SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

(Check One)

Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934

or

· **Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934**

CAE INC.

(Exact name of Registrant as specified in its charter)

Canada	**3699**	**Not Applicable**
(Province or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number, if applicable)*	*(I.R.S. Employer Identification Number, if applicable)*

Suite 3060, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2J1

416-865-0070

(Address and Telephone Number of Registrant's principal executive office)

CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, NY 10011 (212) 894-8700

(Name, Address and Telephone Number of Agent for Service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Shares, including associated Common Share purchase rights pursuant to the Registrant's Shareholder Rights Plan, which purchase rights will trade together with the Common Shares	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: none

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: none

For annual reports, indicate by check mark the information filed with this form:

· **Annual Information Form** · **Audited Annual Financial Statements**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 219,661,178.

Indicate by check mark whether the registrant by filing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the registrant in connection with such rule. Yes **No** ·

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13(d) or 15(d) of the Exchange Act during the proceeding 12 months (or for such shorter period that the registrant has been required to file such reports); and (2) has been subject to such filing requirements in the past 90 days.

Yes · No

[CAE LOGO]

ANNUAL INFORMATION FORM
2003

CORPORATE OFFICES
SUITE 3060, P.O. BOX 30
ROYAL BANK PLAZA
TORONTO, ONTARIO M5J 2J1

August 8, 2003

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INFORMATION INCORPORATED BY REFERENCE

The Company's Review of Operations and Management's Discussion and Analysis and its consolidated financial statements for the year ended March 31, 2003, and the notes thereto (the "Consolidated Financial Statements") appear on pages 34 to 50 and pages 51 to 97 respectively in the Annual Report to Shareholders for the year ended March 31, 2003 (the "Annual Report"). The Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in Canada (";Canadian GAAP";). For a discussion of the principal difference between Canadian GAAP and the accounting principles generally accepted in the United States, see note 22 to the Consolidated Financial Statements. The information contained therein is specifically incorporated by reference into this Annual Information Form. Any parts of the Annual Report not specifically incorporated by reference do not form part of this Annual Information Form.

Unless otherwise noted, all dollar references in this Annual Information Form are expressed in Canadian dollars.

References to fiscal 2003 refer to the period from April 1, 2002 to March 31, 2003, references to fiscal 2002 refer to the period from April 1, 2001 to March 31, 2002, and references to fiscal 2001 refer to the period from April 1, 2000 to March 31, 2001.

This Annual Information Form contains forward-looking statements with respect to CAE and its subsidiaries based on assumptions that CAE considers reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. CAE cautions the reader that the assumptions regarding future events, many of which are beyond the control of CAE and its subsidiaries, may ultimately prove to be incorrect. Factors that could cause actual results or events to differ materially from current expectations are discussed on pages 48-50 of the Annual Report.

ITEM 2 - CORPORATE STRUCTURE OF CAE

2.1 Name and Incorporation

March 17, 1947:	CAE Inc. (the "Company" or "CAE") was incorporated under the name Canadian Aviation Electronics Ltd. under the laws of Canada by letters patent.
July 5, 1965:	The name of the Company was changed to CAE Industries Ltd.
August 3, 1977:	The Company was continued under the Canada Business Corporations Act (the "CBCA") by certificate of continuance.
June 10, 1993:	The Company changed its name to its present one, CAE Inc.

In 1979, the articles of the Company were amended to change its authorized share capital to an unlimited number of common shares. Each issued and outstanding Class A and Class B share was redesignated and changed into three common shares.

In 1981, the Company's articles were again amended to subdivide the issued and outstanding common shares on a three-for-one basis, and to authorize an unlimited number of preferred shares, issuable in series, with such rights, privileges, restrictions and conditions as the directors of the Company may determine by resolution. The articles were amended further in 1984 and 1986, in each case to subdivide the issued and outstanding common shares on a two-for-one basis.

On June 9, 1995, the Company's articles were amended to authorize the directors to appoint additional directors in accordance with the provisions of the CBCA.

On April 1, 2001, the Company was amalgamated with CAE Electronics Ltd., its wholly-owned subsidiary.

The Company's registered offices are located at Suite 3060, Royal Bank Plaza, Toronto, Ontario, M5J 2J1, telephone: (416) 865-0070, fax: (416) 865-0337.

2.2 Inter-corporate Relationships

The direct and indirect subsidiaries and other ownership interests of the Company are set out in Schedule ";A"; hereto.

ITEM 3 - GENERAL DEVELOPMENT OF THE BUSINESS

3.1(a) General

Following incorporation in 1947, CAE's primary business focused on the repair and overhaul of electronic and electro-mechanical equipment, as well as the design and installation of telecommunication and navigational systems. By the early 1950s, the Company had started to pursue new areas of opportunity in the design, development and manufacture of flight, radar and weapons simulators for Canadian defense requirements. A few years later, CAE began its commercial flight simulation activities.

From the 1960s on, the Company embarked on a program of growth and diversification. CAE acquired several new businesses, both in its traditional aerospace and electronics market segment and in several industrial technology segments. The industrial technology businesses provided a number of diverse engineered products and services for industries worldwide, chiefly those involved in fiber processing technologies (forest products, pulp and paper), cleaning technologies (automotive parts, medical equipment and electronic food processing), and railway technologies and services.

The strategy was significantly changed in fiscal 2000, with the focus turned to the Company's core strengths and key opportunities.

Over the last three years, CAE executed this strategy, divesting itself of its non-core businesses and transforming from being primarily a manufacturer of simulation and controls equipment to also being a provider of fully integrated training in its three core businesses: Civil Simulation and Training, Military Simulation and Training and Marine Controls. The Company is leveraging its technology, expertise and customer relationships acquired in supplying high quality simulation equipment and services to develop integrated training solutions for military forces, commercial airlines, business aircraft operators, aircraft manufacturers and marine vessel operators. Training solutions are customized to meet customers' varied needs for a range of equipment, facilities, training materials, support services and personnel.

3.1(b) History

The transformation of CAE began in fiscal 2000.

In February 2000, the Company announced a "Repositioning for Value" strategy intended to improve shareholder value. The strategy, developed from an intensive review of CAE's core strengths and an analysis of key opportunities, had three main elements:

Focus:	Divesting non-core businesses and concentrating on three high growth, high margin businesses: Commercial Simulation and Training, Military Simulation and Controls, and Forestry Systems.
Fix:	A combination of integration, consolidation and productivity measures intended to reduce costs, increase efficiency, and enhance CAE's competitiveness.
Grow:	A series of growth initiatives enabling CAE to expand the scope of its core businesses.

The first two elements of this strategy have been substantially completed, while significant progress has been achieved in implementing the third element in markets adversely affected over the past year by war, disease and terrorism.

Focus

In the first quarter of fiscal 2001, the Company sold substantially all the assets of its Energy Control Systems business to SNC-Lavalin Group Inc.

On December 18, 2001, the Board of Directors approved a plan to divest CAE's Forestry Systems business segment to further sharpen the Company's focus.

On February 28, 2002, the Company completed the sale of two of CAE's Cleaning Technologies operations. The Company sold CAE Ransohoff Inc., of Cincinnati, Ohio and CAE Ultrasonics, Inc., of Jamestown, New York, to the former management of these operations.

On March 28, 2002, CAE completed the sale of its fiber screening business to the Advanced Fiber Technologies Income Fund.

On June 28, 2002, CAE completed the sale of CAE Cleaning Technologies plc, another of CAE's Cleaning Technologies operations, to the same former management group which previously purchased CAE Ransohoff Inc. and CAE Ultrasonics, Inc.

On August 16, 2002, CAE completed the sale of its sawmill businesses to COE Manufacturing Company.

On April 30, 2003, CAE completed the sale of the operations of CAE Beyss GmbH, another of CAE's Cleaning Technologies businesses, to Bavaria Industriekapital AG.

On May 6, 2003, CAE completed the sale of its wood products business to Carmanah Design and Manufacturing Inc., a TD Capital company.

On June 24, 2003, CAE signed an agreement to sell to Cold Jet, Inc. the operations of CAE Alpheus Inc., a small Cleaning Technologies business in the US. Once this transaction closes (expected in August 2003), CAE's focus-driven divestiture program of the past three years will be completed.

Fix

Through a combination of divestments and consolidations, the Company reduced the number of profit centers from 21 to 3, signifying most dramatically how the Company changed the manner in which it manages its businesses.

CAE's Operations and Engineering groups are reducing the cost and production time of commercial simulators while simultaneously improving the product quality.

CAE is investing in software and hardware innovations that will sustain its leading edge technologies as well as complement its training services for CAE training centers and other customers. Examples of such innovation are the Company's next generation simulators, Sim XXI™, currently in production, its SimFinity™ leading-edge simulation-based courseware, its Tropos™ and Medallion-S™ image generators and its STRIVE™ software development framework to test, model and design military systems during their planning and acquisition phases.

Major corporate functions - finance, human resources, communications and business development - are now fully integrated into the businesses.

Specific productivity goals and cost containment measures are in place each year for each profit center.

Grow

The most significant growth initiatives stem from CAE's investment in pilot training, its increased access to the US and European military markets, and its expansion of the Marine Controls product offering to include the commercial marine sector.

During fiscal 2003, CAE completed the integration of its four strategic acquisitions made in the prior year:

- BAE SYSTEMS Flight Simulation and Training Inc. (now called CAE USA Inc.) located in Tampa, Florida, which has a well-established position in the US defense market for the manufacture of transport and helicopter simulation equipment and has significant training and support service activities for the US military market.

- Valmarine AS of Norway (now called CAE Valmarine AS), the global leader for marine control systems for the commercial market.

- the Netherlands based Schreiner Aviation Training B.V. (now called CAE Aviation Training B.V.), which provides simulator and ground school civil aviation training through its long-established training centers in Amsterdam and Maastricht, The Netherlands, Brussels, Belgium and Dallas, Texas.

- SimuFlite Training International Inc. (now called CAE SimuFlite Inc.) in Dallas, Texas, the world's second largest provider of business aviation training. At the end of fiscal 2003, SimuFlite had 28 full flight simulators mainly serving the business aircraft market (the largest addressable or outsourced aviation training market in the world). CAE views this market segment as one with solid growth potential. It is also a market specifically suited to CAE's new, next generation simulator -Sim XXI™.

In addition to acquisitions, CAE's move into civil aviation and training was further accelerated in fiscal 2003 with the following training center initiatives:

- CAE and Airbus entered into a ten-year renewable co-operation agreement to develop a global network of training centers with the largest fleet of Airbus full flight simulators in the world and offering the highest quality of Airbus flight crew training. Under this agreement, CAE is providing equipment, facilities and advanced training technologies while Airbus is providing its courseware and training expertise. The result is a worldwide global network of training centers combining the Miami Airbus facilities with those of CAE in Denver and Toronto, as well as the Toulouse Airbus facilities with those of CAE in Madrid, Brussels, Rome, Dubai, Singapore and Sao Paulo. CAE is responsible for adding flight simulators and related training technologies in line with Airbus standards and expanding the global network according to market demand. This network is offering the whole range of integrated training solutions, from simulator availability to complete training for initial, recurrent, transition and specialty training.

- The Denver, Colorado facility became operational in July 2002. The four-bay center is currently operating four simulators: an Airbus A320, two Bombardier CRJ200/700 and a CRJ200. The Denver center is strategically located close to the country's sixth busiest airport and is the first independent training center in the US for Bombardier CRJ700 regional jets. Two dynamic airlines are the anchor tenants in the new facility: Frontier Airlines and Air Wisconsin. The two carriers have committed to long-term training agreements of 5 years and 15 years, respectively. Other current customers include Horizon Air, American Eagle, Midway and over-flow training from Mesa Air Group.

- CAE's training facility near Phoenix, Arizona became operational in March 2003, and the Company signed a 10-year training contract with Mesa Air Group for services at that center. CAE is providing training solutions to Mesa, primarily in support of the airline's fleet of

Bombardier CRJ and Embraer ERJ-145 aircraft. The contract is worth approximately $50 million, based on expected usage of the simulators. CAE has installed a Bombardier CRJ200/700/900 full flight simulator (FFS) and an Embraer ERJ-145 FFS in the two-bay facility. With this new facility, CAE became the first independent training provider for the new CRJ900 regional jet. The contract with Mesa also includes CAE's SimFinity™ CRJ200/700/900 Integrated Procedure Trainer, the latest high-fidelity SimFinity™ three-dimensional training solution.

- CAE and China Southern Airlines announced in November 2002 the formation of a joint venture to provide aviation training solutions for Asian carriers. The joint venture company, Zhuhai Xiang Yi Aviation Technology Company Limited, is owned 51% by China Southern and 49% by CAE and is operating from China Southern's training facility at its Zhuhai flight base in Guangdong. It is focused on developing and delivering high technology training solutions for aviation, initially offering simulation-based pilot training and other technical services for carriers operating Boeing 737NG, 737-300, 777, 757-200 and Airbus A320 aircraft.

- In operation since June 2002, Emirates-CAE Flight Training Center resulted from a July 2001 teaming agreement between Emirates Airline and CAE. Currently located in the Dubai Airport Free Zone, the center will expand into a new 14 bay-facility in fiscal 2004 that will include Airbus A319/A320/A321, Airbus A330/340, Boeing 737 NG/BBJ, Gulfstream IV and Gulfstream V FFS. In June 2003, Emirates-CAE Flight Training announced that it will add a convertible Hawker 800/800XP FFS to the Dubai facility. The center is offering the highest standard in aviation training and facilities in the region for both airlines and corporate aircraft operators. It trains pilots to European Joint Aviation Authorities (JAA) and UAE GCAA standards on CAE-designed FFS. Emirates-CAE Flight Training is equipped with the industry's latest integrated training technologies including CAE's SimFinity™ classroom trainer and convertible A320/B737 Integrated Procedures Trainer.

- CAE's Amsterdam center in April 2003 launched maintenance training courses using CAE's SimFinity™ training system, following approval from the European JAA. Maintenance training for technicians is a requirement of all JAA-regulated countries. This furthers CAE's goal to address a growing portion of the total aviation training market - aircraft maintenance. The Amsterdam center has signed maintenance training agreements with KLM Royal Dutch Airlines, Moscow-based Transaero and Netherlands-based Samco. The highly interactive training will use CAE's SimFinity™ virtual maintenance trainer to familiarize students with aircraft systems and teach them procedural and troubleshooting skills.

On July 17, 2000, the MSH Aircrew Training Facility (MSHATF) officially opened at Royal Air Force (RAF) Base Benson in Oxfordshire. The facility provides training to the RAF and third party customers on the Eurocopter Puma, Boeing CH-47 Chinook, and EHI EH-101 Merlin helicopters. The MSHATF is equipped with six CAE-built full mission simulators, four computer-based training classrooms, and a state-of-the-art tactical control center to plan and monitor training missions. It is staffed with a team of highly experienced former military instructors. Of the total initial contract, valued at £399 million, £274 million ($633 million) is still included in our backlog, being the ";take or pay" training commitment of the UK Ministry of Defence. The balance of the contract consists of subcontract work and third party financing.

During the second quarter of fiscal 2002, the FAST Consortium, owned half by CAE and half by Alenia Marconi Systems, signed a contract with the Defence Procurement Agency of the UK Ministry of Defence for the Astute Class Submarine Training program. This Private Finance Initiative contract is for the provision of comprehensive training services to the Royal Navy for 30 years, with an option to renew for an additional 10 years, in the operation and maintenance of the Astute Class submarines. A new training center is being built in Scotland to house the simulators and provide classroom-training facilities. The contract added over $400 million to the Company's backlog and complements the other growth initiatives in the Marine Controls segment. Also during the second quarter, Eurofighter Simulation Systems GmbH selected CAE for visual systems for the Eurofighter EF2000 combat aircraft Aircrew Synthetic Training Aids program. Valued at over $170 million, the contract extends over several years, with the first deliveries taking place in 2002.

In July 2002, CAE was selected as one of several prime contractors under the United States Air Force (USAF) Training Systems Acquisition II contract. This permits CAE to pursue USAF, Air Force Reserve, Air National Guard and Foreign Military Sale products and services programs. During the fourth quarter of fiscal 2002, CAE signed a contract with the US Army to be the prime contractor for the Army Special Operations Forces Aviation Training and Rehearsal Systems (ASTARS). The initial delivery order, valued at approximately $50 million, is for the design of the world's first AH/MH-6 Light Assault/Attack Reconfigurable (LASAR) Combat Mission Simulator to train aircrews of both the AH-6 and MH-6 helicopters. The helicopter simulator, which will feature a 24-foot dome display, will be used by the US Army 160th Special Operations Aviation Regiment (SOAR), the elite regiment of soldiers known as the ";Night Stalkers", who have played a key role in Afghanistan and Iraq. As prime contractor for the ASTARS program, CAE is analyzing the training and simulation needs of the US Army 160th SOAR and assisting in the development of upgrades to existing systems and new training systems. This contract enhances CAE's prospects for securing other US military contracts at a time when military spending is on the rise.

3.2 Industry Overview and Trends

The civil, military and marine markets CAE serves are driven by factors particular to each market. The Company believes the military market is most influenced by a combination of defense spending and the nature of military activity. CAE believes the civil market is most affected by the nature and composition of aircraft fleets, pilot demographics, certification requirements and market demand for commercial and business air

travel. CAE believes the marine markets the Company targets are, on the naval side, affected by a combination of defense spending and the nature of naval activity and on the civil side by the nature and composition of commercial fleets and market demand for commercial marine shipping and tourism.

3.2(a) Civil Simulation and Training

The use of flight simulators in pilot and crew training is well established within the commercial and business markets. Increased use of simulators has occurred as a result of the growth in commercial and business air travel which, in turn, has driven fleet expansion and increased demand for pilot training. Civil simulator usage has also increased due to advances in technology that enable increased realism and the significant cost savings provided by flight simulation training compared to actual flight time. The use of synthetically-generated reproductions of airport configurations and use of satellite terrain imagery incorporated into the simulation further enhance the effectiveness of simulation training. Simulators are also utilized by pilots to supplement actual flying time to maintain their certification. Today's most sophisticated civil flight simulators are rated Level D by the US Federal Aviation Administration or receive similar ratings from regulatory authorities in other countries, indicating that a pilot can be certified to fly an aircraft type based solely on simulator training. Flight simulators also allow pilots to experience and learn emergency procedures that cannot be practiced safely aboard the actual aircraft.

Flight simulation equipment is purchased by major and regional airlines, aircraft manufacturers and independent training providers. Simulators are manufactured by a limited number of companies and are sold based on the criteria of product quality, service, delivery, supplier reputation, price and life cycle costs. In fiscal 2003, 11 FFS were sold to third parties in the global competed market, in which contracts are awarded on the basis of a competitive bidding process. Prices for civil flight simulation equipment can range from up to $1 million for sophisticated procedure trainers, from US$2 to US$6 million for a flight training device (FTD's) to US$12 to US$14 million for an FFS.

Within the flight simulation industry, training services is the largest and fastest growing market segment. The training services market consists of sales of training equipment, facilities, tools, programs, and instructors designed to enable pilots to obtain and retain the necessary qualifications to pilot a particular aircraft, and to enable maintenance workers to inspect, maintain and repair aircraft. Training is carried out by airlines as well as independent training providers. Currently, approximately 45% of the FFS in use around the world are owned and operated by commercial airlines to provide training to their pilots, with the vast majority owned by large commercial airlines. These large commercial airlines also use independent training facilities to supplement their training programs. Ownership of simulators by regional airlines is considerably less common and virtually not the case for business aircraft operators. As a result these companies primarily use independent training providers.

CAE believes the following trends and developments will continue to drive the civil simulation and training industry:

Effectiveness and Cost Advantages of Simulation-Based Training

Simulation-based training is an essential element in civil pilot and crew training. The realism of the simulated flight experience has made procedure trainers, fixed training devices and full flight simulators effective tools for training pilots and crew. Pilots and crew can be trained for a variety of aircraft, using visualizations of most of the civil airports around the world, and in varying environmental conditions. The cost savings to aircraft operators are substantial as costs such as fuel, ground crew and maintenance, as well as aircraft wear and tear, are avoided. The average cost to train in a FFS is US$500 an hour, whereas it can cost as much as US$5,000 to US$10,000 to fly an actual aircraft for an hour. In addition, simulator training minimizes the risk of accidents and resulting injury to personnel and damage to equipment. Full flight simulator training users are also accorded more favorable liability insurance premiums. Simulator-based training also offers considerable flexibility with respect to the timing and duration of training sessions. In the past, the use of independent training services was limited by the availability of convenient training centers. With the development of additional independent training centers around the world, CAE believes that this historical deterrent will be addressed. CAE believes that the costs of acquiring and maintaining FFS will encourage additional usage of independent training providers by commercial airlines.

Pilot Certification and License Requirements

Piloting an aircraft is a regulated activity requiring both initial and recurring training to achieve defined levels of competence and experience. To keep a license to fly an aircraft weighing over 12,500 pounds, certain regulations require pilots to demonstrate proficiency for that aircraft type at least once a year. Certification and license requirements can be satisfied through simulated flight and many pilots elect to do so.

Expansion and Diversification of Aircraft Fleets

The introduction of new aircraft and expansion and diversification of fleets creates incremental pilot training requirements. Simulation training is now considered an essential element in pilot and crew training for the large commercial, regional and business segments of the market. An experienced pilot typically needs between 15 and 40 hours on a simulator to learn the intricacies of a new aircraft. CAE estimates that approximately one simulator is required to support every 20 commercial aircraft in operation.

New aircraft deliveries are a major driver for this market. In ";The World Market for Large Commercial Jet Transports", Forecast

International/DMS Inc. projects that 6,092 large commercial jet transports worth some US$558 billion will be produced from 2003 to 2012.

Demand for civil air travel and the timing of delivery of new aircraft were adversely affected by the September 11, 2001 terrorist attacks and the ensuing war in Afghanistan. In fiscal 2003, that demand and timing was compounded by the SARS epidemic and the increasing geo-political tensions that resulted in war on Iraq in March 2003. As a result, aircraft orders suffered and CAE experienced a reduction in new third party orders for full flight simulators in the past fiscal year and expects that sales in fiscal 2004 will be at a similar level. The current market uncertainty caused by these events has had a very negative effect on commercial airlines, aircraft manufacturers and, by extension, CAE, which is somewhat dependent on the health and success of those industries. However, the impact of these events has been less severe on the demand for flight training services as pilots still need to be trained.

Virtually every business aircraft transaction, whether a new or after-market transaction, triggers the need for pilot training. Business aircraft simulation training is primarily provided by independent training providers. CAE believes that additional demand for business aircraft simulation training will be driven by growth in new business aircraft sales; 9,769 are forecast to be produced between 2003 and 2012; and the increase in fractional ownership and unscheduled charter flights. Long-term growth in civil air travel will drive increased aircraft deliveries across the spectrum of aviation service providers and, in turn, the demand for simulation technology and training.

Pilot Demographics

According to AIR Inc., a major pilot recruitment firm, US-established airlines will retire more than 11,000 pilots over the next five years. They also estimate that between 6,500 and 7,500 new pilots will be hired in 2003. As pilots retire, other pilots must be trained to fly the aircraft. Historically, the major commercial airlines hired a substantial number of pilots from the military as these pilots retired or otherwise left military service. In recent years there have been fewer available military pilots. The relative lack of available military pilots has caused increased demand for qualified pilots throughout the industry. As a result, the major airlines have begun to more actively promote pilots to larger aircraft from within their existing ranks or from regional airlines operating smaller aircraft. This increased mobility within a fleet results in more pilots needing to be certified on different aircraft and a corresponding increase in training requirements.

Other Factors

The September 11, 2001 terrorist attacks had an immediate and severe adverse impact on the passenger traffic and yields of CAE's customers in the civil airline industry. Even as the after-effect on the industry of the shock of that event and the subsequent war in Afghanistan was receding, the more recent SARS epidemic and Iraqi war again caused a sharp drop-off in commercial travel coupled with higher fuel and other costs. Civil airline operators have continued to experience significantly lower revenue and have incurred additional costs for increased security and higher insurance premiums. Because of these recent events, resulting airline bankruptcies and funding problems and continuing weak domestic and international economic conditions, CAE expects that the delivery of new aircraft will continue to be down through fiscal 2004, which will reduce simulator orders as well. This will reduce or delay a portion of future revenue.

The US government has developed regulations that require any non-US person to apply for permission to enter the US for the purpose of flight training. These regulations delay and in some instances prevent the ability of foreign pilots to enter the US for flight training, which has had a mildly negative near term effect on CAE's training business in the US. This is being partly offset by relocation of some non-US pilot training to CAE's flight training centers outside of the US.

3.2(b) Military Simulation and Training

Military forces increasingly rely on sophisticated and interrelated weapons systems and equipment, computer systems, visual systems and other advanced technologies to operate in a broadening range of conditions and scenarios. Achieving a high state of operational readiness is a constant goal and challenge for militaries. Simulators enable military organizations to achieve their training goals while minimizing the physical use of expensive systems and equipment. In addition, the use of simulators helps to avoid injuries to personnel and the loss of equipment due to training accidents. Simulators allow for the training of tasks and missions that cannot be practiced in the real world.

Flight simulators are used to train pilots to operate a variety of military aircraft including fighter jets, helicopters and transport aircraft. Flight simulators permit the crews of military aircraft to coordinate and improve their essential combat skills in a safe, cost-effective and realistic range of environments. The simulators enable pilots to realistically practice both offensive and defensive tactics, such as firing aircraft weapons systems and avoiding attack from enemy surface and air threats. The immersive environment provided by simulators allows pilots to train for highly demanding maneuvers and life threatening scenarios, such as rotor failure, missile impact or the effects of exceptional turbulence.

Simulators for land systems provide similar advantages. Though land systems equipment is generally less complex than that found in aircraft and marine vessels, the systems often operate in conjunction with other equipment in environments involving many soldiers and various weapons systems.

CAE believes the following trends will continue to drive the development of the military simulation and training market:

Increasing Defense Spending

Following the September 11, 2001 terrorist attacks, the US government increased its defense spending. The fiscal 2003 national defense budget in the US was more than US$382 billion, which does not include additional funding requested to support the war effort in Iraq. Over the next six years, the Bush administration has requested national defense budget increases of more than 30% from current levels, which would result in the US defense budget totaling more than US$500 billion by 2009. The US government's defense spending has recently

represented about 40-50% of the world's total defense spending. Military spending is also increasing in Asia, while defense expenditures are stable in NATO countries other than the US. Apart from spending on defense, there is an increased emphasis on security in most Western nations in the face of increased terrorist threats. CAE expects that some of this spending will address new technologies and training for counter-terrorism activities. However, the focus of governments on the wars in Afghanistan and Iraq in 2002-2003 led to delays in the contracting process for certain expected defense programs, leading in turn to the deferment of expected revenue opportunities for the Company in fiscal 2003.

Rapid Evolution of Technology and Warfare

Technological advances and the changing nature of warfare have resulted in a rapid evolution of weapons systems and equipment. This has been illustrated by recent events in Afghanistan and Iraq, where the coalition forces faced asymmetric threats and where extensive use was made of unmanned air vehicles (UAV) such as the Predator and Global Hawk. Military forces face a wide range of operations which are increasingly likely to be asymmetric or involve operations in urban terrain. In light of these changing circumstances, the key focus of military forces has evolved towards information dominance linked with networked weapons systems. These highly technical networked systems lend themselves to simulation training.

