Short-Term Investments

Cash consists of cash and cash equivalents which are short-term, highly liquid investments with maturity of 90 days or 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 realisable value.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. The declining balance and straight-line methods are used in computing amortisation of property, plant and equipment based on the following useful lives: buildings and improvements, 20 to 40 years; machinery and equipment, 3 to 10 years; and property under capital lease, over the term of the lease.

Foreign Currency Translation and Financial Instruments

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 amortised on a straight-line basis over the term of the debt.

The Corporation enters into forward contracts to manage exposures resulting from foreign exchange fluctuations in the ordinary course of business. The contracts are normally for terms up to 12 months and are used as hedges of foreign denominated cash flows. Gains and losses on outstanding contracts are offset against the gains and losses of the hedged item at the maturity of the underlying transactions. The Corporation negotiates forward contracts only with financially sound counterparties.

The carrying value of financial instruments approximates fair value except where indicated.

Goodwill

The excess purchase price paid on the acquisition of businesses over the value assigned to identifiable net assets acquired, is allocated to goodwill. Goodwill is stated at cost less accumulated amortisation and is being amortised on a straight-line basis over 40 years. The value of goodwill is evaluated by reviewing the financial returns of the related business, taking into account the risk associated with the business, and is written down when there has been an impairment of its value.

Income Taxes

The Corporation follows the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes relating to reported earnings. Differences between such taxes and taxes currently payable or recoverable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the accounts and the time they are reported for income tax purposes. Investment tax credits arising from research and development are deducted from the related costs and are accordingly included in the determination of earnings in the same year as the related costs. Investment tax credits arising from the acquisition of property, plant and equipment are deducted from the cost of those assets with amortisation calculated on the net amount.

Post-Retirement Benefits

Pensions

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

Benefits Other than Pensions

The Corporation accrues estimates of future costs of retiree post-employment benefits over the employees' average remaining service life. The long-term portion of all post-employment benefits is included in Long-term liabilities on the Consolidated Balance Sheet.

Earnings per Share

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

Use of Estimates

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

Note 02 Discontinued Operations

On December 3, 1999, the Corporation completed the sale of substantially all of the assets of its Railway Technologies and Services business segment, resulting in an after-tax gain on disposition of $13.6 million. The Corporation expects to receive total proceeds of $65.5 million, of which $52.5 million was received in cash on December 3, 1999, with the balance to be received in cash over the next six months.

On February 2, 2000, the Board of Directors approved a plan to divest its Cleaning Technologies and Energy Control Systems businesses. These discontinued businesses are expected to be sold within the next fiscal year.

As a result of the sale of the Railway Technologies and Services business and the planned divestiture of the other businesses (together the "Discontinued Operations"), the results of operations for the Discontinued Operations have been reported separately in the Consolidated Statements of Earnings and previously reported financial statements have been reclassified. Interest expense has been allocated to the Discontinued Operations based on their share of the Corporation's net assets.

Summarized financial information for the Discontinued Operations is as follows:

	2000	1999
Revenue	$ 173.7	$ 164.2
Results of discontinued operations		
(i) Results of operations prior to measurement dates, net of income tax recovery of $3.1; (1999 – $0.5)	(6.0)	3.6
(ii) Net gain from discontinued operations, net of income taxes of $2.7	13.8	–
Results of discontinued operations	$ 7.8	$ 3.6
Current assets	$ 68.9	$ 80.8
Property, plant and equipment, net	19.4	30.7
Goodwill	40.0	71.0
Deferred income taxes	0.3	2.6
Other assets	1.0	1.0
	129.6	186.1
Current liabilities	23.6	36.9
Other liabilities	0.8	1.6
Net assets of discontinued operations	$ 105.2	$ 147.6
Net cash used in operating activities	$ (10.4)	$ (1.5)
Net cash used in investing activities	(10.5)	(8.1)
Net cash (used in) provided by financing activities	(0.7)	0.7
Net cash used in discontinued operations	$ (21.6)	$ (8.9)

Note 03 Inventories

	2000	1999
Work-in-progress	$ 60.3	$ 81.9
Raw materials, supplies and manufactured products	47.8	39.7
	$ 108.1	$ 121.6

Note 04 Property, Plant and Equipment

2000	Cost	Accumulated Amortisation	Net Book Value
Land	$ 9.9	$ –	$ 9.9
Buildings and improvements	152.9	42.4	110.5
Machinery and equipment	203.2	114.7	88.5
Property under capital leases	10.6	4.7	5.9
	$ 376.6	$ 161.8	$ 214.8

