


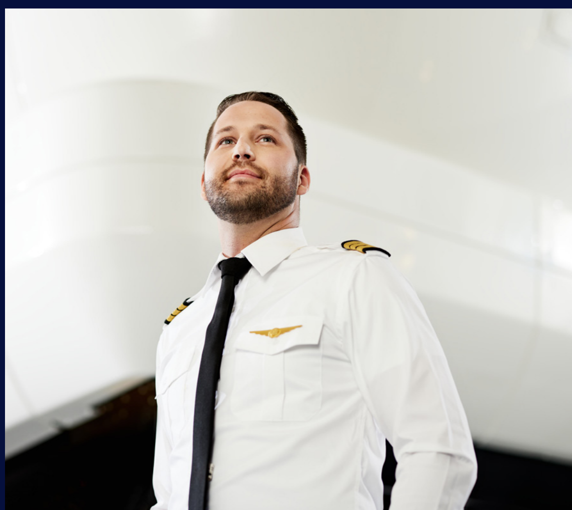

Second Quarter Report 2024

FINANCIAL REPORT FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2023

CAE

CAE

Press Release

CAE reports second quarter fiscal 2024 results

- **Revenue of $1,088.5 million vs. $993.2 million in prior year**
- **Earnings per share (EPS) of $0.18 vs. $0.14 in prior year**
- **Adjusted EPS(1) of $0.27 vs. $0.19 in prior year**
- **Operating income of $100.6 million vs. $102.1 million in prior year**
- **Adjusted segment operating income(1) of $138.5 million vs. $124.7 million in prior year**
- **Adjusted order intake(1) of $1,183.6 million for a record $11.8 billion adjusted backlog(1)**
- **Net debt-to-adjusted EBITDA(1) of 3.16x vs. 3.22x at the end of the preceding quarter**
- **Announced the sale of Healthcare subsequent to the end of the quarter**

***Montreal, Canada, November 14, 2023* - (NYSE: CAE; TSX: CAE) -** CAE Inc. (CAE or the Company) today reported revenue of $1,088.5 million for the second quarter of fiscal 2024, compared with $993.2 million in the second quarter last year. Second quarter EPS was $0.18 compared to $0.14 last year. Adjusted EPS in the second quarter was $0.27 compared to $0.19 last year.

Operating income this quarter was $100.6 million (9.2% of revenue(1)), compared to $102.1 million (10.3% of revenue) last year. Second quarter adjusted segment operating income was $138.5 million (12.7% of revenue(1)) compared to $124.7 million (12.6% of revenue) last year. All financial information is in Canadian dollars unless otherwise indicated.

Summary of consolidated results

(amounts in millions, except per share amounts)		**Q2-2024**		Q2-2023	*Variance %*
Revenue	**$**	**1,088.5**	$	993.2	*10%*
Operating income	**$**	**100.6**	$	102.1	*(1%)*
Adjusted segment operating income(1)	**$**	**138.5**	$	124.7	*11%*
As a % of revenue(1)	***%***	***12.7***	*%*	*12.6*	
Net income attributable to equity holders of the Company	**$**	**58.4**	$	44.5	*31%*
Earnings per share (EPS)	**$**	**0.18**	$	0.14	*29%*
Adjusted EPS(1)	**$**	**0.27**	$	0.19	*42%*
Adjusted order intake(1)	**$**	**1,183.6**	$	1,294.6	*(9%)*
Adjusted backlog(1)	**$**	**11,773.1**	$	10,637.9	*11%*

(1) This press release includes non-IFRS financial measures, non-IFRS ratios, capital management measures and supplementary financial measures. These measures are not standardized financial measures prescribed under IFRS and therefore should not be confused with, or used as an alternative for, performance measures calculated according to IFRS. Furthermore, these measures should not be compared with similarly titled measures provided or used by other issuers. Refer to the *Non-IFRS and other financial measures* section of this press release for the definitions and a reconciliation of these measures to the most directly comparable measure under IFRS.

"We delivered a good performance overall in the second quarter, with double-digit top- and bottom-line growth, driven mainly by strong momentum in Civil and a higher contribution from Defense compared to last year. We also further bolstered our financial position on the path to meeting our short-term leverage target," said Marc Parent, CAE's President and Chief Executive Officer. "We made excellent progress in the quarter to secure CAE's future with nearly $1.2 billion in total adjusted order intake, for a record $11.8 billion adjusted backlog. Orders in Civil included 15 full flight simulators, long-term training agreements, and contracts for our next-gen crew management and aircraft operations solutions. In Defense, we continued to build our backlog with orders exceeding revenue in the quarter for simulation-based training solutions and support services. Following the end of the quarter, we announced a definitive agreement to sell Healthcare for an enterprise value of $311 million, a decision which better positions CAE to efficiently allocate capital and resources to secure growth opportunities in our large core simulation and training markets. We are proud of CAE Healthcare's significant contribution to patient safety and expect this to continue. Healthcare will be well positioned to support future growth under its excellent leadership and new ownership, focused on evolving simulation to drive patient safety and quality outcomes. As we look to the period ahead, we now expect Civil growth this fiscal year in the mid- to high-teens percentage range of adjusted segment operating income growth. The higher expected growth is based on our strong performance across all regions year to date, including Asia which had been lagging in the global air travel recovery. We also have good demand visibility given the regulated nature of aviation training. We expect Civil performance to be weighted more to the fourth quarter, based on planned simulator deliveries and training seasonality. In Defense, we will continue to transform our business by replenishing our backlog with more profitable programs and by retiring legacy contracts, which have been most affected by inflationary pressures. U.S. budget appropriation uncertainty is causing delays to our expected ramp up of new programs in backlog and to awards expected from our pipeline. As such, we currently expect Defense second-half adjusted segment operating income margins to remain in the mid-single-digit percentage range. The anticipated positive inflection in Defense performance is expected to occur during the next fiscal year, but will ultimately depend on the duration and magnitude of delays to new programs in the current environment. We are firmly focused on retiring legacy contracts as soon as possible and to mitigating the cost pressures associated with them. We remain very pleased with the accretive margin profile on our newly awarded work, which continues to underlie our conviction in our low double-digit margin target at steady state. We continue to be highly encouraged by the secular tailwinds in all segments and the growth we expect by harnessing our global market and technology leadership, and the power of One CAE."

Civil Aviation (Civil)

Second quarter Civil revenue was $572.6 million vs. $507.2 million in the second quarter last year. Operating income was $88.4 million (15.4% of revenue) compared to $88.4 million (17.4% of revenue) in the same quarter last year. Adjusted segment operating income was $114.3 million (20.0% of revenue) compared to $104.4 million (20.6% of revenue) in the second quarter last year. During the quarter, Civil delivered 11 full-flight simulators (FFSs) to customers and second quarter Civil training centre utilization was 71%.

During the quarter, Civil signed training solutions contracts valued at $617.8 million, including a range of long-term commercial and business aviation training agreements and 15 FFS sales. Civil FFS orders total 37 for the first half of the fiscal year.

Notable Civil contract awards for the quarter included 15 FFS sales, including a multiyear purchase of six Boeing B737 Max simulators and two previous B737 Max simulator options converted to firm orders for Ryanair and two Airbus A320 simulators for United Airlines. In commercial aviation Civil signed a multi-year aviation training agreement with Delta Airlines, and in business aviation, it signed a 2-year training agreement with Windrose Air Jetcharter GmbH. In Flight Operations Solutions, Civil signed long-term, next-gen crew management and flight operations solutions agreements with Wizz Air and Air India.

The Civil book-to-sales ratio[1] was 1.08 times for the quarter and 1.27 times for the last 12 months. The Civil adjusted backlog at the end of the quarter was a record $5.9 billion.

Summary of Civil Aviation results

(amounts in millions)		**Q2-2024**		Q2-2023	*Variance %*
Revenue	**$**	**572.6**	$	507.2	*13%*
Operating income	**$**	**88.4**	$	88.4	*—%*
Adjusted segment operating income	**$**	**114.3**	$	104.4	*9%*
As a % of revenue	***%***	***20.0***	*%*	*20.6*	
Adjusted order intake	**$**	**617.8**	$	751.1	*(18%)*
Adjusted backlog	**$**	**5,903.1**	$	5,457.1	*8%*

Supplementary non-financial information					
Simulator equivalent unit		**268**		252	*6%*
FFSs in CAE's network		**331**		315	*5%*
FFS deliveries		**11**		10	*10%*
Utilization rate	%	**71**	%	66	*8%*

Defense and Security (Defense)

Second quarter Defense revenue was $477.4 million vs. $442.4 million in the second quarter last year. Operating income was $9.3 million (1.9% of revenue) compared to $12.1 million (2.7% of revenue) in the same quarter last year. Adjusted segment operating income was $21.3 million (4.5% of revenue), compared to $18.4 million (4.2% of revenue) in the second quarter last year.

Defense booked orders for $527.3 million and an additional $155.5 million of unfunded contracts this quarter.

Notable Defense contract awards include a contract for simulation-based training for the U.S. Army's key Next Generation airborne intelligence, surveillance, and reconnaissance (ISR) system, the High Accuracy Detection and Exploitation System (HADES), which is based on the Bombardier Global 6000/6500 business jet. It is also now under contract with Bell Textron to support the U.S. Army Future Long Range Assault Aircraft program. As part of a teaming arrangement with Bell for their Future Vertical Lift family of systems, CAE is expected to provide maintenance training devices, assist in the development of flight training devices, and deliver other training products. It also received an order to provide the U.S. Army with support services for the Advanced Helicopter Flight Training Support Services for aircrew and non-aircrew personnel. Defense was awarded contracts for the modification and maintenance of F-16 training devices for the U.S. Air Force, as well as for the upgrade of various training devices.

The Defense book-to-sales ratio was 1.10 times for the quarter and 0.93 times for the last 12 months (excluding unfunded backlog totaling $155.5 million). The Defense adjusted backlog, including unfunded contract awards and CAE's interest in joint ventures, at the end of the quarter was a record $5.9 billion. The Defense pipeline remains strong with some $9.5 billion of bids and proposals pending.

Summary of Defense and Security results

(amounts in millions)		**Q2-2024**		Q2-2023	*Variance %*
Revenue	**$**	**477.4**	$	442.4	*8%*
Operating income	**$**	**9.3**	$	12.1	*(23%)*
Adjusted segment operating income	**$**	**21.3**	$	18.4	*16%*
As a % of revenue	***%***	***4.5***	*%*	*4.2*	
Adjusted order intake	**$**	**527.3**	$	499.9	*5%*
Adjusted backlog	**$**	**5,870.0**	$	5,180.8	*13%*

Healthcare

Second quarter Healthcare revenue was $38.5 million, vs. $43.6 million in the second quarter last year. Operating income was $2.9 million (7.5% of revenue) compared to $1.6 million (3.7% of revenue) in the same quarter last year. Adjusted segment operating income was $2.9 million (7.5% of revenue) compared to $1.9 million (4.4% of revenue) in the second quarter last year.

Subsequent to the end of the quarter, CAE announced a definitive agreement to sell its Healthcare business to Madison Industries for an enterprise value of $311 million, subject to customary adjustments. This transaction better positions CAE to efficiently allocate capital and resources to secure growth opportunities on the horizon in its much larger, core simulation and training markets. Closing of the transaction, which is subject to closing conditions, including customary regulatory approvals, is expected before the end of fiscal year 2024. Sale proceeds will be principally used to accelerate deleveraging, as well as to support CAE's continued focus on technology advancement, market leadership and cost optimization within its core training and simulation markets.

Summary of Healthcare results

(amounts in millions)		**Q2-2024**		Q2-2023	*Variance %*
Revenue	**$**	**38.5**	$	43.6	*(12%)*
Operating income (loss)	**$**	**2.9**	$	1.6	*81%*
Adjusted segment operating income (loss)	**$**	**2.9**	$	1.9	*53%*
As a % of revenue	***%***	***7.5***	*%*	*4.4*	

Additional financial highlights

CAE incurred restructuring, integration and acquisition costs of $37.9 million during the second quarter of fiscal 2024 relating mainly to the acquisitions of Sabre's AirCentre airline operations portfolio and the L3Harris Technologies' Military Training business.

Net cash provided by operating activities was $180.2 million for the quarter, compared to $138.0 million in the second quarter last year. Free cash flow(1) was $147.5 million for the quarter compared to $108.4 million in the second quarter last year. The increase was mainly due to a higher contribution from non-cash working capital, partially offset by lower cash provided by operating activities.

Income tax recovery this quarter amounted to $8.5 million, representing an effective tax rate of negative 16%, compared to an effective tax rate of 24% for the second quarter last year. The adjusted effective tax rate(1), which is the income tax rate used to determine adjusted net income and adjusted EPS, was nil this quarter as compared to 24% in the second quarter of last year. The decrease in the adjusted effective tax rate was mainly attributable to the recognition of previously unrecognized deferred tax assets, which had an approximate $0.05 positive EPS impact this quarter.

Growth and maintenance capital expenditures(1) totaled $61.9 million this quarter.

Net debt(1) at the end of the quarter was $3,184.5 million for a net debt-to-adjusted EBITDA(1) of 3.16 times. This compares to net debt of $3,166.4 million and a net debt-to-adjusted EBITDA of 3.22 times at the end of the preceding quarter.

Net finance expense this quarter amounted to $48.0 million, compared to $54.1 million in the preceding quarter and $41.3 million in the second quarter last year.

Adjusted return on capital employed(1) was 7.0% this quarter compared to 6.6% last quarter and 5.1% in the second quarter last year.

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Environmental, Social, and Governance (ESG)

During the quarter, CAE completed its first Ecovadis assessment. Ecovadis is one of the leading business sustainability rating providers, used by leading aerospace and defence OEMs and focuses on assessing the depth and breadth of sustainability integration into a business' processes and supply chain. This rating will strengthen CAE's position to pursue future business opportunities and is further testament to the maturity of its sustainability commitment and role as a sustainability leader in its industry. CAE also proudly launched its Crystal Excellence Award supplier recognition program. This initiative acknowledged four deserving supplier laureates who exemplify operational excellence and commitment to supporting CAE on its decarbonization journey. In addition, CAE released its very first Gender Equality report, showing its dedication to fostering diversity and inclusivity within its organization and beyond. Finally, CAE raised approximately $1.3 million in its 2023 CAE-Centraide (United Way) fundraising campaign through employee donations, fundraising activities, and a corporate donation, in collaboration with Unifor. CAE and its employees are extremely proud to be an integral part of the fabric of Greater Montreal.

For more information on how CAE supports the aviation industry's decarbonization journey and contributes to a more sustainable future for all, the report can be downloaded at https://www.cae.com/social-responsibility/.

Management outlook updated

CAE is pursuing a growth strategy to become a bigger, stronger, and more profitable company. Through accretive growth capital deployments and strong execution, its Civil segment, the largest within CAE, continues to experience strong growth momentum. Management continues to target a three-year (FY22-FY25) EPS compound growth rate in the mid-20% range and expects this to be driven by the ongoing strong Civil performance and the multi-year transformation underway in Defense. The realization of CAE's strategic growth objectives is expected to result in a significantly larger base of business and a capital structure that affords flexibility to balance further investments in its future alongside capital returns for shareholders.

Management has a highly positive view of its growth potential over a multi-year period, underpinned by favourable secular trends across business segments. Greater desire by airlines to entrust CAE with their critical training and digital operational support and crew management needs, and higher expected pilot training demand in commercial and business aviation are enduring positives for the Civil business. Management believes the defence sector is in the early stages of an extended up-cycle, driven by an increased focus on near-peer threats, greater commitments by governments to defence modernization and readiness in context of geopolitical events, and a need for the kinds of digital immersion-based synthetic solutions that draw from CAE's expertise in commercial aviation simulation and training.

The Company expects Civil to continue growing at an above market rate, driven by growth and recovery in air travel, increased penetration of the existing addressable market for training and flight services solutions, and a sustained high level of demand for pilots and pilot training across all segments of civil aviation. In fiscal 2024, management previously indicated an expectation for low- to mid-teen percentage annual growth in Civil adjusted segment operating income. Management now expects even higher growth this year in the mid-to high-teens percentage range. Civil's expected annual adjusted segment operating income margin percentage continues to be in the range of fiscal 2023, as a function of a mix of higher training and customer FFS delivery volumes and the ongoing simulator deployments and expansions of CAE's global training network. CAE's Civil business is experiencing a more pronounced seasonal pattern in fiscal 2024, with performance weighted to the second half of the year, and mostly to the fourth quarter. In addition to continuing to grow its share of the aviation training market and expanding its position in digital flight services, Civil expects to maintain its leading share of FFS sales and to deliver approximately 50 FFSs for the year to customers worldwide, approximately half of which are slated for the fourth quarter.

CAE's Defense segment is in the process of a multi-year transformation, which is expected to yield a substantially bigger and more profitable business. Defense has already become the world's leading pure-play, platform independent, training and simulation business, providing solutions across all five domains. It is uniquely positioned to draw on CAE's industry-leading training solutions in commercial aviation, and to revolutionize training with the application of advanced analytics and leading-edge technologies. This is expected to bring increased potential to capture business around the world, accelerated by an expanded capability and customer set. Defense's recent strategic program wins, record $5.9 billion adjusted backlog and $9.5 billion pipeline of bids and proposals outstanding demonstrate that its transformation strategy is bearing fruit. Over the long-term, CAE continues to expect superior Defense growth to be driven by the translation of its bid activity into higher-margin order intake and execution of contracts with sustainably higher profits.

In fiscal 2024, Defense expects to continue replenishing its backlog with larger and more profitable programs, ramp up recently awarded contracts, and make progress concluding its lower-margin legacy contracts. Inflationary pressures on legacy contracts, while finite, remain the most significant factor contributing to the current suboptimal margin performance of the business. In addition, the prevailing U.S. government budget appropriation uncertainty is delaying the ramp up of certain newer and higher margin Defense programs in backlog and the conversion of bid pipeline to orders previously expected in the fiscal year. The cost headwinds on remaining legacy contracts, in combination with program funding and award delays, are impacting the timing of the anticipated positive inflection in Defense margins. Management now expects second-half Defense adjusted segment operating income margins to remain in the mid-single-digit percentage range. The anticipated positive inflection in Defense performance is expected to occur during the next fiscal year, but will ultimately depend on the duration and magnitude of delays to new programs in the current environment. Management continues to be highly focused on execution and the retirement of legacy programs and mitigating the finite cost pressures associated with them. Although it will require some additional time to reach a positive inflection in Defense performance, the trendlines are moving in the right direction and the necessary factors exist to support Management's targeted low double-digit percentage steady-state margins in Defense.

