

Consolidated Balance Sheets

<i>(Unaudited)</i> <i>(amounts in millions of Canadian dollars)</i>	As at December 31 2009	As at March 31 2009
		Restated (Note 2)
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 234.1	\$ 195.2
Accounts receivable (Note 6)	276.4	322.4
Contracts in progress	244.0	215.3
Inventories (Note 7)	140.8	118.9
Prepaid expenses	30.8	31.3
Income taxes recoverable	22.4	11.5
Future income taxes	3.1	5.3
	\$ 951.6	\$ 899.9
Property, plant and equipment, net	1,179.4	1,302.4
Future income taxes	72.7	86.1
Intangible assets	116.4	99.5
Goodwill	164.1	159.1
Other assets	135.8	118.8
	\$ 2,620.0	\$ 2,665.8
Liabilities and shareholders' equity		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	\$ 439.1	\$ 540.4
Deposits on contracts	233.5	203.8
Current portion of long-term debt (Note 5)	62.9	125.6
Future income taxes	31.8	20.9
	\$ 767.3	\$ 890.7
Long-term debt (Note 5)	442.8	354.7
Deferred gains and other long-term liabilities	198.0	184.9
Future income taxes	40.7	37.7
	\$ 1,448.8	\$ 1,468.0
Shareholders' equity		
Capital stock	\$ 439.3	\$ 430.2
Contributed surplus	10.6	10.1
Retained earnings	886.0	805.0
Accumulated other comprehensive loss	(164.7)	(47.5)
	\$ 1,171.2	\$ 1,197.8
	\$ 2,620.0	\$ 2,665.8

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 December 31		Nine months ended December 31	
	2009	2008	2009	2008
Revenue	\$ 382.9	\$ 424.6	\$ 1,130.4	\$ 1,223.4
Earnings before restructuring, interest and income taxes	\$ 64.6	\$ 77.6	\$ 199.2	\$ 226.2
Restructuring charge (Note 11)	3.9	–	32.2	–
Earnings before interest and income taxes (Note 12)	\$ 60.7	\$ 77.6	\$ 167.0	\$ 226.2
Interest expense, net (Note 5)	6.5	5.6	20.5	15.1
Earnings before income taxes	\$ 54.2	\$ 72.0	\$ 146.5	\$ 211.1
Income tax expense	16.5	19.9	42.5	61.6
Earnings from continuing operations	\$ 37.7	\$ 52.1	\$ 104.0	\$ 149.5
Results of discontinued operations	–	–	–	(1.1)
Net earnings	\$ 37.7	\$ 52.1	\$ 104.0	\$ 148.4
Basic and diluted earnings per share from continuing operations	\$ 0.15	\$ 0.20	\$ 0.41	\$ 0.59
Basic and diluted earnings per share	\$ 0.15	\$ 0.20	\$ 0.41	\$ 0.58
Weighted average number of shares outstanding (basic)	255.9	254.9	255.7	254.7
Weighted average number of shares outstanding (diluted) ⁽¹⁾	255.9	254.9	255.7	255.1

⁽¹⁾ For the three and nine months ended December 31, 2009, and for the three months ended December 31, 2008, 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)
 nine months ended December 31, 2009
 (amounts in millions of Canadian dollars, except number of shares)

	Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, beginning of 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	1,069,945	6.0	—	—	—	6.0
Transfer upon exercise of stock options	—	2.8	(2.8)	—	—	—
Stock dividends	36,984	0.3	—	(0.3)	—	—
Stock-based compensation	—	—	3.3	—	—	3.3
Net earnings	—	—	—	104.0	—	104.0
Dividends	—	—	—	(22.7)	—	(22.7)
Other comprehensive loss	—	—	—	—	(117.2)	(117.2)
Balances, end of period	256,253,372	\$ 439.3	\$ 10.6	\$ 886.0	\$ (164.7)	\$ 1,171.2

The total of *Retained earnings* and *Accumulated other comprehensive loss* for the nine months ended December 31, 2009 was \$721.3 million (\$702.2 million as at December 31, 2008).

