

## Consolidated Balance Sheets

<i>(Unaudited)</i> <i>(amounts in millions of Canadian dollars)</i>	<b>As at September 30</b> <b>2009</b>	As at March 31 2009 Restated (Note 2)
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 257.1	\$ 195.2
Accounts receivable (Note 6)	284.9	322.4
Contracts in progress	231.6	215.3
Inventories (Note 7)	128.6	118.9
Prepaid expenses	29.8	31.3
Income taxes recoverable	10.6	11.5
Future income taxes	2.7	5.3
	<b>\$ 945.3</b>	<b>\$ 899.9</b>
Property, plant and equipment, net	1,202.5	1,302.4
Future income taxes	77.2	86.1
Intangible assets	109.9	99.5
Goodwill	150.4	159.1
Other assets	130.6	118.8
	<b>\$ 2,615.9</b>	<b>\$ 2,665.8</b>
<b>Liabilities and shareholders' equity</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	\$ 450.2	\$ 540.4
Deposits on contracts	224.3	203.8
Current portion of long-term debt (Note 5)	60.0	125.6
Future income taxes	29.0	20.9
	<b>\$ 763.5</b>	<b>\$ 890.7</b>
Long-term debt (Note 5)	454.9	354.7
Deferred gains and other long-term liabilities	200.9	184.9
Future income taxes	32.7	37.7
	<b>\$ 1,452.0</b>	<b>\$ 1,468.0</b>
<b>Shareholders' equity</b>		
Capital stock	\$ 435.5	\$ 430.2
Contributed surplus	10.4	10.1
Retained earnings	856.0	805.0
Accumulated other comprehensive loss	(138.0)	(47.5)
	<b>\$ 1,163.9</b>	<b>\$ 1,197.8</b>
	<b>\$ 2,615.9</b>	<b>\$ 2,665.8</b>

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

## Consolidated Statements of Earnings

<i>(Unaudited)</i> <i>(amounts in millions of Canadian dollars, except per share amounts)</i>	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
Revenue	\$ 364.5	\$ 406.7	\$ 747.5	\$ 798.8
Earnings before restructuring, interest and income taxes	\$ 62.3	\$ 76.0	\$ 134.6	\$ 148.6
Restructuring charge (Note 11)	1.1	–	28.3	–
Earnings before interest and income taxes (Note 12)	\$ 61.2	\$ 76.0	\$ 106.3	\$ 148.6
Interest expense, net (Note 5)	7.4	5.2	14.0	9.5
Earnings before income taxes	\$ 53.8	\$ 70.8	\$ 92.3	\$ 139.1
Income tax expense	14.7	21.6	26.0	41.7
Earnings from continuing operations	\$ 39.1	\$ 49.2	\$ 66.3	\$ 97.4
Results of discontinued operations	–	(0.2)	–	(1.1)
<b>Net earnings</b>	<b>\$ 39.1</b>	<b>\$ 49.0</b>	<b>\$ 66.3</b>	<b>\$ 96.3</b>
Basic and diluted earnings per share from continuing operations	\$ 0.15	\$ 0.19	\$ 0.26	\$ 0.38
Basic and diluted earnings per share	\$ 0.15	\$ 0.19	\$ 0.26	\$ 0.38
Weighted average number of shares outstanding (basic)	255.6	254.9	255.5	254.6
Weighted average number of shares outstanding (diluted) <sup>(1)</sup>	255.6	255.4	255.5	255.2

<sup>(1)</sup> For the three and six months ended September 30, 2009, 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

(Unaudited)

six months ended September 30, 2009

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

	Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, beginning of period	255,146,443	\$ 430.2	\$ 10.1	\$ 813.3	\$ (48.5)	\$ 1,205.1
Adjustment for change in accounting policy (Note 2)	—	—	—	(8.3)	1.0	(7.3)
Stock options exercised	632,670	3.4	—	—	—	3.4
Transfer upon exercise of stock options	—	1.7	(1.7)	—	—	—
Stock dividends	24,261	0.2	—	(0.2)	—	—
Stock-based compensation	—	—	2.0	—	—	2.0
Net earnings	—	—	—	66.3	—	66.3
Dividends	—	—	—	(15.1)	—	(15.1)
Other comprehensive loss	—	—	—	—	(90.5)	(90.5)
Balances, end of period	255,803,374	\$ 435.5	\$ 10.4	\$ 856.0	\$ (138.0)	\$ 1,163.9

The total of *Retained earnings* and *Accumulated other comprehensive loss* for the six months ended September 30, 2009 was \$718.0 million (\$568.2 million as at September 30, 2008).

