Third Quarter Report 2023

Financial Report for the three months ended December 31, 2022

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Report to Shareholders

CAE Inc. reported revenue of $1,020.3 million for the third quarter of fiscal 2023, compared with $848.7 million in the third quarter last year. Third quarter earnings per share (EPS) was $0.25 compared to $0.08 last year. Adjusted EPS[(1)] in the third quarter was $0.28, including an approximate $0.02 positive impact as a result of gains on the reversal of impairment of non-financial assets following their repurposing and optimization, compared to $0.19 last year.

Operating income this quarter was $145.9 million (14.3% of revenue[(1)]), compared to $65.5 million (7.7% of revenue) last year. Third quarter adjusted segment operating income[(1)] was $160.6 million (15.7% of revenue[(1)]) compared to $112.7 million (13.3% of revenue) last year. All financial information is in Canadian dollars unless otherwise indicated.

“We had strong results in the third quarter, driven by Civil’s double-digit growth, Defense’s sequential improvement, and Healthcare’s increased profitability,” said Marc Parent, CAE’s President and Chief Executive Officer. “We ensured our path to future growth, securing over $1.2 billion in total adjusted order intake[(1)] for a record $10.8 billion adjusted backlog[(1)] and 1.22 times book-to-sales ratio[(1)]. In Civil, we booked $713 million in orders for a 1.38 times book-to-sales ratio, including long-term agreements globally for aviation training and our flight operations management platform solutions. We also sold 14 full-flight simulators, bringing our year-to-date tally to 43. In Defense, we booked orders for training and mission support solutions valued at $477 million for 1.05 times book-to-sales, marking the sixth consecutive quarter this ratio has been above one.”

On CAE’s outlook, Marc Parent added, “we are excited about Civil's prospects as it builds on CAE’s industry leadership, and we expect to see significant growth during and beyond the ongoing global market recovery. The sequential growth of Defense, along with positively trending bookings and backlog renewals, adds to our confidence in our multi-year view. Healthcare continues to gain a larger share in the simulation and training market, and we expect its top- and bottom-line growth to continue. In parallel, we are further bolstering our financial position and are on track to reach our leverage target of less than three times net debt-to-adjusted EBITDA by mid-fiscal 2024. We continue to expect mid-twenty percent consolidated adjusted segment operating income growth this fiscal year and reiterate our long-term target of a three-year EPS compound growth rate in the mid-twenty percent range.”

Civil Aviation (Civil)

Third quarter Civil revenue was $517.4 million vs. $390.1 million in the third quarter last year. Operating income was $117.2 million (22.7% of revenue) compared to $57.1 million (14.6% of revenue) in the same quarter last year. Adjusted segment operating income was $131.4 million (25.4% of revenue) compared to $83.4 million (21.4% of revenue) in the third quarter last year. During the quarter, Civil delivered nine full-flight simulators (FFSs) to customers and third quarter Civil training centre utilization was 73%.

During the quarter, Civil signed training solutions contracts valued at $713.0 million, including contracts for 14 FFS sales for a total of 43 as of the end of the third quarter of the fiscal year. Notable training contracts for the quarter include long-term commercial aviation training agreements with GOL Airlines and MESA Airlines. They also include a long-term business aviation training agreement with Delux Public Charter LLC (JSX Air). In flight operations software solutions, notable contracts include a five-year contract for CAE’s next-gen crew and operations manager solution suite at Ethiopian airlines, and since the end of the quarter, an agreement for its next-gen operations solutions with Frontier Airlines.

The Civil book-to-sales ratio was 1.38 times for the quarter and 1.29 times for the last 12 months. The Civil adjusted backlog at the end of the quarter was a record $5.6 billion.

Defense and Security (Defense)

Third quarter Defense revenue was $452.5 million, up 6% compared to the third quarter last year. Operating income was $24.9 million (5.5% of revenue) compared to $16.5 million (3.9% of revenue) in the same quarter last year. Adjusted segment operating income was $25.4 million (5.6% of revenue), compared to $32.0 million (7.5% of revenue) in the third quarter last year.

Defense booked orders for $476.7 million during the quarter, marking the sixth consecutive quarter with a book-to-sales ratio above one, and it continued to book new business across all domains. Notable orders in the Air domain include the provision of a flight training device and maintenance and logistics support for the Royal Canadian Air Force’s CH-149 Cormorant search-and-rescue helicopter, the continuation of aircrew training on the KC-135 Stratotanker and C-130H Hercules for the United States Air Force, and international flight training device upgrades for the F-16 fighter jet and CH-53G heavy-lift transport helicopter. In the Land domain, Defense was awarded funding for its Joint Terminal Control Training Rehearsal System (JTC TRS) solution which builds on the success of its previous funding award for a new virtual training capability for soldiers to the US Army on the Soldier Virtual Trainer prototype contract. Defense also booked strategic orders in the Sea, Space and Cyber domains, highlighted by the proliferation of CAE’s solutions for distributed, networked and cybersecure mission training via the US Air Force’s Simulator Common Architecture Requirements and Standards

(SCARS) program, and since the end of the quarter, its work with Lockheed Martin on the Canadian Surface Combatant (CSC) ship program.

Defense continued to build on its foundation of US Army support with an award for the competitive re-compete of the Fixed-Wing Flight Training Service. This program involves the provision of comprehensive initial and recurrent training for more than 600 U.S. Army and U.S. Air Force fixed-wing pilots annually at the CAE Dothan Training Center in Dothan, Alabama. The approximate total value of the base contract and options is US$250 million, with a period of performance effective CAE's fourth quarter through 2032. Accordingly, this contract will be reflected in Defense's fourth quarter order intake.

The Defense book-to-sales ratio was 1.05 times for the quarter and 1.25 times for the last 12 months (excluding contract options). The Defense adjusted backlog, including options and CAE's interest in joint ventures, at the end of the quarter was a record $5.1 billion. The Defense pipeline remains strong with some $7.3 billion of bids and proposals pending customer decisions.

Healthcare

Third quarter Healthcare revenue was $50.4 million, vs. $32.1 million in the third quarter last year. Operating income was $3.8 million (7.5% of revenue) compared to a loss of $8.1 million in the same quarter last year. Adjusted segment operating income was $3.8 million (7.5% of revenue) compared to a loss of $2.7 million in the third quarter last year.

During the quarter, Healthcare secured several agreements with universities and colleges for its advanced patient simulators and customizable centre management platform. It also expanded its relationship with the American Society of Anesthesiologists through a commitment to develop additional SimSTAT modules for the Maintenance of Certification in Anesthesiology (MoCA).

Additional financial highlights

CAE incurred restructuring, integration and acquisition costs of $4.9 million during the third quarter of fiscal 2023 relating mainly to the fiscal 2022 acquisition of Sabre's AirCentre airline operations portfolio (AirCentre) and including a $9.8 million impairment reversal of non-financial assets following their repurposing and optimization.

Net cash provided by operating activities was $252.4 million for the quarter, compared to $309.6 million in the third quarter last year. Free cash flow(1) was $237.7 million for the quarter compared to $282.1 million in the third quarter last year. The decrease was mainly due to a higher investment in non-cash working capital partially offset by higher cash provided by operating activities and lower payments to equity accounted investees.

Income tax expense this quarter amounted to $17.1 million, representing an effective tax rate of 18%, compared to an effective tax rate of 8% for the third quarter last year. The income tax rate was impacted by restructuring, integration and acquisition costs, and excluding these costs, the income tax rate used to determine adjusted net income and adjusted EPS was 19% this quarter as compared to 20% in the third quarter of last year.

Growth and maintenance capital expenditures(1) totaled $63.4 million this quarter.

Net debt(1) at the end of the quarter was $3,073.0 million for a net debt-to-adjusted EBITDA(1) of 3.74 times. This compares to net debt of $3,194.6 million and a net debt-to-adjusted EBITDA of 4.17 times at the end of the preceding quarter. CAE's total available liquidity as at December 31, 2022 was approximately $1.4 billion.

Net finance expense this quarter amounted to $48.8 million, compared to $41.3 million in the preceding quarter and $34.5 million in the third quarter last year. The increased finance expense relative to both prior periods mainly reflects the impact of higher interest rates on our variable rate debt instruments.

Adjusted return on capital employed(1) was 5.5% this quarter compared to 5.1% last quarter and 6.1% in the third quarter last year.

Management outlook

Since 2020, CAE has been carrying out a growth strategy which it believes will enable it to emerge from the pandemic a bigger, stronger, and more profitable company than ever before. Specifically, as a waypoint along its journey to cyclical recovery and beyond, the Company is targeting a consolidated adjusted segment operating margin of approximately 17% by the time its markets are generally recovered, with steady room for further improvement thereafter. It expects to reach this level of profitability on a significantly larger base of business with a post-pandemic capital structure that will allow the Company to sustain ample flexibility to balance further investments in its future with capital returns for shareholders. The Company is targeting a three-year (FY23-FY25) EPS compound growth rate in the mid-20% range.

Current headwinds include remaining travel restrictions related to the global pandemic, geopolitical uncertainty, decades-high inflation, and elevated interest rates. Notwithstanding the influence on the timing and rate of market recovery these factors may have, management maintains a highly positive view of its growth potential over a multi-year period.

Expected secular trends are highly favorable for all three of the Company's core business segments. Greater desire by airlines to entrust CAE with their critical training and digital operational support and crew management needs, higher expected pilot demand and strong business jet travel demand are enduring positives for the Civil business. Management believes the defence sector is in the early stages of an extended up-cycle driven by geopolitical tensions and increased commitments by governments to defence modernization and readiness. Tailwinds that favour CAE's Defense business include the shift in national defence priorities to an increased focus on near-peer threats and the recognition of the sharply increased need for the kinds of digital immersion-based synthetic solutions that draw from CAE's advances in commercial aviation simulation and training. Healthcare is poised to leverage opportunities presented by high demand for nurses and increased opportunities for medical simulation.

The Company expects the rate of Civil's recovery to pre-pandemic levels and beyond to continue to be driven in large part by the easing of remaining travel restrictions, especially in Asia, where China represents a significant part of a broader global recovery. Civil's strong commercial aviation training performance in the Americas as well as renewed FFS order activity provide a compelling blueprint for the potential of a broader global commercial aviation recovery. For the remainder of fiscal 2023, management expects sequentially higher Civil adjusted segment operating income growth on higher FFS deliveries to customers, ongoing simulator deployments to CAE's global training network, and seasonally higher training demand. In addition to continuing to grow its share of the aviation training market and expanding its position in digital flight services, Civil expects to maintain its leading share of FFS sales and to deliver more than 45 FFSs for the year to customers worldwide.

CAE's Defense segment is on a multi-year path to becoming a bigger and more profitable business. In the last two years, Defense has established itself as the world's leading pure-play, platform agnostic, training and simulation business, providing solutions across all five domains. It is uniquely positioned to draw on CAE's innovations in commercial aviation to transform training with the application of advanced analytics and leading-edge technologies. This is expected to bring increased potential to capture business around the world, accelerated by the acquisition of L3H MT and the expanded capability and customer set this combination provides. This is evidenced by the trailing 12-month book-to-sales ratio of 1.25 times. Current geopolitical events have galvanized national defence priorities in the U.S. and across NATO, and management expects increased spending and specific prioritization on defence readiness to translate into additional opportunities for CAE in the years ahead. Defense is expected to continue making good progress with the integration of the L3H MT acquisition in fiscal 2023 and to fully realize $35 to $45 million of cost synergies by fiscal 2024.

In the near term, Defense is expected to continue working its way through the lagging effects of a protracted period of lower than one annual book-to-sales ratios – especially for its higher margin products solutions. Defense also anticipates the prevailing macroeconomic headwinds, including supply chain and labor challenges, to persist into the next fiscal year, and that order delays will continue to be a factor, particularly in light of potential U.S. government budget appropriation issues. For the remainder of the current fiscal year, Defense expects to see sequentially improved performance on the expectation that some delayed orders will come to fruition, it will execute on programs in adjusted backlog and partially mitigate macroeconomic impacts with internal cost reductions and efficiency initiatives. CAE continues to expect superior Defense growth over a multi-year period to be driven by the translation of higher-margin order intake and bid activity into revenue, and the progressive realization of synergies related to the L3H MT integration.

In Healthcare, management sees potential to accelerate value creation as it gains share in the healthcare simulation and training market and continues to build on its top- and bottom-line growth momentum.

For the current fiscal year, CAE reiterates its expectation to deliver mid-20% consolidated adjusted segment operating income growth, primarily driven by its Civil business.

Total capital expenditures are expected to be approximately $250 million in fiscal 2023, mainly in support of market -led, organic investments. The Company usually sees a higher investment in non-cash working capital accounts in the first half of the fiscal year, and as in previous years, management expects a portion of the non-cash working capital investment to reverse in the second half. The Company continues to target a 100% conversion of adjusted net income to free cash flow for the year. Having recently concluded a larger-than-usual inorganic growth investment cycle over the last two years, management is now focused on organic investments in lockstep with customer demand, the integration and ramp up of recent investments, and deleveraging its balance sheet. CAE continues to expect net debt-to-adjusted EBITDA to decrease to a ratio of below three times by the middle of next fiscal year (FY2024), at which time it expects to be in position to consider reinstating capital returns to shareholders. CAE expects its annual effective income tax rate to be approximately 22%.

Management's outlook for fiscal 2023 and the above targets and expectations constitute forward-looking statements within the meaning of applicable securities laws, and are based on a number of assumptions, including in relation to prevailing market conditions, macroeconomic and geopolitical factors, supply chains and labor markets, and the timing and degree of easing of global COVID-19-related mobility restrictions. Air travel is a major driver for CAE's business and management relies on analysis from the International Air Transport Association (IATA) to inform its assumptions about the rate and profile of recovery in its key civil aviation market. Additionally, as the basis of its fiscal 2023 outlook, management assumes no further disruptions to the global economy, air traffic, CAE's operations, and its ability to deliver products and services. Expectations are also subject to a number of risks and uncertainties and based on assumptions about customer receptivity to CAE's training solutions and operational support solutions as well as material assumptions contained in this press release, quarterly Management's Discussion and Analysis (MD&A) and in CAE's fiscal 2022 MD&A, all available on our website (www.cae.com), SEDAR (www.sedar.com) and EDGAR (www.sec.gov).

Environmental, Social, and Governance (ESG)

In November 2022, CAE was recognized as one of Canada's Top 100 Employers 2023. This prestigious designation recognizes Canadian employers leading their industries and creating innovative programs to offer exceptional workplaces to their employees. Additionally, CAE was recognized as one of Canada's Top Employers for Young People for 2023 for the third consecutive year, and a Montreal Top Employer for 2022. CAE also made Forbes' list of the World's Top Female Friendly Companies in November 2022. Earlier this year, CAE was named one of the Top Companies for Women in Emerging Aviation Technologies by Women and Drones, recognizing CAE as a company that provides an excellent culture, support for gender diversity, flexibility to accommodate families and a work/life balance, competitive compensation and benefits, training, continued professional development and career advancement opportunities. At the same time, CAE was named to the Bloomberg Gender Equality Index for the fifth consecutive year, signaling a strong and continuous commitment to gender equality and data transparency and showcasing investments in fostering a more inclusive and equitable workplace. This quarter, CAE held its second virtual supplier panel discussion focused on supply chain sustainability to engage and raise awareness of our suppliers on ESG best practices. In February 2023, CAE also held its two-day Supply Chain Forum with its most strategic partners to discuss joint opportunities to generate more long-term value together for all stakeholders.

To learn more about CAE's corporate sustainability roadmap and achievements, the report can be downloaded at https://www.cae.com/social-responsibility/.

(1) This report includes non-IFRS financial measures, non-IFRS ratios, capital management measures and supplementary financial measures. These measures are not standardized financial measures prescribed under IFRS and therefore should not be confused with, or used as an alternative for, performance measures calculated according to IFRS. Furthermore, these measures should not be compared with similarly titled measures provided or used by other issuers. Refer to Section 5 *"Non-IFRS and other financial measures and supplementary non-financial information"* of CAE's MD&A for the quarter ended December 31, 2022 (which section is incorporated by reference into this report) for the definitions and a reconciliation of these measures to the most directly comparable measure under IFRS.

*This report includes forward-looking statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, market trends and outlook, future revenues, capital spending, expansions and new initiatives, including initiatives that pertain to ESG matters, financial obligations, available liquidities, expected sales, general economic outlook, prospects and trends of an industry, expected annual recurring cost savings from operational excellence programs, estimated addressable markets, statements relating to our acquisitions of L3H MT and AirCentre, our access to capital resources, the expected accretion in various financial metrics, expectations regarding anticipated cost savings and synergies, the strength, complementarity and compatibility of the L3H MT and AirCentre acquisitions with our existing business and teams, other anticipated benefits of the L3H MT and AirCentre acquisitions and their impact on our future growth, results of operations, performance, business, prospects and opportunities, our business outlook, objectives, development, plans, growth strategies and other strategic priorities, and our leadership position in our markets and other statements that are not historical facts. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, readers are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate. For more information, readers should refer to the sections *"Caution concerning forward-looking statements"* and *"Material assumptions"* under Section 2 of CAE's MD&A for the quarter ended December 31, 2022, which sections are incorporated by reference into this report.