Accelerated developments in computer and visual technologies enable devices of greater fidelity and promote the proliferation of simulation technologies. In particular, the rapid evolution of commodity graphics technologies of recent years has substantially redefined the price/performance envelope of visual equipment. Visual systems provide simulator-correlated, geo-specific representations of the synthetically generated environment under a broad range of weather, illumination and other conditions. Visual database representations can be rapidly synthesized from the Geographical Information System, including satellite data, and applied to military mission rehearsal exercises.

The introduction of new aircraft and weapons platforms, as well as upgrades and life extensions to existing aircraft and weapons platforms, will necessitate new training requirements for military operators. For example, CAE expects programs in Europe such as the Eurofighter 2000, the A400M military airlifter, the NH90 helicopters as well as upgrades for the Tornado tactical aircraft and Lynx helicopter fleets will create additional flight simulation requirements. The USAF upgrade of its C-130 fleet under the Avionics Modernization Program will also require corresponding upgrades and new simulators to train aircrews on upgraded aircraft. The USAF's decision to lease KC-767 tankers from Boeing will produce a need for new training simulators. Other aircraft such as the F-35 (Joint Strike Fighter) and Comanche helicopter will also enter service in the US over the next decade and produce opportunities for training systems.

In the summer of 2003, the US Army released its request for proposals for its next generation training strategy, Flight School XXI, which calls for extensive integrated simulator training for aviators before their first combat unit assignments. CAE is leading a team comprising Boeing and other US companies to bid on this proposal. The US Army is effecting far-reaching changes to its land forces structure through a program called the Future Combat System. This program will employ a range of manned and unmanned vehicles which will generate training requirements as the equipment is deployed. CAE believes that the Future Combat System will generate new opportunities to exploit simulation technology in vehicle and system design. CAE also expects the advent of new digital communications systems and lighter air mobile forces to create additional training needs for European land forces.

Evolving Role of Simulation Training

CAE believes that the military will continue to make greater use of simulation as an effective solution for more frequent and sophisticated training requirements for several reasons. First, advances in technology have enhanced the realism that can be achieved in simulation training. As a result, militaries are more receptive to utilizing this technology. The achieved realism combined with the development of extensive environment databases offer militaries the ability to train in situations and conditions either difficult or impossible to consistently replicate in a physical setting. Second, simulation training also is more cost effective than training personnel on actual equipment. Third, simulation training involves less potential for accidents and resulting injury to personnel and damage to equipment. Finally, CAE believes simulation will increasingly be used in areas consistent with the Simulation Based Acquisition initiatives of the US Department of Defense which seek to use simulation to evaluate competing system designs prior to commitment to full scale design and development.

Increasing Interest of Governments in Privately Financed Long-Term Training Models

The increasing sophistication of weapons systems has resulted in the need for more sophisticated training equipment and services. The development, construction and delivery of these training resources require a high level of specialized technology and knowledge, and often involve significant expense. The UK government has increasingly turned to private sector companies to build, maintain and deliver training equipment and services under long-term financed arrangements because these companies can deliver an integrated training solution more quickly and efficiently and at lower cost. CAE is already in full scale operation in the UK's first military training privately financed initiative, the Medium Support Helicopter Aircrew Training Facility, and are under contract to deliver the Astute Class Submarine Training program under private finance. The UK is currently considering the outsourcing of all undergraduate pilot training under the Military Flying Training System project. It is reviewing bids on the Armoured Vehicle Training Service (AVTS) program, which would be a private financed initiative outsourcing of all training associated with gunnery, tanks and armored vehicles. The government of Germany is currently seeking tenders for the NH90 helicopter training programs under this form of procurement and several other nations are also considering this type of procurement

approach.

3.2(c) Marine Controls

Simulators for submarines and other naval vessels provide many of the same training advantages as flight simulators. Crews of submarines are able to coordinate and improve their essential combat and operational skills, including navigation, weapons deployment, mission skills and speed in processing critical data in a safe, cost-effective and realistic range of environments. Such simulators are used to train crews for highly demanding maneuvers and life threatening scenarios, such as catastrophic structure failure and missile impact. Other simulators for naval control systems permit a crew to learn to operate a ship's control systems in a variety of environments.

Integrated shipboard control systems installed on naval and civil ships enable crews to monitor and control the vital platform machinery and systems such as propulsion, electrical power generation and distribution, steering, auxiliaries and damage control. The operational effectiveness of a ship is greatly enhanced by incorporating on-board control systems training capability. Operators can be continuously trained while at sea using these systems. This facilitates high levels of fleet readiness to respond to demands of national security for naval ships and facilitates enhanced passenger comfort and safety in civil applications such as cruise liners.

CAE delivers power simulator solutions that best suit the Company's customers' training or engineering needs whether the plant to be simulated is nuclear, fossil or natural gas fired plant. CAE simulators range from classroom training simulators to system trainers to full-scale simulators. Operators can enhance their skills to ensure safer, as well as more efficient plant operation, thereby addressing the ever-changing demands of both the marketplace and regulatory bodies.

CAE believes the following trends will continue to drive the development of the marine controls and power markets:

Increasing Complexity of Ship Designs and Reduced Manpower

CAE believes that new ship designs will continue to steadily increase in complexity and value with the commensurate demand for more sophisticated control systems and integration solutions. At the same time, the need for navies and civil ship owners/operators to reduce operational costs by reducing manpower on-board ships adds to the demand for complex automation. The potential reduction of engineering manpower is of particular interest to those navies that face manpower retention problems due to long periods at sea. The evolution to ever more complex automation creates both a manufacturing and a training opportunity for suppliers like CAE.

Integrated Procurement

There is a trend towards the procurement of larger turnkey packages of ship controls and associated electronic/electrical systems by navies, owners of high-end merchant ships and shipbuilders around the world. This should allow companies with the capability to undertake such larger scale integration tasks to win contracts of greater value, with the attendant long-term benefits that will accrue due to the requirement to support these ships typically for over 20 years.

Power Plant Modernizations

Power plant modernizations and new DCS-based controls are but some of the changes affecting the need for simulation solutions. The power industry has also experienced an aging workforce that will ultimately result in the retirements of numerous experienced power plant personnel. Along with the exciting technological advances, the power industry is also coming to grips with the important role that simulation technology will play in both provision of licensed operator training and "beyond training" uses, including procedures validation, engineering studies and virtual testing of power plant updates prior to their actually going into service.

ITEM 4 - NARRATIVE DESCRIPTION OF THE BUSINESS

4.1 General

CAE is a world leading designer and manufacturer of advanced simulation and control equipment and provider of integrated training solutions for the military, civil aviation and marine markets. With over 50 years of experience, strong technical capabilities, a highly trained workforce and a global reach, CAE has built an excellent reputation and long-standing customer relationships.

CAE has delivered simulation products to the military forces of more than 30 countries. The Company is the world's leading supplier of civil flight simulators in the competed market and is the second largest independent provider of civil aviation and training services based on the number of simulators operated. CAE is a world leader in the provision of marine automation systems for both naval and commercial shipping and supplies full scope simulators to support the training of staff for both nuclear and fossil-fueled power generation plants. CAE also provides a range of simulation equipment for sea and land-based activities.

CAE also provides a range of technical support services to civil and military simulator operators, including parts replacement and repairs, installations, relocations, upgrades and technical training. Customers use the Company's technical services to answer questions, trouble-shoot and receive advice. This extends to service visits by CAE's engineers to assist in customer maintenance and repair activities. Military and civil upgrade services are not restricted to CAE products; the Company can upgrade most other manufacturers' simulators. CAE services are offered either in conjunction with a sale of a simulator, through maintenance contracts or individual purchase orders. CAE believes that its service business provides opportunities to influence the upgrade of installed simulators while providing valuable insights into customer training needs.

CAE has a global presence with 6,000 employees at manufacturing operations and training facilities in 16 countries. CAE reports results based on three business segments: (i) Civil Simulation and Training (formerly Commercial Simulation and Training); (ii) Military Simulation and Training (formerly Military Simulation and Controls); and (iii) Marine Controls (formerly part of Military Simulation and Controls). The Company's consolidated revenue, from continuing operations, in fiscal 2002 and 2003 was $1,126.5 and $1,130.5 million, respectively, and is broken down as follows:

Revenue by Product Line (%)

	2003	**2002**
Civil Simulation and Training	46	48
Military Simulation and Training	39	41
Marine Controls	15	11
	100	**100**

Geographic Distribution of Revenue (%)

	2003	**2002**
Canada	8	9
US	29	31
UK	13	14
Germany	11	8
Other European countries	14	15
Other countries	25	26
	100	**100**

For the fiscal year ended March 31, 2003, sales to customers outside the US and Canada accounted for approximately 63% of CAE's revenue. The Company expects that sales outside the US and Canada will continue to account for a significant portion of its revenue for the foreseeable future. As a result, CAE is subject to risks of doing business internationally, including:

- changes to regulatory requirements;
- changes to domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation requirements;
- the complexity and necessity of using foreign representatives and consultants;
- imposition of tariffs or embargoes, export controls, including US, Canadian and foreign arms export controls, currency exchange controls and restrictions, and other trade restrictions affecting countries in which CAE sells its products or services;
- the difficulty of managing and operating an enterprise spread over various countries;
- compliance with a variety of foreign laws; and
- general economic and geopolitical conditions, including international hostilities, inflation, trade relationships and military and political alliances.

The impact of these factors is difficult to predict and any one or more of these factors could adversely affect the Company's operations in the future.

CAE deals with a variety of goods and services suppliers across its business segments. It is not dependent on any single supplier for any key manufacturing components or services. Significant shortages of goods and services are not expected, and have not been encountered in the past. However, CAE's products contain sophisticated computer systems that run on software and operating systems supplied to it by third parties. Such computer systems and software may not always be available to CAE to license or purchase. The production of CAE simulators is often dependent upon receipt by CAE of data, including confidential or proprietary data, concerning the functions, design and performance characteristics of a product or system, the performance of which CAE's simulator is intended to simulate. The Company cannot guarantee that it will be able to obtain such data on reasonable terms, or at all. Original manufacturers of these products and systems could object to the simulation by CAE of components of, or the totality of their products or systems, or could request high license fees that could negatively impact the Company's profit margins.

The following sets out, by business segment, the locations of CAE's primary subsidiaries and divisions:

Civil Simultation and Training	***Military Simultation and Training***	***Marine Controls***
Canada	***Canada***	***Canada***
· Montreal, Quebec	· Montreal, Quebec	· Montreal, Quebec
· Toronto, Ontario		
United States	***United States***	***United States***
· Dallas, Texas	· Tampa, Florida	· Leesburg, Virginia
· Denver, Colorado		
· Fort Worth, Texas		
Europe	***Europe***	***Europe***
· Amsterdam, The Netherlands	· Burgess Hill, United Kingdom	· Burgess Hill, United Kingdom
· Brussels, Belgium	· Royal Air Force base, Oxfordshire, United Kingdom	· Drammen, Norway
· Madrid, Spain	· Stolberg, Germany	
· Maastricht, The Netherlands		
Other	***Other***	***Other***
· Dubai, United Arab Emirates	· Adelaide and Silverwater, Australia	· Bangalore, India
· Sao Paulo, Brazil		

4.2 Civil Simulation and Training

The Company builds civil simulators for all categories of aircraft including those built by Airbus, Boeing, Bombardier, Cessna, Dassault, Embraer, Fairchild/Dornier, Gulfstream and Raytheon. CAE also builds simulators for civil helicopters, including models by Bell Helicopter and Sikorsky. During fiscal 2003, CAE was awarded 11 of 17 full flight simulator orders or 65% of the worldwide-competed market (fiscal 2002 - 22 of 26 full flight simulator orders). CAE also captured 9 of 17 competed visual systems, or 53% of the worldwide competed visual systems market. Since its inception, CAE has taken orders for approximately 450 full flight simulators and flight training devices from over 100 commercial airlines, aircraft manufacturers and external training centers in 38 countries, and to date has delivered about 4320 of them. With half a century of experience in designing and manufacturing full flight simulators, CAE has established long-standing relationships with leading commercial airlines throughout the world. CAE believes its ability to maintain its global leadership is strengthened by the capital and technology intensive nature of the industry, which creates substantial barriers for new entrants.

In 2001, CAE entered the civil flight training business by opening its first pilot training center in Sao Paulo, Brazil in April and launching its Toronto, Canada facility in December. During 2001, the Company also acquired Schreiner and SimuFlite, adding six new pilot training centers to its operations. CAE is the world's second largest independent provider of training services, based on the number of simulators available for third party training. As at March 31, 2003, CAE had an installed base of 89 civil full flight simulators in ten countries, located in ten CAE training centers and eight other locations.

CAE intends to continue to expand its global network of strategically located training centers. The Company's practice is to secure at least one long-term training agreement with a major or regional airline prior to establishing a new civil training center. CAE's customers at the commercial aviation training centers include major and regional airlines that elect to outsource some of the training of their pilots and other crew members using either the Company's training instructors or their own. The third party aviation training centers are used by more than 3,000 customers who tend to use third party training centers as their primary source for simulation training. By the end of fiscal 2004, CAE expects to have in operation an installed base of over 100 full flight simulators. CAE will continue to execute its pilot training strategy, with the focus now ramping up utilization and increasing yield (through enhanced service offerings) in the training centers owned or operated by CAE.

CAE expects to maintain a commanding leadership position in civil simulation and visual systems due to a focus on customer relationships, commitment to innovation and technology, product quality, reliability and efficiency, and continuing efforts to shorten delivery cycles through process improvements. CAE expects to increase its advantage in lead-time, cost, quality and reputation for performance through operational improvements and research and development programs. Three years ago CAE launched a large-scale research and development program to improve flight simulator products. CAE's Sim XXI™ modular design is the result of the latest next-generation technologies used to produce high quality high fidelity full flight simulators. The CAE Sim XXI™ simulator is easier to assemble, test, integrate, evaluate, deliver and maintain. In fiscal 2003, CAE entered into production of these simulators, which are in the process of acceptance testing by customers. While CAE's Sim XXI™ simulators were originally targeted at the regional and business jet training mandates, CAE is extending this technology to commercial aircraft such as the Boeing 737 NG.

CAE's capabilities in simulation-based interactive learning, including its leading-edge SimFinity™ system, will also complement its traditional strength in full flight simulators and flight training devices. In fiscal 2003 CAE's SimFinity™ training system received its first US Federal

Aviation Administration acceptance as part of a Boeing 737NG training program. By using the same high quality simulation software used in CAE's full flight simulators, CAE's SimFinity™ training system is transforming aviation training and offers integrated, efficient and cost-effective solutions to meet the ever-increasing needs for better, faster and more interactive training while significantly reducing the need to use low-level training devices. CAE's SimFinity™ training system integrates CAE's newest image generator, Tropos™, for high-fidelity visual rendering and an extensive airport database library. Pilots using CAE's SimFinity™ training system are able to practice landing, takeoff and taxiing under different weather conditions in over 250 airports. Combined with a growing network of training centers, this complete suite of simulation-based equipment and training products permits CAE to offer airlines and business jet operators a range of training solutions.

The events of September 11, 2001, the Afghan war, SARs and the Iraqi war all have had a negative impact on commercial airlines, on aircraft manufacturers and, by extension, on CAE, which to some degree is dependent on the health and success of those industries. CAE experienced considerable softening of near-term demand for civil simulators last year but expects simulator orders in fiscal 2004 to exceed last year's level. This expectation is supported by fiscal 2004 orders secured of nine out of ten completed FFS orders from April to July 2003, compared with 11 FFS orders for all of fiscal 2003. The contracting market for civil simulators last year led to pricing pressure that CAE expects may continue until the market becomes more robust. In addition, following the Company's entry into the civil aviation training market, the market for new simulators for sale to third parties has been reduced, as CAE now manufactures these for its own use. The growth expected from training operations, the building of simulators for the Company's training centers as well as for sale, the introduction of CAE's Sim XXI™ simulator design, a continued focus on productivity savings through cycle time reductions and other cost containment initiatives should position CAE to benefit from the gradual recovery of the civil airline industry.

4.3 Military Simulation and Training

CAE is a world leader in the design and production of military flight simulation equipment. The Company develops simulation equipment and training for a variety of military aircraft, including fighter jets, helicopters and transport planes. Its military simulators provide full combat environments that include interactive enemy and friendly players, as well as weapons and military sensors. These simulators incorporate highly realistic visual scenes covering areas as large as whole countries that are able to show the effects and characteristics of a variety of battlefield features, including those seen through Infra Red and Low Light Level TV Sensors. CAE has moved beyond the supply of simulation equipment into the provision of military training with the Company's Medium Support Helicopter Aircrew Training Facility in the UK and its C-130 transport plane training facility in Tampa, Florida.

CAE provides simulation equipment and training to the military forces of more than 30countries, including those of the US. CAE has provided simulators for a wide range of aircraft and has developed the broadest rotary wing expertise of any simulator manufacturer. The Company has established a leading position in Europe in the supply of army command team land-based training systems, by supplying such systems to the forces of Germany, Austria, Italy, Norway, Finland and Ireland. The selection of a CAE visual system for the prestigious Eurofighter program solidly establishes CAE's Medallion visual system as a premier system for fast jet simulation applications. The Medallion visual system is also being used to upgrade the US Army's Apache combat mission simulators, the German Tornado simulators, the Canadian CP140 Patrol Aircraft simulator and the F-16 Combat Mission Systems for the Emirates.

Military support services include the provision of contractor logistic support, maintenance services and simulator instruction at over 60 sites worldwide. CAE provides maintenance support for all of the Canadian Forces flight simulators at six bases and all but one of the installed flight simulators of the German Army, Air Force and Navy. In the US, CAE provides a range of services across a wide number of bases, including the instruction of UAV Predator operators. CAE also provides a range of support services to facilities in Australia, the UK, the Netherlands and Italy, as well as mission software support for Canada's CF-18 fighter aircraft.

The Company believes that its physical presence in countries such as the US, Germany and the UK has enabled it to develop strong relationships and a good reputation with governments and other defense contractors who are important decision makers regarding defense contracts. In fiscal 2003, CAE was awarded contracts, among others, by the US Army, German Army Aviation School, the US Coast Guard, the German Armed Forces, the Dutch Army School of Artillery, the Royal Air Force of Oman, the Norwegian Armed Forces, the Canadian Department of National Defence, the Republic of Singapore Air Force, the UK Royal Navy, the Australian Army, the Royal Australian Navy, and the Royal Netherlands Air Force. Following CAE's April 2001 acquisition of BAE SYSTEMS Flight Simulation and Training in Tampa and the subsequent creation of CAE USA Inc., CAE's ability to win contracts with the US military has been significantly enhanced with the awarding of prime contractor status under several omnibus procurement programs.

CAE will focus on growing its business with military customers around the world, and particularly in the US. The Company believes it can capitalize on the experience, expertise and increased visibility with military customers that it has gained from winning and performing significant contracts, such as the UK Royal Air Force Medium Support Helicopter program. CAE will continue its commitment to customer service by focusing on anticipating and meeting the needs of its military clients for highly-customized equipment and training. CAE believes its ability, through CAE USA Inc., to be a prime contractor in the US, in addition to strong supplier relationships with leading US defense contractors, will enable CAE to further penetrate the US military simulation and training market. CAE intends to continue to foster partnerships with key original equipment manufacturers such as Boeing, with whom it is teamed to pursue the US Army's Flight School XXI program, Agusta Westland (CAE's partner in the Rotorsim consortium) with whom CAE has entered into a joint venture to deliver training equipment and services in support of Agusta Westland aircraft sales worldwide, and Lockheed Martin, with whom CAE is teamed on the C-130J

Maintenance and Aircrew Training System program for the USAF. CAE is also leading the Landmark consortium, comprising Westland, Vickers and others, which is bidding on the AVTS program for the UK Ministry of Defence. CAE is also teaming with Boeing to pursue Canada's CF-18 simulator training equipment program. CAE will continue to pursue opportunities to provide long-term training services to military organizations, including leveraging the naval training expertise and experience gained in the UK and Canada into other markets.

The military simulation and training market is driven by the introduction of new aircraft platforms, upgrades and life extensions to existing aircraft and a shift to greater use of simulation in pilot training programs due to the high degree of realism and the significantly lower cost compared to live training. CAE expects to increase its advantage in lead-time, cost, quality and reputation for performance through continued operational improvements and research and development programs. In particular, CAE launched a research and development program to introduce CAE NeTTS (Networked Tactical Training Solutions), a new PC-based architecture to address the requirement for scalable, re-configurable, cost effective training devices. With a leading-edge technology solution, CAE is well positioned to capitalize on upcoming international military programs in Canada, the US, Europe, the UK, Asia and Australia, as well as teaming and/or collaboration arrangements in other countries.

4.4 Marine Controls

CAE is a world leader in the supply of automation and controls systems for the naval and commercial marine markets. CAE's marine control systems monitor and control propulsion, electrical steering, ancillary, auxiliary and damage control systems. CAE's Integrated Platform Management Systems (IPMS) have accumulated over 3.0 million hours of operational experience and have been or are in the process of being installed on more than 130 warships (including submarines) of 18 navies around the world, including those of the US, the UK and Germany. The Company has moved beyond the supply of marine controls into the provision of naval training services through its participation in the 30-year UK Royal Navy Astute Class Submarine Training program. CAE is a leading supplier of maritime mission training devices.

CAE's systems can be provided for new ship classes as well as retrofitted for existing vessels. The Company also provides full scope IPMS trainers and software support facilities. CAE was the first company in the world to provide an integrated On-Board Training System (OBTS) that enables sailors to train whether at sea or in port. CAE's Battle Damage Control Systems (BDCS) provides significant improvement to the traditional plotting of damage assessment information and repair actions with advanced Human-Machine Interface hardware (consoles) at every damage control station. The OBTS and BDCS along with other advanced features of CAE's IPMS greatly improve the operational effectiveness of naval vessels.

The Damatic XD ship automation system sold by CAE Valmarine under license is installed in approximately 450 vessels worldwide. CAE Valmarine supplies many of the world's cruise lines, passenger ferries and cargo vessels. Advanced functionality that CAE pioneered in the naval automation sector, such as its BDCS is now being introduced as Integrated Safety Management System (ISMS) to CAE Valmarine's customers.

Within CAE's Marine Controls business division, the Company also designs and manufactures power plant simulators and provides power plant simulator software upgrades. Power plant training simulators are used by electric utilities to train operators of power plant control rooms. CAE has supplied power plant training simulators to utilities around the world. CAE is the sole supplier of CANDU simulators and control systems to utilities worldwide. In addition, the Company supplies power plant simulators for pressurized water reactors, boiling water reactors, and fossil and process simulators.

In May 2003, the Omaha Public Power District of Nebraska selected CAE to refurbish the Fort Calhoun Simulator. With this contract, CAE becomes the premier supplier of power-plant simulation technology in the US at the present time.

CAE intends to grow its naval controls business by expanding the scope of its products and services and to use its technologies and experience in naval control systems to enhance CAE Valmarine's position as a world leader in commercial marine controls. In addition, CAE expects that it will be able to exploit its customer-installed base to enhance CAE's naval simulation and controls equipment and training services.

4.5 Discontinued Operations

On December 18, 2001, the Board of Directors approved the divestiture of the Forestry Systems segment. Commencing in the third quarter of fiscal 2002, the results of Forestry Systems were reported in discontinued operations and combined with the results of the Cleaning Technologies segment. Prior year amounts have been restated, accordingly. On August 16, 2002, CAE completed the sale of its sawmill businesses to COE Manufacturing Company for proceeds of approximately $25 million, plus certain rights to further payment if future earning targets are attained by the sawmill businesses. The result of this transaction, combined with an estimate of the net realizable value of the remaining discontinued operations, contributed to a $13.8 million loss from discontinued operations for the year ended March 31, 2003. On April 30, 2003, CAE completed the sale of the operations of CAE Beyss GmbH, another of CAE's Cleaning Technologies businesses, to Bavaria Industriekapital AG. Because the business had not been profitable for some time, CAE received nominal consideration and will record an additional provision of approximately $2 million for disposition-related adjustments. On May 6, 2003, CAE completed the sale of its wood products business to Carmanah Design and Manufacturing Inc., a TD Capital company, for proceeds of approximately $20 million, plus certain

rights to further payment if future earning targets are attained by the wood products business. On June 24, 2003, CAE signed an agreement to sell to Cold Jet, Inc. the operations of CAE Alpheus Inc., a small Cleaning Technologies business in the US with an expected transaction closing in August 2003.

4.6 Research and Development

CAE differentiates itself by providing superior products and services that rely on the latest, most advanced technology available. As a result, the Company has a long-standing commitment to research and development. Each business segment is encouraged to apply research and development across the whole spectrum of its operations, from product development to production processes and techniques.

An additional part of CAE's research and development strategy is to participate with several universities and government agencies in North America and in Europe in specific research projects. While development is the first priority, applied research is also vitally important to the Company's future. In addition to the basic internal research and development, research and development may also be carried out within customer contracts. This involves the development of technology that is necessary to complete a contract requirement but is also useful and may be reapplied by the Company in a broader sense. Certain CAE initiatives also receive the support of the Canadian government through Technology Partnerships Canada.

Total research and development expenditures include basic research and development costs as well as program related development costs. Basic internal research and development expenditures were in excess of $31 million for fiscal 2003, the product portion of which was largely associated with the development of CAE's Sim XXI™ simulator, CAE's SimFinity™ training system, the CAE NeTTS training system and CAE's Tropos™ visual system. In addition to these development activities, basic internal research and development funds a variety of product enhancement and process improvement initiatives. Basic research and development expenditure is expected to be at a similar level in fiscal 2004 and will be primarily focussed on applying CAE's Sim XXI™ simulator design and manufacturing techniques to additional simulator platforms, extending the capabilities of CAE's SimFinity™ training system , enhancing CAE's Medallion-S™ and Tropos™ image generators and extending the capabilities of CAE NeTTS.

4.7 Employees and Labor Relations

Of the Company's 6,000 employees, approximately 875 of the employees are unionized, covered by 14 collective agreements. Four labor contracts were ratified in fiscal 2003 covering 50 employees at our US military training sites. During fiscal 2004, CAE will enter into negotiations for the renewal of four collective agreements. The three-year collective agreement for 700 employees in Montreal was renewed for five years in June 2003. There are no indications that negotiations on upcoming contract renewals will result in work stoppages. CAE considers employee relations to be satisfactory.

4.8 Manufacturing

CAE's manufacturing facilities are located in Montreal, Canada; Tampa, US; Burgess Hill, UK; and Stolberg, Germany.

The manufacturing process for CAE simulators is complex, involving the coordination of approximately 250,000 parts and millions of lines of software code. The manufacture of a civil simulator includes five major stages: design, manufacture and assembly, testing, pack and ship and final test on-site. This entire process now takes approximately 14 months. Military simulators are much more complex and unique than civil simulators, and therefore take more time to design, manufacture and test.

Manufacturing is organized into 12 manufacturing cells comprised of the following three major disciplines: electronics (printed circuit board assembly), electrical (cables and harnesses, cabinets and chassis, aircraft instruments and avionics), and mechanical (welding, sheet metal and machine shop, precision assembly and hydraulics, structural assembly and final assembly).

