CAE

First quarter report 2008

Management's discussion and analysis
for the three months ended June 30, 2007

August 9, 2007

1. HIGHLIGHTS

FINANCIAL
FIRST QUARTER OF FISCAL 2008

Higher revenue over last quarter and year over year

- Consolidated revenue was $358.3 million this quarter, $21.0 million higher than last quarter and $56.5 million or 19% higher than the same quarter last year.

Higher earnings, net earnings and earnings per share over last quarter and year over year

- Earnings from continuing operations were $38.7 million (or $0.15 per share) this quarter, compared to $35.1 million (or $0.14 per share) last quarter.
- Earnings from continuing operations were $33.0 million (or $0.13 per share) in the first quarter of last year. Excluding non-recurring items[1], earnings from continuing operations were $31.0 million (or $0.12 per share) in the first quarter of last year.

Positive free cash flow[2] at $10.7 million

- Net cash from continuing operations was at a negative $28.7 million this quarter mainly due to non-cash working capital, compared to $92.2 million last quarter and $29.9 million in the first quarter of last year.
- Capital expenditures were $32.7 million this quarter, compared to $33.8 million last quarter and $40.7 million in the first quarter of last year.
- Non-recourse financing of $82.1 million received this quarter.

Capital employed[3] is higher

- Capital employed increased by 8% or $78.3 million this quarter, ending at $1,041.2 million.
- Non-cash working capital[4] increased by $101.8 million this quarter, ending at negative $16.3 million.
- Net debt[5] increased by $88.0 million this quarter, ending at $221.0 million.

ORDERS

- Total order intake was $307.5 million, compared to $410.4 million last quarter and $296.7 million in the first quarter of last year.
- Total backlog[6] was $2,599.5 million as at June 30, 2007.

[1] Non-GAAP measure (see Section 4.2).
[2] Non-GAAP measure (see Section 6.1).
[3] Non-GAAP measure (see Section 7.1).
[4] Non-GAAP measure (see Section 7.1).
[5] Non-GAAP measure (see Section 7.1).
[6] Non-GAAP measure (see Section 4.3).

Civil segments

Simulation Products/Civil won over $160 million of orders including 12 full-flight simulators (FFSs)

- Two B787 FFSs to Japan Airlines
- One Embraer 190 FFS to Flight Training Finance
- Two B757 FFSs to an undisclosed customer
- One A320 FFS to Ansett Flight Simulator Centre
- One Dash 8 Q400 FFS-5000 to Lufthansa Flight Training
- One B747-8F FFS to Nippon Cargo Airlines
- One Embraer 145 FFS to Hainan Airlines
- One B777 FFS to Emirates
- One B747-8F FFS to Cargolux International Airlines
- One A330/340 FFS to the Federal Aviation Administration (FAA)

In addition, the CAE-Embraer planned joint venture committed to two CAE 5000 Series Phenom FFSs.

Training & Services/Civil awarded over $66 million in contracts

- Signed a 20-year agreement to become an authorized training provider for the Bombardier Global Express aircraft, Global 5000 aircraft, Global Express XRS aircraft and Bombardier Challenger 300 aircraft.
- Signed a five-year contract with Flight Options to become the exclusive provider for all Flight Options maintenance technician training until 2012.
- Achieved a major milestone with the delivery of the first Dassault Falcon 7X training program on the same date the aircraft was certified and ahead of aircraft delivery to customer.

Military segments

Simulation Products/Military won orders for more than $39 million for new training systems and upgrades

- Modification of two CH-53 simulators for the German Army Aviation School in Bueckeburg.
- Increased scope for the integration of the Eurofighter full mission simulator and cockpit trainer.
- Software upgrade for the C-130J device suite provided to the British Royal Air Force.
- Software upgrade for the U.S. Air Force C-130J device suite.

Training & Services/Military awarded contracts for $36 million

- Continuation of avionic software upgrades, integrated logistics support and data management services for the Canadian Forces' CF-18 aircraft.
- Contractor logistics, maintenance, pilot instruction, courseware development and training system support of the C-130J for the U.S. Air Force.
- Contractor logistics and maintenance support for the LASAR and MH47 devices provided to the U.S. Special Forces Operations.

ACQUISITIONS AND JOINT VENTURES

- Integration into our results of the acquisition of Engenuity as of April 13, 2007.
- Integration into our results of the acquisition of MultiGen-Paradigm Inc. (MultiGen) as of May 10, 2007.
- Signed an agreement in July (after quarter-end) to acquire Macmet Technologies Limited (Macmet) for approximately $5 million in cash. Macmet is based in Bangalore, India.

OTHER

- We secured US$105 million in long-term, non-recourse financing in support of the expansion of our training centres in Burgess Hill, U.K. and Morristown, New Jersey. As of June 30, 2007, US$71 million has been drawn down by CAE under the facility and the remaining balance is expected to be drawn down by the end of the fiscal year.

2. INTRODUCTION

In this report, *we, us, our, CAE* and *company* refer to CAE Inc. and its subsidiaries. Unless we have indicated otherwise:

- *This year* and *2008* mean the fiscal year ending March 31, 2008.
- *Last year, prior year* and *a year ago* mean the fiscal year ended March 31, 2007.
- Dollar amounts are in Canadian dollars.

This report was prepared as of August 9, 2007, and includes our management's discussion and analysis (MD&A), financial statements and notes for the first quarter ended June 30, 2007. We have written it to help you understand our business, performance and financial condition in the first quarter of fiscal 2008. Except as otherwise indicated, all financial information has been reported according to Canadian generally accepted accounting principles (GAAP).

For additional information, please refer to our financial statements for the quarter ended June 30, 2007, and our annual consolidated financial statements, which you will find in our annual report for the year ended March 31, 2007. The MD&A section of our 2007 annual report also contains more information about:

- Our vision, our strategy and key performance drivers
- Business risk and uncertainty
- Foreign exchange
- Financial measures
- Acquisitions, business combinations and divestitures
- Controls and procedures
- The oversight role of the Audit Committee and Board of Directors.

You will find our most recent annual report and annual information form (AIF) on our website at www.cae.com, on SEDAR at www.sedar.com or on EDGAR at www.sec.gov.

ABOUT MATERIAL INFORMATION

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

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

ABOUT FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements about our markets, future financial performance, business strategy, plans, goals and objectives. Forward-looking statements normally contain words like *believe, expect, anticipate, intend, continue, estimate, may, will, should* and similar expressions.