Management's Discussion and Analysis

for the three months ended December 31, 2022

1. HIGHLIGHTS

FINANCIAL

THIRD QUARTER OF FISCAL 2023

(amounts in millions, except per share amounts, ROCE and book-to-sales ratio)		**Q3-2023**		Q3-2022		*Variance $*	*Variance %*
Performance							
Revenue	**$**	**1,020.3**	$	848.7	*$*	*171.6*	*20 %*
Operating income	**$**	**145.9**	$	65.5	*$*	*80.4*	*123 %*
Adjusted segment operating income[1]	**$**	**160.6**	$	112.7	*$*	*47.9*	*43 %*
Net income attributable to equity holders of the Company	**$**	**78.1**	$	26.2	*$*	*51.9*	*198 %*
Basic and diluted earnings per share (EPS)	**$**	**0.25**	$	0.08	*$*	*0.17*	*213 %*
Adjusted EPS[1]	**$**	**0.28**	$	0.19	*$*	*0.09*	*47 %*
Net cash provided by operating activities	**$**	**252.4**	$	309.6	*$*	*(57.2)*	*(18 %)*
Free cash flow[1]	**$**	**237.7**	$	282.1	*$*	*(44.4)*	*(16 %)*
Liquidity and Capital Structure							
Capital employed[1]	**$**	**7,527.8**	$	6,325.0	*$*	*1,202.8*	*19 %*
Adjusted return on capital employed (ROCE)[1]	**%**	**5.5**	%	6.1			
Total debt	**$**	**3,264.6**	$	2,774.0	*$*	*490.6*	*18 %*
Net debt[1]	**$**	**3,073.0**	$	2,310.5	*$*	*762.5*	*33 %*
Growth							
Adjusted order intake[1]	**$**	**1,240.1**	$	1,377.2	*$*	*(137.1)*	*(10 %)*
Adjusted backlog[1]	**$**	**10,795.1**	$	9,177.2	*$*	*1,617.9*	*18 %*
Book-to-sales ratio[1]		**1.22**		1.62			
Book-to-sales ratio for the last 12 months		**1.26**		1.21			

FISCAL 2023 YEAR TO DATE

(amounts in millions, except per share amounts)		**Q3-2023**		Q3-2022		*Variance $*	*Variance %*
Performance							
Revenue	**$**	**2,946.8**	$	2,416.3	*$*	*530.5*	*22 %*
Operating income	**$**	**287.4**	$	190.9	*$*	*96.5*	*51 %*
Adjusted segment operating income	**$**	**346.2**	$	301.8	*$*	*44.4*	*15 %*
Net income attributable to equity holders of the Company	**$**	**124.3**	$	86.6	*$*	*37.7*	*44 %*
Basic and diluted EPS	**$**	**0.39**	$	0.28	*$*	*0.11*	*39 %*
Adjusted EPS	**$**	**0.53**	$	0.55	*$*	*(0.02)*	*(4 %)*
Free cash flow	**$**	**163.7**	$	153.9	*$*	*9.8*	*6 %*

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[1] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 5 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

2. INTRODUCTION

In this management's discussion and analysis (MD&A), *we, us, our, CAE* and *Company* refer to CAE Inc. and its subsidiaries. Unless we have indicated otherwise:
- *This year* and *2023* mean the fiscal year ending March 31, 2023;
- *Last year, prior year* and *a year ago* mean the fiscal year ended March 31, 2022;
- Dollar amounts are in Canadian dollars.

This MD&A was prepared as of February 14, 2023. It is intended to enhance the understanding of our unaudited consolidated interim financial statements and notes for the third quarter ended December 31, 2022 and should therefore be read in conjunction with these documents. We have prepared it to help you understand our business, performance and financial condition for the third quarter of fiscal 2023. Except as otherwise indicated, all financial information has been reported in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and based on unaudited figures.

For additional information, please refer to our unaudited consolidated interim financial statements for the quarter ended December 31, 2022, and our annual audited consolidated financial statements for the fiscal year ended March 31, 2022, which you will find in our financial report for the year ended March 31, 2022. The MD&A section of our 2022 financial report also provides you with a view of CAE as seen through the eyes of management and helps you understand the Company from a variety of perspectives:
- Our mission;
- Our vision;
- Our strategy;
- Our operations;
- Foreign exchange;
- Non-IFRS and other financial measures;
- Consolidated results;
- Results by segment;
- Consolidated cash movements and liquidity;
- Consolidated financial position;
- Business combinations;
- Business risk and uncertainty;
- Related party transactions;
- Changes in accounting policies;
- Controls and procedures;
- Oversight role of Audit Committee and Board of Directors (the Board).

You will find our most recent financial 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. Holders of CAE's securities may also request a printed copy of the Company's consolidated financial statements and MD&A free of charge by contacting Investor Relations (investor.relations@cae.com).

NON-IFRS AND OTHER FINANCIAL MEASURES

This MD&A includes non-IFRS financial measures, non-IFRS ratios, capital management measures and supplementary financial measures. These measures are not standardized financial measures prescribed under IFRS and therefore should not be confused with, or used as an alternative for, performance measures calculated according to IFRS. Furthermore, these measures should not be compared with similarly titled measures provided or used by other issuers. Management believes that these measures provide additional insight into our operating performance and trends and facilitate comparisons across reporting periods.

Performance Measures

– Gross profit margin (or gross profit as a % of revenue);
– Operating income margin (or operating income as a % of revenue);
– Adjusted segment operating income or loss;
– Adjusted segment operating income margin (or adjusted segment operating income as a % of revenue);
– Adjusted net income or loss;
– Adjusted earnings or loss per share (EPS);
– EBITDA and Adjusted EBITDA;
– Free cash flow.

Liquidity and Capital Structure Measures

– Non-cash working capital;
– Capital employed;
– Return on capital employed (ROCE) and adjusted ROCE;
– Net debt;
– Net debt-to-capital;
– Net debt-to-EBITDA and net debt-to-adjusted EBITDA;
– Maintenance and growth capital expenditures.

Growth Measures

– Adjusted order intake;
– Adjusted backlog;
– Book-to-sales ratio.

Definitions of all non-IFRS and other financial measures are provided in Section 5 to give the reader a better understanding of the indicators used by management. In addition, when applicable, we provide a quantitative reconciliation of the non-IFRS and other financial measures to the most directly comparable measure under IFRS. Refer to Section 5 for references where these reconciliations are provided.

ABOUT MATERIAL INFORMATION

This MD&A 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 likely that a reasonable investor would consider the information to be important in making an investment decision.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, market trends and outlook, future revenues, capital spending, expansions and new initiatives, including initiatives that pertain to environmental, social and governance (ESG) matters, financial obligations, available liquidities, expected sales, general economic outlook, prospects and trends of an industry, expected annual recurring cost savings from operational excellence programs, estimated addressable markets, statements relating to our acquisitions of L3Harris Technologies' Military Training business (L3H MT) and Sabre's AirCentre airline operations portfolio (AirCentre), our access to capital resources, the expected accretion in various financial metrics, expectations regarding anticipated cost savings and synergies, the strength, complementarity and compatibility of the L3H MT and AirCentre acquisitions with our existing business and teams, other anticipated benefits of the L3H MT and AirCentre acquisitions and their impact on our future growth, results of operations, performance, business, prospects and opportunities, our business outlook, objectives, development, plans, growth strategies and other strategic priorities, and our leadership position in our markets and other statements that are not historical facts. Forward-looking statements normally contain words like believe, expect, anticipate, plan, intend, continue, estimate, may, will, should, strategy, future and similar expressions. All such forward-looking statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities laws and of the United States Private Securities Litigation Reform Act of 1995. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, readers are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate.

Important risks that could cause such differences include, but are not limited to, risks relating to our business and business strategy, such as evolving standards and technology innovation and disruption, our ability to penetrate new markets, estimates of market opportunity, supply chain disruptions, original equipment manufacturer (OEM) leverage and encroachment, subcontractors, diversion of management attention, product integration and program management and execution, research and development (R&D) activities, strategic partnerships and long-term contracts, fixed-price and long-term supply contracts, adjusted backlog, customer credit risk, length of sales cycle, seasonality, and our reputation, risks relating to our markets and the international scope of our business, such as the international scope of our business, geopolitical uncertainty, global economic conditions, the military conflict in Ukraine, foreign exchange, and taxation matters, risks relating to our industries and macroeconomic conditions, such as our competitive business environment, constraints within the civil aviation industry, inflation, the continued risk of global health crises, the level and timing of defence spending, business development and awarding of new contracts, and extreme weather conditions and the impact of natural or other disasters (including effects of climate change), legal and regulatory risks, such as ethics and compliance, continued scrutiny regarding ESG matters, environmental laws and regulations, liability risks that may not be covered by indemnity or insurance, warranty or other product-related claims, U.S. foreign ownership, control or influence mitigation measures, compliance with laws and regulations, and government audits and investigations, risks relating to information technology, cybersecurity and intellectual property, such as reliance on third-party providers for information technology systems and infrastructure management, data rights and governance, the protection of our intellectual property and brand, and third-party intellectual property, risks relating to talent and labour, such as talent management, key personnel and management, corporate culture, and labour relations, risks relating to mergers, acquisitions, joint ventures, strategic alliances or divestitures, such as the risk that we will not effectively manage our growth, integration risks, our continued reliance on certain parties and information, and acquisition and integration costs, risks relating to controls and accounting matters, such as the effectiveness of internal controls over financial reporting, estimates used in accounting, impairment risk, and pension plans funding, risks relating to indebtedness and liquidity, such as indebtedness to finance acquisitions and ability to meet debt service requirements, availability of capital, liquidity risk, and interest rate volatility, and risks relating to our common shares and ownership of our securities, such as sales of additional common shares, the market price and volatility of our common shares, returns to shareholders, our foreign private issuer status, and enforceability of civil liabilities against our directors and officers. The foregoing list is not exhaustive and other unknown or unpredictable factors could also have a material adverse effect on the performance or results of CAE. Additionally, differences could arise because of events announced or completed after the date of this MD&A. You will find more information about the risks and uncertainties affecting our business in our 2022 financial report. Readers are cautioned that any of the disclosed risks could have a material adverse effect on CAE's forward-looking statements. Readers are also cautioned that the risks described above and elsewhere in this MD&A are not necessarily the only ones we face; additional risks and uncertainties that are presently unknown to us or that we may currently deem immaterial may adversely affect our business.

Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking information and statements contained in this MD&A are expressly qualified by this cautionary statement.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this MD&A. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

MATERIAL ASSUMPTIONS

The forward-looking statements set out in this MD&A are based on certain assumptions including, without limitation: some persistent negative impacts of the COVID-19 pandemic on our businesses, operating results, cash flows and/or financial condition, the prevailing market conditions, geopolitical instability, the customer receptivity to our training and operational support solutions, the accuracy of our estimates of addressable markets and market opportunity, the realization of anticipated annual recurring cost savings and other intended benefits from recent restructuring initiatives and operational excellence programs, the ability to respond to anticipated inflationary pressures and our ability to pass along rising costs through increased prices, the actual impact to supply, production levels, and costs from global supply chain logistics challenges, the stability of foreign exchange rates, the ability to hedge exposures to fluctuations in interest rates and foreign exchange rates, the availability of borrowings to be drawn down under, and the utilization, of one or more of our senior credit agreements, our available liquidity from cash and cash equivalents, undrawn amounts on our revolving credit facilities, the balance available under our receivable purchase facility, the assumption that our cash flows from operations and continued access to debt funding will be sufficient to meet financial requirements in the foreseeable future, access to expected capital resources within anticipated timeframes, no material financial, operational or competitive consequences from changes in regulations affecting our business, our ability to retain and attract new business, our ability to achieve synergies and maintain market position arising from successful integration plans relating to the L3H MT and AirCentre acquisitions, our ability to otherwise complete the integration of the L3H MT and AirCentre businesses acquired within anticipated time periods and at expected cost levels, our ability to attract and retain key employees in connection with the L3H MT and AirCentre acquisitions, management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the L3H MT and AirCentre acquisitions and resulting impact on growth and accretion in various financial metrics, the realization of the expected strategic, financial and other benefits of the L3H MT and AirCentre acquisitions in the timeframe anticipated, economic and political environments and industry conditions, the accuracy and completeness of public and other disclosure, including financial disclosure, by L3Harris Technologies and AirCentre, and the absence of significant undisclosed costs or liabilities associated with the L3H MT and AirCentre acquisitions. For additional information, including with respect to other assumptions underlying the forward-looking statements made in this MD&A, refer to the applicable reportable segment in CAE's MD&A for the year ended March 31, 2022 available on our website (www.cae.com), SEDAR (www.sedar.com) and EDGAR (www.sec.gov). Air travel is a major driver for CAE's business and management relies on analysis from the International Air Transport Association (IATA) to inform its assumptions about the rate and profile of recovery in its key civil aviation market. Accordingly, the assumptions outlined in this MD&A and, consequently, the forward-looking statements based on such assumptions, may turn out to be inaccurate.

3. ABOUT CAE

3.1 Who we are

At CAE, we equip people in critical roles with the expertise and solutions to create a safer world. As a technology company, we digitalize the physical world, deploying simulation training and critical operations support solutions. Above all else, we empower pilots, airlines, defence and security forces and healthcare practitioners to perform at their best every day and when the stakes are the highest. Around the globe, we're everywhere customers need us to be with more than 13,000 employees in more than 200 sites and training locations in over 40 countries. CAE represents 75 years of industry firsts—the highest-fidelity flight, mission and medical simulators and personalized training programs powered by artificial intelligence. We're investing our time and resources into building the next generation of cutting-edge, digitally immersive training and critical operations solutions while keeping positive environmental, social and governance (ESG) impact at the core of our mission. Today and tomorrow, we'll make sure our customers are ready for the moments that matter.

CAE's common shares are listed on the Toronto and New York stock exchanges (TSX / NYSE) under the symbol CAE.

3.2 Our mission

To lead at the frontier of digital immersion with high-tech training and operational support solutions to make the world a safer place.

3.3 Our vision

To be the worldwide partner of choice in civil aviation, defence and security and healthcare by revolutionizing our customers' training and critical operations with digitally immersive solutions to elevate safety, efficiency and readiness.

3.4 Our strategy

CAE's eight pillars of strength

We believe there are eight fundamental strengths that underpin our strategy and investment thesis:

– High degree of recurring business;
– Industry leader with a strong competitive moat;
– Headroom in large markets;
– Technology and industry thought leader;
– Potential for compound growth and superior returns over the long-term;
– Culture of innovation, empowerment, excellence and integrity;
– Excellent and diverse team with a unique social impact on safety;
– Solid financial position and highly cash generative business model.

High degree of recurring business

We operate in highly regulated industries with mandatory and recurring training requirements for maintaining professional certifications. Over 60% of our business is derived from the provision of technology-enabled services and software-based solutions, which is an important source of recurring business, and largely involves long-term agreements with many airlines, business aircraft operators and defence forces.

Industry leader with a strong competitive moat

We are an industry leader in each of our three segments by way of scale, the range of our technological solutions and services, and our global reach. We benefit from a strong competitive moat, fortified by seven decades of industry firsts and by continuously pushing the boundaries using digitally immersive, high-tech training and operational support solutions. Our broad global training network, unique end-to-end cadet to captain training capacities, technology-intensive training and operational support solutions, deep subject matter expertise and industry thought leadership, unrivaled customer intimacy and strong, recognizable brand further strengthen our competitive moat.

Headroom in large markets

We provide innovative training and operational support solutions to customers in large addressable markets in civil aviation, defence and security and healthcare. We believe significant untapped market opportunities exist in these three segments, with substantial headroom to grow our market share and expand along adjacencies over the long-term.

Technology and industry thought leader

CAE is a high-tech training and operational support solutions company and an industry thought leader in the application of modelling and simulation, virtual reality and advanced analytics to create highly innovative and digitally immersive training and operational support solutions for customers in civil aviation, defence and security and healthcare.

Potential for compound growth and superior returns over the long-term

In each of our businesses, we believe we have the potential to grow at a rate superior to our underlying markets because of our potential to gain share within the markets we serve and expand through adjacencies. Our rising proportion of recurring revenue is largely driven by our customers' ongoing training, operational support requirements and our ability to assist them with these critical activities by means of our highly innovative products, and technology- and software-enabled service solutions. We leverage our leading market position to deepen and expand our customer relationships and gain more share of their critical responsibilities. We expect to optimize and increase the utilization of our global training network and to deploy new assets with accretive returns, over the long-term.

Culture of innovation, empowerment, excellence and integrity

One CAE is the internal mantra that represents our culture of innovation, empowerment, excellence and integrity. It is the combination of these four key attributes that provides CAE with its market leadership, strong reputation and high degree of customer intimacy.

Excellent and diverse team with a unique social impact on safety

CAE prides itself in having an excellent and diverse team with a unique social impact on safety. Each day, our employees support our customers' most critical operations with the most innovative solutions and in doing so, they help make the world a safer place. We help make air travel and healthcare safer and help our defence forces maintain security.

Solid financial position and highly cash generative business model

A constant priority for CAE is the maintenance of a solid financial position and we use established criteria to evaluate capital allocation opportunities. Our business model and training network, specifically, is highly cash generative by nature.

3.5 Our operations

We provide digitally immersive training and operational support solutions to three markets globally:
- The civil aviation market includes major commercial airlines, regional airlines, business aircraft operators, civil helicopter operators, aircraft manufacturers, third-party training centres, flight training organizations, maintenance repair and overhaul organizations (MRO) and aircraft finance leasing companies;
- The defence and security market includes defence forces, OEMs, government agencies and public safety organizations worldwide;
- The healthcare market includes hospital and university simulation centres, medical and nursing schools, paramedic organizations, defence forces, medical societies, public health agencies and OEMs.

RUSSIAN INVASION OF UKRAINE

In light of Russia's invasion of Ukraine, CAE announced that it suspended all services and training to Russian airlines, aircraft operators and healthcare distributors. Although Russia does not represent a large market for CAE, the suspension of its related activities is expected to continue to have some direct impact on financial performance. The magnitude of potential further indirect impacts on CAE are expected to be a function of the duration, severity, and scope of this geopolitical and humanitarian crisis. Beyond these impacts, the potential negative impacts on our businesses would most likely further result from the added economic fallout of this event, including the potential energy crisis in Europe, which is contributing to the high cost of fuel and energy, as well as high inflation already seen throughout our global operations. We also anticipate the potential for government award reprioritizations in view of the war effort, specifically impacting the flow and predictability of orders for our Defense segment. These macroeconomic forces impact our Civil customers' operating costs and could potentially impact consumer demand for air travel. We have based our market recovery expectations on the IATA forecast for passenger traffic recovery and growth. Overall, these events increase uncertainty about the timeline of a broad global recovery in our Civil markets. This crisis is a stark reminder that the world needs to be prepared to defend freedom at a moment's notice and CAE's Defense and Security business is positioned to support that preparedness and is aligned with national defence priorities focused on near-peer threats involving multiple domains. Actual and expected increased defence spending across NATO and allied nations and a greater emphasis on mission preparedness are likely to lead to increased demand for our defence and security training and mission solutions. Given the long lead times for defence procurements, such increased activity would potentially translate to higher performance for CAE Defense in the years ahead.

CIVIL AVIATION MARKET

We provide comprehensive training solutions for flight, cabin, maintenance and ground personnel in commercial, business and helicopter aviation, a complete range of flight simulation training devices, ab initio pilot training and crew sourcing services, as well as end-to-end digitally-enabled crew management, training operations solutions and optimization software.

We have the unique capability and global scale to address the total lifecycle needs of the professional pilot, from cadet to captain, with our comprehensive aviation training solutions. We are the world's largest provider of civil aviation training services. Our deep industry experience and thought leadership, large installed base, strong relationships, and reputation as a trusted partner, enable us to access a broader share of the market than any other company in our industry. We provide aviation training services in more than 35 countries and through our broad global network of approximately 70 training locations, we serve all sectors of civil aviation including airlines and other commercial, business and helicopter aviation operators.