Total capital expenditures in fiscal 2024 are expected to be approximately $50 million higher than last fiscal year, mainly in support of a higher amount of market-led, accretive organic investments involving Civil aviation training network expansion, simulator deployments, and customer training outsourcings. The Company usually sees a higher investment in non-cash working capital accounts in the first half of the fiscal year, and as in previous years, management expects a portion of the non-cash working capital investment to reverse in the second half. The Company continues to target a 100% conversion of adjusted net income to free cash flow for the year. The Company expects to apply a significant portion of the net proceeds from the sale of its Healthcare division to reduce debt. The transaction is expected to close before the end of the current fiscal year, subject to closing conditions, including customary regulatory approvals. Management remains focused on making organic investments in lockstep with customer demand, integrating and ramping up recent investments and continuing to deleverage its balance sheet. With leverage having decreased to a waypoint ratio of approximately three times (3x) net debt to adjusted EBITDA, CAE is now considering reinstating capital returns to shareholders, following the closing of its Healthcare sale transaction. Management will continue to prioritize a balanced approach to capital allocation, including funding accretive growth, further strengthening its financial position, and returning capital to shareholders. CAE expects its average adjusted effective income tax rate for the remainder of the fiscal year to be approximately 22%.

Management's outlook for fiscal 2024 and the above targets and expectations constitute forward-looking statements within the meaning of applicable securities laws, and are based on a number of assumptions, including in relation to prevailing market conditions, macroeconomic and geopolitical factors, supply chains and labor markets. As the basis of its fiscal 2024 outlook, management assumes no further disruptions to the global economy, air traffic, CAE's operations, and its ability to deliver products and services. Expectations are also subject to a number of risks and uncertainties and based on assumptions about customer receptivity to CAE's training solutions and operational support solutions as well as material assumptions contained in this press release, quarterly Management's Discussion and Analysis (MD&A) and in CAE's fiscal 2023 MD&A, all available on our website (www.cae.com), SEDAR+ (www.SEDARplus.ca) and EDGAR (www.sec.gov). Please see the sections below entitled: *"Caution concerning forward-looking statements", "Material assumptions"* and *"Material risks"*.

Detailed information

Readers are strongly advised to view a more detailed discussion of our results by segment in the MD&A and CAE's consolidated financial statements for the quarter ended September 30, 2023, which are available on our website (www.cae.com), SEDAR+ (www.SEDARplus.ca) and EDGAR (www.sec.gov). Holders of CAE's securities may also request a printed copy of the Company's consolidated financial statements and MD&A free of charge by contacting Investor Relations (investor.relations@cae.com).

Conference call Q2 FY2024

Marc Parent, CAE President and CEO; Sonya Branco, Executive Vice President, Finance, and CFO; and Andrew Arnovitz, Senior Vice President, Investor Relations and Enterprise Risk Management, will conduct an earnings conference call today at 2:00 p.m. ET. The call is intended for analysts, institutional investors and the media. Participants can listen to the conference by dialing + 1 877 586 3392 or +1 416 981 9024. The conference call will also be audio webcast live at www.cae.com.

At CAE, we equip people in critical roles with the expertise and solutions to create a safer world. As a technology company, we digitalize the physical world, deploying software-based simulation training and critical operations support solutions. Above all else, we empower pilots, cabin crew, airlines, defence and security forces and healthcare practitioners to perform at their best every day and when the stakes are the highest. Around the globe, we're everywhere customers need us to be with more than 13,000 employees in approximately 250 sites and training locations in over 40 countries. CAE represents more than 75 years of industry firsts—the highest-fidelity flight, mission and medical simulators and training programs powered by digital technologies. We embed sustainability in everything we do. Today and tomorrow, we'll make sure our customers are ready for the moments that matter.

Caution concerning limitations of summary earnings press release

This summary earnings press release contains limited information meant to assist the reader in assessing CAE's performance, but it is not a suitable source of information for readers who are unfamiliar with CAE and is not in any way a substitute for the Company's financial statements, notes to the financial statements, and MD&A reports.

Caution concerning forward-looking statements

This press release includes forward-looking statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, market trends and outlook, future revenues, earnings, cash flow growth, profit trends, growth capital spending, expansions and new initiatives, including initiatives that pertain to ESG matters, financial obligations, available liquidities, expected sales, general economic and political outlook, inflation trends, prospects and trends of an industry, expected annual recurring cost savings from operational excellence programs, our management of the supply chain, estimated addressable markets, demands for CAE's products and services, our access to capital resources, our financial position, the expected accretion in various financial metrics, the expected capital returns to shareholders, the sale of our Healthcare business (the Sale Transaction), the anticipated benefits and expected impacts therefrom on CAE's strategic and operational plans and financial results, the expected terms, conditions (including receipt of necessary regulatory approvals) and completion of the Sale Transaction, the anticipated cash consideration therefrom and the timing for completion thereof, our business outlook, business opportunities, objectives, development, plans, growth strategies and other strategic priorities, and our competitive and leadership position in our markets, the expansion of our market shares, CAE's ability and preparedness to respond to demand for new technologies, the sustainability of our operations and other statements that are not historical facts.

Since forward-looking statements and information relate to future events or future performance and reflect current expectations or beliefs regarding future events, they are typically identified by words such as "anticipate", "believe", "could", "estimate", "expect", "intend", "likely", "may", "plan", "seek", "should", "will", "strategy", "future" or the negative thereof or other variations thereon suggesting future outcomes or statements regarding an outlook. All such statements constitute "forward-looking statements" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, readers are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate. The forward-looking statements contained in this press release describe our expectations as of November 14, 2023, and, accordingly, are subject to change after such date. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking information and statements contained in this press release are expressly qualified by this cautionary statement. In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this press release. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements. Except as otherwise indicated by CAE, forward-looking statements do not reflect the potential impact of any special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may occur after November 14, 2023.The financial impact of these transactions and special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business. Forward-looking statements are presented in this press release for the purpose of assisting investors and others in understanding certain key elements of our expected fiscal 2024 financial results and in obtaining a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Material assumptions

The forward-looking statements set out in this press release are based on certain assumptions including, without limitation: the prevailing market conditions, geopolitical instability, the customer receptivity to our training and operational support solutions, the accuracy of our estimates of addressable markets and market opportunity, the realization of anticipated annual recurring cost savings and other intended benefits from restructuring initiatives and operational excellence programs, the ability to respond to anticipated inflationary pressures and our ability to pass along rising costs through increased prices, the actual impact to supply, production levels, and costs from global supply chain logistics challenges, the stability of foreign exchange rates, the ability to hedge exposures to fluctuations in interest rates and foreign exchange rates, the availability of borrowings to be drawn down under, and the utilization, of one or more of our senior credit agreements, our available liquidity from cash and cash equivalents, undrawn amounts on our revolving credit facility, the balance available under our receivable purchase facility, the assumption that our cash flows from operations and continued access to debt funding will be sufficient to meet financial requirements in the foreseeable future, access to expected capital resources within anticipated timeframes, no material financial, operational or competitive consequences from changes in regulations affecting our business, our ability to retain and attract new business, our ability to achieve synergies and maintain market position arising from successful integration plans relating to the L3H MT and AirCentre acquisitions, our ability to otherwise complete the integration of the L3H MT and AirCentre businesses acquired within anticipated time periods and at expected cost levels, our ability to attract and retain key employees in connection with the L3H MT and AirCentre acquisitions, management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the L3H MT and AirCentre acquisitions and resulting impact on growth and accretion in various financial metrics, the realization of the expected strategic, financial and other benefits of the L3H MT and AirCentre acquisitions in the timeframe anticipated, economic and political environments and industry conditions, the accuracy and completeness of public and other disclosure, including financial disclosure, by L3Harris Technologies and AirCentre, the absence of significant undisclosed costs or liabilities associated with the L3H MT and AirCentre acquisitions, the satisfaction of all closing conditions of the Sale Transaction, including receipt of all necessary regulatory approvals and other consents and approvals in a timely manner and on terms acceptable to CAE, our ability to otherwise complete the Sale Transaction within anticipated time periods and at expected cost levels, management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the Sale Transaction, the realization of the expected strategic, financial and other benefits of the Sale Transaction in the timeframe anticipated (including receipt of expected proceeds and intended use thereof), and fulfillment by the other parties of their respective obligations, commitments and undertakings pursuant to the Sale Transaction documentation. Air travel is a major driver for CAE's business and management relies on analysis from the International Air Transport Association (IATA) to inform its assumptions about the rate and profile of recovery in its key civil aviation market. Accordingly, the assumptions outlined in this press release and, consequently, the forward-looking statements based on such assumptions, may turn out to be inaccurate.

Material risks

Important risks that could cause actual results or events to differ materially from those expressed in or implied by our forward-looking statements are set out in CAE’s MD&A for the fiscal year ended March 31, 2023, available on our website (www.cae.com), SEDAR+ (www.SEDARplus.ca) and EDGAR (www.sec.gov). Readers are cautioned that any of the disclosed risks could have a material adverse effect on our forward-looking statements. We caution that the disclosed list of risk factors is not exhaustive and other factors could also adversely affect our results.

Non-IFRS and other financial measures

This press release includes non-IFRS financial measures, non-IFRS ratios, capital management measures and supplementary financial measures. These measures are not standardized financial measures prescribed under IFRS and therefore should not be confused with, or used as an alternative for, performance measures calculated according to IFRS. Furthermore, these measures should not be compared with similarly titled measures provided or used by other issuers. Management believes that these measures provide additional insight into our operating performance and trends and facilitate comparisons across reporting periods.

Certain non-IFRS and other financial measures are provided on a consolidated basis and separately for each of our segments (Civil Aviation, Defense and Security and Healthcare) since we analyze their results and performance separately.

Reconciliations and calculations of non-IFRS measures to the most directly comparable measures under IFRS are also set forth below in the section *Reconciliations and Calculations* of this press release.

Performance measures

Operating income margin (or operating income as a % of revenue)

Operating income margin is a supplementary financial measure calculated by dividing our operating income by revenue for a given period. We track it because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods.

Adjusted segment operating income or loss

Adjusted segment operating income or loss is a non-IFRS financial measure that gives us an indication of the profitability of each segment because it does not include the impact of any items not specifically related to the segment's performance. We calculate adjusted segment operating income by taking operating income and adjusting for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2023) and cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022). We track adjusted segment operating income because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods. Adjusted segment operating income on a consolidated basis is a total of segments measure since it is the profitability measure employed by management for making decisions about allocating resources to segments and assessing segment performance.

Adjusted segment operating income margin (or adjusted segment operating income as a % of revenue)

Adjusted segment operating income margin is a non-IFRS ratio calculated by dividing our adjusted segment operating income by revenue for a given period. We track it because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods.

Adjusted effective tax rate

Adjusted effective tax rate is a supplementary financial measure that represents the effective tax rate on adjusted income. It is calculated by dividing our income tax expense by our earnings before income taxes, adjusting for the same items used to determine adjusted net income. We track it because we believe it provides an enhanced understanding of the impact of changes in income tax rates and the mix of income on our operating performance and facilitates the comparison across reporting periods.

Adjusted net income or loss

Adjusted net income or loss is a non-IFRS financial measure we use as an alternate view of our operating results. We calculate it by taking our net income attributable to equity holders of the Company from continuing operations and adjusting for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events, after tax, as well as significant one-time tax items. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2023) and cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022). We track adjusted net income because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods.

Adjusted earnings or loss per share (EPS)

Adjusted earnings or loss per share is a non-IFRS ratio calculated by dividing adjusted net income or loss by the weighted average number of diluted shares. We track it because we believe it provides an enhanced understanding of our operating performance on a per share basis and facilitates the comparison across reporting periods.

EBITDA and Adjusted EBITDA
EBITDA is a non-IFRS financial measure which comprises net income or loss before income taxes, finance expense – net, depreciation and amortization. Adjusted EBITDA further adjusts for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2023) and cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022). We use EBITDA and adjusted EBITDA to evaluate our operating performance, by eliminating the impact of non-operational or non-cash items.

Free cash flow
Free cash flow is a non-IFRS financial measure that shows us how much cash we have available to invest in growth opportunities, repay debt and meet ongoing financial obligations. We use it as an indicator of our financial strength and liquidity. We calculate it by taking the net cash generated by our continuing operating activities, subtracting maintenance capital expenditures, changes in enterprise resource planning (ERP) and other assets not related to growth and dividends paid and adding proceeds from the disposal of property, plant and equipment, dividends received from equity accounted investees and proceeds, net of payments, from equity accounted investees.

Liquidity and Capital Structure measures

Return on capital employed (ROCE) and adjusted ROCE
ROCE is a non-IFRS ratio calculated over a rolling four-quarter period by taking net income attributable to equity holders of the Company adjusting for net finance expense, after tax, divided by the average capital employed. Adjusted ROCE further adjusts for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2023) and cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022). We use ROCE and adjusted ROCE to evaluate the profitability of our invested capital.

Net debt
Net debt is a capital management measure we use to monitor how much debt we have after taking into account cash and cash equivalents. We use it as an indicator of our overall financial position, and calculate it by taking our total long-term debt, including the current portion of long-term debt, and subtracting cash and cash equivalents.

Net debt-to-adjusted EBITDA
Net debt-to-adjusted EBITDA is a non-IFRS ratio calculated as net debt divided by the last twelve months adjusted EBITDA. We use it because it reflects our ability to service our debt obligations.

Maintenance and growth capital expenditures
Maintenance capital expenditure is a supplementary financial measure we use to calculate the investment needed to sustain the current level of economic activity. Growth capital expenditure is a supplementary financial measure we use to calculate the investment needed to increase the current level of economic activity. The sum of maintenance capital expenditures and growth capital expenditures represents our total property, plant and equipment expenditures.

Growth measures

Adjusted order intake
Adjusted order intake is a supplementary financial measure that represents the expected value of orders we have received:

- For the Civil Aviation segment, we consider an item part of our adjusted order intake when we have a legally binding commercial agreement with a client that includes enough detail about each party's obligations to form the basis for a contract. Additionally, expected future revenues from customers under short-term and long-term training contracts are included when these customers commit to pay us training fees, or when we reasonably expect the revenue to be generated;
- For the Defense and Security segment, we consider an item part of our adjusted order intake when we have a legally binding commercial agreement with a client that includes enough detail about each party's obligations to form the basis for a contract. Defense and Security contracts are usually executed over a long-term period but some of them must be renewed each year. For this segment, we only include a contract item in adjusted order intake when the customer has authorized the contract item and has received funding for it;
- For the Healthcare segment, adjusted order intake is typically converted into revenue within one year, therefore we assume that adjusted order intake is equal to revenue.

Adjusted backlog
Adjusted backlog is a supplementary financial measure that represents expected future revenues and includes obligated backlog, joint venture backlog and unfunded backlog and options:

- Obligated backlog represents the value of our adjusted order intake not yet executed and is calculated by adding the adjusted order intake of the current period to the balance of the obligated backlog at the end of the previous fiscal year, subtracting the revenue recognized in the current period and adding or subtracting backlog adjustments. If the amount of an order already recognized in a previous fiscal year is modified, the backlog is revised through adjustments;
- Joint venture backlog is obligated backlog that represents the expected value of our share of orders that our joint ventures have received but have not yet executed. Joint venture backlog is determined on the same basis as obligated backlog described above;
- Unfunded backlog represents legally binding Defense and Security orders with the U.S. government that we have received but have not yet executed and for which funding authorization has not yet been obtained. The uncertainty relates to the timing of the funding authorization, which is influenced by the government's budget cycle, based on a September year-end. Options are included in adjusted backlog when there is a high probability of being exercised, which we define as at least 80% probable, but multi-award indefinite-delivery/indefinite-quantity (ID/IQ) contracts are excluded. When an option is exercised, it is considered adjusted order intake in that period, and it is removed from unfunded backlog and options.

Book-to-sales ratio
The book-to-sales ratio is a supplementary financial measure calculated by dividing adjusted order intake by revenue in a given period. We use it to monitor the level of future growth of the business over time.

Supplementary non-financial information definitions

Full-flight simulators (FFSs) in CAE's network
A FFS is a full-size replica of a specific make, model and series of an aircraft cockpit, including a motion system. In our count of FFSs in the network, we generally only include FFSs that are of the highest fidelity and do not include any fixed based training devices, or other lower-level devices, as these are typically used in addition to FFSs in the same approved training programs.

Simulator equivalent unit (SEU)
SEU is a measure we use to show the total average number of FFSs available to generate earnings during the period. For example, in the case of a 50/50 flight training joint venture, we will report only 50% of the FFSs under this joint venture as a SEU. If a FFS is being powered down and relocated, it will not be included as a SEU until the FFS is re-installed and available to generate earnings.

Utilization rate
Utilization rate is a measure we use to assess the performance of our Civil simulator training network. While utilization rate does not perfectly correlate to revenue recognized, we track it, together with other measures, because we believe it is an indicator of our operating performance. We calculate it by taking the number of training hours sold on our simulators during the period divided by the practical training capacity available for the same period.