We have based these statements on estimates and assumptions that we believed were reasonable when the statements were prepared. Our actual results could be substantially different because of the risks and uncertainties associated with our business, or because of events that are announced or completed after the date of this report, including mergers, acquisitions, other business combinations and divestitures. You will find more information about the risks and uncertainties associated with our business in our 2007 annual report.

We do not update or revise forward-looking information even if new information becomes available unless legislation requires us to do so. You should not place undue reliance on forward-looking statements.

3. ABOUT CAE

3.1 WHO WE ARE

CAE is a world leader in providing simulation and modelling technologies and integrated training services to the civil aviation industry and defence forces around the globe.

We design, manufacture and supply simulation equipment and provide training and services. This includes integrated modelling, simulation and training solutions for commercial airlines, business aircraft operators, aircraft manufacturers and military organizations, and a global network of training centres for pilots, and in some instances, cabin crew and maintenance workers.

Our full-flight simulators (FFSs) 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.

Founded in 1947 and headquartered in Montreal, Canada, CAE has built an excellent reputation and long-standing customer relationships based on 60 years of experience, strong technical capabilities, a highly trained workforce and global reach. More than 5,500 employees work in production and training facilities in 19 countries around the world. Approximately 90% of CAE's annual revenues come from worldwide exports and international activities.

CAE's common shares are listed on the following exchanges:

- Toronto Stock Exchange, under the symbol *CAE.*
- New York Stock Exchange, under the symbol *CGT*.

3.2 OUR VISION

Our vision is to be a world leader in modelling, simulation and technical training to enhance safety and to lower risk and costs in complex environments.

We are ranked number one or two in most of our core businesses, but competition is intense and maintaining our technological leadership and cost effectiveness is key to continued success. We have been successful at changing the way we do business, strengthening our financial position and building a solid foundation for creating shareholder value in the future.

Our focus continues to be to position CAE for growth and to move ahead in achieving our vision.

3.3 OUR OPERATIONS

CAE serves two markets globally:

- The civil market includes aircraft manufacturers, major commercial airlines, regional airlines, business aircraft operators, helicopter operators, training centres and pilot provisioning.
- The military market includes defence forces worldwide.

We manage our operations and report our results in four segments, one for products and one for services, for each market. Each segment is a significant contributor to our overall results.

CIVIL MARKET

Simulation Products/Civil (SP/C)
Designs, manufactures and supplies civil flight simulation training devices and visual systems

Our SP/C segment is the world leader in civil flight simulation. We design and manufacture more civil FFSs and visual systems for major and regional carriers, third-party training centres, and original equipment manufacturers (OEMs) than any other company. We have a wealth of experience in developing prototype simulators for new types of aircraft, including over 20 models in the past and, more recently, the Airbus A380 and Dassault 7X. We also offer a full range of support services including sales of spare parts, simulator updates and simulator relocations.

Training & Services/Civil (TS/C)
Provides business and commercial aviation training for all flight and ground personnel and all associated services

Our TS/C segment is the second largest provider of civil aviation training services in the world, and serves all sectors of the market including general aviation, regional airlines, commercial airlines and business aviation. We also offer a full range of support services, such as training centre management, simulator maintenance services, spare parts and inventory management, curriculum development and consulting services. We have achieved our leading position through acquisitions, joint ventures and by building new facilities. We currently have more than 115 FFSs installed in more than 20 training centres around the world. We intend to increase the number of revenue simulator equivalent units (RSEUs) in our network to maintain our position and address new market opportunities. We are developing our training network to meet the long-term, steady stream of recurring training needs so we rely less on new aircraft deliveries to drive revenue.

Market trends and outlook
We continue to have a positive outlook for the civil market because of the following trends:
- Positive economic indicators
- Continued growth in revenue per passenger kilometre
- Strong aircraft orders and new platforms
- Growing demand for trained pilots.

Positive economic indicators
GDP and growth in corporate profits driving business aviation market
Business aviation is experiencing a strong and growing training market because fleets are active, projections for business jet deliveries are high and new operators are entering the market. We expect the development of the Very Light Jet (VLJ) and Light Jet (LJ) segments to lead to opportunities for training and other services in the future.

New and emerging markets
Emerging markets such as Asia-Pacific, the Indian sub-continent and the Middle East continue to experience high growth in air traffic, strong economic growth and an increasing liberalization of air policy and bilateral air agreements. We expect these markets to drive the demand for FFSs and training centres.

Continued growth in revenue per passenger kilometre
Steady growth in air travel
We anticipate that the long-term, steady growth in passenger traffic should continue for the foreseeable future. We expect passenger demand growth to be around 5.5% in calendar 2007. This is barring any major developments such as excessive fuel prices, regional political instability, acts of terrorism, pandemics or other world events.

Continued growth of low-cost airlines
The growth of low-cost airlines continues to be a major factor driving activity in the civil aviation market, and the demand for simulation products and training services. In 2006, low-cost airlines represented more than 27% of capacity in the U.S., and more than 24% in Europe. These percentages are expected to grow as low-cost airlines expand their fleets. In the Asia-Pacific

region, low-cost airlines are likely to represent 25% market share by 2012. CAE clients such as Ryanair and IndiGo are representative of low-cost carriers expanding their fleets and capacity, thus spurring increasing demand for pilot training equipment and services such as pilot provisioning.

Slower activity in mature markets

High fuel costs and intense domestic competition are affecting the performance of many commercial airlines in mature markets such as North America. The North American market has started to show two key signs of recovery:

- Some legacy carriers have emerged from Chapter 11 and returned to profitability.
- Some airlines have made initial orders to replace their fleets, and we expect this trend to continue for the next few years.

Strong aircraft orders and new platforms

New aircraft platforms

Original equipment manufacturers are introducing new platforms, which will drive worldwide demand for simulators and training. The Boeing 787, Boeing 747-8, Airbus A350XWB, Embraer 190, Embraer Phenom 100 and 300 and the Eclipse 500 VLJs are some recent examples.

New platforms will drive the demand for new kinds of simulators. One of our strategic priorities is to partner with manufacturers to strengthen relationships and position ourselves for future opportunities. For example, CAE has established a joint venture with Embraer to provide comprehensive training for the new Phenom 100 Very Light Jet and Phenom 300 Light Jet aircraft.