(Unaudited)

six months ended September 30, 2008

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

	Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, beginning of period	253,969,836	\$ 418.9	\$ 8.3	\$ 644.5	\$ (123.2)	\$ 948.5
Adjustment for change in accounting policy (Note 2)	—	—	—	(10.0)	0.8	(9.2)
Stock options exercised	850,625	8.4	—	—	—	8.4
Transfer upon exercise of stock options	—	0.6	(0.6)	—	—	—
Stock dividends	65,945	0.7	—	(0.7)	—	—
Stock-based compensation	—	—	1.5	—	—	1.5
Net earnings	—	—	—	96.3	—	96.3
Dividends	—	—	—	(14.6)	—	(14.6)
Other comprehensive loss	—	—	—	—	(24.9)	(24.9)
Balances, end of period	254,886,406	\$ 428.6	\$ 9.2	\$ 715.5	\$ (147.3)	\$ 1,006.0

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

## Consolidated Statements of Comprehensive (Loss) Income

<i>(Unaudited)</i> <i>(amounts in millions of Canadian dollars)</i>	Three months ended September 30		Six months ended September 30	
	2009	2008 Restated (Note 2)	2009	2008 Restated (Note 2)
<b>Net earnings</b>	<b>\$ 39.1</b>	<b>\$ 49.0</b>	<b>\$ 66.3</b>	<b>\$ 96.3</b>
Other comprehensive loss, net of income taxes:				
<b>Foreign currency translation adjustment</b>				
Net foreign exchange losses on translation of financial statements of self-sustaining foreign operations	<b>\$ (83.2)</b>	<b>\$ (13.7)</b>	<b>\$ (137.4)</b>	<b>\$ (26.6)</b>
Net change in gains (losses) on certain long-term debt denominated in foreign currency and designated as hedges on net investments of self-sustaining foreign operations	<b>12.5</b>	<b>(1.4)</b>	<b>10.6</b>	<b>(1.1)</b>
Income tax adjustment	<b>(0.4)</b>	<b>(0.1)</b>	<b>1.3</b>	<b>(0.1)</b>
	<b>\$ (71.1)</b>	<b>\$ (15.2)</b>	<b>\$ (125.5)</b>	<b>\$ (27.8)</b>
<b>Net changes in cash flow hedge</b>				
Net change in gains on derivative items designated as hedges of cash flows	<b>\$ 24.1</b>	<b>\$ 3.7</b>	<b>\$ 37.3</b>	<b>\$ 11.8</b>
Reclassifications to income or to the related non-financial assets or liabilities	<b>(0.1)</b>	<b>(4.5)</b>	<b>13.2</b>	<b>(7.6)</b>
Income tax adjustment	<b>(7.5)</b>	<b>0.2</b>	<b>(15.5)</b>	<b>(1.3)</b>
	<b>\$ 16.5</b>	<b>\$ (0.6)</b>	<b>\$ 35.0</b>	<b>\$ 2.9</b>
<b>Total other comprehensive loss</b>	<b>\$ (54.6)</b>	<b>\$ (15.8)</b>	<b>\$ (90.5)</b>	<b>\$ (24.9)</b>
<b>Comprehensive (loss) income</b>	<b>\$ (15.5)</b>	<b>\$ 33.2</b>	<b>\$ (24.2)</b>	<b>\$ 71.4</b>

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

## Consolidated Statement of Accumulated Other Comprehensive Loss

<i>(Unaudited)</i> <i>as at September 30, 2009</i> <i>(amounts in millions of Canadian dollars)</i>	Foreign Currency Translation Adjustment	Cash Flow Hedge	Accumulated Other Comprehensive Loss
Balance in accumulated other comprehensive loss at beginning of the period	<b>\$ (20.4)</b>	<b>\$ (28.1)</b>	<b>\$ (48.5)</b>
Adjustment for change in accounting policy (Note 2)	<b>1.0</b>	<b>–</b>	<b>1.0</b>
Details of other comprehensive loss:			
Net change in (losses) gains	<b>(126.8)</b>	<b>37.3</b>	<b>(89.5)</b>
Reclassification to income or to the related non-financial assets or liabilities	<b>–</b>	<b>13.2</b>	<b>13.2</b>
Income tax adjustment	<b>1.3</b>	<b>(15.5)</b>	<b>(14.2)</b>
<b>Total other comprehensive loss</b>	<b>\$ (125.5)</b>	<b>\$ 35.0</b>	<b>\$ (90.5)</b>
Balance in accumulated other comprehensive loss at end of period	<b>\$ (144.9)</b>	<b>\$ 6.9</b>	<b>\$ (138.0)</b>