Among our thousands of customers, we have long-term training centre operations and training services agreements and joint ventures with approximately 40 major airlines and aircraft operators around the world. Our range of training solutions includes product and service offerings for pilot, cabin crew and aircraft maintenance technician training, training centre operations, curriculum development, courseware solutions and consulting services. We currently manage 323 full-flight simulators (FFSs), including those operating in our joint ventures. We offer industry-leading technology, and we are shaping the future of training through innovations such as our next generation training systems, including CAE Real-time Insights and Standardized Evaluations (CAE Rise™), which improves training quality, objectivity and efficiency through the integration of untapped flight and simulator data-driven insights into training. In the development of new pilots, CAE operates the largest ab initio flight training network in the world and has over 20 cadet training programs globally. In resource management, CAE is the global market leader in the provision of flight crew and technical personnel to airlines, aircraft leasing companies, manufacturers, and MRO companies worldwide. With the acquisition of AirCentre, paired with our existing crew operations and optimization software, we are in a position to provide robust end-to-end flight management and crew optimization solutions, helping airlines and business aircraft operators make optimal data-driven decisions.

Quality, fidelity, reliability, and innovation are hallmarks of the CAE brand in flight simulation, and we are the world leader in the development of civil flight simulators. We continuously innovate our processes and lead the market in the design, manufacture, and integration of civil FFSs for major and regional commercial airlines, business aircraft operators, third-party training centres and OEMs. For example, as we are entering a new era of aviation with advanced air mobility, disruptive aerospace companies are building new aircraft types from the ground up. This will create a large demand for trained professional pilots to safely fly both passengers and cargo across markets. CAE has already partnered with five of the leading electric vertical takeoff and landing (eVTOL) developers, including Jaunt Air Mobility to design and develop an Aircraft System integration lab and jointly build an engineering simulator which will accelerate cockpit design and system development and will reduce the airworthiness flight test time, Volocopter as authorized training provider and to develop an eVTOL pilot training program in preparation for Volocopter's first eVTOL aircraft entry-into-service, BETA Technologies to design and develop pilot and maintenance training programs for the ALIA eVTOL aircraft with a focus on training design and courseware and most recently, Joby Aviation Inc. to develop and qualify flight simulation training devices that will be used to train the future pilots of their revolutionary eVTOL aircraft. Most recently, we were selected by Vertical Aerospace as the worldwide training partner for the launch of Vertical's eVTOL aircraft, the VX4. We have established a wealth of experience in developing first-to-market simulators for more than 35 types of aircraft models. Our flight simulation equipment, including FFSs, are designed to meet the rigorous demands of their long and active service lives, often spanning several decades of continuous use. Our global reach enables us to provide best-in-class support services such as real-time, remote monitoring and enables us to leverage our extensive worldwide network of spare parts and service teams.

Commercial flight activity has continued to improve compared to calendar 2021. As per the International Air Transport Association (IATA), global air passenger demand, measured by revenue passenger-kilometers (RPKs), has shown a strong increase of 64% for calendar 2022 compared to calendar 2021. Europe continues to show significant improvement, with a 100% increase, followed by North America with a 46% increase. Asia showed some improvement in flight numbers, with an increase of 34% over the same period.

Air cargo has seen a reduction in demand in recent months, with cargo tonne-kilometers down 8% for calendar 2022 compared to calendar 2021. Although China has eased some COVID-19 related restrictions, on-going disruptions with supply chain and production activities remain. Additionally, high inflation, the on-going Russian invasion of Ukraine and labour shortages are also causing supply chain and cargo related issues.

In business aviation, both the U.S. Federal Aviation Administration (FAA) and Eurocontrol, the European Organisation for the Safety of Air Navigation have reported strong levels of flight activity compared to calendar 2021 levels. The FAA has shown an increase of 5% in the total number of business jet flights, which includes all domestic and international flights over the past 12 months. Similarly, the European business jet market remains in strong growth; according to Eurocontrol, the total number of business aviation flights in Europe have shown a strong increase of 10% over the same period. Additionally, over the past 12 months, global business aviation flight activity has shown signs of stabilization at approximately 13% above pre-pandemic levels.

In November 2020, we released our 2020-2029 Pilot Demand Outlook in which we estimate an expected global requirement of 264,000 new pilots in the civil aviation industry to sustain growth and support mandatory retirements over the next ten years. In the short-term, we estimated that approximately 27,000 of these new professional pilots were expected to be needed starting in late calendar 2021. Furthermore, we expect additional demand for pilots from the emerging Advanced Air Mobility (AAM) in accordance with the expected future entry into service of eVTOLs.

We believe the Civil Aviation segment is positioned as a gateway in a highly regulated, secular growth market, with an addressable market estimated at approximately $6.5 billion, and headroom for growth.

Market drivers

Demand for training and flight operations solutions in the civil aviation market is driven by the following:

- Pilot and maintenance training and industry regulations;
- Safety and efficiency imperatives of commercial airlines and business aircraft operators, including fuel and crew costs;
- Expected long-term secular global growth in air travel;
- Expected long-term growth, including new aircraft deliveries and renewal of the active fleet of commercial and business aircraft;
- Emergence of the newer market for advanced air mobility;
- Demand for trained aviation professionals;
- Complexity of flight operations solutions.

Profitability drivers

We believe profitability drivers for CAE's civil aviation market include the following:

- Favourable business mix drivers, including large market headroom in training services;
- Potential to increase the ratio of wet versus dry training in commercial training;
- Expansion of operational support offering by using advanced analytics, software solutions and digital technology to enhance our value offering across the whole organization;
- Operational excellence programs expected to realize significant annual recurring cost savings;
- Training outsourcing and partnerships.

DEFENSE AND SECURITY MARKET

We are a platform agnostic, global training and simulation pure play focusing on ensuring mission readiness by integrating systems and solutions across all five domains for government organizations responsible for public safety.

Defense and Security confronts the realities facing our customers and aligns our business so we are best positioned to address those needs. First and foremost is the shift in the nature of conflicts for the U.S. and its allies to address the near-peer threat across multi-domain operations – air, land, sea, space and cyber. The near-peer competition, coupled with rapid development in training demands, adds to requirements for advanced training capabilities and agile solutions to support cyber-secured, all-domain synthetic environments. These immersive synthetic networks will become much more prevalent as a key means for defence forces to "train as they fight" across multi-domain operations. As the world reacts to the change in conflict, the need for revolutionary digital training and next generation situational awareness solutions becomes even more critical.

To address our customer requirements in this rapidly changing environment, we have aligned to the priorities set forth in the U.S. National Defense Strategy which outlines the need for the U.S. and its allies to enhance training and readiness across complex, multi-domain operations. This includes the continued requirement to develop strategic partnerships with the customer and across industry. Through strategic acquisitions and teaming arrangements, we continue to accelerate our strategy as a platform agnostic, global training and simulation pure play focusing on ensuring mission readiness by integrating systems and solutions across all five domains.

Continued investment in digital training and next generation situational awareness solutions help our defence customers plan, prepare, and analyze to enhance performance and make better decisions across multi-domain operations. Most militaries use a combination of live training on actual platforms, virtual training in simulators, and constructive training using computer-generated simulations. While militaries will always do some level of live training exercises, we believe there will be an increasing reliance on immersive virtual training in order to prepare in a secured environment while decreasing the reliance on more costly, carbon dependent live-flying training. These immersive synthetic environments are also being leveraged more and more for mission and operational support by enabling course of action analysis and data-centric decision support.

We have delivered simulation products and training services to approximately 60 defence forces in over 50 countries. We provide training support services such as contractor logistics support, maintenance services, systems engineering, staff augmentation, classroom instruction and simulator training at over 145 sites around the world, including our joint ventures.

Training Systems and Solutions

As an industry leader in training and simulation, CAE's agnostic approach ensures mission readiness for government organizations responsible for public safety. Following our transformative expansion in 2021, we have solidified our leadership in the air domain, augmented our capabilities in land and sea, and won strategic prime positions in the space and cyber markets. With competitive, prime wins in all five domains during the last fiscal year, we continue to expand our capabilities and lead integration of the digital transformation across defence and security markets. In the air domain, we have been awarded modification contracts to support the C-130 platforms with Lockheed Martin and several global F-16 modifications. We are also under contract with Piaggio Aerospace to deliver a P.180 training device with Italian Air Force (ITAF) standards for use with the ITAF. In the sea domain, the Platforms and Systems Training Contract with the Royal Australian Navy was a strategic international win. The award supports continued modernization to deliver sustainable distributed training on-site, in port, and at sea, accelerating training throughput to maximize training capacity and efficiency. Under the United States Air Force (USAF) Simulators Common Architecture Requirements and Standards (SCARS) program, we are the prime contractor entrusted to integrate and standardize aircraft training simulator design and operation, including strict cybersecurity criteria, to support distributed and networked mission training. This partnership highlights our focus on strategic integration contracts, pushing the boundary of mission readiness capabilities, and is key to our future growth.

Flight Training Organizations

Our live-flying capabilities continue to expand. In fiscal 2022, the North Atlantic Treaty Organization (NATO) and the Government of Canada announced an extension of the contract with CAE through 2027, with an option through 2028 if necessary, as it looks to transition to the next-generation Future Aircrew Training (FAcT) program. In the fourth quarter of fiscal 2022, we launched our ab initio flight training program at our new training facility at the Bremen airport in Germany which provides academic, simulator and live-flying training services to the German Air Force, as well as a training site in Montpellier, France. Other training solution programs include the International Flight Training School in Italy, a joint venture between CAE and Leonardo, the USAF Initial Flight Training program where all USAF pilot candidates begin their aviation career and the Army Fixed-Wing Flight Training programs in the U.S., as we help our customers achieve an optimal balance across their training enterprise. Additionally, we have a 37% equity interest in the flight training operation of SkyWarrior Flight Training LLC, a flight training operation based in Florida primarily delivering Phase 1 initial flight training to U.S. and international military customers, and with this partnership, we now deliver best-in-class initial flight training across the USAF, Army and Navy along with international student pilots.

Mission and Operational Support Solutions

Defense and Security customers continue to require an increase in solutions leveraging synthetic environments and digitally immersive technologies to provide a range of mission support. We are the prime contractor for the U.S. Special Operations Command on the Mission Command System Common Operational Picture (MCS/COP) program, delivering enhanced and improved global situational awareness. We were selected as the partner of choice to the U.S. Special Operations Command by combining decades of experience creating digital ecosystems with our multi-source data fusion and artificial intelligence/machine learning capabilities to provide a single visualization platform to support collaborative command and control decision-making in real-time. This unique combination of experience, digital technology and subject matter expertise has also provided opportunities with new customers and within emerging, complex markets.

Synthetic Environments

We support the development of a Single Synthetic Environment for the United Kingdom's Strategic Command, the major organization of the British Armed Forces responsible for leading integration across all domains — air, land, sea, space and cyber. We continue expanding and extending our addressable market into mission and operational support. Employing our modeling and simulation expertise, we enable defence forces to use synthetic environments for planning, analysis and operational decision support. We are at the forefront of the digital evolution where synthetic environments play an increasingly important role in multi-domain operations.

We believe the Defense and Security segment is positioned as a strategic partner for training and mission support across multi-domain operations and continues to develop as a global leader in digitally immersive training and operational support solutions. We estimate our addressable defence market across all five domains to be approximately $14.3 billion with the largest opportunity remaining in the air domain where CAE is the platform-agnostic leader.

Market drivers

Demand for training and operational support solutions in the defence and security markets is driven by the following:

– Defence budgets;
– Installed base of enduring defence platforms and new customers;
– Attractiveness of outsourcing training, maintenance and operational support services;
– Pilot and aircrew recruitment, training and retention challenges faced by militaries globally;
– Desire to network and integrate training systems to achieve efficiencies and better prepare for the complexities of conflict in a joint multi-domain environment;
– Desire of governments and defence forces to increase the use of synthetic environments as a more cost effective and environmentally friendly solution for training, planning, analysis and decision support;
– Progression of commercially available digital technology enablers for training solutions.

Profitability drivers

We believe profitability drivers for CAE's defence and security market include the following:

– Leading platform-agnostic training and simulation integrator leveraging solutions across a global footprint;
– Access to strategic contract vehicles, allowing flexibility to offer solutions to more customers and at the point of need;
– Adding customers with more complex problem sets and solution demands to include space and cyber domains and the intelligence community;
– Partnering with OEMs on next-generation platforms for more effective and efficient program execution;
– Operational focus on improving contracting, sub-contracting and program delivery quality processes.

HEALTHCARE MARKET

We offer healthcare students and clinical professionals innovative, integrated and virtual education and training solutions, including interventional and imaging simulations, curricula, audiovisual debriefing solutions, centre management platforms and patient simulators.

Simulation-based training is one of the most effective ways to prepare healthcare practitioners for the moments that matter: treating patients, handling critical situations and reducing medical errors. The experience and best practices gained over our 75-year simulation-based aviation training history apply seamlessly to healthcare, and we leverage those lessons to deliver innovative solutions that accelerate healthcare learning, enhance training and ultimately improve the quality and availability of patient care. The COVID-19 pandemic profoundly affected the healthcare industry, highlighting an already tenuous situation: increased demand for nurses complicated by decreased student access to both patients and clinical sites as well as an unchanging and lengthy education timeline. Based on our experiences in aviation and defence, we are well-suited to address the challenges of this evolving healthcare environment. As a result, we see healthcare training and simulation as growth markets propelled by multiple secular tailwinds, including an aging population necessitating increased care; a global shortage of nurses; an increase in preventable medical errors; limited hospital beds; and pandemic-related attrition of the healthcare workforce. All of this necessitates innovation in and acceleration of healthcare education and certification, which can be accomplished through simulation. Pre-COVID, only 17 U.S. states accepted simulation for 50 percent of clinical training hours. Since the pandemic began, every state has introduced or passed such legislation.

We are well-positioned to capture growing demand for nursing and simulation-based training through our broad and innovative portfolios of medical training solutions, including patient, ultrasound and interventional simulators, audiovisual debriefing solutions, centre management platforms, augmented reality applications and e-learning simulation-based curricula. We provide training solutions to customers in more than 95 countries, and are a leader in the design, development and delivery of patient simulators based on advanced models of human physiology that realistically reflect human responses to clinical interventions. We apply that same degree of rigour and innovation to our digital, remote and virtual simulation solutions. For example, CAE Vimedix, our advanced ultrasound simulator, now offers augmented reality for remote and virtual learning, significantly reducing the time it takes to master ultrasound scanning and comprehend ultrasonographic anatomy. Our learning management system consolidates the delivery of digital learning solutions to augment simulation-centre-based training, giving learners the ability to learn anytime, anywhere and at their own pace, amplifying access to education and training, regardless of geographical limitations. We leverage advanced technologies to build sophisticated digital capabilities that improve patient outcomes and are gaining broad acceptance and adoption in the market. Mixed reality is featured across our portfolio, including patient simulation (CAE AresAR and CAE LucinaAR), interventional simulation (CAE CathLabVR), and ultrasound simulation (CAE VimedixAR). We provide these advanced technologies and innovative learning tools to hospitals and academic institutions, which represent the largest segment of the healthcare simulation market.

We also deliver peer-to-peer training at customer sites as well as in our training centres in Canada, Germany, the U.K. and the U.S. Our Healthcare educational resources include adjunct faculty consisting of nurses, respiratory therapists, physicians, paramedics and sonographers who, in collaboration with leading healthcare institutions, have developed approximately 200 Learning Modules for patient simulators and over 3,600 simulated clinical experience courseware packages for our customers across our virtual and physical platforms. We offer turnkey solutions, project management and professional services for healthcare simulation programs. We also collaborate with medical device companies and scientific societies to develop innovative and custom training solutions.

We see future opportunities arising in the Healthcare business, including supporting government customers; growing acceptance of new digital and virtual learning products and increased recognition of the value of simulation-based preparedness for pandemics and other high-risk scenarios. This is supported by professional organizations, such as the International Nursing Association of Clinical Simulation and Learning (INASCL) and the Society for Simulation in Healthcare, that have encouraged regulatory bodies and policymakers to demonstrate flexibility by replacing the clinical hours usually completed in a live healthcare setting with virtually simulated experiences.

We believe the Healthcare segment is positioned as a leader in developing healthcare professionals through technology, educational content and training, with an estimated healthcare simulation market of approximately US$1.7 billion. North America is the largest market for healthcare simulation, followed by Europe and Asia.

Market drivers

Demand for our simulation products and services in the healthcare market is driven by the following:

- Limited access to patients for educational and clinical development purposes;
- Evolving medical technologies and growing use and acceptance of remote and virtual delivery methods;
- Rising use of simulation, with a demand for innovative and custom training approaches to prevent medical errors;
- Increased focus on pandemic and disaster preparedness;
- Global shortage amid an increased demand for healthcare personnel;
- Growing emphasis on patient safety and outcomes.

You will find more information about our operations in our fiscal 2022 financial report, AIF and our Annual Activity and Corporate Social Responsibility Report (CSR). You will find our most recent financial report, AIF and CSR report on our website at www.cae.com.

4. FOREIGN EXCHANGE

We report all dollar amounts in Canadian dollars. We value assets, liabilities and transactions that are measured in foreign currencies using various exchange rates as required by IFRS.

The tables below show the variations of the closing and average exchange rates for the three main currencies in which we operate.

We used the closing foreign exchange rates below to value our assets, liabilities and adjusted backlog in Canadian dollars at the end of each of the following periods:

	December 31 2022	September 30 2022	Increase / (decrease)	March 31 2022	Increase / (decrease)
U.S. dollar (US$ or USD)	**1.35**	1.38	*(2 %)*	1.25	*8 %*
Euro (€ or EUR)	**1.45**	1.35	*7 %*	1.38	*5 %*
British pound (£ or GBP)	**1.63**	1.54	*6 %*	1.64	*(1 %)*

We used the average quarterly foreign exchange rates below to value our revenues and expenses:

	December 31 2022	December 31 2021	Increase / (decrease)
U.S. dollar (US$ or USD)	**1.36**	1.26	*8 %*
Euro (€ or EUR)	**1.38**	1.44	*(4 %)*
British pound (£ or GBP)	**1.59**	1.70	*(6 %)*

The effect of translating the results of our foreign operations into Canadian dollars resulted in an increase in this quarter's revenue of $30.5 million and an increase in net income of $3.3 million when compared to the third quarter of fiscal 2022. For the first nine months of fiscal 2023, the effect of translating the results of our foreign operations into Canadian dollars resulted in an increase in revenue of $32.7 million and an increase in net income of $3.7 million when compared to the first nine months of fiscal 2022. We calculated this by translating the current quarter foreign currency revenue and net income of our foreign operations using the average monthly exchange rates from the prior year's third quarter and comparing these adjusted amounts to our current quarter reported results. You will find more details about our foreign exchange exposure and hedging strategies in Section 9 "*Business Risk and Uncertainty*" in our 2022 financial report.

