

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING	70
INDEPENDENT AUDITORS' REPORT	70
CONSOLIDATED FINANCIAL STATEMENTS	72
Consolidated Balance Sheets	72
Consolidated Statements of Earnings	73
Consolidated Statements of Changes in Shareholders' Equity	73
Consolidated Statements of Comprehensive Income	75
Consolidated Statement of Accumulated Other Comprehensive Loss	75
Consolidated Statements of Cash Flows	76
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	77
Note 1 Nature of Operations and Significant Accounting Policies	77
Note 2 Changes in Accounting Policies	85
Note 3 Business Acquisitions and Combinations	87
Note 4 Investments in Joint Ventures	88
Note 5 Discontinued Operations	89
Note 6 Accounts Receivable	90
Note 7 Inventories	90
Note 8 Property, Plant and Equipment	91
Note 9 Intangible Assets	91
Note 10 Goodwill	92
Note 11 Other Assets	92
Note 12 Debt Facilities	93
Note 13 Deferred Gains and Other Long-Term Liabilities	95
Note 14 Income Taxes	96
Note 15 Capital Stock	97
Note 16 Stock-Based Compensation Plans	98
Note 17 Capital Management	100
Note 18 Financial Instruments and Financial Risk Management	101
Note 19 Supplementary Cash Flows and Earnings Information	109
Note 20 Contingencies	109
Note 21 Commitments	110
Note 22 Government Cost-Sharing	110
Note 23 Employee Future Benefits	111
Note 24 Variable Interest Entities	115
Note 25 Operating Segments and Geographic Information	116
Note 26 Differences Between Canadian and United States Generally Accepted Accounting Principles	118
Note 27 Comparative Financial Statements	126
Note 28 Subsequent Events	126



Management's Report on Internal Control Over Financial Reporting

Management of CAE is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f), 15d-15(f) under the Securities and Exchange Act of 1934). CAE's internal control over financial reporting is a process designed under the supervision of CAE's President and Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with Canadian generally accepted accounting principles.

As of March 31, 2009, management conducted an assessment of the effectiveness of the Company's internal control over the financial reporting based on the framework and criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting as of March 31, 2009 was effective.



R. E. Brown
President and Chief Executive Officer



A. Raquepas
Vice-president Chief Financial Officer

Montreal (Canada)
May 14, 2009

Independent Auditor's Report

To the Shareholders of CAE Inc.

We have completed integrated audits of the consolidated financial statements and internal control over financial reporting of CAE Inc. (the "Company") as at March 31, 2009, 2008 and 2007. Our opinions, based on our audits, are presented below.

Consolidated financial statements

We have audited the accompanying consolidated balance sheets of the Company as at March 31, 2009 and 2008, and the related consolidated statements of earnings, changes in shareholders' equity, comprehensive income, accumulated other comprehensive loss and cash flows for each of the three years in the period ended March 31, 2009. These consolidated 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 of the Company's financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2009 in accordance with Canadian generally accepted accounting principles.

Internal control over financial reporting

We have also audited the Company's internal control over financial reporting as at March 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at March 31, 2009 based on criteria established in *Internal Control — Integrated Framework* issued by the COSO.

*PricewaterhouseCoopers LLP*¹

May 14, 2009
Montréal, Quebec, Canada

¹ Chartered accountant auditor permit No.12300

Consolidated Balance Sheets

As at March 31

(amounts in millions of Canadian dollars)

	2009	2008
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 195.2	\$ 255.7
Accounts receivable (Note 6)	322.4	255.0
Inventories (Note 7)	334.2	229.9
Prepaid expenses	31.3	32.7
Income taxes recoverable	11.5	39.0
Future income taxes (Note 14)	5.3	14.1
	\$ 899.9	\$ 826.4
Property, plant and equipment, net (Note 8)	1,302.4	1,046.8
Future income taxes (Note 14)	86.0	64.3
Intangible assets (Note 9)	77.1	62.0
Goodwill (Note 10)	159.1	115.5
Other assets (Note 11)	151.6	138.2
	\$ 2,676.1	\$ 2,253.2
Liabilities and shareholders' equity		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	\$ 540.4	\$ 482.7
Deposits on contracts	203.8	209.3
Current portion of long-term debt (Note 12)	125.6	27.3
Future income taxes (Note 14)	20.9	16.8
	\$ 890.7	\$ 736.1
Long-term debt (Note 12)	354.7	352.5
Deferred gains and other long-term liabilities (Note 13)	185.6	184.9
Future income taxes (Note 14)	40.0	31.2
	\$ 1,471.0	\$ 1,304.7
Shareholders' equity		
Capital stock (Note 15)	\$ 430.2	\$ 418.9
Contributed surplus	10.1	8.3
Retained earnings	813.3	644.5
Accumulated other comprehensive loss	(48.5)	(123.2)
	\$ 1,205.1	\$ 948.5
	\$ 2,676.1	\$ 2,253.2