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

## Consolidated Statements of Cash Flows

<i>(Unaudited)</i> <i>(amounts in millions of Canadian dollars)</i>	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
		Restated (Note 2)		Restated (Note 2)
<b>Operating activities</b>				
Net earnings	\$ 39.1	\$ 49.0	\$ 66.3	\$ 96.3
Results of discontinued operations	–	0.2	–	1.1
Earnings from continuing operations	\$ 39.1	\$ 49.2	\$ 66.3	\$ 97.4
Adjustments to reconcile earnings to cash flows from operating activities:				
Depreciation	18.2	17.3	37.5	33.0
Financing cost amortization	0.2	0.2	0.4	0.4
Amortization and write down of intangible and other assets	5.0	3.4	9.0	7.1
Future income taxes	(5.2)	7.6	1.8	13.4
Investment tax credits	4.2	5.9	2.5	9.3
Stock-based compensation plans	7.6	(2.4)	8.4	(6.6)
Employee future benefits – net	0.1	0.2	(0.6)	0.4
Amortization of other long-term liabilities	(1.9)	(2.4)	(3.7)	(5.0)
Other	5.4	(0.1)	(0.8)	–
Changes in non-cash working capital (Note 8)	43.7	(19.9)	(24.3)	(119.0)
<b>Net cash provided by operating activities</b>	\$ 116.4	\$ 59.0	\$ 96.5	\$ 30.4
<b>Investing activities</b>				
Business acquisitions, net of cash and cash equivalents acquired (Note 3)	\$ (5.2)	\$ 0.1	\$ (22.9)	\$ (38.7)
Capital expenditures	(26.3)	(50.6)	(58.3)	(89.0)
Proceeds from disposal of property, plant and equipment	0.9	–	8.5	–
Deferred development costs	(3.0)	(2.2)	(6.1)	(4.1)
Other	(3.5)	(1.2)	(5.0)	(2.6)
<b>Net cash used in investing activities</b>	\$ (37.1)	\$ (53.9)	\$ (83.8)	\$ (134.4)
<b>Financing activities</b>				
Proceeds from long-term debt, net of transaction costs and hedge accounting adjustment	\$ 9.5	\$ 13.9	\$ 154.7	\$ 22.5
Repayment of long-term debt	(8.6)	(8.6)	(93.5)	(14.1)
Proceeds from capital lease	–	–	16.9	–
Dividends paid	(7.5)	(7.5)	(15.1)	(14.6)
Common stock issuance	1.3	–	3.4	8.4
Other	–	(0.3)	(1.4)	(1.3)
<b>Net cash (used in) provided by financing activities</b>	\$ (5.3)	\$ (2.5)	\$ 65.0	\$ 0.9
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	\$ (9.9)	\$ (0.5)	\$ (15.8)	\$ (2.8)
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ 64.1	\$ 2.1	\$ 61.9	\$ (105.9)
<b>Cash and cash equivalents at beginning of period</b>	193.0	147.7	195.2	255.7
<b>Cash and cash equivalents at end of period</b>	\$ 257.1	\$ 149.8	\$ 257.1	\$ 149.8

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

## Notes to the Consolidated Financial Statements (Unaudited)

### NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of operations

CAE Inc. (or the Company) designs, manufactures and supplies simulation equipment and services and develops integrated training solutions for the military, commercial airlines, business aircraft operators and aircraft manufacturers. CAE's flight simulators replicate aircraft performance in normal and abnormal operations as well as a comprehensive set of environmental conditions utilizing visual systems that contain an extensive database of airports, other landing areas, flying environments, motion and sound cues to create a fully immersive training environment. The Company offers a full range of flight training devices based on the same software used on its simulators. The Company also operates a global network of training centres in locations around the world.

The Company's operations are managed through four segments:

- (i) Simulation Products/Civil – Designs, manufactures and supplies civil flight simulators, training devices and visual systems;
- (ii) Simulation Products/Military – Designs, manufactures and supplies advanced military training equipment and software tools for air forces, armies and navies;
- (iii) Training & Services/Civil – Provides business and commercial aviation training for all flight and ground personnel and all associated services;
- (iv) Training & Services/Military – Supplies turnkey training services, support services, systems maintenance and modelling and simulation solutions.

#### Seasonality and cyclicity of the business

The Company's business operating segments are affected in varying degrees by market cyclicity and/or seasonality. As such, operating performance over a given interim period should not necessarily be considered indicative of full fiscal year performance.

The Simulation Products/Civil segment sells equipment directly to airlines and to the extent that the entire commercial airline industry is affected by cycles of expansion and contraction, the Company's performance will also be affected. The Training & Services/Civil segment activities are affected by the seasonality of its industry – in times of peak travel (such as holidays), airline and business jet pilots are generally occupied flying aircraft rather than attending training sessions. The opposite also holds true – slower travel periods tend to be more active training periods for pilots. Therefore, the Company has historically experienced greater demand for training services in the first and fourth quarters of the fiscal year and lower demand during the second and third quarters.

Order intake for the Military segments can be impacted by the unique nature of military contracts and the irregular timing in which they are awarded.

#### Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires CAE's management (management) to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses for the period reported. Management reviews its estimates on an ongoing basis, particularly as they relate to accounting for long-term contracts, useful lives, employee future benefits, income taxes, impairment of long-lived assets, fair value of certain financial instruments, goodwill and intangibles, based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from those estimates; significant changes in estimates and/or assumptions could result in the recognition of an impairment of certain assets.

#### Generally accepted accounting principles and financial statement presentation

These interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

These consolidated financial statements comply with generally accepted accounting principles applicable to interim financial statements and, except as otherwise indicated hereunder, have been prepared on a basis consistent with the Company's annual consolidated financial statements for the year ended March 31, 2009, except for the adoption of the new accounting standards described in Note 2.