5. NON-IFRS AND OTHER FINANCIAL MEASURES AND SUPPLEMENTARY NON-FINANCIAL INFORMATION

5.1 Non-IFRS and other financial measure definitions

This MD&A includes non-IFRS financial measures, non-IFRS ratios, capital management measures and supplementary financial measures. These measures are not standardized financial measures prescribed under IFRS and therefore should not be confused with, or used as an alternative for, performance measures calculated according to IFRS. Furthermore, these measures should not be compared with similarly titled measures provided or used by other issuers. Management believes that these measures provide additional insight into our operating performance and trends and facilitate comparisons across reporting periods.

A non-IFRS financial measure is a financial measure that depicts our financial performance, financial position, or cash flow and either excludes an amount that is included in or includes an amount that is excluded from the composition of the most directly comparable financial measures disclosed in our financial statements.

A non-IFRS ratio is a financial measure disclosed in the form of a ratio, fraction, percentage, or similar representation and that has a non-IFRS financial measure as one or more of its components.

A total of segments measure is a financial measure that is a subtotal or total of two or more reportable segments and is disclosed within the notes to our consolidated financial statements, but not in our primary financial statements.

A capital management measure is a financial measure intended to enable an individual to evaluate our objectives, policies and processes for managing our capital and is disclosed within the notes to our consolidated financial statements, but not in our primary financial statements.

A supplementary financial measure is a financial measure that depicts our historical or expected future financial performance, financial position or cash flow and is not disclosed within our primary financial statements, nor does it meet the definition of any of the above measures.

Certain non-IFRS and other financial measures are provided on a consolidated basis and separately for each of our segments (Civil Aviation, Defense and Security and Healthcare) since we analyze their results and performance separately.

PERFORMANCE MEASURES

Gross profit margin (or gross profit as a % of revenue)
Gross profit margin is a supplementary financial measure calculated by dividing our gross profit by revenue for a given period. We track it because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods.

Operating income margin (or operating income as a % of revenue)
Operating income margin is a supplementary financial measure calculated by dividing our operating income by revenue for a given period. We track it because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods.

Adjusted segment operating income or loss
Adjusted segment operating income or loss is a non-IFRS financial measure that gives us an 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. We calculate adjusted segment operating income by taking operating income and adjusting for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated interim financial statements for the quarter ended December 31, 2022), cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022) and impairments and other gains and losses incurred in relation to the COVID-19 pandemic (as described in Note 7 of our consolidated financial statements for the year ended March 31, 2021). We track adjusted segment operating income because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods. Adjusted segment operating income on a consolidated basis is a total of segments measure since it is the profitability measure employed by management for making decisions about allocating resources to segments and assessing segment performance. Refer to Section 5.3 "*Non-IFRS measure reconciliations*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Adjusted segment operating income margin (or adjusted segment operating income as a % of revenue)
Adjusted segment operating income margin is a non-IFRS ratio calculated by dividing our adjusted segment operating income by revenue for a given period. We track it because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods.

Adjusted net income or loss
Adjusted net income or loss is a non-IFRS financial measure we use as an alternate view of our operating results. We calculate it by taking our net income attributable to equity holders of the Company from continuing operations and adjusting for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events, after tax, as well as significant one-time tax items. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated interim financial statements for the quarter ended December 31, 2022), cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022) and impairments and other gains and losses incurred in relation to the COVID-19 pandemic (as described in Note 7 of our consolidated financial statements for the year ended March 31, 2021). We track adjusted net income because we believe it provides an enhanced understanding of our operating performance and facilitates the comparison across reporting periods. Refer to Section 5.3 "*Non-IFRS measure reconciliations*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Adjusted earnings or loss per share (EPS)
Adjusted earnings or loss per share is a non-IFRS ratio calculated by dividing adjusted net income or loss by the weighted average number of diluted shares. We track it because we believe it provides an enhanced understanding of our operating performance on a per share basis and facilitates the comparison across reporting periods. Refer to Section 5.3 "*Non-IFRS measure reconciliations*" of this MD&A for a calculation of this measure.

EBITDA and Adjusted EBITDA
EBITDA is a non-IFRS financial measure which comprises net income or loss before income taxes, finance expense – net, depreciation and amortization. Adjusted EBITDA further adjusts for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated interim financial statements for the quarter ended December 31, 2022), cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022) and impairments and other gains and losses incurred in relation to the COVID-19 pandemic (as described in Note 7 of our consolidated financial statements for the year ended March 31, 2021). We use EBITDA and adjusted EBITDA to evaluate our operating performance, by eliminating the impact of non-operational or non-cash items. Refer to Section 5.3 "*Non-IFRS measure reconciliations*" of this MD&A for a reconciliation of these measures to the most directly comparable measure under IFRS.

Free cash flow
Free cash flow is a non-IFRS financial measure that shows us how much cash we have available to invest in growth opportunities, 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 maintenance capital expenditures, changes in enterprise resource planning (ERP) and other assets not related to growth and dividends paid and adding proceeds from the disposal of property, plant and equipment, dividends received from equity accounted investees and proceeds, net of payments, from equity accounted investees. Refer to Section 8.1 "*Consolidated cash movements*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

LIQUIDITY AND CAPITAL STRUCTURE MEASURES

Non-cash working capital
Non-cash working capital is a non-IFRS financial measure we use to monitor how much money we have committed in the day-to-day operation of our business. We calculate it by taking current assets (not including cash and cash equivalents and assets held for sale) and subtracting current liabilities (not including the current portion of long-term debt and liabilities held for sale). Refer to Section 9.1 "*Consolidated capital employed*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Capital employed
Capital employed is a non-IFRS financial measure we use to evaluate and monitor how much we are investing in our business. We measure it from two perspectives:

Use of capital:
- 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 the current portion of long-term debt);
- For each segment, we take the total assets (not including cash and cash equivalents, tax accounts, employee benefits assets and other non-operating assets), and subtract total liabilities (not including tax accounts, long-term debt and the current portion of long-term debt, royalty obligations, employee benefit obligations and other non-operating liabilities).

Source of capital:
- In order to understand our source of capital, we add net debt to total equity.

Refer to Section 9.1 "*Consolidated capital employed*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Return on capital employed (ROCE) and adjusted ROCE
ROCE is a non-IFRS ratio calculated over a rolling four-quarter period by taking net income attributable to equity holders of the Company adjusting for net finance expense, after tax, divided by the average capital employed. Adjusted ROCE further adjusts for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events. Impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (as described in Note 5 of our consolidated interim financial statements for the quarter ended December 31, 2022), cloud computing transition adjustment (as described in Note 5 of our consolidated financial statements for the year ended March 31, 2022) and impairments and other gains and losses incurred in relation to the COVID-19 pandemic (as described in Note 7 of our consolidated financial statements for the year ended March 31, 2021). We use ROCE and adjusted ROCE to evaluate the profitability of our invested capital.

Net debt
Net debt is a capital management measure we use to monitor how much debt we have after taking into account 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, including the current portion of long-term debt, and subtracting cash and cash equivalents. Refer to Section 9.1 "*Consolidated capital employed*" of this MD&A for a reconciliation of this measure to the most directly comparable measure under IFRS.

Net debt-to-capital
Net debt-to-capital is a capital management measure calculated as net debt divided by the sum of total equity plus net debt. We use this to manage our capital structure and monitor our capital allocation priorities.

Net debt-to-EBITDA and net debt-to-adjusted EBITDA
Net debt-to-EBITDA and net debt-to-adjusted EBITDA are non-IFRS ratios calculated as net debt divided by the last twelve months EBITDA (or adjusted EBITDA). We use net debt-to-EBITDA and net debt-to-adjusted EBITDA because they reflect our ability to service our debt obligations. Refer to Section 5.3 "*Non-IFRS measure reconciliations*" of this MD&A for a calculation of these measures.

Maintenance and growth capital expenditures

Maintenance capital expenditure is a supplementary financial measure we use to calculate the investment needed to sustain the current level of economic activity.

Growth capital expenditure is a supplementary financial measure we use to calculate the investment needed to increase the current level of economic activity.

The sum of maintenance capital expenditures and growth capital expenditures represents our total property, plant and equipment expenditures.

GROWTH MEASURES

Adjusted order intake

Adjusted order intake is a supplementary financial measure that represents the expected value of orders we have received:

- For the Civil Aviation segment, we consider an item part of our adjusted order intake 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. Additionally, expected future revenues from customers under short-term and long-term training contracts are included when these customers commit to pay us training fees, or when we reasonably expect the revenue to be generated;
- For the Defense and Security segment, we consider an item part of our adjusted order intake 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. Defense and Security contracts are usually executed over a long-term period but some of them must be renewed each year. For this segment, we only include a contract item in adjusted order intake when the customer has authorized the contract item and has received funding for it;
- For the Healthcare segment, adjusted order intake is typically converted into revenue within one year, therefore we assume that adjusted order intake is equal to revenue.

Adjusted backlog

Adjusted backlog is a supplementary financial measure that represents expected future revenues and includes obligated backlog, joint venture backlog and unfunded backlog and options:

- Obligated backlog represents the value of our adjusted order intake not yet executed and is calculated by adding the adjusted order intake of the current period to the balance of the obligated backlog at the end of the previous fiscal year, subtracting the revenue recognized in the current period and adding or subtracting backlog adjustments. If the amount of an order already recognized in a previous fiscal year is modified, the backlog is revised through adjustments;
- Joint venture backlog is obligated backlog that represents the expected value of our share of orders that our joint ventures have received but have not yet executed. Joint venture backlog is determined on the same basis as obligated backlog described above;
- Unfunded backlog represents legally binding Defense and Security orders with the U.S. government that we have received but have not yet executed and for which funding authorization has not yet been obtained. The uncertainty relates to the timing of the funding authorization, which is influenced by the government's budget cycle, based on a September year-end. Options are included in adjusted backlog when there is a high probability of being exercised, which we define as at least 80% probable, but indefinite-delivery/indefinite-quantity (ID/IQ) contracts are excluded. When an option is exercised, it is considered adjusted order intake in that period, and it is removed from unfunded backlog and options.

Book-to-sales ratio

The book-to-sales ratio is a supplementary financial measure calculated by dividing adjusted order intake by revenue in a given period. We use it to monitor the level of future growth of the business over time.

5.2 Supplementary non-financial information definitions

Full-flight simulators (FFSs) in CAE's network

A FFS is a full-size replica of a specific make, model and series of an aircraft cockpit, including a motion system. In our count of FFSs in the network, we generally only include FFSs that are of the highest fidelity and do not include any fixed based training devices, or other lower-level devices, as these are typically used in addition to FFSs in the same approved training programs.

Simulator equivalent unit (SEU)

SEU is a measure we use to show the total average number of FFSs available to generate earnings during the period. For example, in the case of a 50/50 flight training joint venture, we will report only 50% of the FFSs under this joint venture as a SEU. If a FFS is being powered down and relocated, it will not be included as a SEU until the FFS is re-installed and available to generate earnings.

Utilization rate

Utilization rate is a measure we use to assess the performance of our Civil simulator training network. While utilization rate does not perfectly correlate to revenue recognized, we track it, together with other measures, because we believe it is an indicator of our operating performance. We calculate it by taking the number of training hours sold on our simulators during the period divided by the practical training capacity available for the same period.

5.3 Non-IFRS measure reconciliations

Reconciliation of adjusted segment operating income (loss)

(amounts in millions)	Civil Aviation		Defense and Security		Healthcare		Total	
Three months ended December 31	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Operating income (loss)	**$ 117.2**	$ 57.1	**$ 24.9**	$ 16.5	**$ 3.8**	$ (8.1)	**$ 145.9**	$ 65.5
Restructuring, integration and acquisition costs	**11.2**	26.3	**(6.3)**	15.5	**—**	5.4	**4.9**	47.2
Impairments and other gains and losses arising from significant strategic transactions or specific events:								
Impairment reversal of non-financial assets following their repurposing and optimization	**3.0**	—	**6.8**	—	**—**	—	**9.8**	—
Adjusted segment operating income (loss)	**$ 131.4**	$ 83.4	**$ 25.4**	$ 32.0	**$ 3.8**	$ (2.7)	**$ 160.6**	$ 112.7

	Civil Aviation		Defense and Security		Healthcare		Total	
Nine months ended December 31	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Operating income (loss)	**$ 281.0**	$ 166.0	**$ 6.7**	$ 30.2	**$ (0.3)**	$ (5.3)	**$ 287.4**	$ 190.9
Restructuring, integration and acquisition costs	**38.4**	52.4	**9.1**	52.2	**1.5**	6.3	**49.0**	110.9
Impairments and other gains and losses arising from significant strategic transactions or specific events:								
Impairment reversal of non-financial assets following their repurposing and optimization	**3.0**	—	**6.8**	—	**—**	—	**9.8**	—
Adjusted segment operating income	**$ 322.4**	$ 218.4	**$ 22.6**	$ 82.4	**$ 1.2**	$ 1.0	**$ 346.2**	$ 301.8

Reconciliation of adjusted net income and adjusted EPS

	Three months ended December 31		**Nine months ended December 31**	
(amounts in millions, except per share amounts)	**2022**	2021	**2022**	2021
Net income attributable to equity holders of the Company	**$ 78.1**	$ 26.2	**$ 124.3**	$ 86.6
Restructuring, integration and acquisition costs, after tax	**4.0**	34.5	**36.9**	82.9
Impairments and other gains and losses arising from significant strategic transactions or specific events:				
Impairment reversal of non-financial assets following their repurposing and optimization, after tax	**7.1**	—	**7.1**	—
Adjusted net income	**$ 89.2**	$ 60.7	**$ 168.3**	$ 169.5
Average number of shares outstanding (diluted)	**318.3**	318.7	**318.3**	311.1
Adjusted EPS	**$ 0.28**	$ 0.19	**$ 0.53**	$ 0.55

Reconciliation of EBITDA, adjusted EBITDA, net debt-to-EBITDA and net debt-to-adjusted EBITDA

	Last twelve months ended December 31	
(amounts in millions, except net debt-to-EBITDA ratios)	**2022**	2021
Operating income	**$ 380.7**	$ 238.5
Depreciation and amortization	**333.7**	308.1
EBITDA	**$ 714.4**	$ 546.6
Restructuring, integration and acquisition costs	**85.0**	169.5
Impairments and other gains and losses arising from significant strategic transactions or specific events:		
Impairment reversal of non-financial assets following their repurposing and optimization	**9.8**	—
Cloud computing transition adjustment	**13.4**	—
Adjusted EBITDA	**$ 822.6**	$ 716.1
Net debt	**$ 3,073.0**	$ 2,310.5
Net debt-to-EBITDA	**4.30**	4.23
Net debt-to-adjusted EBITDA	**3.74**	3.23

6. CONSOLIDATED RESULTS

6.1 Results from operations – third quarter of fiscal 2023

(amounts in millions, except per share amounts)		**Q3-2023**	Q2-2023	Q1-2023	Q4-2022	Q3-2022
Revenue	$	**1,020.3**	993.2	933.3	955.0	848.7
Cost of sales	$	**722.3**	719.6	700.4	683.4	606.2
Gross profit	$	**298.0**	273.6	232.9	271.6	242.5
As a % of revenue[2]	%	***29.2***	*27.5*	*25.0*	*28.4*	*28.6*
Research and development expenses	$	**30.2**	32.2	40.7	34.9	31.7
Selling, general and administrative expenses	$	**138.1**	128.0	145.1	143.6	117.5
Other (gains) and losses	$	**(6.7)**	(3.2)	(2.4)	(20.9)	(6.3)
After-tax share in profit of equity accounted investees	$	**(14.4)**	(8.1)	(11.4)	(15.3)	(13.1)
Restructuring, integration and acquisition costs	$	**4.9**	22.6	21.5	36.0	47.2
Operating income	$	**145.9**	102.1	39.4	93.3	65.5
As a % of revenue[2]	%	***14.3***	*10.3*	*4.2*	*9.8*	*7.7*
Finance expense – net	$	**48.8**	41.3	36.2	32.5	34.5
Earnings before income taxes	$	**97.1**	60.8	3.2	60.8	31.0
Income tax expense (recovery)	$	**17.1**	14.5	(0.5)	3.7	2.6
As a % of earnings before income taxes (income tax rate)	%	***18***	*24*	*(16)*	*6*	*8*
Net income	$	**80.0**	46.3	3.7	57.1	28.4
Attributable to:						
Equity holders of the Company	$	**78.1**	44.5	1.7	55.1	26.2
Non-controlling interests	$	**1.9**	1.8	2.0	2.0	2.2
	$	**80.0**	46.3	3.7	57.1	28.4
EPS attributable to equity holders of the Company						
Basic and diluted	$	**0.25**	0.14	0.01	0.17	0.08
Adjusted segment operating income[2]	$	**160.6**	124.7	60.9	142.7	112.7
Adjusted net income[2]	$	**89.2**	61.5	17.6	92.0	60.7
Adjusted EPS[2]	$	**0.28**	0.19	0.06	0.29	0.19

Revenue was 20% higher compared to the third quarter of fiscal 2022
Revenue was $1,020.3 million this quarter, $171.6 million or 20% higher compared to the third quarter of fiscal 2022.

For the first nine months of fiscal 2023, revenue was $2,946.8 million, $530.5 million or 22% higher than the same period last year. Revenue variances by segment were as follows:

(amounts in millions)

Three months ended December 31	**2022**	2021	*Variance $*	*Variance %*
Civil Aviation	**$ 517.4**	$ 390.1	*$ 127.3*	*33 %*
Defense and Security	**452.5**	426.5	*26.0*	*6 %*
Healthcare	**50.4**	32.1	*18.3*	*57 %*
Revenue	**$ 1,020.3**	$ 848.7	*$ 171.6*	*20 %*

Nine months ended December 31	**2022**	2021	*Variance $*	*Variance %*
Civil Aviation	**$ 1,505.0**	$ 1,185.1	*$ 319.9*	*27 %*
Defense and Security	**1,308.2**	1,132.6	*175.6*	*16 %*
Healthcare	**133.6**	98.6	*35.0*	*35 %*
Revenue	**$ 2,946.8**	$ 2,416.3	*$ 530.5*	*22 %*

You will find more details in Section 7 "*Results by segment*" of this MD&A.