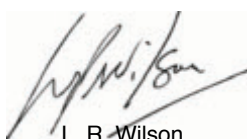
Contingencies and commitments (Notes 20 and 21)

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

Approved by the Board:



Robert E. Brown
Director



L. R. Wilson
Director

Consolidated Statements of Earnings

Years ended March 31

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

	2009	2008	2007
Revenue	\$ 1,662.2	\$ 1,423.6	\$ 1,250.7
Earnings before interest and income taxes (Note 25)	\$ 303.6	\$ 251.5	\$ 189.4
Interest expense, net (Note 12)	20.2	17.5	10.6
Earnings before income taxes	\$ 283.4	\$ 234.0	\$ 178.8
Income tax expense (Note 14)	82.9	69.2	49.7
Earnings from continuing operations	\$ 200.5	\$ 164.8	\$ 129.1
Results of discontinued operations (Note 5)	(1.1)	(12.1)	(1.7)
Net earnings	\$ 199.4	\$ 152.7	\$ 127.4
Basic and diluted earnings per share from continuing operations	\$ 0.79	\$ 0.65	\$ 0.51
Basic earnings per share	\$ 0.78	\$ 0.60	\$ 0.51
Diluted earnings per share	\$ 0.78	\$ 0.60	\$ 0.50
Weighted average number of shares outstanding (basic) (Note 15)	254.8	253.4	251.1
Weighted average number of shares outstanding (diluted) (Note 15)	255.0	254.6	253.0

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

Consolidated Statements of Changes in Shareholders' Equity

Year ended March 31, 2009

(amounts in millions of Canadian dollars, except number of shares)

	Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, beginning of year	253,969,836	\$ 418.9	\$ 8.3	\$ 644.5	\$ (123.2)	\$ 948.5
Stock options exercised	1,077,200	9.3	–	–	–	9.3
Transfer upon exercise of stock options	–	1.0	(1.0)	–	–	–
Stock dividends	99,407	1.0	–	(1.0)	–	–
Stock-based compensation (Note 16)	–	–	2.8	–	–	2.8
Net earnings	–	–	–	199.4	–	199.4
Dividends	–	–	–	(29.6)	–	(29.6)
Other comprehensive income	–	–	–	–	74.7	74.7
Balances, end of year	255,146,443	\$ 430.2	\$ 10.1	\$ 813.3	\$ (48.5)	\$ 1,205.1

The total of *Retained earnings* and *Accumulated other comprehensive loss* for the year ended March 31, 2009 was \$764.8 million (2008 – \$521.3 million; 2007 – \$422.5 million).

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

Year ended March 31, 2008

(amounts in millions of Canadian dollars, except number of shares)

	Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances,						
beginning of year	251,960,449	\$ 401.7	\$ 5.7	\$ 510.2	\$ (87.7)	\$ 829.9
Shares issued	169,851	0.8	—	—	—	0.8
Stock options exercised	1,814,095	13.9	—	—	—	13.9
Transfer upon exercise of						
stock options	—	2.2	(2.2)	—	—	—
Stock dividends	25,441	0.3	—	(0.3)	—	—
Stock-based						
compensation (Note 16)	—	—	4.8	—	—	4.8
Cumulative effect of						
implementing						
accounting standards						
(Note 2)	—	—	—	(8.3)	(3.5)	(11.8)
Net earnings	—	—	—	152.7	—	152.7
Dividends	—	—	—	(9.8)	—	(9.8)
Other comprehensive loss	—	—	—	—	(32.0)	(32.0)
Balances,						
end of year	253,969,836	\$ 418.9	\$ 8.3	\$ 644.5	\$ (123.2)	\$ 948.5

Year ended March 31, 2007

(amounts in millions of Canadian dollars, except number of shares)

	Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances,						
beginning of year	250,702,430	\$ 389.0	\$ 5.6	\$ 392.8	\$ (115.2)	\$ 672.2
Stock options exercised	1,236,895	10.0	—	—	—	10.0
Transfer upon exercise of						
stock options	—	2.5	(2.5)	—	—	—
Stock dividends	21,124	0.2	—	(0.2)	—	—
Stock-based						
compensation (Note 16)	—	—	2.6	—	—	2.6
Net earnings	—	—	—	127.4	—	127.4
Dividends	—	—	—	(9.8)	—	(9.8)
Other comprehensive						
income	—	—	—	—	27.5	27.5
Balances,						
end of year	251,960,449	\$ 401.7	\$ 5.7	\$ 510.2	\$ (87.7)	\$ 829.9

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

Consolidated Statements of Comprehensive Income

Years ended March 31

(amounts in millions of Canadian dollars)