Strong aircraft orders

In calendar 2006, Boeing received a total of 1,058 orders for new aircraft and Airbus received 824 orders. Their strong delivery forecast and increased production of narrow body models are expected to help generate opportunities for our full portfolio of training products and services. It is important to note that deliveries of new model aircrafts are susceptible to delays of program launches, which may affect our deliveries.

Growing demand for trained crew members

Worldwide demand is increasing

Growth in the civil aviation market is continuing to drive the demand for pilots, maintenance technicians and flight attendants worldwide, which is creating a shortage of qualified crew members. The shortage is even more pronounced because of aging demographics and fewer military pilots transferring to civil airlines, and low enrolment in technical schools. Emerging markets like India and China are experiencing this even more severely because air traffic is growing more quickly there than in developed countries, and there is less infrastructure to meet the current and projected demand for crew members.

This 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. For example, in June 2007 we announced a memorandum of understanding (MOU) with the Government of India to develop the National Flying Training Institute and also another MOU to manage the Indian government's Indira Gandhi Rashtriya Uran Akademi (IGRUA) flight training academy.

The crew shortage is also surfacing on the maintenance technician side and has created an opportunity for CAE to accelerate its training solutions available for maintenance technician training and explore opportunities for maintenance technician provisioning solutions. This trend is, to a lesser degree, also affecting flight attendants, 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 (ICAO) and which is expected to be approved for adoption during calendar 2007. The MPL process places more emphasis on simulation-based training to develop *ab initio* students into first officers for modern airliner aircraft. MPL is expected to be widely adopted in emerging markets like China, India and Southeast Asia where there is expected to be the greatest need to produce a large supply of qualified pilots in the most efficient and effective manner. CAE has been introducing new products designed specifically to address new and emerging markets, such as the CAE 5000 Series full-flight simulator and CAE True Environment for more realistic air traffic control environment simulation.

MILITARY MARKET

Simulation Products/Military (SP/M)
Designs, manufactures and supplies advanced military training equipment for air forces, armies and navies

Our SP/M segment is a world leader in the design and production of military flight simulation equipment. We develop simulation equipment and training systems for a variety of military aircraft, including fighter jets, helicopters and 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 weapons and military sensors. We have delivered simulation products and training systems to the military forces of more than 35 countries, including all of the U.S. services. We have also developed more training systems for the C-130 Hercules than any other company.

Training & Services/Military (TS/M)
Supplies turnkey training and operations solutions, support services, systems maintenance and modelling and simulation solutions

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

Market trends and outlook
While we expect defence budgets around the world to continue to grow modestly, including in the United States, which is the world's largest defence market, we believe that our share of that spending will increase for the following reasons:
- Demand for our type of products and services is growing
- The nature of warfare is changing.

Demand for our type of 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, NH Industries is starting to deliver the NH90 helicopter, EADS CASA is aggressively marketing the C-295 transport worldwide, and Sikorsky is offering new models of its H-60 helicopter to armies and navies worldwide, all of which fuel the demand for new types of simulators.

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, CAE is part of a consortium that will begin offering NH90 training to Germany and other militaries in fiscal 2008.

Greater use of 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 systems 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.

Extension and upgrade of existing weapon systems 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. For example, this quarter we won several contracts to upgrade simulators for the German Army and the British and U.S. Air Forces.

The nature of warfare has changed

Demand for networking

The nature of warfare has changed. Allies are co-operating 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 and 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, we recently delivered a MH-47G combat mission simulator to the U.S. Army's 160th Special Operations Aviation Regiment that features the CAE-developed Common Environment/Common Database (CE/CDB). The CE/CDB promises to significantly enhance rapid mission rehearsal capabilities in simulation.

4. CONSOLIDATED RESULTS

4.1 RESULTS OF OUR OPERATIONS – FIRST QUARTER OF FISCAL 2008

Summary of consolidated results

(amounts in millions, except per share amounts)		**Q1-2008**	Q4-2007	Q3-2007	Q2-2007	Q1-2007
Revenue	$	**358.3**	337.3	331.2	280.4	301.8
Earnings before interest and income taxes (EBIT)	$	**58.0**	53.3	44.2	44.8	47.1
As a % of revenue	*%*	***16.2***	*15.8*	*13.3*	*16.0*	*15.6*
Interest expense, net	$	**2.6**	3.5	2.9	1.2	3.0
Earnings from continuing operations (before taxes)	$	**55.4**	49.8	41.3	43.6	44.1
Income tax expense	$	**16.7**	14.7	11.6	12.3	11.1
Earnings from continuing operations	$	**38.7**	35.1	29.7	31.3	33.0
Results from discontinued operations	$	**-**	(0.8)	-	(0.3)	(0.6)
Net earnings	$	**38.7**	34.3	29.7	31.0	32.4
Basic and diluted EPS from continuing operations	$	**0.15**	0.14	0.12	0.12	0.13
Basic and diluted EPS	$	**0.15**	0.14	0.12	0.12	0.13

Summary of results excluding non-recurring items

(amounts in millions, except per share amounts)		**Q1-2008**	Q4-2007	Q3-2007	Q2-2007	Q1-2007
Earnings from continuing operations (before taxes)	$	**55.4**	48.7	44.1	43.9	44.4
Net earnings from continuing operations	$	**38.7**	35.1	32.0	31.2	31.0
Basic and diluted EPS from continuing operations	$	**0.15**	0.14	0.13	0.12	0.12

Revenue was 6% higher than last quarter and 19% higher year over year

Revenue was $21.0 million higher than last quarter mainly because of the SP/C segment, where revenue increased by $15.4 million or 16% because of a higher number of recent orders. SP/M increased its revenue by 4%, TS/C by 3% and TS/M was similar to last quarter. This includes a negative impact from the appreciation of the Canadian dollar against the euro, the British pound and the U.S. dollar.

Revenue was $56.5 million higher than the same period last year because of the SP/C segment, where revenue increased by $38.8 million or 52% because of higher number of recent orders. Increase in revenue was also attributed to the TS/C segment, where revenue increased by $11.1 million, or 13%, due to stronger demand for training and the TS/M segment, where revenue increased by $6.9 million, or 14%, due to the integration of Engenuity and Kesem International Pty Ltd. (Kesem). The foreign exchange fluctuation compared to the same period last year, had a minimal impact on the increase in revenue since the appreciation of the Canadian dollar against the U.S. dollar was offset by the depreciation of the Canadian dollar against the euro and the British pound.