[2] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 5 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

Gross profit was 23% higher compared to the third quarter of fiscal 2022
Gross profit was $298.0 million this quarter (29.2% of revenue) compared to $242.5 million (28.6% of revenue) in the third quarter of fiscal 2022. The increase in gross profit compared to the third quarter of fiscal 2022 was mainly due to higher revenue recognized during the period. The higher overall gross profit margin this year was mainly due to higher utilization across the Civil network and to the integration into our results of AirCentre, acquired in the fourth quarter of fiscal 2022.

For the first nine months of fiscal 2023, gross profit was $804.5 million (27.3% of revenue) compared to $683.9 million (28.3% of revenue) last year. The increase in gross profit compared to the first nine months of fiscal 2022 was mainly due to higher revenue recognized during the period. The lower overall gross profit margin this year was mainly due to the unfavourable contract profit adjustments recorded in Defense and Security in the first quarter of fiscal 2023.

Operating income was 123% higher compared to the third quarter of fiscal 2022
Operating income this quarter was $145.9 million (14.3% of revenue), compared to $65.5 million (7.7% of revenue) in the third quarter of fiscal 2022.

For the first nine months of fiscal 2023, operating income was $287.4 million (9.8% of revenue), compared to $190.9 million (7.9% of revenue) last year. Operating income (loss) variances by segment were as follows:

(amounts in millions)

Three months ended December 31	**2022**	2021	*Variance $*	*Variance %*
Civil Aviation	**$ 117.2**	$ 57.1	*$ 60.1*	*105 %*
Defense and Security	**24.9**	16.5	*8.4*	*51 %*
Healthcare	**3.8**	(8.1)	*11.9*	*147 %*
Operating income	**$ 145.9**	$ 65.5	*$ 80.4*	*123 %*

Nine months ended December 31	**2022**	2021	*Variance $*	*Variance %*
Civil Aviation	**$ 281.0**	$ 166.0	*$ 115.0*	*69 %*
Defense and Security	**6.7**	30.2	*(23.5)*	*(78 %)*
Healthcare	**(0.3)**	(5.3)	*5.0*	*94 %*
Operating income	**$ 287.4**	$ 190.9	*$ 96.5*	*51 %*

You will find more details in Section 7 "*Results by segment*" of this MD&A.

Adjusted segment operating income was 43% higher compared to the third quarter of fiscal 2022
Adjusted segment operating income was $160.6 million this quarter (15.7% of revenue), compared to $112.7 million (13.3% of revenue) in the third quarter of fiscal 2022.

Adjusted segment operating income was $346.2 million (11.7% of revenue) compared to $301.8 million (12.5% of revenue) for the same period last year, representing an increase of $44.4 million. Adjusted segment operating income (loss) variances by segment were as follows:

(amounts in millions)

Three months ended December 31	**2022**	2021	*Variance $*	*Variance %*
Civil Aviation	**$ 131.4**	$ 83.4	*$ 48.0*	*58 %*
Defense and Security	**25.4**	32.0	*(6.6)*	*(21 %)*
Healthcare	**3.8**	(2.7)	*6.5*	*241 %*
Adjusted segment operating income	**$ 160.6**	$ 112.7	*$ 47.9*	*43 %*

Nine months ended December 31	**2022**	2021	*Variance $*	*Variance %*
Civil Aviation	**$ 322.4**	$ 218.4	*$ 104.0*	*48 %*
Defense and Security	**22.6**	82.4	*(59.8)*	*(73 %)*
Healthcare	**1.2**	1.0	*0.2*	*20 %*
Adjusted segment operating income	**$ 346.2**	$ 301.8	*$ 44.4*	*15 %*

You will find more details in Section 7 "*Results by segment*" of this MD&A.

Finance expense - net was 41% higher compared to the third quarter of fiscal 2022
The increase was mainly due to higher finance expense from the level of borrowing under credit facilities and an increase in variable interest rates.

For the first nine months of fiscal 2023, net finance expense was $126.3 million, $28.2 million higher compared to the same period last year. The increase was mainly due to higher finance expense from the level of borrowing under credit facilities and an increase in variable interest rates.

We are incurring higher finance expense, commensurate with central bank monetary tightening policies.

Income tax rate was 18% this quarter
Income tax expense this quarter amounted to $17.1 million, representing an effective tax rate of 18%, compared to an effective tax rate of 8% for the third quarter of fiscal 2022.

The income tax rate was impacted by restructuring, integration and acquisition costs this quarter. Excluding the effect of these costs, the income tax rate would have been 19% this quarter compared to 20% in the third quarter of fiscal 2022. On this basis, the decrease in the tax rate this quarter compared to the third quarter of fiscal 2022 was mainly attributable to the change in the mix of income from various jurisdictions.

For the first nine months of fiscal 2023, the income tax amounted to $31.1 million, representing an effective tax rate of 19% compared to an effective tax rate of nil for the same period last year.

The income tax rate was impacted by restructuring, integration and acquisition costs this year. Excluding the effect of these costs, the effective tax rate would have been 21% this year compared to 14% for the same period last year. On this basis, the increase in the tax rate compared to last year was mainly attributable to the beneficial impact recognized on tax assets and positive impact of tax audits in Canada last year, and the change in the mix of income from various jurisdictions.

6.2 Restructuring, integration and acquisition costs

	Three months ended December 31		Nine months ended December 31	
(amounts in millions)	**2022**	2021	**2022**	2021
Integration and acquisition costs	**$ 15.0**	$ 20.5	**$ 51.3**	$ 64.2
Impairment of non-financial assets - net	**—**	20.7	**2.3**	30.6
Severances and other employee related costs	**(0.3)**	2.6	**2.4**	4.6
Other costs	**—**	3.4	**2.8**	11.5
Impairment reversal of non-financial assets following their repurposing and optimization	**(9.8)**	—	**(9.8)**	—
Total restructuring, integration and acquisition costs	**$ 4.9**	$ 47.2	**$ 49.0**	$ 110.9

For the three and nine months ended December 31, 2022, restructuring, integration and acquisition costs associated with the fiscal 2022 acquisition of L3H MT amounted to $0.3 million and $16.1 million (2021 – $17.4 million and $54.3 million), respectively, and those related to the fiscal 2022 acquisition of AirCentre amounted to $13.6 million and $35.4 million (2021 – nil), respectively.

For the three and nine months ended December 31, 2022, cash provided by operating activities included payments related to the integration and acquisition costs for our acquired businesses and severances and other costs associated with our previously announced restructuring program amounting to approximately $17 million and $63 million (2021 – $38 million and $100 million), respectively.

Impairment reversal of non-financial assets following their repurposing and optimization
For the three and nine months ended December 31, 2022, restructuring, integration and acquisitions costs include gains on the reversal of impairment of an intangible asset of $6.8 million in the Defense and Security segment and property, plant and equipment of $3.0 million in the Civil Aviation segment, following their repurposing and optimization and new customer contracts and opportunities.

6.3 Consolidated adjusted order intake and adjusted backlog

Adjusted backlog[3] up 1% compared to last quarter

(amounts in millions)	Three months ended December 31, 2022	Nine months ended December 31, 2022
Obligated backlog, beginning of period	$ 8,623.0	$ 7,871.4
+ adjusted order intake[3]	1,240.1	3,583.8
- revenue	(1,020.3)	(2,946.8)
+ / - adjustments	25.9	360.3
Obligated backlog, end of period	$ 8,868.7	$ 8,868.7
Joint venture backlog (all obligated)	247.9	247.9
Unfunded backlog and options	1,678.5	1,678.5
Adjusted backlog	$ 10,795.1	$ 10,795.1

Adjustments this quarter were mainly due to foreign exchange movements.

The book-to-sales ratio[3] for the quarter was 1.22x. The ratio for the last 12 months was 1.26x.

You will find more details in Section 7 "*Results by segment*" *of this MD&A*.

7. RESULTS BY SEGMENT

We manage our business and report our results in three segments:
- Civil Aviation;
- Defense and Security;
- Healthcare.

The method used for the allocation of assets jointly used by the 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 based on a proportion of each segment's cost of sales and revenue.

Unless otherwise indicated, elements within our segment revenue and adjusted segment operating income analysis are presented in order of magnitude.

7.1 Civil Aviation

THIRD QUARTER OF FISCAL 2023 EXPANSIONS AND NEW INITIATIVES

Expansions
- We announced that we are growing our pilot training network to meet the increased demand for pilots with an upcoming deployment of a B777 FFS in Toronto, Canada;
- We have partnered with Jazz Aviation to meet the future needs for pilots through the Jazz Approach program, an ab-initio pilot training that provides cadets a direct pathway to a first officer position at Jazz Aviation.

ORDERS

Civil Aviation obtained contracts this quarter expected to generate revenues of $713.0 million including contracts for 14 FFSs sold in the quarter, bringing the civil FFS orders for the first nine months of the fiscal year to 43 FFSs, including:
- One Boeing B737 MAX and One ATR 72-600 to CAE Simulation Training Private Limited, a joint venture between InterGlobe Enterprises and CAE;
- One Airbus A320 to Zhuhai Flight Training Centre;
- 11 FFSs to undisclosed and other customers.

Notable contract awards for the quarter included:
- An 8-year commercial aviation training agreement with GOL Airlines;
- A 6-year business aviation training agreement with Delux Public Charter LLC (JSX Air);
- A 13-year commercial aviation training agreement with MESA Airlines;
- A 5-year flight next-gen crew and operations manager agreement with Ethiopian Airlines.

[3] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 5 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

FINANCIAL RESULTS

(amounts in millions)		**Q3-2023**	Q2-2023	Q1-2023	Q4-2022	Q3-2022
Revenue	$	**517.4**	507.2	480.4	432.7	390.1
Operating income	$	**117.2**	88.4	75.4	58.1	57.1
Adjusted segment operating income	$	**131.4**	104.4	86.6	96.3	83.4
As a % of revenue[4]	%	***25.4***	*20.6*	*18.0*	*22.3*	*21.4*
Depreciation and amortization	$	**63.5**	57.4	58.5	57.7	55.5
Property, plant and equipment expenditures	$	**58.4**	64.6	68.1	68.1	69.7
Intangible asset expenditures	$	**22.1**	26.0	15.7	16.7	13.6
Capital employed[4]	$	**4,673.3**	4,520.8	4,363.9	4,256.9	3,883.5
Adjusted backlog	$	**5,647.6**	5,457.1	4,993.2	4,919.2	4,606.0
Supplementary non-financial information						
Simulator equivalent unit		**263**	252	250	246	249
FFSs in CAE's network		**323**	315	318	316	312
Utilization rate	%	**73**	66	71	69	60
FFS deliveries		**9**	10	10	7	7

Revenue up 33% compared to the third quarter of fiscal 2022
The increase in revenue compared to the third quarter of fiscal 2022 was mainly due to the integration into our results of AirCentre acquired in the fourth quarter of the prior year, higher utilization across our network and the foreign exchange impact on the translation of our foreign operations.

Revenue year to date was $1,505.0 million, $319.9 million or 27% higher than the same period last year. The increase in revenue compared to the same period of fiscal 2022 was mainly due to the integration into our results of AirCentre, higher utilization across our network, and higher revenue recognized from simulator sales mainly due to the timing of production and other milestones on devices for which revenue was not recognized upon delivery.

Operating income up 105% compared to the third quarter of fiscal 2022
Operating income was $117.2 million (22.7% of revenue) this quarter, compared to $57.1 million (14.6% of revenue) in the third quarter of fiscal 2022. This quarter's operating income included restructuring, integration and acquisition costs of $11.2 million compared to $26.3 million in the third quarter of fiscal 2022.

The increase compared to the third quarter of fiscal 2022 was mainly due to higher utilization across our network, the integration into our results of AirCentre and lower restructuring, integration and acquisition costs.

Operating income for the first nine months of the year was $281.0 million (18.7% of revenue), $115.0 million or 69% higher than the same period last year. This period's operating income included restructuring, integration and acquisition costs of $38.4 million compared to $52.4 million in the same period last year.

The increase compared to the first nine months of fiscal 2022 was mainly due to higher utilization across our network, the integration into our results of AirCentre and lower restructuring, integration and acquisition costs.

Adjusted segment operating income up 58% compared to the third quarter of fiscal 2022
Adjusted segment operating income was $131.4 million (25.4% of revenue) this quarter, compared to $83.4 million (21.4% of revenue) in the third quarter of fiscal 2022.

The increase compared to the third quarter of fiscal 2022 was mainly due to higher utilization across our network and the integration into our results of AirCentre.

Adjusted segment operating income for the first nine months of the year was $322.4 million (21.4% of revenue), $104.0 million or 48% higher than the same period last year. The increase was mainly due to higher utilization across our network and the integration into our results of AirCentre.

Our results have seen continued recovery from the enduring impacts of the COVID-19 pandemic in regards to improved utilization of FFSs in our network and stronger adjusted order intake. However, during the majority of the first nine months of fiscal 2023, we continued to be affected by ongoing supply chain disruptions, operational constraints imposed by local authorities, and intermittent border restrictions.

[4] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 5 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

Property, plant and equipment expenditures at $58.4 million this quarter
Growth capital expenditures were $44.9 million for the quarter and maintenance capital expenditures were $13.5 million.

Capital employed increased by $152.5 million compared to last quarter
The increase compared to last quarter was driven by higher right-of-use assets and higher other non-current assets, mainly due to advance payments for property, plant and equipment. The increase is also due to higher property, plant and equipment and movements in foreign exchange rates.

Adjusted backlog up 3% compared to last quarter

(amounts in millions)	Three months ended December 31, 2022	Nine months ended December 31, 2022
Obligated backlog, beginning of period	$ 5,297.8	$ 4,718.3
+ adjusted order intake	713.0	1,985.6
- revenue	(517.4)	(1,505.0)
+ / - adjustments	10.6	305.1
Obligated backlog, end of period	$ 5,504.0	$ 5,504.0
Joint venture backlog (all obligated)	143.6	143.6
Adjusted backlog	$ 5,647.6	$ 5,647.6

Adjustments this quarter were mainly due to foreign exchange movements.

This quarter's book-to-sales ratio was 1.38x. The ratio for the last 12 months was 1.29x.

7.2 Defense and Security

THIRD QUARTER OF FISCAL 2023 EXPANSIONS AND NEW INITIATIVES

ORDERS
Defense and Security was awarded $476.7 million in orders this quarter and $1,464.6 million in total for fiscal 2023, including notable contract awards from:
– The Public Works Government Services of Canada to provide a CH-149 flight training device and maintenance and logistics support;
– The USAF for the continuation of flight training on KC-135 devices;
– The USAF for the continuation of flight training on C-130H devices;
– An international customer for F-16 flight training device upgrades;
– An international customer for CH-53 G flight training device upgrades;
– The Government of Canada for simulator maintenance and logistics support;

FINANCIAL RESULTS

(amounts in millions)		**Q3-2023**	Q2-2023	Q1-2023	Q4-2022	Q3-2022
Revenue	$	**452.5**	442.4	413.3	469.5	426.5
Operating income (loss)	$	**24.9**	12.1	(30.3)	25.8	16.5
Adjusted segment operating income	$	**25.4**	18.4	(21.2)	36.8	32.0
As a % of revenue	%	**5.6**	*4.2*	—	*7.8*	*7.5*
Depreciation and amortization	$	**21.7**	21.0	20.9	20.1	21.1
Property, plant and equipment expenditures	$	**4.8**	3.5	5.2	6.0	6.5
Intangible asset expenditures	$	**5.6**	6.4	6.8	6.9	9.0
Capital employed	$	**2,514.5**	2,641.2	2,528.4	2,338.3	2,360.7
Adjusted backlog	$	**5,147.5**	5,180.8	5,032.4	4,658.3	4,571.2

Revenue up 6% compared to the third quarter of fiscal 2022
The increase in revenue compared to the third quarter of fiscal 2022 was mainly due to the foreign exchange impact on the translation of our foreign operations and a higher level of activity on our North American and Australasian programs.

Revenue year to date was $1,308.2 million, $175.6 million or 16% higher than the same period last year. The increase was mainly due to the integration into our results of L3H MT, acquired in the second quarter of the prior year, the foreign exchange impact on the translation of our foreign operations and a higher level of activity on our Australasian and North American programs.

Operating income up 51% compared to the third quarter of fiscal 2022
Operating income was $24.9 million (5.5% of revenue) this quarter, compared to $16.5 million (3.9% of revenue) in the third quarter of fiscal 2022. This quarter's operating income included a reversal of restructuring, integration and acquisition costs of $6.3 million compared to costs of $15.5 million in the third quarter of fiscal 2022.

The increase compared to the third quarter of fiscal 2022 was mainly due to lower restructuring, integration and acquisition costs, which included a gain on the reversal of impairment of an intangible asset following its repurposing and optimization pursuant to contract award opportunities with an OEM. The increase was also due to lower net research and development expenses, partially offset by lower margins on certain North American and European programs, mainly due to inflation and supply chain disruptions, and higher selling, general and administrative expenses.

Operating income for the first nine months of the year was $6.7 million (0.5% of revenue), $23.5 million or 78% lower than the same period last year. This period's operating income included restructuring, integration and acquisition costs of $9.1 million compared to $52.2 million in the same period last year.

The decrease compared to the first nine months of fiscal 2022 was mainly due to lower margins on our North American and European programs, mainly from unfavourable contract profit adjustments on two U.S. programs in the first quarter of fiscal 2023, and to lower government support programs obtained in relation to the COVID-19 pandemic. The decrease was partially offset by lower restructuring, integration and acquisition costs and lower net research and development expenses.

Adjusted segment operating income decreased by $6.6 million compared to the third quarter of fiscal 2022
Adjusted segment operating income was $25.4 million (5.6% of revenue) this quarter, compared to $32.0 million (7.5% of revenue) in the third quarter of fiscal 2022.

The decrease compared to the third quarter of fiscal 2022 was driven by lower margins on certain North American and European programs, mainly due to inflation and supply chain disruptions, and higher selling, general and administrative expenses, partially offset by a gain on the reversal of impairment of an intangible asset following its repurposing and optimization pursuant to contract award opportunities with an OEM and lower net research and development expenses.