Reconciliations and Calculations

Reconciliation of adjusted segment operating income (loss)

(amounts in millions)	Civil Aviation		Defense and Security		Healthcare		Total	
Three months ended September 30	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Operating income	**$ 88.4**	$ 88.4	**$ 9.3**	$ 12.1	**$ 2.9**	$ 1.6	**$ 100.6**	$ 102.1
Restructuring, integration and acquisition costs	**25.9**	16.0	**12.0**	6.3	**—**	0.3	**37.9**	22.6
Adjusted segment operating income	**$ 114.3**	$ 104.4	**$ 21.3**	$ 18.4	**$ 2.9**	$ 1.9	**$ 138.5**	$ 124.7

Reconciliation of adjusted net income and adjusted EPS

	Three months ended September 30	
(amounts in millions, except per share amounts)	**2023**	2022
Net income attributable to equity holders of the Company	**$ 58.4**	$ 44.5
Restructuring, integration and acquisition costs, after tax	**29.0**	17.0
Adjusted net income	**$ 87.4**	$ 61.5
Average number of shares outstanding (diluted)	**319.2**	318.4
Adjusted EPS	**$ 0.27**	$ 0.19

Calculation of adjusted effective tax rate

	Three months ended September 30	
(amounts in millions, except effective tax rates)	**2023**	2022
Earnings before income taxes	**$ 52.6**	$ 60.8
Restructuring, integration and acquisition costs	**37.9**	22.6
Adjusted earnings before income taxes	**$ 90.5**	$ 83.4
Income tax expense (recovery)	**(8.5)**	14.5
Tax impact on restructuring, integration and acquisition costs	**8.9**	5.6
Adjusted income tax expense	**$ 0.4**	$ 20.1
Effective tax rate	**(16 %)**	24 %
Adjusted effective tax rate	**— %**	24 %

Reconciliation of free cash flow

	Three months ended September 30	
(amounts in millions)	**2023**	2022
Cash provided by operating activities*	**$ 113.1**	$ 138.0
Changes in non-cash working capital	**67.1**	—
Net cash provided by operating activities	**$ 180.2**	$ 138.0
Maintenance capital expenditures	**(22.9)**	(15.0)
Change in ERP and other assets	**(7.6)**	(5.5)
Proceeds from the disposal of property, plant and equipment	**0.2**	0.5
Net payments to equity accounted investees	**(12.9)**	(9.6)
Dividends received from equity accounted investees	**10.5**	—
Free cash flow	**$ 147.5**	$ 108.4

* before changes in non-cash working capital

Reconciliation of EBITDA, adjusted EBITDA, net debt-to-EBITDA and net debt-to-adjusted EBITDA

	Last twelve months ended September 30	
(amounts in millions, except net debt-to-EBITDA ratios)	**2023**	2022
Operating income	**$ 563.2**	$ 300.3
Depreciation and amortization	**361.0**	325.3
EBITDA	**$ 924.2**	$ 625.6
Restructuring, integration and acquisition costs	**73.1**	127.3
Impairments and other gains and losses arising from significant strategic transactions or specific events:		
Impairment reversal of non-financial assets following their repurposing and optimization	**9.8**	—
Cloud computing transition adjustment	**—**	13.4
Adjusted EBITDA	**$ 1,007.1**	$ 766.3
Net debt	**$ 3,184.5**	$ 3,194.6
Net debt-to-EBITDA	**3.45**	5.11
Net debt-to-adjusted EBITDA	**3.16**	4.17

Reconciliation of capital employed and net debt

(amounts in millions)	**As at September 30 2023**	As at March 31 2023
Use of capital:		
Current assets	**$ 2,280.9**	$ 2,235.0
Less: cash and cash equivalents	**(181.5)**	(217.6)
Current liabilities	**(2,424.3)**	(2,246.7)
Less: current portion of long-term debt	**424.7**	214.6
Non-cash working capital	**$ 99.8**	$ (14.7)
Property, plant and equipment	**2,445.0**	2,387.1
Intangible assets	**4,046.7**	4,050.8
Other long-term assets	**1,792.7**	1,763.6
Other long-term liabilities	**(483.8)**	(565.4)
Capital employed	**$ 7,900.4**	$ 7,621.4
Source of capital:		
Current portion of long-term debt	**$ 424.7**	$ 214.6
Long-term debt	**2,941.3**	3,035.5
Less: cash and cash equivalents	**(181.5)**	(217.6)
Net debt	**$ 3,184.5**	$ 3,032.5
Equity attributable to equity holders of the Company	**4,632.9**	4,507.7
Non-controlling interests	**83.0**	81.2
Capital employed	**$ 7,900.4**	$ 7,621.4

For non-IFRS and other financial measures monitored by CAE, and a reconciliation of such measures to the most directly comparable measure under IFRS, please refer to Section 9 of CAE's MD&A for the quarter ended September 30, 2023 (which is incorporated by reference into this press release) available on our website (www.cae.com), SEDAR+ (www.SEDARplus.ca) and EDGAR (www.sec.gov).

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Management's Discussion and Analysis

for the three months ended September 30, 2023

1. HIGHLIGHTS

FINANCIAL

SECOND QUARTER OF FISCAL 2024

(amounts in millions, except per share amounts, ROCE and book-to-sales ratio)	**Q2-2024**	Q2-2023	*Variance $*	*Variance %*
Performance				
Revenue	**$ 1,088.5**	$ 993.2	*$ 95.3*	*10 %*
Operating income	**$ 100.6**	$ 102.1	*$ (1.5)*	*(1 %)*
Adjusted segment operating income[1]	**$ 138.5**	$ 124.7	*$ 13.8*	*11 %*
Net income attributable to equity holders of the Company	**$ 58.4**	$ 44.5	*$ 13.9*	*31 %*
Basic and diluted earnings per share (EPS)	**$ 0.18**	$ 0.14	*$ 0.04*	*29 %*
Adjusted EPS[1]	**$ 0.27**	$ 0.19	*$ 0.08*	*42 %*
Net cash provided by operating activities	**$ 180.2**	$ 138.0	*$ 42.2*	*31 %*
Free cash flow[1]	**$ 147.5**	$ 108.4	*$ 39.1*	*36 %*
Liquidity and Capital Structure				
Capital employed[1]	**$ 7,900.4**	$ 7,512.1	*$ 388.3*	*5 %*
Adjusted return on capital employed (ROCE)[1]	**% 7.0**	% 5.1		
Total debt	**$ 3,366.0**	$ 3,397.8	*$ (31.8)*	*(1 %)*
Net debt[1]	**$ 3,184.5**	$ 3,194.6	*$ (10.1)*	*— %*
Growth				
Adjusted order intake[1]	**$ 1,183.6**	$ 1,294.6	*$ (111.0)*	*(9 %)*
Adjusted backlog[1]	**$ 11,773.1**	$ 10,637.9	*$ 1,135.2*	*11 %*
Book-to-sales ratio[1]	**1.09**	1.30		
Book-to-sales ratio for the last 12 months	**1.11**	1.35		

FISCAL 2024 YEAR TO DATE

(amounts in millions, except per share amounts)	**Q2-2024**	Q2-2023	*Variance $*	*Variance %*
Performance				
Revenue	**$ 2,142.9**	$ 1,926.5	*$ 216.4*	*11 %*
Operating income	**$ 230.7**	$ 141.5	*$ 89.2*	*63 %*
Adjusted segment operating income	**$ 283.6**	$ 185.6	*$ 98.0*	*53 %*
Net income attributable to equity holders of the Company	**$ 123.7**	$ 46.2	*$ 77.5*	*168 %*
Basic and diluted EPS	**$ 0.39**	$ 0.15	*$ 0.24*	*160 %*
Adjusted EPS	**$ 0.52**	$ 0.25	*$ 0.27*	*108 %*
Net cash provided by (used in) operating activities	**$ 130.9**	$ (24.6)	*$ 155.5*	*632 %*
Free cash flow	**$ 42.6**	$ (74.0)	*$ 116.6*	*158 %*

EVENT AFTER THE REPORTING PERIOD

On October 24, 2023, we announced that we have reached a definitive agreement to sell CAE's Healthcare business to Madison Industries for an enterprise value of $311 million, subject to customary adjustments. This transaction better positions CAE to efficiently allocate capital and resources to secure growth opportunities on the horizon in our much larger, core simulation and training markets: Civil Aviation and Defense and Security. Closing of the transaction, which is subject to closing conditions, including customary regulatory approvals, is expected before the end of fiscal year 2024. Sale proceeds will be principally used to accelerate deleveraging, as well as to support CAE's continued focus on technology advancement, market leadership and cost optimization within its core training and simulation markets.

[1] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 9 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

2. INTRODUCTION

In this management's discussion and analysis (MD&A), *we, us, our, CAE* and *Company* refer to CAE Inc. and its subsidiaries. Unless we have indicated otherwise:
– *This year* and *2024* mean the fiscal year ending March 31, 2024;
– *Last year, prior year* and *a year ago* mean the fiscal year ended March 31, 2023;
– Dollar amounts are in Canadian dollars.

This MD&A was prepared as of November 14, 2023. It is intended to enhance the understanding of our unaudited consolidated interim financial statements and notes for the second quarter ended September 30, 2023 and should therefore be read in conjunction with this document and our annual audited consolidated financial statements for the year ended March 31, 2023. We have prepared it to help you understand our business, performance and financial condition for the second quarter of fiscal 2024. Except as otherwise indicated, all financial information has been reported in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and based on unaudited figures.

For additional information, please refer to our annual MD&A for the year ended March 31, 2023 which provides you with a view of CAE as seen through the eyes of management and helps you understand the Company from a variety of perspectives:
– Our mission;
– Our vision;
– Our strategy;
– Our operations;
– Foreign exchange;
– Non-IFRS and other financial measures;
– Consolidated results;
– Results by segment;
– Consolidated cash movements and liquidity;
– Consolidated financial position;
– Business combinations;
– Business risk and uncertainty;
– Related party transactions;
– Changes in accounting policies;
– Controls and procedures;
– Oversight role of Audit Committee and Board of Directors (the Board).

You will find our most recent financial report and Annual Information Form (AIF) on our website (www.cae.com), SEDAR+ (www.sedarplus.ca) and EDGAR (www.sec.gov). Holders of CAE's securities may also request a printed copy of the Company's consolidated financial statements and MD&A free of charge by contacting Investor Relations (investor.relations@cae.com).

NON-IFRS AND OTHER FINANCIAL MEASURES

This MD&A includes non-IFRS financial measures, non-IFRS ratios, capital management measures and supplementary financial measures. These measures are not standardized financial measures prescribed under IFRS and therefore should not be confused with, or used as an alternative for, performance measures calculated according to IFRS. Furthermore, these measures should not be compared with similarly titled measures provided or used by other issuers. Management believes that these measures provide additional insight into our operating performance and trends and facilitate comparisons across reporting periods.

Performance Measures

- Gross profit margin (or gross profit as a % of revenue);
- Operating income margin (or operating income as a % of revenue);
- Adjusted segment operating income or loss;
- Adjusted segment operating income margin (or adjusted segment operating income as a % of revenue);
- Adjusted effective tax rate;
- Adjusted net income or loss;
- Adjusted earnings or loss per share (EPS);
- EBITDA and Adjusted EBITDA;
- Free cash flow.

Liquidity and Capital Structure Measures

- Non-cash working capital;
- Capital employed;
- Return on capital employed (ROCE) and adjusted ROCE;
- Net debt;
- Net debt-to-capital;
- Net debt-to-EBITDA and net debt-to-adjusted EBITDA;
- Maintenance and growth capital expenditures.

Growth Measures

- Adjusted order intake;
- Adjusted backlog;
- Book-to-sales ratio.

Definitions of all non-IFRS and other financial measures are provided in Section 9.1 *"Non-IFRS and other financial measure definitions"* of this MD&A to give the reader a better understanding of the indicators used by management. In addition, when applicable, we provide a quantitative reconciliation of the non-IFRS and other financial measures to the most directly comparable measure under IFRS. Refer to Section 9.1 *"Non-IFRS and other financial measure definitions"* for references to where these reconciliations are provided.

ABOUT MATERIAL INFORMATION

This MD&A includes the information we believe is material to investors after considering all circumstances, including potential market sensitivity. We consider something to be material if:

- It results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares; or
- It is likely that a reasonable investor would consider the information to be important in making an investment decision.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, market trends and outlook, future revenues, earnings, cash flow growth, profit trends, growth capital spending, expansions and new initiatives, including initiatives that pertain to environmental, social and governance (ESG) matters, financial obligations, available liquidities, expected sales, general economic and political outlook, inflation trends, prospects and trends of an industry, expected annual recurring cost savings from operational excellence programs, our management of the supply chain, estimated addressable markets, demands for CAE's products and services, our access to capital resources, our financial position, the expected accretion in various financial metrics, the expected capital returns to shareholders, the sale of our Healthcare business (the Sale Transaction), the anticipated benefits and expected impacts therefrom on CAE's strategic and operational plans and financial results, the expected terms, conditions (including receipt of necessary regulatory approvals) and completion of the Sale Transaction, the anticipated cash consideration therefrom and the timing for completion thereof, our business outlook, business opportunities, objectives, development, plans, growth strategies and other strategic priorities, and our competitive and leadership position in our markets, the expansion of our market shares, CAE's ability and preparedness to respond to demand for new technologies, the sustainability of our operations and other statements that are not historical facts. Since forward-looking statements and information relate to future events or future performance and reflect current expectations or beliefs regarding future events, they are typically identified by words such as "anticipate", "believe", "could", "estimate", "expect", "intend", "likely", "may", "plan", "seek", "should", "will", "strategy", "future" or the negative thereof or other variations thereon suggesting future outcomes or statements regarding an outlook. All such statements constitute "forward-looking statements" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, readers are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate.

Important risks that could cause such differences include, but are not limited to, strategic risks, such as cybersecurity, geopolitical uncertainty, global economic conditions, competitive business environment, original equipment manufacturer (OEM) leverage and encroachment, inflation, international scope of our business, level and timing of defence spending, constraints within the civil aviation industry, our ability to penetrate new markets, research and development (R&D) activities, evolving standards and technology innovation and disruption, length of sales cycle, business development and awarding of new contracts, strategic partnerships and long-term contracts, risk that we cannot assure investors that we will effectively manage our growth, estimates of market opportunity and competing priorities; operational risks, such as supply chain disruptions, program management and execution, mergers and acquisitions, business continuity, subcontractors, fixed price and long-term supply contracts and our continued reliance on certain parties and information; talent risks, such as talent management, ability to attract, recruit and retain key personnel and management, corporate culture and labour relations; financial risks, such as availability of capital, customer credit risk, foreign exchange, effectiveness of internal controls over financial reporting, liquidity risk, interest rate volatility, returns to shareholders, estimates used in accounting, impairment risk, pension plan funding, indebtedness, acquisition and integration costs, sales of additional common shares, market price and volatility of our common shares, seasonality, taxation matters and adjusted backlog; regulatory risks, such as data rights and governance, U.S. foreign ownership, control or influence mitigation measures, compliance with laws and regulations, insurance coverage potential gaps, product-related liabilities, environmental laws and regulations, government audits and investigations, protection of our intellectual property and brand, third-party intellectual property, foreign private issuer status, and enforceability of civil liabilities against our directors and officers; ESG risks, such as extreme climate events and the impact of natural or other disasters (including effects of climate change) and more acute scrutiny and perception gaps regarding ESG matters; reputational risks; technological risks, such as information technology (IT) and reliance on third-party providers for information technology systems and infrastructure management; and risks relating to the Sale Transaction, such as all or part of the intended benefits therefrom not being realized or unanticipated carve out-related issues, costs or delays, failure to receive or delay in receiving necessary regulatory approvals or otherwise satisfy the conditions to the completion of the Sale Transaction or delay in completing it and uncertainty regarding the length of time required to complete the Sale Transaction, the impact of the announcement of the Sale Transaction on CAE's relationships with third parties, including commercial counterparties, suppliers, employees and competitors, strategic relationships, operating results and businesses generally, the occurrence of an event which would allow the parties to terminate their obligations, commitments and undertakings pursuant to the Sale Transaction documentation, changes in the terms of the Sale Transaction, the failure by the parties to fulfill their obligations, commitments and undertakings pursuant to the Sale Transaction documentation, and the failure to retain our key management, personnel and clients during the pendency and following completion of the Sale Transaction and risks associated with the loss and replacement of key management and personnel. If the proposed Sale Transaction is not completed for any reason, there is a risk that the announcement of such Sale Transaction and the dedication of substantial resources of CAE to the completion thereof could have a negative impact on our operating results and business generally, and could have a material adverse effect on our current and future operations, financial condition and prospects, including the loss of investor confidence in connection with our ability to execute our strategic plan. In addition, failure to complete the proposed Sale Transaction for any reason could materially negatively impact the market price of our securities and there can be no assurance that management will be successful in its efforts to identify and implement other strategic alternatives that would be in the best interests of CAE and its stakeholders within the context of existing market, regulatory and competitive conditions in the industries in which we operate, on favourable terms and timing or at all, and, if implemented, that such actions would have the planned results. We also have incurred significant transaction and related costs in connection with the proposed Sale Transaction, and additional significant or unanticipated costs may be incurred.

The foregoing list is not exhaustive and other unknown or unpredictable factors could also have a material adverse effect on the performance or results of CAE. Additionally, differences could arise because of events announced or completed after the date of this MD&A. You will find more information about the risks and uncertainties affecting our business in our 2023 financial report. Readers are cautioned that any of the disclosed risks could have a material adverse effect on CAE's forward-looking statements. Readers are also cautioned that the risks described above and elsewhere in this MD&A are not necessarily the only ones we face; additional risks and uncertainties that are presently unknown to us or that we may currently deem immaterial may adversely affect our business.

Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking information and statements contained in this MD&A are expressly qualified by this cautionary statement.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this MD&A. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

MATERIAL ASSUMPTIONS

The forward-looking statements set out in this MD&A are based on certain assumptions including, without limitation: the prevailing market conditions, geopolitical instability, the customer receptivity to our training and operational support solutions, the accuracy of our estimates of addressable markets and market opportunity, the realization of anticipated annual recurring cost savings and other intended benefits from restructuring initiatives and operational excellence programs, the ability to respond to anticipated inflationary pressures and our ability to pass along rising costs through increased prices, the actual impact to supply, production levels, and costs from global supply chain logistics challenges, the stability of foreign exchange rates, the ability to hedge exposures to fluctuations in interest rates and foreign exchange rates, the availability of borrowings to be drawn down under, and the utilization, of one or more of our senior credit agreements, our available liquidity from cash and cash equivalents, undrawn amounts on our revolving credit facility, the balance available under our receivable purchase facility, the assumption that our cash flows from operations and continued access to debt funding will be sufficient to meet financial requirements in the foreseeable future, access to expected capital resources within anticipated timeframes, no material financial, operational or competitive consequences from changes in regulations affecting our business, our ability to retain and attract new business, our ability to achieve synergies and maintain market position arising from successful integration plans relating to the L3Harris Technologies' Military Training business (L3H MT) and Sabre's AirCentre airline operations portfolio (AirCentre) acquisitions, our ability to otherwise complete the integration of the L3H MT and AirCentre businesses acquired within anticipated time periods and at expected cost levels, our ability to attract and retain key employees in connection with the L3H MT and AirCentre acquisitions, management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the L3H MT and AirCentre acquisitions and resulting impact on growth and accretion in various financial metrics, the realization of the expected strategic, financial and other benefits of the L3H MT and AirCentre acquisitions in the timeframe anticipated, economic and political environments and industry conditions, the accuracy and completeness of public and other disclosure, including financial disclosure, by L3H MT and AirCentre, the absence of significant undisclosed costs or liabilities associated with the L3H MT and AirCentre acquisitions, the satisfaction of all closing conditions of the Sale Transaction, including receipt of all necessary regulatory approvals and other consents and approvals in a timely manner and on terms acceptable to CAE, our ability to otherwise complete the Sale Transaction within anticipated time periods and at expected cost levels, management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the Sale Transaction, the realization of the expected strategic, financial and other benefits of the Sale Transaction in the timeframe anticipated (including receipt of expected proceeds and intended use thereof), and fulfillment by the other parties of their respective obligations, commitments and undertakings pursuant to the Sale Transaction documentation. Air travel is a major driver for CAE's business and management relies on analysis from the International Air Transport Association (IATA) to inform its assumptions about the rate and profile of recovery in its key civil aviation market. Accordingly, the assumptions outlined in this MD&A and, consequently, the forward-looking statements based on such assumptions, may turn out to be inaccurate.

3. ABOUT CAE

3.1 Who we are

At CAE, we equip people in critical roles with the expertise and solutions to create a safer world. As a technology company, we digitalize the physical world, deploying software-based simulation training and critical operations support solutions. Above all else, we empower pilots, cabin crew, airlines, defence and security forces and healthcare practitioners to perform at their best every day and when the stakes are the highest. Around the globe, we're everywhere customers need us to be with more than 13,000 employees in approximately 250 sites and training locations in over 40 countries. CAE represents more than 75 years of industry firsts–the highest-fidelity flight, mission and medical simulators and training programs powered by digital technologies. We embed sustainability in everything we do. Today and tomorrow, we'll make sure our customers are ready for the moments that matter.

