2009

ANNUAL INFORMATION FORM

(Fiscal Year Ending March 31, 2009)

CORPORATE OFFICE

8585 Chemin Côte-de-Liesse

Saint-Laurent, Québec

Canada H4T 1G6

June 17, 2009

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INFORMATION INCORPORATED BY REFERENCE

CAE's Management's Discussion and Analysis and our Consolidated Financial Statements for the year ended March 31, 2009, and the notes thereto ("Consolidated Financial Statements") appear in the Annual Report to Shareholders for the year ended March 31, 2009 ("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 26 to the Consolidated Financial Statements. The information contained in the Management's Discussion and Analysis and the Consolidated Financial Statements for the year ended March 31, 2009, and the notes thereto is specifically incorporated by reference into this Annual Information Form ("AIF"). Any parts of the Annual Report not specifically incorporated by reference do not form part of this AIF.

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

References to fiscal 2009 refer to the period from April 1, 2008 to March 31, 2009, references to fiscal 2008 refer to the period from April 1, 2007 to March 31, 2008, and references to fiscal 2007 refer to the period from April 1, 2006 to March 31, 2007.

This AIF contains forward-looking statements with respect to CAE and our subsidiaries based on assumptions which CAE considered reasonable at the time they were prepared and may include information concerning CAE's markets, future financial performance, business strategy, plans, goals and objectives. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ sometimes materially from those contemplated by the forward-looking statements. Statements preceded by the word "believe", "expect", "anticipate", "intend", "continue", "estimate", "may", "will", "should" and/or similar expressions are forward-looking statements. CAE cautions the reader that the assumptions regarding future events, many of which are beyond the control of CAE, may affect the extent to which a particular projection materializes and/or could ultimately prove to be incorrect; accordingly, readers are cautioned not to place undue reliance on these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations are discussed in the section "Risk Factors" herein. CAE disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law or regulation. In particular, forward-looking statements do not reflect the potential impact of any merger, acquisition or other business combinations or divestitures that may be announced or completed after such statements are made.

1. CORPORATE STRUCTURE OF CAE

1.1 Name, Address and Incorporation

On March 17, 1947 CAE Inc. ("Company" or "CAE") was incorporated as Canadian Aviation Electronics Ltd. under the laws of Canada by letters patent. In 1965, the name of the Company was changed to CAE Industries Ltd. and in 1993 the Company changed its name to CAE Inc.

CAE was continued in 1977 under the *Canada Business Corporations Act* ("CBCA"). In 1979, CAE's articles were amended to change its authorized share capital to an unlimited number of

common shares, and again in 1981 to authorize an unlimited number of preferred shares, issuable in series, with such rights, privileges, restrictions and conditions as the Directors of CAE may determine.

On June 9, 1995, CAE'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 amalgamated with CAE Electronics Ltd., our wholly-owned subsidiary.

CAE's registered office is located at 8585 Côte-de-Liesse, Saint-Laurent, Québec**,** Canada H4T 1G6, telephone: (514) 341-6780, fax: (514) 340-5530.

1.2 Inter-corporate Relationships

The direct and indirect subsidiaries and other ownership interests of CAE are set out in Schedule A hereto.

2. OVERVIEW OF CAE AND THE DEVELOPMENT OF ITS BUSINESS

2.1 Overview

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, CAE had started to pursue new areas of opportunity in the design, development and manufacture of flight, radar and weapons simulators for Canadian defence requirements. A few years later, CAE began our commercial flight simulation activities.

Today we design, develop, manufacture and supply simulation tools and equipment and provides a wide range of training and other modelling and simulation-based services. This includes integrated modelling, simulation and training solutions for commercial airlines, business aircraft operators, aircraft manufacturers and military organizations. We also operate a global network of training centres serving pilots, and in some instances, cabin crew and maintenance staff.

Our main products are full-flight simulators ("FFSs"), which replicate aircraft performance in a full array of situations and environmental conditions. Sophisticated visual systems simulate hundreds of airports around the world, as well as a wide range of landing areas and flying environments. These work with motion and sound to create a realistic training environment for pilots and crews at all levels.

CAE has built an excellent reputation and long-standing customer relationships based on more than 60 years of experience, strong technical capabilities, a highly trained workforce and global reach. CAE employs more than 6,500 people at more than 75 sites and training locations in 20 countries. Over 90% of CAE's annual revenues come from worldwide exports and international activities.

Today CAE is a world leader in providing integrated training services, products and simulation and modelling technologies to the civil aviation industry and defence forces around the world. We provide a full array of training and services to all segments of aviation, and design, manufacture, supply and market simulation equipment. In our expanding global network of training centres we provide ground and flight training for pilots, aircraft maintenance technicians

and cabin crew members who work for major commercial airlines, business aircraft operators, aircraft manufacturers and military organizations.

Our integrated training solutions are built to enhance the safety and efficiency of operations. Using the most advanced flight training technology and innovative training methodologies, these solutions are designed to create a learning environment that is practical and operationally-oriented for pilots, aircraft maintenance technicians and cabin crews of all levels.

We also offer a range of commercial-off-the-shelf ("COTS") software through Presagis, a subsidiary that provides advanced COTS solutions for simulation, modelling and embedded applications. CAE Professional Services delivers strategic guidance and technical expertise to clients using simulation-based tools to address analysis, training and operational decision-making. CAE Flightscape offers software tools and flight safety expertise in flight data analysis and flight sciences to enable the effective study and understanding of recorded flight data to improve safety, maintenance and flight operations.

CAE has delivered simulation products and provided training services to nearly 50 military operators in approximately 35 countries. CAE is the world's leading supplier of civil flight simulators in the competed market with an approximately 70% market share and is the second largest independent provider of civil aviation training services based on the number of simulators in operations.

2.2 Geographic and Segment Revenues and Locations

CAE's consolidated revenue from continuing operations in fiscal 2008 and 2009 was $1.424 billion and $1.662 billion, respectively, and is broken down as follows:

Revenue by Product Line (%)

	2009	**2008**
SP/C	29	30
TS/C	28	27
SP/M	29	27
TS/M	14	16
	100	**100**

Geographic Distribution of Revenue

	2009	**2008**
US	34	33
Germany	12	11
Other European countries	11	10
UK	7	7
Other Asian countries	7	6
Canada	6	7
The Netherlands	5	6
Australia	5	6
China	5	5
United Arab Emirates	4	4
Other countries	4	4
	100	**100**

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

Location	***SP/C***	***SP/M***	***TS/C***	***TS/M***
Canada				
Montreal, Québec	✓	✓	✓	✓

Location	*SP/C*	*SP/M*	*TS/C*	*TS/M*
Toronto, Ontario			✓	
Ottawa, Ontario			✓	✓
Halifax, Nova Scotia				✓
Vancouver, British Columbia				✓
Europe				
Amsterdam, The Netherlands			✓	
Brussels, Belgium			✓	
Burgess Hill, United Kingdom		✓	✓	✓
RAF base, Oxfordshire, United Kingdom				✓
Evora, Portugal			✓	
Madrid, Spain			✓	
Stolberg, Germany		✓		✓
United States				
Denver, Colorado			✓	
Dallas, Texas			✓	
Fort Worth, Texas			✓	
Richardson, Texas		✓		
Tampa, Florida		✓		✓
Other				
Bangalore, India	✓	✓	✓	
Rae Bareli, India			✓	
Gondia, India			✓	
Dubai, United Arab Emirates			✓	
Melbourne, Australia				✓
Sydney, Australia		✓		✓
Sao Paolo, Brazil			✓	
Santiago, Chile			✓	
Zhuhai, China			✓	

2.3 Fiscal 2010 Reorganization and other developments

In a reorganization of management responsibilities announced in May 2009, civil simulation equipment and training and services were brought under the newly named Civil Simulation Products, Training and Services ("CPT&S") group led by Jeff Roberts, Group President. Similarly, the Military Simulation Products, Training and Services ("MPT&S") group reports to Martin Gagné, Group President. The most important priorities of our CPT&S and MPT&S groups are customer satisfaction, financial performance, lowering manufacturing costs, shortening manufacturing cycle times, and developing efficient and innovative technologies that further improve our simulation products and help CAE maintain our simulation leadership in

both civil and military markets.

On May 14, 2009, we introduced actions required to right-size CAE to current and expected market conditions, which will result in an approximate 10% employee reduction. This will be carried out in two phases: approximately half in the first quarter of FY2010 and the balance later this year. Most of the employees affected are based in Montreal where we produce our civil simulators, the rest are based in our other locations around the world. We estimate a restructuring expense of approximately $34 million for both phases to be recorded in the first quarter of fiscal year 2010.

In addition, CAE has an Innovations group which explores different opportunities to build on our key strengths and tap new, emerging and adjacent markets to invest in. This group is focused on leveraging our core competencies in areas such as aviation services and transportation and more specifically the application of simulation technology and expertise within the healthcare and other industries. In fiscal 2009 CAE signed contracts and alliances in simulation-based healthcare training. These contracts are with the Michener Institute for Applied Healthcare Sciences, Université de Montréal and the Winnipeg Regional Health Authority, and have an initial total value of approximately $5 million.

2.4 CAE's vision

Our vision is for CAE to be synonymous with safety, readiness and efficiency. We intend to be the partner of choice for industries operating in complex and mission-critical environments, by providing the most innovative modelling and simulation-based product and service solutions to reduce risk, lower costs and help solve challenging problems. We aspire to be the most geographically diverse, most customer-focused and most dependable company of our kind.

2.5 Our strategy and value proposition

Our strategy

We are a world-leading provider of modelling and simulation-based training and decision support solutions. We currently serve customers in two primary markets: civil aerospace and defence. We have begun to extend our capabilities into new vertical markets such as the healthcare industry and public safety and security.

A key tenet of our strategy in our core civil aerospace and defence markets is to derive an increasing proportion of our business from the existing fleet. This would include providing solutions for customers in support of the global fleet of civilian and military aircraft. Historically, the primary driver of our business was the delivery of new aircraft. Over the past few years, we have engaged in a strategy to diversify our revenue base away from the volatility of new commercial aircraft deliveries. Today, approximately 30% of our revenue is dependent on this market driver, and the balance from more stable and recurring sources like training and services as well as military simulation products and services.

In addition to diversifying our interests between customer markets, our strategy has also involved more balance between products, which tend to be more short-term and cyclical and services, which tend to be more long term and stable. As well, we continue to diversify our interests globally. This is intended to bring our solutions closer to our customers' home bases,

which we think is a distinct competitive advantage. This also allows us to be less dependent on any one market and since business conditions are rarely identical in all regions of the world, we believe this provides a degree of stability to our performance. We are investing in both the mature and emerging markets to capitalize on current and future growth opportunities. Approximately one third of our revenue comes from the U.S., one third from Europe and one third from the rest of the world. We consider our conservative capital structure to be a priority and we are careful in the way we commit our balance sheet. We continue to execute our growth strategy by prudently and purposefully investing to meet the long-term needs of our aerospace and defence customers.

Value proposition

The value we provide customers is the ability to enhance the safety of their operations, improve their mission readiness for potentially dangerous situations and lower their costs by helping them become more operationally efficient. We offer a complete range of products and services that can be arranged in a customized package to suit our customers' needs and can be adapted as their needs evolve over the lifecycle of their operations. We offer the broadest global reach of any of our competitors. As a result, we are able to provide solutions in proximity to our customers, which is an important cost-benefit consideration for them.

Our core competencies and competitive advantages include:

- World-leading modelling and simulation technology;
- Comprehensive knowledge of training and learning methodologies for the operation of complex systems using modeling and simulation;
- Total array of training solutions;
- Broad-reaching customer intimacy;
- Extensive global coverage;
- High-brand equity;
- Proven systems engineering and program management processes;
- Best-in-class customer support;
- First mover in new and emerging markets.

World-leading modelling and simulation technology

We pride ourselves on our technological leadership. Pilots around the world view our simulation as the closest thing to the true experience of flight. We have consistently led the evolution of flight training and simulation systems technology with a number of industry firsts. We have simulated the entire range of large civil aircraft, a large number of the leading regional and business aircraft and a number of civil helicopters. We are an industry leader in providing simulation and training solutions for fixed-wing transport aircraft, maritime patrol aircraft and helicopter platforms for the military. We also have extensive knowledge, experience and credibility in designing and developing simulators for prototype aircraft of major aircraft manufacturers. We are now applying this capability to new vertical markets, such as the healthcare and public safety and security industries.

Comprehensive knowledge of training for the operation of complex systems

We revolutionized the way aviation training is performed when we introduced our CAE Simfinity™-based training solutions and courseware. These training devices effectively bring the virtual aircraft cockpit into the classroom at the earliest stages of ground school training, making it a more effective and efficient training experience overall. We build upon the CAE Simfinity™ product line to develop the trainers that are used in the Airbus Pilot and Maintenance Technician training programs. CAE also developed e-Learning solutions to enable pilots and technicians to train anytime and anywhere.

Total array of training solutions

CAE has the broadest and most comprehensive range of aviation training products and services in the industry, and thus we are the best-positioned to tailor solutions to meet the specific needs of individual operators. Our portfolio of training solutions is more operationally-oriented and scenario-based to ensure aviation professionals receive the most practical training possible for the situations they may face. Our approach is to first understand an operator's needs and objectives, and then to propose an optimal solution that is made up of various elements of our product and service portfolio.

Broad-reaching customer intimacy

We have been in business for more than 60 years and have relationships with over 350 airlines and the governments of approximately 50 different national defence forces, including all branches of the U.S. forces. Our customer advisory boards and technical advisory boards involve airlines and operators worldwide. By listening carefully to customers, we are able to gain a deep understanding of their needs and respond with innovative product and service offerings that help improve the safety and efficiency of their operations.