You will find more details in *Results by segment*.

EBIT[7] was $4.7 million higher than last quarter and $10.9 million higher year over year
EBIT for this quarter was $58.0 million, or 16.2% of revenue. There was no impact resulting from the effect of non-recurring items.

Compared to last quarter, EBIT was up by 9% or $4.7 million. Increased segment operating income[8] from SP/M, SP/C and TS/M segments were partly offset by a slight decrease in the TS/C segment.

Year over year, EBIT was up by 23% or $10.9 million mainly because of higher segment operating income from the SP/C, SP/M, and TS/C segments, which was partly offset by a decrease in the TS/M segment. Excluding non-recurring items, EBIT increased by $10.6 million.

Net interest expense was $0.9 million lower than last quarter and $0.4 million lower year over year
Net interest expense was 26% lower than last quarter mainly due to lower interest on long-term debt. This was partly offset by lower interest income.

Net interest expense was lower than the same period last year mainly due to higher other interest income, which was partly offset by higher interest expense on long-term debt.

Effective income tax rate is 30% this quarter
Income taxes this quarter were $16.7 million, representing an effective tax rate of 30%, compared to 30% for the last quarter and 25% for the first quarter of fiscal 2007. The tax rate was lower for the first quarter of fiscal 2007 for two reasons:

- We reduced the valuation allowance on net operating losses in the U.K., which enabled us to recognize $2.0 million in tax assets.
- The Canadian tax rate was reduced, which enabled us to recognize $1.0 million in reduction of future tax liabilities.

We expect the effective income tax rate for fiscal 2008 to be approximately 30%.

Results from discontinued operations
The adjustments to current earnings from gains and/or losses related to discontinued operations were nominal this quarter.

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[7] Earnings before interest and taxes (EBIT) is a non-GAAP measure that shows us how we have performed before the effects of certain financing decisions and tax structures. We track EBIT because we believe it makes it easier to compare our performance with previous periods, and with companies and industries that do not have the same capital structure or tax laws.

[8] Segment operating income (SOI) is a non-GAAP measure and our key indicator of each segment's financial performance. This measure gives us a good indication of the profitability of each segment because it does not include the impact of any items not specifically related to the segment's performance. These items are presented in the reconciliation between total segment operating income and EBIT (see Note 11 to the consolidated financial statements).

4.2 EARNINGS EXCLUDING NON-RECURRING ITEMS

The table below shows how non-recurring items[9] have affected our results in each of the reporting periods. We believe this supplemental information is a useful indication of our performance before these non-recurring items. It is important, however, not to confuse this information with, or use it as an alternative for, net earnings calculated according to GAAP.

Reconciliation of non-recurring items

(amounts in millions, except per share amounts)

	Q1-2008			Q4-2007			Q1-2007		
	before tax	**after tax**	**per share**	before tax	after tax	per share	before tax	after tax	Per Share
Earnings from continuing operations	**$55.4**	**$38.7**	**$0.15**	$49.8	$35.1	$0.14	$ 44.1	$33.0	$0.13
EBIT:									
Restructuring plan									
- restructuring charge	**-**	**-**	**-**	(1.5)	(1.2)	-	0.2	0.1	-
- other costs associated with the restructuring plan	**-**	**-**	**-**	0.4	1.2	-	4.5	3.0	0.01
Release of claims payments	**-**	**-**	**-**	-	-	-	(4.4)	(3.1)	(0.01)
Income tax expense:									
Tax recoveries	**-**	**-**	**-**	-	-	-	-	(2.0)	(0.01)
Earnings from continuing operations excluding non-recurring items (non-GAAP measure)	**$55.4**	**$38.7**	**$0.15**	$48.7	$35.1	$0.14	$44.4	$31.0	$0.12

[9] Non-recurring items is a non-GAAP measure we use to identify items that are outside the normal course of business because they are infrequent, unusual and/or do not represent a normal trend of the business. We believe that highlighting significant non-recurring items and providing operating results without them is useful supplemental information that allows for a better analysis of our underlying and ongoing operating performance.

Restructuring plan

We completed the final expenses related to the restructuring plan in fiscal 2007. In the past, these expenses included costs related to the re-engineering of our business processes including a component associated with the first phase of the deployment of the ERP system. As at April 1, 2007, the costs related with the first phase of the ERP deployment have ended. Any new costs associated with additional phases of the deployment of the ERP system are not considered restructuring costs and will not be regarded as a non-recurring item. For additional information, please refer to our annual management's discussion and analysis, which you will find in our annual report for the year ended March 31, 2007.

Release of claims payment – Landmark Consortium

As a member of the Landmark Consortium (formed to pursue the AVTS project), we received a payment in the first quarter of fiscal 2007 and recorded the portion of £2.1 million ($4.4 million) as a non-recurring item because it was related to the release of claims.

Tax recoveries

During the first quarter of fiscal 2007, we recognized as a non-recurring item the reduced valuation allowance on net operating losses in the U.K. This translated in the recognition of $2.0 million in tax assets.

4.3 CONSOLIDATED ORDERS AND BACKLOG[10]

Our consolidated backlog was $2,599.5 million at the end of this quarter. New orders of $307.5 million were added to backlog this quarter, offset by $358.3 million in revenue generated from backlog and a decrease of $124.3 million mainly caused by the appreciation of the Canadian dollar against the euro, the British pound and the U.S. dollar.

Backlog down by 7% over last quarter
(amounts in millions)

Backlog, March 31, 2007	$	2,774.6
+ orders		307.5
- revenue		(358.3)
+/- adjustments (mainly FX)		(124.3)
Backlog, June 30, 2007	$	2,599.5

The book-to-sales ratio for the quarter was 0.9x. The ratio for the last 12 months was 1.1x.

You will find more details in *Results by segment*, below.

[10] *Backlog*

Backlog is a non-GAAP measure that tells us the expected value of orders we have received but have not yet executed.

- For the SP/C, SP/M and TS/M segments, we consider an item part of our backlog when we have a legally binding commercial agreement with a client that includes enough detail about each party's obligations to form the basis for a contract or an order.
- Military contracts are usually executed over a long-term period and some of them must be renewed each year. For the SP/M and TS/M segments, we only include a contract item in backlog when the customer has authorized and received funding for it.
- For the TS/C segment, we include revenues from customers with both long-term and short-term contracts when these customers commit to paying us training fees, or when we reasonably expect them from current customers.