(Unaudited)
 nine months ended December 31, 2008
 (amounts in millions of Canadian dollars, except number of shares)

	Number of Shares	Common Shares Stated Value	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, beginning of 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	857,675	8.4	—	—	—	8.4
Transfer upon exercise of stock options	—	0.6	(0.6)	—	—	—
Stock dividends	86,484	0.9	—	(0.9)	—	—
Stock-based compensation	—	—	2.1	—	—	2.1
Net earnings	—	—	—	148.4	—	148.4
Dividends	—	—	—	(22.0)	—	(22.0)
Other comprehensive loss	—	—	—	—	64.6	64.6
Balances, end of period	254,913,995	\$ 428.8	\$ 9.8	\$ 760.0	\$ (57.8)	\$ 1,140.8

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

Consolidated Statements of Comprehensive Income (Loss)

<i>(Unaudited)</i> <i>(amounts in millions of Canadian dollars)</i>	Three months ended December 31		Nine months ended December 31	
	2009	2008 Restated (Note 2)	2009	2008 Restated (Note 2)
Net earnings	\$ 37.7	\$ 52.1	\$ 104.0	\$ 148.4
Other comprehensive (loss) gain, net of income taxes:				
Foreign currency translation adjustment				
Net foreign exchange (losses) gains on translation of financial statements of self-sustaining foreign operations	\$ (30.5)	\$ 122.2	\$ (167.9)	\$ 95.6
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	3.5	(5.4)	14.1	(6.5)
Reclassification to income	0.3	(1.9)	0.3	(1.9)
Income tax adjustment	(0.4)	(0.2)	0.9	(0.3)
	\$ (27.1)	\$ 114.7	\$ (152.6)	\$ 86.9
Net changes in cash flow hedge				
Net change in gains (losses) on derivative items designated as hedges of cash flows	\$ 7.0	\$ (49.1)	\$ 44.3	\$ (37.3)
Reclassifications to income or to the related non-financial assets or liabilities	(6.9)	12.2	6.3	4.6
Income tax adjustment	0.3	11.7	(15.2)	10.4
	\$ 0.4	\$ (25.2)	\$ 35.4	\$ (22.3)
Total other comprehensive (loss) income	\$ (26.7)	\$ 89.5	\$ (117.2)	\$ 64.6
Comprehensive income (loss)	\$ 11.0	\$ 141.6	\$ (13.2)	\$ 213.0

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 December 31, 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	\$ (20.4)	\$ (28.1)	\$ (48.5)
Adjustment for change in accounting policy (Note 2)	1.0	–	1.0
Details of other comprehensive loss:			
Net change in (losses) gains	(153.8)	44.3	(109.5)
Reclassification to income or to the related non-financial assets or liabilities	0.3	6.3	6.6
Income tax adjustment	0.9	(15.2)	(14.3)
Total other comprehensive loss	\$ (152.6)	\$ 35.4	\$ (117.2)
Balance in accumulated other comprehensive loss at end of period	\$ (172.0)	\$ 7.3	\$ (164.7)

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 December 31		Nine months ended December 31	
	2009	2008 Restated (Note 2)	2009	2008 Restated (Note 2)
Operating activities				
Net earnings	\$ 37.7	\$ 52.1	\$ 104.0	\$ 148.4
Results of discontinued operations	–	–	–	1.1
Earnings from continuing operations	\$ 37.7	\$ 52.1	\$ 104.0	\$ 149.5
Adjustments to reconcile earnings to cash flows from operating activities:				
Depreciation	19.9	20.0	57.4	53.0
Financing cost amortization	0.2	0.2	0.6	0.6
Amortization of intangible and other assets	4.5	4.2	13.5	11.3
Future income taxes	14.0	2.5	15.8	15.9
Investment tax credits	(12.4)	1.3	(9.9)	10.6
Stock-based compensation plans	1.6	(8.9)	10.0	(15.5)
Employee future benefits – net	0.3	(0.2)	(0.3)	0.2
Amortization of other long-term liabilities	(1.7)	(1.9)	(5.4)	(6.9)
Other	(1.9)	(6.1)	(2.7)	(6.1)
Changes in non-cash working capital (Note 8)	(40.4)	29.0	(64.7)	(90.0)
Net cash provided by operating activities	\$ 21.8	\$ 92.2	\$ 118.3	\$ 122.6
Investing activities				
Business acquisitions, net of cash and cash equivalents acquired (Note 3)	\$ (6.7)	\$ (0.4)	\$ (29.6)	\$ (39.1)
Capital expenditures	(24.1)	(51.9)	(82.4)	(140.9)
Proceeds from disposal of property, plant and equipment	0.3	–	8.8	–
Deferred development costs	(3.3)	(3.3)	(9.4)	(7.4)
Other	(4.8)	(1.0)	(9.8)	(3.6)
Net cash used in investing activities	\$ (38.6)	\$ (56.6)	\$ (122.4)	\$ (191.0)
Financing activities				
Proceeds from long-term debt, net of transaction costs and hedge accounting adjustment	\$ 9.9	\$ 16.6	\$ 164.6	\$ 39.1
Repayment of long-term debt	(10.7)	(8.6)	(104.2)	(22.7)
Proceeds from capital lease	4.7	–	21.6	–
Dividends paid	(7.6)	(7.4)	(22.7)	(22.0)
Common stock issuance	2.6	–	6.0	8.4
Other	(0.5)	(7.8)	(1.9)	(9.1)
Net cash (used in) provided by financing activities	\$ (1.6)	\$ (7.2)	\$ 63.4	\$ (6.3)
Effect of foreign exchange rate changes on cash and cash equivalents	\$ (4.6)	\$ 19.6	\$ (20.4)	\$ 16.8
Net (decrease) increase in cash and cash equivalents	\$ (23.0)	\$ 48.0	\$ 38.9	\$ (57.9)
Cash and cash equivalents at beginning of period	257.1	149.8	195.2	255.7
Cash and cash equivalents at end of period	\$ 234.1	\$ 197.8	\$ 234.1	\$ 197.8