Most of the raw materials used in manufacturing (such as sheet metal, wires, cables and electronic integrated circuits) are available off-the-shelf from multiple commercial sources. The unique parts are the aircraft parts. These are usually available from aircraft manufacturers, the resale market, as well as through simulated part manufacturers.

The availability of most parts in a timely manner facilitates a relatively smooth production flow. Aircraft parts, in some instances, may be an exception, especially on new aircraft types or those out of production. The timely delivery of these parts is often the responsibility of CAE's customers. CAE's contracts normally link these aircraft parts delivery dates to the simulator delivery schedules. In cases where such aircraft parts cannot be made available, CAE's customers rely on CAE's ability to make simulated parts.

4.9 Competition

The markets in which CAE sells its products are highly competitive. Certain competitors are also the Company's customers and suppliers on specific programs. The extent of competition for any single project generally varies according to the complexity of the product and the dollar volume of the anticipated award. CAE believes that it competes on the basis of:

- the performance and flexibility of its products;
- reputation for prompt and responsive contract performance;
- accumulated technical knowledge and expertise;
- breadth of product line; and
- price.

CAE's future success will depend in large part upon its ability to improve existing product lines and to develop new products and technologies in the same or related fields.

CAE's major competitors in the military simulation and training market include Lockheed Martin Corporation, L-3 Communications Corporation, Boeing, NLX Corporation, Indra Systemas, Alenia Marconi Systems, Thales Training Simulation, Flight Safety International, Inc. and STN ATLAS Elektronik GmbH. Some of these competitors are predominantly local (one country or region) competitors. CAE sometimes partners with these and other competitors to cooperate on program contracts.

CAE's major competitors in the marine controls market include Lockheed Martin Corporation, Northrop Grumman Corporation (Sperry Marine Systems), Siemens AG, ABB Asea Brown Boveri Ltd., Vosper Thornycroft Holdings plc, L-3 Communications Corporation and MTU Elektronik GmbH.

CAE's major competitors in the civil simulation equipment market include Thales Training Simulation and NLX Corporation. Evans & Sutherland Computer Corporation also competes for visual systems. The Company's major competitors in civil pilot training include, FlightSafety International, Inc., Alteon Training L.L.C. (formerly FlightSafety Boeing Training International), GECAT and PanAm International Flight Academy Inc.

4.10 Government Contracts

The majority of CAE's contract revenue in its military simulation and training and marine controls business segments result from contracts with militaries or government bodies performed under predominantly fixed-price contracts with only a small number of cost-plus contracts.

In most instances, under government regulations, certain costs, including certain financial costs, portions of research and development costs, lobbying expenses, certain types of legal expenses and certain marketing expenses related to the preparation of bids and proposals, are not allowed for pricing purposes and calculation of contract reimbursement rates under flexibly-priced contracts. Governments also routinely regulate the methods under which costs are allocated to government contracts. CAE is subject to a variety of audits performed by government agencies. These include pre-award audits that are performed at the submission of a proposal to the government. The purpose of the pre-award audit is to determine the basis of the bid and provide the information required for the relevant government to effectively negotiate the contract. During the performance of a contract the government has the right to request and to examine any labor charges, any material purchase, and any overhead changes to any contract that is active. Upon a contract's completion, the government may perform a post award audit of all aspects of contract performance to insure that the Company has performed in accordance with the terms of the contract.

Government contracts are generally, by their terms, subject to termination by the government either for convenience or default by the contractor. Fixed-price contracts provide for payment upon termination for items delivered to and accepted by the government and, if the termination is for convenience, for payment of fair compensation of work performed plus the costs of settling and paying claims by terminated subcontractors, other settlement expenses and a reasonable profit on the costs incurred. Cost-plus contracts generally provide that, upon termination, the contractor is entitled to reimbursement of its allowable costs and, if the termination is for convenience, a total fee proportionate to the percentage of the work completed under the contract. If a contract termination is for default, however, typically,

- the contractor may be paid an amount agreed upon for completed and partially completed products and services accepted by the government;
- the government may not be liable for the contractor's costs with respect to unacceptable items, and may be entitled to repayment of advance payments and progress payments, if any, related to the termination portion of the contract; and
- the contractor may be liable for excess costs incurred by the government in procuring undelivered items from another source.

In addition to the right of the government to terminate, government contracts are often conditioned upon the continuing availability of appropriations. Consequently, at the outset of a major program, such contracts are usually partially funded and additional monies are normally committed to the contract by the procuring agency only as appropriations are made for future fiscal years. Failure to obtain such appropriations normally results in termination of the contract and compensation to the contractor at less than the full value of the contract.

4.11 Intellectual Property

CAE owns certain patents and has filed applications in respect of additional patents. The Company enters into agreements containing non-disclosure and confidentiality clauses with third parties and has similar provisions in place with its employees to protect its proprietary information and trade secrets. CAE also has internal policies concerning both ethics and intellectual property which guide its employees in their dealings with CAE's intellectual property and that of third parties. CAE's Intellectual Property Committee, comprising some of CAE's most senior technology-oriented officers, is mandated to oversee the protection, management and exploitation of the Company's inventions, trade secrets and other intellectual property. Given the lengthy delay in obtaining patents (during which some technology may evolve into newer generations), the required detailed patent application disclosure which may permit competitors to reverse-engineer an invention, and the cost

of maintaining and defending patents, CAE believes that certain intellectual property is adequately protected by either maintaining it as a trade secret or selectively disclosing enough of it to forestall anyone else from subsequently claiming it as their own original innovation.

CAE's agreements with Technology Partnerships Canada restrict CAE's ability to license (other than to customers) or transfer ownership of intellectual property developed with the program's support until all funding has been repaid or Technology Partnerships Canada's consent has been obtained.

4.12 Environment

CAE operations include, and past operations and those of some past operators at some of the Company's sites have included, the use, generation, storage, handling and disposal of hazardous materials which are subject to environmental laws and regulations in the various countries in which CAE operates or has operated. CAE believes the exposure to environmental risk to be relatively limited and the Company's operations are in compliance in all material respects with such environmental laws and regulations.

4.13 Risk Factors

CAE's sales cycle is often lengthy and unpredictable, which could result in volatility in its operating results and the price of its common shares.

The sales cycle of CAE's products and services is lengthy and unpredictable, ranging from 6 to 18 months for civil aviation and civil marine applications and from 6 to 24 months or longer for military applications. While customers are evaluating CAE's products and services, the Company may incur expenses and expend management effort. The result of making these expenditures, with no corresponding revenue in any given quarter, could further exacerbate fluctuations of its quarterly operating results and share price volatility.

CAE's success depends on the reliability of its products, the quality of its services and its ability to adapt to changing customer needs in a timely manner.

The civil aviation, military and marine markets in which CAE operates are characterized by changes in customer requirements, new aircraft models and marine vessels and evolving industry standards. CAE's failure to predict accurately the future needs of its customers and prospective customers and to develop product enhancements that address evolving standards and technologies may result in the loss of current customers or negatively affect its revenue and its ability to secure new customers.

A reduction in defense spending could result in a decrease in CAE's revenue.

CAE relies on sales to military customers around the world to generate a significant portion of its revenue. In fiscal 2003, such sales by Military Simulation and Training and the government navy portion of Marine Controls sales accounted for a significant majority of their revenues. CAE acts as prime contractor or major subcontractor for various US, European, Canadian and other foreign government programs. The termination of funding for a government program would result in a loss of anticipated future revenue attributable to that program which could have a negative impact on CAE's operations. A significant reduction in military expenditures by countries with which CAE has contracts could materially adversely affect its sales and earnings.

CAE operates in the civil simulation equipment and training services markets, both of which are heavily dependent on the airline industry.

CAE derives a material portion of its revenue from the supply of equipment and services to the commercial and business airline industry. Reduced demand for air transportation has impacted the operating results of airlines and has lead to a reduction or delay of new aircraft purchases which CAE would expect to result in reduced simulator orders.

Intense competition in CAE's target markets could limit its ability to attract and retain customers.

The markets in which CAE sells its simulation and control equipment and training services are highly competitive. Some of the Company's competitors are larger than CAE and have greater financial, technical, marketing, manufacturing and distribution resources. In addition, some competitors have well-established relationships with aircraft manufacturers, airlines and governments which may give them an advantage over CAE in winning contracts with these organizations. CAE obtains most of its contracts through competitive bidding processes that subject the Company to the risk that it will expend substantial time and effort on proposals for contracts that may not be awarded to the Company. CAE cannot assure that it will continue to win competitively awarded contracts at the same rate as in the past.

CAE's use of fixed-price and long-term supply contracts could subject the Company to losses if there are cost overruns.

CAE provides its products and services primarily through fixed-price contracts that require the absorption of cost overruns, notwithstanding the

difficulty of estimating all of the costs incurred in performing these contracts and in projecting the ultimate level of sales that the Company may achieve. In addition, a number of CAE's contracts to supply simulators to commercial airlines are long-term agreements for up to 20 years. These agreements establish the prices for the simulators to be delivered, subject to adjustments for inflation and cost increases. If these adjustments do not fully offset inflation or cost increases, CAE's results of operations could be adversely affected.

CAE's government-funded military programs are regulated and subject to audit.

Like most suppliers of products and services to governments, CAE may be audited and reviewed periodically on some projects. Adjustments arising from government audits and reviews may have an adverse effect on results of operations. In addition, some costs may not be reimbursable or allowed in negotiation of fixed-price contracts. Further, as a government contractor, CAE may be subject to an increased risk of legal actions and liabilities which purely private sector companies are not subject to, the results of which could have a material adverse effect on operations. Failure to comply with applicable government regulations and requirements could lead to suspension or being barred from government contracting or subcontracting for a period of time, which would have a negative impact on CAE's operations and could have a negative effect on its reputation and ability to procure other government contracts in the future.

In the future, CAE may not be able to obtain financial support for research and development activities.

Some of CAE's research and development initiatives have been carried out with the financial support of governmental agencies including amounts from the government of Canada through Technology Partnerships Canada. If such financial assistance is not available to the Company in the future, CAE may have to find other financing, which may not be available.

CAE may experience contract cancellations within its existing backlog of orders.

At March 31, 2003, CAE had several hundred active contracts representing a total order backlog of $2.3 billion. If certain of the Company's customers become insolvent or experience other financial difficulties, CAE's revenue would be adversely affected. CAE cannot assure that its existing backlog will result in sales or that any such sales will be profitable.

CAE's ability to protect its intellectual property is limited, and competitors may use CAE's technology which could weaken the Company's competitive position.

CAE relies in part on trade secrets and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect its proprietary rights. Such reliance may be insufficient to prevent misappropriation of CAE's technology or deter others from developing similar technologies. Enforcement of CAE's intellectual property rights or its ability to acquire them may be unavailable or limited in some countries.

Reliance on the intellectual property of others could prevent or delay CAE's performance of contracts or negatively impact margins.

CAE's products contain sophisticated computer systems supplied to the Company by third parties. Such computer systems and software may not always be available to CAE. The production of CAE's simulators is often dependent upon receipt of data, including confidential or proprietary data, concerning the functions, design and performance characteristics of a product or system, the performance of which the Company's simulator is intended to simulate. CAE cannot assure that it will be able to obtain such data on reasonable terms, or at all.

Claims by other companies that CAE's products infringe their proprietary rights could adversely affect the Company's ability to sell its products and increase its costs.

Infringement claims may be brought against CAE or its customers in the future. CAE may not be successful in the defense of such claims and may not be able to develop processes that do not infringe on the rights of third parties or obtain licenses on commercially acceptable terms, if at all. In addition, any litigation related to CAE's intellectual property rights could be lengthy and costly and could adversely affect operations or financial results, whether or not CAE is successful.

CAE is subject to the risks of doing business abroad and currency fluctuations.

CAE has operations in numerous countries and sells its products and services to customers around the world. For the fiscal year ended March 31, 2003, sales to customers outside the US and Canada accounted for approximately 63% of revenue. CAE expects that sales outside the US and Canada will continue to account for a significant portion of revenue for the foreseeable future. As a result, CAE is subject to risks of doing business internationally. The majority of CAE's revenue is not currently denominated in Canadian dollars, and the Company expects that its revenue will continue to be generated in currencies other than the Canadian dollar. A substantial portion of operating expenses are payable in Canadian dollars. Fluctuations in the Canadian dollar exchange rate will impact results of operations and financial condition from period to period. CAE's currency hedging activities may not be successful.

CAE's union agreements are subject to renewal, and the Company may be unable to retain qualified personnel which would harm

the ability to carry out its business strategy.

CAE is party to 14 collective bargaining agreements throughout its business units which are subject to expiration at various times in the future. If CAE is unable to renew these agreements, or others as they become subject to renegotiation from time to time, it could result in work stoppages and other labor disturbances which could have a material adverse effect on CAE's business. CAE's success depends to a significant degree upon the continued contributions of its qualified technical personnel and its future ability to attract and retain highly skilled personnel. Any inability to attract and retain qualified personnel in the future may seriously harm CAE's business and results of operations.

CAE's debt agreements may restrict its ability to finance future operations and, if the Company is unable to meet its financial covenants, could cause CAE's debt to be accelerated.

Both the indenture governing CAE's senior notes and the terms of CAE's credit facilities contain restrictive covenants. These restrictions could hurt the Company's ability to finance future operations or capital needs, or to engage in other business activities that may be in CAE's interest. In addition, CAE is also required to comply with specified ratios and tests, including leverage, interest coverage ratios and a consolidated net worth test. A breach of any of these agreements or inability to comply with the required financial ratios or limits could result in a default, which would permit CAE's lenders to declare amounts owed to them due and immediately payable.

CAE's level of debt may adversely affect its financial and operating activity.

CAE incurred indebtedness in connection with fiscal 2002-2003 acquisitions and CAE's capital expenditures last year continued at greater than historical levels as the Company executed its business plan. In the future, CAE may borrow more money, subject to the limitations imposed by senior notes and credit facilities. CAE's indebtedness may affect the way it conducts business.

CAE may be subject to significant environmental liabilities imposed by environmental laws and regulations or contractual indemnities.

CAE's operations include, and its past operations and those of some past operators at some of its sites have included, the use, generation, storage, handling and disposal of hazardous materials. New laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination, the imposition of new clean-up requirements or claims on indemnities CAE has been given may require the Company to incur substantial costs in the future which could have a material adverse effect on its financial condition and results of operations.

CAE may be subject to liability claims arising from casualty losses.

Due to the nature of CAE's business, the Company may be subject to liability claims arising out of accidents or disasters involving aircraft, marine vessels or power plants for which CAE has provided training equipment or services or control systems used by employees operating or conducting maintenance on such aircraft, marine vessels or power plants, including claims for serious personal injury or death. CAE cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims.

The products CAE manufacture may be subject to warranty or other claims.

The simulators and control systems CAE manufactures are highly complex and sophisticated and may contain defects that are difficult to detect and correct. The occurrence of errors and failures in CAE's products could result in warranty claims or the loss of customers. Correcting such defects could require significant capital investment. When defective products are integrated in the customers' equipment, CAE may face product liability claims based on damages to such equipment. Any claims, errors or failures could have an adverse effect on operating results and business. CAE cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims.

CAE is subject to compliance with regulatory rules imposed by aviation authorities that may change without notice, resulting in disruptions to its sales and operations.

CAE is subject to compliance with regulatory rules imposed by aviation authorities that may change without notice, resulting in disruptions to its sales and operations. Any changes imposed by a regulatory agency, including changes imposed by aviation authorities such as the US Federal Aviation Administration to safety standards, could require CAE to make unplanned modifications to its products and services, or may result in delays or cancellations of sales. CAE cannot predict the future impact of changing law or regulation on its operations and any changes could have a material adverse effect on its results of operations or financial condition.

Sales or licenses of certain CAE products require regulatory approvals.

The sale or license of virtually all of CAE's products is subject to regulatory controls, including the prohibition of sales to certain countries, or of certain technology such as military-related simulators and nuclear power plant system simulators, without an export license or other approvals. These regulations change with some frequency. CAE cannot assure that it will be permitted to sell or license certain products to customers and the Company may lose potential revenue as a result of the application of such regulations. Failure to comply with any of these regulations in the countries in which CAE operates could subject the Company to fines and other material sanctions.

ITEM 5 - SELECTED CONSOLIDATED FINANCIAL INFORMATION

5.1 Annual Information

The following summary of financial information has been drawn from the consolidated financial statements of the Company presented in accordance with Canadian GAAP and covers the three most recently completed financial years.

Twelve Months Ended March 31

(in millions of Canadian dollars, except per share amounts)

	2003	2002 (Note 1)	2001
Continuing Operations			
Revenue	$1,130.5	$1,126.5	$891.4
Earnings (note 2)	$131.0	$148.4	$103.7
Earnings per share (notes 2 & 3)	$0.60	$0.68	$0.48
Net earnings (note 2)	$117.2	$149.5	$106.1
Net earnings per share (note 2 & 3)	$0.53	$0.69	$0.49
Total assets (note 2)	$2,356.5	$2,378.4	$1,366.8
Total long-term debt, net of cash (note 2)	$794.3	$837.7	$108.5
Shareholders' equity (note 2)	$750.2	$612.1	$458.8
Dividends per share	$0.12	$0.11	$0.10

Notes:

(1) The results for the year ended March 31, 2002 include the results of BAE SYSTEMS Flight Simulation and Training Inc. from April 2, 2001, Valmarine AS from August 1, 2001, Schreiner Aviation Training B.V. from August 24, 2001, and SimuFlite Training International, Inc. from December 31, 2001. These acquisitions affect the comparability of the fiscal 2003 and fiscal 2002 results with fiscal year 2001.

On December 18, 2001, the Board of Directors approved a plan to divest the Forestry Systems business segment. As a result of the divestitures, the consolidated financial statements for fiscal year 2001 have been reclassified to reflect the results of operations for the Forestry group as discontinued operation.

In addition to the above restatement, in February 2000 the Company announced its intention to divest its Cleaning Technologies and Energy Control Systems businesses. The Company completed the sale of its Energy Control Systems business and has substantially completed the sale of CAE's Cleaning Technologies operations.

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(2) (2) In fiscal 2003, the new accounting standard for foreign currency translation was retroactively adopted. In addition, in fiscal 2003, the amortization period for Civil simulation equipment located in its various training centers was changed from 20 to 25 years. This change, which is a better approximation of the useful life of the simulators, is consistent with industry practices and with some of the long-term financing arrangements completed to date for such assets. The change in estimated useful life reduced amortization expense by approximately $3.7 million on a year-to-year basis.

During fiscal 2003, the estimated return on assets for CAE's defined benefit pension plan was reduced to 6.5% from 9%. As a result, CAE's fiscal 2003 pension expense increased by $5.4 million as compared to fiscal 2002.

In fiscal 2002, the new accounting standard for goodwill and intangibles was adopted. Giving effect to the standard, adjusted net earnings and diluted net earnings per share for fiscal year 2001 was $0.52. In fiscal 2001, the new accounting standard for income taxes and employee future benefits was adopted. See note 1 to the consolidated financial statements for details.

(3) Conversion of all outstanding stock options would not materially dilute earnings per share.

5.2 Dividends

Quarterly cash dividends of $0.025 per common share were declared during fiscal 2001 and for the last three-quarters of fiscal 2000.

On June 20, 2001, the Board of Directors declared a 100% stock dividend in respect of CAE's common shares, effectively achieving a two-for-one split of outstanding common shares. CAE's common shares commenced trading on a split basis on July 5, 2001 on The Toronto Stock Exchange. CAE ascribed essentially no monetary value to the stock dividend.

Commencing with the dividend payable on September 28, 2001, CAE raised the quarterly dividend to $0.03 per common share. The Company currently intends to maintain the quarterly dividend of $0.03 per common share. However, any decision to declare and pay dividends in the future will be made at the discretion of the Board of Directors, after taking into account the financial results, capital requirements and other factors the directors may deem relevant.

CAE permits its shareholders to elect to receive common share dividends in lieu of cash dividends. During fiscal 2001, 2002 and 2003, CAE issued 34,410, 17,605 and 54,622 common shares, respectively, as share dividends.

ITEM 6 - REVIEW OF OPERATIONS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

The information that appears under the heading ";Review of Operations and Management's Discussion and Analysis"; on pages 34 - 50 inclusive of the Annual Report is incorporated herein by reference.

ITEM 7 - MARKET FOR SECURITIES

The outstanding common shares of the Company are listed and posted for trading on The Toronto Stock Exchange under the symbol "CAE" and on the New York Stock Exchange under the symbol "CGT".

ITEM 8 - DIRECTORS AND OFFICERS

The directors of the Company are elected at each annual meeting of shareholders and hold office until the next annual meeting of shareholders or until their successors are elected or appointed. The names and municipalities of residence of the directors and officers of the Company, the positions and offices held by them in the Company, and their respective principal occupations for the last five years are set forth below. In addition to fulfilling all statutory requirements, the Board of Directors oversees and reviews: (i) the strategic and operating plans and financial budgets and the performance against these objectives; (ii) the principal risks and the adequacy of the systems and procedures to manage these risks; (iii) the compensation and benefit policies; (iv) management development and succession planning; (v) business development initiatives; (vi) the communications policies and activities, including shareholder communications; (vii) the integrity of internal controls and management information systems; (viii) the monitoring of the corporate governance system; and (ix) the performance of the President and Chief Executive Officer.

The Committees of the Board of Directors are the Audit Committee, the Governance Committee, the Compensation Committee and the Executive Committee.

DIRECTORS

Name and Municipality of Residence and Year first became a director	**Principal Occupation**
DEREK H. BURNEY, O.C. Toronto, Ontario (1999)	President and Chief Executive Officer of the Company and is a member of the Executive Committee. Mr. Burney is also a director of Shell Canada Limited and Quebecor World Inc. Formerly, Mr. Burney was Chairman and Chief Executive Officer of Bell Canada International Inc. (1993-October 1999). Prior thereto, he was Canada's Ambassador to the United States of America from 1989.

Name and Municipality of Residence and Year first became a director	**Principal Occupation**

JOHN A. (IAN) CRAIG Ottawa, Ontario (2000)	Business consultant and was formerly Chief Marketing Officer of Nortel Networks Corporation. Mr. Craig is also a director of Bell Canada International Inc., Arris Group Inc. and the Ottawa Heart Institute. Mr. Craig is a member of the Audit Committee.
RICHARD J. CURRIE, C.M. Toronto, Ontario (2001)	Non-executive Chairman of BCE Inc. He was a director of George Weston Limited from 1975 to 2002 and President from 1996 to 2002. He was a director of Loblaw Companies Limited from 1973 to 2001 and President from 1976 to 2001. He is a director of Staples Inc. Mr. Currie is Past Chairman of the Richard Ivey School of Business at The University of Western Ontario and has served on the Visiting Committee to the Harvard Business School. He is presently Chancellor of the University of New Brunswick. Mr. Currie is a member of the Audit Committee.
R. FRASER ELLIOTT, C.M., Q.C. Toronto, Ontario (1951)	Senior partner in the legal firm of Stikeman Elliott LLP (Toronto). Mr. Elliott is also a director of the Toronto General & Western Hospital Foundation. Mr. Elliott is a member of the Executive Committee.

Name and Municipality of Residence and Year first became a director	**Principal Occupation**
H. GARFIELD EMERSON, Q.C. Toronto, Ontario (1992)	National Chairman and a senior partner of the legal firm of Fasken Martineau DuMoulin LLP. Mr. Emerson is the Chairman of Rogers Communications Inc., Vice-Chairman of Rogers Wireless Communications Inc. and a director of Canada Deposit Insurance Corporation, University of Toronto Asset Management Corporation, Wittington Investments, Limited and Sunnybrook & Women's College Health Sciences Centre. Mr. Emerson is also the Chair of the Sunnybrook & Women's Foundation. He was formerly President and Chief Executive Officer of NM Rothschild & Sons Canada Limited, investment bankers. Mr. Emerson is a member of the Governance Committee.
ANTHONY S. FELL, O.C. Toronto, Ontario (2000)	Chairman of RBC Dominion Securities Inc. Mr. Fell is also a director of BCE Inc., Chairman of Munich Reinsurance Company of Canada, a director of Loblaw Companies Limited, and Chairman of the Board of Trustees of University Health Network. Mr. Fell is the Chairman of the Governance Committee.
THE HONOURABLE JAMES A. GRANT, P.C., Q.C. Montreal, Quebec (1991)	Partner in the legal firm of Stikeman Elliott LLP (Montreal). Mr. Grant is a director of Canadian Imperial Bank of Commerce, Shire Pharmaceuticals Group plc and various charitable and social organizations. Mr. Grant is a member of the Compensation Committee and the Executive Committee.
JAMES F. HANKINSON Toronto, Ontario (1995)	Business consultant and was formerly President and Chief Executive Officer of New Brunswick Power Corporation. He is also a director of Maple Leaf Foods Inc. Mr. Hankinson is the Chairman of the Audit Committee and a member of the Governance Committee.

Name and Municipality of Residence and Year first became a director	Principal Occupation
E. RANDOLPH (RANDY) JAYNE II Tysons Corner, Virginia (2001)	Senior Partner in Heidrick & Struggles International, Inc., an executive search firm (1996-present), and is a Founder and the Global Managing Partner of that firm's Semiconductor, Hardware and Systems Specialty Practice. Prior to this, he served as President of Instituform MidAmerica (1993-1994) and as a senior executive in McDonnell Douglas Corporation (1987-1993). Mr. Jayne is a member of the Compensation Committee.
JAMES W. MCCUTCHEON, Q.C. Toronto, Ontario (1979)	Counsel to the law firm of McCarthy T´trault. Mr. McCutcheon is a director of Dominion of Canada General Insurance Company, Empire Life Insurance Company (Chairman 1991-1997), Guardian Capital Group Limited and Noranda Inc. Mr. McCutcheon is a member of the Audit Committee.
LAWRENCE N. STEVENSON Toronto, Ontario (1998)	Chief Executive Officer of Pep Boys, a NYSE-listed US automotive services company. Mr. Stevenson was formerly President & Chief Executive Officer of Pathfinder Capital Inc. and also was Chief Executive Officer of Chapters and Chapters Online Inc. Mr. Stevenson is also a director of SNC-Lavalin Group Inc. and Sobeys Inc. Mr. Stevenson is Chairman of the Compensation Committee.
LYNTON R. WILSON, O.C. Oakville, Ontario (1997)	Chairman of the Board of the Company, Chairman of the Executive Committee and is a member of the Compensation and the Governance Committees. Mr. Wilson is the Chairman of Nortel Networks Corporation and is also a director of DaimlerChrysler AG and DaimlerChrysler Canada Inc.

OFFICERS WHO ARE NOT DIRECTORS

Name and Municipality of Residence	Office held with CAE and Principal Occupation[(1)]
DONALD W. CAMPBELL Ottawa, Ontario	Group President, Military Simulation and Training; formerly Executive Vice President, Military Simulation and Training 2000 to 2002; Deputy Minister of Foreign Affairs and Prime Minister's Personal Representative for Economic Summit, 1997 to 2000; Ambassador to Japan, 1997.
GARY R. SCOTT Baie D'Urfe, Quebec	Group President, Civil Simulation and Training since 2002. Formerly, President of FlightSafety Boeing Training International from 2000 to 2002; Vice President Finance and Business Strategy for Boeing Commercial Airplanes' Commercial Aviation Services from 1999 to 2000; Vice President Business Strategy for Boeing Commercial Airplanes during 1999; Vice President and Chief Operating Officer, Boeing Enterprises during 1998; and Vice President and General Manager of Boeing Commercial Airplanes Group's 737/757 Programs from 1996 to 1998.