The book-to-sale ratio is calculated as being total orders divided by total revenue in the period.

5. RESULTS BY SEGMENT

We manage our business and report our results in four segments:
Civil segments:
- Simulation Products/Civil (SP/C)
- Training & Services/Civil (TS/C)

Military segments:
- Simulation Products/Military (SP/M)
- Training & Services/Military (TS/M)

The SP/C and SP/M segments operate as an integrated organization that shares substantially all engineering, development, global procurement, program management and manufacturing functions.

Transactions between segments are mainly transfers of simulators from SP/C to TS/C and are recorded at cost at the consolidated level.

If we can measure a segment's use of jointly used assets, costs and liabilities (mostly corporate costs), we allocate them to the segment in that proportion. If we cannot measure a segment's use, we allocate in proportion to the segment's cost of sales.

KEY PERFORMANCE INDICATORS

Segment operating income

(amounts in millions, except operating margins %)		**Q1-2008**	Q4-2007	Q3-2007	Q2-2007	Q1-2007
Civil segments						
Simulation Products/Civil	**$**	**19.7**	15.3	15.5	18.7	10.9
	%	***17.4***	*15.7*	*16.8*	*22.2*	*14.7*
Training & Services/Civil	**$**	**19.6**	21.3	13.5	11.2	18.3
	%	***20.7***	*23.2*	*16.2*	*14.3*	*21.9*
Military segments						
Simulation Products/Military						
	$	**12.3**	9.5	11.2	7.3	11.1
	%	***12.9***	*10.3*	*10.6*	*11.4*	*11.6*
Training & Services/Military						
	$	**6.4**	6.1	6.8	9.3	11.5
	%	***11.6***	*10.9*	*13.4*	*17.4*	*23.9*
Total segment operating income	**$**	**58.0**	52.2	47.0	46.5	51.8
Other (expense) income expenses	**$**	**-**	1.1	(2.8)	(1.7)	(4.7)
EBIT	**$**	**58.0**	53.3	44.2	44.8	47.1

We use segment operating income to measure the profitability of our four operating segments, and to help us make decisions about allocating resources. We calculate segment operating income by using a segment's net earnings before other income, interest, income taxes and discontinued operations. This allows us to assess the profitability of a segment before the impact of things not specifically related to its performance.

Capital employed

(amounts in millions)		Q1-2008	Q4-2007	Q3-2007	Q2-2007	Q1-2007
Civil segments						
Simulation Products/Civil	$	**(13.0)**	(59.8)	(3.0)	(13.6)	(19.0)
Training & Services/Civil	$	**734.7**	759.1	714.8	639.6	618.7
Military segments						
Simulation Products/Military	$	**90.1**	54.5	34.7	57.7	48.0
Training & Services/Military	$	**142.4**	132.8	136.6	129.2	119.2
	$	**954.2**	886.6	883.1	812.9	766.9

We use capital employed to understand how much we are investing in our business. We calculate it by taking each segment's total assets (not including cash and cash equivalents, tax accounts and other non-operating assets), and subtracting total liabilities (not including tax accounts, long-term debt and its current portion, and other non-operating liabilities).

5.1 CIVIL SEGMENTS

Simulation Products/Civil

SP/C was awarded contracts for the following 12 FFSs this quarter:

- Two B787 FFSs to Japan Airlines
- One Embraer 190 FFS to Flight Training Finance
- Two B757 FFSs to an undisclosed customer
- One A320 FFS to Ansett Flight Simulator Centre
- One Dash 8 Q400 FFS-5000 to Lufthansa Flight Training
- One B747-8F FFS to Nippon Cargo Airlines
- One Embraer 145 FFS to Hainan Airlines
- One B777 FFS to Emirates
- One B747-8F FFS to Cargolux International Airlines
- One A330/340 FFS to the Federal Aviation Administration (FAA)

In addition, the CAE-Embraer planned joint venture committed to two CAE 5000 Series Phenom FFSs.

Financial results

(amounts in millions, except operating margins)		Q1-2008	Q4-2007	Q3-2007	Q2-2007	Q1-2007
Revenue	$	**113.0**	97.6	92.1	84.2	74.2
Segment operating income	$	**19.7**	15.3	15.5	18.7	10.9
Operating margins	*%*	***17.4***	*15.7*	*16.8*	*22.2*	*14.7*
Amortization & depreciation	$	**1.5**	2.9	2.3	2.1	2.1
Capital expenditures	$	**0.8**	1.8	0.9	3.5	8.2
Capital employed	$	**(13.0)**	(59.8)	(3.0)	(13.6)	(19.0)
Backlog	$	**413.3**	352.8	340.0	313.2	297.5

Revenue up by 16% from last quarter and by 52% year over year

Revenue increased over last quarter and year over year because of the higher number of recent orders and because we obtained customer's acceptance of a simulator that is recorded as a sale-type capital lease transaction for which the percentage of completion revenue recognition method is not applicable.

Segment operating income up by 29% over last quarter and by 81% year over year
Segment operating income increased over last quarter and year over year because of the higher number of orders combined with improved productivity.

Capital employed increased over last quarter
Capital employed was higher mainly due to higher working capital accounts. This was because we made significant payments to suppliers during the quarter.

Backlog up by 17% over last quarter
(amounts in millions)

Backlog, March 31, 2007	$	352.8
+ orders		165.7
- revenue		(113.0)
+/- adjustments		7.8
Backlog, June 30, 2007	$	413.3

This quarter's book-to-sale ratio was 1.5x. The ratio for the last 12 months was 1.3x.

Training & Services/Civil
TS/C was awarded over $66 million in contracts this quarter.

Expansion and new initiatives
This quarter, we officially opened the North East Training Centre in Morristown, New Jersey, U.S. and pursued our expansion strategy by developing several alliances:

- We announced expansion plans for the North East Training Centre, from six simulator bays to twelve, to meet increased training demands.
- We signed a 20-year agreement to become an authorized training provider for the Bombardier Global Express aircraft, Global 5000 aircraft, Global Express XRS aircraft and Bombardier Challenger 300 aircraft.
- We signed two memorandums of understanding. One for a joint venture with the Airport Authority of India (AAI) to develop the National Flying Training Institute (NFTI) and another to become the managing partner of the Indian government's Indira Gandhi Rashtriya Uran Akademi (IGRUA) flight training academy.
- We signed a five-year contract with Flight Options to become the exclusive provider for all Flight Options maintenance technician training until 2012, which will be provided at the CAE SimuFlite Training centre in Dallas, U.S., the North East Training Centre in Morristown, New Jersey, U.S. and at any of the Flight Options primary bases.
- Commencing early 2009, CAE will offer training programs for the Phenom 100 Very Light Jet and Phenom 300 Light Jet aircraft at CAE's Burgess Hill Training Centre, U.K. In addition, Embraer and CAE are working on extending their relationship to include pilot training for the Embraer 170/190 family of E-Jets and the Lineage 1000 executive jet, in support of Embraer's customers throughout the Americas.
- We achieved a major milestone with the delivery of the first Dassault Falcon 7X training program on the same date the aircraft was certified and ahead of aircraft delivery to customer.