Extensive global coverage

We have operations in 20 countries on five continents and sell into many more countries. Our broad geographic coverage allows us to respond quickly and cost-effectively to customer needs and new business opportunities while respecting the regulations and customs of the local market. We operate a fleet of more than 140 FFSs in 24 training centres to meet the wide range of operational requirements of our customers. Our fleet includes FFSs for various types of aircraft from major manufacturers, including commercial jets, business jets and helicopters, both civil and military.

High-brand equity

Our simulators are typically rated among the highest in the industry for reliability and availability. This is a key benefit because simulators normally operate in high-duty cycles of up to 20 hours a day.

We design our products so customers can upgrade them, giving them more flexibility and opportunity as products change or new air-worthiness regulations are introduced.

As we enter new vertical markets like healthcare and public safety and security, we find that the

CAE brand is widely regarded as the benchmark for modelling and simulation-based technology and for training services.

Proven systems engineering and program management processes

We consistently deliver technically complex programs within schedule to ensure that there are trained and mission-ready combat troops around the world. As an example, we have designed, developed and implemented the world's first common environment/common database virtual environment as part of the U.S. Army Special Operations Forces Aviation Training and Rehearsal Systems ("ASTARS") program. This highly technical and challenging program was delivered as part of a larger program, consisting of multiple training and mission rehearsal systems. Also, as part of a consortium with Eurocopter, Thales, and Rheinmetall Defence Electronics, we recently commissioned the first NH90 full-mission simulator at the German Army Aviation School. This complex program consisted of a mix of simulator modules integrated within one device. These modules were integrated under the leadership of CAE and Thales, successfully demonstrating our ability to work jointly on intricate programs with other companies.

Best-in-class customer support

We maintain a strong focus on after-sales support, which is often critical in winning additional sales contracts as well as important update and maintenance services business. We have initiated a range of new customer support practices, including a web-based customer portal, performance dashboard, and automated report cards. The new customer support initiatives have resulted in enhanced customer support according to customer comments and feedback.

First mover in new and emerging markets

Our approach to global markets is to model ourselves as a multi-domestic rather than a foreign company. This has enabled us to be a first mover into growth markets like China, India, the Middle East and South America.

2.6 Our capability to execute strategy and deliver results

Our resources and processes help ensure that we can carry out our strategy and deliver results. We have three other attributes that are critical to our success:

Our financial position

On March 31, 2009, our net debt was $285.1 million, representing an adjusted net debt to capital ratio of 29% (including the present value of operating leases). With our strong balance sheet, available credit and cash we are able to generate from operations, we have adequate funding in place or available to sustain our current development projects. As at March 31, 2009, we are in compliance with our financial covenants.

A skilled workforce and experienced management team

We have more than 6,500 employees. The skills of our workforce have a significant impact on the efficiency and effectiveness of our operations. While competition for well-trained and skilled

employees is high, we have been successful in attracting and retaining people because of our quality reputation as an industry leader, our commitment to providing an engaging and challenging work environment and by offering competitive compensation.

We also have an experienced management team with a proven track record in the aerospace industry. Strong leadership and governance are critical to the successful implementation of our corporate strategy. We are focusing on leadership development of key executives and members of senior management.

Proven ability to adapt to changing market conditions

We successfully restructured our business during the previous economic downturn to become financially secure and institutionalized a culture of continuous improvement and cost reduction. Despite major headwinds like the once surging Canadian dollar in previous years, we managed to improve profitability and enhance our market position. We continue to focus on becoming more efficient by lowering costs without affecting the quality of our products and services.

2.7 Industry Overview and Trends

The civil and military markets CAE serves are driven by factors particular to each market. CAE believes the civil market is most affected by the world gross domestic product, which in turn drives air travel, measured in revenue passenger kilometers ("RPK"). This RPK generation needs to be satisfied by aircraft deliveries in addition to the existing fleet, and then corrected for attrition. Finally direct factors influence the total offering such as the nature, size and composition of aircraft fleets, aircraft delivery schedules, pilot demographics, certification requirements and market demand for commercial and business air travel, which in particular is also influenced by corporate profits.

CAE believes the military market is mostly influenced by a combination of defence spending and the nature of military activity. Demand for CAE's military products and services are also influenced by the degree to which military forces globally lean towards the outsourcing of functions to the private sector. As well, CAE's military business is affected by the extent to which synthetic training and mission rehearsal solutions gain market acceptance as an alternative to live training, such as flying an actual aircraft or firing an actual weapon.

2.8 Research and Development

CAE is investing in software and hardware innovations that are intended to sustain our leading-edge technologies as well as complement our training services for CAE training centres and other customers. Examples of such innovations in recent years are the new CAE 5000 Series full- flight simulators, new generation CAE Simfinity™ suite of flight training devices and desktop trainers, next-generation CAE Tropos-6000™ and CAE Medallion™-6000 image generators, CAE True™ electric motion system, CAE's True™ Environment for more realistic air traffic control simulation and CAE True™ Airport, a new subscription-based service designed to keep customers' visual databases current with constantly changing airport environments. We are also investing in research and development ("R&D") to extend the use of simulation to adjacent markets, such as our development of an Augmented Visionics System ("AVS") to enable a helicopter pilot to take off and land safely even when visibility outside the cockpit is restricted.

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

An additional part of CAE's R&D 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 CAE's future. In addition to the basic internal R&D, R&D 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 CAE in a broader sense.

On March 31, 2009, we announced that CAE will invest up to $714 million in Project Falcon, an R&D program that will continue over five years. The goal of Project Falcon is to expand our current modelling and simulation technologies, develop new ones and increase our capabilities beyond training into other areas of the aerospace and defence market, such as analysis and operations. The Government of Canada agreed to participate in Project Falcon through a repayable investment of up to $250 million made through the Strategic Aerospace and Defence Initiative ("SADI"), which supports strategic industrial research and pre-competitive development projects in the aerospace, defence, space and security industries. The participation from the Government of Canada is unconditionally repayable and will be accounted for as a long-term obligation repayable over 15 years. The repayments will begin only after Project Falcon is completed.

In November 2005, CAE announced the launch of Project Phoenix, a $630-million, six-year R&D initiative, the goal of which is to improve current leading-edge technologies and to develop additional ones that will build on CAE's position as a world leader in simulation, modelling, training and services. The Government of Canada agreed, through Technology Partnerships Canada ("TPC"), to invest up to 30% ($189 million) in Project Phoenix; the Government of Québec agreed, through Investissement Québec ("IQ"), to invest up to a further $31.5 million. These investments by TPC and IQ will be repayable through revenue-based royalties starting in fiscal year 2012. In the past few years, CAE has also been involved with various other TPC projects on R&D programs involving visual systems and advanced flight simulation technology for civil applications and networked simulation for military applications.

Total R&D expenditures include basic R&D costs as well as program-related development costs. Basic internal R&D expenditures were, for fiscal 2009, largely associated with the ongoing development of the new generation 5000 and 7000 Series FFS, including completing the transition of legacy technology to this new modular aircraft and avionics simulation architecture and tightly-integrated framework that features advances in software standardization and user-effectiveness for new generation business jet aircraft training devices. In addition, a new generation of CAE STRIVE™ tactical environment was developed for combat aircraft and for naval helicopter simulators, building on the army aviation tactical environment that was developed for the US Special Forces ASTARS simulators. To maintain our leading position in visualization technologies and solutions, the CAE 6000 Series Tropos and Medallion image generators were updated with a new high-definition feature set for even higher realism and hosted on the latest graphics technology. For higher resolution content generation and real-time publishing, database tools and content were transitioned to CAE's Common Database ("CDB")

and Motif Compositing. In addition, CAE continued developing, performing field trials and readying for flight testing our AVS, a helicopter navigation system that fuses synthetic environment and sensor data providing visibility in poor/no visibility situations (brown-outs), and started work on the CAE Augmented Engineering Environment™, a development and integration environment and toolset targeted at platform manufacturers that leverages our modeling, simulation and integration expertise.

Basic R&D expenditure in fiscal 2010 will be primarily focused on completing the transition for entry into service of the new aircraft simulator product development for the 5000 and 7000 Series platforms, completing the transition to the new generation 6000 Series image generators and CDB database and content generation technology, conducting flight testing of the demonstrator AVS and developing a pre-production system for it, developing the CAE Augmented Engineering Environment™, starting work on an Intelligent Diagnostic System for simulators and a remote wizard instructor operator system that will allow a single instructor to control multiple simulators either locally or remotely.

2.9 Production and Services

Production

CAE's manufacturing and assembly facilities are located in Montreal, Canada; Tampa, U.S.; Burgess Hill, U.K.; Bangalore, India; 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 six major stages: design, manufacture and assembly, testing, shipping, site installation and final test on site. Military simulators are more complex and unique than civil simulators, and therefore may take more time to design, manufacture and test.

Manufacturing is organized into 10 manufacturing cells comprised of the following three major disciplines: electronics (printed circuit board assembly), electrical (cables, cabinets, aircraft instruments and avionics), and mechanical (sheet metal and machine shop, precision assembly and hydraulics, structural assembly and final assembly). Each cell has its own planning, methodizing and set of specific products to deliver, which establishes clear accountability for manufacturing performance.

The majority of our manufacturing and integration activities for civil and military simulation systems are conducted at CAE's facilities in Montreal, with some integration and update related work also being conducted at the Tampa, Burgess Hill, Bangalore and Stolberg sites. The Tampa facility conducts military systems integration and testing activities for simulation equipment destined for U.S. military-related contracts.

Services

CAE's training and service facilities are based around the world. While our head office is located in Montreal, Canada, CAE provides training and services from more than 30 locations across South America, North America, Europe, the Middle East, India, China, Russia and Southeast Asia.

These locations include Type Rating Training Organizations offering pilot, maintenance and cabin crew training to business and commercial aircraft operators; ab-initio training centres which provide commercial pilot license training to aspiring pilots as part of the CAE Global Academy initiative; and several locations from which CAE offers technical support services to aviation training centres.

CAE's courseware development is conducted in our Canadian, U.S. and Indian facilities, and CAE's flight data solutions, offered through Flightscape, are offered from Canada.

CAE 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 CAE's technical services to answer questions, troubleshoot 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; CAE 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 our service business provides opportunities to influence the upgrade of installed FFSs while providing valuable insights into customer training needs.

2.10 Specialized Skill and Knowledge

CAE employs predominantly graduates in engineering and software development, as well as pilots, instructors and other flight training experts. As an industry leader, CAE is able to train our staff in the technology and software required for simulation software and equipment. Flight trainers are typically recruited from the ranks of former airline or military pilots. CAE has not experienced material difficulty in recruiting appropriate staff to carry out our manufacturing, training and development work.

2.11 Competition

The markets in which we sell our products are highly competitive. Certain competitors are also CAE's customers, partners 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 amount of the anticipated award. We believe that we compete on the basis of:

- Quality, performance and flexibility of our products and services;
- Reputation for prompt and responsive contract performance;
- Accumulated technical knowledge, intellectual property and expertise;
- Strong after sales support;
- Flexibility of product/service offerings being susceptible to tailor-made customer solutions;
- Breadth of product line; and
- Price.

CAE's future success will depend in large part upon our ability to improve existing product lines, develop new products and technologies in the same or related fields, improve delivery intervals and reduce the costs we incur in producing our products and services.

CAE's major competitors in the military simulation and training market include Lockheed Martin, L-3 Communications Link Simulation and Training, Boeing, Rockwell Collins, Indra Systems, BAE Systems, Thales, Flight Safety International, SAIC, Raytheon and Rheinmetall Defence Electronics. 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 civil simulation equipment market include Thales, Rockwell Collins, Flight Safety International, and smaller players such as Mechtronix Systems, Opinicus and Sim Industries. Some of these competitors are low-cost providers with a limited product portfolio which only addresses a subset of the overall market, while others offer a broader product portfolio. CAE's major competitors in civil pilot training include Flight Safety International, Alteon Training, GCAT, Oxford Aviation Academy and PanAm International Flight Academy.

2.12 Components

CAE deals with a variety of goods and services suppliers across our business segments. Although we are not overly dependent on any single supplier for any key manufacturing components or services, CAE's products contain sophisticated computer systems that run on software and operating systems supplied to us 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. CAE cannot guarantee that we 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 CAE's profit margins.

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.

2.13 Intangible Properties

CAE owns certain patents and has filed applications in respect of additional patents. CAE enters into agreements containing non-disclosure and confidentiality clauses with third parties and has similar provisions in place with our employees to protect our proprietary information and trade secrets. CAE also has internal policies concerning both ethics and intellectual property which

guide our employees in their dealings with CAE's intellectual property and that of third parties.

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 TPC and IQ restrict, in some cases, 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 consent has been obtained.

Given CAE's many decades of success in the field of aviation simulation, CAE believes that the CAE brand and some of our trademarked products have value in the markets we address.

2.14 Cycles

The SP/M and TS/M segments sell to government customers such that there is no evident cycle to the intake of orders, but such order levels may vary significantly from quarter to quarter because of the irregular timing of government orders. The SP/C segment's equipment sales to airlines are affected by the cycles of expansion and contraction of the entire commercial airline industry, as well as the availability of credit and general economic conditions. The TS/C segment's flight training services do experience an element of seasonality; in times of peak travel (holiday periods, etc.) airline and business jet pilots are often too busy flying aircraft to attend training sessions. TS/C is also affected by the longer wave cycles of the commercial airline industry, though not to the same degree as SP/C.