PAUL G. RENAUD Mississauga, Ontario	Executive Vice President, Chief Financial Officer and Secretary; formerly Vice President Finance, Chief Financial Officer and Secretary, 1997 to 2000.
RASHID A. KHAN St-Lazare, Quebec	Executive Vice President, Marine Controls; formerly Vice President and General Manager, Marine Systems, CAE Electronics Ltd., 1998 to 2000; Director Marine Control Systems and Power Plant Simulation, CAE Electronics Ltd., 1997 to 1998.
R. HANI MACRAMALLAH Montreal, Quebec	Executive Vice President, Operations; formerly Vice President, Operations, CAE Electronics Ltd., 1997 to 2000.

OFFICERS WHO ARE NOT DIRECTORS

Name and Municipality of Residence	**Office held with CAE and Principal Occupation(1)**
HARTLAND J.A. PATERSON Westmount, Quebec	Vice President, Legal and General Counsel, 2001 to present; formerly Vice President, Legal and Regulatory of Cable & Wireless PLC (Japan), 1999 to 2001; Director Legal Affairs of Cable & Wireless PLC (Caribbean) from 1997 to 1999.
JEAN-FRANCOIS THIBODEAU Laval, Quebec	Vice President and Treasurer, 2001 to present; formerly Treasurer of G.T.C. Transcontinental Group Ltd., 1999 to 2001; Director of Finance and Treasury of Provigo, 1997 to 1999.
ALINE BELANGER Montreal, Quebec	Corporate Controller, 2002 to present; formerly Director of Finance for Civil Simulation and Training, 2000 to 2002; Director of Financial Reporting and Analysis for Bell Canada International, 1999 to 2000; Principal Consultant for PricewaterhouseCoopers, 1997 to 1999.
(1)	Where the date 1998 appears, it signifies the beginning of the last five years and not necessarily the date upon which the individual commenced the relevant position or occupation.

The directors and senior officers of the Company as a group as at the date hereof beneficially own, directly or indirectly, or exercise control or direction over 9,572,664 common shares, which represents 4.4 % of the Company's outstanding common shares.

ITEM 9 - ADDITIONAL INFORMATION

The Company will provide to any person or company, upon request to the Director, Corporate Communications and Investor Relations or the Secretary of the Company, the documents specified below:

(a)	When the securities of the Company are in the course of a distribution under a preliminary short form prospectus or a short form prospectus:
(i)	one copy of the annual information form of the Company together with one copy of any document, or the pertinent pages of any document, incorporated by reference in such annual information form;

(ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditors and one copy of the most recent interim financial statements of the Company for any period after the end of its most recently completed financial year;

(iii) one copy of the information circular in respect of its most recent annual meeting of shareholders that involved the election of directors; and

(iv) one copy of any other documents which are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) At any other time, one copy of any other document referred to in clauses (i), (ii) and (iii) of paragraph (a) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Company.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Proxy Information Circular dated June 19, 2003, in connection with the Company's Annual and Special Meeting of Shareholders held on August 6, 2003. Additional financial information is provided in the Consolidated Financial Statements. A copy of such documents may be obtained from the Director, Corporate Communications and Investor Relations or the Secretary of the Company upon request.

SCHEDULE "A" - SUBSIDIARIES

Set forth below are the names of all the direct and indirect subsidiaries of the Company. All companies are wholly owned except as noted.

Name of Subsidiary	**Jurisdiction of Incorporation**
Canada	
3985954 Canada Inc.	Canada
4025164 Canada Inc.	Canada
CAE International Holdings Limited	Canada
CAE Railway Ltd.	Canada
CAE Machinery Ltd.	British Columbia
United States	
CAE (US) Inc.	Delaware
CAE (US) LLC	Delaware
CAE US Services Inc.	Delaware
CAE Aviation Training Services Inc.	Delaware
Flight School Aviation Training Services L.L.C.	Delaware
CAE USA Inc.	Delaware
Civil Aviation Training Solutions Inc.	Florida
CAE Center Dallas, Inc.	Texas
CAE SimuFlite Inc.	Texas

Europe	
CAE Center Brussels N.V	Belgium
Simubel N.V. (a CAE Aviation Training Company)	Belgium
CAE Beyss Grundstucksgesellschaft GmbH	Germany
CAE Elektronik GmbH	Germany
CAE Verwaltungsgesellschaft mbH	Germany
CityLine Canadair Simulator und Training GmbH (15%)	Germany
SAGO Grunstucks-Verwaltungsgesellschaft mbH (51%)	Germany
SAGO Grunstucks-Verwaltungsgesellschaft mbH & Co. KG (95%)	Germany
ZFB Zentrum f¨r Flugsimulation Berlin GmbH (17%)	Germany
CAE International Capital Management Hungary LLC	Hungary
CAE Euroco S.a.r.l.	Luxembourg
CAE Investment S.a r.l.	Luxembourg
B.V. Nationale Luchtvaartschool	Netherlands
CAE Aviation Training B.V.	Netherlands
CAE Center Amsterdam B.V.	Netherlands
CAE Center Maastricht B.V.	Netherlands
CAE Flight Crew Training B.V.	Netherlands
CAE Holdings BV	Netherlands

Name of Subsidiary	**Jurisdiction of Incorporation**
CAE Investments BV	Netherlands
CAE Training Aircraft B.V.	Netherlands
CAE Training B.V.	Netherlands
NLS Amsterdam B.V.	Netherlands
CAE Holding Norway AS	Norway
CAE Navigation AS	Norway
CAE Valmarine AS	Norway
Academia Aeronautica De Evora S.A.(51%)	Portugal
CAE Servicios Globales de Instruccion de Vuelo S.L.	Spain
CAE Holdings Ltd.	United Kingdom
Invertron Simulators plc	United Kingdom
CAE (UK) plc	United Kingdom
CAE Aircrew Training Services plc (77%)	United Kingdom
CVS Leasing Limited (13.39%)	United Kingdom
Fast Holdings Limited (50%)	United Kingdom
Fast Training Services Limited (50%)	United Kingdom
Landmark Operations Limited	United Kingdom
Landmark Training Limited	United Kingdom
Other	
CAE Australia Pty Ltd.	Australia
CAE Simco (Barbados) Ltd.	Barbados
CAE South America Flight Training do Brasil Ltda	Brazil
Qindao Fei Sheng International Aviation Technology Development Training Co. Ltd.(33%)	China
Zhuhai Xiang Yi Aviation Technology Company Limited	China
CAE Dubai LLC (49%)	Dubai
CAE Electronics Private Ltd.	India
ISDAT Simulation SDN BHD (20%)	Malaysia
CAE Aviation Training International Ltd.	Mauritius
Flight Training Device (Mauritius) Limited	Mauritius

DISCONTINUED OR INACTIVE

Name of Subsidiary	Jurisdiction of Incorporation
United States	
CAE Alpheus Inc.	California
CAE Railway Inc.	Delaware
CAE ScreenPlates Inc.	Delaware
CAE US Services Inc.	Delaware
Europe	
CAE ScreenPlates SA	France
CAE Beteiligungsgesellschaft mbH	Germany
CAE Grundst¨cksgesellschaft mbH	Germany
CAE ScreenPlates AB	Sweden
Other	
CAE MRAD Pty Ltd.	Australia
CAE Electronics SDN, BHD	Malaysia

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. **Undertaking**

CAE Inc. (the "Registrant") undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the staff of the Securities and Exchange Commission ("SEC"), and to furnish promptly, when requested to do so by the SEC staff, information relating to the securities in relation to the obligation to file an annual report on Form 40-F arises or transactions in said securities.

B. **Consent to Service of Process**

The Registrant has previously filed with the SEC a Form F-X in connection with the Common Shares, including the associated Common Share purchase rights pursuant to the Registrant's Shareholder Rights Plan, which purchase rights trade together with the Common Shares.

DISCLOSURE CONTROLS AND PROCEDURES

A. **Evaluation of disclosure controls and procedures.**

Based on their evaluation as of the end of the period covered by this report, Registrant's Chief Executive Officer and Chief Financial Officer have concluded that the Registrant's disclosure controls and procedures as defined in Rule 13a-14(c), 15(c) and 15(d)-15(e) under the Securities Exchange Act of 1934 (the Exchange Act) are effective to ensure that information required to be disclosed by the Registrant in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

B. **Changes in internal control over financial reporting.**

As of the end of the period covered by this report, there were no changes in the Registrant's internal control over financial reporting that occurred during the period covered by this report that have materially affected or are reasonably likely to materially affect the Registrant's internal control over financial reporting.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Date: August 8, 2003

CAE INC.

By: [Graphic Signature]
Name: Hartland J.A. Paterson
Title: Vice President, Legal and General Counsel

EXHIBIT INDEX

Exhibit No.	Description	Sequentially Numbered Page
1	Audited annual financial statements for the fiscal year ended March 31, 2003	E1
2	Management's Discussion and Analysis	E49
3	Consent of PricewaterhouseCoopers LLP	E65
4	Section 302 Certifications	E66
5	Section 906 Certifications	E70

Exhibit 1

Audited annual financial statements for the fiscal year ended March 31, 2003

Management Report

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

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

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

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

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

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Auditors' Report

To the Shareholders of CAE Inc.
We have audited the Consolidated Balance Sheets of CAE Inc. as at March 31, 2003 and 2002, and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended March 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2003 and 2002, and the results of its operations and cash flows for each of the years in the three-year period ended March 31, 2003 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Montreal, Canada
May 6, 2003

Comments by Auditors for US Readers on Canada-US Reporting Difference
In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the company's financial statements, such as the changes described in note 1 to the consolidated financial statements. Our report to the shareholders dated May 6, 2003 is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

Chartered Accountants
Montreal, Canada
May 6, 2003

Consolidated Balance Sheets

as at March 31 (amounts in millions of Canadian dollars)	2003	2002 (Restated) (Note 1)
Assets		
Current assets		
Cash and cash equivalents	$ 17.1	$ 88.8
Short-term investments	2.6	21.3
Accounts receivable (note 4)	373.1	378.2
Inventories (note 5)	136.3	130.9
Prepaid expenses	14.0	9.9
Income taxes recoverable	25.7	15.8
Future income taxes (note 14)	3.5	28.9
	572.3	673.8
Restricted Cash	14.4	15.6
Assets of discontinued operations (note 3)	50.0	123.8
Property, plant and equipment, net (note 6)	930.4	816.2
Future income taxes (note 14)	85.7	74.1
Intangible assets (note 7)	171.7	163.4
Goodwill (note 8)	366.8	375.5
Other assets (note 9)	165.2	136.0
	$2,356.5	$2,378.4
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 413.3	$ 420.5
Deposits on contracts	101.2	189.1
Long-term debt due within one year	13.4	37.5
Future income taxes (note 14)	42.4	50.4
	570.3	697.5
Liabilities of discontinued operations (note 3)	17.9	40.5
Long-term debt (note 10)	798.0	889.0
Long-term liabilities (note 15)	139.6	73.7
Future income taxes (note 14)	80.5	65.6
	1,606.3	1,766.3
Shareholders' Equity		
Capital stock (note 11)	190.5	186.8
Retained earnings	531.2	440.4
Currency translation adjustment	28.5	(15.1)
	750.2	612.1
	$2,356.5	$2,378.4

Commitments and contingencies (notes 17 and 19)

Approved by the Board:

D.H. Burney	L.R. Wilson
Director	Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Earnings

years ended March 31 (amounts in millions of Canadian dollars, except per share amounts)	2003	2002	2001
		(Restated) (Note 1)	(Restated) (Note 1)
Revenue			
Civil Simulation and Training	$ 517.2	$ 545.2	$ 481.5
Military Simulation and Training	445.7	461.8	329.3
Marine Controls	167.6	119.5	80.6
	$1,130.5	$1,126.5	$891.4
Operating earnings			
Civil Simulation and Training	$ 116.2	$ 151.8	$ 115.8
Military Simulation and Training	73.6	65.6	18.8
Marine Controls	31.8	23.6	15.0
Earnings from continuing operations before interest and income taxes	221.6	241.0	149.6
Interest expense (income), net (note 10(xi))	30.4	22.7	(6.3)
Earnings from continuing operations before income taxes	191.2	218.3	155.9
Income taxes (note 14)	60.2	69.9	52.2
Earnings from continuing operations	$ 131.0	$ 148.4	$ 103.7
Results of discontinued operations (note 3)	(13.8)	1.1	2.4
Net earnings	$ 117.2	$ 149.5	$ 106.1
Basic and diluted earnings per share from continuing operations	$ 0.60	$ 0.68	$ 0.48
Basic and diluted earnings per share	$ 0.53	$ 0.69	$ 0.49
Weighted average number of common shares outstanding	219.4	217.6	215.7

Consolidated Statements of Retained Earnings

as at March 31 (amounts in millions of Canadian dollars)	2003	2002	2001
		(Restated) (Note 1)	(Restated) (Note 1)
Retained earnings at beginning of year as previously reported	$ 446.8	$ 321.2	$ 235.9
Adjustment for change in accounting policy (note 1)	$ (6.4)	$ (5.3)	$ (3.3)
Retained earnings at beginning of year as restated	$ 440.4	$ 315.9	$ 232.6
Excess of common share purchase price over amount charged to capital stock	-	-	(1.2)
Net earnings	117.2	149.5	106.1
Dividends	(26.4)	(25.0)	(21.6)
Retained earnings at end of year	$ 531.2	$ 440.4	$ 315.9

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flow

as at March 31 (amounts in millions of Canadian dollars)	2003	2002	2001
		(Restated) (Note 1)	(Restated) (Note 1)
Operating activities			
Earnings from continuing operations	$ 131.0	$ 148.4	$ 103.7
Adjustments to reconcile earnings to cash flows from operating activities:			
Amortization	70.6	43.1	19.1
Future income taxes	18.8	7.1	(8.5)
Investment tax credit	(18.6)	(19.0)	(22.5)
Other	(18.1)	1.1	(11.2)
Decrease (increase) in non-cash working capital (note 16)	(41.3)	(7.6)	79.1
Net cash provided by continuing operating activities	142.4	173.1	159.7
Investing activities			
Purchase of businesses (note 2)	-	(757.6)	-

Proceeds from disposal of businesses (note 3)	25.0	187.1	5.7
Short-term investments, net	18.8	101.5	(51.7)
Capital expenditures	(238.9)	(249.6)	(76.3)
Proceeds from sale and leaseback of assets	127.0	42.6	-
Deferred development costs	(13.3)	(31.1)	(13.7)
Deferred pre-operating costs	(10.7)	(15.1)	(4.2)
Other assets	(27.5)	(33.0)	(7.8)
Net cash used in continuing investing activities:	(119.6)	(755.2)	(148.0)
Financing activities			
Proceeds from long-term debt	270.0	755.8	-
Repayments of long-term debt	(326.3)	(195.6)	(16.2)
ividends paid	(26.2)	(24.8)	(21.2)
Purchase of capital stock	-	-	(1.3)
Capital stock issuance (note 11)	3.5	6.1	6.9
Other	(14.1)	(2.3)	(3.0)
Net cash provided by (used in) continuing financing activities	(93.1)	539.2	(34.8)
Net cash (used in) provided by discontinued activities (note 3)	(3.6)	(24.5)	10.4
Effect of foreign exchange rate changes on cash and cash equivalents	2.2	(0.6)	6.0
Net decrease in cash and cash equivalents	(71.7)	(68.0)	(6.7)
Cash and cash equivalents at beginning of year	88.8	156.8	163.5
Cash and cash equivalents at end of year	$ 17.1	$ 88.8	$ 156.8

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements
years ended March 31, 2003, 2002 and 2001 (amounts in millions of Canadian dollars)

Note 01 - Summary of Significant Accounting Policies
The accounting policies of CAE Inc. and its subsidiaries (“CAE” or “the Company”) conform with Canadian generally accepted accounting principles (Canadian GAAP). These accounting principles are different in some respects from United States generally accepted accounting principles (US GAAP). The significant differences are described in note 22.

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

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

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

Restated Consolidated Financial Statements
The figures for 2002 and 2001 have been restated to disclose Marine Controls’ results separately as a new business segment and apply amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook described in this note.

Consolidation
The consolidated financial statements include the accounts of CAE Inc. and all subsidiaries. All inter-corporate accounts and transactions have been eliminated. Acquisitions are accounted for using the purchase method and, accordingly, the results of operations of subsidiaries are included from the respective dates of acquisition. Portfolio investments are accounted for using the cost method.

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

Training service revenues are recognized in the period such services are provided. All other revenue is recorded and related costs transferred to cost of sales at the time the product is delivered and the benefits and the risks of ownership associated with the product are transferred to the customer. Cash and Cash Equivalents
Cash consists of cash and cash equivalents, which are short-term, highly liquid investments with original terms to maturity of 90 days or less.

Short-Term Investments
Short-term investments include money market instruments and commercial paper carried at the lower of cost or market value.

Inventories
Raw materials are valued at the lower of cost and replacement cost. Work in process is stated at the lower of average cost and net realizable value. The cost of work in process includes material, labour and an allocation of manufacturing overhead.

Restricted Cash
Under the terms of a subsidiary's external bank financing, the Company is required to hold a defined amount of cash on deposit as collateral.

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

Building and improvements	20 to 40 years
Machinery and equipment	3 to 10 years
Simulators	12 to 25 years

In fiscal year 2003, the Company has changed the amortization period for Civil simulation equipment from 20 years to 25 years, to reflect the approximate useful life of the simulators. This change reduced the amortization expense by $3.7 million on a year-to-year basis.

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

Business Combinations, Goodwill and Intangible Assets
During the first quarter of fiscal 2002, the Company adopted CICA Handbook Section 1581, Business Combinations, which requires all business combinations to be accounted for using the purchase method. In addition, any goodwill and intangible assets with indefinite useful lives acquired in a business combination are to be accounted for under CICA Handbook Section 3062, Goodwill and Other Intangible Assets. This section requires that goodwill and intangible assets with indefinite useful lives not be amortized. Their fair value is to be assessed at least annually and, if necessary, goodwill and intangible assets with indefinite useful lives are written down to such fair value for any impairment.

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

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

	Amortization Period	Weighted Average Amortization Period
Trade names	20 to 25 years	20
Backlog and contractual agreements	1 to 20 years	11
Customer relationships	20 to 25 years	24
Other	12 to 20 years	18

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

Foreign Currency Translation
The functional currency of the Company and each of its subsidiaries is the local currency. Monetary assets and liabilities denominated in currencies other than functional currency (the "functional currency") are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the exchange rate prevailing at the dates of the respective transactions. Revenue and expense items are translated at average rates of

exchange for the year. Translation gains or losses are included in the determination of earnings, except for gains or losses arising on translation of accounts of foreign subsidiaries considered self-sustaining and gains or losses arising from the translation of foreign currency debt that has been designated as a hedge of the net investment in subsidiaries, which are deferred as a separate component of shareholders' equity.

Earnings from continuing operations include a net foreign exchange gain of $6.1 million in 2003 (2002 - net foreign exchange loss of $1.2 million, 2001 - net foreign exchange loss of $6.2 million.)

On April 1, 2002, CAE retroactively adopted the amendments to CICA Handbook Section 1650, Foreign Currency Translation. Accordingly, the Company no longer defers and amortizes the exchange gains or losses arising on translation of long-term foreign currency denominated items. Exchange gains or losses arising on translation of such items are now included in earnings as incurred. Consequently, prior years' financial statements were restated through a charge to fiscal 2003 opening retained earnings of $6.4 million, net of $2.8 million of taxes, a charge to fiscal 2002 opening retained earnings of $5.3 million, net of $2.3 million of taxes and a charge to fiscal 2001 opening retained earnings of $3.3 million, net of $1.3 million of taxes.

Foreign Operations
The Company's foreign operations are considered to be self-sustaining. Accordingly, the accounts of the Company's foreign operations are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the exchange rates in effect at the end of the reporting periods and revenues and expenses are translated at the average exchange rates for the reporting periods. Gains and losses on translation of these foreign operations into Canadian dollars are included in the cumulative translation adjustment in shareholders' equity. Changes in the cumulative translation adjustment result solely from the application of this translation method and gains or losses arising from the translation of foreign currency denominated debt which has been designated as a hedge of the net investment in foreign operations.

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

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

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

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

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

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

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

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

stock. A compensation expense is recognized for the Company's portion of the contributions made under the ESPP and for amounts due under the DSU plans.

On April 1, 2002, CAE adopted the new recommendations of CICA Section 3870, Stock-based Compensation and Other Stock-based Payments. The standard encourages, but does not require, that the fair value based method for valuing stock options be used for transactions with employees. In note 12, pro forma net earnings and pro forma basic and diluted net earnings per share figures are presented as if the fair value based method of accounting had been used to account for stock options granted to employees. CAE's practice is to issue options in May of each fiscal year, whereby these options vest equally over four years. Stock-based compensation arrangements that can be settled in cash will continue to be recognized as compensation expense. Beginning in fiscal 2004, the Company will prospectively expense the cost of stock options granted to employees using the fair value based method.

Derivative Financial Instruments
The Company enters into forward, swap and option contracts to manage its exposure to fluctuations in interest rates and foreign exchange rates. CAE assesses on an ongoing basis whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

The foreign currency risk associated with certain purchase and sale commitments denominated in a foreign currency is hedged through a combination of forward contracts and options. The foreign currency realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or noncurrent, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Interest rate swap contracts are designated as hedges of the interest rate of certain financial instruments. The interest payments relating to swap contracts are recorded in net earnings over the life of the underlying transaction on an accrual basis as an adjustment to interest income or interest expense.

Earnings Per Share
The calculation of basic earnings per share is based on the weighted average number of shares issued and outstanding. Diluted earnings per share is calculated by dividing net earnings available to common shareholders by the weighted average number of shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all dilutive potential common shares outstanding during the year using the treasury stock method.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period reported. Actual results could differ from those estimates.

Future Changes to Accounting Standards
Impairment of long-lived assets
The CICA recently issued a new CICA Handbook Section 3063, Impairment of Long-Lived Assets. It provides guidance on recognizing, measuring and disclosing the impairment of long-lived assets.

The new section requires the recognition of an impairment loss for a long-lived asset to be held and used when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

This new section is applicable to the Company commencing in fiscal 2004, however, earlier adoption is encouraged. The Company does not expect the adoption of this new standard to have any material effect on its consolidated financial statements. The Company currently regularly reviews the carrying value of its long-lived assets and, should their carrying value exceed the amount recoverable, a writedown is charged to earnings equal to the excess of carrying value over the net recoverable amount.

Disposal of long-lived assets and discontinued operations
The CICA recently issued a new CICA Handbook section, Disposal of Long-Lived Assets and Discontinued Operations. It provides guidance on recognizing, measuring, presenting and disclosing long-lived assets to be disposed of. It replaces the disposal provisions in Section 3061, Property, Plant and Equipment, and Section 3475, Discontinued Operations.

The new section provides criteria for classifying assets as held for sale. It requires an asset classified as held for sale to be measured at fair value less disposal costs.

It also provides criteria for classifying a disposal as a discontinued operation and specifies the presentation of and disclosures for discontinued operations and other disposals of long-lived assets.

This new section is applicable to disposal activities started on or after May 1, 2003, however, earlier adoption is encouraged by the CICA. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Consolidation of variable interest entities
In April 2003, the CICA approved a new accounting guideline titled Consolidation of Variable Interest Entities. The final guideline, which will be published shortly, is understood to be harmonized, in all material respects, with the recently issued US guidance (see note 22), and will be applicable for the quarter beginning on January 1, 2004. The Company is currently evaluating the impact of this draft guideline on its consolidated financial statements.

Note 02 - Business Acquisitions
On March 31, 2003, the Company completed a technology investment in the marine navigation business by acquiring all of the issued and outstanding shares of the Norway-based Hitec Marine Automation AS (Hitec). No cash consideration for the purchase of the shares was needed. NOK13.7 million will be expensed for acquisition and integration costs. The business provides marine navigation products and capabilities for both naval and commercial marine markets. This technology investment complements the Company's existing marine products and capabilities.

The allocation of the purchase price of Hitec is based on management's estimate of the fair value of assets acquired and liabilities assumed. Allocation of the purchase price involves a number of estimates as well as gathering of information over a number of months. This estimation process will be completed in the next six months and, accordingly, there may be changes to the goodwill and intangible asset values presented below for this acquisition.

During fiscal 2002, the Company completed four strategic acquisitions, two of which accelerated the Company's move into aviation training, one which signifi- cantly improved the Company's access to the US defence market and one which provided immediate entry into the commercial marine control systems market. A summary description of each acquisition follows:

On April 2, 2001, the Company acquired all of the issued and outstanding shares of BAE Systems Flight Simulation and Training Inc. (BAE Systems) located in Tampa, Florida, for a total cash consideration of US$76 million. The business has a well-established position in the US defence market for the manufacture of transport and helicopter simulation equipment and has significant training and support service activities for both civil and military markets.

On August 1, 2001, the Company acquired all of the issued and outstanding shares of Valmarine AS of Norway (Valmarine), for a cash consideration of NOK238.6 million and a CAE share issuance of NOK125.4 million, based on the average closing price of CAE's shares for the 10 days prior to August 1st. Valmarine is the global leader for marine control systems for the commercial market. The purchase price is subject to adjustment based on the performance of the business for the three-year period following the acquisition. Contingent consideration up to a maximum of NOK58 million may be recognized as an additional cost of the purchase when the contingency is resolved, and would be accounted for as additional goodwill.

On August 24, 2001, the Company acquired all of the issued and outstanding shares of the Netherland-based Schreiner Aviation Training B.V. (Schreiner) for total cash consideration of 193.4 million. The business provides simulator and groundschool civil aviation training.

On December 31, 2001, the Company acquired all of the issued and outstanding shares of SimuFlite Training International Inc. (SimuFlite), based in Dallas, Texas, for a total cash consideration of US$210.9 million. In addition, equipment in the amount of US$54 million was sold and leased back. SimuFlite is the world's second largest provider of business aviation training.

These acquisitions were accounted for under the purchase method and their operating results have been included from the respective acquisition dates.

The net assets acquired are summarized as follows:

(amounts in millions)	BAE Sys- tems	Val- marine	Schrei- ner	Simu- Flite	Sub- total	Hitech Marine Auto- mation	Total
Current assets	$ 36.2	$ 16.3	$ 15.3	$ 23.0	$ 90.8	$ 5.6	$ 96.4
Current liabilities	(65.8)	(8.7)	(37.0)	(8.2)	(119.7)	(13.3)	(133.0)
Property, plant and equipment	59.0	0.5	167.9	262.0	489.4	0.1	489.5
Intangible assets							
Trade names	-	3.2	-	37.1	40.3	-	40.3
Customer relations	-	9.8	66.0	29.2	105.0	-	105.0
Customer contractual agreements	-	2.3	2.2	3.6	8.1	-	8.1
Other intangibles	2.5	3.1	-	3.6	12.6	1.2	13.8
Goodwill	104.2	40.4	102.8	106.3	353.7	1.6	355.3
Future income taxes	36.6	(3.9)	(34.2)	15.1	13.6	4.8	18.4
Long-term debt	(17.3)	-	(23.1)	(52.4)	(98.2)	-	(98.2)

Long-term liabilities	(36.1)	-	-	-	(36.1)	-	(36.1)
	119.3	63.0	259.9	422.7	864.9	-	864.9
Less: Sale and leaseback of assets	-	-	-	(86.2)	(86.2)	-	(86.2)
Shares issued (note 11)	-	(21.1)	-	-	(21.1)	-	(21.1)
Total cash consideration:	$ 119.3	$ 41.9	$ 259.9	$ 336.5	$ 757.6	$ -	$ 757.6

The net assets of Schreiner, SimuFlite and approximately 10% of the net assets of BAE Systems (including goodwill of $209.8 million) are included in the Civil Simulation and Training segment. The balance of the net assets of BAE Systems (including goodwill of $93.8 million) is included in the Military Simulation and Training segment. Net assets of Valmarine and Hitec (including goodwill of $38.9 million) are included in the Marine Controls segment.