CAE's common shares are listed on the Toronto and New York stock exchanges (TSX / NYSE) under the symbol CAE.

3.2 Our mission

To lead at the frontier of digital immersion with high-tech training and operational support solutions to make the world a safer place.

3.3 Our vision

To be the worldwide partner of choice in civil aviation, defence and security and healthcare by revolutionizing our customers' training and critical operations with digitally immersive solutions to elevate safety, efficiency and readiness.

3.4 Our strategy

CAE's four strategic pillars

There are four fundamental pillars that underpin our strategy and investment thesis:

- Efficient growth;
- Revolutionizing training and critical operations;
- Technology and market leadership;
- Skills and culture.

For further details, refer to Section 3.4 *"Our Strategy"* of CAE's MD&A for the year ended March 31, 2023 available on our website (www.cae.com), SEDAR+ (www.sedarplus.ca) and EDGAR (www.sec.gov).

3.5 Our operations

Our operations are managed through three segments:

- Civil Aviation – We provide comprehensive training solutions for flight, cabin, maintenance and ground personnel in commercial, business and helicopter aviation, a complete range of flight simulation training devices, ab initio pilot training and crew sourcing services, as well as aircraft flight operations solutions. The civil aviation market includes major commercial airlines, regional airlines, business aircraft operators, civil helicopter operators, aircraft manufacturers, third-party training centres, flight training organizations, maintenance, repair and overhaul organizations (MRO) and aircraft finance leasing companies;
- Defense and Security – We are a platform-independent training and simulation solutions provider, preparing global defence and security forces for the mission ahead. The defence and security market includes defence forces, OEMs, government agencies and public safety organizations worldwide;
- Healthcare – We offer healthcare students and clinical professionals integrated physical, digital and virtual education and training solutions, including interventional and imaging simulations, curricula, mixed-reality and digital learning, audiovisual debriefing solutions, centre management platforms and patient simulators. The healthcare market includes hospital and university simulation centres, medical and nursing schools, paramedic organizations, defence forces, medical societies, public health agencies and OEMs.

Subsequent to the end of the second quarter, we announced that we have reached a definitive agreement to sell CAE's Healthcare business. Closing of the transaction, which is subject to closing conditions, including customary regulatory approvals, is expected before the end of fiscal year 2024. You will find more details in Section 10 "*Event after the reporting period*" of this MD&A. There have been no other significant changes to our operations since the end of fiscal 2023. For further details, refer to Section 3.5 *"Our Operations"* of CAE's MD&A for the year ended March 31, 2023 available on our website (www.cae.com), SEDAR+ (www.sedarplus.ca) and EDGAR (www.sec.gov).

4. FOREIGN EXCHANGE

We report all dollar amounts in Canadian dollars. We value assets, liabilities and transactions that are measured in foreign currencies using various exchange rates as required by IFRS.

The tables below show the variations of the closing and average exchange rates for the three main currencies in which we operate.

We used the closing foreign exchange rates below to value our assets, liabilities and adjusted backlog in Canadian dollars at the end of each of the following periods:

	September 30 2023	June 30 2023	Increase / (decrease)	March 31 2023	Increase / (decrease)
U.S. dollar (US$ or USD)	**1.36**	1.32	*3 %*	1.35	*1 %*
Euro (€ or EUR)	**1.43**	1.44	*(1 %)*	1.47	*(3 %)*
British pound (£ or GBP)	**1.65**	1.68	*(2 %)*	1.67	*(1 %)*

We used the average quarterly and year-to-date foreign exchange rates below to value our revenues and expenses throughout the following periods:

	Three months ended September 30			**Six months ended September 30**		
	2023	2022	Increase / (decrease)	**2023**	2022	Increase / (decrease)
U.S. dollar (US$ or USD)	**1.34**	1.30	*3 %*	**1.34**	1.29	*4 %*
Euro (€ or EUR)	**1.46**	1.31	*11 %*	**1.46**	1.34	*9 %*
British pound (£ or GBP)	**1.70**	1.54	*10 %*	**1.69**	1.57	*8 %*

The effect of translating the results of our foreign operations into Canadian dollars resulted in an increase in this quarter's revenue of $32.6 million and an increase in net income of $3.6 million when compared to the second quarter of fiscal 2023. For the first six months of fiscal 2024, the effect of translating the results of our foreign operations into Canadian dollars resulted in an increase in revenue of $70.9 million and an increase in net income of $8.5 million when compared to the first six months of fiscal 2023. We calculated this by translating the current quarter foreign currency revenue and net income of our foreign operations using the average monthly exchange rates from the prior year's second quarter and comparing these adjusted amounts to our current quarter reported results. You will find more details about our foreign exchange exposure and hedging strategies in Section 9 "*Business Risk and Uncertainty*" in our MD&A for the year ended March 31, 2023.

5. CONSOLIDATED RESULTS

5.1 Results from operations – second quarter of fiscal 2024

(amounts in millions, except per share amounts)		**Q2-2024**	Q1-2024	Q4-2023	Q3-2023	Q2-2023
Revenue	$	**1,088.5**	1,054.4	1,256.5	1,020.3	993.2
Cost of sales	$	**785.4**	748.5	894.7	722.3	719.6
Gross profit	$	**303.1**	305.9	361.8	298.0	273.6
As a % of revenue[2]	%	***27.8***	*29.0*	*28.8*	*29.2*	*27.5*
Research and development expenses	$	**34.6**	39.1	40.0	30.2	32.2
Selling, general and administrative expenses	$	**148.2**	139.7	149.7	138.1	128.0
Other (gains) and losses	$	**(3.9)**	(1.4)	(10.5)	(6.7)	(3.2)
After-tax share in profit of equity accounted investees	$	**(14.3)**	(16.6)	(19.3)	(14.4)	(8.1)
Restructuring, integration and acquisition costs	$	**37.9**	15.0	15.3	4.9	22.6
Operating income	$	**100.6**	130.1	186.6	145.9	102.1
As a % of revenue[2]	%	***9.2***	*12.3*	*14.9*	*14.3*	*10.3*
Finance expense – net	$	**48.0**	54.1	51.4	48.8	41.3
Earnings before income taxes	$	**52.6**	76.0	135.2	97.1	60.8
Income tax (recovery) expense	$	**(8.5)**	8.2	33.3	17.1	14.5
As a % of earnings before income taxes (effective tax rate)	%	***(16)***	*11*	*25*	*18*	*24*
Net income	$	**61.1**	67.8	101.9	80.0	46.3
Attributable to:						
Equity holders of the Company	$	**58.4**	65.3	98.4	78.1	44.5
Non-controlling interests	$	**2.7**	2.5	3.5	1.9	1.8
	$	**61.1**	67.8	101.9	80.0	46.3
EPS attributable to equity holders of the Company						
Basic	$	**0.18**	0.21	0.31	0.25	0.14
Diluted	$	**0.18**	0.20	0.31	0.25	0.14
Adjusted segment operating income[2]	$	**138.5**	145.1	201.9	160.6	124.7
Adjusted net income[2]	$	**87.4**	76.8	110.9	89.2	61.5
Adjusted EPS[2]	$	**0.27**	0.24	0.35	0.28	0.19

Revenue was 10% higher compared to the second quarter of fiscal 2023
Revenue was $1,088.5 million this quarter, $95.3 million or 10% higher compared to the second quarter of fiscal 2023. For the first six months of fiscal 2024, revenue was $2,142.9 million, $216.4 million or 11% higher than the same period last year.

Revenue variances by segment were as follows:

(amounts in millions)

Three months ended September 30		**2023**		2022		*Variance $*	*Variance %*
Civil Aviation	$	**572.6**	$	507.2	*$*	*65.4*	*13 %*
Defense and Security		**477.4**		442.4		*35.0*	*8 %*
Healthcare		**38.5**		43.6		*(5.1)*	*(12 %)*
Revenue	$	**1,088.5**	$	993.2	*$*	*95.3*	*10 %*

Six months ended September 30		**2023**		2022		*Variance $*	*Variance %*
Civil Aviation	$	**1,112.9**	$	987.6	*$*	*125.3*	*13 %*
Defense and Security		**949.1**		855.7		*93.4*	*11 %*
Healthcare		**80.9**		83.2		*(2.3)*	*(3 %)*
Revenue	$	**2,142.9**	$	1,926.5	*$*	*216.4*	*11 %*

You will find more details in Section 6 "*Results by segment*" of this MD&A.

2 Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 9 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

Gross profit was 11% higher compared to the second quarter of fiscal 2023
Gross profit was $303.1 million this quarter (27.8% of revenue) compared to $273.6 million (27.5% of revenue) in the second quarter of fiscal 2023. The increase in gross profit compared to the second quarter of fiscal 2023 was mainly due to higher revenue recognized during the period. The overall gross profit margin was stable compared to the second quarter of fiscal 2023.

For the first six months of fiscal 2024, gross profit was $609.0 million (28.4% of revenue) compared to $506.5 million (26.3% of revenue) last year. The increase in gross profit compared to the first six months of fiscal 2023 was mainly due to higher revenue recognized during the period. The higher consolidated gross profit margin this year was mainly due to a more favourable sales mix on Civil training services. The higher gross profit margin was also due to the unfavourable contract profit adjustments recorded in Defense and Security in the first quarter of fiscal 2023.

Operating income was stable compared to the second quarter of fiscal 2023
Operating income this quarter was $100.6 million (9.2% of revenue), compared to $102.1 million (10.3% of revenue) in the second quarter of fiscal 2023. For the first six months of fiscal 2024, operating income was $230.7 million (10.8% of revenue), compared to $141.5 million (7.3% of revenue) last year.

Operating income (loss) variances by segment were as follows:

(amounts in millions)

Three months ended September 30	**2023**	2022	*Variance $*	*Variance %*
Civil Aviation	**$ 88.4**	$ 88.4	*$ —*	*— %*
Defense and Security	**9.3**	12.1	*(2.8)*	*(23 %)*
Healthcare	**2.9**	1.6	*1.3*	*81 %*
Operating income	**$ 100.6**	$ 102.1	*$ (1.5)*	*(1 %)*

Six months ended September 30	**2023**	2022	*Variance $*	*Variance %*
Civil Aviation	**$ 194.0**	$ 163.8	*$ 30.2*	*18 %*
Defense and Security	**32.0**	(18.2)	*50.2*	*276 %*
Healthcare	**4.7**	(4.1)	*8.8*	*215 %*
Operating income	**$ 230.7**	$ 141.5	*$ 89.2*	*63 %*

You will find more details in Section 6 "*Results by segment*" of this MD&A.

Adjusted segment operating income was 11% higher compared to the second quarter of fiscal 2023
Adjusted segment operating income was $138.5 million this quarter (12.7% of revenue), compared to $124.7 million (12.6% of revenue) in the second quarter of fiscal 2023. For the first six months of fiscal 2024, adjusted segment operating income was $283.6 million (13.2% of revenue) compared to $185.6 million (9.6% of revenue) last year.

Adjusted segment operating income (loss) variances by segment were as follows:

(amounts in millions)

Three months ended September 30	**2023**	2022	*Variance $*	*Variance %*
Civil Aviation	**$ 114.3**	$ 104.4	*$ 9.9*	*9 %*
Defense and Security	**21.3**	18.4	*2.9*	*16 %*
Healthcare	**2.9**	1.9	*1.0*	*53 %*
Adjusted segment operating income	**$ 138.5**	$ 124.7	*$ 13.8*	*11 %*

Six months ended September 30	**2023**	2022	*Variance $*	*Variance %*
Civil Aviation	**$ 233.3**	$ 191.0	*$ 42.3*	*22 %*
Defense and Security	**45.6**	(2.8)	*48.4*	*1,729 %*
Healthcare	**4.7**	(2.6)	*7.3*	*281 %*
Adjusted segment operating income	**$ 283.6**	$ 185.6	*$ 98.0*	*53 %*

You will find more details in Section 6 "*Results by segment*" of this MD&A.

Finance expense - net was 16% higher compared to the second quarter of fiscal 2023
The increase was mainly due to higher finance expense on long-term debt from an increase in variable interest rates.

For the first six months of fiscal 2024, net finance expense was $102.1 million, $24.6 million higher compared to the same period last year. The increase was mainly due to higher finance expense on long-term debt from an increase in variable interest rates and an increased level of borrowings during the period, and higher finance expense on lease liabilities.

We are incurring higher finance expense, commensurate with central bank monetary tightening policies.

Effective tax rate was negative 16% this quarter
Income tax recovery this quarter amounted to $8.5 million, representing an effective tax rate of negative 16%, compared to an effective tax rate of 24% for the second quarter of fiscal 2023. The adjusted effective tax rate[3] on our adjusted net income was nil this quarter compared to 24% in the second quarter of fiscal 2023. The decrease in the adjusted effective tax rate was mainly attributable to the recognition of previously unrecognized deferred tax assets in relation to the statutory combination of certain foreign operations and the mix of income from various jurisdictions.

For the first six months of fiscal 2024, the income tax recovery amounted to $0.3 million, representing an effective tax rate of nil compared to an effective tax rate of 22% for the same period last year. The adjusted effective tax rate on our adjusted net income was 7% for the first six months of fiscal 2024 compared to 23% for the same period last year. The decrease in the adjusted effective tax rate was mainly attributable to the recognition of previously unrecognized deferred tax assets in relation to the statutory combination of certain foreign operations, the mix of income from various jurisdictions and an income tax benefit resulting from the tax court decision, in the first quarter of fiscal 2024.

5.2 Restructuring, integration and acquisition costs

	Three months ended September 30				Six months ended September 30			
(amounts in millions)		**2023**		2022		**2023**		2022
Integration and acquisition costs	**$**	**26.9**	$	19.6	**$**	**41.9**	$	36.3
Severances and other employee related costs		**11.0**		2.7		**11.0**		2.7
Impairment of non-financial assets - net		**—**		—		**—**		2.3
Other costs		**—**		0.3		**—**		2.8
Total restructuring, integration and acquisition costs	**$**	**37.9**	$	22.6	**$**	**52.9**	$	44.1

For the three and six months ended September 30, 2023, restructuring, integration and acquisition costs associated with the fiscal 2022 acquisition of Sabre's AirCentre airline operations portfolio (AirCentre) amounted to $25.6 million and $38.5 million (2022 – $15.4 million and $21.8 million), respectively, and those related to the fiscal 2022 acquisition of L3Harris Technologies' Military Training business (L3H MT) amounted to $11.9 million and $13.2 million (2022 – $6.2 million and $15.8 million), respectively.

The ongoing integration costs associated with the AirCentre acquisition relate mainly to IT infrastructure migration and integration and are expected to be substantially complete by mid fiscal 2025. While a significant portion of the integration costs associated with the L3H MT acquisition were incurred by the end of fiscal 2023, additional integration costs were incurred in fiscal 2024 following the completion of IT infrastructure and systems integration and structural organizational changes.

[3] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 9 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

5.3 Consolidated adjusted order intake and adjusted backlog

Adjusted backlog[4] up 5% compared to last quarter

(amounts in millions)	Three months ended September 30, 2023	Six months ended September 30, 2023
Obligated backlog, beginning of period	$ 8,761.3	$ 8,961.9
+ adjusted order intake[4]	1,183.6	2,193.9
- revenue	(1,088.5)	(2,142.9)
+ / - adjustments	89.9	(66.6)
Obligated backlog, end of period	$ 8,946.3	$ 8,946.3
Joint venture backlog (all obligated)	284.5	284.5
Unfunded backlog and options	2,542.3	2,542.3
Adjusted backlog	$ 11,773.1	$ 11,773.1

Adjustments this quarter were mainly due to foreign exchange movements.

The book-to-sales ratio[4] for the quarter was 1.09x. The ratio for the last 12 months was 1.11x.

This quarter, $155.5 million was added to the unfunded backlog and $219.2 million was transferred to obligated backlog.

You will find more details in Section 6 "*Results by segment*" of this MD&A.

[4] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 9 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

6. RESULTS BY SEGMENT

We manage our business and report our results in three segments:
– Civil Aviation;
– Defense and Security;
– Healthcare.

The method used for the allocation of assets jointly used by the operating segments and costs and liabilities jointly incurred (mostly corporate costs) between operating segments is based on the level of utilization when determinable and measurable, otherwise the allocation is based on a proportion of each segment's cost of sales and revenue.

Unless otherwise indicated, elements within our segment revenue and adjusted segment operating income analysis are presented in order of magnitude.

6.1 Civil Aviation

SECOND QUARTER OF FISCAL 2024

CONTRACT AWARDS

Civil Aviation obtained contracts this quarter expected to generate revenues of $617.8 million including contracts for 15 full-flight simulators (FFSs) sold in the quarter, bringing the FFS order intake for the first six months of the fiscal year to 37 FFSs.

Notable contract awards for the quarter included:
– Six Boeing B737 Max FFSs and two previous B737 Max FFS options converted to firm orders to Ryanair;
– A 7-year next-gen crew management and aircraft operations solutions agreement with Air India;
– A 5-year next-gen crew management and flight operations solutions agreement with Wizz Air;
– Two Airbus A320 FFSs to United Airlines;
– A multi-year commercial aviation training agreement with Delta;
– A 2-year business aviation training agreement with Windrose Air Jetcharter GmbH.

FINANCIAL RESULTS

(amounts in millions)		**Q2-2024**	Q1-2024	Q4-2023	Q3-2023	Q2-2023
Revenue	$	**572.6**	540.3	661.4	517.4	507.2
Operating income	$	**88.4**	105.6	149.3	117.2	88.4
Adjusted segment operating income	$	**114.3**	119.0	162.9	131.4	104.4
As a % of revenue[5]	%	***20.0***	*22.0*	*24.6*	*25.4*	*20.6*
Depreciation and amortization	$	**65.2**	66.2	64.0	63.5	57.4
Property, plant and equipment expenditures	$	**37.5**	64.4	49.5	58.4	64.6
Intangible asset expenditures	$	**22.7**	31.8	24.8	22.1	26.0
Capital employed[5]	$	**4,778.8**	4,710.9	4,710.4	4,673.3	4,520.8
Adjusted backlog	$	**5,903.1**	5,764.8	5,730.8	5,647.6	5,457.1
Supplementary non-financial information						
Simulator equivalent unit		**268**	268	265	263	252
FFSs in CAE's network		**331**	327	324	323	315
Utilization rate	%	**71**	77	78	73	66
FFS deliveries		**11**	6	17	9	10

Revenue up 13% compared to the second quarter of fiscal 2023
The increase in revenue compared to the second quarter of fiscal 2023 was mainly due to higher utilization and increased volume from recently deployed simulators in our network, higher revenue from simulator lifecycle support services, a more favourable sales mix on training services and the foreign exchange impact on the translation of our foreign operations.