Financial results
(amounts in millions, except operating margins, RSEU and FFSs deployed)

		Q1-2008	Q4-2007	Q3-2007	Q2-2007	Q1-2007
Revenue	$	**94.8**	91.7	83.1	78.4	83.7
Segment operating income	$	**19.6**	21.3	13.5	11.2	18.3
Operating margins	*%*	***20.7***	*23.2*	*16.2*	*14.3*	*21.9*
Amortization & depreciation	$	**13.1**	12.4	11.8	10.7	10.6
Capital expenditures	$	**26.8**	27.7	32.5	30.1	17.8
Capital employed	$	**734.7**	759.1	714.8	639.6	618.7
Backlog	$	**853.4**	951.6	905.6	842.9	817.6
RSEU[11]		**105**	101	97	99	98
FFSs deployed		**117**	114	110	110	110

Revenue up by 3% from last quarter and by 13% year over year
The increase over last quarter and year over year was mainly attributed to a strong demand in most of our training centres, translating to a higher utilization rate, four additional RSEUs from last quarter and seven additional RSEUs than in the same period last year.

The growth over last quarter was achieved despite an appreciation of the Canadian dollar against the euro, British pound and the U.S. dollar. This quarter's TS/C revenue would have been approximately $5 million higher if the average foreign exchange rate had been comparable to last quarter.

Segment operating income was $19.6 million (20.7% of revenue)
Segment operating income would have been similar to last quarter even considering the appreciation of the Canadian dollar if results are compared before the gains from the disposal of one used FFS and the negotiation of various agreements with a business partner in the fourth quarter of fiscal 2007.

Capital employed decreased over last quarter
Capital employed was lower mainly because our investments in foreign subsidiaries were affected by the appreciation of the Canadian dollar and by a slight decrease in working capital.

Capital expenditures at $26.8 million this quarter
Capital expenditures this quarter were mostly for ongoing investment to grow our training network.

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

Backlog down by 10% over last quarter
(amounts in millions)

Backlog, March 31, 2007	951.6
+ orders	66.3
- revenue	(94.8)
+/- adjustments (mainly FX)	(69.7)
Backlog, June 30, 2007	$853.4

This quarter's book-to-sale ratio was 0.7x. The adjustment to backlog reflects the rapid appreciation of the Canadian dollar against the euro, British pound and the U.S. dollar. The ratio for the last twelve months was 1.2x.

5.2 MILITARY SEGMENTS

Simulation Products/Military
SP/M was awarded $39.8 million in orders this quarter, including:
- Modification of two CH-53 simulators for the German Army Aviation School in Bueckeburg
- Increased scope for the integration of the Eurofighter Full Mission Simulator and Cockpit Trainer
- Software upgrade for the C-130J device suite provided to the British Royal Air Force
- Software upgrade for the U.S. Air Force C-130J device suite.

Financial results

(amounts in millions, except operating margins)		**Q1-2008**	Q4-2007	Q3-2007	Q2-2007	Q1-2007
Revenue	**$**	**95.5**	92.2	105.2	64.3	95.8
Segment operating income	**$**	**12.3**	9.5	11.2	7.3	11.1
Operating margins	***%***	***12.9***	*10.3*	*10.6*	*11.4*	*11.6*
Amortization & depreciation	**$**	**2.2**	2.6	1.9	2.3	2.2
Capital expenditures	**$**	**1.3**	1.8	1.5	0.9	1.3
Capital employed	**$**	**90.1**	54.5	34.7	57.7	48.0
Backlog	**$**	**560.5**	635.8	609.0	626.3	475.2

Revenue up by 4% over last quarter and similar year over year
The increase over last quarter was mainly due to the integration into our results of the acquisitions of Engenuity and MultiGen, as well as the achievement of some significant milestones on the Eurofighter program. This increase was partly offset by the negative impact of the appreciation of the Canadian dollar against the euro and the U.S. dollar, as well as lower activity on some U.S. programs.

Segment operating income up by 29% over last quarter and by 11% year over year

Segment operating income was higher over last quarter and year over year mainly because of the achievement of some significant milestones on the Eurofighter program. This increase was partly offset by the negative impact of the appreciation of the Canadian dollar against the euro, the British pound and the U.S. dollar.

Capital employed increased over last quarter

The increase this quarter was mainly a result of the acquisitions of Engenuity and MultiGen, combined with higher working capital.

Backlog down by 12% over last quarter

(amounts in millions)

Backlog, March 31, 2007	$	635.8
+ orders		39.8
- revenue		(95.5)
+/- adjustments (mainly FX)		(19.6)
Backlog, June 30, 2007	$	560.5

This quarter's book-to-sale ratio was 0.4x. The ratio for the last 12 months was 1.2x, reflecting the uneven nature of this market.

Training & Services/Military

TS/M was awarded $35.7 million in orders this quarter, including:

- Continuation of avionic software upgrades, integrated logistics support and data management services for the Canadian Forces' CF-18 aircraft.
- Contractor logistics, maintenance, pilot instruction, courseware development and training system support of the C-130J for the U.S. Air Force.
- Contractor logistics and maintenance support for the LASAR and MH47 devices provided to the U.S. Special Forces Operations.