2.15 Environmental Protection

CAE believes our current operations are in compliance in all material respects with environmental laws and regulations. Environmental protection requirements do not have material financial or operational effects on CAE's capital expenditures, earnings or competitive position.

CAE operations include, and past operations and those of some past operators at some of CAE's sites have included, the use, generation, storage, handling and disposal of hazardous materials which are subject to health and safety and environmental laws and regulations in the various countries in which CAE operates or has operated. Examples of claims in respect of former CAE operations include two claims against CAE in respect of the former CAE Electronics facility at the Edmonton International Airport, both of which CAE is contesting.

Separately, the New York State Department of Environmental Conservation ("DEC") considers that Trichloroethylene is present in ground water at or near CAE USA's former Link Hillcrest New York facility site and is evaporating and following soil vapors into homes. The DEC initiated the installation of an air pump system in affected homes to remedy the effect of such evaporation. The DEC continues to try to determine which properties, and parties, may have contributed to the alleged contamination. No order has been issued against CAE in this regard.

2.16 Employees

CAE strives to have policies and practices in place that foster employee engagement. These efforts were recognized again this year as CAE was selected as one of Canada's Top 100 Employers for 2009, one of Montreal's Top 15 Employers for 2009 and one of the Best Employers for New Canadians for 2009.

On May 14, 2009, we introduced actions required to size CAE to current and expected market conditions. Overall, we will be laying off 700 employees: 380 in the first quarter of FY2010 and the balance in the fall. Approximately 600 out of the 700 employees affected are based in Montreal where we produce our civil simulators, the rest are based in our other locations around the world. We estimate a restructuring expense of approximately $34 million for both phases to be recorded in the first quarter of fiscal year 2010.

After the aforementioned restructuring, CAE will continue to employ more than 6,500 full-time employees of which approximately 450 are unionized and covered by 8 collective agreements. Four labor contracts were ratified in fiscal 2009. The collective agreement for 300 employees in Montreal was renewed early in fiscal 2009 for another five years and will remain in effect until June 2013. There are no indications that negotiations on upcoming contract renewals will result in work stoppages. CAE considers employee relations to be satisfactory.

2.17 Foreign Operations

For the fiscal year ended March 31, 2009, sales to customers outside Canada accounted for over 90% of CAE's revenue such that CAE is very dependent upon foreign sales and operations. CAE expects that sales outside Canada will continue to account for most of our revenue for the foreseeable future.

CAE's physical presence in countries such as the U.S., Germany and the U.K. has enabled us to develop strong relationships and a good reputation with governments and other defence contractors who are important decision makers regarding defence contracts.

As a result, CAE is subject to risks of doing business internationally, including:

- Currency fluctuations;
- Changes to regulatory requirements;
- Changes to domestic and foreign government policies, including requirements to spend 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 U.S., Canadian and foreign arms export controls, currency exchange controls and restrictions, and other trade restrictions affecting countries in which CAE sells our 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 CAE's operations in the future.

3. DESCRIPTION OF THE BUSINESS SEGMENTS

3.1 Simulation Products/Civil (SP/C)

Our SP/C segment is a world leader in the provision of civil flight simulation equipment. We design and manufacture more civil FFSs and visual systems for major and regional carriers, third-party training centres and OEMs than any other company. We have a wealth of experience in developing simulators for new types of aircraft, including over 20 models and, more recently, the Boeing 747-8, Airbus A380, Bombardier Global Express, Embraer Phenom 100/300 and Dassault Falcon 7X. We also offer a full range of support services including simulator updates, maintenance services, sales of spare parts and simulator relocations.

CAE builds civil simulators for all categories of aircraft including those built by Airbus, Boeing, Bombardier, Cessna, Dassault, Embraer, Gulfstream and Raytheon. CAE also builds simulators for civil helicopters, including AgustaWestland, Bell Helicopter, Eurocopter and Sikorsky models. Since our inception, CAE has taken orders for and delivered more than 850 FFSs and training devices from approximately 125 commercial airlines, aircraft manufacturers and third-party training centres in 47 countries. With more than 50 years of experience in designing and manufacturing FFSs and other flight training devices, CAE has established long-standing relationships with leading commercial airlines throughout the world.

CAE plans to maintain a leadership position in civil simulation systems by anticipating future customer needs through both our own training experience and trusted relationships with equipment customers, commitment to innovation and technology, product quality, reliability and efficiency, and continuing efforts to lower costs and shorten delivery cycles. CAE expects to improve on our lead-time, cost, quality and reputation for performance through operational improvements and R&D programs. SP/C is focused on substantially reducing the costs associated with manufacturing simulation equipment intended both for sale to third parties as well as for installation in CAE's own global network of training centres.

CAE's capabilities in simulation-based interactive learning, including our leading-edge CAE Simfinity™ system, also complement our traditional strength in FFSs and FTDs. In fiscal 2009, CAE sold more than 25 CAE Simfinity™ training devices, Integrated Procedures Trainers, Airbus Pilot Transition trainers and Airbus Competence Training for Maintenance Trainer. Combined with a growing network of training centres, this complete suite of simulation-based equipment and training products enables CAE to offer airlines and business jet operators a complete range of training solutions.

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 FAA 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, customer support, delivery, supplier reputation, price and life cycle costs. Typical list prices for civil flight simulation equipment can range from up to US$1 million for sophisticated procedure trainers, from US$2 to US$5 million for a flight training device ("FTD") and from US$8 to US$16 million for an FFS, assuming that OEM-supplied data, parts and equipment are included.

CAE's SP/C segment continues to lead the civil market in the sale of FFSs with an approximate 70% market share of competed civil sales. SP/C continues to invest in technology to improve our product offering in terms of cost, schedule, performance, and additional features that enhance safety and efficiency. Over the past year, CAE's SP/C segment has continued demonstrating our industry leadership, as evidenced by:

- CAE's breakthrough product, the CAE 5000 Series FFS, achieving more than 15,000 hours of training during its first full year of service.

- CAE delivering the world's first Embraer Phenom 100 FFS, a CAE 5000 Series simulator that our joint venture Embraer CAE Training Services is using as part of the Phenom 100 pilot training program.

- JetBlue Airways signing a contract for CAE True™ Airport, a subscription-based service that keeps visual databases current with rapidly changing airport environments. The CAE True Airport service offers airlines and third-party training providers operating CAE visual systems the concurrency of the airport scenes in the visual databases used for flight training. CAE maintains customer-selected visual airport databases current and up-to-date, and then makes these updated databases immediately available for download through a user-friendly web portal.

- A CAE-built Boeing 777 FFS for Delta Air Lines becoming the world's first-ever simulator to achieve Level D certification, the highest qualification for flight simulators, under the Federal Aviation Administration's ("FAA") new Part 60 rule.

- The world's first A380 FFS, designed and manufactured by CAE for Airbus, achieving Level D certification.

3.2 Training & Services/Civil (TS/C)

In 2001, CAE entered the civil flight training business by opening pilot training centres in Sao Paulo, Brazil and Toronto, Canada and acquiring Schreiner Aviation Training BV and SimuFlite Training International, Inc. Today, our TS/C business is the largest provider of commercial aviation training services in the world and the second largest provider of business aviation

training services. As of March 31, 2009, CAE had more than 140 FFSs in operation and we provide aviation training and services in more than 20 countries around the world, including aviation training centres, flight training organizations and third-party locations. Taking into account the interest of joint venture partners and other interests, CAE had in our network an average of 117 Revenue Simulator Equivalent Units ("RSEUs") generating revenue for us during fiscal 2009.

CAE continues to expand our global network of strategically located training centres. CAE's customers at the commercial aviation training centres include major, low-cost and regional airlines that elect to outsource some of the training of their pilots and other crew members using either our training instructors or their own. The third party aviation training centres are used by more than 3,000 airline/corporate customers who tend to use third-party training centres as their primary source for simulation training.

TS/C is continually looking for ways to deliver more value to our customers throughout CAE's global network of training centres. For example, TS/C is continually developing new courseware and related training services to encourage customers to migrate from renting time on a CAE simulator (dry training) to accepting the training and curriculum provided by CAE instructors (wet training). TS/C is also continuously looking at ways to ensure we are delivering the most cost-effective and competitive training service in the marketplace. This includes optimization of our network of RSEUs, which can include the sale, relocation or introduction of simulators.

We are unique in that we serve all sectors of the civil aviation market including general aviation, regional airlines, commercial airlines and business aviation. We offer a full range of services, including training centre management, aircraft technician training services, simulator spare parts inventory management, curriculum development, consulting services and e-Learning solutions. We are a leader in flight sciences, using flight data analysis to enable the effective study and understanding of recorded flight data to improve airline safety, maintenance and flight operations. As well, we are offering airlines a long-term solution to pilot recruitment with our pilot provisioning capability. We achieved our leading position through acquisitions, joint ventures and organic investments in new facilities.

We continue to selectively increase the number of RSEUs in our network to maintain our position, increase our market share, and address new market opportunities. We are developing our training network primarily to meet the long-term, steady stream of recurring training needs from the existing fleet, so that we continue to become less dependent on new aircraft deliveries to drive revenue.

Training services is the largest and fastest growing market segment within the flight simulation industry. The training services market consists of sales of training equipment and the provision of facilities, tools, aircraft–specific pilot and maintenance training programs and courseware. Training is provided to pilots and technicians from commercial and regional airlines, business aircraft operators, and general aviation aircraft and helicopter operators. Today, approximately half of all training capacity around the world is owned and operated by large commercial airlines to provide training for their own pilots. Most of these training facilities are located within North America and Europe. Commercial airlines also rely on independent training providers to supplement their training programs. Smaller operators have traditionally outsourced their

training to independent training providers or to the aircraft manufacturers. Some aircraft manufacturers are partnering with third-party training providers in order to expand their training infrastructure across the world, while others such as Boeing have developed an in-house training division.

With the exception of fractional operators, the vast majority of business aircraft operators have very small fleets. As a result, these operators receive their entire training from aircraft manufacturers or independent training providers.

Barriers to entry are high as third party training providers have to design and produce FFSs in-house in order to be competitive and not all of them have the resources to invest.

TS/C has continued to invest in training and services for pilots, aircraft maintenance technicians and cabin crew members. We have also leveraged our core competencies and now provide a wider range of training and services. CAE remains dedicated to serving all segments of aviation on a global scale, and this includes expanding our business training platforms within our four training hubs for business aircraft operators located in Europe, Middle East and the U.S. and by propelling our pilot and training services into emerging markets.

In addition to acquisitions, CAE's expanding presence in civil flight training and services has been accelerated during the past three-year period by the following training centre initiatives by TS/C:

- We acquired Sabena Flight Academy ("Sabena") in the first quarter of fiscal 2009. Sabena offers cadet training, advanced training and aviation consulting for airlines and self-sponsored pilot candidates;

- In the second quarter of fiscal 2009, we signed an agreement to increase our participation in Academia Aeronautica de Evora S.A. to 90%;

- CAE began another expansion of our Burgess Hill, U.K. training centre to add four bays in fiscal 2009 to bring the centre to a total of sixteen bays. This expansion will be completed in the second quarter of fiscal 2010. The Burgess Hill facility currently operates ten FFSs.

- CAE successfully developed a pilot provisioning program, a turnkey service that includes a complete range of pilot recruiting and training for airlines.

- CAE's first Indian type-rating training operation, CAE Training and Services, Bangalore (50% participation), opened in Bangalore in fiscal 2009. CAE has contracts with the government of India to provide pilot training in two national flight academies: CAE is the managing partner of the Indian government's flight training academy, Indira Gandhi Rashtriya Uran Akademi, located in Rae Bareli, and through a joint venture (51% participation) with the Airport Authority of India launched the National Flying Training Institute, located in Gondia, in fiscal 2009.

- CAE opened a new training centre near Morristown, New Jersey, U.S. in June 2007. The state-of-the-art facility offers training for the Dassault Falcon 7X, and also features

training for the Falcon 900EX EASy, Falcon 2000EX EASy, the Gulfstream IV and 450/550, the Sikorsky S76C+/B helicopter and the Hawker 800xpi. In the third quarter of fiscal 2009 CAE completed expansion of the center from six to fifteen simulator bays to support the installation of more FFSs.

- A ten year joint venture agreement was signed with Embraer to provide training for their new light and very light jets, the Phenom 300 and 100, and the new training company known as Embraer CAE Training Services, LLC was launched in fiscal 2009 and is in operation.

3.3 SP/C and TS/C Trends and Developments

We expect demand for air travel to continue to increase over the medium-to-long term, but we are cautious about the short-term in civil aviation as global markets suffer from weakening economic conditions. The disruption in the global financial and credit markets, specifically the difficulties in aircraft financing and the protracted global economic recession have the potential to further impact a number of our customers.

A portion of our training services revenue comes from recurrent training that is essential to support the existing global in-service aircraft fleet which totals over 42,000 aircraft. While the recurrent training segment is relatively stable, capacity reduction from airlines and business jet operators is impacting training demand on some platforms.

In the simulation products segment, we had another strong year in fiscal 2009 with 34 FFS orders reported so we are working from a backlog that will continue to partially support our revenue for the next year. New simulation product orders, however, could be impacted by the level of new aircraft sales and the subsequent deliveries of aircraft. We anticipate that both aircraft sales and deliveries will decline due to challenging economic conditions in calendar 2009.

We believe that over the medium-to-long term the aerospace business, and more specifically the training products and services segments, will continue to experience growth. Recognizing this is a dynamic market, we continue to monitor key economic and market factors that could impact our business and potentially change our outlook. Actual and potential reductions in production rates and aircraft order cancellations by the major OEMs are important determinants in the level of demand for certain of our products and solutions.