[5] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 9 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

Revenue year to date was $1,112.9 million, $125.3 million or 13% higher than the same period last year. The increase was mainly due to higher utilization and increased volume from recently deployed simulators in our network, a more favourable sales mix on training services, and the foreign exchange impact on the translation of our foreign operations. The increase was partially offset by lower revenue recognized from simulator sales.

Operating income was stable compared to the second quarter of fiscal 2023
Operating income was $88.4 million (15.4% of revenue) this quarter, compared to $88.4 million (17.4% of revenue) in the second quarter of fiscal 2023. This quarter's operating income included restructuring, integration and acquisition costs of $25.9 million compared to $16.0 million in the second quarter of fiscal 2023.

Higher utilization and increased volume from recently deployed simulators in our network and a more favourable sales mix on training services in the second quarter of fiscal 2024 were offset by higher restructuring, integration and acquisition costs, higher selling, general and administrative expenses and higher research and development costs.

Operating income for the first six months of the year was $194.0 million (17.4% of revenue), $30.2 million or 18% higher than the same period last year. This period's operating income included restructuring, integration and acquisition costs of $39.3 million compared to $27.2 million in the same period last year.

The increase compared to the first six months of fiscal 2023 was mainly due to a more favourable sales mix on training services, and higher utilization and increased volume from recently deployed simulators in our network. The increase was partially offset by higher restructuring, integration and acquisition costs, a lower contribution from simulator sales and higher selling, general and administrative expenses.

Adjusted segment operating income up 9% compared to the second quarter of fiscal 2023
Adjusted segment operating income was $114.3 million (20.0% of revenue) this quarter, compared to $104.4 million (20.6% of revenue) in the second quarter of fiscal 2023.

The increase compared to the second quarter of fiscal 2023 was mainly due to higher utilization and increased volume from recently deployed simulators in our network and a more favourable sales mix on training services. The increase was partially offset by higher selling, general and administrative expenses and higher research and development costs.

Adjusted segment operating income for the first six months of the year was $233.3 million (21.0% of revenue), $42.3 million or 22% higher than the same period last year. The increase was mainly due to a more favourable sales mix on training services, higher utilization and increased volume from recently deployed simulators in our network. The increase was partially offset by a lower contribution from simulator sales and higher selling, general and administrative expenses.

Property, plant and equipment expenditures at $37.5 million this quarter
Growth capital expenditures were $22.7 million for the quarter and maintenance capital expenditures were $14.8 million.

Capital employed increased by $67.9 million compared to last quarter
The increase compared to last quarter was mainly due to movements in foreign exchange rates, higher right-of-use assets in support of training network expansions, a higher investment in equity accounted investees and higher property, plant and equipment expenditures. The increase was partially offset by a lower investment in non-cash working capital driven by higher contract liabilities.

Adjusted backlog up 2% compared to last quarter

(amounts in millions)	Three months ended September 30, 2023	Six months ended September 30, 2023
Obligated backlog, beginning of period	$ 5,626.1	$ 5,555.2
+ adjusted order intake	617.8	1,348.0
- revenue	(572.6)	(1,112.9)
+ / - adjustments	74.2	(44.8)
Obligated backlog, end of period	$ 5,745.5	$ 5,745.5
Joint venture backlog (all obligated)	157.6	157.6
Adjusted backlog	$ 5,903.1	$ 5,903.1

Adjustments this quarter were mainly due to foreign exchange movements.

This quarter's book-to-sales ratio was 1.08x. The ratio for the last 12 months was 1.27x.

6.2 Defense and Security

SECOND QUARTER OF FISCAL 2024

CONTRACT AWARDS

Defense and Security was awarded $527.3 million in orders this quarter, and unfunded contracts in the quarter valued at $155.5 million. Notable contract awards include:

– The USAF for the modification and maintenance of F-16 training devices;
– The U.S. Army to provide support services for the Advanced Helicopter Flight Training Support Services for aircrew and non-aircrew personnel;
– The USAF to upgrade the operating system for various training devices;
– Leidos to support the U.S. Army High Accuracy Detection and Exploitation System by providing Flight Training Service for the Bombardier Global 6000/6500 Full Flight Simulator at the CAE Dothan Training Center;
– Bell Textron to support the U.S. Army Future Long Range Assault Aircraft program. As part of a teaming arrangement with Bell for their Future Vertical Lift family of systems, CAE is expected to provide maintenance training devices, assist in the development of flight training devices, and deliver other training products.

FINANCIAL RESULTS

(amounts in millions)		**Q2-2024**	Q1-2024	Q4-2023	Q3-2023	Q2-2023
Revenue	$	**477.4**	471.7	536.0	452.5	442.4
Operating income	$	**9.3**	22.7	29.0	24.9	12.1
Adjusted segment operating income	$	**21.3**	24.3	30.5	25.4	18.4
As a % of revenue	%	***4.5***	*5.2*	*5.7*	*5.6*	*4.2*
Depreciation and amortization	$	**23.2**	23.6	23.2	21.7	21.0
Property, plant and equipment expenditures	$	**23.9**	25.8	11.9	4.8	3.5
Intangible asset expenditures	$	**6.7**	6.5	9.4	5.6	6.4
Capital employed	$	**2,697.4**	2,698.6	2,565.0	2,514.5	2,641.2
Adjusted backlog	$	**5,870.0**	5,418.7	5,065.6	5,147.5	5,180.8

Revenue up 8% compared to the second quarter of fiscal 2023

The increase in revenue compared to the second quarter of fiscal 2023 was mainly due to a higher level of activity on our North American programs and to the foreign exchange impact on the translation of our foreign operations.

Revenue year to date was $949.1 million, $93.4 million or 11% higher than the same period last year. The increase was mainly due a higher level of activity on our North American and Australasian programs and to the foreign exchange impact on the translation of our foreign operations.

Operating income decreased $2.8 million compared to the second quarter of fiscal 2023

Operating income was $9.3 million (1.9% of revenue) this quarter, compared to $12.1 million (2.7% of revenue) in the second quarter of fiscal 2023. This quarter's operating income included restructuring, integration and acquisition costs of $12.0 million compared to $6.3 million in the second quarter of fiscal 2023.

The decrease compared to the second quarter of fiscal 2023 was mainly due to higher restructuring, integration and acquisition costs and higher selling, general and administrative expenses from higher bid and proposal costs associated with the pursuit of a larger Defense and Security pipeline, partially offset by higher profitability on our North American programs and in our joint ventures.

Operating income for the first six months of the year was $32.0 million (3.4% of revenue), $50.2 million or 276% higher than the same period last year. This period's operating income included restructuring, integration and acquisition costs of $13.6 million compared to $15.4 million in the same period last year.

The increase compared to the first six months of fiscal 2023 was mainly due to higher profitability on our North American programs, compared to the prior year, which included the impact of the unfavourable contract profit adjustments on two U.S programs in the first quarter of fiscal 2023, higher profitability in our joint ventures and lower restructuring, integration and acquisition costs.

Adjusted segment operating income up 16% compared to the second quarter of fiscal 2023

Adjusted segment operating income was $21.3 million (4.5% of revenue) this quarter, compared to $18.4 million (4.2% of revenue) in the second quarter of fiscal 2023.

The increase compared to the second quarter of fiscal 2023 was mainly due to higher profitability on our North American programs and in our joint ventures, partially offset by higher selling, general and administrative expenses from higher bid and proposal costs associated with the pursuit of a larger Defense and Security pipeline.

Adjusted segment operating income for the first six months of the year was $45.6 million (4.8% of revenue), $48.4 million higher than the same period last year. The increase was mainly due to higher profitability on our North American programs compared to the prior year, which included the impact of the unfavourable contract profit adjustments on two U.S programs in the first quarter of fiscal 2023, and higher profitability in our joint ventures.

Property, plant and equipment expenditures at $23.9 million this quarter
Growth capital expenditures were $16.0 million for the quarter and maintenance capital expenditures were $7.9 million.

Capital employed stable compared to last quarter
A lower investment in non-cash working capital was offset by movements in foreign exchange rates.

Adjusted backlog up 8% compared to last quarter

(amounts in millions)	Three months ended September 30, 2023	Six months ended September 30, 2023
Obligated backlog, beginning of period	$ 3,135.2	$ 3,406.7
+ adjusted order intake	527.3	765.0
- revenue	(477.4)	(949.1)
+ / - adjustments	15.7	(21.8)
Obligated backlog, end of period	$ 3,200.8	$ 3,200.8
Joint venture backlog (all obligated)	126.9	126.9
Unfunded backlog and options	2,542.3	2,542.3
Adjusted backlog	$ 5,870.0	$ 5,870.0

Adjustments this quarter were mainly due to foreign exchange movements.

This quarter's book-to-sales ratio was 1.10x. The ratio for the last 12 months was 0.93x.

This quarter, $155.5 million was added to the unfunded backlog and $219.2 million was transferred to obligated backlog.

6.3 Healthcare

SECOND QUARTER OF FISCAL 2024

FINANCIAL RESULTS

(amounts in millions)		**Q2-2024**	Q1-2024	Q4-2023	Q3-2023	Q2-2023
Revenue	$	**38.5**	42.4	59.1	50.4	43.6
Operating income	$	**2.9**	1.8	8.3	3.8	1.6
Adjusted segment operating income	$	**2.9**	1.8	8.5	3.8	1.9
As a % of revenue	%	***7.5***	*4.2*	*14.4*	*7.5*	*4.4*
Depreciation and amortization	$	**2.8**	2.4	2.2	3.1	3.5
Property, plant and equipment expenditures	$	**0.5**	0.4	1.5	0.2	0.5
Intangible asset expenditures	$	**3.1**	1.4	2.3	1.9	2.5
Capital employed	$	**244.4**	234.5	240.8	253.6	251.0

Revenue down 12% compared to the second quarter of fiscal 2023
The decrease in revenue compared to the second quarter of fiscal 2023 was mainly due to decreased sales of patient and ultrasound simulators. The decrease was partially offset by increased sales of center management solutions, driven by growth in our CAE LearningSpace simulation platform.

Revenue year to date was $80.9 million, $2.3 million or 3% lower than the same period last year. The decrease was mainly due to decreased sales of patient and ultrasound simulators. The decrease was partially offset by increased sales of center management solutions, driven by growth in our CAE LearningSpace simulation platform.

Operating income increased $1.3 million compared to the second quarter of fiscal 2023
Operating income was $2.9 million (7.5% of revenue) this quarter, compared to $1.6 million (3.7% of revenue) in the second quarter of fiscal 2023. Last year's second quarter operating income included restructuring, integration and acquisition costs of $0.3 million compared to nil this year.

The increase compared to the second quarter of fiscal 2023 was mainly due to lower research and development costs and higher gross margin, partially offset by lower revenue, as described above.

Operating income for the first six months of the year was $4.7 million, compared to a loss of $4.1 million for the same period last year. Last year's operating loss included restructuring, integration and acquisition costs of $1.5 million compared to nil this year.

The increase of $8.8 million compared to the first six months of fiscal 2023 was mainly due to lower research and development costs, higher gross margin and lower restructuring, integration and acquisition costs.

Adjusted segment operating income up 53% compared to the second quarter of fiscal 2023
Adjusted segment operating income was $2.9 million (7.5% of revenue) this quarter, compared to $1.9 million (4.4% of revenue) in the second quarter of fiscal 2023.

The increase compared to the second quarter of fiscal 2023 was mainly due to lower research and development costs and higher gross margin, partially offset by lower revenue, as described above.

Adjusted segment operating income for the first six months of the year was $4.7 million (5.8% of revenue), $7.3 million higher than the same period last year. The increase was mainly due to lower research and development costs and higher gross margin.

Capital employed increased by $9.9 million compared to last quarter
The increase compared to last quarter was mainly due to movements in foreign exchange rates and higher non-cash working capital.

7. CONSOLIDATED CASH MOVEMENTS AND LIQUIDITY

We manage liquidity and regularly monitor the factors that could affect it, including:

– Cash generated from operations, including timing of milestone payments and management of working capital;
– Capital expenditure requirements;
– Scheduled repayments of long-term debt obligations, our credit capacity and expected future debt market conditions.

7.1 Consolidated cash movements

	Three months ended September 30		Six months ended September 30	
(amounts in millions)	**2023**	2022	**2023**	2022
Cash provided by operating activities*	**$ 113.1**	$ 138.0	**$ 243.5**	$ 205.7
Changes in non-cash working capital	**67.1**	—	**(112.6)**	(230.3)
Net cash provided by (used in) operating activities	**$ 180.2**	$ 138.0	**$ 130.9**	$ (24.6)
Maintenance capital expenditures[6]	**(22.9)**	(15.0)	**(58.6)**	(31.9)
Change in ERP and other assets	**(7.6)**	(5.5)	**(24.8)**	(19.9)
Proceeds from the disposal of property, plant and equipment	**0.2**	0.5	**3.6**	4.5
Net payments to equity accounted investees	**(12.9)**	(9.6)	**(25.6)**	(8.5)
Dividends received from equity accounted investees	**10.5**	—	**17.1**	6.4
Free cash flow[6]	**$ 147.5**	$ 108.4	**$ 42.6**	$ (74.0)
Growth capital expenditures[6]	**(39.0)**	(53.6)	**(93.9)**	(110.6)
Capitalized development costs	**(28.9)**	(29.4)	**(51.5)**	(45.4)
Net proceeds from the issuance of common shares	**3.5**	3.8	**6.9**	15.3
Business combinations, net of cash acquired	**—**	(6.4)	**—**	(6.4)
Other cash movements, net	**2.7**	(0.1)	**2.7**	(0.1)
Effect of foreign exchange rate changes on cash and cash equivalents	**1.1**	7.2	**(2.7)**	4.7
Net change in cash before proceeds and repayment of long-term debt	**$ 86.9**	$ 29.9	**$ (95.9)**	$ (216.5)

* before changes in non-cash working capital

Net cash from operating activities was $180.2 million this quarter
Net cash from operating activities was $42.2 million higher compared to the second quarter of fiscal 2023. The increase was mainly due to a higher contribution from non-cash working capital and higher net income.

Net cash from operating activities for the first six months of the year was $130.9 million, $155.5 million higher than the same period last year. The increase was mainly due to a lower investment in non-cash working capital and higher net income.

Free cash flow was $147.5 million this quarter
Free cash flow was $39.1 million higher compared to the second quarter of fiscal 2023. The increase was mainly due to a higher contribution from non-cash working capital, partially offset by lower cash provided by operating activities.

Free cash flow for the first six months of the year was $42.6 million, $116.6 million higher than the same period last year. The increase was mainly due to a lower investment in non-cash working capital and higher cash provided by operating activities, partially offset by higher maintenance capital expenditures and higher payments to equity accounted investees.

Property, plant and equipment expenditures were $61.9 million this quarter
Total property, plant and equipment expenditures were $61.9 million this quarter and $152.5 million for the first six months of the year. Growth capital expenditures were $39.0 million this quarter and $93.9 million for the first six months of the year. Maintenance capital expenditures were $22.9 million this quarter and $58.6 million for the first six months of the year.

[6] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 9 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

8. CONSOLIDATED FINANCIAL POSITION

8.1 Consolidated capital employed

(amounts in millions)	**As at September 30 2023**	As at June 30 2023	As at March 31 2023
Use of capital[7]:			
Current assets	**$ 2,280.9**	$ 2,211.5	$ 2,235.0
Less: cash and cash equivalents	**(181.5)**	(152.8)	(217.6)
Current liabilities	**(2,424.3)**	(2,143.3)	(2,246.7)
Less: current portion of long-term debt	**424.7**	208.0	214.6
Non-cash working capital[7]	**$ 99.8**	$ 123.4	$ (14.7)
Property, plant and equipment	**2,445.0**	2,394.3	2,387.1
Intangible assets	**4,046.7**	3,986.2	4,050.8
Other long-term assets	**1,792.7**	1,728.1	1,763.6
Other long-term liabilities	**(483.8)**	(484.0)	(565.4)
Capital employed	**$ 7,900.4**	$ 7,748.0	$ 7,621.4
Source of capital[7]:			
Current portion of long-term debt	**$ 424.7**	$ 208.0	$ 214.6
Long-term debt	**2,941.3**	3,111.2	3,035.5
Less: cash and cash equivalents	**(181.5)**	(152.8)	(217.6)
Net debt[7]	**$ 3,184.5**	$ 3,166.4	$ 3,032.5
Equity attributable to equity holders of the Company	**4,632.9**	4,499.2	4,507.7
Non-controlling interests	**83.0**	82.4	81.2
Capital employed	**$ 7,900.4**	$ 7,748.0	$ 7,621.4

Capital employed increased by $152.4 million compared to last quarter
The increase was mainly due to higher other long-term assets, higher intangible assets and higher property plant and equipment, as described below.

Return on capital employed (ROCE)[7]
ROCE was 6.0% this quarter, which compares to 3.6% in the second quarter of last year. Adjusted ROCE was 7.0% this quarter, which compares to 5.1% in the second quarter of last year and 6.6% last quarter.

Non-cash working capital decreased by $23.6 million compared to last quarter
The decrease was mainly due to higher accounts payable and accrued liabilities, partially offset by higher accounts receivable from increased revenues.

Property, plant and equipment increased by $50.7 million from last quarter
The increase was mainly due to movements in foreign exchange rates and capital expenditures in excess of depreciation.

Intangible assets increased by $60.5 million compared to last quarter
The increase was mainly due to movements in foreign exchange rates.

Other long-term assets increased by $64.6 million compared to last quarter
The increase was mainly due to higher right-of-use assets in support of training network expansions, higher employee benefits assets and a higher investment in equity accounted investees, partially offset by lower long-term investment tax credits.

Total debt increased by $46.8 million compared to last quarter
The increase in total debt was mainly due to movements in foreign exchange rates and additions and remeasurements of lease liabilities in support of training network expansions.

[7] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 9 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

Net debt increased by $18.1 million compared to last quarter

(amounts in millions)	Three months ended September 30, 2023	Six months ended September 30, 2023
Net debt, beginning of period	$ 3,166.4	$ 3,032.5
Impact of cash movements on net debt		
(see table in the consolidated cash movements section)	(86.9)	95.9
Effect of foreign exchange rate changes on long-term debt	55.4	(3.3)
Non-cash lease liability movements	41.6	44.6
Other	8.0	14.8
Change in net debt during the period	$ 18.1	$ 152.0
Net debt, end of period	$ 3,184.5	$ 3,184.5

Liquidity measures	**As at September 30 2023**	As at September 30 2022
Net debt-to-capital[8]	**% 40.3**	% 42.5
Net debt-to-EBITDA[8]	**3.45**	5.11
Net debt-to-adjusted EBITDA[8]	**3.16**	4.17

We have a US$1.0 billion committed unsecured revolving credit facility at floating rates, provided by a syndicate of lenders. We and some of our subsidiaries can borrow funds directly from this credit facility to cover operating and general corporate expenses and to issue letters of credit.

We manage an uncommitted receivable purchase facility of up to US$400.0 million, in which we sell interests in certain of our accounts receivable to third parties for cash consideration. This facility is renewed annually.

