

CAE INC.

CONSOLIDATED FINANCIAL STATEMENTS

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Management's Report on Internal Control Over Financial Reporting

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

As of March 31, 2010, management conducted an assessment of the effectiveness of the Company's internal control over the financial reporting based on the framework and criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting as of March 31, 2010 was effective.



M. Parent
President and Chief Executive Officer



A. Raquepas
Vice-president, Finance and Chief Financial Officer

Montreal (Canada)
May 13, 2010

Independent Auditor's Report

To the Shareholders of CAE Inc.

We have completed integrated audits of the consolidated financial statements and internal control over financial reporting of CAE Inc. (the "Company") as at March 31, 2010, 2009 and 2008. Our opinions, based on our audits, are presented below.

Consolidated financial statements

We have audited the accompanying consolidated balance sheets of the Company as at March 31, 2010 and 2009, and the related consolidated statements of earnings, changes in shareholders' equity, comprehensive (loss) income, accumulated other comprehensive loss and cash flows for each of the three years in the period ended March 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the Company's financial position as at March 31, 2010 and 2009 and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2010 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2010 in accordance with Canadian generally accepted accounting principles.

Internal control over financial reporting

We have also audited the Company's internal control over financial reporting as at March 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at March 31, 2010 based on criteria established in Internal Control – Integrated Framework issued by the COSO.

*PricewaterhouseCoopers LLP*¹

May 13, 2010
Montréal, Quebec, Canada

¹ Chartered accountant auditor permit No.12300

Consolidated Balance Sheets

As at March 31

(amounts in millions of Canadian dollars)

	2010	2009
		Restated (Note 2)
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 312.9	\$ 195.2
Accounts receivable (Note 6)	237.5	322.4
Contracts in progress	220.6	215.3
Inventories (Note 7)	126.9	118.9
Prepaid expenses	33.7	31.3
Income taxes recoverable	24.3	11.5
Future income taxes (Note 15)	7.1	5.3
	\$ 963.0	\$ 899.9
Property, plant and equipment, net (Note 8)	1,147.2	1,302.4
Future income taxes (Note 15)	82.9	86.1
Intangible assets (Note 9)	125.4	99.5
Goodwill (Note 10)	161.9	159.1
Other assets (Note 11)	141.5	118.8
	\$ 2,621.9	\$ 2,665.8
Liabilities and shareholders' equity		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities (Note 12)	\$ 467.8	\$ 540.4
Deposits on contracts	199.7	203.8
Current portion of long-term debt (Note 13)	51.1	125.6
Future income taxes (Note 15)	23.0	20.9
	\$ 741.6	\$ 890.7
Long-term debt (Note 13)	441.6	354.7
Deferred gains and other long-term liabilities (Note 14)	200.5	184.9
Future income taxes (Note 15)	82.4	37.7
	\$ 1,466.1	\$ 1,468.0
Shareholders' equity		
Capital stock (Note 16)	\$ 441.5	\$ 430.2
Contributed surplus	10.9	10.1
Retained earnings	918.8	805.0
Accumulated other comprehensive loss	(215.4)	(47.5)
	\$ 1,155.8	\$ 1,197.8
	\$ 2,621.9	\$ 2,665.8

Contingencies and commitments (Notes 21 and 22)

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

Approved by the Board:


M. Parent
Director

L. R. Wilson
Director

Consolidated Statements of Earnings

Years ended March 31

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

	2010	2009	2008
		Restated (Note 2)	Restated (Note 2)
Revenue	\$ 1,526.3	\$ 1,662.2	\$ 1,423.6
Earnings before restructuring, interest and income taxes	\$ 264.1	\$ 305.8	\$ 250.6
Restructuring charge (Note 25)	34.1	–	–
Earnings before interest and income taxes (Note 27)	\$ 230.0	\$ 305.8	\$ 250.6
Interest expense, net (Note 13)	26.0	20.2	17.5
Earnings before income taxes	\$ 204.0	\$ 285.6	\$ 233.1
Income tax expense (Note 15)	59.5	83.4	69.7
Earnings from continuing operations	\$ 144.5	\$ 202.2	\$ 163.4
Results of discontinued operations (Note 5)	–	(1.1)	(12.1)
Net earnings	\$ 144.5	\$ 201.1	\$ 151.3
Basic and diluted earnings per share from continuing operations	\$ 0.56	\$ 0.79	\$ 0.64
Basic earnings per share	\$ 0.56	\$ 0.79	\$ 0.60
Diluted earnings per share	\$ 0.56	\$ 0.79	\$ 0.59
Weighted average number of shares outstanding (basic) (Note 16)	255.8	254.8	253.4
Weighted average number of shares outstanding (diluted) (Note 16) ⁽¹⁾	255.8	255.0	254.6

⁽¹⁾ For fiscal year 2010, the effect of stock options potentially exercisable was anti-dilutive; therefore, the basic and diluted weighted average number of shares outstanding are the same.