The impact of the current global economic slowdown is most acute in mature markets like the U.S. and Europe. Current conditions in emerging markets have slowed materially as well from their previous robust pace. However, on a percentage basis, economic growth in these regions continues to outpace the mature markets.

Notwithstanding current economic conditions, the following trends support our medium-to-long-term view for the civil market:

- Aircraft backlogs;
- New and more fuel-efficient aircraft platforms;
- Demand in emerging markets arising from secular growth and a need for infrastructure to

support air travel;

- Expected long-term growth in air travel;
- Long-term demand for trained crew members.

The recent decreases in global passenger traffic, decreases in airline capacity and higher inventories of used aircraft for sale all need to be followed for any potential longer-term implications.

AIRCRAFT BACKLOGS

In calendar 2008, Boeing received a total of 662 net orders for new aircraft and Airbus received a total of 777 orders. As of March 31, 2009, new aircraft orders for Boeing and Airbus were 28 and 22 respectively, and cancellations received by Boeing and Airbus were 32 and 14, in that order. While the pace of order activity is slowing in calendar 2009, and with recent press reports mentioning aircraft delivery deferrals by a number of airlines, Boeing and Airbus still enjoy record backlog levels and this is expected to help generate opportunities for our full portfolio of training products and services. These two OEMs have also announced customer financing programs. In the short term, the difficulties in the credit markets could materially impact aircraft deliveries.

In the business jet segment, while the backlog reached record levels, aircraft order deferrals and cancellations have already led a number of business aircraft manufacturers to lower their production rates.

NEW AND MORE FUEL-EFFICIENT AIRCRAFT PLATFORMS

OEMs have announced plans to introduce, or have already introduced, new platforms, which will drive worldwide demand for simulators and training services. The Boeing 747-8, Airbus A350XWB, Embraer 190, Dassault Falcon 7X, Embraer Phenom 100 VLJ and 300 LJ aircraft and the Bombardier CSeries are some recent examples.

New platforms will drive the demand for new kinds of simulators and training programs. One of our strategic priorities is to partner with manufacturers to strengthen relationships and position ourselves for future opportunities. For example, we have been designated as Bombardier's authorized training provider for the Global Express, Global 5000 and Global Express XRS aircraft programs. We have also established a joint venture with Embraer to provide comprehensive training for the new Phenom 100 VLJ and Phenom 300 LJ aircraft. Deliveries of new model aircraft are susceptible to program launch delays, which in turn will affect the timing of our orders and deliveries.

DEMAND IN EMERGING MARKETS ARISING FROM SECULAR GROWTH AND A NEED FOR INFRASTRUCTURE TO SUPPORT AIR TRAVEL

Emerging markets such as Southeast Asia, the Indian sub-continent and the Middle East are expected to experience higher air traffic and economic growth over the long term than mature markets, as well as an increasing liberalization of air policy and bilateral air agreements. We expect these markets to drive the long-term demand for FFSs and training centres. Furthermore, we have been introducing new products designed specifically to address new and emerging markets, such as the CAE 5000 Series FFS and CAE True™ Environment for more realistic air

traffic control environment simulation.

EXPECTED LONG-TERM GROWTH IN AIR TRAVEL

While passenger traffic growth slowed in calendar 2008 from the strong growth in calendar year 2007, we anticipate that passenger traffic will resume growth in the long term. Currently, air transport is in a highly dynamic period with challenges such as a slowing world economy and challenging credit market. Over the past 20 years, air travel grew at an average of 4.8% and we expect that over the next 20 years both passenger and cargo travel will meet or slightly exceed this growth. Possible impediments to the steady growth progression in air travel include major disruptions like regional political instability, acts of terrorism, pandemics, a sharp and sustained increase in fuel costs, major prolonged economic recessions or other major world events.

LONG-TERM DEMAND FOR TRAINED CREW MEMBERS

Worldwide demand is expected to increase over the long term

Growth in the civil aviation market has driven the demand for pilots, maintenance technicians and flight attendants worldwide, which has created a shortage of qualified crew members in some markets. The shortage is impacted by aging demographics, fewer military pilots transferring to civil airlines, and low enrolment in technical schools. In emerging markets like Southeast Asia and China, long-term air traffic growth is expected to outpace the developed countries, and the infrastructure available to meet the projected demand for crew members is lacking.

This shortage creates opportunities for pilot provisioning, our turnkey service that includes recruiting, screening, selection and training. It is also prompting us to seek out partners to develop a global pipeline for developing and supplying pilots to meet market demand.

A global shortage of maintenance technicians has created an opportunity for us to accelerate our technical training solutions. This trend is, to a lesser degree, also affecting cabin crews, where we are also exploring new training solutions.

New pilot certification process requires simulation-based training

Simulation-based pilot certification training will begin taking on an even greater role with the new Multi-crew Pilot License ("MPL") certification process developed by the International Civil Aviation Organization which is expected to be adopted in the near future by individual national regulatory bodies. The MPL process places more emphasis on simulation-based training to develop ab-initio students into first officers for modern aircraft. MPL is expected to be widely adopted in emerging markets like China, India and Southeast Asia where there is the greatest need for a large supply of qualified pilots, trained in the most efficient and effective manner.

3.4 Simulation Products/Military (SP/M)

Our SP/M segment is a world leader in the design and production of military flight simulation equipment. We develop simulation equipment, training systems and software tools for a variety of military aircraft, including fast jets, helicopters, maritime patrol and transport aircraft. We have designed the broadest range of military helicopter simulators in the world. Our military simulators provide high-fidelity combat environments that include interactive enemy and

friendly forces, as well as weapon and sensor systems. We have delivered simulation products and training systems to nearly 50 military operators in approximately 35 countries, including all of the U.S. services.

CAE military simulators provide high fidelity combat environments that include interactive enemy and friendly forces, 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 Forward Looking Infra Red and radar sensors.

CAE has provided simulators for a wide range of aircraft and has designed training systems for the greatest variety of helicopters. CAE is also recognized as the world's leading provider of simulation and training solutions for the C-130 Hercules transport aircraft. CAE has established a leading position in Europe in the supply of army command and staff training systems, by supplying such systems to the military forces of Germany, Austria, Italy, Norway, Finland, Lithuania, and Ireland. The use of the CAE Medallion visual system for the prestigious Eurofighter Aircrew Synthetic Training Aids program solidly establishes the CAE Medallion visual system as a premier image generator for fast jet simulation applications. The CAE Medallion image generator is also well-established for demanding low-level rotary-wing applications, as evidenced by its use on A/MH-6, MH-47, and MH-60 combat mission simulators for the U.S. Special Operations Forces 160th SOAR(A).

SP/M focuses on growing our business with military customers around the world. We believe we can capitalize on the experience, expertise and increased visibility with military customers that hawse have gained from winning and performing significant contracts. CAE intends to continue to foster partnerships with key original equipment manufacturers and prime contractors. For example, Aermacchi has selected CAE as its preferred full-mission simulator supplier for the M-346 advanced lead-in fighter trainer aircraft. CAE also established a relationship with Korean Aerospace Industries ("KAI") over the past year and delivered a generic helicopter handling qualities simulator for KAI to use in their development of a new helicopter. EADS CASA selected CAE as its preferred training systems provider for the C-295 aircraft, and we are currently developing C-295 simulators for the EADS CASA training centre in Spain and the Brazilian Air Force. We are also working with EADS CASA to support other C-295 aircraft programs around the world. CAE continues to expand our relationship with Israel Aircraft Industries to develop solutions for UAVs as well as for live and integrated virtual training. CAE has formed a joint venture with Hindustan Aeronautics Limited ("HAL") called the Helicopter Academy to Train by Simulation of Flying ("HATSOFF"), which has begun construction of a helicopter training centre in Bangalore, India. CAE also has continuing relationships with AgustaWestland through Rotorsim, and with Lockheed Martin as the training system provider for the C-130J aircraft.

CAE remains committed to introducing new simulation products that enhance our reputation as a technology leader. A strategic priority for CAE is to continue to bring innovative products and simulation-based solutions to market. For example, the CAE-developed CDB for the United States Special Operations Command is now implemented and in-service on MH-47G Chinook and MH-60L Black Hawk combat mission simulators for the US Army's 160th Special Operations Aviation Regiment. The bottom line result is that with the CDB, the creation, modification and correlation of run-time databases can take minutes or hours instead of days,

weeks or months. Just as importantly, these changes can be made very rapidly using the latest intelligence and source data available, which makes using simulation for mission rehearsal exercises a real possibility.

Presagis (comprised of Presagis Canada Inc., Presagis USA Inc. and Presagis Europe (S.A.)) was formed in fiscal 2008 following CAE's acquisition of three companies: Engenuity Technologies, MultiGen-Paradigm and TERREX. By integrating the products created by these companies, Presagis is extending its knowledge base and is bringing innovative and integrated solutions to customers. The OpenFlight, VAPS, and TerraPage standards, as well as the HLA communications standard, are long standing legacies of these companies and will continue to be the foundation for the Presagis product portfolio. With core technology built on industry standards, Presagis is creating the world's first truly unified COTS simulation toolset, offering customers a range of solutions for efficiently developing tailored visualization, simulation, and embedded applications. Presagis helps customers in the aerospace, defence and automotive industries to create, train, simulate, and visualize.

The military simulation equipment market is driven in part 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 improve our lead-time, cost, quality and reputation for performance through continued operational improvements and R&D programs.

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 and mission rehearsal 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, tankers and transport/maritime patrol aircraft. Flight simulators permit the crews of military aircraft to coordinate and improve their combat skills in a safe, cost-effective and realistic range of environments. The US Air Force estimates that one hour in a simulator costs less than six minutes in an actual aircraft. 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, the systems often operate in conjunction with other equipment in environments involving many soldiers and various weapons systems.

3.5 Training & Services/Military (TS/M)

Our TS/M segment provides contractor logistics support, maintenance services and simulator training at over 60 sites around the world. We also provide a variety of modelling and

simulation-based services.

CAE provides maintenance support for most of the Canadian Forces flight simulators and most of the flight simulators operated by the German Army, Air Force and Navy. CAE also provides turnkey military training services through our Medium Support Helicopter Aircrew Training Facility ("MSHATF") in the U.K., our C-130 training facility in Tampa, Florida, and the Rotorsim training centre in Italy. Rotorsim is owned equally by CAE and AgustaWestland. In the U.S., CAE provides a range of services across a wide number of bases, such as the US Air Force's C-130 schoolhouse at Little Rock Air Force Base. In Australia, CAE provides a range of training support services, including providing live (airborne) training to Royal Australian Air Force ("RAAF") aircrews flying C-130J and C-130H tactical transports. CAE personnel also provide simulator and classroom instruction as well as maintenance and support services at RAAF Base Richmond, home of the RAAF's Airlift Group. CAE also provides a range of support services to facilities in the U.K., the Netherlands and Italy, as well as mission software support for Canada's CF-18 fighter aircraft.

In fiscal 2009, the Australian Defence Forces extended CAE's contract to provide comprehensive support services under a program called the Management and Support of Australian Defence Forces Aerospace Simulators contract. As prime contractor and Authorised Engineering Organisation for the Commonwealth of Australia, CAE provides overall project management, systems engineering and integrated logistics support.

In fiscal 2009, CAE and our consortium partners, Eurocopter, Thales, and Rheinmetall Defence Electronics, inaugurated the world's first NH90 helicopter full-mission simulator and the first NH90 training centre at the German Army Aviation School in Bückeburg, Germany.

In fiscal 2009, the Government of Canada contracted CAE as the Operational Training Systems Provider ("OTSP") in support of Canada's C-130J aircraft procurements. The total value of the equipment and services elements of the OTSP program is approximately $330 million over the next 20 years.

The TS/M group experiences steady business revenue from our long-term training service contracts. These include contracts such as the MSHATF at Royal Air Force Base Benson in the U.K. and maintenance and service contracts to support almost all of the German Armed Forces flight simulators. The training service delivery at the MSHATF is indicative of the trend for militaries to use synthetic training for more distributed, mission preparation-type training. For example, the RAF regularly conducts "Thursday War" exercises that involve the networking of various simulators and computer generated forces in mission scenarios. Other ongoing services contracts that provide steady revenue streams for CAE include the maintenance and support services under subcontract to Lockheed Martin for C-130 and C-130J training systems for the U.S. Air Force.

Given finite defence budgets and resources, governments and defence forces are increasingly scrutinizing their expenditures. In the area of training, outsourced or privatized training service delivery has demonstrated benefits such as cost-effectiveness and accelerated training delivery. CAE continues to see a growing willingness from defence forces to use synthetic training to meet more and more of their training requirements, as well as increasing demand to use simulation for mission rehearsal. While synthetic training will never completely replace live

combat training, TS/M sees more militaries increasing the number of synthetic training hours as a complement to live training.

Governments show an ever-increasing interest in the efficiencies and service enhancement potential of outsourcing aspects of their military training and support services to the private sector. The openness of national markets to international entrants is always an issue, particularly in the sensitive field of national security. However, many countries have outsourced military training and support services and have permitted foreign-controlled entities to deliver such services. The multinational approach adopted by some governments to equipment development and procurement has facilitated this evolution in the market for military services.

The industry has responded to this trend by adapting to a greater degree of cooperation in product and service development and provisioning. However, competition remains very vibrant, subject to national security constraints in certain markets.

CAE has experienced numerous successes in the military market through MPT&S' TS/M and SP/M segments in recent years, including:

- Acquiring Kestrel Technologies Pte Ltd. in the third quarter of fiscal 2009. Kestrel provides consulting and professional services, and provides simulator maintenance and technical support services.