1999	Cost	Accumulated Amortisation	Net Book Value
Land	$ 9.9	$ –	$ 9.9
Buildings and improvements	173.6	33.7	139.9
Machinery and equipment	215.6	129.0	86.6
Property under capital leases	12.5	5.2	7.3
	$ 411.6	$ 167.9	$ 243.7

Note 05 Other Assets

	2000	1999
Investment tax credits (i)	$ 14.8	$ 29.3
Investment in and advances to CVS Leasing Ltd. (ii)	16.4	9.1
Deferred charges (ii)	10.4	9.0
Other	7.4	8.9
	$ 49.0	$ 56.3

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

(ii) During fiscal 1998, the Corporation led a consortium that 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 connection with the contract, the Corporation has established a subsidiary, CAE Aircrew Training plc, which it owns 74% thereof with the balance held by the other consortium partners. This subsidiary has leased the land from the MoD, has built the facility and will operate the training centre, and has been consolidated with the accounts of the Corporation.

The pre-operating expenditures in connection with this contract were deferred up until the aircrew training facility was ready for training in March 2000. The deferred costs will, commencing in fiscal 2001, be amortised over the remaining life of the initial 20-year period of the contract.

In addition, the Corporation has a minority shareholding of 11% in, and has advanced funds to, CVS Leasing Ltd., a company established to acquire the simulators and other equipment that will be leased to Aircrew.

Note 06 Debt Facilities

A. Long-Term Debt

	2000	1999
Senior notes (i), (v)	$ 177.0	$ 183.0
Five-year revolving term loan, to a maximum of US$220.0, unsecured, due May 31, 2002 (v)	–	–
Five-year revolving term loan, to a maximum of Deutschmark 100.0 unsecured, due May 31, 2002 (2000 – DM 87.0; 1999 – DM 100.0) (ii), (v)	61.9	83.4
Eighteen-year term loan, to a maximum of £12.7 secured, maturing April 1, 2001, to October 1, 2015 (2000 – £11.9; 1999 – £9.9) (ii), (iii), (v)	27.6	24.1
Obligations under capital lease commitments (iv), (v)	5.1	6.6
	271.6	297.1
Less: Long-term debt due within one year	0.9	0.9
	$ 270.7	$ 296.2

(i) In June 1997, pursuant to a private placement with certain investors, the Corporation borrowed US$108 million and $20 million. These unsecured senior notes, which rank equally with the term bank financing are repayable after 8, 10, 12 and 15 years. Fixed interest of approximately 7.5% is payable semi-annually in June and December.

(ii) Interest on bank term loans is charged at rates approximating LIBOR.

(iii) In October 1997 the Corporation arranged project financing for its subsidiary to finance the Corporation's Medium Support Helicopter Programme for the Ministry of Defence in the United Kingdom. This term loan is secured by the project assets of the subsidiary and is repayable over 18 years to October 1, 2015.

(iv) The effective interest rate on obligations under capital leases was approximately 7.0% (1999 – 7.3%).

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

Year ending March 31,		
2001	$	0.9
2002		2.6
2003		66.3
2004		3.5
2005		23.2
Thereafter		175.1
	$	271.6

Interest expense on long-term debt was $14.5 million (1999 – $15.6 million).

The fair value of the long-term debt at March 31, 2000, including the effect of related interest rate swap agreements, is approximately $275 million.

B. Short-Term Debt

The Corporation has unsecured bank lines of credit available in various currencies totalling $80.4 million (1999 – $84.0 million). The effective interest rate on short-term borrowings was 7.6% (1999 – 7.6%).

Note 07 Financial Instruments

The Corporation has estimated the fair values of its financial instruments as at March 31, 2000, using quoted market values where available and other information.

At March 31, 2000, the Corporation had outstanding forward contracts to hedge its foreign currency cash flows into Canadian dollars. These forward exchange contracts have maturity dates up to December 2004. The fair value of these contracts if marked to market at March 31, 2000, would result in a gain of $2.5 million. This would be equally offset by future losses of foreign denominated cash flows over the remaining terms of the contracts.