Adjusted segment operating income for the first nine months of the year was $22.6 million, $59.8 million lower than the same period last year. The decrease was driven by lower margins on our North American and European programs, mainly from unfavourable contract profit adjustments on two U.S. programs in the first quarter of fiscal 2023, and lower government support programs obtained in relation to the COVID-19 pandemic. The decrease was partially offset by lower net research and development expenses.

Our results continue to be negatively impacted by delayed customer contract negotiations, inefficiencies from inflation, supply chain disruptions and skilled labour shortages, potential U.S. government budget appropriations issues and government contract award reprioritizations due to the Russian invasion of Ukraine. These impacts are driving delays in order intake, particularly for products contract awards and inefficiencies in the execution of certain programs.

Capital employed decreased by $126.7 million compared to last quarter
The decrease compared to last quarter was mainly due to lower non-cash working capital and movements in foreign exchange rates. The decrease in non-cash working capital was primarily due to higher contract liabilities and lower accounts receivable.

Adjusted backlog down 1% compared to last quarter

(amounts in millions)	Three months ended December 31, 2022	Nine months ended December 31, 2022
Obligated backlog, beginning of period	$ 3,325.2	$ 3,153.1
+ adjusted order intake	476.7	1,464.6
- revenue	(452.5)	(1,308.2)
+ / - adjustments	15.3	55.2
Obligated backlog, end of period	$ 3,364.7	$ 3,364.7
Joint venture backlog (all obligated)	104.3	104.3
Unfunded backlog and options	1,678.5	1,678.5
Adjusted backlog	$ 5,147.5	$ 5,147.5

Adjustments this quarter were mainly due to foreign exchange movements.

This quarter's book-to-sales ratio was 1.05x. The ratio for the last 12 months was 1.25x.

This quarter, $97.0 million was added to the unfunded backlog and $187.9 million was transferred to obligated backlog.

7.3 Healthcare

THIRD QUARTER OF FISCAL 2023 EXPANSIONS AND NEW INITIATIVES

Expansions

– We secured several competitive deals with universities and colleges for our advanced patient simulators and our customizable centre management platform, CAE LearningSpace;
– We extended our geographic reach through a multi-location sale in India that included our Human Patient Simulator as well as CAE Luna, CAE Vimedix, CAE Blue Phantom and CAE LearningSpace;
– We were awarded contracts through our OEM program, for future research and development efforts as well as additional simulators to teach pacemaker placement;
– We expanded our relationship with the American Society of Anesthesiologists through a commitment to develop two additional SimSTAT modules for the Maintenance of Certification in Anesthesiology (MoCA).

FINANCIAL RESULTS

(amounts in millions)		**Q3-2023**	Q2-2023	Q1-2023	Q4-2022	Q3-2022
Revenue	$	**50.4**	43.6	39.6	52.8	32.1
Operating income (loss)	$	**3.8**	1.6	(5.7)	9.4	(8.1)
Adjusted segment operating income	$	**3.8**	1.9	(4.5)	9.6	(2.7)
As a % of revenue	%	***7.5***	*4.4*	—	*18.2*	—
Depreciation and amortization	$	**3.1**	3.5	3.2	3.1	3.3
Property, plant and equipment expenditures	$	**0.2**	0.5	0.6	0.6	0.7
Intangible asset expenditures	$	**1.9**	2.5	2.9	2.6	2.9
Capital employed	$	**253.6**	251.0	220.2	204.3	193.7

Revenue up 57% compared to the third quarter of fiscal 2022
The increase in revenue compared to the third quarter of fiscal 2022 was mainly due to increased sales of patient simulators and centre management solutions driven by higher volume of our CAE LearningSpace simulation platform.

Revenue year to date was $133.6 million, $35.0 million or 35% higher than the same period last year. The increase was mainly due to higher revenue from patient simulators, key partnerships with OEMs and ultrasound simulators. We continue to see improvements in the recovery from COVID-19 although constrained by continued supply chain headwinds.

Operating income up 147% compared to the third quarter of fiscal 2022
Operating income was $3.8 million (7.5% of revenue) this quarter, compared to an operating loss of $8.1 million in the third quarter of fiscal 2022. Last year's third quarter operating income included restructuring, integration and acquisition costs of $5.4 million compared to nil this year.

The increase compared to the third quarter of fiscal 2022 was mainly due to higher revenue, as described above, a favorable product mix and lower restructuring, integration and acquisition costs.

Operating loss for the first nine months of the year was $0.3 million, compared to a loss of $5.3 million for the same period last year. This period's operating loss included restructuring, integration and acquisition costs of $1.5 million compared to $6.3 million in the same period last year.

The increase of $5.0 million compared to the first nine months of fiscal 2022 was mainly due to higher revenue, as described above, and lower restructuring, integration and acquisition costs, partially offset by higher net research and development costs.

Adjusted segment operating income up $6.5 million compared to the third quarter of fiscal 2022
Adjusted segment operating income was $3.8 million (7.5% of revenue) this quarter, compared to an adjusted segment operating loss of $2.7 million in the third quarter of fiscal 2022.

The increase compared to the third quarter of fiscal 2022, was mainly due to higher revenue, as described above, and a favorable product mix.

Adjusted segment operating income for the first nine months of the year was $1.2 million, $0.2 million higher than the same period last year. The increase was mainly due to higher revenue, as described above, partially offset by higher net research and development costs.

Capital employed was stable compared to last quarter
Higher non-cash working capital was driven by lower accounts payable and higher inventories, offset by movements in foreign exchange rates.

8. CONSOLIDATED CASH MOVEMENTS AND LIQUIDITY

We 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.

8.1 Consolidated cash movements

	Three months ended December 31		Nine months ended December 31	
(amounts in millions)	**2022**	2021	**2022**	2021
Cash provided by operating activities*	**$ 158.7**	$ 99.2	**$ 364.4**	$ 312.5
Changes in non-cash working capital	**93.7**	210.4	**(136.6)**	(101.1)
Net cash provided by operating activities	**$ 252.4**	$ 309.6	**$ 227.8**	$ 211.4
Maintenance capital expenditures[5]	**(16.1)**	(18.1)	**(48.0)**	(39.3)
Change in ERP and other assets	**(10.8)**	(10.1)	**(30.7)**	(27.0)
Proceeds from the disposal of property, plant and equipment	**0.3**	0.2	**4.8**	8.1
Net payments to equity accounted investees	**(2.0)**	(19.5)	**(10.5)**	(19.9)
Dividends received from equity accounted investees	**13.9**	20.0	**20.3**	20.6
Free cash flow[5]	**$ 237.7**	$ 282.1	**$ 163.7**	$ 153.9
Growth capital expenditures[5]	**(47.3)**	(58.8)	**(157.9)**	(158.2)
Capitalized development costs	**(18.9)**	(15.4)	**(64.3)**	(39.8)
Net proceeds from the issuance of common shares	**0.2**	3.7	**15.5**	695.5
Business combinations, net of cash acquired	**—**	(8.4)	**(6.4)**	(1,384.8)
Acquisition of investment in equity accounted investees	**—**	—	**—**	(4.3)
Other cash movements, net	**(31.7)**	(1.9)	**(31.8)**	(1.9)
Effect of foreign exchange rate changes on cash and cash equivalents	**9.1**	(4.0)	**13.8**	(7.9)
Net change in cash before proceeds and repayment of long-term debt	**$ 149.1**	$ 197.3	**$ (67.4)**	$ (747.5)

* before changes in non-cash working capital

Net cash provided by operating activities of $252.4 million this quarter
Net cash provided by operating activities was $57.2 million lower compared to the third quarter of fiscal 2022. The decrease was mainly due to a higher investment in non-cash working capital offset by higher net income from operating activities before non-cash items.

Net cash provided by operating activities year to date was $227.8 million, $16.4 million higher than the same period last year. The increase was mainly due to higher net income from operating activities before non-cash items, partially offset by a higher investment in non-cash working capital.

Free cash flow of $237.7 million this quarter
Free cash flow was $44.4 million lower compared to the third quarter of fiscal 2022. The decrease was mainly due to a higher investment in non-cash working capital partially offset by higher cash provided by operating activities and lower payments to equity accounted investees.

Free cash flow year to date was $163.7 million, $9.8 million higher than the same period last year. The increase was mainly attributable to higher cash provided by operating activities partially offset by a higher investment in non-cash working capital.

Property, plant and equipment expenditures were $63.4 million this quarter
Total property, plant and equipment expenditures were $63.4 million this quarter and $205.9 million for the first nine months of the year. Growth capital expenditures were $47.3 million this quarter and $157.9 million for the first nine months of the year. Maintenance capital expenditures were $16.1 million this quarter and $48.0 million for the first nine months of the year.

[5] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 5 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

9. CONSOLIDATED FINANCIAL POSITION

9.1 Consolidated capital employed

(amounts in millions)	**As at December 31 2022**	As at September 30 2022	As at March 31 2022
Use of capital:			
Current assets	**$ 2,178.8**	$ 2,170.0	$ 2,148.6
Less: cash and cash equivalents	**(191.6)**	(203.2)	(346.1)
Current liabilities	**(2,240.4)**	(2,112.2)	(2,091.2)
Less: current portion of long-term debt	**220.9**	243.2	241.8
Non-cash working capital[6]	**$ (32.3)**	$ 97.8	$ (46.9)
Property, plant and equipment	**2,352.8**	2,295.9	2,129.3
Intangible assets	**4,040.1**	4,057.8	3,796.3
Other long-term assets	**1,700.7**	1,577.6	1,504.6
Other long-term liabilities	**(533.5)**	(517.0)	(596.6)
Capital employed	**$ 7,527.8**	$ 7,512.1	$ 6,786.7
Source of capital[6]:			
Current portion of long-term debt	**$ 220.9**	$ 243.2	$ 241.8
Long-term debt	**3,043.7**	3,154.6	2,804.4
Less: cash and cash equivalents	**(191.6)**	(203.2)	(346.1)
Net debt[6]	**$ 3,073.0**	$ 3,194.6	$ 2,700.1
Equity attributable to equity holders of the Company	**4,373.4**	4,238.3	4,009.7
Non-controlling interests	**81.4**	79.2	76.9
Capital employed	**$ 7,527.8**	$ 7,512.1	$ 6,786.7

Capital employed increased by $15.7 million compared to last quarter
The increase was mainly due to higher other long-term assets and higher property, plant and equipment, partially offset by lower non-cash working capital, as described below.

Return on capital employed (ROCE)[6]
ROCE was 4.4% this quarter, which compares to 4.2% in the third quarter of last year. Adjusted ROCE was 5.5% this quarter, which compares to 6.1% in the third quarter of last year and 5.1% last quarter.

Non-cash working capital decreased by $130.1 million compared to last quarter
The decrease was mainly due to higher contract liabilities driven by deposits on new contracts and milestones achieved in the quarter.

Property, plant and equipment increased by $56.9 million compared to last quarter
The increase was mainly due to movements in foreign exchange rates and capital expenditures in excess of depreciation.

Other long-term assets increased by $123.1 million compared to last quarter
The increase was mainly due to higher right-of-use assets, primarily due to additions and remeasurements in excess of depreciation, higher other non-current assets, mainly due to advance payments for property, plant and equipment, and higher employee benefits assets.

Total debt decreased by $133.2 million compared to last quarter
The decrease in total debt was mainly due to net repayments of borrowing under revolving credit facilities.

[6] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 5 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

Net debt decreased by $121.6 million compared to last quarter

(amounts in millions)	Three months ended December 31, 2022	Nine months ended December 31, 2022
Net debt, beginning of period	$ 3,194.6	$ 2,700.1
Impact of cash movements on net debt		
(see table in the consolidated cash movements section)	(149.1)	67.4
Effect of foreign exchange rate changes on long-term debt	(43.0)	216.1
Non-cash lease liability movements	63.9	69.5
Other	6.6	19.9
Change in net debt during the period	$ (121.6)	$ 372.9
Net debt, end of period	$ 3,073.0	$ 3,073.0

Liquidity measures	As at December 31 2022	As at December 31 2021
Net debt-to-capital[7]	% 40.8	% 36.5
Net debt-to-EBITDA[7]	4.30	4.23
Net debt-to-adjusted EBITDA[7]	3.74	3.23

We have a committed unsecured revolving credit facility at floating rates, provided by a syndicate of lenders. We and some of our subsidiaries can borrow funds directly from this credit facility to cover operating and general corporate expenses and to issue letters of credit.

We manage an uncommitted receivable purchase facility of up to US$400.0 million, in which we sell interests in certain of our accounts receivable to third parties for cash consideration. This facility is renewed annually.

We have certain debt agreements which require the maintenance of standard financial covenants. As at December 31, 2022, we are compliant with all our financial covenants.

Total available liquidity as at December 31, 2022 was approximately $1.4 billion, including $191.6 million in cash and cash equivalents, undrawn amounts on our revolving credit facilities and the balance available under our receivable purchase facility.

In September 2022, we extended the maturity of our US$175.0 million variable interest-bearing term loan from July 2023 to July 2024.

In October 2022, we amended our US$850.0 million unsecured revolving credit facility to increase the total capacity to US$1.0 billion and extended the maturity by one year to September 2027. In addition, we terminated our $300.0 million Sidecar unsecured revolving credit facility, which had no borrowings and was coming to maturity in April 2023.

Total equity increased by $137.3 million this quarter
The increase in equity was mainly due to the net income realized this quarter and changes in other comprehensive income, including foreign currency translation adjustments.

Outstanding share data
Our articles of incorporation authorize the issue of an unlimited number of common shares and an unlimited number of preferred shares issued in series. We had a total of 317,859,515 common shares issued and outstanding as at December 31, 2022 with total share capital of $2,242.7 million. In addition, we had 6,365,787 options outstanding under the Employee Stock Option Plan (ESOP).

As at January 31, 2023, we had a total of 317,859,865 common shares issued and outstanding and 6,362,337 options outstanding under the ESOP.

[7] Non-IFRS financial measure, non-IFRS ratio, capital management measure, or supplementary financial measure. Refer to Section 5 "*Non-IFRS and other financial measures and supplementary non-financial information*" of this MD&A for the definitions and reconciliation of these measures to the most directly comparable measure under IFRS.

9.2 Contingencies

During fiscal 2015, we received tax notices of reassessment from the Canada Revenue Agency (CRA) in connection with our characterization of amounts received under the Strategic Aerospace and Defence Initiative (SADI) program during its 2012 and 2013 taxation years. Under the SADI program, we received funding from the Government of Canada for our eligible spending in R&D projects, in the form of an unconditionally repayable interest-bearing loan, which we commenced repayment of the principal and interest in fiscal 2016 in accordance with the terms of the agreement. The CRA has taken the position that amounts received under the SADI program qualify as government assistance. We filed notices of objection against the CRA's reassessments and subsequently filed a notice of appeal to the Tax Court of Canada.

In September 2021, the Tax Court of Canada ruled in favour of the CRA's contention and held that the amounts received under the SADI program qualified as government assistance. We subsequently filed an appeal to the Federal Court of Appeal against the Tax Court's decision. In October 2022, the Federal Court of Appeal issued a decision in which it rejected the appeal. In December 2022, we filed an application for leave to appeal to the Supreme Court of Canada.

We have not recognized the impacts of the CRA's reassessments in our consolidated financial statements for the period ended December 31, 2022. As the appeal did not aim to reduce our final tax bill but rather challenge the timing of deductions based on fiscal characterization, the impact of the reassessments would not result in a material adverse effect on our overall finance and income tax expense nor income tax payable, but would, however, affect the timing of payment of such tax.

10. BUSINESS COMBINATIONS

During the nine months ended December 31, 2022, adjustments to preliminary purchase price allocations of acquisitions realized in fiscal 2022 resulted in increases of intangible assets of $22.7 million, current liabilities of $3.5 million, and other long-term liabilities of $2.8 million, and decreases of current assets of $11.4 million, other long-term assets of $2.9 million and deferred tax assets of $2.1 million.

During the nine months ended December 31, 2022, we completed our final assessment of the fair value of assets acquired and liabilities assumed of L3Harris Technologies' Military Training business (L3H MT) acquired in fiscal 2022. Additionally, cash considerations of $6.4 million were paid for an acquisition realized in fiscal 2021.

11. CONTROLS AND PROCEDURES

In the third quarter ended December 31, 2022, we did not make any significant changes in, nor take any significant corrective actions regarding our internal controls or other factors that could significantly affect such internal controls. Our CEO and CFO periodically review our disclosure controls and procedures for effectiveness and conduct an evaluation each quarter. As of the end of the third quarter, our CEO and CFO were satisfied with the effectiveness of our disclosure controls and procedures.

During fiscal 2022, we acquired AirCentre. In accordance with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, the CEO and the CFO of the Company have limited the scope of their design of CAE's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of AirCentre, for up to one year following their acquisition. We have begun to integrate their internal controls, policies and procedures and we have incorporated internal controls over significant processes specific to the acquisition that we believe are appropriate and necessary in consideration of the level of related integration. As the post-closing integration continues, we will continue to review the internal controls and processes with those of CAE.

AirCentre's contribution to our consolidated financial statements for the nine months ended December 31, 2022 was 4%, 8% and 10% of each of consolidated revenues, adjusted segment operating income and net income. Additionally, as at December 31, 2022, AirCentre's total assets and total liabilities were 6% and 1% of consolidated total assets and total liabilities, respectively.