- Signing an asset purchase agreement in fiscal 2009 to acquire Bell Aliant's Defence, Security and Aerospace business unit which operated under the xwave brand; the transaction was completed on May 1, 2009.

- CAE's leadership position on the NH90 helicopter program, which is the largest helicopter program ever launched in Europe. In addition to being a 25% owner in the Helicopter Flight Training Services consortium that is delivering NH90 training to Germany and several other countries, CAE is also under contract to provide NH90 training systems and services to Australia, the Netherlands and France.

- The design, development, and manufacture of NH90 training equipment is done by Helicopter Training Media International, a joint venture owned equally by CAE and Thales.

- CAE is also the prime contractor responsible for providing two MRH90 full-flight and mission simulators, training facilities, and comprehensive engineering and support services to the Commonwealth of Australia.

- An NH90 full-mission flight trainer and one NH90 virtual sensor trainer for the Netherlands Ministry of Defence was awarded in fiscal 2009 to Rotorsim, a CAE and AgustaWestland equal participation consortium.

- CAE has long led the design and development of training systems for the C-130 Hercules aircraft. In the past year, CAE won several more programs involving the C-130 when we were selected to provide: two C-130J full-mission simulators ("FMSs"), one C-130J FTD and complementary training equipment for Canada's Department of National Defence

under the OTSP program; one C-130J weapon system trainer ("WST") to Lockheed Martin for the Indian Air Force; and one C-130H WST to Lockheed Martin for the Algerian Air Force.

- The CAE-designed/developed CDB for the United States Special Operations Command ("USSOCOM") is now in-service. Following the development of the CDB architecture, CAE was responsible for implementing the CDB on two combat mission simulators for the U.S. Special Operations Forces 160th Special Operations Aviation Regiment – Airborne. The first simulator to use the CDB was a MH-47G Chinook simulator, which became operational in 2007. The second simulator to use the CDB is an MH-60L Black Hawk simulator, which CAE delivered in 2008. The CDB is playing a key role in meeting USSOCOM's requirement for enhanced capabilities to support rapid mission rehearsal timelines using high-fidelity simulation. Other defence forces around the world are also considering how the CDB can support their synthetic training and mission rehearsal requirements.

As our fiscal 2009 Military sales were a record for CAE, below are some other contracts we won that helped contribute to that achievement:

- One FMS hosting four different types of helicopter cockpits to HATSOFF, a joint venture equally owned by HAL and CAE;

- One engineering flight simulator to The Boeing Company to be used in the development of the U.S. Navy P-8A Poseidon maritime patrol aircraft;

- One E-3A FTD to the NATO Airborne Early Warning and Control Program Management Agency;

- Upgrades to the MH-60L Black Hawk and MH-47G Chinook combat mission simulators operated by the U.S. 160th Special Operations Aviation Regiment–Airborne;

- One MH-60S operational flight trainer for the U.S. Navy;

- Visual upgrade to a Eurocopter EC135 simulator used in training by the German Army;

- One EC135 FTD to Eurocopter to be used in training by the Polish Army;

- Contract option exercised for increasing rapid database production on the U.S. Army Synthetic Environment Core Program;

- One MH-60R tactical operational flight trainer and one MH-60R avionics maintenance trainer for the U.S. Navy;

- Two Hawk 128 FMSs for the Lockheed Martin and VT Group joint venture as part of the U.K. Military Flying Training System program, which will provide comprehensive training to all new U.K. military aircrew across the Royal Navy, Army and Royal Air Force; and

- Updated Synthetic Environment for the Eurofighter FMS and cockpit trainer in operation by various European nations.

3.6 SP/M and TS/M Trends and Developments

While we expect defence budgets around the world to continue to remain stable or perhaps experience modest cuts in the foreseeable future, including in the United States, which is the world's largest defence market, we believe that our share of defence spending will increase for the following reasons:

- Demand for our type of specialized products and services is growing;
- High cost of operating live assets for training is leading militaries to employ more simulation;
- The nature of warfare has changed.

DEMAND FOR OUR TYPE OF SPECIALIZED PRODUCTS AND SERVICES IS GROWING

New aircraft platforms

One of our strategic priorities is to partner with manufacturers in the military market to strengthen relationships and position ourselves for future opportunities. Original equipment manufacturers are introducing new platforms that will drive worldwide demand for simulators and training. For example, Boeing is developing a new maritime patrol aircraft called the P-8A Poseidon, NH Industries is delivering the NH90 helicopter, EADS CASA is aggressively marketing the C-295 transport aircraft worldwide, Lockheed Martin is doubling production of the venerable C-130 aircraft and Sikorsky is offering new models of its H-60 helicopter to armies and navies worldwide, all of which fuel the demand for new simulators and training, and for all of which we have products at different development and production stages.

Trend towards outsourcing

With finite defence budgets and resources, defence forces and governments continue to scrutinize expenditures to find ways to save money and allow active-duty personnel to focus on operational requirements. There has been a growing trend among defence forces to outsource a variety of training services and we expect this trend to continue. Governments are outsourcing training services because they can be delivered more quickly and more cost-effectively. For example, we are part of a consortium that has begun offering NH90 training to Germany and other militaries in 2009. In the United States, there are several major Aircrew Training System contracts up for re-compete over the next two to three years.

Extension and upgrade of existing weapon system platforms

Original equipment manufacturers are extending the life of existing weapon system platforms by introducing upgrades or adding new features, which increases the demand for upgrading simulators to meet the new standards.

HIGH COST OF OPERATING LIVE ASSETS FOR TRAINING IS LEADING MILITARIES TO EMPLOY MORE SIMULATION

More defence forces and governments are adopting simulation in training programs because it improves realism, significantly lowers costs, reduces operational demands on aircraft, and lowers risk compared to operating actual weapon system platforms. Using a simulator for training also reduces actual aircraft flying hours and allows training for situations where an actual aircraft and/or its crew and passengers would be at risk. The high-operational tempo stemming from ongoing global conflicts has meant that assets are being depreciated faster than originally planned. Unlike the commercial aerospace sector, where simulation-based training is already widely proliferated, there remains significant room for the adoption of simulation within the defence sector. In addition, we are seeing an increased use of simulation throughout the defence system's lifecycle, from analysis to training and operations.

THE NATURE OF WARFARE HAS CHANGED

Demand for networking

The nature of warfare has changed. Allies are cooperating and creating joint and coalition forces, which is driving the demand for joint and networked training and operations. Training devices can be networked to train different crews and allow for networked training across a range of platforms.

Growing acceptance of synthetic training for mission rehearsal

There is a growing trend among defence forces to use synthetic training to meet more of their training requirements. Synthetic environment software allows defence clients to plan sophisticated missions and carry out full-mission rehearsals as a complement to traditional live training or mission preparation. Synthetic training offers militaries a cost-effective way to provide realistic training for a wide variety of scenarios while ensuring they maintain a high state of readiness. For example, over the past two years we have delivered MH-47G and MH-60L combat mission simulators to the U.S. Army's 160th Special Operations Aviation Regiment that feature the CAE-developed CDB. The CDB promises to significantly enhance rapid simulation-based mission rehearsal capabilities.

3.7 Military Contract Issues Generally

The majority of CAE's contract revenue in our SP/M and TS/M 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 R&D 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 ensure that CAE 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. RISK FACTORS

We operate in several industry segments that have various risks and uncertainties. Management and the Board discuss the principal risks facing our business, particularly during the annual strategic planning and budgeting processes. The risks and uncertainties described below are risks that could materially affect our business, financial condition and results of operation. These risks are categorized as industry-related risks, risks specific to CAE and risks related to the current market environment. These are not necessarily the only risks we face; additional risks and uncertainties that are presently unknown to us or that we may currently deem immaterial may adversely affect our business.

Management attempts to mitigate risks that may affect our future performance through a process of identifying, assessing, reporting and managing risks that are significant from a corporate perspective.

4.1 Risks relating to the industry

COMPETITION

We sell our simulation equipment and training services in highly competitive markets and new

entrants are emerging and others are positioning themselves to take advantage of expected market demand. Some of our competitors are larger than we are, 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 when competing for projects for these organizations. We also face competition from Alteon Training L.L.C., a Boeing subsidiary, which may have certain pricing and other competitive advantages over CAE due to its status within the Boeing group of companies.

We obtain most of our contracts through competitive bidding processes that subject us to the risk of spending a substantial amount of time and effort on proposals for contracts that may not be awarded to us. We cannot be certain that we will continue to win contracts through competitive bidding processes at the same rate as we have in the past.

Reduced demand resulting from the recessionary economy and credit constraints for civil market products can lead to heightened competition for each available sale. This in turn may lead to a reduction in profit on sales won during such a period.

LEVEL OF DEFENCE SPENDING

A significant portion of our revenue comes from sales to military customers around the world. In fiscal 2009, for example, sales by the SP/M and TS/M segments accounted for 44% of our revenue. We are either the primary contractor or a subcontractor for various programs by Canadian, U.S., European, and other foreign governments. If funding for a government program is cut, we could lose future revenue, which could have a negative effect on our operations. If countries we have contracts with significantly lower their military spending, there could be a material negative effect on our sales and earnings.

CIVIL AVIATION INDUSTRY

A significant portion of our revenue comes from supplying equipment and training services to the commercial and business airline industry.

Most airlines faced financial difficulties in fiscal 2009, due both to surging costs for jet fuel (alleviated in the latter part of the year for some, but hedging positions extended the pain for others) and the global credit crisis and ensuing economic recession which has resulted in air cargo and traffic declines.

If fuel prices return to high levels for a sustained period, there could possibly be a greater impetus for airlines to replace older, less fuel efficient aircraft. However, higher fuel costs could also limit the airlines' available financial resources, and could potentially cause deliveries of new aircraft to be delayed or cancelled. Such a reaction would negatively affect the demand for our training equipment and services.

Constraints in the credit market leading to the higher cost, and diminished availability of credit may reduce the ability of airlines and others to purchase new aircraft, negatively affecting the demand for our training equipment and services and to purchase our products. However, both Airbus and Boeing have announced credit availability for their customers.

We are also exposed to credit risk on accounts receivable from our customers. We have adopted policies to ensure we are not significantly exposed to any individual customer. Our policies include analyzing the financial position of our customers and regularly reviewing their credit quality. We also subscribe from time to time to credit insurance and, in some instances, require a bank letter of credit.

REGULATORY RULES IMPOSED BY AVIATION AUTHORITIES

We are required to comply with regulations imposed by aviation authorities. These regulations may change without notice, which could disrupt our sales and operations. Any changes imposed by a regulatory agency, including changes to safety standards imposed by aviation authorities such as the U.S. Federal Aviation Administration, could mean we have to make unplanned modifications to our products and services, causing delays and resulting in cancelled sales. We cannot predict the impact that changing laws or regulations might have on our operations. Any changes could have a materially negative effect on our results of operations or financial condition.

SALES OR LICENCES OF CERTAIN CAE PRODUCTS REQUIRE REGULATORY APPROVALS

The sale or licence of many of our products is subject to regulatory controls. These can prevent us from selling to certain countries and require us to obtain from one or more governments an export licence or other approvals to sell certain technology such as military-related simulators or other training equipment, including military data or parts. These regulations change often and we cannot be certain that we will be permitted to sell or license certain products to customers, which could cause a potential loss of revenue for us. Failing to comply with any of these regulations in countries where we operate could result in fines and other material sanctions.

GOVERNMENT-FUNDED MILITARY PROGRAMS

Like most companies that supply products and services to governments, we can be audited and reviewed from time to time. Any adjustments that result from government audits and reviews may have a negative effect on our results of operations. Some costs may not be reimbursed or allowed in negotiations of fixed-price contracts. We may also be subject to a higher risk of legal actions and liabilities than companies that cater only to the private sector, which could have a materially negative effect on our operations.

If we fail to comply with government regulations and requirements, we could be suspended or barred from government contracts or subcontracts for a period of time, which would negatively affect our revenue from operations and profitability and could have a negative effect on our reputation and ability to procure other government contracts in the future.

4.2 Risks relating to the Company

PRODUCT EVOLUTION

The civil aviation and military markets we operate in are characterized by changes in customer requirements, new aircraft models and evolving industry standards. If we do not accurately predict the needs of our existing and prospective customers or develop product enhancements that address evolving standards and technologies, we may lose current customers and be unable to bring on new customers. This could reduce our revenue. The evolution of the technology could also have an impact on the value of our fleet of FFSs.

RESEARCH AND DEVELOPMENT ACTIVITIES

We carry out some of our R&D initiatives with the financial support of government, including the Government of Québec through IQ and the Government of Canada through the SADI and TPC. We may not in the future be able to replace these existing programs with other government risk-sharing programs of comparable benefit to us, which could have a negative impact on our financial performance and R&D activities.

FIXED-PRICE AND LONG-TERM SUPPLY CONTRACTS

We provide our products and services mainly through fixed-price contracts that require us to absorb cost overruns, even though it can be difficult to estimate all of the costs associated with these contracts or to accurately project the level of sales we may ultimately achieve. In addition, a number of contracts to supply equipment and services to commercial airlines and defence organizations are long-term agreements that run up to 20 years. While some of these contracts can be adjusted for increases in inflation and costs, the adjustments may not fully offset the increases, which could negatively affect the results of our operations.