	2009	2008	2007
Net earnings	\$ 199.4	\$ 152.7	\$ 127.4
Other comprehensive income (loss), net of income taxes:			
Foreign currency translation adjustment			
Net foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	\$ 113.3	\$ (50.2)	\$ 26.1
Net change in (losses) gains on certain long-term debt denominated in foreign currency and designated as hedges on net investments of self-sustaining foreign operations	(7.7)	15.7	1.5
Reclassifications to income	(1.9)	–	–
Income tax adjustment	(1.3)	(0.6)	(0.1)
	\$ 102.4	\$ (35.1)	\$ 27.5
Net changes in cash flow hedge			
Net change in (losses) gains on derivative items designated as hedges of cash flows	\$ (48.8)	\$ 29.7	\$ –
Reclassifications to income or to the related non-financial assets or liabilities	10.4	(25.2)	–
Income tax adjustment	10.7	(1.4)	–
	\$ (27.7)	\$ 3.1	\$ –
Total other comprehensive income (loss)	\$ 74.7	\$ (32.0)	\$ 27.5
Comprehensive income	\$ 274.1	\$ 120.7	\$ 154.9

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

Consolidated Statement of Accumulated Other Comprehensive Loss

<i>As at and for the year ended March 31, 2009</i> (amounts in millions of Canadian dollars)	Foreign Currency Translation Adjustment	Cash Flow Hedge	Accumulated Other Comprehensive Loss
Balance in accumulated other comprehensive loss at beginning of year	\$ (122.8)	\$ (0.4)	\$ (123.2)
Details of other comprehensive loss:			
Net change in gains (losses)	105.6	(48.8)	56.8
Reclassifications to income or to the related non-financial assets or liabilities	(1.9)	10.4	8.5
Income tax adjustment	(1.3)	10.7	9.4
Total other comprehensive income for the year	\$ 102.4	\$ (27.7)	\$ 74.7
Balance in accumulated other comprehensive loss at end of year	\$ (20.4)	\$ (28.1)	\$ (48.5)

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

Consolidated Statements of Cash Flows

Years ended March 31

(amounts in millions of Canadian dollars)

	2009	2008	2007
Operating activities			
Net earnings	\$ 199.4	\$ 152.7	\$ 127.4
Results of discontinued operations (Note 5)	1.1	12.1	1.7
Earnings from continuing operations	\$ 200.5	\$ 164.8	\$ 129.1
Adjustments to reconcile earnings to cash flows from operating activities:			
Depreciation	71.3	60.6	55.0
Financing cost amortization	0.8	0.8	0.8
Amortization and write down of intangible and other assets	19.7	16.9	15.8
Future income taxes (Note 14)	8.0	26.4	(14.2)
Investment tax credits	19.9	15.4	19.3
Stock-based compensation plans (Note 16)	(11.5)	(0.8)	24.6
Employee future benefits, net (Note 23)	0.4	0.1	(0.9)
Amortization of other long-term liabilities	(9.6)	(6.8)	(7.8)
Other	(9.4)	(0.8)	(2.6)
Changes in non-cash working capital (Note 19)	(94.6)	(15.7)	20.2
Net cash provided by operating activities	\$ 195.5	\$ 260.9	\$ 239.3
Investing activities			
Business acquisitions (net of cash and cash equivalents acquired) (Note 3)	\$ (41.5)	\$ (41.8)	\$ (4.4)
Proceeds from the disposal of discontinued operations (net of cash and cash equivalents disposed) (Note 5)	–	–	(3.8)
Capital expenditures	(203.7)	(189.5)	(158.1)
Deferred development costs	(10.5)	(16.5)	(3.0)
Deferred pre-operating costs	(1.8)	(3.9)	(5.9)
Other	(5.0)	(5.5)	(2.9)
Net cash used in investing activities	\$ (262.5)	\$ (257.2)	\$ (178.1)
Financing activities			
Net borrowing under revolving unsecured credit facilities (Note 12)	\$ –	\$ –	\$ (0.6)
Proceeds from long-term debt, net of transaction costs and debt basis adjustment (Note 12)	50.3	141.1	45.8
Repayment of long-term debt (Note 12)	(27.8)	(37.4)	(39.8)
Dividends paid	(29.6)	(9.8)	(9.8)
Common stock issuance (Note 15)	9.3	13.9	10.0
Other	(13.4)	(5.9)	(2.1)
Net cash (used in) provided by financing activities	\$ (11.2)	\$ 101.9	\$ 3.5
Effect of foreign exchange rate changes on cash and cash equivalents	\$ 17.7	\$ (0.1)	\$ 4.4
Net (decrease) increase in cash and cash equivalents	\$ (60.5)	\$ 105.5	\$ 69.1
Cash and cash equivalents at beginning of year	255.7	150.2	81.1
Cash and cash equivalents at end of year	\$ 195.2	\$ 255.7	\$ 150.2

Supplementary Cash Flows Information (Note 19)

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