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.

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 GAAP 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 standard 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, at www.sec.gov, as well as on the Company's website at 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 investments over which the Company exercises significant influence are accounted for using the equity method and portfolio investments are 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 as a reduction of capitalized expenditures.

NOTE 2 – CHANGE IN ACCOUNTING POLICIES

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*. The 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 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 second quarter, the Company revised its valuation of the identifiable intangible assets. Consequently, customer relationship intangible assets were increased by \$2.8 million and goodwill was reduced accordingly. During the third quarter, the Company increased the goodwill to \$13.2 million to reflect adjustments made to the purchase price allocation. The working capital adjustment remains unsettled and is currently in dispute. The allocation of the purchase price is still preliminary.

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 has embedded graphics solutions for the military and aerospace market, with 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.

ICCU Imaging Inc.

In December 2009, the Company acquired ICCU Imaging Inc. (ICCU) for a total cost, including acquisition costs and excluding working capital adjustment, of \$2.6 million of which \$2.3 million was settled in cash. ICCU specializes in developing multimedia educative material and offering educational solutions to help medical providers perform a focused bedside ultrasound examination. The total cost does not include potential additional considerations of \$12.0 million that are contingent on certain conditions being satisfied, which, if met, would be recorded as additional goodwill. 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 \$19.9 million of which \$13.2 million is deductible for tax purposes. As well, customer relationship intangible assets in the amount of \$9.6 million, a technology intangible asset in the amount of \$1.7 million and other intangible assets in the amount of \$1.1 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, Training & Services/Military and Training & Services/Civil segments.

During the quarter, the Company recorded additional purchase prices of \$4.2 million for Sabena Flight Academy settled in cash as a final settlement of contingent consideration and \$0.2 million for Kestrel Technologies Pte. Ltd. settled in cash as additional contingent consideration. The additional purchase prices were recorded as goodwill.

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>	As at December 31 2009	As at March 31 2009
		Restated (Note 2)
Assets		
Current assets	\$ 54.0	\$ 58.4
Property, plant and equipment and other non-current assets	250.2	240.3
Liabilities		
Current liabilities	33.6	44.9
Long-term debt (including current portion)	121.7	120.4
Deferred gains and other long-term liabilities	5.5	4.5

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
		Restated (Note 2)		Restated (Note 2)
Earnings				
Revenue	\$ 22.1	\$ 21.8	\$ 67.6	\$ 59.3
Net earnings	6.3	2.3	14.9	10.9
Segmented operating income				
Simulation Products/Military	1.3	0.7	4.8	2.4
Training and Services/Civil	4.1	1.8	11.0	10.3
Training and Services/Military	2.6	(0.2)	3.4	(0.7)
Cash flows provided by (used in):				
Operating activities	\$ 7.2	\$ 12.5	\$ 9.1	\$ 30.7
Investing activities	(9.6)	(12.6)	(24.5)	(32.4)
Financing activities	3.0	13.7	3.4	26.2

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 matured senior notes.