PROCUREMENT AND OEMS ENCROACHMENT

We are required to procure data, parts, equipment and many other inputs from a wide variety of OEMs and sub-contractors. We are not always able to find two or more sources for inputs we need, and in the case of specific aircraft simulators and other training equipment, significant inputs can only be sole-sourced. We may therefore be vulnerable to delivery schedule delays, the financial condition of the sole-source suppliers and their willingness to deal with us. Within their corporate groups, some sole-source suppliers include businesses that compete with parts of our business.

WARRANTY OR OTHER PRODUCT-RELATED CLAIMS

We manufacture simulators that are highly complex and sophisticated. These may contain defects that are difficult to detect and correct. If our products fail to operate correctly or have errors, there could be warranty claims or we could lose customers. Correcting these defects could require significant capital investment. If a defective product is integrated into our customer's equipment, we could face product liability claims based on damages to the customer's equipment. Any claims, errors or failures could have a negative effect on our operating results and business. We cannot be certain that our insurance coverage will be sufficient to cover one or more substantial claims.

PRODUCT INTEGRATION AND PROGRAM MANAGEMENT RISK

Our business could be negatively affected if our products do not successfully integrate or operate with other sophisticated software, hardware, computing and communications systems that are also continually evolving. If we experience difficulties on a project or do not meet project milestones, we may have to devote more engineering and other resources than originally anticipated. While we believe we have recorded adequate provisions for risks of losses on fixed-price contracts, it is possible that fixed-price and long-term supply contracts could subject us to additional losses that exceed obligations under the terms of the contracts.

PROTECTION OF INTELLECTUAL PROPERTY

We rely in part on trade secrets and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our proprietary rights. These may not be effective in preventing a misuse of our technology or in deterring others from developing similar technologies. We may be limited in our ability to acquire or enforce our intellectual property rights in some countries.

INTELLECTUAL PROPERTY

Our products contain sophisticated software and computer systems that are supplied to us by third parties. These may not always be available to us. Our production of simulators often depends on receiving confidential or proprietary data on the functions, design and performance of a product or system that our simulators are intended to simulate. We may not be able to obtain this data on reasonable terms, or at all.

Infringement claims could be brought against us or against our customers. We may not be successful in defending these claims and we may not be able to develop processes that do not infringe on the rights of third parties, or obtain licenses on terms that are commercially acceptable, if at all.

Litigation related to our intellectual property rights could be lengthy and costly and could negatively affect our operations or financial results, whether or not we are successful in defending a claim.

KEY PERSONNEL

Our continued success will depend in part on our ability to retain and attract key personnel with the relevant skills, expertise and experience. Our compensation policy is designed to mitigate this risk.

ENVIRONMENTAL LIABILITIES

We use, generate, store, handle and dispose of hazardous materials at our operations, and used to at some of our discontinued or sold operations. Past operators at some of our sites also carried out these activities.

New laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination, new clean-up requirements or claims on environmental indemnities we have given may mean we have to incur substantial costs. This could have a materially negative effect on our financial condition and results of operations.

We have made provisions for claims we know about and remediation we expect will be required, but there is a risk that our provisions are not sufficient.

In addition, our discontinued operations are largely uninsured against such claims, so an unexpectedly large environmental claim against a discontinued operation could reduce our profitability in the future.

LIABILITY CLAIMS ARISING FROM CASUALTY LOSSES

Because of the nature of our business, we may be subject to liability claims, including claims for serious personal injury or death, arising from:

- Accidents or disasters involving training equipment we have sold or aircraft for which we have provided training equipment or services;
- Our pilot provisioning;
- Our live flight training operations.

We may also be subject to product liability claims relating to equipment and services that our discontinued operations sold in the past. We cannot be certain that our insurance coverage will be sufficient to cover one or more substantial claims.

INTEGRATION OF BUSINESSES ACQUIRED

The success of our acquisitions depend on our ability to crystallize synergies both in terms of successfully marketing our broadened product offering as well as efficiently consolidating the operations of the business acquired into our existing operations.

ENTERPRISE RESOURCE PLANNING (ERP)

We are investing time and money in an ERP system. If the system does not operate as expected or when expected, it may be difficult for us to claim compensation or correction from any third party. We may not be able to realize the expected value of the system and this may have a negative effect on our operations, profitability and reputation.

LENGTH of sales cycle

The sales cycle for our products and services is long and unpredictable, ranging from 6 to 18 months for civil aviation applications and from 6 to 24 months or longer for military applications. During the time when customers are evaluating our products and services, we may incur expenses and management time. Making these expenditures in a quarter that has no corresponding revenue will affect our operating results and could increase the volatility of our share price. We may pre-build certain products in anticipation of orders to come and to facilitate a faster delivery schedule to gain competitive advantage; if orders for those products do not materialize when expected, we have to carry the pre-built product in inventory for a period of time until a sale is realized.

4.3 Risks relating to the market

FOREIGN EXCHANGE

Approximately 95% of our revenue is generated in foreign currencies and this will continue to be the case. Conversely, a larger proportion of our operating expenses are in Canadian dollars. Any significant change in the value of the Canadian dollar will cause volatility in our results of operations, cash flow and financial condition from period to period. If the Canadian dollar increases in value, it will negatively affect our foreign currency-denominated revenue and hence our financial results. If the Canadian dollar decreases in value, it will negatively affect our foreign currency-denominated costs and our competitive position compared to other equipment manufacturers in jurisdictions where operating costs are lower. We have various hedging programs to partially offset this exposure. However, our currency hedging activities may not

successfully mitigate foreign exchange risk.

AVAILABILITY OF CAPITAL

Our main credit facility is up for renewal in fiscal 2011. We cannot determine at this time whether the credit facility will be renewed at the same cost, for the same five year duration and on similar terms as were previously available four years ago.

PENSION PLANS

Pension funding is based on actuarial estimates and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels at the time of retirement and the anticipated long-term rate of return on pension plan assets. The actuarial funding valuation reports determine the amount of cash contributions that we are required to contribute into the registered retirement plans. The latest funding reports show the pension plans to be in a solvency deficit position. Therefore, we are required to make cash funding contributions. As the pension fund assets consist of a mix of bonds and equities, recent market conditions have reduced the market value of the pension fund assets. If this reduced level of pension fund assets persists to the date of the next funding valuations, we will be required to increase our cash funding contributions, reducing the availability of such funds for other corporate purposes.

DOING BUSINESS IN FOREIGN COUNTRIES

We have operations in over 20 countries and sell our products and services to customers around the world. Sales to customers outside Canada and the U.S. made up approximately 60% of revenue in fiscal 2009. We expect sales outside Canada and the U.S. to continue to represent a significant portion of revenue for the foreseeable future. As a result, we are subject to the risks of doing business internationally.

These are the main risks we are facing:

- Change in laws and regulations;
- Tariffs, embargoes, controls and other restrictions;
- General changes in economic and geopolitical conditions;
- Complexity and risks of using foreign representatives and consultants.

5. DIVIDENDS

CAE is paying a quarterly dividend of $0.03 per common share, and intends to maintain this level of dividend going forward. 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's contracts with TPC prohibit the payment of a dividend if such payment would prevent payment to TPC of a royalty owed under the contracts.

CAE's Dividend Reinvestment Plan provides that Canadian resident shareholders can elect to receive Common Share dividends in lieu of cash dividends. During fiscal 2007, 2008 and 2009,

CAE issued 21,124, 25,441 and 99,407 common shares, respectively, as share dividends.

6. DESCRIPTION OF CAPITAL STRUCTURE

Our authorized capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value, issuable in series.

Each common share entitles the holder thereof to dividends if, as and when declared by our Directors, to one vote at all meetings of holders of common shares and to participate, pro rata, with the holders of common shares, in any distribution of our assets upon liquidation, dissolution or winding-up, subject to the prior rights of holders of shares ranking in priority to common shares.

As at the close of business on March 31, 2009 and May 31, 2009 respectively, 255,146,443 and 255,472,285 common shares were issued and outstanding. There are no preferred shares issued and outstanding.

7. MARKET FOR SECURITIES

The outstanding common shares of CAE 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".

7.1 Trading Price and Volume

CAE Inc. **TSX Share Price Information - FY 2009**			
Month	**Max.**	**Min.**	**Total Volume**
April-08	$ 12.94	$ 11.40	19,103,376
May-08	$ 13.50	$ 11.55	19,420,285
June-08	$ 13.95	$ 11.37	41,633,669
July-08	$ 11.75	$ 9.83	25,274,503
August-08	$ 11.44	$ 10.58	13,977,840
September-08	$ 11.60	$ 8.04	23,328,816
October-08	$ 8.73	$ 5.62	21,498,512
November-08	$ 7.50	$ 5.93	11,466,339
December-08	$ 8.15	$ 6.00	15,756,825

CAE Inc. TSX Share Price Information - FY 2009			
Month	**Max.**	**Min.**	**Total Volume**
January-09	$ 8.65	$ 6.90	14,992,849
February-09	$ 7.78	$ 6.18	12,524,983
March-09	$ 7.76	$ 6.05	14,694,986
NYSE Share Price Information - FY 2009			
Month	**Max.**	**Min.**	**Total Volume**
April-08	$ 12.75	$ 11.20	830,081
May-08	$ 13.65	$ 10.49	835,656
June-08	$ 13.77	$ 11.22	783,208
July-08	$ 11.60	$ 9.40	1,018,606
August-08	$ 10.96	$ 10.02	670,321
September-08	$ 11.56	$ 7.76	1,064,252
October-08	$ 7.94	$ 4.35	2,154,653
November-08	$ 6.49	$ 4.74	1,326,886
December-08	$ 6.69	$ 4.64	2,099,379
January-09	$ 7.34	$ 5.65	622,730
February-09	$ 6.31	$ 4.94	924,798
March-09	$ 6.26	$ 4.67	514,235

8. DIRECTORS AND OFFICERS

The Directors of CAE 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 CAE as of the date hereof, the positions and offices held by them in CAE, their respective principal occupations for the last five years, and the year in which they became a Director are set forth below. More information concerning CAE's Directors may be found in the Proxy Information Circular dated June 12,

2009, in connection with our Annual and Special Meeting of Shareholders on August 12, 2009. 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 Human Resources Committee and the Executive Committee.

8.1 Name and Occupation

DIRECTORS

Name and Municipality of Residence and Year First Became a Director	**Principal Occupation**
BRIAN E. BARENTS Andover, Kansas, USA (2005)	Mr. Barents is a Director of several companies as well as a board member of the Flight Safety Foundation. A former Air National Guard Brigadier General and still an active pilot, Mr. Barents was the President, CEO and co-founder of Galaxy Aerospace Company, LP from 1997-2001 and before that President and CEO of Learjet, Inc. from 1989-1996. Mr. Barents is a member of the Human Resources Committee.
ROBERT E. BROWN, C.M., O.Q. Westmount, Québec, Canada (2004)	Robert E. Brown is President and Chief Executive Officer of CAE. Mr. Brown is also Chairman of Aeroplan Holding G.P. and a member of the board of BCE Inc. Prior to joining CAE, Mr. Brown was Chairman of the Board of Air Canada from May 2003 to October 2004, and before this was President and Chief Executive Officer of Bombardier Inc. from February 1999 to December 2002. Mr. Brown has served as a Director of other public companies. Mr. Brown is a member of the

Name and Municipality of Residence and Year First Became a Director	Principal Occupation
	Executive Committee.
JOHN A. (IAN) CRAIG Ottawa, Ontario, Canada (2000)	Mr. Craig is President of Lanzsmirn Investments, an independent investment company, a Corporate Director and Vice Chairman of the Board of the University of Ottawa Heart Institute. Mr. Craig is a member of the Audit Committee.
H. GARFIELD EMERSON, Q.C. Toronto, Ontario, Canada (1992)	Mr. Emerson is Principal, Emerson Advisory, an independent business and financial advisory firm, and a Corporate Director. He is a director of Canadian Tire Corporation Limited, Open Text Corporation, Sentry Select Capital Inc. and Wittington Investments, Limited. Mr. Emerson is the past National Chair of Fasken Martineau DuMoulin LLP (2001-2006). Mr. Emerson was previously President and Chief Executive Officer of NM Rothschild & Sons Canada Limited (1990-2001), investment bankers, Chairman of First Calgary Petroleums Ltd. (2008) and a Senior Partner of Davies, Ward & Beck. He has also served as a director of various companies. Mr. Emerson is a member of the Governance and Audit Committees.
ANTHONY S. FELL, O.C. Toronto, Ontario, Canada (2000)	Mr. Fell is a Corporate Director and was formerly Chairman of RBC Capital Markets Inc., Chairman and Chief Executive Officer of RBC Dominion Securities and Deputy Chairman of Royal Bank of Canada. Mr. Fell is also Chairman of Munich Reinsurance Company of Canada and a director of BCE Inc., Bell Canada and Loblaw Companies Limited. Mr. Fell is the Chairman of the Governance Committee and a member of the Executive Committee.