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

Consolidated Statements of Changes in Shareholders' Equity

Year ended March 31, 2010

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

	Common Shares Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, beginning of year	255,146,443	\$ 430.2	\$ 10.1	\$ 805.0	\$ (47.5)	\$ 1,197.8
Stock options exercised	1,327,220	7.5	–	–	–	7.5
Transfer upon exercise of stock options	–	3.4	(3.4)	–	–	–
Stock dividends	43,331	0.4	–	(0.4)	–	–
Stock-based compensation (Note 17)	–	–	4.2	–	–	4.2
Net earnings	–	–	–	144.5	–	144.5
Dividends	–	–	–	(30.3)	–	(30.3)
Other comprehensive loss	–	–	–	–	(167.9)	(167.9)
Balance, end of year	256,516,994	\$ 441.5	\$ 10.9	\$ 918.8	\$ (215.4)	\$ 1,155.8

The total of *Retained earnings* and *Accumulated other comprehensive loss* for the year ended March 31, 2010 was \$703.4 million (2009 – \$757.5 million; 2008 – \$512.1 million).

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

Consolidated Financial Statements

Year ended March 31, 2009

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

	Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, beginning of year, restated	253,969,836	\$ 418.9	\$ 8.3	\$ 634.5	\$ (122.4)	\$ 939.3
Stock options exercised	1,077,200	9.3	—	—	—	9.3
Transfer upon exercise of stock options	—	1.0	(1.0)	—	—	—
Stock dividends	99,407	1.0	—	(1.0)	—	—
Stock-based compensation (Note 17)	—	—	2.8	—	—	2.8
Net earnings, restated (Note 2)	—	—	—	201.1	—	201.1
Dividends	—	—	—	(29.6)	—	(29.6)
Other comprehensive income, restated (Note 2)	—	—	—	—	74.9	74.9
Balance, end of year, restated	255,146,443	\$ 430.2	\$ 10.1	\$ 805.0	\$ (47.5)	\$ 1,197.8

Year ended March 31, 2008

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

	Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, beginning of year, as previously reported	251,960,449	\$ 401.7	\$ 5.7	\$ 501.9	\$ (91.2)	\$ 818.1
Adjustment for change in accounting policy (Note 2)	—	—	—	(8.6)	—	(8.6)
Balance, beginning of year, restated	251,960,449	\$ 401.7	\$ 5.7	\$ 493.3	\$ (91.2)	\$ 809.5
Shares issued	169,851	0.8	—	—	—	0.8
Stock options exercised	1,814,095	13.9	—	—	—	13.9
Transfer upon exercise of stock options	—	2.2	(2.2)	—	—	—
Stock dividends	25,441	0.3	—	(0.3)	—	—
Stock-based compensation (Note 17)	—	—	4.8	—	—	4.8
Net earnings, restated (Note 2)	—	—	—	151.3	—	151.3
Dividends	—	—	—	(9.8)	—	(9.8)
Other comprehensive loss, restated (Note 2)	—	—	—	—	(31.2)	(31.2)
Balance, end of year, restated	253,969,836	\$ 418.9	\$ 8.3	\$ 634.5	\$ (122.4)	\$ 939.3

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

Consolidated Statements of Comprehensive (Loss) Income

Years ended March 31

(amounts in millions of Canadian dollars)

	2010	2009	2008
		Restated (Note 2)	Restated (Note 2)
Net earnings	\$ 144.5	\$ 201.1	\$ 151.3
Other comprehensive (loss) income, net of income taxes:			
Foreign currency translation adjustment			
Net foreign exchange (losses) gains on translation of financial statements of self-sustaining foreign operations	\$ (225.0)	\$ 113.5	\$ (49.4)
Net change in gains (losses) on certain long-term debt denominated in foreign currency and designated as hedges on net investments in self-sustaining foreign operations	18.3	(7.7)	15.7
Reclassifications to income	0.3	(1.9)	–
Income tax	(0.6)	(1.3)	(0.6)
	\$ (207.0)	\$ 102.6	\$ (34.3)
Net changes in cash flow hedge			
Net change in gains (losses) on derivative items designated as hedges of cash flows	\$ 58.1	\$ (48.8)	\$ 29.7
Reclassifications to income or to the related non-financial assets or liabilities	(2.2)	10.4	(25.2)
Income tax	(16.8)	10.7	(1.4)
	\$ 39.1	\$ (27.7)	\$ 3.1
Total other comprehensive (loss) income	\$ (167.9)	\$ 74.9	\$ (31.2)
Comprehensive (loss) income	\$ (23.4)	\$ 276.0	\$ 120.1