We have certain debt agreements which require the maintenance of standard financial covenants. As at September 30, 2023, we are compliant with all our financial covenants.

In June 2023, we completed a private offering of $400.0 million of unsecured senior notes, bearing interest at 5.541% per annum, payable in equal semi-annual installments until maturity in June 2028. The net proceeds were used to repay certain indebtedness outstanding under the Revolving Facility and for general corporate purposes. Concurrently, we entered into fixed to fixed cross currency principal and interest rate swap agreements to effectively convert the $400.0 million unsecured senior notes into U.S. dollars. We have designated the swap agreements as a hedge of our net investments in U.S. entities against foreign currency fluctuations.

Pension obligations
In June 2023, we entered into an annuity purchase transaction in which the pension obligations associated with certain retired members of Canadian defined benefit pension plans were transferred to a third-party insurer. This transaction reduces our future pension liability growth and the funding volatility risk.

Total equity increased by $134.3 million this quarter
The increase in equity was mainly due to net income realized this quarter and changes in other comprehensive income, including foreign currency translation adjustments.

Outstanding share data
Our articles of incorporation authorize the issue of an unlimited number of common shares and an unlimited number of preferred shares issued in series. We had a total of 318,270,558 common shares issued and outstanding as at September 30, 2023 with total share capital of $2,251.8 million. In addition, we had 6,593,679 options outstanding.

As at October 31, 2023, we had a total of 318,273,683 common shares issued and outstanding and 6,542,360 options outstanding.

[8] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 9 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

Share-based compensation
In August 2023, CAE's shareholders approved the Omnibus Incentive Plan, which allows equity awards to be granted to eligible participants in the form of stock options, restricted share units (RSUs) and performance share unit (PSUs). The total number of shares reserved for issuance under the Omnibus Incentive Plan is 10,000,000. The Omnibus Incentive Plan supplements the existing cash-settled RSU and PSU plans and stock option plan (collectively, the "Existing Plans"). Awards granted under the Existing Plans will remain outstanding and governed by the respective terms of such plans, but no new awards will be granted under any of the Existing Plans. All awards made under the Omnibus Incentive Plan are considered equity-settled arrangements.

9. NON-IFRS AND OTHER FINANCIAL MEASURES AND SUPPLEMENTARY NON-FINANCIAL INFORMATION

9.1 Non-IFRS and other financial measure definitions

This MD&A includes non-IFRS financial measures, non-IFRS ratios, capital management measures and supplementary financial measures. These measures are not standardized financial measures prescribed under IFRS and therefore should not be confused with, or used as an alternative for, performance measures calculated according to IFRS. Furthermore, these measures should not be compared with similarly titled measures provided or used by other issuers. Management believes that these measures provide additional insight into our operating performance and trends and facilitate comparisons across reporting periods.

A non-IFRS financial measure is a financial measure that depicts our financial performance, financial position, or cash flow and either excludes an amount that is included in or includes an amount that is excluded from the composition of the most directly comparable financial measures disclosed in our financial statements.

A non-IFRS ratio is a financial measure disclosed in the form of a ratio, fraction, percentage, or similar representation, that has a non-IFRS financial measure as one or more of its components.

A total of segments measure is a financial measure that is a subtotal or total of two or more reportable segments and is disclosed within the notes to our consolidated financial statements, but not in our primary financial statements.

A capital management measure is a financial measure intended to enable an individual to evaluate our objectives, policies and processes for managing our capital and is disclosed within the notes to our consolidated financial statements, but not in our primary financial statements.

A supplementary financial measure is a financial measure that depicts our historical or expected future financial performance, financial position or cash flow and is not disclosed within our primary financial statements, nor does it meet the definition of any of the above measures.

Certain non-IFRS and other financial measures are provided on a consolidated basis and separately for each of our segments (Civil Aviation, Defense and Security and Healthcare) since we analyze their results and performance separately.

PERFORMANCE MEASURES

Gross profit margin (or gross profit as a % of revenue)
Gross profit margin is a supplementary financial measure calculated by dividing our gross profit by revenue for a given period. We track it because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods.

Operating income margin (or operating income as a % of revenue)
Operating income margin is a supplementary financial measure calculated by dividing our operating income by revenue for a given period. We track it because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods.

Adjusted segment operating income or loss
Adjusted segment operating income or loss is a non-IFRS financial measure that gives us an indication of the profitability of each segment because it does not include the impact of any items not specifically related to the segment's performance. We calculate adjusted segment operating income by taking operating income and adjusting for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated financial statements for the year ended March-31, 2023) and cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022). We track adjusted segment operating income because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods. Adjusted segment operating income on a consolidated basis is a total of segments measure since it is the profitability measure employed by management for making decisions about allocating resources to segments and assessing segment performance. Refer to Section 9.3 "*Non-IFRS measure reconciliations*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Adjusted segment operating income margin (or adjusted segment operating income as a % of revenue)
Adjusted segment operating income margin is a non-IFRS ratio calculated by dividing our adjusted segment operating income by revenue for a given period. We track it because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods.

Adjusted effective tax rate
Adjusted effective tax rate is a supplementary financial measure that represents the effective tax rate on adjusted net income. It is calculated by dividing our income tax expense by our earnings before income taxes, adjusting for the same items used to determine adjusted net income. We track it because we believe it provides an enhanced understanding of the impact of changes in income tax rates and the mix of income on our operating performance and facilitates the comparison across reporting periods. Refer to Section 9.3 "*Non-IFRS measure reconciliations*" of this MD&A for a calculation of this measure.

Adjusted net income or loss
Adjusted net income or loss is a non-IFRS financial measure we use as an alternate view of our operating results. We calculate it by taking our net income attributable to equity holders of the Company from continuing operations and adjusting for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events, after tax, as well as significant one-time tax items. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2023) and cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022). We track adjusted net income because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods. Refer to Section 9.3 "*Non-IFRS measure reconciliations*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Adjusted earnings or loss per share (EPS)
Adjusted earnings or loss per share is a non-IFRS ratio calculated by dividing adjusted net income or loss by the weighted average number of diluted shares. We track it because we believe it provides an enhanced understanding of our operating performance on a per share basis and facilitates the comparison across reporting periods. Refer to Section 9.3 "*Non-IFRS measure reconciliations*" of this MD&A for a calculation of this measure.

EBITDA and Adjusted EBITDA
EBITDA is a non-IFRS financial measure which comprises net income or loss before income taxes, finance expense – net, depreciation and amortization. Adjusted EBITDA further adjusts for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2023) and cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022). We use EBITDA and adjusted EBITDA to evaluate our operating performance, by eliminating the impact of non-operational or non-cash items. Refer to Section 9.3 "*Non-IFRS measure reconciliations*" of this MD&A for a reconciliation of these measures to the most directly comparable measure under IFRS.

Free cash flow
Free cash flow is a non-IFRS financial measure that shows us how much cash we have available to invest in growth opportunities, repay debt and meet ongoing financial obligations. We use it as an indicator of our financial strength and liquidity. We calculate it by taking the net cash generated by our continuing operating activities, subtracting maintenance capital expenditures, changes in enterprise resource planning (ERP) and other assets not related to growth and dividends paid and adding proceeds from the disposal of property, plant and equipment, dividends received from equity accounted investees and proceeds, net of payments, from equity accounted investees. Refer to Section 7.1 "*Consolidated cash movements*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

LIQUIDITY AND CAPITAL STRUCTURE MEASURES

Non-cash working capital
Non-cash working capital is a non-IFRS financial measure we use to monitor how much money we have committed in the day-to-day operation of our business. We calculate it by taking current assets (not including cash and cash equivalents and assets held for sale) and subtracting current liabilities (not including the current portion of long-term debt and liabilities held for sale). Refer to Section 8.1 "*Consolidated capital employed*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Capital employed
Capital employed is a non-IFRS financial measure we use to evaluate and monitor how much we are investing in our business. We measure it from two perspectives:

Use of capital:
- For the Company as a whole, we take total assets (not including cash and cash equivalents), and subtract total liabilities (not including long-term debt and the current portion of long-term debt);
- For each segment, we take the total assets (not including cash and cash equivalents, tax accounts, employee benefits assets and other non-operating assets), and subtract total liabilities (not including tax accounts, long-term debt and the current portion of long-term debt, royalty obligations, employee benefit obligations and other non-operating liabilities).

Source of capital:
- In order to understand our source of capital, we add net debt to total equity.

Refer to Section 8.1 "*Consolidated capital employed*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Return on capital employed (ROCE) and adjusted ROCE
ROCE is a non-IFRS ratio calculated over a rolling four-quarter period by taking net income attributable to equity holders of the Company adjusting for net finance expense, after tax, divided by the average capital employed. Adjusted ROCE further adjusts for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2023) and cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022). We use ROCE and adjusted ROCE to evaluate the profitability of our invested capital.

Net debt
Net debt is a capital management measure we use to monitor how much debt we have after taking into account cash and cash equivalents. We use it as an indicator of our overall financial position, and calculate it by taking our total long-term debt, including the current portion of long-term debt, and subtracting cash and cash equivalents. Refer to Section 8.1 "*Consolidated capital employed*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Net debt-to-capital
Net debt-to-capital is a capital management measure calculated as net debt divided by the sum of total equity plus net debt. We use this to manage our capital structure and monitor our capital allocation priorities.

Net debt-to-EBITDA and net debt-to-adjusted EBITDA
Net debt-to-EBITDA and net debt-to-adjusted EBITDA are non-IFRS ratios calculated as net debt divided by the last twelve months EBITDA (or adjusted EBITDA). We use net debt-to-EBITDA and net debt-to-adjusted EBITDA because they reflect our ability to service our debt obligations. Refer to Section 9.3 "*Non-IFRS measure reconciliations*" of this MD&A for a calculation of these measures.

Maintenance and growth capital expenditures
Maintenance capital expenditure is a supplementary financial measure we use to calculate the investment needed to sustain the current level of economic activity.

Growth capital expenditure is a supplementary financial measure we use to calculate the investment needed to increase the current level of economic activity.

The sum of maintenance capital expenditures and growth capital expenditures represents our total property, plant and equipment expenditures.

GROWTH MEASURES

Adjusted order intake
Adjusted order intake is a supplementary financial measure that represents the expected value of orders we have received:
- For the Civil Aviation segment, we consider an item part of our adjusted order intake when we have a legally binding commercial agreement with a client that includes enough detail about each party's obligations to form the basis for a contract. Additionally, expected future revenues from customers under short-term and long-term training contracts are included when these customers commit to pay us training fees, or when we reasonably expect the revenue to be generated;
- For the Defense and Security segment, we consider an item part of our adjusted order intake when we have a legally binding commercial agreement with a client that includes enough detail about each party's obligations to form the basis for a contract. Defense and Security contracts are usually executed over a long-term period but some of them must be renewed each year. For this segment, we only include a contract item in adjusted order intake when the customer has authorized the contract item and has received funding for it;
- For the Healthcare segment, adjusted order intake is typically converted into revenue within one year, therefore we assume that adjusted order intake is equal to revenue.

Adjusted backlog
Adjusted backlog is a supplementary financial measure that represents expected future revenues and includes obligated backlog, joint venture backlog and unfunded backlog and options:

– Obligated backlog represents the value of our adjusted order intake not yet executed and is calculated by adding the adjusted order intake of the current period to the balance of the obligated backlog at the end of the previous fiscal year, subtracting the revenue recognized in the current period and adding or subtracting backlog adjustments. If the amount of an order already recognized in a previous fiscal year is modified, the backlog is revised through adjustments;
– Joint venture backlog is obligated backlog that represents the expected value of our share of orders that our joint ventures have received but have not yet executed. Joint venture backlog is determined on the same basis as obligated backlog described above;
– Unfunded backlog represents legally binding Defense and Security orders with the U.S. government that we have received but have not yet executed and for which funding authorization has not yet been obtained. The uncertainty relates to the timing of the funding authorization, which is influenced by the government's budget cycle, based on a September year-end. Options are included in adjusted backlog when there is a high probability of being exercised, which we define as at least 80% probable, but multi-award indefinite-delivery/indefinite-quantity (ID/IQ) contracts are excluded. When an option is exercised, it is considered adjusted order intake in that period, and it is removed from unfunded backlog and options.

Book-to-sales ratio
The book-to-sales ratio is a supplementary financial measure calculated by dividing adjusted order intake by revenue in a given period. We use it to monitor the level of future growth of the business over time.

9.2 Supplementary non-financial information definitions

Full-flight simulators (FFSs) in CAE's network
A FFS is a full-size replica of a specific make, model and series of an aircraft cockpit, including a motion system. In our count of FFSs in the network, we generally only include FFSs that are of the highest fidelity and do not include any fixed based training devices, or other lower-level devices, as these are typically used in addition to FFSs in the same approved training programs.

Simulator equivalent unit (SEU)
SEU is a measure we use to show the total average number of FFSs available to generate earnings during the period. For example, in the case of a 50/50 flight training joint venture, we will report only 50% of the FFSs under this joint venture as a SEU. If a FFS is being powered down and relocated, it will not be included as a SEU until the FFS is re-installed and available to generate earnings.

Utilization rate
Utilization rate is a measure we use to assess the performance of our Civil simulator training network. While utilization rate does not perfectly correlate to revenue recognized, we track it, together with other measures, because we believe it is an indicator of our operating performance. We calculate it by taking the number of training hours sold on our simulators during the period divided by the practical training capacity available for the same period.

9.3 Non-IFRS measure reconciliations

Reconciliation of adjusted segment operating income (loss)

(amounts in millions)	Civil Aviation		Defense and Security		Healthcare		Total	
Three months ended September 30	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Operating income	**$ 88.4**	$ 88.4	**$ 9.3**	$ 12.1	**$ 2.9**	$ 1.6	**$ 100.6**	$ 102.1
Restructuring, integration and acquisition costs	**25.9**	16.0	**12.0**	6.3	**—**	0.3	**37.9**	22.6
Adjusted segment operating income	**$ 114.3**	$ 104.4	**$ 21.3**	$ 18.4	**$ 2.9**	$ 1.9	**$ 138.5**	$ 124.7

(amounts in millions)	Civil Aviation		Defense and Security		Healthcare		Total	
Six months ended September 30	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Operating income (loss)	**$ 194.0**	$ 163.8	**$ 32.0**	$ (18.2)	**$ 4.7**	$ (4.1)	**$ 230.7**	$ 141.5
Restructuring, integration and acquisition costs	**39.3**	27.2	**13.6**	15.4	**—**	1.5	**52.9**	44.1
Adjusted segment operating income (loss)	**$ 233.3**	$ 191.0	**$ 45.6**	$ (2.8)	**$ 4.7**	$ (2.6)	**$ 283.6**	$ 185.6

Reconciliation of adjusted net income and adjusted EPS

	Three months ended September 30		Six months ended September 30	
(amounts in millions, except per share amounts)	**2023**	2022	**2023**	2022
Net income attributable to equity holders of the Company	**$ 58.4**	$ 44.5	**$ 123.7**	$ 46.2
Restructuring, integration and acquisition costs, after tax	**29.0**	17.0	**40.5**	32.9
Adjusted net income	**$ 87.4**	$ 61.5	**$ 164.2**	$ 79.1
Average number of shares outstanding (diluted)	**319.2**	318.4	**318.9**	318.3
Adjusted EPS	**$ 0.27**	$ 0.19	**$ 0.52**	$ 0.25

Calculation of adjusted effective tax rate

	Three months ended September 30		Six months ended September 30	
(amounts in millions, except effective tax rates)	**2023**	2022	**2023**	2022
Earnings before income taxes	**$ 52.6**	$ 60.8	**$ 128.6**	$ 64.0
Restructuring, integration and acquisition costs	**37.9**	22.6	**52.9**	44.1
Adjusted earnings before income taxes	**$ 90.5**	$ 83.4	**$ 181.5**	$ 108.1
Income tax (recovery) expense	**(8.5)**	14.5	**(0.3)**	14.0
Tax impact on restructuring, integration and acquisition costs	**8.9**	5.6	**12.4**	11.2
Adjusted income tax expense	**$ 0.4**	$ 20.1	**$ 12.1**	$ 25.2
Effective tax rate	**(16 %)**	24 %	**— %**	22 %
Adjusted effective tax rate	**— %**	24 %	**7 %**	23 %

Reconciliation of EBITDA, adjusted EBITDA, net debt-to-EBITDA and net debt-to-adjusted EBITDA

	Last twelve months ended September 30	
(amounts in millions, except net debt-to-EBITDA ratios)	**2023**	2022
Operating income	**$ 563.2**	$ 300.3
Depreciation and amortization	**361.0**	325.3
EBITDA	**$ 924.2**	$ 625.6
Restructuring, integration and acquisition costs	**73.1**	127.3
Impairments and other gains and losses arising from significant strategic transactions or specific events:		
Impairment reversal of non-financial assets following their repurposing and optimization	**9.8**	—
Cloud computing transition adjustment	**—**	13.4
Adjusted EBITDA	**$ 1,007.1**	$ 766.3
Net debt	**$ 3,184.5**	$ 3,194.6
Net debt-to-EBITDA	**3.45**	5.11
Net debt-to-adjusted EBITDA	**3.16**	4.17

10. EVENT AFTER THE REPORTING PERIOD

On October 24, 2023, we announced that we have reached a definitive agreement to sell CAE's Healthcare business to Madison Industries for an enterprise value of $311 million, subject to customary adjustments. This transaction better positions CAE to efficiently allocate capital and resources to secure growth opportunities on the horizon in our much larger, core simulation and training markets: Civil Aviation and Defense and Security. Closing of the transaction, which is subject to closing conditions, including customary regulatory approvals, is expected before the end of fiscal year 2024. Sale proceeds will be principally used to accelerate deleveraging, as well as to support CAE's continued focus on technology advancement, market leadership and cost optimization within its core training and simulation markets.

11. CHANGES IN ACCOUNTING POLICIES

New and amended standards adopted

Amendments to IAS 12 - International Tax Reform — Pillar Two Model Rules
In May 2023, the IASB issued *International Tax Reform—Pillar Two Model Rules*, which amends IAS 12 - *Income taxes* to introduce a temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. This amendment to IAS 12 was adopted in the first quarter of fiscal 2024 and the exception has been applied retrospectively but no adjustments to previously reported figures were required.

Certain other amendments to accounting standards were applied for the first time on April 1, 2023, but did not have a significant impact on our consolidated interim financial statements.

12. INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company has established and maintains disclosure controls and procedures designed to provide reasonable assurance that material information relating to the Company is communicated to the President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer by others, particularly during the period in which annual and interim filings are prepared, and that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by the Company under Canadian and U.S. securities laws is recorded, processed, summarized and reported within the time periods specified under those laws and the related rules.

As of September 30, 2023, management evaluated, under the supervision of and with the participation of the President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as defined under National Instrument 52-109 adopted by the Canadian Securities Administrators and in Rule 13(a)-15(e) under the U.S. Securities Exchange Act of 1934, as amended, and have concluded that the Company's disclosure controls and procedures were effective.