Name and Municipality of Residence and Year First Became a Director	Principal Occupation
PAUL GAGNE, CA Montréal, Québec, Canada (2005)	Mr. Gagné is a director of various publicly listed and private companies. Mr. Gagné is the Chairman of Wajax Income Fund and also chairs the Audit Committees of Textron Inc., Inmet Mining Corporation and Fraser Papers Inc. Mr. Gagné is a member of the Audit Committee.
JAMES F. HANKINSON, CA Toronto, Ontario, Canada (1995)	Mr. Hankinson is President and Chief Executive Officer of Ontario Power Generation Inc., and a director of Maple Leaf Foods Inc., Ontario Power Generation Inc. and Shoppers Drug Mart Corporation. Mr. Hankinson is Chairman of the Audit Committee and a member of the Governance Committee.
E. RANDOLPH (RANDY) JAYNE II Webster Groves, Missouri, USA (2001)	Mr. Jayne is the Managing Partner of Heidrick & Struggles International, Inc.'s Global Aerospace, Defense, and Aviation Practice. Mr. Jayne is a member of the Human Resources Committee.
ROBERT LACROIX, Ph.D., CM, OQ, FRSC Montréal, Québec, Canada (2005)	Dr. Lacroix holds a Ph.D in Economics, has been a Professor in the Department of Economics at the Université de Montréal since 1970, and Professor *emeritus* since 2006. He has served as Chairman of that Department and Director of the Centre for Research and Development in Economics (CRDE) and was Rector (President) of the Université de Montréal from 1998-2005. Dr. Lacroix is also member of the Board of the Trudeau Foundation and a member of the National Statistics Council of Canada He is also a Director of Pomerleau Inc., Industrial Alliance Inc. and Le Groupe Jean Coutu Inc. Dr. Lacroix is a member of the Governance Committee.

Name and Municipality of Residence and Year First Became a Director	Principal Occupation
JOHN MANLEY Ottawa, Ontario, Canada (2008)	John Manley is Counsel, McCarthy Tétrault LLP. Throughout more than 15 years of public service, Mr. Manley held several senior portfolios in the Canadian federal government. He was appointed to Cabinet in November 1993. Mr. Manley was appointed as Deputy Prime Minister of Canada in January 2002 and also served as Finance Minister from June 2002 to December 2003. Mr. Manley is a director of Canadian Pacific Railway Limited, Canadian Imperial Bank of Commerce, Nortel Networks Limited, Nortel Networks Corporation, Optosecurity Inc., CARE Canada, the National Arts Centre Foundation and MaRS Discovery District. He is also a member of the Board of Directors of the Institute for Research on Public Policy, of the Conference Board of Canada and of the Board of Governors of the University of Waterloo. In 2007, Mr. Manley was appointed Chair of the Independent Panel on Canada's Future Role in Afghanistan. Mr. Manley is a member of the Human Resources Committee.

Name and Municipality of Residence and Year First Became a Director	Principal Occupation
MARC PARENT Blainville, Québec, Canada (2008)	Marc Parent has been the Executive Vice President and Chief Operating Officer of CAE since November 2008. He joined CAE in February 2005 as Group President, Simulation Products before being appointed Group President, Simulation Products and Military Training & Services in May 2006. Mr. Parent has 25 years experience in the aerospace industry. He held various positions with Canadair and within Bombardier Aerospace. Before joining CAE, Mr. Parent was Vice President and General Manager of Challenger 300, 604, and 850/870 programs as well as the CRJ 200 Regional Aircraft product line. Mr. Parent was honoured in 1999 as one of "Canada's Top 40 under 40" leaders. In addition, he received the 2005 Society of Automotive Engineers (SAE) Aerospace Engineering Leadership Award, and is a past recipient of the SAE Forest R. McFarland award. Mr. Parent is Chairman of the Board of Directors for Aéro Montréal, Montréal's aerospace cluster. He is also Vice-Chairman of the Board of Directors of the Aerospace Industries Association of Canada (AIAC) and a member of the Board of Directors of the Canadian Association of Defence and Security Industries (CADSI).

Name and Municipality of Residence and Year First Became a Director	Principal Occupation
GENERAL PETER J. SCHOOMAKER, USA (RET.) Tampa, Florida, USA (2009)	General Schoomaker is a consultant on defense matters. He is a former four-star U.S. Army general who was recalled from retirement to active duty as the 35th Chief of Staff, Army and a member of Joint Chiefs of Staff from 2003 until 2007. Prior to his first retirement, he served as the Commander-in-Chief, U.S. Special Operations Command from 1997 to 2000. He was the owner/president of Quiet Pros, Inc. (defense consulting) from 2000 to 2003. General Schoomaker spent over 30 years in a variety of command and staff assignments with both conventional and special operations forces. General Schoomaker is a director of DynCorp International Inc. as well as several private and non-profit companies, the Special Operations Warrior Foundation and was a director of CAE USA Inc. (from November, 2007 to February, 2009). General Schoomaker is a member of the Governance Committee.
KATHARINE B. STEVENSON Toronto, Ontario, Canada (2007)	Ms. Stevenson is a corporate director. She was formerly a senior finance executive at Nortel Networks, including holding the position of Corporate Treasurer from 1999 until 2007. Prior to Nortel Networks, she was a Vice-President of JP Morgan Chase & Co. She is currently a director of OSI Pharmaceuticals, Inc. (and Chair of its Audit Committee), a director of Open Text Corporation and Chair of the Board of Governors of The Bishop Strachan School. She is certified with the professional designation ICD.D granted by the Institute of Corporate Directors (ICD). Ms. Stevenson is a member of the Audit Committee.

Name and Municipality of Residence and Year First Became a Director	Principal Occupation
LAWRENCE N. STEVENSON Toronto, Ontario, Canada (1998)	Mr. Stevenson is Managing Director of Callisto Capital, a Toronto-based Private Equity firm which he joined in 2006, and is a director of SNC-Lavalin Group Inc. He was previously the CEO of Pep Boys, an Automotive Retail & Service Company based in Philadelphia. Mr. Stevenson is Chairman of the Human Resources Committee.
LYNTON R. WILSON, O.C. Oakville, Ontario, Canada (1997)	Mr. Wilson is Chairman of the Board of CAE, and Chairman of the Daimler Canadian Advisory Council. He is Chairman of the Executive Committee and is a member of the Human Resources and Governance Committees.

OFFICERS

Name and Municipality of Residence	Office held with CAE and Principal Occupation[1]
MARC PARENT Blainville, Québec, Canada	Chief Operating Officer, with CAE since 2005; formerly Vice President and General Manager, Challenger Programs and Dorval Plants at Bombardier Aerospace (2004-2005); Vice President and General Manager at Bombardier Aerospace U.S. operations (2003-2004).
JEFFREY G. ROBERTS Hudson, Québec, Canada	Group President, Civil Simulation Products, Training and Services of CAE, with CAE since 2002.

Name and Municipality of Residence	Office held with CAE and Principal Occupation[1]
MARTIN GAGNÉ Blainville, Québec, Canada	Group President, Military Simulation Products, Training and Services of CAE, with CAE since 2002.
ALAIN RAQUEPAS, CA St. Lambert, Québec, Canada	Vice President, Finance and Chief Financial Officer, with CAE since 1992; formerly Vice President Finance, Military Simulation and Training (2001-2005).
HARTLAND J.A. PATERSON Westmount, Québec, Canada	Vice President, Legal, General Counsel and Corporate Secretary, with CAE since 2001.
ANTOINE AUCLAIR, CA St. Lambert, Québec, Canada	Vice President and Corporate Controller (2006 to present); formerly Vice President Finance and Controller at Bell Nordiq (2005-2006), Director Parts Logistics at Bombardier Aerospace (2004-2005) and Director Industrial Accounting at Bombardier Aerospace, Montreal Site (formerly Canadair) (2002-2004).
JACQUES FERRARO, CPA Laval, Québec, Canada	Treasurer (2007 to present); formerly Director Treasury and Assistant Treasurer (2003-2007) at CAE.

[1] Where the date 2004 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 CAE as a group as at the date hereof beneficially own, directly or indirectly, or exercise control or direction over 2,738,430 common shares which represent 1.07% of CAE's outstanding common shares.

8.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

None of the Directors of CAE is, or within ten years prior hereto has been, subject to a cease

trade or similar order except as set out below.

From May 31, 2004 until on or about June 21, 2005, certain Directors, senior officers and certain current and former employees of Nortel Networks Corporation ("Nortel") and Nortel Networks Limited ("NNL"), including Messrs. Brown, Manley and Wilson and Ms. Stevenson, were prohibited from trading in securities of Nortel and NNL pursuant to management cease trade orders issued by the Ontario Securities Commission ("OSC"), the Autorité des marchés financiers ("AMF") and certain other provincial securities regulators (collectively the "Regulators") in connection with the delay in the filing of certain of their financial statements. The Regulators issued a further management cease trade order on April 10, 2006 in connection with the delay in filing certain 2005 financial statements prohibiting certain Directors, senior officers and certain current and former employees, including Messrs. Brown, Manley and Wilson and Ms. Stevenson, from trading in securities of Nortel and NNL. Following the filing of the required financial statements, the OSC and AMF lifted such cease trade orders effective June 8, 2006 and June 9, 2006, respectively, following which the other Regulators lifted their cease trade orders.

Mr. Manley was a director of Nortel and NNL when Nortel and NNL were granted creditor protection under the Companies' Creditors Arrangement Act (CCAA) on January 14, 2009, and under other similar bankruptcy legislation in the U.S. and other jurisdictions. Mr. Manley remains a director of Nortel and NNL.

Mr. Gagné in November, 2006 resigned as Director of Gemofor Inc., a manufacturer of sawmill equipment. Within a year of his resignation, Gemofor Inc. filed for bankruptcy. Also, Mr. Gagné was a director of Fraser Papers Inc. when Fraser Papers Inc. and its subsidiaries initiated a court-supervised restructuring under the Companies' Creditors Arrangement Act (CCAA) on June 18, 2009 and under other similar bankruptcy legislation in the U.S.

Mr. Craig was a Director of Williams Communications Inc. in Tulsa Oklahoma when it filed for bankruptcy in February 2001. He was also a Director of Bell Canada International Inc. when it filed for court-supervised liquidation under the *Companies' Creditors Arrangement Act (Canada)* ("CCAA") in 2003. Mr. Craig remained as one of two independent Directors to oversee the company from 2003 to 2007 when it was finally liquidated.

Mr. Brown joined the board of Air Canada two weeks before it filed for protection under the *CCAA* on April 1, 2003 to help manage the financial crisis in which that company found itself.

Mr. Fell, a Director of BCE Inc., was appointed a Director of Teleglobe Inc., then a wholly-owned subsidiary of BCE Inc., on January 23, 2002 and resigned three months later on April 23, 2002. Teleglobe filed for court protection under insolvency status on May 15, 2002.

9. TRANSFER AGENTS AND REGISTRARS

CAE only has common shares issued. CAE's transfer agent is Computershare Trust Company of Canada located at 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1.

10. AUDIT COMMITTEE

10.1 Mandate

The mandate of CAE's Audit Committee is as set out in Schedule B hereto.

10.2 Membership

The members of CAE's Board of Directors' Audit Committee are:

Mr. James F. Hankinson (chair)
Mr. John A. (Ian) Craig
Mr. H. Garfield Emerson
Mr. Paul Gagné
Mrs. Katharine B. Stevenson

Each of these members is independent and financially literate.

Mr. Hankinson is a chartered accountant and has an MBA from McMaster University. In addition to his current activities set out in the Directors' table above, he served as President and Chief Executive Officer of New Brunswick Power Corporation from 1996 to 2002. In 1973, he joined Canadian Pacific Limited, and served as Chief Operating Officer from 1990 to 1995. Mr. Hankinson is also a member of the Audit Committee of the Board of Directors of Maple Leaf Foods Inc.

Mr. Craig has extensive board experience. He is also member of the Audit Committee of ARRIS Group Inc.

Mr. Emerson has extensive board experience, including past service as chairman or member of several public company audit committees.

Mr. Gagné is a chartered accountant. In addition to his current activities set out in the Directors' table above, he also chairs the Audit Committees of the Boards of Directors of Textron Inc., Inmet Mining Corporation and Fraser Papers Inc. The CAE Board has determined that such simultaneous service does not impair the ability of Mr. Gagné to effectively serve on CAE's Audit Committee.

Mrs. Stevenson has extensive financial and accounting experience, including from her services as Treasurer of Nortel Networks Corporation, as Vice President, Corporate Finance with J.P. Morgan Chase & Co., a global financial services firm based primarily in New York, and as chair of the audit committee of OSI Pharmaceuticals, Inc.

11. APPROVAL OF SERVICES

The Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of CAE's independent auditor. The Audit Committee must pre-approve any audit and non-audit services performed by PricewaterhouseCoopers LLP ("PwC"), CAE's auditor, or such services must be entered into pursuant to the policies and procedures established by the Committee. Pursuant to such policies the Audit Committee annually authorizes CAE and our affiliates to engage the auditor for specified permitted tax, financial advisory and other audit-related services up to specified fee levels. The Audit Committee has considered and concluded

that the provision of these services by PwC is compatible with maintaining PwC's independence. The Audit Committee's policy also identifies prohibited services that PwC is not to provide to CAE.

The following chart shows all fees paid to PwC by CAE and our subsidiaries in the most recent and prior fiscal years for the various categories of services (generic description only).

FEE TYPE	**2009**	**2008**
	($ MILLIONS)	
1. Audit services	3.0	2.8
2. Audit-related services	0.4	0.2
3. Tax services	0.7	0.8
Total	**4.1**	**3.8**

1. Audit fees are comprised of fees billed for professional services for the audit of CAE's annual financial statements and services that are normally provided by PwC in connection with statutory and regulatory filings, including the audit of the internal controls over financial reporting as required by the Sarbanes-Oxley legislation.

2. Audit-related fees are comprised of fees relating to work performed in connection with CAE's acquisitions, translation and other miscellaneous accounting-related services.

3. Tax fees are related to tax compliance support.

12. ADDITIONAL INFORMATION

Additional information, including Directors' and Officers' remuneration and indebtedness, principal holders of CAE's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Proxy Information Circular dated June 12, 2009, in connection with CAE's Annual and Special Meeting of Shareholders on August 12, 2009. Additional financial information, including comparative consolidated audited financial statements and MD&A, are provided in CAE's Annual Report to the shareholders for the financial year ended March 31, 2009. A copy of such documents may be obtained from the Vice President, Global Communications or the Secretary of CAE upon request, or are available online at www.sedar.com, as well as CAE's website at www.cae.com.