Financial results

(amounts in millions, except operating margins)		**Q1-2008**	Q4-2007	Q3-2007	Q2-2007	Q1-2007
Revenue	**$**	**55.0**	55.8	50.8	53.5	48.1
Segment operating income	**$**	**6.4**	6.1	6.8	9.3	11.5
Operating margins	***%***	***11.6***	*10.9*	*13.4*	*17.4*	*23.9*
Amortization & depreciation	**$**	**1.7**	1.9	1.7	1.8	1.5
Capital expenditures	**$**	**3.8**	2.5	7.8	6.4	13.4
Capital employed	**$**	**142.4**	132.8	136.6	129.2	119.2
Backlog	**$**	**772.3**	834.4	857.3	801.6	842.9

Revenue similar to last quarter and up by 14% year over year
Revenue was similar to last quarter despite the appreciation of the Canadian dollar against the euro, the British pound and the U.S. dollar. The negative foreign exchange impact was partly offset by the integration of the service portion of Engenuity into our results, combined with increased work level on some German maintenance services contracts.

Revenue increased year over year resulting from the integration of Engenuity and Kesem, additional U.S. training services programs, and the depreciation of the Canadian dollar against the Euro and British pound.

Segment operating income similar to last quarter and down by 44% year over year
Segment operating income was similar to last quarter for the same reasons stated above.

The decrease year over year was mainly because we received payments from the U.K. government during the first quarter of last year in relation to the AVTS project. Without these payments, the segment operating margin would have been similar.

Capital employed increased over last quarter
The increase this quarter was mainly because of higher working capital accounts. This was partly offset by the appreciation of the Canadian dollar against the euro, the British pound and the U.S. dollar.

Backlog down by 7% over last quarter
(amounts in millions)

Backlog, March 31, 2007	$	834.4
+ orders		35.7
- revenue		(55.0)
+/- adjustments (mainly FX)		(42.8)
Backlog, June 30, 2007	$	772.3

This quarter's book-to-sale ratio was 0.6 x. The ratio for the last 12 months was 0.7x.

The combined military book-to-sale ratio for the quarter was 0.5x, and 1.0x on a trailing 12-month basis.

6. CONSOLIDATED CASH MOVEMENTS AND LIQUIDITY

We actively manage liquidity and regularly monitor the factors that could affect it, including:
- Cash generated from operations, including timing of milestone payments and management of working capital.
- Capital expenditure requirements.
- Scheduled repayments of long-term debt obligations, our credit capacity and expected future debt market conditions.

6.1 CONSOLIDATED CASH MOVEMENTS

For the three-month period ending (amounts in millions)	**June 30 2007**	March 31 2007	June 30 2006
Cash provided by continuing operating activities*	**$ 69.2**	$ 45.5	$ 57.7
Changes in non-cash working capital	**(97.9)**	46.7	(27.8)
Net cash provided by continuing operations	**$ (28.7)**	$ 92.2	$ 29.9
Capital expenditures	**(32.7)**	(33.8)	(40.7)
Other capitalized costs	**(7.6)**	(11.4)	(2.6)
Cash dividends	**(2.4)**	(2.5)	(2.4)
Non-recourse financing[12]	**82.1**	8.3	10.3
Free cash flow[13]	**$ 10.7**	$ 52.8	$ (5.5)
Business acquisitions	**(38.9)**	0.5	-
Other cash movements, net	**8.6**	5.3	2.0
Proceeds from disposal of discontinued operations	**-**	2.8	-
Non-recourse financing	**(82.1)**	(8.3)	(10.3)
Effect of foreign exchange rate changes on cash and cash equivalents	**(6.7)**	(0.5)	(1.8)
Net (decrease) increase in cash before proceeds and repayment of long-term debt	**$ (108.4)**	$ 52.6	$ (15.6)

* before changes in non-cash working capital

Free cash flow down $42.1 million from last quarter and up $16.2 million year over year
The decrease over last quarter was mainly attributable to net cash from continuing operations decreasing by $120.9 million over last quarter, explained largely by increased investment in non-cash working capital, particularly higher accounts receivable and lower accounts payable, which is common at the start of our fiscal year.

The increase year over year was mainly because of additional non-recourse financing on property, plant and equipment which increased free cash flow by $71.8 million. This was offset by a decrease of $58.6 million in net cash from continuing operations caused by higher investment in non-cash working capital.

[12] Non-recourse financing to CAE is a non-GAAP measure we use to classify debt, when recourse against the debt is limited to the assets, equity interest and undertaking of the subsidiary, and not the parent company.

[13] Free cash flow is a non-GAAP measure that tells us how much cash we have available to build the business, repay debt and meet ongoing financial obligations. We use it as an indicator of our financial strength and liquidity. We calculate it by taking the net cash generated by our continuing operating activities, subtracting all capital expenditures (including growth capital expenditures and capitalized costs) and dividends paid, and then adding the proceeds from sale and leaseback arrangements and other asset-specific financing (including non-recourse debt). Dividends are deducted in the calculation of free cash flow because we consider them an obligation, like interest on debt, which means that amount is not available for other uses.

Capital expenditures and other capitalized costs decreased by $4.9 million from last quarter and $3.0 million year over year

Growth capital expenditures[14] of $25.2 million this quarter were for:

- The major milestone delivery of the first Dassault Falcon 7X Training Program
- Other capital expenditures related to growth.

Maintenance capital expenditures[15] were $7.5 million this quarter.

Non-recourse financing

During this quarter, we obtained senior secured financing for an amount of $111.7 million (US$105.0 million) for two of our civil aviation training centres. The initial drawdown to June 30, 2007, net of financing costs, was for an aggregate amount of $69.6 million, (US$ 31.8 million and £16.8 million after taking into consideration the effect of foreign exchange swaps entered into in relation to this financing transaction). The financing is separated into two tranches with the principal and interest of Tranche A being amortized quarterly beginning in December 2008 with a final maturity of June 2014 and the principal and interest of Tranche B being amortized quarterly beginning in September 2014 until final maturity of June 2018. The combined coupon rate of the post-swap debt amounts to 8.29%. The debt is non-recourse to CAE and is secured by the assets of the training centres and is cross-guaranteed and cross–collateralized by the cash-flow generated by the two training centres. Following June 30, 2007, a further US$6.1 million has been drawn under this facility.

7. CONSOLIDATED FINANCIAL POSITION

7.1 CONSOLIDATED CAPITAL EMPLOYED

(amounts in millions)		**As at June 30 2007**		As at March 31 2007
Use of capital:				
Non-cash working capital	**$**	**(16.3)**	$	(118.1)
Property, plant and equipment, net		**931.9**		986.6
Other long-term assets		**379.6**		343.9
Other long-term liabilities		**(254.0)**		(249.5)
Total capital employed	**$**	**1,041.2**	$	962.9
Source of capital:				
Net debt	**$**	**221.0**	$	133.0
Shareholders' equity		**820.2**		829.9
Source of capital	**$**	**1,041.2**	$	962.9

[14] Growth capital expenditure is a non-GAAP measure we use to calculate the capital investment needed to increase the current level of economic activity.