These consolidated statements do not include all of the disclosures applicable to annual consolidated financial statements; for a full description of the Company's accounting policies, refer to the Company's annual consolidated financial statements for the year ended March 31, 2009 available on-line at [www.sedar.com](http://www.sedar.com), at [www.sec.gov](http://www.sec.gov), as well as on the Company's website at [www.cae.com](http://www.cae.com). While management believes that the disclosures presented are adequate and that the disclosures highlight all material changes during the quarter, these interim consolidated financial statements should be read in conjunction with the most recent annual consolidated financial statements.

Certain comparative figures have been reclassified to conform with the presentation adopted during the current year.

Except where otherwise noted, all amounts in these consolidated financial statements are expressed in Canadian dollars.

**Basis of consolidation**

The consolidated financial statements include the accounts of CAE Inc. and all majority-owned subsidiaries, and variable interest entities for which the Company is the primary beneficiary. They also include the Company's proportionate share of assets, liabilities and earnings of joint ventures in which the Company has an interest (refer to Note 4). All significant intercompany accounts and transactions have been eliminated. The investment over which the Company exercises significant influence is accounted for using the equity method and the portfolio investment is accounted at fair value unless there is no readily available market value.

**Contracts in progress**

Contracts in progress resulting from applying the percentage-of-completion method consist of materials, direct labour, relevant manufacturing overhead and estimated contract margins.

Effective April 1, 2009, the Company presents contracts in progress as a separate line item on the balance sheet. In prior years, the Company presented contracts in progress as part of *inventories*, previously named *long-term contracts*. The change in presentation is to align the financial statements with management's decision-making process and to provide additional information on the balance sheet based on its significance.

**Research and development (R&D) obligation from a government agency**

The Company recognizes the Government of Canada's participation in Project Falcon as an interest-bearing long-term obligation. The measurement of the accounting liability recognized to repay the lender is discounted using the prevailing market rates of interest for a similar instrument (similar to currency, term, interest rate, guarantees or other factors) with a similar credit rating. The difference between the fair value of the long-term obligation and the discounted value of the long-term obligation is accounted for as a government contribution which is recognized as a reduction of costs or a reduction of capitalized expenditures.

**NOTE 2 – CHANGES IN ACCOUNTING POLICIES****Implemented in fiscal 2010*****Intangible assets***

Effective April 1, 2009, the Company adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced Sections 3062, *Goodwill and Other Intangible Assets*, and 3450, *Research and Development Costs*. New Section 3064 incorporates material from International Accounting Standard (IAS) 38, *Intangible Assets*, addressing when an internally developed intangible asset meets the criteria for recognition as an asset. EIC-27, *Revenues and Expenditures during the Pre-Operating Period*, no longer applies to entities that have adopted Section 3064.

Since adopting the new standard, the Company expenses its pre-operating costs as they are incurred. The impact of adopting this accounting standard, on a retrospective basis, to the Company's consolidated statement of earnings for years ended March 31 is:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	2009	2008
Deferred pre-operating costs, net of non-cash items	\$ 2.2	\$ (0.9)
Income tax adjustment	(0.5)	(0.5)
Adjustment to net earnings	\$ 1.7	\$ (1.4)

As at March 31, 2009, the impact of adopting this change to other assets on the Company's consolidated balance sheet was a decrease of \$10.4 million. The retained earnings at April 1, 2007, decreased by \$8.6 million, net of tax recovery of \$3.6 million.

The Company's treatment regarding R&D costs was not impacted as a result of this change in accounting standard. Upon adoption of Section 3064, the Company has reclassified its deferred development costs from *other assets* to *intangible assets*.

**NOTE 3 – BUSINESS ACQUISITIONS****Bell Aliant's Defence, Security and Aerospace**

In May 2009, the Company acquired Bell Aliant's Defence, Security and Aerospace (DSA) business unit, through an asset purchase agreement for a total cost, including acquisition costs, and excluding a working capital adjustment, of \$17.7 million payable in cash. DSA supplies real-time software and systems for simulation training defence and integrated lifecycle information management for the aerospace and defence industries. The total cost does not include potential additional considerations of \$8.5 million that are contingent on certain conditions being satisfied, which, if met, would be recorded as additional goodwill.

During the quarter, the Company revised its valuation of the identifiable intangible assets. Consequently, customer relationship was increased by \$2.8 million and goodwill was reduced accordingly. The allocation of the purchase price remains preliminary and is expected to be completed in the near future.

**Seaweed Systems Inc.**

In August 2009, the Company acquired Seaweed Systems Inc. (Seaweed) for a total cost, including acquisition costs and excluding working capital adjustment, of \$6.7 million of which \$5.6 million was settled in cash. Seaweed is a leader in embedded graphics solutions for the military and aerospace market, with noted experience in the development of safety critical graphic drivers. The allocation of the purchase price is preliminary and is expected to be completed in the near future.