The goodwill on the SimuFlite acquisition is the sole deductible goodwill for tax purposes.

There were certain adjustments to the assets and liabilities recorded in fiscal 2003 for three of the businesses acquired in fiscal 2003. For Valmarine, the adjustment related to the final evaluation of other intangible assets. With Schreiner, the adjustment pertained to the accounting for simulators that were being built at the time the acquisition was completed. For SimuFlite, the adjustment resulted from a purchase price arbitration settlement which occurred in 2003.

The adjustments made in 2003 to the purchase price equation are summarized as follows:

(amounts in millions)	**Valmarine**	**Schreiner**	**SimuFlite**	**Total**
Current assets	$ (3.1)	$ -	$ (2.7)	$ (2.8)
Current liabilities	-	(0.1)	(6.0)	(6.1)
Property, plant and equipment	-	-	3.2	3.2
Intangible assets	7.3	-	-	7.3
Goodwill	(2.9)	(11.6)	1.9	(12.6)
Future income taxes	(4.3)	(2.2)	-	(6.5)
Long-term debt	-	13.9	(3.3)	10.6
Total cash consideration:	$ -	$ -	$ (6.9)	$ (6.9)

Note 03 - Discontinued Operations

On February 2, 2000, the Board of Directors approved a plan to divest the Cleaning Technologies and Energy Control Systems businesses. On December 18, 2001, the Board also approved a plan to divest the Forestry Systems business segment. As a result, the results of operations and the financial position of these business segments have been reported separately in the consolidated statements of earnings and the consolidated balance sheets (together the “Discontinued Operations”). Previously reported financial statements have been restated to reclassify the Discontinued Operations, and interest expense has been allocated to the Discontinued Operations based on their share of the Company’s net assets.

On May 31, 2000, the Company completed the sale of substantially all the assets of the Energy Control Systems business to SNC-Lavalin Inc.

On February 28, 2002, the Company completed the sale of two of CAE’s five Cleaning Technologies operations. The Company sold the shares of CAE Ransohoff Inc., of Cincinnati, Ohio, and CAE Ultrasonics Inc., of Jamestown, New York, to the management of these operations. The total consideration was initially US$21.4 million, comprised of US$9.2 million cash and a holdback of US$1.6 million payable 120 days from closing with the balance in the form of a long-term subordinated note receivable. The total consideration was subject to adjustment based on an audit of the closing statement of financial position. In fiscal 2003, the audit was completed and certain issues remain in dispute. Adjustment to reduce the previously recorded consideration by $US2.2 million with a corresponding reduction in the holdback and a reduction in the long-term subordinated note has been recorded based on management’s best estimate.

On March 28, 2002, CAE completed the sale of its fibre screening business to the Advanced Fiber Technologies Income Fund (AFT) for cash proceeds of $162.0 million. Following the closing of this transaction, certain issues arose in connection with the income tax planning with respect to the foreign operations of AFT, and the partial termination of its defined benefit pension plan for the transferred employees. CAE recorded in its loss from Discontinued Operations in fiscal 2003 an additional after-tax cost of $3.2 million (tax amount - $1.1 million) for these adjustments.

On June 28, 2002, CAE sold the shares of CAE Cleaning Technologies Plc to the management of this operation for a note receivable of $1.2 million.

On August 16, 2002, CAE sold substantially all the assets of the sawmill division of its Forestry Systems segment for a cash consideration of

$25.0 million and a further estimated payment at $10.0 million based on the operating performance of the company in the three-year period from closing.

Subsequent to March 31, 2003, CAE completed the sale of its remaining Forestry Systems business and the sale of its German Cleaning Technologies operations. In addition, CAE is in exclusive negotiations for the sale of its one remaining Cleaning Technologies business, which is expected to close in the first quarter of fiscal 2004. CAE has adjusted the carrying value of its Discontinued Operations to reflect these agreements.

Summarized financial information for the discontinued operations is as follows:

(amounts in millions)	**2003**	**2002**	**2001**
		(Restated)	(Restated)
Revenue			
Cleaning Technologies	$ 72.0	$ 86.5	$ 119.5
Forestry Systems	20.8	193.5	300.0
	92.8	280.0	419.5
Net earnings from Forestry Systems prior to measurement date, net of tax recovery (2002 - $4.0; 2001 - $14.9)	$ -	$ 8.5	$ 29.0
Net gain (loss) from Forestry Systems after measurement date, net of tax (2003 - $3.0; 2002 - $15.2)	(7.2)	17.7	-
Net loss from Cleaning Technologies after measurement date, net of tax recovery (2003 - $7.7; 2002 - $7.3; 2001 - $18.9)	(6.6)	(25.1)	(26.6)
Net earnings (loss) from discontinued operations	$ (13.8)	$ 1.1	$ 2.4
Net cash (used in) provided by operating activities	$ 12.5	$ (15.9)	$ 23.6
Net cash used in investing activities	(14.8)	(4.7)	(11.1)
Net cash used in financing activities	(1.3)	(3.9)	(2.1)
Net cash (used in) provided by discontinued operations	$ (3.6)	$ (24.5)	$ 10.4

(amounts in millions)	**2003**		**2002**	
	Forestry Systems	**Cleaning Technologies**	**Forestry Systems**	**Cleaning Technologies**
Current assets	$ 11.5	$ 7.9	$ 40.8	$ 20.8
Property, plant and equipment, net	2.7	3.7	15.7	5.4
Goodwill	16.0	4.8	30.2	9.2
Other assets	0.8	2.6	0.6	1.1
	31.0	19.0	87.3	36.5
Assets of discontinued operations		$ 50.0		$ 123.8
Current liabilities	12.8	0.1	26.4	13.7
Other liabilities	0.9	4.1	0.4	-
	$ 13.7	$ 4.2	$ 26.8	$ 13.7
Liabilities of discontinued operations		$ 17.9		$ 40.5

Note 04 - Accounts Receivable

(amounts in millions)	**2003**	**2002**
Trade	$ 126.1	$ 107.8
Allowance for doubtful accounts	(12.1)	(6.8)
Unbilled receivables	189.7	223.8
Other receivables	69.4	53.4
	$ 373.1	$ 378.2

Approximately $6.0 million of the March 2003 unbilled receivables are not expected to be recovered within one year (2002 - - $10 million).

Note 05 - Inventories

(amounts in millions)	**2003**	**2002**
Work-in-progress	$ 115.3	$ 105.9
Raw materials, supplies and manufactured products	21.0	25.0
	$ 136.3	$ 130.9

Note 06 - Property, Plant and Equipment

(amounts in millions)	**2003**	**2002**

	Cost	Accumulated Amortiza-tion	Net Book Value	Cost	Accumulated Amortiza-tion	Net Book Value
Land	$ 19.2	$ -	$ 19.2	$ 19.2	$ -	$ 19.2
Buildings and improvements	247.9	50.6	197.3	229.6	40.4	189.2
Machinery and equipment	205.5	122.6	82.9	229.7	105.8	123.9
Simulators	497.3	32.3	465.1	347.2	13.8	333.4
Assets under construction						
Buildings	2.1	-	2.1	4.5	-	4.5
Equipment	163.8	-	163.8	146.0	-	146.0
	$ 1,135.8	$ 205.4	$ 930.4	$ 976.2	$ 160.0	$ 816.2

Amortization of property, plant and equipment was $52.1 million in 2003, $37.0 million in 2002 and $18.7 million in 2001.

Note 07 - Intangible Assets

(amounts in millions)	2003			2002		
	Cost	Accumulated Amortiza-tion	Net Book Value	Cost	Accumulated Amortiza-tion	Net Book Value
Trade names	$ 38.5	$ 2.3	$ 36.2	$ 40.5	$ 0.5	$ 40.0
Customer relations	111.3	6.8	104.5	104.9	1.8	103.1
Customer contractual agreements	14.3	1.7	12.6	7.9	0.1	7.8
Other intangible assets	20.8	2.4	18.4	13.1	0.6	12.5
	$ 184.9	$ 13.2	$ 171.7	$ 166.4	$ 3.0	$ 163.4

The continuity of intangible assets is as follows:

(amounts in millions)	2003				2002			
	Civil Simulation and Training	Military Simulation and Training	Marine Controls	Total	Civil Simulation and Training	Military Simulation and Training	Marine Controls	Total
Beginning balance	$ 114.5	$ 2.5	$ 19.4	$ 163.4	$ -	$ -	$ -	$ -
Additions	1.8	-	1.2	3.0	145.1	2.5	18.4	166.0
Purchase price adjustment (note 2)	-	-	7.3	7.3	-	-	-	-
Amortization	(7.5)	(0.2)	(2.0)	(9.7)	(2.7)	-	(0.3)	(3.0)
Foreign exchange	4.3	(0.2)	3.6	7.7	(0.9)	-	1.3	0.4
Ending balance	$ 140.1	$ 2.1	$ 29.5	$ 171.7	$ 141.5	$ 2.5	$ 19.4	$ 163.4

The yearly estimated amortization expense for the five following years will be approximately $9.6 million.

Note 08 - Goodwill

The following table summarizes the impact of the adoption in fiscal 2002 of the new applicable CICA standards:

(amounts in millions except per share amounts)	2003	2002	2001
Reported net earnings	$ 117.1	$ 149.5	$ 106.1
Add back goodwill amortization	-	-	5.1
Adjusted net earnings	$ 117.1	$ 149.5	$ 111.2
Reported net earnings and diluted net earnings per share	$ 0.53	$ 0.69	$ 0.49
Add back goodwill amortization	-	-	0.2
Adjusted net earnings and diluted net earnings per share	$ 0.53	$ 0.69	$ 0.51

The continuity of goodwill by reportable segment is as follows:

(amounts in millions)	2003	2002

	Civil Simulation and Training	Military Simulation and Training	Marine Controls	Total	Civil Simulation and Training	Military Simulation and Training	Marine Controls	Total
Beginning balance	$ 217.8	$ 114.7	$ 43.0	$ 375.5	$ -	$ 18.5	$ -	$ 18.5
Additions	-	-	1.6	1.6	219.0	94.4	40.3	353.7
Purchase price adjustment (note 2)	(9.7)	-	(2.9)	(12.6)	-	-	-	-
Foreign exchange	4.8	(7.1)	4.6	2.3	(1.2)	1.8	2.7	3.3
Ending balance	$ 212.9	$ 107.6	$ 46.3	$ 366.8	$ 217.8	$ 114.7	$ 43.0	$ 375.5

Note 09 - Other Assets

(amounts in millions)	**2003**	**2002**
		(Restated) (note 1)
Investment in and advances to CVS Leasing Ltd. (i)	$ 43.7	$ 24.0
Deferred development costs net of $0.2 million accumulated amortization (2002 - nil) (ii)	37.6	30.1
Deferred pre-operating costs net of $4.4 million accumulated amortization (2002 - $2.2 million)	27.7	26.6
Long-term receivables (iii)	15.1	13.0
Deferred financing costs net of $2.1 million accumulated amortization (2002 - $1.6 million)	12.7	16.3
Other	28.4	26.0
	$ 165.2	$ 136.0

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

In connection with the contract, the Company has established a subsidiary, CAE Aircrew Training Plc (Aircrew), of which it owns 78% (2002 - 74%) with the balance held by the other consortium partners. This subsidiary has leased the land from the MoD, has built the facility and operates the training centre, and has been consolidated with the accounts of the Company.

In addition, the Company has a minority shareholding of 14% (2002 - 11%) in, and has advanced funds to, CVS Leasing Ltd. (CVS), a company established to acquire the simulators and other equipment that are leased to Aircrew. CVS obtained project financing which amounts to £73 million at March 31, 2003, and expires in October 2015. This financing is secured solely by the assets of CVS with no recourse to CAE.

(ii) Research and development expenditures aggregated $115.2 million during the year (2002 - $104.7 million, 2001 - $104.9 million) of which $13.7 million was capitalized. The Company has received government assistance of $32.5 million during the year (2002 - $15.8 million, 2001 - $3.5 million), of which $2.3 million (2002 - $9.5 million, 2001 - nil) was recorded against deferred costs incurred to develop new products with the balance being accounted for as a reduction of research and development expenses.

(iii) The Company has established a secured subordinated promissory note with the Cleaning Technologies Group for the sale of the Ransohoff and Ultrasonic operations. The principal amount of the note, $13.2 million, shall be due and payable commencing on August 28, 2005, until August 28, 2010, at an interest rate of 7%.

Note 10 - Debt Facilities

A. Long-Term Debt

(amounts in millions)	2003	2002
(i) Senior notes	$ 178.7	$ 192.1
Revolving unsecured term credit facilities,		
(ii) 5 years maturing April 2006, US$350.0 and €100.0 (outstanding March 31, 2003 - $114.0 and US$195.0, March 31, 2002 - $25.0 and US$139.0)	400.5	246.4
(iii) 18 months, maturing June 2003, (US$135.0) (outstanding March 31, 2003 - US$35.0, March 31, 2002 - US$174.0)	51.4	277.3
(iv) Term loan of US$32.5, secured, maturing in April 2009	47.8	58.0
(v) Term loan of £12.7, secured, maturing in October 2015 (outstanding March 31, 2003 - £10.1)	23.5	25.9
(vi) Grapevine Industrial Development Corporation bonds, secured	39.7	43.1
(vii) Secured loans, (US$5.8 and RMB29.0)	-	14.3
(viii) Term loan of £31.8, secured, maturing September 2029 (outstanding March 31, 2003 - £17.5)	40.7	34.4
(ix) Obligations under capital lease commitments	29.1	35.0
Less: Long-term debt due within one year	811.4	926.5
	13.4	37.5
	$ 798.0	$ 889.0

(i) Pursuant to a private placement, the Company borrowed US$108.0 million and $20.0 million. These unsecured senior notes rank equally with term bank financings with fixed repayment amounts of $20.0 million in 2005, US$15.0 million in 2007, US$60.0 million in 2009 and US$33.0 million in 2012. Fixed interest is payable semi-annually in June and December at an average rate of 7.6% on the US amounts and 7.2% on the Canadian amount. The Company has entered into interest rate swap agreements converting the initial fixed interest rate into the equivalent of a three-month LIBOR borrowing plus 1.8% on US$33.0 million of the senior notes.

(ii) These facilities (US$350.0 million and 100.0 million) are unsecured and the interest rate payable is based on LIBOR, BAs or EURIBOR plus 0.50%. As at the end of both fiscal years, an amount of $35.0 million has been fixed through a swap agreement until April 2006 at a rate of 5.0%. Also, as at March 31, 2002, an amount of $205.0 million was fixed until February 2003 at an average rate of 2.72%. The facility of 100.0 million was not used as of March 31, 2002 and 2003. The average interest rate at March 31, 2003 is 2.4% (2002 - 2.5%).

(iii) The revolving credit facility of US$200.0 million which expires in June 2003 was reduced to US$135.0 million in October 2002 and again in April 2003 to US$35.0 million. The facility is unsecured and the interest rate payable is based on LIBOR plus 0.50%. This facility will be refinanced by drawing under the existing credit facilities (US$350.0 million and 100.0 million) that mature in April 2006.

(iv) The Company arranged project financing for its training centre in S~o Paulo, Brazil. This term loan is secured by the assets of the training centre and is repayable semi-annually until April 30, 2009. Interest on the loan is charged at arate of approximately 7.72%. The net book value of the assets securing the loan is US$50.0 million as at March 31, 2003 (2002 - US$52.5 million).

(v) The Company arranged project financing for one of its subsidiaries to finance the Company's Medium Support Helicopter program for the MoD in the United Kingdom. The credit facility includes a term loan that is secured by the project assets of the subsidiary and a bi-annual repayment is required until 2015. The facility also includes a standby loan of £4.0 million and a working capital loan of £1.0 million, both maturing in October 2015. Interest on the loans is charged at a rate approximating LIBOR plus 1%. The Company has entered into interest rate swaps totalling £10.3 million fixing the interest rate at approximately 6.82%. The value of the assets pledged as collateral for the credit facility as at March 31, 2003, is £25.8 million (2002 - £25.3 million) (note 9 (i)).

(vi) Airport Improvement Revenue Bonds were issued by the Grapevine Industrial Development Corporation, Grapevine, Texas, for amounts of US$8.0 million and US$19.0 million and maturing respectively in 2010 and 2013. Real property improvements, fixtures and specified simulation equipment secure the bonds. The rates are set periodically by the remarketing agent based on market conditions. For the bonds maturing in 2010, the rate is set weekly and, for the 2013 series, yearly. The rates are subject to a maximum rate of 10% permissible under current applicable laws. As at March 31, 2003, the combined rate for both series was approximately 1.8%. The security is limited to an amount not exceeding the outstanding balance of the loans which represents US$27.0 million as at March 31, 2003. Also, a letter of credit has been issued to support the bonds for the outstanding amount of the loans.

(vii) Secured loans consisted of a US$5.8 million loan secured by equipment expiring in June 2002 with interest payable based on US commercial paper plus 1% and a loan of RMB29 million expiring in December 2011 with interest at 6.83%. The values of the equipment securing the two loans are respectively US$8.2 million and RMB117.5 million.

(viii) The Company, in association with two other partners, arranged project financing for the delivery of training services on the Astute Class Submarine for the MoD in the United Kingdom. The Company's participation is 50%. The secured loans consist of a loan of £31.8 million split into three sections, a term loan expiring September 2029, an Equity Bridge loan expiring September 2029 and a Ramp Up Facility expiring August 2004. Interest payable amounts are based on LIBOR plus 0.60% for the term loan and the Equity Bridge loan and LIBOR plus 1.75% for the Ramp Up Facility. The loans are secured by fixed and floating charges over property and assets of the Company. The value, at CAE's participation of 50%, of the assets pledged is £17.2 million as at March 31, 2003 (2002 - £8.4 million).

(ix) These capital leases are related to the leasing of various simulators in CAE's subsidiaries. The cost associated with these simulators is $41.1 million and the accumulated amortization as at March 31, 2003, is $19.5 million (2002 - $16.4 million) for a net book value of $21.6 million (2002 - $24.7 million). The effective interest rate on obligations under capital leases, which mature from June 2003 to March 2024, was approximately 5.1% (2002 - 5.3%).

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

(amounts in millions)	
2004	$ 13.4
2005	16.9
2006	33.8
2007	465.4
2008	34.5
Thereafter	247.4
	$ 811.4

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

(amounts in millions)	**2003**	**2002**	**2001**
Long-term debt interest expense	$ 37.1	$ 30.3	$ 17.6
Short-term debt interest expense	0.2	1.9	0.1
Interest income	(3.7)	(3.4)	(20.1)
Other financing charges	3.1	1.4	0.1
Allocation of interest expense to discontinued operations	(0.1)	(3.6)	(4.0)
Interest capitalized	(6.2)	(3.9)	-
Net interest expense (income)	$ 30.4	$ 22.7	$ (6.3)

Certain of the Company's debt instruments include customary positive and negative covenants, including interest coverage, leverage ratios and restrictions on the sale of assets. At March 31, 2003, the Company is in compliance with its debt covenants.

B. Short-Term Debt

The Company has unsecured bank lines of credit available in various currencies totalling $89.0 million, of which $41.3 million was used as at March 31, 2003. The effective rate on the short-term borrowings was 4.8% (2002 - 5.6%, 2001 - 8.4%).

Note 11 - Capital Stock

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

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

	2003		2002		2001	
	Number of Shares	Stated Value	Number of Shares (c)	Stated Value	Number of Shares (c)	Stated Value
Balance at beginning of year	218,955,780	$ 186.8	216,399,856	$ 159.4	215,158,370	$ 152.3
Stock options exercised	650,776	3.5	1,118,400	6.1	1,413,076	6.9
Stock dividends (a)	54,622	0.2	17,605	0.2	34,410	0.3
Purchase of capital stock (b)	-	-	-	-	(206,000)	(0.1)
Treasury issue (note 2)	-	-	1,419,919	21.1	-	-
Balance at end of year	219,661,178	$ 190.5	218,955,780	$ 186.8	216,399,856	$ 159.4

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

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

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

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

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

	2003	2002	2001
Weighted average number of common shares outstanding - Basic	219,427,513	217,592,039	215,666,346
Effect of dilutive stock options	897,806	2,544,722	2,570,454
Weighted average number of common shares outstanding - Diluted	220,325,319	220,136,761	218,236,800

Options to acquire 3,198,000 common shares (2002 - 1,474,628, 2001 - nil) have been excluded from the above calculation since their inclusion would have an antidilutive effect.

Note 12 - Stock-Based Compensation Plans

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

At March 31, 2003, a total of 11,812,046 common shares remained authorized for issuance under the Plan. The options are exercisable during a period not to exceed six years and are not exercisable during the first 12 months after the date of the grant. The right to exercise all of the options accrues over a period of four years of continuous employment. However, if there is a change of control of the Company, the options become immediately exercisable. Options are adjusted proportionately for any stock dividends or stock splits attributed to the common shares of the Company.

A reconciliation of the outstanding options is as follows:

for the years ended March 31	2003 Number of Options	2003 Weighted Average Exercise Price	2002 Number of Options	2002 Weighted Average Exercise Price	2001 Number of Options	2001 Weighted Average Exercise Price
Options outstanding at beginning of year	4,999,078	$ 7.70	5,114,350	$ 5.70	5,479,326	$ 4.96
Granted	1,767,000	$ 12.71	1,698,012	$ 12.19	2,018,400	$ 6.84
Exercised	(650,776)	$ 5.62	(1,118,400)	$ 5.41	(1,413,076)	$ 4.90
Forfeited	(325,400)	$ 9.38	(692,884)	$ 7.71	(970,300)	$ 5.06
Expired	(97,152)	$ 9.10	(2,000)	$ 12.23	-	-
Options outstanding at end of year	5,692,750	$ 9.37	4,999,078	$ 7.70	5,114,350	$ 5.70
Options exercisable at end of year	2,000,975	$ 6.78	1,417,878	$ 5.70	1,268,500	$ 5.34

The following table summarizes information about the Company's Employee Stock Option Plan as at March 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$4.10 to $5.70	1,175,550	2.00	$ 4.48	833,050	$ 4.59
$6.425 to $9.60	1,502,200	2.84	$ 6.90	840,050	$ 6.82
$11.90 to $14.60	3,015,000	4.75	$ 12.51	327,875	$ 12.26
Total	5,692,750	3.67	$ 9.37	2,000,975	$ 6.78

During the year ended March 31, 2003, the Company granted 1,767,000 options to purchase common shares. The weighted average grant date fair value of options granted during this period amounted to $5.84 per option. To compute the pro forma compensation cost, the Black-Scholes valuation model was used to determine the fair value of the options granted. Pro forma net earnings and pro forma basic and diluted net earnings per share and the assumptions used in the calculation are presented below:

(amounts in millions except per share amounts and assumptions data)	2003
Net earnings, as reported	$ 117.2
Pro forma impact	$ (2.5)
Pro forma net earnings	$ 114.7
Pro forma basic and diluted net earnings per share	$ 0.52
Assumptions used in Black-Scholes options pricing model:	
Dividend yield	1.058%
Expected volatility	46.5%
Risk-free interest rate	5.26%
Expected life (years)	6

Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (ESPP or "the Plan") to enable employees of the Company and its participating subsidiaries to acquire CAE common shares through regular payroll deductions plus employer contributions. The Plan allows employees to contribute up to 10% of their annual base salary. The Company and its participating subsidiaries match the first $500 employee contribution and contribute $1 for every $3 on additional employee contributions, to a maximum of 2% of the employee's base salary. Matching contributions vest at the beginning of the third year following the year during which the employee contributions were made, provided employment has been continuous during that period. Common shares of the Company are purchased by the ESPP trustee on behalf of the participants on the open market, through the facilities of the Toronto Stock Exchange. The Company recorded compensation expense in the amount of $1.9 million (2002 - $1.9 million; 2001 - $2.1 million) in respect of employer contributions under the Plan.

Deferred Share Unit Plan

Effective May 1, 2000, the Company adopted a Deferred Share Unit (DSU) Plan for executives whereby an executive may elect to receive any cash incentive compensation in the form of DSUs. The DSU Plan is intended to enhance the Company's ability to promote a greater alignment of interests between executives and the shareholders of the Company. A DSU is equal in value to one common share of the Company. The units are issued on the basis of the average closing board lot sale price per share of CAE common shares on the Toronto Stock Exchange

during the last 10 days on which such shares traded prior to the date of issue. The units also accrue dividend equivalents payable in additional units in an amount equal to dividends paid on CAE common shares. DSUs mature upon termination of employment, whereupon an executive is entitled to receive the fair market value of the equivalent number of common shares, net of withholdings, in cash.

In fiscal 2000, the Company adopted a DSU Plan for non-employee directors. A non-employee director holding less than 10,000 common shares of the Company receives the Board retainer and attendance fees in the form of DSUs. A nonemployee director holding at least 10,000 common shares may elect to participate in the DSU Plan in respect of part or all of his or her retainer and attendance fees. The terms of the DSU Plan are essentially identical to the key executive DSU Plan except that the share price used to value the DSU is based on the closing price per share of CAE common shares on the Toronto Stock Exchange on the day preceding the last business day of March, June, September and December.

The Company records the cost of the DSU Plans as compensation expense. As at March 31, 2003, 362,498 units were outstanding at a value of $1.0 million (2002 - 194,581 units at a value of $2.3 million; 2001 - 53,220 units at a value of $1.3 million).

Note 13 - Financial Instruments

Foreign Currency Risk

The Company entered into forward foreign exchange contracts totalling $102.9 million (buy contracts $51.3 million and sell contracts $51.6 million). The total unrealized gain as of March 31, 2003, is $3.0 million (on buy contracts $1.1 million and on sell contracts $1.9 million).

Consolidated Foreign Exchange Deals Outstanding

(amounts in millions of Canadian dollars)		**2003**		**2002**
Currencies (Sold/Bought)	**Notional Amount[1]**	**Average Rate**	**Notional Amount[1]**	**Average Rate**
US/CA				
Less than 1 year	20.6	0.6222	55.0	0.6334
CA/US				
Less than 1 year	4.4	1.4842	10.4	1.5961
US/EUR				
Less than 1 year	21.1	1.0376	24.2	0.8801
Between 1 and 3 years	1.9	0.8785	2.2	0.8785
CA/EUR				
Less than 1 year	20.8	1.6168	0.8	1.3063
EUR/CA				
Less than 1 year	7.8	0.6168	-	-
Between 1 and 3 years	7.8	0.6028	-	-
Between 3 and 5 years	6.7	0.5891	-	-
GBP/CA				
Less than 1 year	10.5	0.4404	36.3	0.4411
Between 1 and 3 years	1.1	0.4606	8.7	0.4435
CA/GBP				
Less than 1 year	-	-	1.0	2.3795
GBP/EUR				
Less than 1 year	-	-	3.5	0.6354
EUR/GBP				
Less than 1 year	-	-	2.1	1.6453
	102.9		144.5	

1 Exchange rates as at the end of the respective fiscal year were used to translate amounts in foreign currencies.

Credit Risk

The Company is exposed to credit risk on billed and unbilled accounts receivable. However, its customers are primarily established companies with publicly available credit ratings, or government agencies, factors that minimize the risk. In addition, the Company typically receives substantial non-refundable deposits on contracts. The Company closely monitors its exposure to major airlines in order to curtail it to the extent possible.