In addition, CAE will provide to any person or company, upon request to the Vice President, Global Communications or the Secretary of CAE, the documents specified below:

(a) When the securities of CAE are in the course of a distribution under a preliminary short form prospectus or a short form prospectus:

(i) one copy of CAE's annual information form 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 CAE's comparative financial statements for our most recently completed financial year together with the accompanying report of the auditors and one copy of CAE's most recent interim financial statements for any period after the end of our most recently completed financial year;

(iii) one copy of the information circular in respect of our 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 CAE 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 CAE.

SCHEDULE A - SUBSIDIARIES

Set forth below are the names of all the direct and indirect subsidiaries of CAE as at March 31, 2009. All companies are wholly owned except as noted.

Name of Subsidiary	Jurisdiction of Incorporation
Canada	
BGT BioGraphic Technologies Inc.	Canada
CAE International Holdings Limited	Canada
CAE Machinery Ltd.	British Columbia
CAE Professional Services (Canada) Inc.	Canada
CAE Railway Ltd.	Canada
CAE Services (Canada) Inc.	Canada
CAE Simulator Services Inc.	Québec
CAE Wood Products G.P.[1]	Québec
Flightscape Incorporated	Ontario
Presagis Canada Inc.	Canada
United States	
CAE (US) Inc.	Delaware
CAE (US) LLC	Delaware
CAE Civil Aviation Training Solutions Inc.	Florida
CAE North East Training Inc.	Delaware
CAE SimuFlite Inc.	Texas
CAE Training Services USA Inc.	Delaware
CAE USA Inc.	Delaware
Embraer CAE Training Services, LLC. (49%)	Delaware
Engenuity Holdings (USA) Inc.	Delaware
KVDB Flight Training Services, Inc. (49%)	Arizona
Presagis USA Inc.	California
Sabena Airline Training Center, Inc.	Arizona
Xtend Inc.	Utah
Europe	
Academia Aeronautica De Evora S.A.(90%)	Portugal
Argo Stn Atlas Elektronik Gmbh (50%)[2]	Germany
AV Engineering Korlátolt Felelősségű Társaság	Hungary
B.V. Nationale Luchtvaartschool	Netherlands

[1] Partnership

[2] Partnership

Name of Subsidiary	**Jurisdiction of Incorporation**
CAE Aircrew Training Services plc (78%)	United Kingdom
CAE Aviation Training B.V.	Netherlands
CAE Beyss Grundstücksgesellschaft GmbH	Germany
CAE Center Amsterdam B.V.	Netherlands
CAE Center Brussels N.V	Belgium
CAE Center Maastricht B.V.	Netherlands
CAE Elektronik GmbH	Germany
CAE Euroco S.à.r.l.	Luxembourg
CAE Holdings BV	Netherlands
CAE Holdings Limited	United Kingdom
CAE International Capital Management Hungary LLC	Hungary
CAE Investments S.àr.l.	Luxembourg
CAE Services Italia, S.r.l.	Italy
CAE Servicios Globales de Instrucción de Vuelo (España) S.L.	Spain
CAE STS Limited	United Kingdom
CAE Training Aircraft B.V.	Netherlands
CAE (UK) plc	United Kingdom
CAE Verwaltungsgesellschaft mbH	Germany
CityLine Canadair Simulator und Training GmbH (15%)	Germany
CVS Leasing Limited (13.39%)	United Kingdom
Eurofighter Simulation Systems GmbH (12%)	Germany
Helicopter Training Media International GmbH (50%)	Germany
HFTS Helicopter Flight Training Services GmbH (25%)	Germany
Invertron Simulators plc	United Kingdom
Landmark Operations Limited	United Kingdom
Landmark Training Limited	United Kingdom
Presagis Europe (S.A.)	France
Rotorsim (Consortium) (50%)[3]	Italy
Sabena Flight Academy NV	Belgium
Sabena Flight Academy – Africa (48%)	Cameroun
Sabena Flight Academy – Consulting (25%)	Belgium
Sabena Flight Academy – Development (33%)	Belgium
SAGO Grünstucks-Verwaltungsgesellschaft mbH (51%)	Germany
SAGO Grünstucks-Verwaltungsgesellschaft mbH & Co. KG (95%)	Germany
Servicios de Instrucción de Vuelo, S.L. (80%)	Spain
Simubel N.V. (a CAE Aviation Training Company)	Belgium
SIV Ops Training, S.L.	Spain
ZFB Zentrum für Flugsimulation Berlin GmbH (17%)	Germany

[3] Partnership

Name of Subsidiary	Jurisdiction of Incorporation
Other	
CAE Australia Pty Ltd.	Australia
CAE Aviation Training Chile Limitada[4]	Chile
CAE Aviation Training International Ltd.	Mauritius
CAE China Support Services Company Limited	China
CAE Dubai LLC (49%)	Dubai
CAE Flight & Simulator Services Sdn. Bhd.	Malaysia
CAE Flight Training (India) Private Limited	India
CAE Flight Training Center Mexico, S.A. de C.V.	Mexico
CAE Labuan Inc.	Malaysia
CAE Professional Services Australia Pty Ltd.	Australia
CAE Simulation Technologies Private Limited	India
CAE Singapore (S.E.A.) Pte Ltd.	Singapore
CAE South America Flight Training do Brasil Ltda	Brazil
Emirates-CAE Training (L.L.C.) (49%)	Dubai
Flight Training Device (Mauritius) Limited	Mauritius
HATSOFF Helicopter Training Private Limited (50%)	India
International Flight School (Mauritius) Ltd.	Mauritius
Kestrel Technologies Pte Ltd.	Singapore
Macmet Technologies Private Limited (76%)	India
National Flying Training Institute Private Limited (51%)	India
Simulator Servicios Mexico, S.A. de C.V.	Mexico
Zhuhai Free Trade Zone Xiang Yi Aviation Technology Company Limited	China
Zhuhai Xiang Yi Aviation Technology Company Limited (49%)	China

DISCONTINUED OR INACTIVE

Name of Subsidiary	**Jurisdiction of Incorporation**
CAE Beteiligungsgesellschaft mbH	Germany
CAE MRAD Pty Ltd.	Australia
CAE Screenplates AB	Sweden
CAE Screenplates SA	France
ISDAT Simulation SDN BHD (20%)	Malaysia
Virtual Prototypes GmbH	Germany

[4] Partnership

SCHEDULE B – CAE'S AUDIT COMMITTEE MANDATE

ROLE AND MEMBERSHIP

The Audit Committee ("the Committee") shall be a committee to the Board of Directors.

The Committee shall consist of not fewer than four (4) such directors, one of whom shall be the Chairman of the Committee. All members of the Committee shall be independent directors, as determined by the Board taking into consideration applicable laws, regulations and other requirements applicable to such determination. Each member shall annually certify to CAE as to his or her independence, in form compliant with the standards of independence set out by regulatory authorities, stock exchanges and other applicable laws, regulations and requirements. Each member shall be able to read and understand financial statements (balance sheet, income statement, cash flow statement) that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by CAE's financial statements, or shall become able to do so within a reasonable period of time after joining the audit committee. One member shall have past employment in finance, accounting or any other comparable experience or background providing financial expertise. The Committee composition, including the qualifications of its members, shall comply with the requirements of regulatory authorities, stock exchanges and other applicable laws, regulations and requirements, as such requirements may be amended from time to time.

The Chairman of the Committee and its members shall be elected annually by the Board of Directors following recommendation of the Governance Committee and the Chairman of the Board. If the designated Chairman of the Committee is unable to attend a Committee meeting, the other Committee members present may elect a replacement Chairman for that meeting.

A majority of members of the Committee shall constitute a quorum.

RESPONSIBILITIES

Work closely and cooperatively with such officers and employees of CAE, its auditors, and/or other appropriate advisors and with access to such information as the Committee considers to be necessary or advisable in order to perform its duties and responsibilities, as assigned by the Board of Directors, in the following areas:

REVIEW OF AUDITED FINANCIAL STATEMENTS

1. Review the annual audited consolidated financial statements and make specific recommendations to the Board of Directors. As part of this process the Committee should:

    - Review the appropriateness of and any changes to the underlying accounting principles and practices.

    - Review the appropriateness of estimates, judgments of choice and level of conservatism of accounting alternatives.

    - Review financial risks, uncertainties, commitments and contingent liabilities and discuss

policies with respect to financial risk assessment and provide oversight of the existence and effectiveness of CAE's group-wide risk management program.

ENGAGEMENT OF EXTERNAL AUDITORS

2. Recommend to the Board of Directors the appointment of the external auditor, which shall be accountable to the Board and the audit committee as representatives of the shareholders.

3. Review and approval of engagement letter. As part of this review the committee reviews and recommends to the Board of Directors for their approval the auditors' fees for the annual audit. The Committee is responsible for the oversight of the work of the company's auditor for the purpose of preparing or issuing an audit report or related work, and the auditor shall report directly to the Committee. The Committee shall pre-approve the engagement of the external auditors for the audit, any audit-related services, advice with respect to taxation matters and other permitted services and fees for such services, including approval processes for any such service that comply with the requirements of regulatory authorities, stock exchanges and other applicable laws, regulations and requirements, as amended from time to time.

4. Receipt of a written statement not less than annually from the external auditor describing in detail all relationships between the auditor and CAE that may impact the objectivity and independence of the auditor. Review annually with the Board of Directors the independence of the external auditors and either confirm to the Board of Directors that the external auditors are independent in accordance with applicable listing requirements, laws, regulations and other rules, or recommend that the Board of Directors take appropriate action to satisfy itself of the external auditors' independence. Review and approve CAE's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of CAE.

REVIEW AND DISCUSSION WITH EXTERNAL AUDITORS

5. Review with the external auditors and management the annual external audit plans which would include objectives, scope, timing, materiality level and fee estimate.

6. Request and review an annual report prepared by the external auditors of any significant recommendations to improve internal control and corresponding management responses. Request and review an annual report prepared by the external auditors regarding the auditor's internal quality-control procedures, material issues raised by the most recent internal quality-control review of the auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding 5 years, respecting one or more audits carried out by the auditors, and any steps taken to deal with any such issues. Meet separately, periodically, with external auditors.

7. Make specific and direct inquiry of the external auditors relating to:

   - Performance of management involved in the preparation of financial statements.
   - Any restrictions on the scope of audit work.

- The level of cooperation received in the performance of the audit.
- The effectiveness of the work of internal audit.
- Any unresolved material differences of opinion or disputes between management and the external auditors, and be directly responsible for overseeing the resolution of disagreements between management and the external auditors regarding financial reporting.
- Any transactions or activities which may be illegal or unethical.
- Independence of the external auditor including the nature and fees of non-audit services performed by external audit firm and its affiliates.
- Any other matter so desired.

REVIEW AND DISCUSSION WITH INTERNAL AUDITORS

8. Review the annual internal audit plan including assessment of audit risk, planned activities, level and nature of reporting, audit organization and annual budget. Meet separately, periodically, with internal auditors.

9. Make specific and direct inquiry of the internal auditors relating to:
   - Any significant recommendations to improve internal control and corresponding management responses.
   - The level of independence of internal audit.
   - Any material disagreement with management.
   - Any other matter so desired.

REVIEW AND DISCUSSION WITH MANAGEMENT

10. Review and assess the adequacy and quality of organization and staffing for accounting and financial responsibilities as well as discuss with management the annual audited financial statements and quarterly financial statements and the independent auditor, including CAE's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

11. Review with management the annual performance of external and internal audit.

REVIEW OF OTHER PUBLIC DOCUMENTS

12. Ensure the Committee reviews all material public documents relating to CAE's financial performance, financial position or analyses thereon, including financial statements, MD&A, annual and interim earnings press releases and the Annual Information Form (AIF), prior to their release. Review and monitor practices and procedures adopted by the company to assure compliance with applicable listing requirements, laws, regulations and other rules, and where appropriate, make recommendations or reports thereon to the Board of Directors.

Discuss CAE's financial information and earnings guidance, if any, provided to analysts and rating agencies.

13. Review significant changes in the accounting principles to be observed in the preparation of the accounts of the company and its subsidiaries, or in their application, and in financial disclosure presentation.

14. Prepare such reports of the Committee as may be required by any applicable securities regulatory authority to be included in the company's information circular or any other disclosure document of the company.

15. The Committee shall review and approve the procedures set out in the company's Corporate Communications & Disclosure Policy and will annually verify that adequate procedures exist within the company for the review of its disclosure of financial information derived from its financial statements.

OTHER RESPONSIBILITIES

16. The Board may refer from time to time such matters relating to the financial affairs of the company as the Board may deem appropriate.

MEETINGS

17. The Committee shall meet at such times as deemed necessary by the Board or the Committee and shall report regularly to the Board.

ENGAGEMENT OF PROFESSIONAL SERVICES

18. The Committee is authorized to engage independent counsel, and other advisers, as it determines necessary to carry out its duties. The company shall provide for appropriate funding, as determined by the Committee, for such services.

HANDLING OF COMPLAINTS

19. The Committee shall maintain procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters.

ANNUAL REVIEW

20. The Committee shall review and assess the adequacy of its mandate annually, report to the Board of Directors thereon and recommend any proposed changes to the Board of Directors for approval. The Committee shall also perform an annual evaluation of the performance of the Committee and shall report to the Chairman of the Governance Committee of the CAE Board of Directors thereon.