The Company has designated the senior note 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 senior note 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 \$250.0 million. The aggregate amount recognized as at December 31, 2009 was \$20.2 million (refer to Note 1). The discounted value of the debt recognized amounted to \$5.3 million as at December 31, 2009.

Interest expense, net

Details of interest expense (income) are as follows:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Long-term debt interest expense	\$ 6.8	\$ 7.3	\$ 21.3	\$ 20.4
Amortization of deferred financing costs and other	0.6	0.9	2.3	2.5
Interest capitalized	(0.6)	(1.7)	(2.1)	(4.5)
Interest on long-term debt	\$ 6.8	\$ 6.5	\$ 21.5	\$ 18.4
Interest income	\$ (0.5)	\$ (0.6)	\$ (1.8)	\$ (2.0)
Other interest expense (income), net	0.2	(0.3)	0.8	(1.3)
Interest expense (income), net	\$ (0.3)	\$ (0.9)	\$ (1.0)	\$ (3.3)
Interest expense, net	\$ 6.5	\$ 5.6	\$ 20.5	\$ 15.1

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>	As at December 31 2009	As at March 31 2009
Past due trade receivables		
1-30 days	\$ 31.1	\$ 35.1
31-60 days	13.6	12.0
61-90 days	14.9	13.1
Greater than 90 days	33.9	28.0
Total	\$ 93.5	\$ 88.2
Allowance for doubtful accounts	\$ (6.1)	\$ (8.2)
Current trade receivables	95.6	122.9
Accrued receivables	31.3	38.2
Derivative assets	23.5	32.2
Other receivables	38.6	49.1
Total accounts receivable	\$ 276.4	\$ 322.4

Changes in the allowance for doubtful accounts were as follows:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Allowance for doubtful accounts, beginning of period	\$ (6.4)	\$ (11.0)	\$ (8.2)	\$ (7.4)
Additions	(0.9)	(0.3)	(2.7)	(8.1)
Amounts charged off	1.0	3.7	3.8	7.7
Foreign exchange	0.2	(0.6)	1.0	(0.4)
Allowance for doubtful accounts, end of period	\$ (6.1)	\$ (8.2)	\$ (6.1)	\$ (8.2)

NOTE 7 – INVENTORIES

<i>(Unaudited)</i> <i>(amounts in millions)</i>	As at December 31 2009	As at March 31 2009
Work in progress	\$ 100.2	\$ 79.1
Raw materials, supplies and manufacturing products	40.6	39.8
	\$ 140.8	\$ 118.9

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

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Work in progress	\$ 29.2	\$ 21.1	\$ 54.0	\$ 51.5
Raw materials, supplies and manufacturing products	8.5	14.1	20.8	48.8
	\$ 37.7	\$ 35.2	\$ 74.8	\$ 100.3

NOTE 8 – SUPPLEMENTARY CASH FLOWS AND EARNINGS INFORMATION

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
<i>Cash (used in) provided by non-cash working capital:</i>				
Accounts receivable	\$ 4.7	\$ (18.1)	\$ 64.9	\$ (7.0)
Contracts in progress	(15.3)	2.4	(37.1)	(66.8)
Inventories	(12.9)	(5.4)	(21.1)	(31.8)
Prepaid expenses	(1.8)	0.5	(1.9)	8.4
Income taxes recoverable	1.3	14.0	0.5	8.1
Accounts payable and accrued liabilities	(18.2)	19.1	(98.1)	(9.3)
Deposits on contracts	1.8	16.5	28.1	8.4
Changes in non-cash working capital	\$ (40.4)	\$ 29.0	\$ (64.7)	\$ (90.0)
<i>Supplemental cash flow disclosure:</i>				
Interest paid	\$ 10.8	\$ 6.0	\$ 24.3	\$ 19.5
Income taxes paid (received)	5.8	1.0	12.8	14.7
<i>Supplemental statements of earnings disclosure:</i>				
Foreign exchange (losses) gains on financial instruments recognized in earnings:				
Loans and receivables	\$ (1.1)	\$ 7.8	\$ (19.5)	\$ 11.5
Financial assets and financial liabilities required to be classified as held-for-trading	1.1	–	4.4	(0.7)
Other financial liabilities	1.9	(10.1)	13.7	(13.3)
Foreign exchange gain (loss)	\$ 1.9	\$ (2.3)	\$ (1.4)	\$ (2.5)