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

Consolidated Statement of Accumulated Other Comprehensive Loss

As at and for the year ended March 31, 2010 (amounts in millions of Canadian dollars)	Foreign Currency Translation Adjustment	Cash Flow Hedge	Accumulated Other Comprehensive Loss
Balance in accumulated other comprehensive loss, beginning of year, as previously reported	\$ (20.4)	\$ (28.1)	\$ (48.5)
Adjustment for change in accounting policy (Note 2)	1.0	–	1.0
Balance in accumulated other comprehensive loss, beginning of year, restated	\$ (19.4)	\$ (28.1)	\$ (47.5)
Details of other comprehensive loss:			
Net change in (losses) gains	(206.7)	58.1	(148.6)
Reclassifications to income or to the related non-financial assets or liabilities	0.3	(2.2)	(1.9)
Income tax	(0.6)	(16.8)	(17.4)
Total other comprehensive loss for the year	\$ (207.0)	\$ 39.1	\$ (167.9)
Balance in accumulated other comprehensive loss, end of year	\$ (226.4)	\$ 11.0	\$ (215.4)

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

Consolidated Statements of Cash Flows

Years ended March 31

(amounts in millions of Canadian dollars)

	2010	2009	2008
		Restated (Note 2)	Restated (Note 2)
Operating activities			
Net earnings	\$ 144.5	\$ 201.1	\$ 151.3
Results of discontinued operations (Note 5)	–	1.1	12.1
Earnings from continuing operations	\$ 144.5	\$ 202.2	\$ 163.4
Adjustments to reconcile earnings to cash flows from operating activities:			
Depreciation	75.4	71.3	60.6
Financing cost amortization	0.8	0.8	0.8
Amortization of intangible and other assets	17.8	17.6	14.9
Future income taxes (Note 15)	27.2	8.5	26.9
Investment tax credits	(8.6)	19.9	15.4
Stock-based compensation plans (Note 17)	13.9	(11.5)	(0.8)
Employee future benefits, net (Note 24)	(1.4)	0.4	0.1
Amortization of other long-term liabilities	(7.3)	(9.6)	(6.8)
Other	8.3	(10.1)	(0.6)
Changes in non-cash working capital (Note 20)	(3.6)	(95.1)	(16.9)
Net cash provided by operating activities	\$ 267.0	\$ 194.4	\$ 257.0
Investing activities			
Business acquisitions, net of cash and cash equivalents acquired (Note 3)	\$ (34.7)	\$ (41.5)	\$ (41.8)
Capital expenditures	(130.9)	(203.7)	(189.5)
Proceeds from the disposal of property, plant and equipment	8.8	–	–
Deferred development costs	(14.6)	(10.5)	(16.5)
Other	(13.0)	(5.7)	(5.5)
Net cash used in investing activities	\$ (184.4)	\$ (261.4)	\$ (253.3)
Financing activities			
Proceeds from long-term debt, net of transaction costs and the hedge accounting adjustment (Note 13)	\$ 191.0	\$ 50.3	\$ 141.1
Repayment of long-term debt (Note 13)	(118.7)	(27.8)	(37.4)
Proceeds from capital lease (Note 13)	21.6	–	–
Repayment of capital lease (Note 13)	(2.0)	–	–
Dividends paid	(30.3)	(29.6)	(9.8)
Common stock issuance (Note 16)	7.5	9.3	13.9
Other	(1.9)	(13.4)	(5.9)
Net cash provided by (used in) financing activities	\$ 67.2	\$ (11.2)	\$ 101.9
Effect of foreign exchange rate changes on cash and cash equivalents	\$ (32.1)	\$ 17.7	\$ (0.1)
Net increase (decrease) in cash and cash equivalents	\$ 117.7	\$ (60.5)	\$ 105.5
Cash and cash equivalents, beginning of year	195.2	255.7	150.2
Cash and cash equivalents, end of year	\$ 312.9	\$ 195.2	\$ 255.7

Supplementary Cash Flows Information (Note 20)

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