Goodwill recognized for these transactions amounts to \$7.2 million of which \$2.5 million is deductible for tax purposes. As well, customer relationship intangible assets in the amount of \$9.6 million and a technology intangible asset in the amount of \$1.7 million have been recognized regarding these transactions. These transactions were accounted for under the purchase method and the operating results have been included in the consolidated results of the Company since the date of each respective acquisition. The net assets of these acquisitions are included in the Simulation Products/Military and Training & Services/Military segments.

**NOTE 4 – INVESTMENTS IN JOINT VENTURES**

The Company's consolidated balance sheets and consolidated statements of earnings and cash flows include, on a proportionate consolidation basis, the impact of its joint venture companies of Zhuhai Xiang Yi Aviation Technology Company Limited – 49%, Helicopter Training Media International GmbH – 50%, Helicopter Flight Training Services GmbH – 25%, the Emirates-CAE Flight Training centre – 50%, Embraer CAE Training Services LLC – 49%, HATSOFF Helicopter Training Private Limited – 50%, National Flying Training Institute Private Limited – 51% (starting fiscal 2009), CAE Bangalore training centre – 50% (starting fiscal 2009), Rotorsim S.r.l. – 50% (starting fiscal 2010) and Embraer CAE Training Services (U.K.) Limited – 49% (starting fiscal 2010).

Except for the Helicopter Training Media International GmbH joint venture, whose operations are essentially focused on designing, manufacturing and supplying advanced helicopter military training product applications, the other joint venture companies' operations are focused on providing civil and military aviation training and related services.

The impact on the Company's consolidated financial statements from all joint ventures is as follows:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	<b>As at September 30 2009</b>		As at March 31 2009	
				Restated (Note 2)
<b>Assets</b>				
Current assets		<b>\$ 57.1</b>	\$ 58.4	
Property, plant and equipment and other non-current assets		<b>251.6</b>	240.3	
<b>Liabilities</b>				
Current liabilities		<b>41.8</b>	44.9	
Long-term debt (including current portion)		<b>122.8</b>	120.4	
Deferred gains and other long-term liabilities		<b>5.9</b>	4.5	
<i>(Unaudited)</i> <i>(amounts in millions)</i>	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
		Restated (Note 2)		Restated (Note 2)
<b>Earnings</b>				
Revenue	<b>\$ 24.0</b>	\$ 23.8	<b>\$ 45.5</b>	\$ 37.5
Net earnings	<b>4.4</b>	3.4	<b>8.6</b>	8.6
Segmented operating income				
Simulation Products/Military	<b>2.0</b>	0.7	<b>3.5</b>	1.7
Training and Services/Civil	<b>3.1</b>	3.6	<b>6.9</b>	8.5
Training and Services/Military	<b>0.7</b>	(0.2)	<b>0.8</b>	(0.5)
<b>Cash flows provided by (used in):</b>				
Operating activities	<b>\$ 5.3</b>	\$ 10.9	<b>\$ 1.9</b>	\$ 18.2
Investing activities	<b>(5.5)</b>	(14.6)	<b>(14.9)</b>	(19.8)
Financing activities	<b>1.4</b>	4.3	<b>0.4</b>	12.5

**NOTE 5 – DEBT FACILITIES AND INTEREST EXPENSE, NET****Long-term debt****Senior notes**

During the first quarter, the Company issued unsecured senior notes for \$15.0 million and US\$105.0 million by way of a private placement for an average term of 8.5 years at an average blended interest rate of 7.15% with interest payable semi-annually in June and December. These unsecured senior notes have fixed repayment amounts of \$15.0 million in 2016, US\$45.0 million in 2016 and US\$60.0 million in 2019. The notes were issued to two institutional investors, which were note holders under the Company's matured unsecured senior notes. Of the total proceeds, US\$60.0 million was used to pay the maturing portion of the senior notes.

The Company has designated a portion of these senior notes totalling US\$105.0 million as a hedge of self-sustaining foreign operations and is being used to hedge the Company's exposure to foreign exchange risk on these investments. Gains or losses on the translation of the designated portion of its senior notes are recognized in other comprehensive income to offset any foreign exchange gains or losses on translation of financial statements of self-sustaining foreign operations.

**R&D obligation from a government agency**

During the first quarter, the Company obtained an interest-bearing long-term obligation from the Government of Canada for its participation in Project Falcon, an R&D program that will continue over five years, for a maximum amount of \$250 million. The amount recognized as at September 30, 2009 was for an aggregate amount of \$9.8 million (refer to Note 1). The discounted value of the debt recognized amounted to \$2.5 million as at September 30, 2009.