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 December 31 2009	Nine months ended December 31 2009
Outstanding contribution receivable, beginning of period	\$ 15.0	\$ 23.3
Contributions	10.7	38.8
Payments received	(12.9)	(49.3)
Outstanding contribution receivable, end of period	\$ 12.8	\$ 12.8

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 December 31		Nine months ended December 31	
	2009	2008	2009	2008
Contributions credited to capitalized expenditures:				
Project Phoenix	\$ 0.5	\$ 4.2	\$ 3.7	\$ 9.9
Project Falcon	1.5	–	3.4	–
Contributions credited to income:				
Project Phoenix	2.6	15.7	20.2	32.1
Project Falcon	6.1	–	11.5	–
Total contributions:				
Project Phoenix	\$ 3.1	\$ 19.9	\$ 23.9	\$ 42.0
Project Falcon	7.6	–	14.9	–
Royalty expenses:				
Project Phoenix	\$ –	\$ –	\$ –	\$ –
Previous programs	2.5	2.5	7.5	7.5

NOTE 10 – EMPLOYEE FUTURE BENEFITS

The total benefit cost for the periods ended December 31 includes the following components:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Current service cost	\$ 1.9	\$ 2.5	\$ 5.7	\$ 7.2
Interest cost on projected pension obligations	3.8	3.5	11.3	10.5
Expected return on plan assets	(2.7)	(3.4)	(8.2)	(10.0)
Amortization of net actuarial loss	0.3	0.5	0.9	1.5
Amortization of past service costs	0.1	0.2	0.4	0.4
Net pension expense	\$ 3.4	\$ 3.3	\$ 10.1	\$ 9.6

NOTE 11 – RESTRUCTURING CHARGE

On May 14, 2009, the Company introduced actions required to size the Company to current and expected market conditions. The plan includes a workforce reduction of approximately 700 employees of which 600 are in Montreal, Québec and 100 in other locations worldwide, and is being carried out over this fiscal year. A restructuring charge of \$32.2 million, consisting mainly of severance and other related costs, including the associated pension expense, was included in the net earnings for the period ended December 31, 2009. The total amount to be incurred is expected to be approximately \$34 million.

The following summarizes the restructuring costs for the period ended December 31, 2009:

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Employee Termination Costs	Other Costs	Total
Provision as at March 31, 2009	\$ –	\$ –	\$ –
Expenses recorded	24.6	7.6	32.2
Payments made	(16.4)	(6.6)	(23.0)
Foreign exchange	(0.2)	(0.1)	(0.3)
Provision as at December 31, 2009	\$ 8.0	\$ 0.9	\$ 8.9

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

<i>(Unaudited)</i> <i>(amounts in millions)</i>	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Simulation Products/Civil	\$ 0.4	\$ –	\$ 15.4	\$ –
Simulation Products/Military	0.4	–	3.9	–
Training & Services/Civil	3.1	–	12.0	–
Training & Services/Military	–	–	0.9	–
	\$ 3.9	\$ –	\$ 32.2	\$ –

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.

Notes to the Consolidated Financial Statements

<i>(Unaudited)</i> three months ended December 31 <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)
Civil						
External revenue	\$ 72.6	\$ 119.3	\$ 102.4	\$ 120.9	\$ 175.0	\$ 240.2
Segment operating income	11.4	22.8	17.4	20.4	28.8	43.2
Depreciation and amortization						
Property, plant and equipment	1.2	1.2	14.9	15.6	16.1	16.8
Intangible and other assets	0.4	0.4	2.2	2.2	2.6	2.6
Capital expenditures	0.6	1.9	13.0	39.7	13.6	41.6
Military						
External revenue	\$ 140.4	\$ 125.5	\$ 67.5	\$ 58.9	\$ 207.9	\$ 184.4
Segment operating income	23.4	25.7	12.4	8.7	35.8	34.4
Depreciation and amortization						
Property, plant and equipment	1.5	1.6	2.3	1.6	3.8	3.2
Intangible and other assets	1.2	1.1	0.7	0.5	1.9	1.6
Capital expenditures	2.3	2.2	8.2	8.1	10.5	10.3
Total						
External revenue	\$ 213.0	\$ 244.8	\$ 169.9	\$ 179.8	\$ 382.9	\$ 424.6
Segment operating income	34.8	48.5	29.8	29.1	64.6	77.6
Depreciation and amortization						
Property, plant and equipment	2.7	2.8	17.2	17.2	19.9	20.0
Intangible and other assets	1.6	1.5	2.9	2.7	4.5	4.2
Capital expenditures	2.9	4.1	21.2	47.8	24.1	51.9