Effective June 9, 1997, the Corporation entered into interest rate swap agreements with two different financial institutions for a total nominal value of $68 million whereby in the first instance the Corporation will receive a fixed interest rate of 7.2% semi-annually for 8 years and in the second instance the Corporation will receive a fixed interest rate of 7.7% semi-annually for 15 years. In both cases, the Corporation will pay quarterly variable interest established at bankers acceptance rates, plus a premium.

Pursuant to the requirements of its long-term project financing, on October 16, 1997, the Corporation's subsidiary entered into an interest rate swap agreement with two financial institutions for a maximum total nominal value of £12.7 million whereby the subsidiary will receive payments of floating rate interest and will pay a fixed interest rate of 6.8% semi-annually for 13 years.

Receipts and payments under interest rate swap agreements have been accounted for as adjustments to interest expense on long-term debt.

The fair value of the interest rate swap agreements if marked to market at March 31, 2000, would result in a gain of $5.8 million.

Note 08 Capital Stock

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

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

	2000		1999	
	Number of Shares	Stated Value	Number of Shares	Stated Value
Balance at beginning of year	111,466,032	$ 154.2	110,490,405	$ 145.1
Stock options exercised (a)	414,637	3.9	352,275	1.9
Stock dividends (b)	34,016	0.3	23,352	0.2
Purchase of Capital Stock (c)	(4,335,500)	(36.3)		
Treasury issue (note 15)			600,000	7.0
Balance at end of year	107,579,185	$ 122.1	111,466,032	$ 154.2

a) During the year, the Corporation granted 1,107,000 options, exercisable at $8.45 per share and 200,000 options, exercisable at $8.20 per share, to certain officers and key employees of the Corporation and its subsidiaries to purchase common shares. The option price for each issue was equal to the closing price of the common shares on the Toronto Stock Exchange on the trading day immediately prior to the day the stock options were issued.

Stock options were outstanding at March 31, 2000, for the purchase of 2,739,663 common shares at prices ranging from $7.25 to $12.85 and expiring during the period from 2000 to 2005. 414,637 options were exercised and 653,500 options expired in the year.

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

c) As part of its Normal Course Issuer Bid, the Corporation purchased on the Toronto Stock Exchange and the Montreal Stock Exchange, 4,335,500 common shares during the year. Shares purchased by the Corporation were cancelled. Copies of the Notice of Intention to make a Normal Course Issuer Bid, filed with the Stock Exchanges, are available without charge from the Corporation.

d) The Corporation has a Plan for the Equal Treatment of Shareholders whereby one right has been issued for each outstanding common share of the Corporation. The rights remain attached to the shares and are not exercisable until the occurrence of certain designated events. The rights expire on June 14, 2000, unless terminated at an earlier date by the Board of Directors.

Note 09 Income Taxes

The provision for income taxes comprises:

	2000	1999
Current	$ 50.6	$ 31.7
Deferred	(9.8)	(1.1)
	$ 40.8	$ 30.6

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

	2000	1999
Combined federal and provincial statutory rate (2000 and 1999 – 44.6%)	$ 58.7	$ 46.6
Income taxed at different rates in other jurisdictions	(7.3)	(12.1)
Manufacturing and processing allowance	(9.0)	(6.3)
Tax benefit of losses not previously recognised	(3.2)	(2.0)
Research and development investment tax credits	(0.7)	(0.6)
Other	2.3	5.0
Income taxes	$ 40.8	$ 30.6

At March 31, 2000, the Corporation had accumulated non-capital losses for income tax purposes relating to operations in the United States, the potential benefit of which has not been recognised in the financial statements, as follows:

(Stated in US dollars)	
Losses for income tax purposes	$ 145.8
Amounts provided for in the financial statements that have not yet been claimed for income tax purposes	9.0
	$ 154.8

The losses for income tax purposes expire in the years 2005 through 2013.

Note 10 Supplementary Cash Flow Information

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

	2000	1999
Accounts receivable	$ (54.6)	$ 8.7
Inventories	9.3	(28.4)
Prepaid expenses	0.3	(9.4)
Income taxes recoverable	10.9	(10.6)
Accounts payable and accrued liabilities	88.4	(70.7)
Deposits on contracts	79.2	40.1
	$ 133.5	$ (70.3)
Net cash paid during the year for		
Income taxes	$ 0.5	$ 16.8
Interest	$ 13.1	$ 12.7

Note 11 Contingencies

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

(b) The Year 2000 Issue arises because many computerised systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or third parties, have been fully resolved.