The Company has also established and maintains internal control over financial reporting, as defined under National Instrument 52-109 and in Rule 13(a)-15(f) under the U.S. Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed, under the supervision of the President and Chief Executive Officer as well as the Executive Vice President, Finance and Chief Financial Officer, and effected by management and other key CAE personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with IFRS as issued by the IASB. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There were no changes in the Company's internal control over financial reporting that occurred during the second quarter of fiscal 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. During the first six months of fiscal 2024, our U.S. Defense and Security operations completed the initial phase of implementation of a new ERP system. Management employed appropriate procedures to ensure internal controls over financial reporting were in place during and after the conversion.

13. SELECTED QUARTERLY FINANCIAL INFORMATION

(amounts in millions, except per share amounts and exchange rates)		Q1	Q2	Q3	Q4	Year to date
Fiscal 2024						
Revenue	**$**	**1,054.4**	**$ 1,088.5**	(1)	(1)	**2,142.9**
Net income	**$**	**67.8**	**$ 61.1**	(1)	(1)	**128.9**
Equity holders of the Company	**$**	**65.3**	**$ 58.4**	(1)	(1)	**123.7**
Non-controlling interests	**$**	**2.5**	**$ 2.7**	(1)	(1)	**5.2**
Basic EPS attributable to equity holders of the Company	**$**	**0.21**	**$ 0.18**	(1)	(1)	**0.39**
Diluted EPS attributable to equity holders of the Company	**$**	**0.20**	**$ 0.18**	(1)	(1)	**0.39**
Adjusted EPS	**$**	**0.24**	**$ 0.27**	(1)	(1)	**0.52**
Average number of shares outstanding (basic)		**318.0**	**318.2**	(1)	(1)	**318.1**
Average number of shares outstanding (diluted)		**318.8**	**319.2**	(1)	(1)	**318.9**
Average exchange rate, U.S. dollar to Canadian dollar		**1.34**	**1.34**	(1)	(1)	**1.34**
Average exchange rate, Euro to Canadian dollar		**1.46**	**1.46**	(1)	(1)	**1.46**
Average exchange rate, British pound to Canadian dollar		**1.68**	**1.70**	(1)	(1)	**1.69**
Fiscal 2023						
Revenue	$	933.3	993.2	1,020.3	1,256.5	4,203.3
Net income	$	3.7	46.3	80.0	101.9	231.9
Equity holders of the Company	$	1.7	44.5	78.1	98.4	222.7
Non-controlling interests	$	2.0	1.8	1.9	3.5	9.2
Basic and diluted EPS attributable to equity holders of the Company	$	0.01	0.14	0.25	0.31	0.70
Adjusted EPS	$	0.06	0.19	0.28	0.35	0.88
Average number of shares outstanding (basic)		317.1	317.8	317.9	317.9	317.7
Average number of shares outstanding (diluted)		318.2	318.4	318.3	318.7	318.4
Average exchange rate, U.S. dollar to Canadian dollar		1.28	1.30	1.36	1.35	1.32
Average exchange rate, Euro to Canadian dollar		1.36	1.31	1.38	1.45	1.38
Average exchange rate, British pound to Canadian dollar		1.61	1.54	1.59	1.64	1.59
Fiscal 2022						
Revenue	$	752.7	814.9	848.7	955.0	3,371.3
Net income	$	47.3	17.2	28.4	57.1	150.0
Equity holders of the Company	$	46.4	14.0	26.2	55.1	141.7
Non-controlling interests	$	0.9	3.2	2.2	2.0	8.3
Basic EPS attributable to equity holders of the Company	$	0.16	0.04	0.08	0.17	0.46
Diluted EPS attributable to equity holders of the Company	$	0.16	0.04	0.08	0.17	0.45
Adjusted EPS	$	0.19	0.17	0.19	0.29	0.84
Average number of shares outstanding (basic)		293.6	316.5	316.9	317.0	311.0
Average number of shares outstanding (diluted)		295.8	318.7	318.7	318.5	312.9
Average exchange rate, U.S. dollar to Canadian dollar		1.23	1.26	1.26	1.27	1.25
Average exchange rate, Euro to Canadian dollar		1.48	1.48	1.44	1.42	1.46
Average exchange rate, British pound to Canadian dollar		1.72	1.74	1.70	1.70	1.71

(1) Not available.

Consolidated Income Statement

(Unaudited) *(amounts in millions of Canadian dollars, except per share amounts)*	Notes	**Three months ended September 30** **2023**	2022	**Six months ended September 30** **2023**	2022
Revenue	2	**$ 1,088.5**	$ 993.2	**$ 2,142.9**	$ 1,926.5
Cost of sales		**785.4**	719.6	**1,533.9**	1,420.0
Gross profit		**$ 303.1**	$ 273.6	**$ 609.0**	$ 506.5
Research and development expenses		**34.6**	32.2	**73.7**	72.9
Selling, general and administrative expenses		**148.2**	128.0	**287.9**	273.1
Other (gains) and losses	3	**(3.9)**	(3.2)	**(5.3)**	(5.6)
Share of after-tax profit of equity accounted investees	2	**(14.3)**	(8.1)	**(30.9)**	(19.5)
Restructuring, integration and acquisition costs	4	**37.9**	22.6	**52.9**	44.1
Operating income		**$ 100.6**	$ 102.1	**$ 230.7**	$ 141.5
Finance expense – net	5	**48.0**	41.3	**102.1**	77.5
Earnings before income taxes		**$ 52.6**	$ 60.8	**$ 128.6**	$ 64.0
Income tax (recovery) expense	6	**(8.5)**	14.5	**(0.3)**	14.0
Net income		**$ 61.1**	$ 46.3	**$ 128.9**	$ 50.0
Attributable to:					
Equity holders of the Company		**$ 58.4**	$ 44.5	**$ 123.7**	$ 46.2
Non-controlling interests		**2.7**	1.8	**5.2**	3.8
Earnings per share attributable to equity holders of the Company					
Basic and diluted	7	**$ 0.18**	$ 0.14	**$ 0.39**	$ 0.15

The accompanying notes form an integral part of these Consolidated Interim Financial Statements.

Consolidated Statement of Comprehensive Income

(Unaudited)		Three months ended September 30				Six months ended September 30		
(amounts in millions of Canadian dollars)		**2023**		2022		**2023**		2022
Net income	**$**	**61.1**	$	46.3	**$**	**128.9**	$	50.0
Items that may be reclassified to net income								
Foreign currency exchange differences on translation of foreign operations	**$**	**71.7**	$	235.6	**$**	**(26.1)**	$	291.9
Net loss on hedges of net investment in foreign operations		**(29.1)**		(99.7)		**(1.6)**		(143.3)
Reclassification to income of gains on foreign currency exchange differences		**—**		(2.2)		**(0.1)**		(2.4)
Net loss on cash flow hedges		**(14.3)**		(13.8)		**(0.9)**		(5.5)
Reclassification to income of losses (gains) on cash flow hedges		**2.5**		(5.1)		**3.1**		(21.0)
Income taxes		**3.3**		8.9		**(4.0)**		12.4
	$	**34.1**	$	123.7	**$**	**(29.6)**	$	132.1
Items that will never be reclassified to net income								
Remeasurement of defined benefit pension plan obligations	**$**	**33.4**	$	(15.2)	**$**	**12.0**	$	46.9
Income taxes		**(8.9)**		4.0		**(3.2)**		(12.5)
	$	**24.5**	$	(11.2)	**$**	**8.8**	$	34.4
Other comprehensive income (loss)	**$**	**58.6**	$	112.5	**$**	**(20.8)**	$	166.5
Total comprehensive income	**$**	**119.7**	$	158.8	**$**	**108.1**	$	216.5
Attributable to:								
Equity holders of the Company	**$**	**116.0**	$	154.3	**$**	**103.2**	$	209.2
Non-controlling interests		**3.7**		4.5		**4.9**		7.3

The accompanying notes form an integral part of these Consolidated Interim Financial Statements.

Consolidated Statement of Financial Position

(Unaudited) *(amounts in millions of Canadian dollars)*	**September 30 2023**	March 31 2023
Assets		
Cash and cash equivalents	**$ 181.5**	$ 217.6
Accounts receivable	**656.9**	615.7
Contract assets	**650.7**	693.8
Inventories	**655.8**	583.4
Prepayments	**75.8**	64.1
Income taxes recoverable	**46.2**	48.3
Derivative financial assets	**14.0**	12.1
Total current assets	**$ 2,280.9**	$ 2,235.0
Property, plant and equipment	**2,445.0**	2,387.1
Right-of-use assets	**443.6**	426.9
Intangible assets	**4,046.7**	4,050.8
Investment in equity accounted investees	**554.7**	530.7
Employee benefits assets	**59.1**	51.1
Deferred tax assets	**159.1**	125.1
Derivative financial assets	**6.9**	9.2
Other non-current assets	**569.3**	620.6
Total assets	**$ 10,565.3**	$ 10,436.5
Liabilities and equity		
Accounts payable and accrued liabilities	**$ 997.5**	$ 1,036.7
Provisions	**24.4**	26.7
Income taxes payable	**21.9**	21.1
Contract liabilities	**932.0**	905.7
Current portion of long-term debt	**424.7**	214.6
Derivative financial liabilities	**23.8**	41.9
Total current liabilities	**$ 2,424.3**	$ 2,246.7
Provisions	**18.1**	20.1
Long-term debt	**2,941.3**	3,035.5
Royalty obligations	**110.8**	119.4
Employee benefits obligations	**89.9**	91.9
Deferred tax liabilities	**77.6**	129.3
Derivative financial liabilities	**10.9**	6.5
Other non-current liabilities	**176.5**	198.2
Total liabilities	**$ 5,849.4**	$ 5,847.6
Equity		
Share capital	**$ 2,251.8**	$ 2,243.6
Contributed surplus	**55.9**	42.1
Accumulated other comprehensive income	**137.9**	167.2
Retained earnings	**2,187.3**	2,054.8
Equity attributable to equity holders of the Company	**$ 4,632.9**	$ 4,507.7
Non-controlling interests	**83.0**	81.2
Total equity	**$ 4,715.9**	$ 4,588.9
Total liabilities and equity	**$ 10,565.3**	$ 10,436.5

The accompanying notes form an integral part of these Consolidated Interim Financial Statements.

Consolidated Statement of Changes in Equity

(Unaudited) *Six months ended September 30, 2023* *(amounts in millions of Canadian dollars, except number of shares)*	Notes	Common shares: Number of shares	Common shares: Stated value	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total (Attributable to equity holders of the Company)	Non-controlling interests	**Total equity**
Balances as at March 31, 2023		317,906,290	$ 2,243.6	$ 42.1	$ 167.2	$ 2,054.8	$ 4,507.7	$ 81.2	**$ 4,588.9**
Net income		—	$ —	$ —	$ —	$ 123.7	$ 123.7	$ 5.2	**$ 128.9**
Other comprehensive (loss) income		—	—	—	(29.3)	8.8	(20.5)	(0.3)	**(20.8)**
Total comprehensive (loss) income		—	$ —	$ —	$ (29.3)	$ 132.5	$ 103.2	$ 4.9	**$ 108.1**
Exercise of stock options		364,268	8.2	(1.3)	—	—	6.9	—	**6.9**
Equity-settled share-based payments expense	8	—	—	15.1	—	—	15.1	—	**15.1**
Transactions with non-controlling interests		—	—	—	—	—	—	(3.1)	**(3.1)**
Balances as at September 30, 2023		**318,270,558**	**$ 2,251.8**	**$ 55.9**	**$ 137.9**	**$ 2,187.3**	**$ 4,632.9**	**$ 83.0**	**$ 4,715.9**

Six months ended September 30, 2022 *(amounts in millions of Canadian dollars, except number of shares)*	Common shares: Number of shares	Common shares: Stated value	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total (Attributable to equity holders of the Company)	Non-controlling interests	Total equity
Balances as at March 31, 2022	317,024,123	$ 2,224.7	$ 38.6	$ (31.2)	$ 1,777.6	$ 4,009.7	$ 76.9	$ 4,086.6
Net income	—	$ —	$ —	$ —	$ 46.2	$ 46.2	$ 3.8	$ 50.0
Other comprehensive income	—	—	—	128.6	34.4	163.0	3.5	166.5
Total comprehensive income	—	$ —	$ —	$ 128.6	$ 80.6	$ 209.2	$ 7.3	$ 216.5
Exercise of stock options	828,352	17.8	(2.5)	—	—	15.3	—	15.3
Equity-settled share-based payments expense	—	—	4.1	—	—	4.1	—	4.1
Transactions with non-controlling interests	—	—	—	—	—	—	(5.0)	(5.0)
Balances as at September 30, 2022	317,852,475	$ 2,242.5	$ 40.2	$ 97.4	$ 1,858.2	$ 4,238.3	$ 79.2	$ 4,317.5

The accompanying notes form an integral part of these Consolidated Interim Financial Statements.

Consolidated Statement of Cash Flows

(Unaudited) *Six months ended September 30* *(amounts in millions of Canadian dollars)*	Notes		**2023**		2022
Operating activities					
Net income		**$**	**128.9**	$	50.0
Adjustments for:					
Depreciation and amortization	2		**183.4**		164.5
Share of after-tax profit of equity accounted investees			**(30.9)**		(19.5)
Deferred income taxes			**(39.2)**		(3.4)
Investment tax credits			**(2.3)**		(5.2)
Equity-settled share-based payments expense			**15.1**		4.1
Defined benefit pension plans			**1.1**		7.4
Other non-current liabilities			**(4.8)**		(11.0)
Derivative financial assets and liabilities – net			**(18.2)**		27.6
Other			**10.4**		(8.8)
Changes in non-cash working capital	9		**(112.6)**		(230.3)
Net cash provided by (used in) operating activities		**$**	**130.9**	$	(24.6)
Investing activities					
Business combinations, net of cash acquired		**$**	**—**	$	(6.4)
Property, plant and equipment expenditures	2		**(152.5)**		(142.5)
Proceeds from disposal of property, plant and equipment			**3.6**		4.5
Intangible assets expenditures	2		**(72.3)**		(60.3)
Net payments to equity accounted investees			**(25.6)**		(8.5)
Dividends received from equity accounted investees			**17.1**		6.4
Other			**(1.3)**		(5.0)
Net cash used in investing activities		**$**	**(231.0)**	$	(211.8)
Financing activities					
Net (repayment of) proceeds from borrowing under revolving credit facilities		**$**	**(279.5)**	$	138.3
Proceeds from long-term debt	5		**417.5**		14.9
Repayment of long-term debt			**(33.5)**		(47.9)
Repayment of lease liabilities			**(44.7)**		(31.7)
Net proceeds from the issuance of common shares			**6.9**		15.3
Other			**—**		(0.1)
Net cash provided by financing activities		**$**	**66.7**	$	88.8
Effect of foreign currency exchange differences on cash and cash equivalents		**$**	**(2.7)**	$	4.7
Net decrease in cash and cash equivalents		**$**	**(36.1)**	$	(142.9)
Cash and cash equivalents, beginning of period			**217.6**		346.1
Cash and cash equivalents, end of period		**$**	**181.5**	$	203.2

The accompanying notes form an integral part of these Consolidated Interim Financial Statements.

Notes to the Consolidated Interim Financial Statements

(Unaudited)
(Unless otherwise stated, all tabular amounts are in millions of Canadian dollars)

The consolidated interim financial statements were authorized for issue by the board of directors on November 14, 2023.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

CAE equips people in critical roles with the expertise and solutions to create a safer world. As a technology company, CAE digitalizes the physical world, deploying software-based simulation training and critical operations support solutions.

CAE Inc. and its subsidiaries' (CAE or the Company) operations are managed through three segments:

(i) Civil Aviation – Provides comprehensive training solutions for flight, cabin, maintenance and ground personnel in commercial, business and helicopter aviation, a complete range of flight simulation training devices, ab initio pilot training and crew sourcing services, as well as aircraft flight operations solutions;
(ii) Defense and Security – A platform independent training and simulation solutions provider, preparing global defence and security forces for the mission ahead;
(iii) Healthcare – Provides healthcare students and clinical professionals integrated physical, digital and virtual education and training solutions, including interventional and imaging simulations, curricula, mixed-reality and digital learning, audiovisual debriefing solutions, centre management platforms and patient simulators.

Subsequent to the end of the second quarter of fiscal 2024, the Company announced that it has reached a definitive agreement to sell its Healthcare business (Note 11).

CAE Inc. is incorporated and domiciled in Canada with its registered and main office located at 8585 Côte-de-Liesse, Saint-Laurent, Québec, Canada, H4T 1G6. CAE common shares are traded on the Toronto Stock Exchange (TSX) and on the New York Stock Exchange (NYSE).

Seasonality and cyclicality of the business

The Company's business operating segments are affected in varying degrees by market cyclicality and/or seasonality. As such, operating performance over a given interim period should not necessarily be considered indicative of full fiscal year performance.

The Company's business, revenues and cash flows are affected by certain seasonal trends. In the Civil Aviation segment, the level of training delivered is driven by the availability of pilots to train, which tends to be lower in the second quarter as pilots are flying more and training less, thus, driving lower revenues. In the Defense and Security segment, revenue and cash collection is not as consistent across quarters throughout the year as contract awards and availability of funding are influenced by customers' budget cycles.

Basis of preparation

The key accounting policies applied in the preparation of these consolidated interim financial statements are consistent with those disclosed in Note 1 of the Company's consolidated financial statements for the year ended March 31, 2023. These policies have been consistently applied to all periods presented. These condensed consolidated interim financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements for the year ended March 31, 2023.

The consolidated interim financial statements have been prepared in accordance with Part I of the CPA Canada Handbook - Accounting, International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, IAS 34, Interim Financial Reporting.

CAE Inc.'s consolidated financial statements are presented in Canadian dollars, which is also the parent company's functional currency.

Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

New and amended standards adopted by the Company

Amendments to IAS 12 *- International Tax Reform — Pillar Two Model Rules*

In May 2023, the IASB issued *International Tax Reform—Pillar Two Model Rules*, which amends IAS 12 - *Income taxes* to introduce a temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. This amendment to IAS 12 was adopted by the Company in the first quarter of fiscal 2024 and the exception has been applied retrospectively but no adjustments to previously reported figures were required.

Certain other amendments to accounting standards were applied for the first time on April 1, 2023, but did not have a significant impact on the consolidated interim financial statements of the Company.

Use of judgements, estimates and assumptions

The preparation of the consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and disclosures at the date of the consolidated interim financial statements, as well as the reported amounts of revenues and expenses for the period reported. Actual results could differ from those estimates. Changes will be reported in the period in which they are identified. In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the year ended March 31, 2023.

NOTE 2 – OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION

The Company elected to organize its operating segments principally on the basis of its customer markets. The Company manages its operations through its three segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The Company has decided to disaggregate revenue from contracts with customers by segment, by products and services and by geographic regions as the Company believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors.