12. SELECTED QUARTERLY FINANCIAL INFORMATION

(amounts in millions, except per share amounts and exchange rates)		Q1	Q2	Q3	Q4	Year to date
Fiscal 2023						
Revenue	**$**	**933.3**	**993.2**	**1,020.3**	(1)	**2,946.8**
Net income	**$**	**3.7**	**46.3**	**80.0**	(1)	**130.0**
Equity holders of the Company	**$**	**1.7**	**44.5**	**78.1**	(1)	**124.3**
Non-controlling interests	**$**	**2.0**	**1.8**	**1.9**	(1)	**5.7**
Basic and diluted EPS attributable to equity holders of the Company	**$**	**0.01**	**0.14**	**0.25**	(1)	**0.39**
Adjusted EPS	**$**	**0.06**	**0.19**	**0.28**	(1)	**0.53**
Average number of shares outstanding (basic)		**317.1**	**317.8**	**317.9**	(1)	**317.6**
Average number of shares outstanding (diluted)		**318.2**	**318.4**	**318.3**	(1)	**318.3**
Average exchange rate, U.S. dollar to Canadian dollar		**1.28**	**1.30**	**1.36**	(1)	**1.31**
Average exchange rate, Euro to Canadian dollar		**1.36**	**1.31**	**1.38**	(1)	**1.35**
Average exchange rate, British pound to Canadian dollar		**1.61**	**1.54**	**1.59**	(1)	**1.58**
Fiscal 2022						
Revenue	$	752.7	814.9	848.7	955.0	3,371.3
Net income	$	47.3	17.2	28.4	57.1	150.0
Equity holders of the Company	$	46.4	14.0	26.2	55.1	141.7
Non-controlling interests	$	0.9	3.2	2.2	2.0	8.3
Basic EPS attributable to equity holders of the Company	$	0.16	0.04	0.08	0.17	0.46
Diluted EPS attributable to equity holders of the Company	$	0.16	0.04	0.08	0.17	0.45
Adjusted EPS	$	0.19	0.17	0.19	0.29	0.84
Average number of shares outstanding (basic)		293.6	316.5	316.9	317.0	311.0
Average number of shares outstanding (diluted)		295.8	318.7	318.7	318.5	312.9
Average exchange rate, U.S. dollar to Canadian dollar		1.23	1.26	1.26	1.27	1.25
Average exchange rate, Euro to Canadian dollar		1.48	1.48	1.44	1.42	1.46
Average exchange rate, British pound to Canadian dollar		1.72	1.74	1.70	1.70	1.71
Fiscal 2021						
Revenue	$	550.5	704.7	832.4	894.3	2,981.9
Net (loss) income	$	(110.0)	(6.0)	49.7	18.8	(47.5)
Equity holders of the Company	$	(110.6)	(5.2)	48.8	19.8	(47.2)
Non-controlling interests	$	0.6	(0.8)	0.9	(1.0)	(0.3)
Basic and diluted EPS attributable to equity holders of the Company	$	(0.42)	(0.02)	0.18	0.07	(0.17)
Adjusted EPS	$	(0.11)	0.13	0.22	0.22	0.47
Average number of shares outstanding (basic)		265.7	265.8	271.7	285.2	272.0
Average number of shares outstanding (diluted)		265.7	265.8	273.0	287.3	272.0
Average exchange rate, U.S. dollar to Canadian dollar		1.39	1.33	1.30	1.27	1.32
Average exchange rate, Euro to Canadian dollar		1.53	1.56	1.55	1.53	1.54
Average exchange rate, British pound to Canadian dollar		1.72	1.72	1.72	1.75	1.73

(1) Not available.

Consolidated Income Statement

(Unaudited)		Three months ended December 31		Nine months ended December 31	
(amounts in millions of Canadian dollars, except per share amounts)	Notes	**2022**	2021	**2022**	2021
Revenue	3	**$ 1,020.3**	$ 848.7	**$ 2,946.8**	$ 2,416.3
Cost of sales		**722.3**	606.2	**2,142.3**	1,732.4
Gross profit		**$ 298.0**	$ 242.5	**$ 804.5**	$ 683.9
Research and development expenses		**30.2**	31.7	**103.1**	85.9
Selling, general and administrative expenses		**138.1**	117.5	**411.2**	345.5
Other (gains) and losses	4	**(6.7)**	(6.3)	**(12.3)**	(16.1)
Share of after-tax profit of equity accounted investees	3	**(14.4)**	(13.1)	**(33.9)**	(33.2)
Restructuring, integration and acquisition costs	5	**4.9**	47.2	**49.0**	110.9
Operating income		**$ 145.9**	$ 65.5	**$ 287.4**	$ 190.9
Finance expense – net	6	**48.8**	34.5	**126.3**	98.1
Earnings before income taxes		**$ 97.1**	$ 31.0	**$ 161.1**	$ 92.8
Income tax expense (recovery)		**17.1**	2.6	**31.1**	(0.1)
Net income		**$ 80.0**	$ 28.4	**$ 130.0**	$ 92.9
Attributable to:					
Equity holders of the Company		**$ 78.1**	$ 26.2	**$ 124.3**	$ 86.6
Non-controlling interests		**1.9**	2.2	**5.7**	6.3
Earnings per share attributable to equity holders of the Company					
Basic and diluted	8	**$ 0.25**	$ 0.08	**$ 0.39**	$ 0.28

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

Consolidated Statement of Comprehensive Income

(Unaudited)		Three months ended December 31				Nine months ended December 31		
(amounts in millions of Canadian dollars)		**2022**		2021		**2022**		2021
Net income	**$**	**80.0**	$	28.4	**$**	**130.0**	$	92.9
Items that may be reclassified to net income								
Foreign currency exchange differences on translation of foreign operations	**$**	**18.6**	$	(22.7)	**$**	**310.5**	$	(10.9)
Net gain (loss) on hedges of net investment in foreign operations		**30.3**		2.2		**(113.0)**		(5.3)
Reclassification to income of gains on foreign currency exchange differences		**(3.8)**		(1.1)		**(6.2)**		(4.3)
Net (loss) gain on cash flow hedges		**(4.7)**		9.5		**(10.2)**		(8.2)
Reclassification to income of losses (gains) on cash flow hedges		**9.5**		(12.1)		**(11.5)**		(12.0)
Income taxes		**(0.2)**		2.5		**12.2**		3.0
	$	**49.7**	$	(21.7)	**$**	**181.8**	$	(37.7)
Items that will never be reclassified to net income								
Remeasurement of defined benefit pension plan obligations	**$**	**8.8**	$	(20.9)	**$**	**55.7**	$	15.2
Income taxes		**(2.4)**		5.6		**(14.9)**		(3.9)
	$	**6.4**	$	(15.3)	**$**	**40.8**	$	11.3
Other comprehensive income (loss)	**$**	**56.1**	$	(37.0)	**$**	**222.6**	$	(26.4)
Total comprehensive income (loss)	**$**	**136.1**	$	(8.6)	**$**	**352.6**	$	66.5
Attributable to:								
Equity holders of the Company	**$**	**133.9**	$	(10.4)	**$**	**343.1**	$	60.4
Non-controlling interests		**2.2**		1.8		**9.5**		6.1

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

Consolidated Statement of Financial Position

(Unaudited) *(amounts in millions of Canadian dollars)*	**December 31 2022**	March 31 2022
Assets		
Cash and cash equivalents	**$ 191.6**	$ 346.1
Accounts receivable	**616.0**	556.9
Contract assets	**629.2**	608.3
Inventories	**598.8**	519.8
Prepayments	**74.4**	56.7
Income taxes recoverable	**57.6**	33.2
Derivative financial assets	**11.2**	27.6
Total current assets	**$ 2,178.8**	$ 2,148.6
Property, plant and equipment	**2,352.8**	2,129.3
Right-of-use assets	**393.6**	373.0
Intangible assets	**4,040.1**	3,796.3
Investment in equity accounted investees	**515.2**	454.0
Employee benefits assets	**28.9**	—
Deferred tax assets	**119.1**	117.4
Derivative financial assets	**12.3**	10.5
Other non-current assets	**631.6**	549.7
Total assets	**$ 10,272.4**	$ 9,578.8
Liabilities and equity		
Accounts payable and accrued liabilities	**$ 917.3**	$ 975.1
Provisions	**26.1**	36.7
Income taxes payable	**38.2**	22.7
Contract liabilities	**971.9**	788.3
Current portion of long-term debt	**220.9**	241.8
Derivative financial liabilities	**66.0**	26.6
Total current liabilities	**$ 2,240.4**	$ 2,091.2
Provisions	**20.0**	20.6
Long-term debt	**3,043.7**	2,804.4
Royalty obligations	**125.6**	126.0
Employee benefits obligations	**89.6**	109.7
Deferred tax liabilities	**106.1**	93.7
Derivative financial liabilities	**7.6**	1.0
Other non-current liabilities	**184.6**	245.6
Total liabilities	**$ 5,817.6**	$ 5,492.2
Equity		
Share capital	**$ 2,242.7**	$ 2,224.7
Contributed surplus	**41.2**	38.6
Accumulated other comprehensive income	**146.8**	(31.2)
Retained earnings	**1,942.7**	1,777.6
Equity attributable to equity holders of the Company	**$ 4,373.4**	$ 4,009.7
Non-controlling interests	**81.4**	76.9
Total equity	**$ 4,454.8**	$ 4,086.6
Total liabilities and equity	**$ 10,272.4**	$ 9,578.8

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

Consolidated Statement of Changes in Equity

(Unaudited) *Nine months ended December 31, 2022* *(amounts in millions of Canadian dollars, except number of shares)*	Common shares Number of shares	Common shares Stated value	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total (Attributable to equity holders of the Company)	Non-controlling interests	**Total equity**
Balances as at March 31, 2022	317,024,123	$ 2,224.7	$ 38.6	$ (31.2)	$ 1,777.6	$ 4,009.7	$ 76.9	**$ 4,086.6**
Net income	—	$ —	$ —	$ —	$ 124.3	$ 124.3	$ 5.7	**$ 130.0**
Other comprehensive income	—	—	—	178.0	40.8	218.8	3.8	**222.6**
Total comprehensive income	—	$ —	$ —	$ 178.0	$ 165.1	$ 343.1	$ 9.5	**$ 352.6**
Exercise of stock options	835,392	18.0	(2.5)	—	—	15.5	—	**15.5**
Share-based payments expense	—	—	5.1	—	—	5.1	—	**5.1**
Transactions with non-controlling interests	—	—	—	—	—	—	(5.0)	**(5.0)**
Balances as at December 31, 2022	**317,859,515**	**$ 2,242.7**	**$ 41.2**	**$ 146.8**	**$ 1,942.7**	**$ 4,373.4**	**$ 81.4**	**$ 4,454.8**

Nine months ended December 31, 2021 *(amounts in millions of Canadian dollars, except number of shares)*	Common shares Number of shares	Common shares Stated value	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total (Attributable to equity holders of the Company)	Non-controlling interests	Total equity
Balances as at March 31, 2021	293,355,463	$ 1,516.2	$ 22.5	$ 58.1	$ 1,543.7	$ 3,140.5	$ 72.3	$ 3,212.8
Net income	—	$ —	$ —	$ —	$ 86.6	$ 86.6	$ 6.3	$ 92.9
Other comprehensive (loss) income	—	—	—	(37.5)	11.3	(26.2)	(0.2)	(26.4)
Total comprehensive (loss) income	—	$ —	$ —	$ (37.5)	$ 97.9	$ 60.4	$ 6.1	$ 66.5
Issuance of common shares upon conversion of subscription receipts	22,400,000	677.2	12.5	—	—	689.7	—	689.7
Exercise of stock options	1,227,885	30.5	(4.0)	—	—	26.5	—	26.5
Share-based payments expense	—	—	6.6	—	—	6.6	—	6.6
Transfer of realized cash flow hedge losses related to business combinations	—	—	—	14.8	—	14.8	—	14.8
Transactions with non-controlling interests	—	—	—	—	—	—	(2.4)	(2.4)
Balances as at December 31, 2021	316,983,348	$ 2,223.9	$ 37.6	$ 35.4	$ 1,641.6	$ 3,938.5	$ 76.0	$ 4,014.5

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

Consolidated Statement of Cash Flows

(Unaudited) *Nine months ended December 31* *(amounts in millions of Canadian dollars)*	Notes		**2022**		2021
Operating activities					
Net income		**$**	**130.0**	$	92.9
Adjustments for:					
Depreciation and amortization	3		**252.8**		229.6
Impairment (reversal) of non-financial assets – net	3		**(4.0)**		33.7
Share of after-tax profit of equity accounted investees			**(33.9)**		(33.2)
Deferred income taxes			**(0.3)**		(18.1)
Investment tax credits			**0.4**		(21.4)
Share-based payments expense			**(5.7)**		3.3
Defined benefit pension plans			**6.2**		10.0
Other non-current liabilities			**(13.5)**		(32.8)
Derivative financial assets and liabilities – net			**9.4**		8.1
Other			**23.0**		40.4
Changes in non-cash working capital	9		**(136.6)**		(101.1)
Net cash provided by operating activities		**$**	**227.8**	$	211.4
Investing activities					
Business combinations, net of cash acquired	2	**$**	**(6.4)**	$	(1,384.8)
Acquisition of investment in equity accounted investees			**—**		(4.3)
Property, plant and equipment expenditures	3		**(205.9)**		(197.5)
Proceeds from disposal of property, plant and equipment			**4.8**		8.1
Advance payments for property, plant and equipment			**(30.1)**		—
Intangible assets expenditures	3		**(89.9)**		(64.4)
Net payments to equity accounted investees			**(10.5)**		(19.9)
Dividends received from equity accounted investees			**20.3**		20.6
Other			**(5.0)**		(2.4)
Net cash used in investing activities		**$**	**(322.7)**	$	(1,644.6)
Financing activities					
Net proceeds from borrowing under revolving credit facilities		**$**	**8.6**	$	—
Proceeds from long-term debt			**22.1**		422.4
Repayment of long-term debt			**(55.7)**		(60.9)
Repayment of lease liabilities			**(62.1)**		(75.5)
Net proceeds from the issuance of common shares			**15.5**		695.5
Other			**(1.8)**		(3.0)
Net cash (used in) provided by financing activities		**$**	**(73.4)**	$	978.5
Effect of foreign currency exchange differences on cash and cash equivalents		**$**	**13.8**	$	(7.9)
Net decrease in cash and cash equivalents		**$**	**(154.5)**	$	(462.6)
Cash and cash equivalents, beginning of period			**346.1**		926.1
Cash and cash equivalents, end of period		**$**	**191.6**	$	463.5

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

Notes to the Consolidated Interim Financial Statements

(Unaudited)
(Unless otherwise stated, all tabular amounts are in millions of Canadian dollars)

The consolidated interim financial statements were authorized for issue by the board of directors on February 14, 2023.

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

Nature of operations

CAE equips people in critical roles with the expertise and solutions to create a safer world. As a technology company, CAE digitalizes the physical world by deploying simulation training and critical operations support solutions.

CAE Inc. and its subsidiaries' (or the Company) operations are managed through three segments:

(i) Civil Aviation – Provides comprehensive training solutions for flight, cabin, maintenance and ground personnel in commercial, business and helicopter aviation, a complete range of flight simulation training devices, ab initio pilot training and crew sourcing services, as well as end-to-end digitally-enabled crew management, training operations solutions and optimization software;

(ii) Defense and Security – A platform agnostic, global training and simulation pure play focusing on ensuring mission readiness by integrating systems and solutions across all five domains for government organizations responsible for public safety;

(iii) Healthcare – Provides healthcare students and clinical professionals innovative, integrated and virtual education and training solutions, including interventional and imaging simulations, curricula, audiovisual debriefing solutions, centre management platforms and patient simulators.

CAE is a limited liability company incorporated and domiciled in Canada. The address of the main office is 8585 Côte-de-Liesse, Saint-Laurent, Québec, Canada, H4T 1G6. CAE common shares are traded on the Toronto Stock Exchange (TSX) and on the New York Stock Exchange (NYSE).

Seasonality and cyclicality of the business

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

The Company's business, revenues and cash flows are affected by certain seasonal trends. In the Civil Aviation segment, the level of training delivered is driven by the availability of pilots to train, which tends to be lower in the second quarter as pilots are flying more and training less and thus, resulting in lower revenues. In the Defense and Security segment, revenue and cash collection tend to be higher in the second half of the year as contract awards and availability of funding are influenced by the government's budget cycle, which in the U.S. is based on a September year-end.

However, due to the continued impacts from the COVID-19 pandemic, results may not follow historical patterns.

Basis of preparation

The key accounting policies applied in the preparation of these consolidated interim financial statements are consistent with those disclosed in Note 1 of the Company's consolidated financial statements for the year ended March 31, 2022. These policies have been consistently applied to all periods presented. Certain amendments to accounting standards were applied for the first time on April 1, 2022, but did not have an impact on the consolidated interim financial statements of the Company. These condensed consolidated interim financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements for the year ended March 31, 2022.

The consolidated interim financial statements have been prepared in accordance with Part I of the CPA Canada Handbook - Accounting, International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, IAS 34, Interim Financial Reporting.

The functional and presentation currency of CAE Inc. is the Canadian dollar.

Use of judgements, estimates and assumptions

The preparation of the consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and disclosures at the date of the consolidated interim financial statements, as well as the reported amounts of revenues and expenses for the period reported. Actual results could differ from those estimates. Changes will be reported in the period in which they are identified. In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the year ended March 31, 2022.

NOTE 2 – BUSINESS COMBINATIONS

During the nine months ended December 31, 2022, adjustments to preliminary purchase price allocations of acquisitions realized in fiscal 2022 resulted in increases of intangible assets of $22.7 million, current liabilities of $3.5 million, and other long-term liabilities of $2.8 million, and decreases of current assets of $11.4 million, other long-term assets of $2.9 million and deferred tax assets of $2.1 million.

During the nine months ended December 31, 2022, the Company completed its final assessment of the fair value of assets acquired and liabilities assumed of L3Harris Technologies' Military Training business (L3H MT) acquired in fiscal 2022. Additionally, cash considerations of $6.4 million were paid for an acquisition realized in fiscal 2021.

NOTE 3 – OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION

The Company elected to organize its operating segments principally on the basis of its customer markets. The Company manages its operations through its three segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The Company has decided to disaggregate revenue from contracts with customers by segment, by products and services and by geographic regions as the Company believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors.

Results by segment

The profitability measure employed by the Company for making decisions about allocating resources to segments and assessing segment performance is adjusted segment operating income. Adjusted segment operating income is calculated by taking operating income and adjusting for restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or specific events, which gives an indication of the profitability of each segment because it does not include the impact of items not specifically related to the segment's performance. For the three and nine months ended December 31, 2022, impairments and other gains and losses arising from significant strategic transactions or specific events consist of the impairment reversal of non-financial assets following their repurposing and optimization (Note 5).

The accounting principles used to prepare the information by operating segments are the same as those used to prepare the Company's consolidated financial statements. 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 based on a proportion of each segment's cost of sales and revenue.