**Interest expense, net**

Details of interest expense (income) are as follows:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
Long-term debt interest expense	\$ 7.4	\$ 7.0	\$ 14.5	\$ 13.1
Amortization of deferred financing costs and other	0.9	0.8	1.7	1.6
Interest capitalized	(0.3)	(1.5)	(1.5)	(2.8)
Interest on long-term debt	\$ 8.0	\$ 6.3	\$ 14.7	\$ 11.9
Interest income	\$ (0.7)	\$ (0.7)	\$ (1.3)	\$ (1.4)
Other interest expense (income), net	0.1	(0.4)	0.6	(1.0)
Interest expense (income), net	\$ (0.6)	\$ (1.1)	\$ (0.7)	\$ (2.4)
Interest expense, net	\$ 7.4	\$ 5.2	\$ 14.0	\$ 9.5

**NOTE 6 – ACCOUNTS RECEIVABLE**

Accounts receivable are carried on the consolidated balance sheet net of an allowance for doubtful accounts. This provision is established based on the Company's best estimates regarding the ultimate recovery of balances for which collection is uncertain. Uncertainty of ultimate collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client and delay in collection beyond the contractually agreed upon payment terms. Management regularly reviews accounts receivable, monitors past due balances and assesses the appropriateness of the allowance for doubtful accounts.

Details of accounts receivable were as follows:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	<b>As at September 30 2009</b>	As at March 31 2009
Past due trade receivables		
1-30 days	\$ 40.4	\$ 35.1
31-60 days	28.6	12.0
61-90 days	16.0	13.1
Greater than 90 days	36.6	28.0
Total	\$ 121.6	\$ 88.2
Allowance for doubtful accounts	\$ (6.4)	\$ (8.2)
Current trade receivables	74.3	122.9
Accrued receivables	31.1	38.2
Derivative assets	21.7	32.2
Other receivables	42.6	49.1
Total accounts receivable	\$ 284.9	\$ 322.4

Changes in the allowance for doubtful accounts were as follows:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
Allowance for doubtful accounts, beginning of period	\$ (6.9)	\$ (8.8)	\$ (8.2)	\$ (7.4)
Additions	(0.6)	(4.9)	(1.8)	(7.8)
Amounts charged off	0.7	2.6	2.8	4.0
Foreign exchange	0.4	0.1	0.8	0.2
Allowance for doubtful accounts, end of period	\$ (6.4)	\$ (11.0)	\$ (6.4)	\$ (11.0)

**NOTE 7 – INVENTORIES**

<i>(Unaudited)</i> <i>(amounts in millions)</i>	<b>As at September 30 2009</b>	As at March 31 2009
Work in progress	\$ 86.7	\$ 79.1
Raw materials, supplies and manufacturing products	41.9	39.8
	\$ 128.6	\$ 118.9

The amount of inventory recognized as cost of sales was as follows:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
Work in progress	\$ 7.4	\$ 12.8	\$ 24.8	\$ 30.4
Raw materials, supplies and manufacturing products	5.5	18.7	12.3	34.7
	\$ 12.9	\$ 31.5	\$ 37.1	\$ 65.1

**NOTE 8 – SUPPLEMENTARY CASH FLOWS AND EARNINGS INFORMATION**

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
<i>Cash provided by (used in) non-cash working capital:</i>				
Accounts receivable	\$ 25.6	\$ (10.4)	\$ 60.2	\$ 11.1
Contracts in progress	4.7	(29.0)	(21.8)	(69.2)
Inventories	(5.5)	(28.5)	(8.2)	(26.4)
Prepaid expenses	(1.0)	2.7	(0.1)	7.9
Income taxes recoverable	1.6	(2.7)	(0.8)	(5.9)
Accounts payable and accrued liabilities	(7.2)	45.0	(79.9)	(28.4)
Deposits on contracts	25.5	3.0	26.3	(8.1)
Changes in non-cash working capital	\$ 43.7	\$ (19.9)	\$ (24.3)	\$ (119.0)
<i>Supplemental cash flow disclosure:</i>				
Interest paid	\$ 5.1	\$ 4.7	\$ 13.5	\$ 13.5
Income taxes paid (received)	1.8	4.5	7.0	13.7
<i>Supplemental statements of earnings disclosure:</i>				
Foreign exchange (losses) gains on financial instruments recognized in earnings:				
Loans and receivables	\$ (18.3)	\$ 5.3	\$ (18.4)	\$ 3.7
Financial assets and financial liabilities required to be classified as held-for-trading	4.4	(0.5)	3.3	(0.7)
Other financial liabilities	11.8	(5.6)	11.8	(3.2)
Foreign exchange loss	\$ (2.1)	\$ (0.8)	\$ (3.3)	\$ (0.2)

**NOTE 9 – GOVERNMENT ASSISTANCE****Project Phoenix and Project Falcon**

The following table provides information regarding contributions recognized and amounts not yet received for the aggregate projects Phoenix and Falcon:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended September 30 2009	Six months ended September 30 2009
Outstanding contribution receivable, beginning of period	\$ 33.8	\$ 23.3
Contributions	11.2	28.1
Payments received	(30.0)	(36.4)
Outstanding contribution receivable, end of period	\$ 15.0	\$ 15.0