<i>(Unaudited)</i> nine months ended December 31 <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)
Civil						
External revenue	\$ 219.6	\$ 370.2	\$ 319.9	\$ 339.1	\$ 539.5	\$ 709.3
Segment operating income	40.5	73.6	54.1	61.9	94.6	135.5
Depreciation and amortization						
Property, plant and equipment	3.5	3.3	43.5	41.1	47.0	44.4
Intangible and other assets	1.3	1.4	6.2	5.1	7.5	6.5
Capital expenditures	2.4	3.9	55.6	116.2	58.0	120.1
Military						
External revenue	\$ 396.3	\$ 339.9	\$ 194.6	\$ 174.2	\$ 590.9	\$ 514.1
Segment operating income	69.9	60.9	34.7	29.8	104.6	90.7
Depreciation and amortization						
Property, plant and equipment	4.7	4.4	5.7	4.2	10.4	8.6
Intangible and other assets	3.8	3.2	2.2	1.6	6.0	4.8
Capital expenditures	4.9	4.5	19.5	16.3	24.4	20.8
Total						
External revenue	\$ 615.9	\$ 710.1	\$ 514.5	\$ 513.3	\$ 1,130.4	\$ 1,223.4
Segment operating income	110.4	134.5	88.8	91.7	199.2	226.2
Depreciation and amortization						
Property, plant and equipment	8.2	7.7	49.2	45.3	57.4	53.0
Intangible and other assets	5.1	4.6	8.4	6.7	13.5	11.3
Capital expenditures	7.3	8.4	75.1	132.5	82.4	140.9

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>	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Total segment operating income	\$ 64.6	\$ 77.6	\$ 199.2	\$ 226.2
Restructuring charge (Note 11)	(3.9)	—	(32.2)	—
Earnings before interest and income taxes	\$ 60.7	\$ 77.6	\$ 167.0	\$ 226.2

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>	As at December 31 2009	As at March 31 2009
		Restated (Note 2)
Simulation Products/Civil	\$ 269.2	\$ 257.3
Simulation Products/Military	452.6	400.1
Training & Services/Civil	1,185.8	1,359.3
Training & Services/Military	303.7	257.7
Total assets employed	\$ 2,211.3	\$ 2,274.4
Assets not included in assets employed	\$ 408.7	\$ 391.4
Total assets	\$ 2,620.0	\$ 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 December 31		Nine months ended December 31	
	2009	2008	2009	2008
Revenue from external customers				
Canada	\$ 46.0	\$ 23.3	\$ 109.9	\$ 67.2
United States	102.2	147.2	326.5	416.4
United Kingdom	31.6	33.5	111.8	91.3
Germany	60.9	66.5	139.8	164.4
Netherlands	12.6	19.6	46.2	73.1
Other European countries	31.6	37.6	113.5	122.0
China	25.5	26.4	53.8	63.5
United Arab Emirates	18.4	16.5	72.8	44.8
Other Asian countries	23.0	27.9	66.6	82.1
Australia	16.5	11.0	52.7	55.7
Other countries	14.6	15.1	36.8	42.9
	\$ 382.9	\$ 424.6	\$ 1,130.4	\$ 1,223.4

<i>(Unaudited)</i> <i>(amounts in millions)</i>	As at December 31 2009	As at March 31 2009
		Restated (Note 2)
Property, plant and equipment, goodwill and intangible assets		
Canada	\$ 244.4	\$ 233.1
United States	359.8	422.2
South America	59.5	76.1
United Kingdom	166.0	164.1
Spain	95.8	95.8
Germany	78.5	81.1
Belgium	80.8	91.6
Netherlands	108.6	129.2
Other European countries	74.7	43.7
United Arab Emirates	71.6	85.0
Other Asian countries	106.5	126.3
Other countries	13.7	12.8
	\$ 1,459.9	\$ 1,561.0

NOTE 13 – SUBSEQUENT EVENT**VIMEDIX Virtual Medical Imaging Training Systems Inc.**

In January 2010, the Company carried out a minor acquisition for VIMEDIX Virtual Medical Imaging Training Systems Inc. (VIMEDIX) which specializes in developing advanced echographic simulation training and has begun marketing a virtual reality animated transthoracic echocardiography simulator.