Note 12 Government Cost Sharing

During fiscal 1997, the Corporation signed an agreement with the Government of Canada under which the Government will share in the costs of certain research and development programmes over the period of 1997 to 2001. Funding under this programme will not exceed $31.2 million and is repayable in the form of royalties based on future sales levels related to the projects funded. Funding received or receivable under this programme of $27.4 million (1999 – $19.3 million) reduced research and development expenses.

Note 13 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 5(ii), are as follows:

Year ending March 31,	
2001	$ 39.6
2002	33.8
2003	35.7
2004	34.2
2005	33.7
Thereafter	236.0
	$ 413.0

Note 14 Pensions

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

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

	2000	1999
Return on plan assets	9.0%	9.0%
Discount rate for pension benefit obligations	8.0%	8.0%
Compensation rate increases	3.5% to 6.0%	3.5% to 6.0%

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

	2000	1999
Market value of assets	$ 121.7	$ 114.8
Present value of accrued pension benefits	$ 104.0	$ 97.4

Note 15 Acquisitions

During fiscal 1999, the Corporation acquired the outstanding common shares of the following four companies:

> Alpheus Cleaning Technologies of Rancho Cucamonga, California, a designer and manufacturer of CO_2 dry ice blast cleaning equipment, effective June 3, 1998;

> Newnes Machine Ltd. of Salmon Arm, British Columbia, and McGehee Equipment Company of Ukiah, California, manufacturers of optimisation equipment for the forest products industry, effective June 29, 1998;

> BEYSS GmbH Co. of Aachen, Germany, a leading supplier of cleaning equipment in Europe, effective October 5, 1998.

The consideration was $193 million and included cash of $99.9 million, the assumption of $11.6 million of debt, 600,000 common shares issued for $7 million and the balance, $74.5 million of estimated contingent consideration that was accrued and is payable over a period not to exceed five years, based primarily on the future earnings of the acquired companies. The long-term portion of the accrual is included in Long-term liabilities on the Consolidated Balance Sheet.

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

	1999
Net working capital	$ 13.7
Property, plant and equipment	22.7
Goodwill	156.6
	$ 193.0

During fiscal 2000, the contingent consideration payable was renegotiated and fixed at specific amounts repayable over a period not to exceed two years from March 31, 2000. This resulted in a reduction to goodwill of $11.0 million and a corresponding decrease in Long-term liabilities.

Note 16 Research and Development

Research and Development expenditures aggregated $116.1 million during the year (1999 – $115.8).

Note 17 Business Segments

Effective December 31, 1999, CAE's business segments were modified. The CAE Electronics Group is now reported in two segments, Commercial Simulation and Training and Military Simulation and Controls. CAE Fibre Processing Technologies is now reported as Forestry Systems.

The Corporation's significant business segments include:
(i) Commercial Simulation and Training – the world-leading supplier of commercial flight simulators and visual systems, and training systems.
(ii) Military Simulation and Controls – a premier supplier of military flight simulators, visual systems and training systems. The segment also supplies a variety of other land-based military simulation and training systems and marine control systems.
(iii) Forestry Systems – the world leader in providing solutions for the forest product sector. The business segment is comprised of two focused divisions, Wood Products and Pulp and Paper, supplying proprietary machinery and equipment for softwood lumber and engineered wood producers and advanced screening solutions for pulp and paper companies.

Each operating segment is led by a senior executive and offers different products and uses different technology and marketing strategies. The Corporation 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 and other assets less accounts payable and accrued liabilities, deposits on contracts and contingent consideration due on acquisitions included in other long-term liabilities.

Financial information on the Corporation's operating and geographic segments is shown in the following table:

Business Segments

	2000	1999
Capital employed		
Commercial Simulation and Training	$ 36.7	$ 154.0
Military Simulation and Controls	68.8	134.7
Forestry Systems	165.6	168.3
Other	18.2	(9.8)
Total capital employed	$ 289.3	$ 447.2
Cash	163.5	25.6
Short-term investments	71.1	–
Income taxes recoverable	28.6	26.8
Accounts payable and accrued liabilities	306.7	201.4
Deposits on contracts	219.2	141.1
Long-term liabilities	40.6	75.5
Net assets of discontinued operations	105.2	147.6
Total assets	$ 1,224.2	$ 1,065.2