**Aggregate information about programs**

The following table provides information on the aggregate contributions recognized and aggregate royalty expenditures recognized for all programs:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
Contributions credited to capitalized expenditures:				
Project Phoenix	\$ 1.7	\$ 3.0	\$ 3.2	\$ 5.7
Project Falcon	1.1	–	1.9	–
Contributions credited to income:				
Project Phoenix	5.1	7.9	17.6	16.4
Project Falcon	3.3	–	5.4	–
Total contributions:				
Project Phoenix	\$ 6.8	\$ 10.9	\$ 20.8	\$ 22.1
Project Falcon	4.4	–	7.3	–
Royalty expenses:				
Project Phoenix	\$ –	\$ –	\$ –	\$ –
Previous programs	2.2	2.4	5.0	5.0

**NOTE 10 – EMPLOYEE FUTURE BENEFITS**

The total benefit cost for the periods ended September 30 includes the following components:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
Current service cost	\$ 1.9	\$ 2.5	\$ 3.8	\$ 4.7
Interest cost on projected pension obligations	3.7	3.7	7.5	7.0
Expected return on plan assets	(2.8)	(3.3)	(5.5)	(6.6)
Amortization of net actuarial loss	0.3	0.5	0.6	1.0
Amortization of past service costs	0.2	0.1	0.3	0.2
Net pension expense	\$ 3.3	\$ 3.5	\$ 6.7	\$ 6.3

**NOTE 11 – RESTRUCTURING CHARGE**

On May 14, 2009, the Company introduced actions required to size the Company to current and expected market conditions. The actions will be concentrated in two phases. The plan includes a workforce reduction of approximately 700 employees of which 600 are in Montreal, Québec and 100 in other locations worldwide. These actions will be carried out over this fiscal year. A restructuring charge of \$28.3 million, consisting mainly of severance and other related costs, including the associated pension expense, was included in the net earnings for the period ended September 30, 2009. The total amount to be incurred is expected to be approximately \$32 million.

The following summarizes the restructuring costs for the period ended September 30, 2009:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Employee Termination Costs	Other Costs	Total
Provision as at March 31, 2009	\$ –	\$ –	\$ –
Expenses recorded	21.5	6.8	28.3
Payments made	(11.9)	(5.5)	(17.4)
Foreign exchange	(0.1)	(0.1)	(0.2)
Provision as at September 30, 2009	\$ 9.5	\$ 1.2	\$ 10.7

The following table provides the restructuring charge for each reportable segment:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
Simulation Products/Civil	\$ 0.4	\$ –	\$ 15.0	\$ –
Simulation Products/Military	0.1	–	3.5	–
Training & Services/Civil	0.6	–	8.9	–
Training & Services/Military	–	–	0.9	–
	\$ 1.1	\$ –	\$ 28.3	\$ –

## NOTE 12 – OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION

### Results by segment

The profitability measure employed by the Company for making decisions about allocating resources to segments and assessing segment performance is earnings before other income (expense), interest, income taxes and discontinued operations (hereinafter referred to as segment operating income). The accounting principles used to prepare the information by operating segment are the same as those used to prepare the Company's consolidated financial statements. Transactions between operating segments are mainly simulator transfers from the Simulation Products/Civil segment to the Training & Services/Civil segment, which are recorded at cost. The method used for the allocation of assets jointly used by operating segments and costs and liabilities jointly incurred (mostly corporate costs) between operating segments is based on the level of utilization when determinable and measurable, otherwise the allocation is made based on a proportion of each segment's cost of sales.

<i>(Unaudited)</i> three months ended September 30 <i>(amounts in millions)</i>	Simulation Products		Training & Services		Total	
	2009	2008	2009	2008	2009	2008
		Restated (Note 2)		Restated (Note 2)		Restated (Note 2)
<b>Civil</b>						
External revenue	\$ 63.9	\$ 114.3	\$ 102.8	\$ 108.0	\$ 166.7	\$ 222.3
Segment operating income	12.4	23.4	15.9	19.5	28.3	42.9
Depreciation and amortization						
Property, plant and equipment	1.2	1.0	13.6	13.6	14.8	14.6
Intangible and other assets	0.5	0.6	2.1	1.3	2.6	1.9
Capital expenditures	0.5	1.4	18.9	42.3	19.4	43.7
<b>Military</b>						
External revenue	\$ 137.4	\$ 126.0	\$ 60.4	\$ 58.4	\$ 197.8	\$ 184.4
Segment operating income	24.3	21.6	9.7	11.5	34.0	33.1
Depreciation and amortization						
Property, plant and equipment	1.7	1.4	1.7	1.3	3.4	2.7
Intangible and other assets	1.5	0.9	0.9	0.6	2.4	1.5
Capital expenditures	1.1	1.1	5.8	5.8	6.9	6.9
<b>Total</b>						
External revenue	\$ 201.3	\$ 240.3	\$ 163.2	\$ 166.4	\$ 364.5	\$ 406.7
Segment operating income	36.7	45.0	25.6	31.0	62.3	76.0
Depreciation and amortization						
Property, plant and equipment	2.9	2.4	15.3	14.9	18.2	17.3
Intangible and other assets	2.0	1.5	3.0	1.9	5.0	3.4
Capital expenditures	1.6	2.5	24.7	48.1	26.3	50.6