The Company is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments. The Company minimizes this exposure by entering into contracts with counterparties that are of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. The credit standing of counterparties is regularly monitored.

Interest Rate Exposure
The Company is exposed to the volatility of interest rates on its long-term debt. As at March 31, 2003, the Company has entered into five interest rate swap agreements with three different financial institutions to mitigate these risks for a total notional value of $123.6 million. One agreement, with a notional value of $48.5 million (US$33 million), has converted fixed interest rate debt into floating whereby the Company pays the equivalent of a three-month LIBOR borrowing rate plus 1.8% and receives a fixed interest rate of 7.76% up to June 2012. The remaining four contracts are converting floating interest rate debt into fixed for a notional value of $75.1 million whereby the Company will receive quarterly LIBOR and pay fixed interest payments as follows:

- until February 2003 on two contracts totalling $205.6 million (US$129.0 million), the Company paid annually a fixed interest rate of 2.72%;
- until April 2006 on $35.0 million, the Company will pay quarterly a fixed interest rate of 4.97%;
- until September 2005 on $16.1 million (US$11.0 million), the Company will pay monthly at a fixed annual interest rate of 4.95%;
- until October 2011 on two contracts totalling $24.0 million (£10.3 million), the Company will pay quarterly at a fixed annual interest rate of 6.82%.

After taking into consideration these swap agreements, as at March 31, 2003, 38% of the long-term debt bears fixed interest rates.

Fair Value of Financial Instruments
The following methods and assumptions have been used to estimate the fair value of the financial instruments:
- cash and short-term investments, accounts receivable, accounts payable and accrued liabilities are valued at their carrying amounts on the balance sheet, which represent an appropriate estimate of their fair values due to their near-term maturities;
- capital leases are valued using the discounted cash flow method;
- long-term debt value is estimated based on discounted cash flows using current interest rates for debt with similar terms and remaining maturities;
- interest rate and currency swap contracts reflect the present value of the potential gain or loss if settlement were to take place at the balance sheet date;
- the forward foreign exchange contracts are represented by the estimated amounts that the Company would receive or pay to settle the contracts at the balance sheet date.

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

(amounts in millions)	**2003**		**2002**	
	Fair Value	**Carrying Amount**	**Fair Value**	**Carrying Amount**
Long-tem debt	$ 837.8	$ 811.4	$ 935.6	$ 926.5
Net forward foreign exchange contracts	2.7	-	(0.9)	-
Interest rate swap contracts	(10.3)	-	(2.2)	-
Currency swap contracts	-	-	3.9	-

Letters of Credit and Guarantees
As at March 31, 2003, CAE had outstanding letters of credit and performance guarantees in the amount of $195.1 million (2002 - $188.1 million) issued in the normal course of business. These guarantees are issued under standby facilities available to the Company through various financial institutions.

The advance payment guarantees are related to progress/milestone payments made by our customers and are reduced or eliminated upon delivery of the product. The contract performance guarantees are linked to the completion of the intended product or service rendered by CAE and at the satisfaction of the customer. It represents 10% to 20% of the overall contract amount. The customer releases the Company from these guarantees at the signature of a certificate of completion.

(amounts in millions)	**2003**	**2002**
Advance payment	$ 159.9	$ 95.6
Contract performance	32.4	90.2
Others	2.8	2.3
Total	$ 195.1	$ 188.1

Residual Value Guarantees - Sale and Leaseback Transactions
Following certain sale and leaseback transactions, the Company has agreed to guarantee the residual value of the underlying equipment in the event that the equipment is returned to the lessor and the net proceeds of any eventual sale do not cover the guaranteed amount. The maximum amount of exposure is $29.7 million of which $12.2 million matures in 2008, $8.3 million in 2020 and $9.2 million in 2023. Of this amount, as at March 31, 2003, $22.6 million is recorded as deferred gain (2002 - $17.5 million).

Indemnifications
In certain instances when CAE sells businesses, the Company may retain certain liabilities for known exposures and provide indemnification to the buyer with respect to future claims for certain unknown liabilities exisiting, or arising from events occurring, prior to the sale date, including liabilities for taxes, legal matters, environmental exposures, product liability and other obligations. The terms of the indemnifications vary in duration, from one to two years for certain types of indemnities, to terms for tax indemnifications that are generally aligned to the applicable statute of limitations for the jurisdiction in which the divestiture occurred, and terms for environmental indemnities that typically do not expire. The maximum potential future payments that the Company could be required to make under these indemnifications are either

contractually limited to a specified amount or unlimited. The Company believes that the maximum potential future payments that the Company could be required to make under these indemnifications are not determinable at this time, as any future payments would be dependent on the type and extent of the related claims, and all available defenses, which are not estimable.

Note 14 - Income Taxes

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

(amounts in millions)	2003	2002 (Restated)	2001 (Restated)
Earnings from continuing operations before income taxes	$ 191.2	$ 218.3	$ 155.9
Statutory income tax rates in Canada	34.7%	37.4%	44.6%
Income taxes at Canadian statutory rates	$ 66.3	$ 81.6	$ 69.5
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	0.7	5.3	(10.7)
Manufacturing and processing allowance	(3.5)	(13.1)	(8.3)
Losses not tax effected	1.0	11.0	3.6
Tax benefit of losses not previously recognized	(1.1)	(6.7)	(0.2)
Research and development investment tax credits	(0.5)	(3.0)	(1.1)
Other	(2.7)	(5.2)	(0.6)
Total income tax expense	$ 60.2	$ 69.9	$ 52.2

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

(amounts in millions)	2003	2002 (Restated)	2001 (Restated)
Current income taxe expense	$ 41.4	$ 62.8	$ 60.7
Change in temporary differences	20.7	9.0	(10.3)
Tax rate changes	(1.6)	0.4	(0.6)
Other	(0.3)	(2.3)	2.4
Future income tax expense (benefit)	18.8	7.1	(8.5)
Total income tax expense	$ 60.2	$ 69.9	$ 52.2

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

(amounts in millions)	2003 (Restated)	2002 (Restated)	2001 (Restated)
Non-capital loss carryforwards	$ 91.1	$ 101.3	$ 120.0
Capital loss carryforwards	-	4.8	5.3
Investment tax credits	(18.9)	(22.6)	(31.5)
Property, plant and equipment	(56.0)	(40.8)	(12.8)
Employee pension plans	(2.0)	3.2	(3.1)
Amounts not currently deductible	21.1	20.5	20.9
Percentage-of-completion versus completed contract	(35.2)	(30.0)	(18.6)
Other	(2.8)	(2.8)	5.1
	$ (2.7)	$ 33.6	$ 85.3
Valuation allowance	(31.0)	(46.6)	(76.2)
Net future income tax assets (liabilities)	$ (33.7)	$ (13.0)	$ 9.1

As of March 31, 2003, the Company has accumulated non-capital losses carried forward relating to operations in the United States for approximately US$133.9 million. For financial reporting purposes, a net future income tax asset of US$32.5 million has been recognized in respect of these loss carryforwards.

The Company has accumulated non-capital tax losses carried forward relating to its operations in other countries of approximately $74.0 million. For financial reporting purposes, a net future income tax asset of $12.3 million has been recognized.

The losses for income tax purposes expire as follows:

Year of expiration (amounts in millions)	United States (US$)	Other Countries (CA$)
2004	-	-
2005	-	-
2006	19.8	-
2007	44.5	-
2008	27.2	-
2009-2021	42.4	17.7
No expiration	-	56.3
	133.9	74.0

The valuation allowance relates principally to loss carryforward benefits where realization is not likely due to a history of loss carryforwards and to the uncertainty of sufficient taxable earnings in the future, together with time limitations in the tax legislation giving rise to the potential benefit. In 2003, $21.1 million (2002 - $21.8 million) of the valuation allowance balance was reversed when it became more likely than not that benefits would be realized.

Note 15 - Long-Term Liabilities

(amounts in millions)	2003	2002
Deferred revenue and gains (i)	$ 108.7	$ 52.9
Long-term portion employee benefits obligation	11.2	4.2
Government cost sharing (note 18)	4.6	-
Other	15.1	16.6
	$ 139.6	$ 73.7

(i) Deferred revenue and gains result from the Company's deferred gains on sale and leaseback arrangements of $75.6 million at March 31, 2003 (2002 - $27.0 million). The remaining deferred revenue balance relates to the Company's training service activities.

Note 16 - Supplementary Cash Flow Information

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

(amounts in millions)	2003	2002	2001
Accounts receivable	$ 22.3	$ (50.4)	$ 21.8
Inventories	(3.1)	(23.8)	(45.7)
Prepaid expenses	(6.0)	1.9	5.9
Income taxes recoverable	23.1	36.9	49.7
Accounts payable and accrued liabilities	13.7	27.9	71.0
Deposits on contracts	(91.3)	(0.1)	(23.6)
	$ (41.3)	$ (7.6)	$ 79.1
Interest paid	$ 38.8	$ 25.3	$ 20.6
Income taxes paid	$ 3.5	$ 8.2	$ 8.8
Amortization of other assets	$ 8.8	$ 3.2	$ -

Note 17 - Contingencies

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

Note 18 - Government Cost Sharing

The Company has signed agreements with the Government of Canada whereby the latter shares in the cost, based on expenditures incurred by the Company, of certain research and development programs for visual systems and advanced flight simulation technology for civil applications and networked simulation for military applications. Funding in the amount of $31.2 million related to the visual research and development programs was completed in 2001. Royalty payments for this program are estimated at $1.6 million in fiscal 2003 (2002 - $2.6 million). In fiscal 2002, funding of $41.4 million was approved for advanced civil flight simulation. In fiscal 2003, funding of $39.0 million was also approved to develop a military network simulation. The Company provided for $4.6 million of future repayments on these two programs in fiscal 2003. Funding for these programs is based on expenditures incurred by the Company. The amount of funding received in fiscal 2003 was $20.2 million (2002 - $15.8 million, 2001 - $3.5 million) for the civil program and $12.3 million (2002 - nil, 2001 - nil) for the military program.

These programs are repayable in the form of royalties to March 2013 based on future sales. The maximum amount of royalties payable under the visual program is $41.4 million. The maximum payment under the civil or military simulation programs, based on future sales, is $66.0 million and $53.6 million respectively.

Note 19 - Operating Lease Commitments

Future minimum lease payments under operating leases are as follows:

(amounts in millions)	Civil Simulation and Training	Military Simulation and Training	Marine Controls	Total
Years ending March 31,				
2004	$ 44.5	$ 37.5	$ 1.3	$ 83.3
2005	42.0	36.6	1.1	79.7
2006	38.8	32.1	0.8	71.7
2007	35.7	22.2	0.1	58.0
2008	33.1	21.6	0.1	54.8
Thereafter	300.1	117.7	0.1	417.9
	$ 494.2	$ 267.7	$ 3.5	$ 765.4

Note 20 - Pensions

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

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

For fiscal 2003, the Company amended the actuarial assumption for return on plan assets to 6.5% (2002 - 9.0%).

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

(amounts in millions)	2003	2002	2001
Change in pension obligations			
Pension obligation, beginning of year	$ 131.4	$ 126.0	$ 111.5
Current service cost	4.6	4.2	3.3
Interest cost	8.5	8.1	7.8
Settlement gain on discontinued operations	-	(2.5)	-
Employee contributions	2.7	2.2	2.3
Loss on plan amendments	2.8	1.1	1.6
Pension benefits paid	(8.4)	(8.8)	(8.4)
Actuarial loss	5.6	1.1	7.9
Pension obligation, end of year	$ 147.2	$ 131.4	$ 126.0
Change in fair value of plan assets			
Fair value of plan assets, beginning of year	$ 111.7	$ 121.5	$ 120.5
Expected return on plan assets	7.2	10.6	10.7
Pension benefits paid	(8.4)	(8.8)	(8.4)
Settlement loss on discontinued operations	-	(2.5)	-
Disbursements	(0.3)	-	-
Employee contributions	2.7	2.2	2.3
Employer contributions	7.2	0.6	0.7
Actuarial loss	(14.5)	(11.9)	(4.6)
Fair value of plan assets, end of year	$ 105.6	$ 111.7	$ 121.5
Funded status-plan deficit	$ (41.6)	$ (19.7)	$ (4.5)
Unrecognized net actuarial loss	44.1	24.9	12.5
Unamortized past service cost	5.2	2.6	1.6
Accrued net pension asset, end of year	$ 7.7	$ 7.8	$ 9.6

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

	2003	2002	2001
Return on plan assets	6.5%	9.0%	9.0%
Discount rate for pension benefit obligations	6.5%	6.5%	6.5%
Compensation rate increases	2.75% to 5.25%	2.75% to 5.25%	2.75% to 5.25%

The net pension expense for the years ended March 31 included the following components:

(amounts in millions)	2003	2002	2001
Current service cost	$ 4.9	$ 4.2	$ 3.3
Interest cost on projected pension obligations	8.5	8.1	7.8
Expected return on plan assets	(7.2)	(10.6)	(10.7)
Amortization of net actuarial loss	0.8	-	-
Amortization of past service costs	0.2	0.1	-
Net pension expense	$ 7.2	$ 1.8	$ 0.4

Note 21 - Business Segments
The Company's significant business segments include:

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

(ii) Military Simulation and Training - a premier supplier of military flight and landbased simulators, visual and training systems.

(iii) Marine Controls - a world leader in the supply of automation and control systems for the naval and commercial markets. The business also provides naval training systems and designs and manufactures power plant training simulators and systems.

Each operating segment is led by a senior executive, offers different products and uses different technology and marketing strategies. The Company evaluates performance based on operating earnings before interest and income taxes and uses capital employed to assess resources allocated to each segment. Capital employed includes accounts receivable, inventories, prepaid expenses, property, plant and equipment, goodwill, intangible assets and other assets less accounts payable and accrued liabilities, deposits on contracts and contingent consideration due to acquisitions included in other long-term liabilities.

Prior to fiscal 2003, the Marine Controls segment was aggregated and presented with the Military Simulation and Training segment. In 2003, these segments are now presented separately and accordingly comparative figures have been restated in order to be consistent with the new basis of presentation.

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

Business Segments

(amounts in millions)	**2003**	**2002 (Restated) (note 1)**	**2001 (Restated) (note 1)**
Capital employed			
Civil Simulation and Training	$ 1,156.9	$ 1,057.3	$ 74.5
Military Simulation and Training	247.7	187.3	60.0
Marine Controls	122.9	86.0	19.0
Other	(9.7)	11.8	9.4
Total capital employed	$ 1,517.8	$ 1,342.4	$ 162.9
Cash	17.1	88.8	156.8
Short-term investments	2.6	21.3	122.8
Income taxes recoverable	25.7	15.8	8.2
Accounts payable and accrued liabilities	413.3	420.5	315.0
Deposits on contracts	101.2	189.1	175.9
Future income taxes - short-term	3.5	28.9	15.4
Future income taxes - long-term	85.7	74.1	18.2
Long-term liabilities	139.6	73.7	20.7
Assets of discontinued operations	50.0	123.8	370.9
Total assets	$ 2,356.5	$ 2,378.4	$ 1,366.8
Total assets by segment			
Civil Simulation and Training	$ 1,474.3	$ 1,380.9	$ 348.5
Military Simulation and Training	442.6	444.6	260.6
Marine Controls	214.8	165.1	58.4
Assets of discontinued operations	50.0	123.8	370.9
Other	174.8	264.0	328.4
	$ 2,356.5	$ 2,378.4	$ 1,366.8
Capital expenditures			
Civil Simulation and Training	$ 207.0	$ 216.7	$ 72.9
Military Simulation and Training	12.1	14.1	1.8
Marine Controls	19.8	18.8	1.6
	$ 238.9	$ 249.6	$ 76.3
Amortization of property, plant and equipment			
Civil Simulation and Training	$ 37.8	$ 24.4	$ 9.3

Military Simulation and Training	11.0	10.9	7.9
Marine Controls	3.0	1.6	1.3
Other	0.3	0.1	0.2
	$ 52.1	$ 37.0	$ 18.7

Geographic Information

(amounts in millions)	**2003**	**2002**	**2001**
Revenue from external customers based on their location			
Canada	$ 89.0	$ 102.7	$ 109.8
US	329.5	347.0	268.7
UK	149.7	127.4	141.9
Germany	119.1	91.2	101.2
Other European countries	156.2	173.8	128.1
Other countries	287.0	284.4	141.7
	$ 1,130.5	$ 1,126.5	$ 891.4
Property, plant and equipment, goodwill and intangible assets			
Canada	$ 226.1	$ 126.6	$ 95.7
US	577.6	579.0	6.2
Europe	582.0	520.6	79.6
Other countries	83.2	151.2	64.2
	$ 1,468.9	$ 1,377.4	$ 245.7

Note 22 - Differences between Canadian and United States Generally Accepted Accounting Principles and Practices

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and practices (Canadian GAAP), which differ in certain respects from those principles and practices that the Company would have followed had its financial statements been prepared in accordance with accounting principles and practices generally accepted in the United States (US GAAP).

Additional disclosures required under US GAAP have been provided in the accompanying financial statements and notes.

The reconciliation of net earnings in accordance with Canadian GAAP to conform to US GAAP is as follows:

years ended March 31 **(amounts in millions of Canadian dollars, except per share amounts)**	**2003**	**2002**	**2001**
		(Restated) (note 1)	(Restated) (note 1)
Earnings from continuing operations for the year in accordance with Canadian GAAP	$ 131.0	$ 148.4	$ 103.7
Deferred development costs, net of tax of $2.7 (2002 - $5.0), (2001 - $4.5) (A)	(5.8)	(10.6)	(9.0)
Deferred pre-operating costs, net of tax of $0.4 (2002 - $4.1), (2001 - $1.0) (B)	(0.8)	(8.8)	(2.1)
Derivative instruments, net of tax of $7.7 (2002 - $0.2) (D)	(16.7)	(0.5)	-
Leases net of tax expense of $0.9 (2002 - tax recovery $0.8), (2001 - tax recovery $0.8) (H)	2.0	(1.8)	(1.9)
Foreign exchange gain on purchase of subsidiary in 2002, net of tax of $3.7 (F)	-	7.9	-
Earnings from continuing operations before cumulative effect of accounting change - US GAAP	109.7	134.6	90.7
Discontinued operations	(13.8)	1.1	2.4
Net earnings before cumulative effect of accounting change - US GAAP	95.9	135.7	93.1
Cumulative effect on prior years of accounting change (D) (E)	-	5.3	-
Net earnings for the year in accordance with US GAAP	$ 95.9	$ 141.0	$ 93.1

Basic and diluted earnings per share from continuing operations in accordance with US GAAP	0.50	0.62	0.42
Basic and diluted results per share from discontinued operations in accordance with US GAAP	(0.07)	0.01	0.01
Basic and diluted net earnings per share before cumulative effect of accounting change in accordance with US GAAP	0.43	0.63	0.43
Basic and diluted net earnings per share in accordance with US GAAP	0.43	0.65	0.43
Basic and diluted net earnings per share adjusted for goodwill amortization	0.43	0.65	0.45
Dividends per common share	0.12	0.11	0.10
Basic and diluted net earnings per share adjusted for goodwill amortization	0.43	0.62	0.43

(amounts in millions of Canadian dollars)	**2003**	**2002**	**2001**
		(Restated)	(Restated)
Comprehensive income			
Net earnings in accordance with US GAAP	$ 95.9	$ 141.0	$ 93.1
Accumulated minimum pension liability, net of taxes of $10.8	(23.5)	-	-
Foreign currency translation adjustments	36.8	(1.5)	1.0
Comprehensive income	$ 109.2	$ 139.5	$ 94.1
Accumulated other comprehensive loss			
Beginning balance	$ (15.1)	$ (13.6)	$ (14.6)
Currency translation adjustments	36.8	(1.5)	1.0
Change in minimum pension liability	(23.5)	-	-
Ending balance	$ (1.8)	$ (15.1)	$ (13.6)

The cumulative effect of these adjustments on the shareholders' equity of the Company is as follows:

(amounts in millions of Canadian dollars)	**2003**	**2002**	**2001**
		(Restated)	(Restated)
Shareholders' equity in accordance with Canadian GAAP	$ 750.2	$ 612.1	$ 458.8
Deferred development costs, net of tax of $12.2 (2002 - $9.5), (2001 - $4.5) (A)	(25.4)	(19.6)	(9.0)
Deferred pre-operating costs, net of tax of $9.1 (2002 - $8.7), (2001 - $4.6) (B)	(18.7)	(17.9)	(9.1)
Derivative instruments, net of tax expense of $5.5 (2002 - tax recovery $2.2) (D)	(11.9)	4.8	-
Foreign currency translation adjustments (I)	(6.6)	0.6	-
Leases, net of tax recovery of $0.5 (2002 - tax expense $0.4), (2001 - tax recovery $0.4) (H)	0.7	(1.3)	0.5
Foreign exchange gain on purchase of subsidiary, net of tax of $3.7 (2002 - ($3.7)) (F)	7.9	7.9	-
Change in minimum pension liability, net of tax of $10.8 (J)	(23.5)	-	-
Shareholders' equity in accordance with US GAAP	$ 672.2	$ 586.6	$ 441.2

The balance sheets in accordance with US GAAP as at March 31, 2003 and March 31, 2002 are as follows:

(amounts in millions of Canadian dollars)	**Notes**	**March 31, 2003**		**March 31, 2002**
		Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
			(Restated)		(Restated)
Assets					
Cash		$ 17.1	$ 17.1	$ 88.8	$ 88.8

Short-term investments	C	2.6	2.6	21.3	21.3
Accounts receivable		373.1	373.1	378.2	378.2
Derivative instruments	D	-	2.7	-	6.9
Inventories		136.3	136.3	130.9	130.9
Prepaid expenses	H	14.0	9.6	9.9	9.9
Income taxes recoverable		25.7	25.7	15.8	15.8
Future income taxes		3.5	3.5	28.9	28.9
		$ 572.3	$ 570.6	$ 673.8	$ 680.7
Restricted cash		14.4	14.4	15.6	15.6
Assets of discontinued operations		50.0	50.0	123.8	123.8
Property, plant and equipment, net	H	930.4	1,018.9	816.2	909.1
Future income taxes	A,B,D,F,H,J	85.7	119.1	74.1	87.2
Intangible assets	J	171.7	176.9	163.4	163.4
Goodwill	F	366.8	378.4	375.5	387.1
Other assets	A,B	165.2	99.9	136.0	80.2
		$ 2,356.5	$ 2,428.2	$ 2,378.4	$ 2,447.1
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	H	$ 413.3	$ 411.0	$ 420.5	$ 420.5
Deposits on contracts		101.2	101.2	189.1	189.1
Derivative instruments	D	-	20.4	-	-
Long-term debt due within one year	H	13.4	30.0	37.5	50.6
Future income taxes		42.4	42.4	50.4	50.4
		$ 570.3	$ 605.0	$ 697.5	$ 710.6
Liabilities of discontinued operations		$ 17.9	$ 17.9	$ 40.5	$ 40.5
Long-term debt	H	798.0	900.6	889.0	997.0
Long-term liabilities	H,J	139.6	151.5	73.7	46.8
Future income taxes		80.5	80.5	65.6	65.6
		$ 1,606.3	$ 1,755.5	$ 1,766.3	$ 1,860.5
Shareholders' equity					
Capital stock	G	$ 190.5	$ 439.8	$ 186.8	$ 436.1
Retained earnings	A,B,D,E,F,G,H	531.2	234.7	440.4	165.6
Currency translation adjustment		28.5	-	(15.1)	-
Accumulated other comprehensive loss	C,H,J	-	(1.8)	-	(15.1)
		$ 750.2	$ 672.7	$ 612.1	$ 586.6
		$ 2,356.5	$ 2,428.2	$ 2,378.4	$ 2,447.1

Reconciliation Items

A) Deferred development costs

Under US GAAP, development costs are charged to expense in the period incurred. Under Canadian GAAP, certain development costs are capitalized and amortized over their estimated useful lives if they meet the criteria for deferral. The difference between US GAAP and Canadian GAAP represents the gross development costs capitalized in the respective year, net of the reversal of amortization expense recorded for Canadian GAAP relating to amounts previously capitalized.

B) Deferred pre-operating costs

Under US GAAP, pre-operating costs are charged to expense in the period incurred. Under Canadian GAAP, the amounts are deferred and amortized over 5 to 20 years based on the expected period and pattern of benefit of the deferred expenditures. The difference between US GAAP and Canadian GAAP represents the gross preoperating costs capitalized in the respective year, net of the reversal of amortization expense recorded for Canadian GAAP relating to amounts previously capitalized.

C) Portfolio investments

Under Canadian GAAP, portfolio investments (short-term investments) are accounted for at the least of cost and market value and gains or losses are recognized in the period in which the investment is sold. Under US GAAP, portfolio investments are classified as held to maturity and thus are recorded at amortized cost. There is no material difference for US GAAP purposes. The investments held at March 31, 2003 and 2002, had maturity dates of within one month of March 31, 2003 and 2002, respectively.

D) Derivative financial instruments

Under Canadian GAAP, the nature and fair values of derivative financial instruments all of which are entered into for hedging purposes, are disclosed. The Company recognizes the gains and losses on forward contracts in income concurrently with the recognition of the transactions being hedged. The interest payments relating to swap contracts are recorded in net earnings over the life of the underlying transaction on an accrual basis as an adjustment to interest income or interest expense. Effective April 1, 2001, under US GAAP, all derivatives are recorded on the balance sheet at fair value. Accordingly, for US GAAP reporting purposes only, effective April 1, 2001, unrealized gains and losses resulting from the valuation of derivatives (including embedded derivatives in purchase and sale contracts) at market value are recognized in net earnings as the gains and losses arise and not concurrently with the recognition of the transactions being hedged, as the Company does not apply the optional hedge accounting provisions of SFAS 133 and 138.

Upon the initial adoption of SFAS 133 and 138 on April 1, 2001, the cumulative effect of the accounting change resulted in an increase in net earnings of $5.3 million net of taxes of $2.4 million.

E) Adjustments for changes in accounting policies
Under US GAAP, the cumulative effect of certain accounting changes must be included in earnings in the year of the change. Under Canadian GAAP, the impact is reflected through retained earnings.

F) Foreign exchange gain on purchase of subsidiary
Under Canadian GAAP, upon the purchase of Schreiner, a foreign exchange gain was recorded as a reduction of goodwill on the forward contract hedge of the foreign currency denominated purchase price. Under US GAAP, this gain was recorded in earnings.

G) Reduction in stated capital
On July 7, 1994, the Company applied a portion of its deficit as a reduction of its stated capital in the amount of $249.3 million. Under US GAAP, the reduction of stated capital would not be permitted.