	2000	1999
Capital expenditures		
Commercial Simulation and Training	$ 11.7	$ 23.2
Military Simulation and Controls	10.1	45.7
Forestry Systems	9.1	7.4
	$ 30.9	$ 76.3
Amortisation		
Commercial Simulation and Training	$ 11.3	$ 9.0
Military Simulation and Controls	11.0	9.5
Forestry Systems	11.4	10.1
	$ 33.7	$ 28.6
Additions to goodwill		
Forestry Systems	$ (11.0)	$ 130.1

Geographic Segments

	2000	1999
Revenue from external customers		
Canada	$ 168.2	$ 116.1
US	450.1	323.7
Europe	391.6	338.2
Other countries	154.4	127.9
	$ 1,164.3	$ 905.9
Capital assets and goodwill		
Canada	$ 205.8	$ 239.4
US	52.1	51.2
Europe	85.4	97.4
Other countries	15.6	18.2
	$ 358.9	$ 406.2

Note 18 Comparative Financial Statements

Certain comparative figures for 1999 have been reclassified to conform with the presentation adopted in 2000.

Five-Year Review

(amounts in millions of dollars except where indicated by *)	2000	1999	1998	1997	1996
Continuing operations					
Revenue	$1,164.3	905.9	799.2	762.4	750.2
Amortisation	$ 33.7	28.6	25.9	25.1	20.4
Earnings	$ 90.7	73.7	73.4	57.8	61.2
Earnings per share*	$ 0.83	0.66	0.67	0.53	0.56
Net earnings	$ 98.5	77.3	70.2	60.3	58.6
Net earnings per share*	$ 0.90	0.70	0.64	0.55	0.54
Ratio of current assets to current liabilities*	1.4	1.4	1.7	1.4	0.9
Number of registered shareholders*	2,392	2,600	2,800	3,100	3,400
Cash dividends paid per common share*	$ 0.19	0.16	0.16	0.16	0.16

Quarterly Financial Information

(amounts in millions of dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000				
Continuing operations				
Revenue	$ 240.5	257.8	342.9	323.1
Earnings	$ 19.1	21.4	25.7	24.5
Earnings per share	$ 0.18	0.20	0.23	0.22
Net earnings	$ 16.7	20.7	37.5	23.6
Net earnings per share	$ 0.15	0.19	0.34	0.22
Common share trading range:				
High	$ 9.45	9.75	10.60	17.00
Low	$ 7.80	8.00	7.30	9.65

(amounts in millions of dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999				
Continuing operations				
Revenue	$ 171.9	241.8	235.5	256.7
Earnings	$ 13.2	17.6	20.8	22.1
Earnings per share	$ 0.12	0.15	0.19	0.20
Net earnings	$ 13.0	17.5	23.0	23.8
Net earnings per share	$ 0.12	0.16	0.21	0.21
Common share trading range:				
High	$ 13.65	12.75	10.05	9.00
Low	$ 11.25	8.30	8.00	7.85

Board of Directors

Lynton R. Wilson[1,2,4]

Chairman of the Board
CAE Inc.
Oakville, Ontario

Derek H. Burney[1]

President and
Chief Executive Officer
CAE Inc.
Toronto, Ontario

R. Fraser Elliott, C.M., Q.C.[1]

Senior Partner
Stikeman Elliott
Toronto, Ontario

H. Garfield Emerson, Q.C.[2]

President and
Chief Executive Officer
NM Rothschild &
Sons Canada Limited
Toronto, Ontario

The Honourable James A. Grant, P.C., Q.C.[1,2]

Partner
Stikeman Elliott
Montreal, Quebec

James F. Hankinson[3]

President and
Chief Executive Officer
New Brunswick Power
Corporation
Fredericton, New Brunswick

Roderick L. Henry[3,4]

President
Henrod Investments Inc.
Montreal, Quebec

James W. McCutcheon, Q.C.[3]

Counsel
McCarthy Tétrault
Toronto, Ontario

George K. Petty[2,4]

Business Consultant
Las Vegas, Nevada

Lawrence N. Stevenson[4]

Chief Executive Officer
Chapters Inc.
Chairman and
Chief Executive Officer
Chapters Online Inc.
Toronto, Ontario

Dr.-Ing. Hasso von Falkenhausen[3]

Chairman of the Board of
Directors
DataCard Corp.
Minneapolis, Minnesota, U.S.A.