<i>(Unaudited)</i> six months ended September 30 <i>(amounts in millions)</i>	Simulation Products		Training & Services		Total	
	2009	2008	2009	2008	2009	2008
		Restated (Note 2)		Restated (Note 2)		Restated (Note 2)
<b>Civil</b>						
External revenue	\$ 147.0	\$ 250.9	\$ 217.5	\$ 218.2	\$ 364.5	\$ 469.1
Segment operating income	29.1	50.8	36.7	41.5	65.8	92.3
Depreciation and amortization						
Property, plant and equipment	2.3	2.1	28.6	25.5	30.9	27.6
Intangible and other assets	0.9	1.0	4.0	2.9	4.9	3.9
Capital expenditures	1.8	2.0	42.6	76.5	44.4	78.5
<b>Military</b>						
External revenue	\$ 255.9	\$ 214.4	\$ 127.1	\$ 115.3	\$ 383.0	\$ 329.7
Segment operating income	46.5	35.2	22.3	21.1	68.8	56.3
Depreciation and amortization						
Property, plant and equipment	3.2	2.8	3.4	2.6	6.6	5.4
Intangible and other assets	2.6	2.1	1.5	1.1	4.1	3.2
Capital expenditures	2.6	2.3	11.3	8.2	13.9	10.5
<b>Total</b>						
External revenue	\$ 402.9	\$ 465.3	\$ 344.6	\$ 333.5	\$ 747.5	\$ 798.8
Segment operating income	75.6	86.0	59.0	62.6	134.6	148.6
Depreciation and amortization						
Property, plant and equipment	5.5	4.9	32.0	28.1	37.5	33.0
Intangible and other assets	3.5	3.1	5.5	4.0	9.0	7.1
Capital expenditures	4.4	4.3	53.9	84.7	58.3	89.0

**Earnings before interest and income taxes**

The following table provides a reconciliation between total Segment Operating Income and earnings before interest and income taxes:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
Total segment operating income	\$ 62.3	\$ 76.0	\$ 134.6	\$ 148.6
Restructuring charge (Note 11)	(1.1)	—	(28.3)	—
Earnings before interest and income taxes	\$ 61.2	\$ 76.0	\$ 106.3	\$ 148.6

**Assets employed by segment**

The Company uses assets employed to assess resources allocated to each segment. Assets employed include accounts receivable, contracts in progress, inventories, prepaid expenses, property, plant and equipment, goodwill, intangible assets and other assets. Assets employed exclude cash, income tax accounts and assets of certain non-operating subsidiaries.

<i>(Unaudited)</i> <i>(amounts in millions)</i>	<b>As at September 30 2009</b>	As at March 31 2009
		Restated (Note 2)
Simulation Products/Civil	\$ 244.6	\$ 257.3
Simulation Products/Military	439.5	400.1
Training & Services/Civil	1,222.1	1,359.3
Training & Services/Military	285.6	257.7
Total assets employed	\$ 2,191.8	\$ 2,274.4
Assets not included in assets employed	\$ 424.1	\$ 391.4
Total assets	\$ 2,615.9	\$ 2,665.8

**Geographic information**

The Company markets its products and services in over 20 countries. Sales are attributed to countries based on the location of customers.

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
Revenue from external customers				
Canada	\$ 32.7	\$ 20.7	\$ 63.9	\$ 43.9
United States	106.4	130.4	224.3	269.2
United Kingdom	36.6	32.6	80.2	57.8
Germany	39.6	50.6	78.9	97.9
Netherlands	17.9	35.8	33.6	53.5
Other European countries	36.5	41.3	81.9	84.4
China	14.4	19.2	28.3	37.1
United Arab Emirates	26.2	13.1	54.4	28.3
Other Asian countries	21.2	24.3	43.6	54.2
Australia	23.0	25.7	36.2	44.7
Other countries	10.0	13.0	22.2	27.8
	\$ 364.5	\$ 406.7	\$ 747.5	\$ 798.8

<i>(Unaudited)</i> <i>(amounts in millions)</i>	As at September 30	As at March 31
	2009	2009
Property, plant and equipment, goodwill and intangible assets		Restated (Note 2)
Canada	\$ 216.4	\$ 233.1
United States	364.5	422.2
South America	60.6	76.1
United Kingdom	167.7	164.1
Spain	104.0	95.8
Germany	79.1	81.1
Belgium	82.8	91.6
Netherlands	116.4	129.2
Other European countries	77.9	43.7
United Arab Emirates	73.2	85.0
Other Asian countries	106.5	126.3
Other countries	13.7	12.8
	\$ 1,462.8	\$ 1,561.0