H) Leases
Under Canadian GAAP, certain of the Company's leases of simulators, with aggregate minimum future lease payments of $133.0 million are accounted for as operating leases.

Under these agreements, the lessors hold the simulators under lease and the related liabilities through Special Purpose Entities (SPEs). Under US GAAP, since the legal stated capital of these SPEs represents less than 3% of the assets of the SPEs, the assets, liabilities, results of operations and cash flows of the SPE must be consolidated into those of the Company. Amortization expense related to these leases amounts to $4.4 million in 2003 (2002 - $2.0 million, 2001 - $0.6 million) and interest expense related to these leases amounts to $8.3 million in 2003 (2002 - $6.0 million, 2001 - $2.1 million). Currency translation adjustments resulting from the consolidation of a foreign SPE considered self-sustaining amount to $6.6 million in 2003.

I) Comprehensive income
US GAAP requires disclosure of comprehensive income, which comprises income and other components of comprehensive income. Other comprehensive income includes items that cause changes in shareholders' equity but are not related to share capital or net earnings which, for the Company, comprises currency translation adjustments and change in minimum pension liability. Under Canadian GAAP, there is no requirement to report comprehensive income.

J) Minimum pension liability
Under US GAAP, if the accumulated benefit obligation exceeds the market value of plan assets, a minimum pension liability for the excess is recognized to the extent that the liability recorded in the balance sheet is less than the minimum liability. Any portion of the additional liability that relates to unrecognized past service costs is recognized as an intangible asset while the remainder is charged to comprehensive income. Canadian GAAP has no such requirement to record a minimum liability.

Consolidated Statement of Cash Flows
Under US GAAP reporting, separate subtotals within operating, financing and investment activities would not be presented.

The reconciliation of cash flows under Canadian GAAP to conform to US GAAP is as follows:

years ended March 31 (amounts in millions of Canadian dollars)	**Note**	**2003**	**2002**	**2001**
			(Restated)	(Restated)
Cash flows from operating activities in accordance with Canadian GAAP		$ 142.4	$ 173.1	$ 159.7
Deferred development costs	A	(13.3)	(30.1)	(13.5)
Deferred pre-operating costs	B	(10.7)	(13.4)	(4.0)
Discontinued operations		12.5	(15.9)	23.6
Foreign exchange gain on purchase of a subsidiary	F	-	11.6	-
Leases	H	10.9	3.8	0.7
Cash flows from operating activities in accordance with US GAAP		$ 141.8	$ 129.1	$ 166.5
Cash flows from investing activities in accordance with Canadian GAAP		(119.6)	(755.2)	(148.0)
Deferred development costs	A	13.3	30.1	13.5
Deferred pre-operating costs	B	10.7	13.4	4.0
Discontinued operations		(14.8)	(4.7)	(11.1)

Foreign exchange gain on purchase of a subsidiary	F	-	(11.6)	-
Cash flows from investing activities in accordance with US GAAP		$ (110.4)	$ (728.0)	$ (141.6)
Cash flows from financing activities in accordance with Canadian GAAP		$ (93.1)	$ 539.2	$ (34.8)
Discontinued operations		(1.3)	(3.9)	(2.1)
Leases	H	(10.9)	(3.8)	(0.7)
Cash flows from financing activities in accordance with US GAAP		$ (105.3)	$ 531.5	$ (37.6)

Stock-Based Compensation Cost

Under Canadian GAAP, no compensation expense is recognized at the time of issuance of employee stock options. For US GAAP reporting, the Company follows the provisions of Financial Accounting Standards Board (FASB) Statement No. 123, Accounting for Stock-based Compensation (FAS 123) which allows companies to either expense the estimated fair value of stock options, or to continue to follow the intrinsic value method set forth in APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) but disclose the pro forma effects on the net earnings had the fair value of the options been expensed. CAE has elected to continue to apply APB 25 in accounting for its stock incentive plans. At March 31, 2003, no compensation cost has been recorded in the accounts. Had compensation cost for the Company's stock option plans been determined based upon the fair value method as prescribed in FAS 123, in accordance with US GAAP, the Company's net earnings in the years ended March 31, 2003, 2002 and 2001, would have been approximately $90.3 million, $137.3 million and $90.6 million, or $0.41 per share, $0.62 per share and $0.42 per share respectively, on a diluted basis. The fair value of the options granted during the years ended March 31, 2003, 2002 and 2001 are estimated at $5.84 per share, $4.87 per share and $2.46 per share respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

years ended March 31	**2003**	**2002**	**2001**
Expected option life (years)	6	6	6
Expected volatility	46.5%	36.3%	31.7%
Risk-free interest rate	5.26%	5.17%	6.15%
Dividend yield	1.058%	1.040%	1.691%

Newly Adopted Accounting Standards

Business combinations and goodwill and other intangible assets

In fiscal 2002, the Company adopted SFAS 141, Business Combinations, and SFAS 142, Goodwill and Other Intangible Assets. These standards are essentially the same as the recently issued Canadian accounting standards. See note 1 for a description of the impact on the Company.

Impairment of disposal of long-lived assets

On April 1, 2002, the Company adopted SFAS 144, Accounting for Impairment or Disposal of Long-Lived Assets, which supersedes SFAS 121 and the provisions of APB 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, with regard to reporting the effects of a disposal of a segment of a business. SFAS 144 retains many of the provisions of SFAS 121, but significantly changes the criteria that would have to be met to classify an asset as held for disposal such that long-lived assets to be disposed of other than by sale are considered held and used until disposed of. In addition, SFAS 144 retains the basic provisions of APB 30 for presentation of discontinued operations in the statement of earnings but broadens that presentation to a component of an entity. The application of SFAS 144 did not have a significant impact on our financial position or results of operations.

Costs relating to exits and disposals

The FASB recently issued new Standard No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Effective January 1, 2003, the standard requires costs relating to exits or disposal activities started after December 31, 2002, to be recorded at their fair values when a liability has been incurred. Under the previous guidance of Emerging Issues Task Force Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and Activity (Including Certain Costs Incurred in a Restructuring), certain exit costs were recorded when management committed to an exit plan. The application of Standard No. 146 did not have a significant effect on our financial position or results of operations.

Consolidation of variable interest entities

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities. This interpretation clarifies how to apply Accounting Research Bulletin No. 51, Consolidated Financial Statements to those entities defined as "Variable Interest Entities," when equity investors are not considered to have a controlling financial interest or they have not invested enough equity to allow the entity to finance its activities without additional subordinated financial support from other parties.

FIN No. 46 applies immediately to all variable interest entities created after January 31, 2003, and by the beginning of the first interim or annual reporting period beginning after June 15, 2003, for variable interest entities created before February 1, 2003. The results of this assessment are not expected to be material on the financial position or results of operations of the Company.

The Company currently conducts certain transactions through special purpose entities and is assessing the structure of these transactions against the criteria set out in FIN No. 46.

Disclosure of guarantees
In fiscal 2002, the Company adopted the FASB issued interpretation (FIN) No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which requires companies that act as guarantors to disclose more information in their financial statements about their obligations under certain guarantees. It defines a guarantee and also requires guarantors to recognize a liability for the fair value for guarantees given on or after January 1, 2003, of their obligation when they enter into these guarantees. The disclosure requirements of FIN No. 45 apply to financial statements issued after December 15, 2002.

Future Accounting Standards
Accounting for asset retirement obligations
On June 15, 2001, the Financial Accounting Standards Board issued SFAS 143, Accounting for Asset Retirement Obligations, which is effective for the Company's fiscal years beginning April 1, 2004. This standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company is studying the new standard but has not yet determined its impact.

Accounting for stock-based compensation - Transition and disclosure
On December 2002, the Financial Accounting Standards Board issued SFAS 148, an amendment to FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. Beginning in fiscal 2004, the Company will expense the cost of stock options granted to employees using the fair value based method. The Company is studying the new standard and has yet to determine the method of transition under SFAS 148.

Additional Disclosures
Additional disclosures required under US GAAP are as follows:

i) Statements of earnings

for the years ended March 31 (amounts in millions of Canadian dollars)	**2003**		**2002**		**2001**	
	Canadian GAAP	US GAAP	Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
			(Restated)	(Restated)	(Restated)	(Restated)
Revenues from sales of simulators and controls systems	$ 684.3	$ 668.1	$ 842.5	$ 846.6	$ 772.1	$ 772.1
Revenues from sales of services	$ 446.2	$ 446.2	$ 284.0	$ 284.0	$ 119.3	$ 119.3
Cost of sales from simulators and controls systems	$ 338.2	$ 338.2	$ 465.3	$ 470.3	$ 466.0	$ 466.0
Cost of sales from services	$ 240.1	$ 244.2	$ 167.9	$ 169.5	$ 60.6	$ 67.1
Research and development expenses	$ 108.3	$ 116.8	$ 74.6	$ 90.2	$ 87.8	$ 101.3
Rental expenses	$ 88.1	$ 73.9	$ 52.0	$ 43.6	$ 38.4	$ 35.6
Selling, general and administrative expenses	$ 134.2	$ 134.2	$ 125.6	$ 125.9	$ 89.1	$ 89.0
Interest expense (income)	$ 30.4	$ 46.8	$ 22.8	$ 33.5	$ (6.3)	$ (4.2)

ii) Balance sheet

as at March 31 (amounts in millions of Canadian dollars)	**2003**	**2002**
Accounts payable trade	$ 141.9	$ 97.6
Contract liabilities	$ 102.7	$ 188.6
Other accrued liabilities	$ 168.7	$ 134.3
Accounts payable and accrued liabilities	$ 413.3	$ 420.5

Accounts receivable from government amounted to $35.4 million as of March 31, 2003 (2002 - $56.0 million).

iii) Property, plant and equipment impairment
For US GAAP purposes, property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows (before interest expense) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets

exceeds the fair value of the assets. Assets available for sale are reported at the lower of the carrying amount or fair value less costs to sell.

iv) Income taxes
The components of earnings from continuing operations and income taxes on a Canadian GAAP basis are as follows:

for the years ended March 31 **(amounts in millions of Canadian dollars)**	**2003**	**2002**	**2001**
		(Restated)	(Restated)
Earnings before income taxes and other items			
Canada	$ 114.0	$ 179.0	$ 154.0
Other countries	77.2	39.3	1.9
	$ 191.2	$ 218.3	$ 155.9
Current income taxes			
Canada	$ 43.0	$ 59.3	$ 54.7
Other countries	(1.6)	3.5	6.0
	$ 41.4	$ 62.8	$ 60.7
Future income taxes			
Canada	$ (1.1)	$ (2.0)	$ (3.0)
Other countries	19.9	9.1	(5.5)
	$ 18.8	$ 7.1	$ (8.5)
Income tax provision	$ 60.2	$ 69.9	$ 52.2

v) Business combinations
The following unaudited pro forma information for the fiscal years ended March 31, 2003, 2002 and 2001, presents a summary of the pro forma consolidated statement of earnings for the Company as if business acquisitions performed during their respective fiscal year referred to in note 2 had occurred on April 1 of the preceding fiscal year. This pro forma information is based on available information and includes certain assumptions and adjustments, which the management of CAE believes to be reasonable. The pro forma information does not give effect to any cost savings or synergies that CAE may enjoy as a result of these acquisitions. Accordingly, the pro forma information is not necessarily indicative of the results that might have been achieved, if the transactions reflected therein had been effective as at the beginning of the period presented, or of the results that may be obtained in the future. This pro forma financial information has been prepared for comparative purposes only and is measured in accordance with Canadian GAAP.

years ended March 31 **(amounts in millions of Canadian dollars, except per share amounts)**	**2003**	**2002**	**2001**
	(Unaudited)	(Restated) (Unaudited)	(Restated) (Unaudited)
Revenue			
Civil Simulation and Training	$ 517.2	$ 618.6	$ 570.2
Military Simulation and Training	445.7	461.8	455.9
Marine Controls	175.8	132.0	120.5
	$ 1,138.7	$ 1,212.4	$ 1,146.6
Operating earnings			
Civil Simulation and Training	$ 116.2	$ 148.3	$ 134.8
Military Simulation and Training	73.6	65.6	23.3
Marine Controls	31.9	25.4	21.6
Earnings from continuing operations before interest and income taxes	221.7	239.3	179.7
Interest expense (income), net	31.4	44.6	29.1
Earnings from continuing operations before income taxes	190.3	194.7	150.6
Income taxes	60.2	61.0	51.0
Earnings from continuing operations	130.1	133.7	99.6
Results of discontinued operations (note 3)	(13.8)	1.1	2.4
Net earnings	$ 116.3	$ 134.8	$ 102.0
Earnings and diluted earnings per share from continuing operations	$ 0.59	$ 0.61	$ 0.46
Net earnings and diluted net earnings per share	$ 0.53	$ 0.62	$ 0.47
Average number of shares outstanding	219.4	218.2	217.1

vi) Product warranty costs

The Company has warranty obligations in connection with the sale of its civil and military simulators and marine systems. The original warranty period is usually for a two-year period. The cost incurred to provide for these warranty obligations is estimated and recorded as an accrued liability at the time revenue is recognized. The Company estimates its warranty cost for a given product based on past experience. The change in the Company's accrued warranty liability from March 31, 2002, to March 31, 2003, was as follows:

(amounts in millions of Canadian dollars)	**2003**
Accrued warranty liability at March 31, 2002	$ 12.4
Warranty settlements during 2003	(7.2)
2003 warranty provisions	2.5
Adjustments for changes in estimates	3.8
Accrued warranty obligations at March 31, 2003	$ 11.5

Note 23 - Comparative Financial Statements

Certain comparative figures for 2002 and 2001 have been reclassified to conform to the presentation adopted in 2003.

Five Year Review

(amounts in millions of dollars except where indicated by *)	**2003**	**2002**	**2001**	**2000**	**1999**
		(Restated)	(Restated)	(Restated)	(Restated)
Continuing operations					
Revenue	$ 1,130.5	1,126.5	891.4	865.1	708.5
Amortization	$ 70.6	43.1	19.1	22.3	18.5
Earnings	$ 131.0	148.4	103.7	63.0	49.7
Earnings per share*	$ 0.60	0.68	0.48	0.29	0.22
Net earnings	$ 117.2	149.5	106.1	99.5	74.3
Basic and diluted net earnings per share*	$ 0.53	0.69	0.49	0.45	0.33
Ratio of current assets to current liabilities*	1.1	1.0	1.3	1.4	1.2
Number of registered shareholders*	2,308	2,114	2,130	2,392	2,600
Cash dividends paid per common share*	$ 0.12	0.11	0.10	0.10	0.08

Quarterly Financial Information

(unaudited) (amounts in millions of dollars except where indicated by *)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2003				
Continuing operations				
Revenue	$ 275.8	252.3	290.3	312.1
Earnings	$ 37.4	23.3	31.5	38.8
Earnings per share*	$ 0.17	0.11	0.14	0.18
Net earnings	$ 37.4	23.3	31.5	25.0
Basic and diluted net earnings per share	$ 0.17	0.11	0.14	0.11
Common share trading range:				
High	$ 14.63	12.60	6.05	6.40
Low	$ 11.28	4.17	3.25	2.76
(unaudited) (amounts in millions of dollars except where indicated by *)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2002 (restated)				
Continuing operations				
Revenue	$ 242.3	255.1	279.9	349.2
Earnings	$ 33.0	34.3	39.9	41.2
Earnings per share*	$ 0.15	0.16	0.18	0.19
Net earnings	$ 34.4	37.6	40.2	37.3
Basic and diluted net earnings per share	$ 0.16	0.17	0.18	0.17
Common share trading range:				
High	$ 15.30	15.45	11.85	12.10
Low	$ 11.70	7.80	7.35	9.30

The restatement reflects the amendments to CICA Handbook Section 1650, Foreign Currency Translation.

Exhibit ²

Management²17;s Discussion and Analysis

Management²17;s Discussion and Analysis (MD&A) of the fiscal ²003 financial results focuses on the core businesses of CAE Inc. (CAE), Civil Simulation and Training (²²0;Civil²²1;), Military Simulation and Training (²²0;Military²²1;) and Marine Controls (²²0;Marine²²1;). The growing size of Marine, which was grouped with Military in the prior year and reported as Military Simulation and Marine Controls, is now reported separately as a business segment. The MD&A, which includes a review of the operations of each segment and the financial condition of CAE, is intended to assist in the understanding and assessment of significant trends, risks and uncertainties related to the results of operations for each business segment and should be read in conjunction with the audited financial statements contained on pages 53 to 97. All dollars amounts referred to herein are Canadian dollars unless otherwise specified.

This MD&A contains forward-looking statements with respect to CAE and the operations of each business segment based on assumptions which CAE considers reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. CAE cautions the reader that the assumptions regarding future events, many of which are beyond the control of CAE, may ultimately prove to be incorrect. Factors that could cause actual results or events to differ materially from current expectations are discussed herein - see the Business Risk and Uncertainties section of this MD&A for additional information.

Summary of Consolidated Results
Continuing Operations
Earnings
Consolidated earnings from continuing operations for the year were $¹3¹.0 million, or 60 cents per share compared to $¹48.4 million or 68 cents per share reported last year. The decrease in earnings from continuing operations is attributable to lower operating margins for the Civil segment, which was partially offset by the growth in Marine and significantly higher margins in Military. The lower margin in Civil is attributable in large part to the weak demand for full flight simulator (FFS) equipment and the accounting impact from sale and leaseback financing whereby the rental payments (including the interest component) under operating leases are included in determining operating margins. The growth in Marine represents organic growth of its naval control business with increasing contributions from the Company²17;s activities on the United Kingdom (UK) Astute Class Submarine Training Service and the Royal Malaysian Navy Patrol Vessels programs combined with a full year contribution from commercial activities at CAE Valmarine. Military continued the positive trend of year over year margin improvement, as operating margins reached ¹7% this year compared to ¹4% in fiscal ²00², through a combination of productivity and cost containment initiatives.

Operating margins overall for the year were ²0% compared to ²1% last year. The lower operating margins for Civil combined with a change in the business mix, more Military and Marine and less Civil, contributed to the decline.

Other factors also impacted the earnings from continuing operations in fiscal ²003. Beginning this fiscal year, the amortization period for Civil simulation equipment located in its various training centres was changed from ²0 years to ²5 years. This change, which is a better approximation of the useful life of the simulators, is consistent with industry practices and with some of the long-term financing arrangements completed to date for such assets. The change in the estimated useful life reduced amortization expense by approximately $3.7 million on a year-to-year basis. This year CAE also changed the estimated return on assets for its defined benefit pension plan to 6.5% from 9%. The result of this change increased this year²17;s pension expense by $5.4 million as compared to fiscal ²00². Lastly, CAE absorbed the cost of proposed and subsequently withdrawn cross border equity and senior convertible notes offerings totalling $3.6 million.

Interest expense for the year at $30.4 million compared to $²².7 million last year. The higher interest expense is due primarily to the higher debt throughout the year resulting from the strategic investments made at various points of time during fiscal ²00² and from higher capital expenditures this year to expand CAE²17;s Civil flight training centres.

Revenue
Consolidated revenue for fiscal ²003, at $¹.¹3 billion, was slightly higher than the amount reported for the prior year. Revenue for Marine of $¹67.6 million represented a 40% increase over fiscal ²00². The growth stems from the strong order book including the long-term training contract for the UK Astute submarines. Military revenue was down 3% from last year resulting from delays on various contract awards. Civil revenue declined by 5%, as significant growth in

revenue from training services, representing close to 50% of Civil²¹7;s revenue, was more than offset by the decline in the sale of equipment and related services.

Discontinued Operations

For the year CAE reported a loss from discontinued operations of $¹3.8 million compared to a gain of $¹.¹ million in fiscal ²00². The majority of the amount relates to post-closing adjustments from the divestiture of the Pulp and Paper division of the Forestry Systems Group and the sale of CAE Ransohoff and CAE Ultrasonics, which both occurred in the fourth quarter of fiscal ²00².

The balance of the loss is based on the divestitures of the remaining Cleaning Technologies and Forestry Systems businesses. The biggest factor is the expected lower proceeds from the sale of the remaining Forestry assets as the performance of the business has been affected by the weaker market for its capital equipment. During the year CAE completed the sale of its UK Cleaning Technologies operations (June ²8, ²00²) and the sale of the sawmill business (August ¹6, ²00²) within its Forestry Group. Subsequent to year end, CAE completed the sale of its remaining Forestry Systems business, CAE Machinery, of Vancouver, British Columbia and the sale of its German cleaning operations. The Company is also in exclusive negotiations to sell the remaining Cleaning Technologies business, Alpheus, in Rancho Cucamonga, California. This transaction is expected to be completed during the first quarter of fiscal ²004.

Net Earnings

Consolidated net earnings were $¹¹7.² million or $0.53 per share in fiscal ²003 compared with consolidated net earnings of $¹49.5 million or $0.69 per share in fiscal ²00².

Cash Flow

CAE²¹7;s cash, restricted cash and short-term investments decreased by a combined $9¹.6 million to $34.¹ million and long-term debt decreased by $¹¹5.¹ million to $8¹¹.4 million of which $¹3.4 million is repayable over the next ¹² months. Cash flow from continuing operations amounted to $¹4².4 million compared with $¹73.¹ million in the prior year. The decrease results from lower earnings and an increase in non-cash working capital. CAE incurred capital expenditures of $²38.9 million, mainly to support the expansion of the Civil training network. CAE²¹7;s installed base of FFS delivering training grew by 50% in the year from 59 simulators to 89. The other significant expenditures included $²0 million for the construction of the UK Astute Class Submarine training centre for the Marine business. CAE²¹7;s most cost-effective means of financing its growth in Civil is through long-term sale and leaseback financing. In fiscal ²003, CAE raised $¹²7 million through the sale and leaseback of seven simulators. As at March 3¹, ²003, ²7 of its installed base of 89 simulators are financed through these means. See the Sale and Leaseback Transactions section of this MD&A for additional information.

Backlog

Order backlog as at March 3¹, ²003, was $².3 billion, compared with $².7 billion as at March 3¹, ²00². The decline stems from the change in business mix in Civil to more training and less sales of equipment. The weak market reduced Civil equipment orders this year and the majority of its training revenue is from short-term contracts which are not included in backlog. Long-term military contracts included in backlog include the Medium Support Helicopter program for the UK government for $638.¹ million, which has ¹5 years remaining under contract, and for Marine, the UK Astute training contract valued at $370 million for which CAE is in the second year of a 30-year program.

Review of Operations

Civil Simulation and Training

CAE²¹7;s Civil Simulation and Training business segment is a world leader in the design and production of commercial flight simulators and visual systems as well as the supply of integrated aviation training solutions. As at March 3¹, ²003, CAE has an installed base of 89 FFS (59 FFS as at March 3¹, ²00²) at ²0 locations globally, making it the second largest independent training company in the world in each segment - business aircraft, regional jets and wide-bodied aircraft. CAE also remains the worldwide leader in competed FFS sales.

Financial Results

(amounts in millions of dollars)		**²003**	**²00²**	**²00¹**	**²000**	**¹999**
Revenue	$	5¹7.²	545.²	48¹.5	480.²	35².8
Operating earnings	$	¹¹6.²	¹5¹.8	¹¹5.8	8².9	54.4
Operating margins	%	²².5	².8	².0	¹7.3	¹5.4

Backlog	$ 418.0	641.2	649.5	527.8	482.7
Capital expenditures	$ 207.6	216.7	72.9	11.7	23.2

Revenue for the year reached $517.2 million, 5% below the amount reported last year. Significant growth was achieved in revenue from training, reflecting the benefits of acquisitions made in fiscal 2002 - Schreiner in August 2001 and SimuFlite in December 2001 - and the 50% increase throughout the year of the installed base of FFS. The growth in training however, was more than offset by the decline in equipment and support services activities. CAE received 11 of 17 competed FFS orders in fiscal 2003 compared to 22 of 26 competed FFS orders in fiscal 2002. The lower sales reflect the current state of the commercial aviation equipment market, which has been affected dramatically by world events beginning with the terrorist attacks in September 2001, followed by the more recent events of the war in Iraq and the SARS epidemic. For fiscal 2003, approximately one-half of Civil217;s revenue was from training compared to one-quarter in the prior year.

Operating earnings for the year amounted to $116.2 million, 22.5% of revenue, compared with $151.8 million, 27.8% of revenue for fiscal 2002. The lower results and operating margins result from the weaker demand for FFS sales, the accounting effect of sale and leaseback financing whereby the annual lease payments include an element of interest, and the lower overall utilization rate for the installed base of simulators for training due to the significant number of new simulators added during the year.

Backlog was $418.0 million as at March 31, 2003. The lower backlog level, compared to prior periods, reflects the fact that much of the training activities are not covered by long-term contracts, and thus have no associated backlog amount.

Capital expenditures of $207.6 million were down slightly from last year. The majority of the expenditures were in connection with the expansion of Civil217;s global training network.

Operational Highlights
During the first half of the fiscal year, CAE217;s strategy to expand and grow through pilot training gained significant momentum as the installed base of FFS climbed by 50% to 89 compared with 59. New centres opening in fiscal 2003 included: Denver, with Frontier Airlines and Air Wisconsin as anchor tenants with long-term contracts; Phoenix, with Mesa Airlines as an anchor tenant signing a 10-year training contract; Dubai, where CAE and United Emirates have teamed to offer training in the Middle East; and Zhuhai, China, in a joint venture with China Southern Airlines. CAE also added simulators at two centres in Dallas, as well as in Toronto, Rome and Spain. Most notably at CAE SimuFlite in Dallas, which is dedicated to the business aircraft market and is the world217;s largest independent training centre, the installed base was increased to 26 FFS, which will soon grow to 28 (from 22 in fiscal 2002) increasing its addressable market from 55% to over 80%.

CAE216;s growth in training is supported by investments in the next generation technology for FFS: CAE SIM XXI 2;, a new modular design to produce a high quality simulator at a lower cost; CAE Tropos 2;, a new scalable PC-based image generator to improve the realism of the visual system at a lower cost; and CAE Simfinity 2; products, high-fidelity simulation-based software allowing for advanced training on procedure trainers in groundschool and over the Web. This was supported by a recent contract award from Airbus to acquire 20 CAE Simfinity 2; Maintenance Flight Training Devices which will be integrated in the Airbus aviation training centres. This award came shortly after CAE received its first CAE Simfinity 2; Level 4 FAA certification on a Flight Training Device for a CRJ200 for Atlantic Coast Airlines. Air Canada Jazz is also adopting CAE Simfinity 2;in their pilot training curriculum.

CAE217;s strategy to grow its training businesses is further supported by a ten-year cooperation agreement with Airbus. Under the agreement, CAE will provide equipment, facilities and advanced training technologies while Airbus will provide its courseware and training expertise. The result will be a worldwide global network of training centres combining the North American Miami Airbus facilities with those of CAE. This will allow Airbus customers and operators

to benefit from top-quality training at more convenient locations offering a whole range of integrated training solutions.

In addition to the launch of the new training centres with key anchor tenants, CAE was successful in obtaining significant long-term training contracts from Jet Blue Airways, the US Air Force Air Education and Training Centre, South African Express and Spannair.

Of the 11 FFS ordered this year, first time customers included South African Airways for an A320, two A320s for China Eastern, an A320 to Air France as well as the first ever Embraer 170 FFS for GE Capital Aviation Training. CAE also captured 9 of 17 competed visual systems. Of the visual systems awarded, seven will feature CAE2017;s new image generator, CAE Tropos 2;.