	Civil Aviation		Defense and Security		Healthcare		Total	
Three months ended December 31	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
External revenue	**$ 517.4**	$ 390.1	**$ 452.5**	$ 426.5	**$ 50.4**	$ 32.1	**$ 1,020.3**	$ 848.7
Depreciation and amortization	**63.5**	55.5	**21.7**	21.1	**3.1**	3.3	**88.3**	79.9
Impairment (reversal) of non-financial assets – net	**(2.5)**	16.6	**(5.8)**	0.9	**(0.5)**	4.9	**(8.8)**	22.4
Share of after-tax profit of equity accounted investees	**13.1**	11.8	**1.3**	1.3	**—**	—	**14.4**	13.1
Operating income (loss)	**117.2**	57.1	**24.9**	16.5	**3.8**	(8.1)	**145.9**	65.5
Adjusted segment operating income (loss)	**131.4**	83.4	**25.4**	32.0	**3.8**	(2.7)	**160.6**	112.7

	Civil Aviation		Defense and Security		Healthcare		Total	
Nine months ended December 31	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
External revenue	**$ 1,505.0**	$ 1,185.1	**$ 1,308.2**	$ 1,132.6	**$ 133.6**	$ 98.6	**$ 2,946.8**	$ 2,416.3
Depreciation and amortization	**179.4**	166.4	**63.6**	53.3	**9.8**	9.9	**252.8**	229.6
Impairment (reversal) of non-financial assets – net	**0.4**	27.1	**(4.6)**	1.9	**0.2**	4.7	**(4.0)**	33.7
Share of after-tax profit of equity accounted investees	**30.6**	27.6	**3.3**	5.6	**—**	—	**33.9**	33.2
Operating income (loss)	**281.0**	166.0	**6.7**	30.2	**(0.3)**	(5.3)	**287.4**	190.9
Adjusted segment operating income	**322.4**	218.4	**22.6**	82.4	**1.2**	1.0	**346.2**	301.8

Reconciliation of adjusted segment operating income (loss) is as follows:

	Civil Aviation		Defense and Security		Healthcare		Total	
Three months ended December 31	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Operating income (loss)	**$ 117.2**	$ 57.1	**$ 24.9**	$ 16.5	**$ 3.8**	$ (8.1)	**$ 145.9**	$ 65.5
Restructuring, integration and acquisition costs (Note 5)	**11.2**	26.3	**(6.3)**	15.5	**—**	5.4	**4.9**	47.2
Impairments and other gains and losses arising from significant strategic transactions or specific events:								
Impairment reversal of non-financial assets following their repurposing and optimization (Note 5)	**3.0**	—	**6.8**	—	**—**	—	**9.8**	—
Adjusted segment operating income (loss)	**$ 131.4**	$ 83.4	**$ 25.4**	$ 32.0	**$ 3.8**	$ (2.7)	**$ 160.6**	$ 112.7

	Civil Aviation		Defense and Security		Healthcare		Total	
Nine months ended December 31	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Operating income (loss)	**$ 281.0**	$ 166.0	**$ 6.7**	$ 30.2	**$ (0.3)**	$ (5.3)	**$ 287.4**	$ 190.9
Restructuring, integration and acquisition costs (Note 5)	**38.4**	52.4	**9.1**	52.2	**1.5**	6.3	**49.0**	110.9
Impairments and other gains and losses arising from significant strategic transactions or specific events:								
Impairment reversal of non-financial assets following their repurposing and optimization (Note 5)	**3.0**	—	**6.8**	—	**—**	—	**9.8**	—
Adjusted segment operating income	**$ 322.4**	$ 218.4	**$ 22.6**	$ 82.4	**$ 1.2**	$ 1.0	**$ 346.2**	$ 301.8

Capital expenditures by segment, which consist of property, plant and equipment expenditures and intangible assets expenditures (excluding those acquired in business combinations), are as follows:

	Three months ended December 31		**Nine months ended December 31**	
	2022	2021	**2022**	2021
Civil Aviation	**$ 80.5**	$ 83.3	**$ 254.9**	$ 215.9
Defense and Security	**10.4**	15.5	**32.3**	33.6
Healthcare	**2.1**	3.6	**8.6**	12.4
Total capital expenditures	**$ 93.0**	$ 102.4	**$ 295.8**	$ 261.9

Assets and liabilities employed by segment

The Company uses assets employed and liabilities employed to assess resources allocated to each segment. Assets employed include accounts receivable, contract assets, inventories, prepayments, property, plant and equipment, right-of-use assets, intangible assets, investment in equity accounted investees, derivative financial assets and other non-current assets. Liabilities employed include accounts payable and accrued liabilities, provisions, contract liabilities, derivative financial liabilities and other non-current liabilities.

Assets and liabilities employed by segment are reconciled to total assets and liabilities as follows:

	December 31 2022	March 31 2022
Assets employed		
Civil Aviation	**$ 5,802.6**	$ 5,269.6
Defense and Security	**3,348.8**	3,163.1
Healthcare	**314.7**	269.2
Assets not included in assets employed	**806.3**	876.9
Total assets	**$ 10,272.4**	$ 9,578.8
Liabilities employed		
Civil Aviation	**$ 1,129.3**	$ 1,012.7
Defense and Security	**834.3**	824.8
Healthcare	**61.1**	64.9
Liabilities not included in liabilities employed	**3,792.9**	3,589.8
Total liabilities	**$ 5,817.6**	$ 5,492.2

Products and services information

The Company's revenue from external customers for its products and services are as follows:

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Products	**$ 405.5**	$ 339.0	**$ 1,178.4**	$ 992.2
Training and services	**614.8**	509.7	**1,768.4**	1,424.1
Total external revenue	**$ 1,020.3**	$ 848.7	**$ 2,946.8**	$ 2,416.3

Geographic information

The Company markets its products and services globally. Revenues are attributed to geographical regions based on the location of customers. Non-current assets other than financial instruments, deferred tax assets and employee benefits assets are attributed to geographical regions based on the location of the assets, excluding goodwill. Goodwill is presented by geographical regions based on the Company's allocation of the related purchase price.

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
External revenue				
Canada	**$ 88.8**	$ 102.4	**$ 266.3**	$ 253.8
United States	**551.8**	420.3	**1,576.4**	1,178.5
United Kingdom	**69.3**	54.7	**189.2**	145.0
Rest of Americas	**22.0**	15.3	**64.0**	47.7
Europe	**138.5**	148.9	**395.3**	350.7
Asia	**125.2**	87.6	**383.9**	368.9
Oceania and Africa	**24.7**	19.5	**71.7**	71.7
	$ 1,020.3	$ 848.7	**$ 2,946.8**	$ 2,416.3

	December 31	March 31
	2022	2022
Non-current assets other than financial instruments, deferred tax assets and employee benefits assets		
Canada	**$ 1,631.0**	$ 1,570.8
United States	**3,991.1**	3,554.2
United Kingdom	**377.1**	370.4
Rest of Americas	**173.4**	177.0
Europe	**962.3**	916.3
Asia	**533.7**	498.1
Oceania and Africa	**112.7**	79.5
	$ 7,781.3	$ 7,166.3

NOTE 4 – OTHER (GAINS) AND LOSSES

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Net gain on foreign currency exchange differences	**$ (4.9)**	$ (1.2)	**$ (12.6)**	$ (3.5)
Remeasurement of contingent consideration arising on business combinations	**—**	—	**2.6**	—
Other	**(1.8)**	(5.1)	**(2.3)**	(12.6)
Other (gains) and losses	**$ (6.7)**	$ (6.3)	**$ (12.3)**	$ (16.1)

NOTE 5 – RESTRUCTURING, INTEGRATION AND ACQUISITION COSTS

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Integration and acquisition costs	**$ 15.0**	$ 20.5	**$ 51.3**	$ 64.2
Impairment of non-financial assets – net	**—**	20.7	**2.3**	30.6
Severances and other employee related costs	**(0.3)**	2.6	**2.4**	4.6
Other costs	**—**	3.4	**2.8**	11.5
Impairment reversal of non-financial assets following their repurposing and optimization	**(9.8)**	—	**(9.8)**	—
Total restructuring, integration and acquisition costs	**$ 4.9**	$ 47.2	**$ 49.0**	$ 110.9

For the three and nine months ended December 31, 2022, restructuring, integration and acquisition costs associated with the fiscal 2022 acquisition of L3H MT amounted to $0.3 million and $16.1 million (2021 – $17.4 million and $54.3 million), respectively, and those related to the fiscal 2022 acquisition of Sabre's AirCentre airline operations portfolio (AirCentre) amounted to $13.6 million and $35.4 million (2021 – nil), respectively.

Impairment reversal of non-financial assets following their repurposing and optimization

For the three and nine months ended December 31, 2022, restructuring, integration and acquisition costs include gains on the reversal of impairment of an intangible asset of $6.8 million in the Defense and Security segment and property, plant and equipment of $3.0 million in the Civil Aviation segment, following their repurposing and optimization and new customer contracts and opportunities.

NOTE 6 – DEBT FACILITIES AND FINANCE EXPENSE – NET

Term loan extension

In September 2022, the Company extended the maturity of a US$175.0 million variable interest-bearing term loan from July 2023 to July 2024.

Revolving credit facility amendments

In October 2022, the Company amended its US$850.0 million unsecured revolving credit facility to increase the total capacity to US$1.0 billion and extended the maturity by one year to September 2027. In addition, the Company terminated its $300.0 million Sidecar unsecured revolving credit facility, which had no borrowings and was coming to maturity in April 2023.

Finance expense - net

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Finance expense:				
Long-term debt (other than lease liabilities)	**$ 40.5**	$ 26.4	**$ 103.1**	$ 77.2
Lease liabilities	**4.9**	3.9	**12.8**	12.1
Royalty obligations	**2.9**	3.0	**8.7**	8.9
Employee benefits obligations	**0.8**	1.3	**2.5**	3.9
Other	**5.4**	4.3	**15.3**	10.9
Borrowing costs capitalized	**(1.8)**	(1.9)	**(6.3)**	(4.9)
Finance expense	**$ 52.7**	$ 37.0	**$ 136.1**	$ 108.1
Finance income:				
Loans and investment in finance leases	**$ (3.0)**	$ (2.1)	**$ (7.8)**	$ (6.9)
Other	**(0.9)**	(0.4)	**(2.0)**	(3.1)
Finance income	**$ (3.9)**	$ (2.5)	**$ (9.8)**	$ (10.0)
Finance expense – net	**$ 48.8**	$ 34.5	**$ 126.3**	$ 98.1

NOTE 7 – GOVERNMENT PARTICIPATION

Government contributions were recognized as follows:

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Credited to non-financial assets	**$ 5.5**	$ 5.8	**$ 14.4**	$ 13.0
Credited to income	**6.3**	5.9	**18.6**	29.0
	$ 11.8	$ 11.7	**$ 33.0**	$ 42.0

NOTE 8 – EARNINGS PER SHARE

Earnings per share computation

The denominators for the basic and diluted earnings per share computations are as follows:

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Weighted average number of common shares outstanding	**317,854,872**	316,896,601	**317,589,270**	309,061,307
Effect of dilutive stock options	**447,521**	1,824,883	**722,116**	2,008,658
Weighted average number of common shares outstanding for diluted earnings per share calculation	**318,302,393**	318,721,484	**318,311,386**	311,069,965

For the three months ended December 31, 2022, options to acquire 3,221,550 common shares (2021 – 688,830) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect. For the nine months ended December 31, 2022, stock options to acquire 2,167,025 common shares (2021 – 645,030) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect.

NOTE 9 – SUPPLEMENTARY CASH FLOWS INFORMATION

Changes in non-cash working capital are as follows:

Nine months ended December 31	**2022**	2021
Cash (used in) provided by non-cash working capital:		
Accounts receivable	**$ (9.7)**	$ 77.2
Contract assets	**(5.0)**	(12.5)
Inventories	**(84.0)**	93.2
Prepayments	**(18.4)**	(4.3)
Income taxes	**(23.3)**	(28.7)
Accounts payable and accrued liabilities	**(94.2)**	(125.0)
Provisions	**(11.9)**	(22.5)
Contract liabilities	**109.9**	(78.5)
	$ (136.6)	$ (101.1)

Supplemental information:

Nine months ended December 31	**2022**	2021
Interest paid	**$ 120.2**	$ 61.5
Interest received	**9.6**	10.6
Income taxes paid	**26.0**	40.3

NOTE 10 – CONTINGENCIES

During fiscal 2015, the Company received tax notices of reassessment from the Canada Revenue Agency (CRA) in connection with the Company's characterization of amounts received under the Strategic Aerospace and Defence Initiative (SADI) program during its 2012 and 2013 taxation years. Under the SADI program, the Company received funding from the Government of Canada for its eligible spending in R&D projects, in the form of an unconditionally repayable interest-bearing loan, which the Company commenced repayment of the principal and interest in fiscal 2016 in accordance with the terms of the agreement. The CRA has taken the position that amounts received under the SADI program qualify as government assistance. The Company filed notices of objection against the CRA's reassessments and subsequently filed a notice of appeal to the Tax Court of Canada.

In September 2021, the Tax Court of Canada ruled in favour of the CRA's contention and held that the amounts received under the SADI program qualified as government assistance. The Company subsequently filed an appeal to the Federal Court of Appeal against the Tax Court's decision. In October 2022, the Federal Court of Appeal issued a decision in which it rejected the appeal. In December 2022, the Company filed an application for leave to appeal to the Supreme Court of Canada.

The Company has not recognized the impacts of the CRA's reassessments in its consolidated financial statements for the period ended December 31, 2022. As the appeal did not aim to reduce the Company's final tax bill but rather challenge the timing of deductions based on fiscal characterization, the impact of the reassessments would not result in a material adverse effect on the Company's overall finance and income tax expense nor income tax payable, but would, however, affect the timing of payment of such tax.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is determined by reference to the available market information at the reporting date. When no active market exists for a financial instrument, the Company determines the fair value of that instrument based on valuation methodologies as discussed below. In determining assumptions required under a valuation model, the Company primarily uses external, readily observable market data inputs. Assumptions or inputs that are not based on observable market data incorporate the Company's best estimates of market participant assumptions. Counterparty credit risk and the Company's own credit risk are taken into account in estimating the fair value of financial assets and financial liabilities.

The following assumptions and valuation methodologies have been used to measure the fair value of financial instruments:

(i) The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities;

(ii) The fair value of derivative instruments, which include forward contracts, swap agreements and embedded derivatives accounted for separately and is calculated as the present value of the estimated future cash flows using an appropriate interest rate yield curve and forward foreign exchange rate. Assumptions are based on market conditions prevailing at each reporting date. The fair value of derivative instruments reflect the estimated amounts that the Company would receive or pay to settle the contracts at the reporting date;

(iii) The fair value of the equity investments, which does not have a readily available market value, is estimated using a discounted cash flow model, which includes some assumptions that are not based on observable market prices or rates;

(iv) The fair value of non-current receivables is estimated based on discounted cash flows using current interest rates for instruments with similar risks and remaining maturities;

(v) The fair value of long-term debts, royalty obligations and other non-current liabilities are estimated based on discounted cash flows using current interest rates for instruments with similar risks and remaining maturities;

(vi) The fair value of the contingent considerations arising on business combinations are based on the estimated amount and timing of projected cash flows, the probability of the achievement of the criteria on which the contingency is based and the risk-adjusted discount rate used to present value the probability-weighted cash flows.

Fair value hierarchy

The fair value hierarchy reflects the significance of the inputs used in making the measurements and has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices in markets that are not active) or indirectly (i.e. quoted prices for similar assets or liabilities);

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

The carrying values and fair values of financial instruments, by category, are as follows:

	Level	Carrying value	December 31 2022 Fair value	Carrying value	March 31 2022 Fair value
Financial assets (liabilities) measured at FVTPL					
Cash and cash equivalents	Level 1	**$ 191.6**	**$ 191.6**	$ 346.1	$ 346.1
Restricted cash	Level 1	**2.0**	**2.0**	1.9	1.9
Equity swap agreements	Level 2	**(22.5)**	**(22.5)**	(13.0)	(13.0)
Forward foreign currency contracts	Level 2	**(15.3)**	**(15.3)**	7.0	7.0
Contingent consideration arising on business combinations	Level 3	**—**	**—**	(3.7)	(3.7)
Derivative assets (liabilities) designated in a hedge relationship					
Equity swap agreements	Level 2	**(1.1)**	**(1.1)**	—	—
Foreign currency and interest rate swap agreements	Level 2	**13.3**	**13.3**	8.2	8.2
Forward foreign currency contracts	Level 2	**(24.5)**	**(24.5)**	8.3	8.3
Financial assets (liabilities) measured at amortized cost					
Accounts receivable[(1)]	Level 2	**558.3**	**558.3**	501.7	501.7
Investment in finance leases	Level 2	**138.4**	**135.2**	118.7	124.4
Advances to a portfolio investment	Level 2	**10.5**	**10.5**	10.5	10.5
Other assets[(2)]	Level 2	**24.4**	**24.4**	25.0	25.0
Accounts payable and accrued liabilities[(3)]	Level 2	**(728.0)**	**(728.0)**	(696.6)	(696.6)
Total long-term debt[(4)]	Level 2	**(2,848.4)**	**(2,820.7)**	(2,658.8)	(2,765.4)
Other non-current liabilities[(5)]	Level 2	**(141.9)**	**(131.6)**	(151.8)	(164.5)
Financial assets measured at FVOCI					
Equity investments	Level 3	**1.4**	**1.4**	1.4	1.4
		$ (2,841.8)	**$ (2,807.0)**	$ (2,495.1)	$ (2,608.7)

(1) Includes trade receivables, accrued receivables and certain other receivables.
(2) Includes non-current receivables and certain other non-current assets.
(3) Includes trade accounts payable, accrued liabilities, interest payable and current royalty obligations.
(4) Excludes lease liabilities. The carrying value of long-term debt excludes transaction costs.
(5) Includes non-current royalty obligations and other non-current liabilities.

During the nine months ended December 31, 2022, changes in level 3 financial instruments are as follows:

	Contingent consideration arising on business combinations	**Equity investments**	**Total**
Balances as at March 31, 2022	$ (3.7)	$ 1.4	$ (2.3)
Total realized and unrealized losses included in income	(2.7)	—	(2.7)
Settlement	6.4	—	6.4
Balances as at December 31, 2022	**$ —**	**$ 1.4**	**$ 1.4**

NOTE 12 – RELATED PARTY TRANSACTIONS

The Company's outstanding balances with its equity accounted investees are as follows:

	December 31 2022	March 31 2022
Accounts receivable	**$ 60.2**	$ 49.7
Contract assets	**26.4**	23.0
Other non-current assets	**18.5**	12.8
Accounts payable and accrued liabilities	**12.4**	5.1
Contract liabilities	**73.1**	46.5
Other non-current liabilities	**1.6**	1.5

The Company's transactions with its equity accounted investees are as follows:

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Revenue	**$ 38.7**	$ 29.6	**$ 143.3**	$ 75.8
Purchases	**1.0**	—	**2.8**	1.4
Other income	**0.3**	0.2	**1.0**	0.7

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