Results by segment

The profitability measure employed by the Company for making decisions about allocating resources to segments and assessing segment performance is adjusted segment operating income. Adjusted segment operating income is calculated by taking operating income and adjusting for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events, which gives an indication of the profitability of each segment because it does not include the impact of items not specifically related to the segment's performance.

The accounting principles used to prepare the information by operating segments are the same as those used to prepare the Company's consolidated financial statements. The method used for the allocation of assets jointly used by operating segments and costs and liabilities jointly incurred (mostly corporate costs) between operating segments is based on the level of utilization when determinable and measurable, otherwise the allocation is based on a proportion of each segment's cost of sales and revenue.

	Civil Aviation		Defense and Security		Healthcare		Total	
Three months ended September 30	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
External revenue	**$ 572.6**	$ 507.2	**$ 477.4**	$ 442.4	**$ 38.5**	$ 43.6	**$ 1,088.5**	$ 993.2
Depreciation and amortization	**65.2**	57.4	**23.2**	21.0	**2.8**	3.5	**91.2**	81.9
Share of after-tax profit of equity accounted investees	**11.2**	7.6	**3.1**	0.5	**—**	—	**14.3**	8.1
Operating income	**88.4**	88.4	**9.3**	12.1	**2.9**	1.6	**100.6**	102.1
Adjusted segment operating income	**114.3**	104.4	**21.3**	18.4	**2.9**	1.9	**138.5**	124.7

	Civil Aviation		Defense and Security		Healthcare		Total	
Six months ended September 30	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
External revenue	**$ 1,112.9**	$ 987.6	**$ 949.1**	$ 855.7	**$ 80.9**	$ 83.2	**$ 2,142.9**	$ 1,926.5
Depreciation and amortization	**131.4**	115.9	**46.8**	41.9	**5.2**	6.7	**183.4**	164.5
Share of after-tax profit of equity accounted investees	**24.9**	17.5	**6.0**	2.0	**—**	—	**30.9**	19.5
Operating income (loss)	**194.0**	163.8	**32.0**	(18.2)	**4.7**	(4.1)	**230.7**	141.5
Adjusted segment operating income (loss)	**233.3**	191.0	**45.6**	(2.8)	**4.7**	(2.6)	**283.6**	185.6

Reconciliation of adjusted segment operating income (loss) is as follows:

	Civil Aviation		Defense and Security		Healthcare		Total	
Three months ended September 30	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Operating income	**$ 88.4**	$ 88.4	**$ 9.3**	$ 12.1	**$ 2.9**	$ 1.6	**$ 100.6**	$ 102.1
Restructuring, integration and acquisition costs (Note 4)	**25.9**	16.0	**12.0**	6.3	**—**	0.3	**37.9**	22.6
Adjusted segment operating income	**$ 114.3**	$ 104.4	**$ 21.3**	$ 18.4	**$ 2.9**	$ 1.9	**$ 138.5**	$ 124.7

	Civil Aviation		Defense and Security		Healthcare		Total	
Six months ended September 30	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Operating income (loss)	**$ 194.0**	$ 163.8	**$ 32.0**	$ (18.2)	**$ 4.7**	$ (4.1)	**$ 230.7**	$ 141.5
Restructuring, integration and acquisition costs (Note 4)	**39.3**	27.2	**13.6**	15.4	**—**	1.5	**52.9**	44.1
Adjusted segment operating income (loss)	**$ 233.3**	$ 191.0	**$ 45.6**	$ (2.8)	**$ 4.7**	$ (2.6)	**$ 283.6**	$ 185.6

Capital expenditures by segment, which consist of property, plant and equipment expenditures and intangible assets expenditures (excluding those acquired in business combinations), are as follows:

	Three months ended September 30		**Six months ended September 30**	
	2023	2022	**2023**	2022
Civil Aviation	**$ 60.2**	$ 90.6	**$ 156.5**	$ 174.4
Defense and Security	**30.6**	9.9	**62.9**	21.9
Healthcare	**3.6**	3.0	**5.4**	6.5
Total capital expenditures	**$ 94.4**	$ 103.5	**$ 224.8**	$ 202.8

Assets and liabilities employed by segment

The Company uses assets employed and liabilities employed to assess resources allocated to each segment. Assets employed include accounts receivable, contract assets, inventories, prepayments, property, plant and equipment, right-of-use assets, intangible assets, investment in equity accounted investees, derivative financial assets and other non-current assets. Liabilities employed include accounts payable and accrued liabilities, provisions, contract liabilities, derivative financial liabilities and other non-current liabilities.

Assets and liabilities employed by segment are reconciled to total assets and liabilities as follows:

	September 30 2023	March 31 2023
Assets employed		
Civil Aviation	**$ 5,994.4**	$ 5,852.4
Defense and Security	**3,483.0**	3,436.2
Healthcare	**298.7**	310.1
Assets not included in assets employed	**789.2**	837.8
Total assets	**$ 10,565.3**	$ 10,436.5
Liabilities employed		
Civil Aviation	**$ 1,215.6**	$ 1,142.0
Defense and Security	**785.6**	871.2
Healthcare	**54.3**	69.3
Liabilities not included in liabilities employed	**3,793.9**	3,765.1
Total liabilities	**$ 5,849.4**	$ 5,847.6

Products and services information

The Company's revenue from external customers for its products and services are as follows:

	Three months ended September 30		Six months ended September 30	
	2023	2022	**2023**	2022
Products	**$ 411.2**	$ 354.2	**$ 764.8**	$ 699.9
Training, software and services	**677.3**	639.0	**1,378.1**	1,226.6
Total external revenue	**$ 1,088.5**	$ 993.2	**$ 2,142.9**	$ 1,926.5

Geographic information

The Company markets its products and services globally. Revenues are attributed to geographical regions based on the location of customers. Non-current assets other than financial instruments, deferred tax assets and employee benefits assets are attributed to geographical regions based on the location of the assets, excluding goodwill. Goodwill is presented by geographical regions based on the Company's allocation of the related purchase price.

	Three months ended September 30		Six months ended September 30	
	2023	2022	**2023**	2022
External revenue				
Canada	**$ 100.7**	$ 91.9	**$ 213.2**	$ 177.5
United States	**546.0**	527.5	**1,062.6**	1,024.6
United Kingdom	**65.8**	54.7	**130.8**	119.9
Rest of Americas	**23.0**	22.1	**47.0**	42.0
Europe	**159.0**	132.0	**324.2**	256.8
Asia	**154.6**	140.8	**287.3**	258.7
Oceania and Africa	**39.4**	24.2	**77.8**	47.0
	$ 1,088.5	$ 993.2	**$ 2,142.9**	$ 1,926.5

	September 30	March 31
	2023	2023
Non-current assets other than financial instruments, deferred tax assets and employee benefits assets		
Canada	**$ 1,587.8**	$ 1,641.2
United States	**4,171.6**	4,049.8
United Kingdom	**370.7**	383.9
Rest of Americas	**200.5**	180.8
Europe	**956.9**	982.4
Asia	**506.0**	519.8
Oceania and Africa	**116.5**	112.5
	$ 7,910.0	$ 7,870.4

NOTE 3 – OTHER (GAINS) AND LOSSES

	Three months ended September 30		Six months ended September 30	
	2023	2022	**2023**	2022
Net (gain) loss on foreign currency exchange differences	**$ (0.5)**	$ (5.2)	**$ 1.4**	$ (7.7)
Remeasurement of contingent consideration arising on business combinations	**—**	2.6	**—**	2.6
Settlement gain on annuity purchase transaction	**—**	—	**(5.4)**	—
Other	**(3.4)**	(0.6)	**(1.3)**	(0.5)
Other (gains) and losses	**$ (3.9)**	$ (3.2)	**$ (5.3)**	$ (5.6)

Settlement gain on annuity purchase transaction

In June 2023, the Company entered into an annuity purchase transaction in which the pension obligations associated with certain retired members of Canadian defined benefit pension plans were transferred to a third-party insurer, in exchange for a payment of $163.5 million from the pension plan assets. As a result of this transaction, the Company recognized a settlement gain of $5.4 million in other gains and losses and a corresponding increase of the net employee benefits assets.

NOTE 4 – RESTRUCTURING, INTEGRATION AND ACQUISITION COSTS

	Three months ended September 30		Six months ended September 30	
	2023	2022	**2023**	2022
Integration and acquisition costs	**$ 26.9**	$ 19.6	**$ 41.9**	$ 36.3
Severances and other employee related costs	**11.0**	2.7	**11.0**	2.7
Impairment of non-financial assets – net	**—**	—	**—**	2.3
Other costs	**—**	0.3	**—**	2.8
Total restructuring, integration and acquisition costs	**$ 37.9**	$ 22.6	**$ 52.9**	$ 44.1

For the three and six months ended September 30, 2023, restructuring, integration and acquisition costs associated with the fiscal 2022 acquisition of Sabre's AirCentre airline operations portfolio (AirCentre) amounted to $25.6 million and $38.5 million (2022 – $15.4 million and $21.8 million), respectively, and those related to the fiscal 2022 acquisition of L3Harris Technologies' Military Training business (L3H MT) amounted to $11.9 million and $13.2 million (2022 – $6.2 million and $15.8 million), respectively.

NOTE 5 – DEBT FACILITIES AND FINANCE EXPENSE – NET

Unsecured senior notes

In June 2023, the Company completed a private offering of $400.0 million of unsecured senior notes, bearing interest at 5.541% per annum, payable in equal semi-annual installments until maturity in June 2028. Concurrently, the Company entered into fixed to fixed cross currency principal and interest rate swap agreements to effectively convert the $400.0 million unsecured senior notes into U.S. dollars. The Company has designated the swap agreements as a hedge of its net investments in U.S. entities against foreign currency fluctuations.

Finance expense - net

	Three months ended September 30		Six months ended September 30	
	2023	2022	**2023**	2022
Finance expense:				
Long-term debt (other than lease liabilities)	**$ 41.1**	$ 31.9	**$ 80.9**	$ 62.5
Lease liabilities	**5.9**	4.0	**12.0**	8.0
Royalty obligations	**2.5**	2.9	**5.0**	5.9
Employee benefits obligations	**0.5**	0.8	**0.8**	1.7
Other	**4.0**	7.1	**15.1**	9.8
Borrowing costs capitalized	**(1.6)**	(2.4)	**(3.3)**	(4.5)
Finance expense	**$ 52.4**	$ 44.3	**$ 110.5**	$ 83.4
Finance income:				
Loans and investment in finance leases	**$ (2.5)**	$ (2.5)	**$ (5.2)**	$ (4.8)
Other	**(1.9)**	(0.5)	**(3.2)**	(1.1)
Finance income	**$ (4.4)**	$ (3.0)	**$ (8.4)**	$ (5.9)
Finance expense – net	**$ 48.0**	$ 41.3	**$ 102.1**	$ 77.5

NOTE 6 – INCOME TAXES

During the second quarter of fiscal 2024, the Company recorded an income tax recovery of $16.2 million as a result of the recognition of previously unrecognized deferred tax assets in relation to the statutory combination of certain foreign operations.

NOTE 7 – EARNINGS PER SHARE

Earnings per share computation

Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the treasury stock method to evaluate the dilutive effect of stock options and other equity-settled share-based payments (Note 8).

The denominators for the basic and diluted earnings per share computations are as follows:

	Three months ended September 30		**Six months ended September 30**	
	2023	2022	**2023**	2022
Weighted average number of common shares outstanding	**318,186,798**	317,814,126	**318,090,913**	317,455,744
Effect of dilutive stock options and other equity-settled share-based payments	**978,796**	601,760	**836,098**	831,524
Weighted average number of common shares outstanding for diluted earnings per share calculation	**319,165,594**	318,415,886	**318,927,011**	318,287,268

For the three months ended September 30, 2023, stock options to acquire 2,091,379 common shares (2022 – 2,182,775) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect. For the six months ended September 30, 2023, stock options to acquire 2,091,379 common shares (2022 – 2,182,775) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect.

NOTE 8 - SHARE-BASED PAYMENTS

In August 2023, the shareholders of the Company approved the Omnibus Incentive Plan, which allows equity awards to be granted to eligible participants in the form of stock options, restricted share units (RSUs) and performance share units (PSUs). The total number of shares reserved for issuance under the Omnibus Incentive Plan is 10,000,000.

The Omnibus Incentive Plan supplements the existing cash-settled RSU and PSU plans and stock option plan (collectively, the "Existing Plans"). Awards granted under the Existing Plans will remain outstanding and governed by the respective terms of such plans, but no new awards will be granted under any of the Existing Plans. All awards made under the Omnibus Incentive Plan are considered equity-settled arrangements.

Stock options

Stock options to purchase common shares of the Company are granted to certain employees, officers and executives of the Company. The stock option exercise price is equal to the common shares weighted average price on the TSX of the five days of trading prior to the grant date. Stock options vest over four years of continuous employment from the grant date. The stock options must be exercised within a seven-year period, but are not exercisable during the first year after the grant date.

Equity-settled restricted share unit (RSU)

RSUs are granted to certain employees, officers and executives of the Company. RSUs are settled in shares, either issued from treasury or purchased on the open market, in cash or in a combination thereof, at the discretion of the Company. Restriction criteria include continuing employment for a period of up to three years. RSUs are settled three years after the grant date.

Equity-settled performance share unit (PSU)

PSUs are granted to certain employees, officers and executives of the Company. PSUs are settled in shares, either issued from treasury or purchased on the open market, in cash or in a combination thereof, at the discretion of the Company. The target rate of granted units is multiplied by a factor which ranges from 0% to 200% based on the attainment of performance criteria set out pursuant to the plan, if restriction criteria are met. Restriction criteria include continuing employment for a period of up to three years. PSUs are settled three years after the grant date.

NOTE 9 – SUPPLEMENTARY CASH FLOWS INFORMATION

Changes in non-cash working capital are as follows:

Six months ended September 30		**2023**		2022
Cash (used in) provided by non-cash working capital:				
Accounts receivable	**$**	**(31.9)**	$	(44.9)
Contract assets		**37.9**		31.2
Inventories		**(82.2)**		(46.0)
Prepayments		**(17.0)**		(25.3)
Income taxes		**4.7**		(12.6)
Accounts payable and accrued liabilities		**(30.2)**		(116.8)
Provisions		**(2.3)**		(6.5)
Contract liabilities		**8.4**		(9.4)
	$	**(112.6)**	$	(230.3)

Supplemental information:

Six months ended September 30		**2023**		2022
Interest paid	**$**	**97.0**	$	92.6
Interest received		**8.3**		5.6
Income taxes paid		**39.6**		20.7

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is determined by reference to the available market information at the reporting date. When no active market exists for a financial instrument, the Company determines the fair value of that instrument based on valuation methodologies as discussed below. In determining assumptions required under a valuation model, the Company primarily uses external, readily observable market data inputs. Assumptions or inputs that are not based on observable market data incorporate the Company's best estimates of market participant assumptions. Counterparty credit risk and the Company's own credit risk are taken into account in estimating the fair value of financial assets and financial liabilities.

The following assumptions and valuation methodologies have been used to measure the fair value of financial instruments:

(i) The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities;

(ii) The fair value of derivative instruments, which include forward contracts, swap agreements and embedded derivatives accounted for separately and is calculated as the present value of the estimated future cash flows using an appropriate interest rate yield curve and forward foreign exchange rate. Assumptions are based on market conditions prevailing at each reporting date. The fair value of derivative instruments reflect the estimated amounts that the Company would receive or pay to settle the contracts at the reporting date;

(iii) The fair value of the equity investments, which does not have a readily available market value, is estimated using a discounted cash flow model, which includes some assumptions that are not based on observable market prices or rates;

(iv) The fair value of non-current receivables is estimated based on discounted cash flows using current interest rates for instruments with similar risks and remaining maturities;

(v) The fair value of long-term debts, royalty obligations and other non-current liabilities are estimated based on discounted cash flows using current interest rates for instruments with similar risks and remaining maturities;

(vi) The fair value of the contingent considerations arising on business combinations are based on the estimated amount and timing of projected cash flows, the probability of the achievement of the criteria on which the contingency is based and the risk-adjusted discount rate used to present value the probability-weighted cash flows.

Fair value hierarchy

The fair value hierarchy reflects the significance of the inputs used in making the measurements and has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices in markets that are not active) or indirectly (i.e. quoted prices for similar assets or liabilities);

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

The carrying values and fair values of financial instruments, by category, are as follows:

			September 30 2023		March 31 2023
	Level	**Carrying value**	**Fair value**	Carrying value	Fair value
Financial assets (liabilities) measured at FVTPL					
Cash and cash equivalents	Level 1	**$ 181.5**	**$ 181.5**	$ 217.6	$ 217.6
Equity swap agreements	Level 2	**(6.8)**	**(6.8)**	(11.8)	(11.8)
Forward foreign currency contracts	Level 2	**(0.6)**	**(0.6)**	(5.3)	(5.3)
Derivative assets (liabilities) designated in a hedge relationship					
Foreign currency and interest rate swap agreements	Level 2	**2.5**	**2.5**	10.5	10.5
Forward foreign currency contracts	Level 2	**(8.9)**	**(8.9)**	(20.5)	(20.5)
Financial assets (liabilities) measured at amortized cost					
Accounts receivable[1]	Level 2	**601.0**	**601.0**	555.3	555.3
Investment in finance leases	Level 2	**124.6**	**114.3**	125.7	126.1
Advances to a portfolio investment	Level 2	**10.6**	**10.6**	10.7	10.7
Other assets[2]	Level 2	**21.9**	**21.9**	21.4	21.4
Accounts payable and accrued liabilities[3]	Level 2	**(761.3)**	**(761.3)**	(799.3)	(799.3)
Total long-term debt[4]	Level 2	**(2,920.0)**	**(2,854.8)**	(2,800.3)	(2,788.2)
Other non-current liabilities[5]	Level 2	**(119.9)**	**(112.3)**	(137.6)	(125.1)
Financial assets measured at FVOCI					
Equity investments	Level 3	**1.4**	**1.4**	1.4	1.4
		$ (2,874.0)	**$ (2,811.5)**	$ (2,832.2)	$ (2,807.2)

(1) Includes trade receivables, accrued receivables and certain other receivables.
(2) Includes non-current receivables and certain other non-current assets.
(3) Includes trade accounts payable, accrued liabilities, interest payable and current royalty obligations.
(4) Excludes lease liabilities. The carrying value of long-term debt excludes transaction costs.
(5) Includes non-current royalty obligations and other non-current liabilities.

During the six months ended September 30, 2023, there were no significant changes in level 3 financial instruments.

NOTE 11 – EVENT AFTER THE REPORTING PERIOD

On October 24, 2023, the Company announced that it has reached a definitive agreement to sell its Healthcare business to Madison Industries for an enterprise value of $311 million, subject to customary adjustments. Closing of the transaction, which is subject to closing conditions, including customary regulatory approvals, is expected before the end of fiscal year 2024.