Outlook
CAE expects significant growth in its Civil training business, having increased its installed base by 50% during fiscal 2003 from 59 FFS to 89 FFS. Revenue from training in fiscal 2003 represented approximately 50% of Civil2017;s total revenue. Today CAE is the only integrated provider of the complete training solution including the most sophisticated FFS, lower level training devices, courseware and curriculum, and Web-based training solutions.

CAE expects to maintain its commanding leadership position for competed sales of civil simulation and visual systems due to its focus on customer relationships, its commitment to innovation and technology, product quality, reliability and efficiency, and its continuing efforts to shorten delivery cycles through process improvements. CAE expects to increase its advantage in lead-time, cost, quality and reputation for performance through operational improvements and research and development (R&D) programs.

The biggest challenge facing CAE is the market uncertainty. The events of September 11, 2001, the war in Iraq and now SARS have had an extremely negative impact on commercial airlines, on aircraft manufacturers and, by extension, on CAE, which to some degree is dependent on the health and success of those industries. The sale of equipment has been impacted the most as customers delay delivery of new aircraft and thus simulators. Equipment orders in 2003 were one-half of what they were in fiscal 2002 which was already well below the prior year. We expect the total equipment sales in fiscal 2004 to be similar to fiscal 2003.

Military Simulation and Training
CAE2017;s Military business segment is a premier designer and manufacturer of military flight and land-based simulation and training systems. Simulation equipment and training is developed for a variety of military aircraft, including helicopters, transport planes and fighter jets. CAE has an extensive product range covering many American and European weapon systems. Having made sales to over 30 countries globally, CAE has established an extensive customer base as well.

Financial Results

(amounts in millions of dollars)		**2003**	**2002**	**2001**	**2000**	**1999**
Revenue	$	445.7	461.8	329.3	309.6	291.9
Operating earnings	$	73.6	65.6	18.8	2.2	13.3
Operating margins	%	16.5	14.2	5.7	0.7	4.6
Backlog	$	1,235.3	1,378.3	971.9	1,048.4	1,164.6
Capital expenditures	$	12.1	14.1	1.8	9.6	34.8

Revenue of $445.7 million for the year was 3% below last year. The decline resulted from delays in the awarding of several programs in which CAE anticipated participating. Despite the decline in revenue, operating earnings rose 12% to $73.6 million. These exceptional results stemmed from better program execution particularly towards the later stages of contract completion. An improved discipline on bid to delivery introduced two years ago and further integration of the Tampa operations acquired at the beginning of fiscal 2002 also contributed to improved margins. CAE reduced the costs to complete certain programs from the initial estimates made at the time of the Tampa acquisition by approximately $12.0 million, which favourably impacted margins this year.

Backlog, at $1.2 billion, is lower than last year due to program award delays, and reflects new orders this year of $284.6 million. Close to half of the backlog is comprised of long-term contracts to provide training for the UK Ministry of Defence (MoD) under the Medium Support Helicopter program and for the design and manufacture of visual systems for the Eurofighter 2000.

Operational Highlights

Program execution was stellar, leading to the highest operating margins ever recorded for Military. However, the pace of new orders was impacted by geopolitical events leading to several delays on major programs in which CAE anticipates participating. Earlier in the year, the Company and Boeing teamed to bid jointly on the Flight School XXI program. This program for the US Army is to develop, maintain, operate, upgrade and support virtual flight simulation training at the Army Aviation Training Center in Fort Rucker, Alabama. Flight School XXI is expected to support the Army²¹7;s transformation efforts with an objective to increase aviator experience in their war fighting aircraft prior to their first combat assignment. The decision on the program has been delayed, however, a request for proposal was issued in June ²003 and selection of the successful bidder is expected in the fall of ²003.

During the year, the Company was selected on a number of programs including a contract to design and manufacture two Super Lynx 300 helicopter mission simulators for the Royal Air Force of Oman, and a contract to build a CP-¹40 Aurora flight deck simulator and to perform an upgrade on a CP-¹40 cockpit procedures trainer for the Canadian Forces. Military sustained its leading position in the design and manufacture of simulation equipment for the C-¹30 Hercules. This was endorsed by receiving contracts valued at more than $30 million, under a long-term agreement with Lockheed Martin, to provide additional C-¹30J training devices and to provide training support for the US Air Force.

CAE has also continued to expand its training services with contracts in Germany to maintain and support a number of simulators on NATO bases and in the US at various Air Force bases.

Outlook

The military simulation and training market is driven by the introduction of new aircraft platforms, upgrades and life extensions to existing aircraft and a shift to greater use of simulation in pilot training programs due to the high degree of realism and the significantly lower cost compared to live training. CAE expects to increase its advantage in lead-time, cost, quality and reputation for performance through continued operational improvements and R&D programs.

Growth will be dependent on the Company²¹7;s success in bidding on major programs Flight School XXI (multi-year program potentially valued in excess of $885 million), the Canadian CF-¹8 Advanced Distributed Combat Training System ($²00 million), UK Armoured Vehicles Training Services (AVTS) program ($¹.5 billion over 30 years) and involvement with the NH90 helicopter program in Europe.

In addition to these major programs, Military will continue to expand its training services business, as evidenced by its signature of a $70 million, ¹0-year agreement to provide flight training support services for all three armed services of the Australian Defence Force and to capitalize on the increase in defence and security spending, particularly in the US.

Marine Controls

CAE²¹7;s Marine Controls business segment is a world leader in the supply of automation and controls systems for the naval and commercial market having been selected for the provision of controls for more than ¹30 warships in ¹8 navies. The system monitors and controls the propulsion, electrical steering, ancillary, auxiliary and damage control machinery and systems. The business has moved beyond the supply of marine controls into the provision of naval training services through participation in the 30-year UK Royal Navy Astute Class Submarine Training Service program awarded in fiscal ²00². The business also designs and manufactures power plant training simulators.

Financial Results

(amounts in millions of dollars)		**²003**	**²00²**	**²00¹**	**²000**	**¹999**
Revenue	$	¹67.6	¹¹9.5	80.6	75.3	63.8
Operating earnings	$	3¹.8	²3.6	¹5.0	¹3.6	¹0.¹
Operating margins	%	¹9.0	¹9.7	¹8.6	¹8.¹	¹5.8
Backlog	$	6²8.5	676.4	¹3¹.4	¹70.9	78.0
Capital expenditures	$	¹9.8	¹8.8	¹.6	0.5	¹0.9

Fiscal ²003 was another year of significant growth with revenue reaching $¹67.6 million, a 40% improvement over last year. The growth resulted from the award of several significant naval contracts including both the control system and training program for the UK Astute Submarine and a solid contribution from the commercial business. Commensurate with the revenue growth, operating earnings climbed 35% to $3¹.8 million. Both the revenue and operating earnings of the Marine business have more than doubled in the last three years. Operating margins are down slightly due to the mix of contracts but additional productivity gains continue to be realized as the Company has expanded its operation in India to support its software development.

Backlog was $6²8.5 million as at March 3¹, ²003, as compared with $676.4 million at the end of fiscal ²00². Approximately 50% of the backlog is represented by the long-term training service contract for the Astute Submarine program.

Operational Highlights
One of the keys to the success of the business is the participation on multi-year ship programs, including additional ship orders resulting from the exercise of options, to increase production rates. Examples this year included CAE²¹6;s selection to provide control systems for an additional four new MEKO ¹00 patrol vessels for the Royal Malaysian Navy (contract value was $37 million which followed an initial contract for the first two ships of $²¹ million) and the selection earlier this year to provide a control system for a fourth KDX-II class destroyer for the South Korean Navy. Another benefit to being associated with a shipbuilding program is the opportunity to participate in upgrades. CAE was selected this year to provide display replacements and perform an obsolescence study to determine upgrade requirements under the Canadian Navy Life Extension program for the Canadian Patrol Frigates. CAE provided the control system for these Frigates almost ¹5 years ago.

The Marine business has also established long-term relationships with its customers, as well as shipbuilders. This led to a recent contract award to provide Integrated Monitoring and Control Systems for the German Navy²¹7;s new K¹30 Corvette program. This program award was shortly after the successful implementation of one of the world²¹7;s most advanced automation systems on the German Navy²¹7;s F-¹²4 Frigates. The contract value at $²3 million is for the first batch of five Corvettes in a planned total of ¹5 ships.

CAE also maintained its leading position in the supply of control systems for cruiseships, having been selected on all three new ship builds announced in the last ¹8 months. Since CAE²¹7;s entry into the commercial marine market in August ²00¹ with the acquisition of Valmarine, the business has been successful in strengthening its product offering through sharing of innovative technology. In addition, cross selling in the global markets has created new opportunities in the Naval markets leading to significant contracts with the Finnish, French and Hellenic navies. CAE²¹7;s power simulation group, representing about ¹0% of the Marine Controls business in fiscal ²003, has focused its efforts as well on the upgrade market. In recent months upgrade contracts were received from Southern California Edison and Romania. In addition, the business sold its first ever desktop trainer to Florida Power & Light.

Outlook
With its significant installed base, the long-term training contract for the UK Astute Submarine and the possibilities of further options to build additional ships on several of its programs, the Marine business is well positioned to continue its growth in both the Naval and Commercial markets. CAE is still waiting the final outcome with respect to the building of two 50,000-ton aircraft carriers for the UK Navy. CAE is partnered with the team led by Thales CVF. In January ²003 it was announced that the two competing teams (BAE Systems leads the other team) had formed an alliance for the delivery of the two ships using the Thales design. The impact of this decision on CAE is not yet clear.

Liquidity and Capital Resources
The Company²¹7;s financing needs are met through internally generated cash flow, available funds under credit facilities and direct access to capital markets for additional long-term capital resources. The Company considers that its present and expected capital resources and current credit facilities will enable it to meet all its current and expected financial requirements for the foreseeable future.

CAE maintains committed bank lines at floating rates, each provided by a syndicate of lenders. These credit facilities permit CAE and certain designated subsidiaries to borrow funds directly for operating and general corporate purposes. The total available amount is $87².8 million of which 5²% ($45¹.9 million) was utilized at the end of the year. This

amount includes $5¹.4 million owing under a revolving credit facility maturing in June ²003. The Company is in full compliance with all bank covenants at the end of the year and has the ability to draw under non-committed operating lines in various currencies for up to $89.0 million, of which $4¹.3 million was drawn as at March 3¹, ²003.

As at March 3¹, ²003, CAE had long-term debt totalling $8¹¹.4 million. This compares to long-term debt of $9²6.5 million in the prior year. At March 3¹, ²003, the short-term portion of the long-term debt was $¹3.4 million compared to $37.5 million last year. CAE accounts for its credit facility maturing in June ²003 as long-term debt, together with the other maturing credit facilities in fiscal ²007, as it has sufficient availability under these facilities to retire the outstanding borrowings maturing in June ²003.

CAE employs foreign exchange forward contracts to manage exposures created when sales are made in foreign currencies. The amount and timing of forward contracts varies based on a number of project related factors, including milestone billings and the use of foreign materials and/or subcontractors. As at March 3¹, ²003, CAE had $¹0².9 million Canadian equivalent in forward contracts. The total unrealized gain as of March 3¹, ²003, is $3.0 million. These would be equally offset by future losses of foreign denominated cash flows over the balance of the contracts.

CAE also uses financial instruments to manage its exposure to changing interest rates and to adjust its mix of fixed and floating interest rate debt. In order to benefit from a favourable interest rate environment the mix of fixed rate versus floating rate debt was 38%-6²% respectively as at March 3¹, ²003. CAE had interest rate swaps converting mostly floating rate long-term debt into fixed rate term debt totalling $¹²3.6 million, which if marked to market at that date would result in a loss of $¹0.3 million. CAE deals only with sound counterparties in executing any of its derivative financial instruments.

In the normal course of business, CAE issued letters of credit and performance guarantees for a total amount of $¹95.¹ million compared to $¹88.¹ million at the end of fiscal year ²00².

As at March 3¹, ²003, CAE had approximately US$¹33.9 million of accumulated non-capital tax losses carried forward that can be used to offset tax payable on future earnings from US operations. CAE also has accumulated non-capital tax losses carried forward relating to its operations in other countries of approximately $74.0 million.

Sale and Leaseback Transactions

A key element of CAE²¹7;s finance strategy to support the investment in its Civil training business is the sale and leaseback of certain of the FFS installed in the Company²¹7;s global network of training centres. This provides CAE with a cost-effective long-term source of fixed-cost financing. A sale and leaseback transaction can only be executed after the FFS has achieved certification by regulatory authorities (i.e. the FFS is installed and is available to customers for training). Prior to completing a sale and leaseback transaction, CAE records the cost to manufacture the FFS as a capital expenditure which is included as a fixed asset on the Company²¹7;s balance sheet. On the execution of a sale and leaseback transaction CAE records the transaction as a disposal of a fixed asset. The cash proceeds received on the disposal approximate the fair market value of the FFS. The difference between the proceeds received and CAE²¹7;s cost to manufacture, approximately the margin CAE would record if it had a competed FFS sale to a third party, is recorded under long-term liabilities and recognized into earnings as applicable. This amount, after deducting the guaranteed residual value where appropriate, is then amortized over the term of the sale and leaseback transaction as a reduction of rental expense. At the end of the term of the sale and leaseback transaction the guaranteed residual value will be taken into income should no reduction occur in the value of the underlying simulator.

The following is a summary of the existing sale and leaseback transactions for simulators currently in service in Civil²¹7;s training locations, accounted for as operating leases on the Company²¹7;s financial statements, completed as at March 3¹, ²003:

	Fiscal Year	Number of Sims	Lease Obligation	Initial Term (Years)	Imputed Interest Rate	Deferred Gain	Residual Value Guarantee
SimuFlite	2002/03	6	$ 93.4	12	5.6%	2.7	-
Toronto Training Centre	2002	2	58.9	21	6.4%	17.7	9.2
Air Canada Training Centre	2000	2	45.5	20	7.6%	15.7	8.3
Denver/Dallas Training Centres	2003	5	118.8	20	5.0%	34.4	-
Amsterdam Training Centre	2002	3	50.8	8	6.4%/9.8%	-	-
China Southern JV1	2003	5	57.3	15	3.0%	-	-
Others	-	4	36.4	10	3.4%2/7.3%	5.1	5.1
		27	$ 461.1			75.6	22.6
Annual Sale and Leaseback Lease Payments (FY04)		$ 40.6					

1 Joint venture in which CAE has a 49% participation level.
2 Floating Rate Basis.

Future minimum lease payments for such arrangements, amounting to approximately $461.1 million as at March 31, 2003, are included in note 19 221;Operating Lease Commitments221; to the consolidated financial statements.

Non-recourse Project Financing
During 1997, the Company arranged project financing for the Medium Support Helicopter (MSH) program it entered into with to the UK Ministry of Defence. The contract was awarded to a consortium, CAE Aircrew Training Plc (Aircrew). The capital value of the assets required to be supplied by Aircrew is in excess of $200 million. The entity that owns the assets operated by the training centre is CVS Leasing Ltd. (in which CAE has a 14% interest). CAE manufactured and sold the simulators to CVS Leasing Ltd., and CVS Leasing Ltd. then leased this equipment to Aircrew for the full term of the MSH contract. As Aircrew is majority-controlled by CAE, its financial statements are consolidated in the Company217;s results. Future minimum lease payments associated with the simulators leased to Aircrew amount to approximately $250 million as at March 31, 2003, and are included in the amount disclosed in note 19 220;Operating Lease Commitments221; to the consolidated financial statements.

Under the new accounting pronouncements regarding variable interest entities in the US and Canada there is no change to the accounting for this project financing.

Critical Accounting Policies
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of the contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated periodically and form the basis for making judgements regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results may differ from these estimates under different assumptions.

CAE217;s critical accounting policies are those that it believes are the most important in determining its financial condition and results, and require significant subjective judgement by management. A summary of the Company217;s significant accounting policies, including the critical accounting policies discussed below, is set out in the notes to the consolidated financial statements.

Revenue Recognition
CAE generates a significant portion of its revenue from long-term contracts in all of its three business segments. With the focus of the business on training, the number and amount of long-term contracts is down considerably from the prior year. The payment terms under CAE217;s Civil equipment FFS contracts are spread over the build cycle of 14 to 16 months. The cost of a FFS is very predictable particularly for repeat or common simulator types such as an A320 or B737. No revenue is recorded for FFSs built for CAE217;s own training centres. The cost is reflected as a capital expenditure. Revenue derived from training is recorded when the training event occurs.

For Military, full flight mission simulators are more complex and the time to design and manufacture is at least two years. There are fewer repeat orders and the level of non-recurring cost in each simulator could be significant, making the predictability of total costs more difficult when compared to a Civil FFS.

Marine contracts are also longer term in nature, usually multi-year, as the majority of the contracts are for real-time control systems requiring installation during the shipbuilding period. Most naval contracts involve supply of control systems for multiple ships of the same design with non-recurring effort for software engineering for first of class ship. The repeat ships are largely hardware with little software.

Revenue from long-term contracts is recognized using the percentage-ofcompletion method, where revenue, earnings and unbilled accounts receivable are recorded as related costs are incurred, on the basis of percentage costs incurred to date on a contract, relative to the estimated total costs. Significant judgement is involved in estimating the total costs to complete a project. Revisions in cost and earnings estimates during the term of the contract are reflected in the period in which the need for revision becomes known. Losses, if any, are recognized fully when first anticipated. Generally, the terms of long-term contracts provide for progress billing based on completion of certain phases of work. Warranty provisions are recorded at the time revenue is recognized, based on past experience.

Credit risk also exists but is considered minimal because CAE²¹7;s customers are primarily established companies with publicly available credit ratings, or government agencies. Before accepting an order, CAE makes a credit evaluation in order to properly assess the credit risk. When CAE identifies a collection risk, a provision for doubtful accounts is recorded.

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

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

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

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

New Accounting Standards
During the period covered by its financial statements, CAE implemented certain changes to its accounting policies in order to conform to CICA accounting standards.

Business Combinations, Goodwill and Other Intangible Assets
On April ¹, ²00¹, the Company adopted the new recommendations of the CICA Section ¹58¹, Business Combinations and Section 306², Goodwill and Other Intangible Assets. Accordingly, all business acquisitions performed during the fiscal year were accounted for using the purchase method. In addition, CAE ceased amortizing goodwill from April ¹, ²00¹, as it adopted the goodwill impairment model introduced by the new accounting rules. Goodwill amortization amounted to $5.¹ million for the year ended March 3¹, ²00¹. In addition, no write-down of goodwill arose from the application of the impairment model upon adoption of these new recommendations.

Foreign Currency Translation
Effective April ¹, ²00², the Company adopted retroactively the new recommendations of the CICA Section ¹650, Foreign Currency Translation. Under the provisions of Section ¹650 the Company no longer amortizes the exchange gains or losses arising on the translation of long-term foreign currency debt. Exchange gains or losses arising on translation are included in earnings as incurred. At March 3¹, ²00², the unamortized exchange loss relating to the existing long-term foreign currency denominated items amounted to $6.4 million net of income taxes of $².8 million. Consequently, prior years²17; financial statements have been restated through a charge to fiscal ²00² opening retained earnings of $5.3 million, net of taxes of $².3 million (²00¹ - $3.3 million, net of taxes of $¹.3 million).

Stock-Based Compensation
Effective April ¹, ²00², CAE adopted the new recommendations of CICA Section 3870, Stock-based Compensation and Other Stock-based Payments. The standard encourages but does not require that the fair value method of valuing stock options be used for transactions with employees. The Company has not changed the method previously used to account for stock options granted to employees, but is providing the required pro forma disclosures on the impact of the fair value method, which produces estimated compensation charges. For the fiscal year beginning on April ¹, ²003, the Company will commence expensing its stock-based compensation using the fair value method.

Disclosure of Guarantees
As at March 3¹, ²003, the Company has adopted the CICA Accounting Guideline, Disclosure of Guarantees, which requires that each guarantor disclose information about each guarantee even when the likelihood of the guarantor having to make payment under the guarantee is slight.

Business Risks and Uncertainties
CAE operates in different industry segments that involve various risk factors and uncertainties, which are carefully considered in the Company²17;s management policies.

CAE²17;s success in civil aviation, military and marine markets depends fundamentally on the reliability of its products, the quality of its services and its ability to adapt, in a timely manner, to changing customer needs and industry standards. The Company operates in different industry segments and global markets that involve various risk factors and uncertainties, including worldwide economic and political trends and developments.

CAE operates in the civil simulation equipment and training services markets, both of which are heavily dependent on demand for air transportation and the financial condition of commercial airlines. The recent trend of major airline bankruptcies in Europe, the US, Canada and other CAE markets poses risks to CAE as an customers. Demand for simulation equipment tends to follow the trend established in the commercial airline industry, particularly the delivery of new aircraft. The utilization of CAE²17;s installed base of simulators in its training network depends on the extent to which simulated aircraft types match the configuration of in-use aircraft.

CAE must comply with rules imposed by regulatory authorities that may change without notice, resulting in potential disruptions to sales and operations. The sale or license of virtually all of CAE²17;s products is subject to various regulatory controls that change with some frequency.

CAE²17;s Military and Marine businesses depend heavily on government programs and contracts that ultimately reflect

the level of government expenditures directed towards national defence budgets (particularly capital equipment programs), the priority of various programs within defence budgets and in certain instances, the maintenance of government programs supporting research and development. Programs may be only partially funded pending future appropriations and may contain provisions permitting termination at the government²17;s convenience, in whole or in part, without prior notice, upon payment of limited compensation. Government-funded military programs are also heavily regulated, with certain government purchasing regulations limiting the range of reimbursable costs in fixed-price contracts, including most financing costs and the amortization of various intangible assets.

CAE operates in intensely competitive markets. Some of its competitors, particularly in military markets, possess substantially greater resources, well-established relationships with various procuring organizations and a greater in-country presence that may give them an advantage in winning contracts.

CAE²17;s often lengthy and unpredictable sales cycle could result in volatility in our operating results. The Company must invest significant amounts of time and resources educating and informing potential customers about the benefits of products and services (particularly government agencies with lengthy internal budgeting approval and competitive evaluation processes), with no guarantee of compensatory revenue.

CAE²17;s business could be harmed if its products do not successfully integrate or operate with other sophisticated and continually evolving software, computing and communications systems. If CAE experiences difficulties or does not meet project milestones in a timely manner, the Company could be obligated to devote more engineering and other resources to a particular project than originally anticipated. While CAE believes it has recorded adequate provisions for losses on fixed-price contracts, obligations under fixed-price and long-term supply contracts could subject the Company to contract losses in excess of provisions.

CAE²17;s ability to complete contracted sales included in its order backlog is dependent on the long-term financial condition of the contracting customers. In addition, approximately 70% of the backlog is comprised of long-term military contracts that may be terminated unilaterally by the contracting government agency.

CAE²17;s ability to protect its intellectual property is limited; and unauthorized parties may be able to use CAE²17;s technology or products in ways that weaken CAE²17;s competitive position. Reliance on the intellectual property of others, including data concerning the functions, design and performance characteristics of a product or system in the process of being simulated, could prevent or delay performance. Future litigation related to the defence of CAE²17;s intellectual property rights or involving infringement claims brought against CAE or a customer could be lengthy and costly, with no assurance of success.

CAE is subject to the risks of doing business in foreign countries, including: changes to laws and regulations in host countries; the cost and complexity of using foreign representatives and consultants; the imposition of tariffs, embargoes, controls and other restrictions impeding the free flow of goods, information and capital; the difficulties of managing and operating an enterprise and complying with laws in multiple jurisdictions; and general changes in economic and geopolitical conditions. Fluctuations in the value of the Canadian dollar relative to foreign currencies could result in currency exchange gains and losses. Current hedging activities may not be successful.

Covenants in CAE²17;s debt agreements as well as the level of debt could restrict CAE²17;s ability to finance its future operations or capital needs or to engage in other business activities that may be of interest. In addition, an inability to meet financial covenants regarding compliance with specified ratios and tests could cause the repayment of debt to be accelerated.

CAE may be subject to significant liabilities imposed by new environmental laws and regulations or contractual indemnities; product liability and warranty claims; or liabilities arising out of accidents or disasters involving aircraft, marine vessels or power plants for which CAE has provided training products or services or control systems. CAE cannot be certain that existing insurance coverage will be sufficient to cover one or more substantial claims.

Some of CAE²17;s ¹3 collective bargaining agreements are subject to renewal in fiscal ²004. Unsuccessful negotiations could result in work stoppages and other labour disturbances that could have a material adverse effect on the business.

CAE²17;s continued success will depend in part on the ability to retain and attract key personnel with the relevant skills, expertise and experience. The Company applies a compensation policy designed to mitigate this risk.

Exhibit 3

Consent of Pricewaterhouse Coopers LLP

[Pricewaterhouse Coopers LLP Logo]

PricewaterhouseCoopers LLP
Chartered Accountants
1250 Ren´¯L´vesque Boulevard West
Suite 2800
Montreal, Quebec
Canada H3B 2G4
Telephone +1 (514) 205 5000
Facsimile +1 (514) 876 1502

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the inclusion in the 2003 Annual Report on Form 40¯F of CAE Inc. and the incorporation by reference in the Registration Statement on Form S¯8 (No. 333¯97185) of CAE Inc. of our Auditors' Report dated May 6, 2003 and our Comments by Auditor for U.S. Readers on Canada¯U.S. Reporting Difference dated May 6, 2003 relating to the consolidated financial statements of CAE Inc. which appear in such Annual Report.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants
Montreal, Quebec
August 7, 2003

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

Exhibit 4

Certification Pursuant to Section 302 of the US Sarbanes Oxley Act of 2002

I, D.H. Burney, principal executive officer of CAE Inc., certify that:

1. I have reviewed this annual report on Form 40-F of CAE Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: August 7, 2003

/s/ D.H. Burney
Name: D.H. Burney
Title: President and Chief Executive Officer

Certification Pursuant to Section 302 of the US Sarbanes Oxley Act of 2002

I, Paul G. Renaud, principal financial officer of CAE Inc., certify that:

1. I have reviewed this annual report on Form 40-F of CAE Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: August 7, 2003

/s/ Paul G. Renaud

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

Exhibit 5

Certification Pursuant to Section 906 of the U.S. Sarbanes¯Oxley Act of 2002

CAE Inc. (the "Company") is filing with the U.S. Securities and Exchange Commission on the date hereof, its annual report on Form 40¯F for the fiscal year ended March 31, 2003 (the "Report").

I, D.H. Burney, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes¯Oxley Act of 2002, that:

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to CAE Inc. and will be retained by CAE Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ D.H. Burney
D.H. Burney
President and Chief Executive Officer
August 7, 2003

Certification Pursuant to Section 906 of the U.S. Sarbanes¯Oxley Act of 2002

CAE Inc. (the "Company") is filing with the U.S. Securities and Exchange Commission on the date hereof, its annual report on Form 40¯F for the fiscal year ended March 31, 2003 (the "Report").

I, Paul G. Renaud, Executive Vice President, Chief Financial Officer and Secretary of the Company, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes¯Oxley Act of 2002, that:

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to CAE Inc. and will be retained by CAE Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Paul G. Renaud
Paul G. Renaud
Executive Vice President,
Chief Financial Officer and Secretary
August 7, 2003