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

Paul G. Renaud

Vice President, Finance,
Chief Financial Officer and
Secretary

Allan M. Bignell

Vice President
Business Development

Michael A. Cossar

Treasurer

Robert C. Hedges

Controller and
Assistant Secretary

Information for Shareholders

CAE Common Shares

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

Dividend Reinvestment Plan

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

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

In order to obtain the dividend reinvestment plan form or for additional information regarding CAE's Common Shares, please contact:
Montreal Trust Company
Tel: (416) 981-9500
1-800-663-9097

Direct Deposit Dividend

Registered shareholders who receive cash dividends may elect to have the dividend payment deposited directly to their bank account instead of receiving a cheque. In order to obtain the direct deposit dividend form please contact:
Montreal Trust Company
Tel: (416) 981-9500
1-800-663-9097

Tentative Quarterly Results Release Dates for Fiscal 2001

August 2, 2000
November 1, 2000
February 7, 2001
May 2, 2001

Additional Information

If you wish to receive additional copies of CAE's annual report or copies of the annual information form, please contact:
CAE Inc.
Corporate Relations
Royal Bank Plaza, Suite 3060
Toronto, Ontario M5J 2J1
Tel: (416) 865-0070
1-800-760-0667
Fax: (416) 865-0337
Internet address: http://www.cae.com

Version française

La version française du rapport annuel est disponible sur demande au service des relations d'entreprise, Royal Bank Plaza, Bureau 3060, C.P. 30, Toronto, Ontario M5J 2J1.

Annual & Special Meeting

The Annual & Special Meeting of Shareholders will be held at the Glenn Gould Studio, CBC Building, 250 Front Street West, Toronto, Ontario, Wednesday, June 14, 2000, at 11:30 a.m.

Auditors

PricewaterhouseCoopers, Chartered Accountants
Toronto, Ontario

Transfer Agent and Registrar

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

Trademarks

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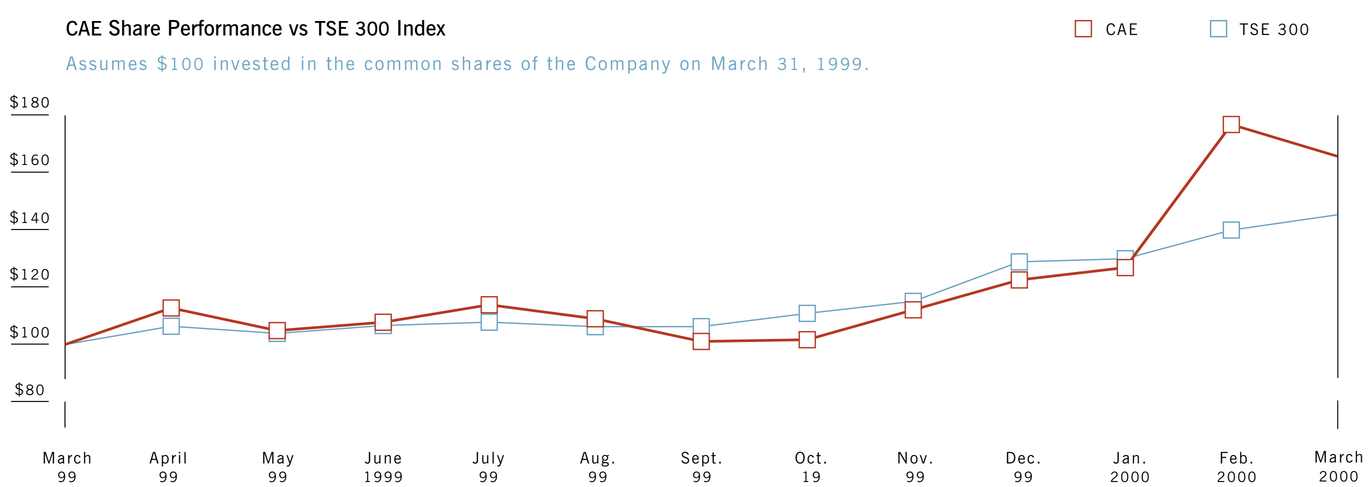
CAE Share Performance vs TSE 300 Index

Assumes $100 invested in the common shares of the Company on March 31, 1999.



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PRINTED IN CANADA

All illustrations and product images in CAE's annual report were created by CAE employees. Special thanks to Gilles Guitard, Zbynek Najser, Stuart Pittman, Sigi Rothbart, Keith Selevich, and Andrew Wilson.

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