[15] Maintenance capital expenditure is a non-GAAP measure we use to calculate the capital investment needed to sustain current levels of economic activity.

Capital employed[16] increased 8% this quarter
The increase was mainly the result of higher non-cash working capital, which was partly offset by lower property, plant and equipment.

Our return on capital employed[17] (ROCE) was 14.9% (12.4% adjusted for operating leases) this quarter compared to 12.0% (10.1% adjusted for operating leases) for the first quarter of last year.

Non-cash working capital[18] increased by $101.8 million this quarter
The increase was mainly because of higher accounts receivable including short-term derivatives assets and a payable reduction.

Net property, plant and equipment down $54.7 million since last quarter
The decrease was from a negative impact of $60.2 million caused by foreign exchange variation and by normal depreciation of $14.6 million partly offset by new capital expenditures of $32.7 million.

Net debt[19] increased by $88.0 million this quarter
The increase was largely caused by a $108.4 million net decrease in cash, before proceeds and repayment of long-term debt. The net debt amount was reduced by the appreciation of the Canadian dollar against our foreign denominated debt.

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[16] Capital employed is a non-GAAP measure we use to monitor how much we are investing in our business. We measure it from two perspectives:
Capital used
- For the company as a whole, we take total assets (not including cash and cash equivalents), and subtract total liabilities (not including long-term debt and its current portion).
- For each segment, we take the total assets (not including cash and cash equivalents, tax accounts and other non-operating assets), and subtract total liabilities (not including tax accounts, long-term debt and its current portion and other non-operating liabilities).

Source of capital
- We add net debt to total shareholders' equity to understand where our capital is coming from.

[17] Return on capital employed (ROCE) is a non-GAAP measure that we use to evaluate the profitability of our invested capital. We calculate this ratio over a rolling 4 quarter period by taking earnings from continuing operations excluding non-recurring items and interest expenses, after tax, divided by the average capital employed. In addition, we also calculate this ratio adjusting earnings and capital employed to reflect the ordinarily off-balance sheet operating leases.

[18] Non-cash working capital is a non-GAAP measure we use to monitor how much money we have tied up in the day-to-day operation of our business. We calculate it by taking current assets (not including cash and cash equivalents or the current portion of assets held for sale) and subtracting current liabilities (not including the current portion of long-term debt or the current portion of liabilities related to assets held for sale).

[19] Net debt is a non-GAAP measure we use to monitor how much debt we have after taking into account liquid assets such as cash and cash equivalents. We use it as an indicator of our overall financial position, and calculate it by taking our total long-term debt (debt that matures in more than one year), including the current portion, and subtracting cash and cash equivalents.

Change in net debt
(amounts in millions)

Net debt, March 31, 2007	$	**133.0**
Impact of cash movements on net debt (see table in the cash movements section)		**108.4**
Effect of foreign exchange rate changes on long-term debt		**(20.4)**
Increase in net debt during the period		**88.0**
Net debt, June 30, 2007	$	**221.0**

8. ACQUISITIONS

Engenuity

As at April 13, 2007, we acquired 14,948,215 common shares of Engenuity Technologies Inc. (Engenuity) representing approximately 85.7% of the total outstanding number thereof. On May 25, 2007, the holders of common shares of Engenuity adopted a special resolution approving the amalgamation of Engenuity with 4341392 Canada Inc., a wholly-owned subsidiary of CAE Inc., per the amalgamation agreement. As a result, Engenuity became a wholly-owned subsidiary of CAE Inc. Engenuity develops commercial-off-the-shelf (COTS) simulation and visualization software for the aerospace and defence markets. Total consideration for this acquisition, including acquisition costs, amounted to $23.4 million in cash.

MultiGen-Paradigm Inc.

On May 10, 2007, we closed the agreement with Parallax Capital Partners, LLC and others to acquire MultiGen-Paradigm Inc., for a total consideration, including acquisition costs, of US$16.2 million ($18.0 million) in cash. MultiGen is a supplier of real-time COTS software for creating and visualizing simulation solutions and creates industry standard visual simulation file formats.

As outlined in the purchase agreement, $1.6 million of the purchase price paid by CAE on the acquisition date shall be held in a trust account until the twelve-month anniversary of the closing date. The purchase price is subject to an adjustment based on net working capital and net indebtedness. Any change in total consideration will be accounted for as a change in goodwill.

The net assets of Engenuity will be included in both the Simulation Products/Military and Training & Services/Military segments. The net assets of MultiGen will be included in the Simulation Products/Military segment.

9. CHANGES IN ACCOUNTING STANDARDS

We prepare our financial statements according to Canadian GAAP as published by the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) in its Handbook Sections, Accounting Guidelines (AcG) and Emerging Issues Committee.

Financial instruments, Hedges and Comprehensive income

On April 1, 2007, the Company adopted CICA Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement and Section 3865, Hedges. As a result, the comparative interim consolidated financial statements have not been restated except for the foreign currency translation adjustment, which is now disclosed as a part of accumulated other comprehensive income.

The impact of the adoption of the new accounting standards was recognized as an adjustment to the carrying amount of the related financial assets and liabilities and recorded in Shareholders' equity as at April 1, 2007. The transition adjustment resulted in a decrease of $8.3 million recorded to retained earnings and $3.5 million recorded to accumulated other comprehensive loss.

These accounting standards and the impact of these changes on the Company's financial statements are discussed in Note 2 – Change in Accounting Policies to the interim consolidated financial statements.

10. SUBSEQUENT EVENTS

Macmet Technologies

In July 2007, the Company signed an agreement to acquire Macmet Technologies Limited for approximately $5 million in cash. Macmet is based in Bangalore, India.

11. CONTROLS AND PROCEDURES

11.1EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

In the quarter ended June 30, 2007, the Company did not make any significant changes in, nor take any significant corrective actions regarding its internal controls or other factors that could significantly affect such internal controls. The Company's CEO and CFO periodically review the Company's disclosure controls and procedures for effectiveness and conduct an evaluation each quarter. As of the end of the first quarter, the Company's CEO and CFO were satisfied with the effectiveness of the Company's disclosure controls and procedures.