

**Conference call: CAE INC. Q4 CONFERENCE CALL (Q&A only)**  
**Time: 12h00 E.T.**  
**Date: MAY 13, 2010**

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ANDREW ARNOVITZ (Vice President, Investor Relations and Strategy, CAE Inc.): Operator, we'd now be pleased to take questions from analysts and institutional investors. Before we open the lines let me first ask that in the interest of fairness, that you please try to limit yourselves to a single one-part question. If you have any additional questions after that and the time permits, please feel free to re-enter the queue.

OPERATOR: Thank you. We will now take questions from the analysts. If you have a question and you're using a speakerphone, please lift the handset before making your selection. Please press \*1 on your telephone keypad if you have a question. If at any time you would like to cancel your question, you may press the # sign. Please press \*1 at this time and there will be a brief pause while participants register. Thank you for your patience. Thank you. The first question is from Cameron Doerksen, of Versant Partners. Please go ahead.

CAMERON DOERKSEN: Hi, good afternoon. A question on the military growth. You've again targeted sort of the double-digit or 10 to 12 per cent, I think you've said revenue growth for this year. How confident are

you in that number given the strength in the Canadian dollar against the number of currencies and what are the key programs I guess for this year specifically that are going to drive that growth?

MARC PARENT (President and Chief Executive Officer, CAE Inc.): I guess the short answer, you know... I'm relatively confident if I'm giving any outlook that it's going to be a mix of programs. Clearly the programs that we won recently in Canada... if you think about the C-130, the C-147 that we just signed... and also what you've got to think about is what I said, that the average order that we have, if you take those big ones out... I think the bulk of the next orders, the average is 16 million. So I think it's going to come from a number of sources, but clearly those big ones will swing things a little bit towards more Canadian revenue this year.

CAMERON DOERKSEN: Thank you.

OPERATOR: Thank you. The next question is from Benoît Poirier, of Desjardins Securities. Please go ahead.

BENOÎT POIRIER: Yes, good morning. My question is more related on your financial positions. When I look at your debt to cap, 23 per cent, you have more than 300 million of cash on the balance sheet. How would you qualify your balance sheet right now and what are your... do you have any expectations to deploy this amount going forward?

MARC PARENT: Yes, thank you. Well, I think that as we've said in the past, throughout this down turn, that we have prided ourselves on the strong financial position that we have, and I think that's our plan. We want to remain in good financial position from that standpoint. We are looking at... we continue to look at potential acquisitions that we might make. This kind of position gives you opportunities and in this kind of market, when you have this kind of financial position, you can afford to look at opportunities that may open up and we've got our eyes open for that.

So I think we would have ideas for use of that cash, but we would want to maintain the kind of financial, the relative financial position that we've had over the next, the last certainly few years. And I think any investments we make, any larger ones, would be in our core military/civil markets.

BENOÎT POIRIER: Okay thanks.

OPERATOR: Thank you. The next question is from Tim James of TD Newcrest. Please go ahead.

TIM JAMES: Thank you, good morning. Just wanted to ask a quick question about the project Phoenix and the other R&D projects that you have underway. I believe project Phoenix and the funding you're receiving is winding down as some of these other ones maybe pick up. Is

there any change significantly in the royalties that you will have or have to pay from project Phoenix? Will those be starting up in either of the next two fiscal years?

ALAIN RAQUEPAS (Vice President, Finance and Chief Financial Officer, CAE Inc): Yes. Tim, it's Alain. So like you said, there's one of the programs that has terminated last year and we will enter into the phase where we start to have to repay royalty on this partnership we have with the Canadian government. The other program, what we call the SADI program or the name we gave to it in the financial statement is Falcon, is just starting. So, yes, the royalty will slightly increase next year because we're starting to repay on Phoenix.

TIM JAMES: Okay, thank you very much.

OPERATOR: Thank you. The next question is from Richard Stoneman, of Dundee Securities. Please go ahead.

RICHARD STONEMAN: Good afternoon.

MARC PARENT: Hi, Rick.

ALAIN RAQUEPAS: Hi, Richard.

RICHARD STONEMAN: Marc, would you expect the revenue in the civil equipment area to be at about the same level in fiscal 2011 as it was in 2010?

MARC PARENT: Well, you know, if you look at what the market does, Richard, to a large extent, how quickly will we see the recovery, if you look at what we think will happen, our outlook is for more than 20 full-flight simulators, so that by itself would lead to believe that your revenue of anything will be higher. But it will depend on really what happens to the overall market, how quickly will it recover materially in that segment?

RICHARD STONEMAN: Thank you.

OPERATOR: Thank you. The next question is from David Tyreman, of Cannacord Genuity. Please go ahead.

DAVID TYREMAN: Good afternoon, gentlemen. A quick question on margins. If I look at the situation in margins, it looks like there's a fair bit of pressure right now. I think you cite pricing being worse in the backlog on the civil equipment side. It sounds like you had 12 million in savings last year that you won't have this year. It sounds like you're going to be paying royalties. So I'm wondering, is this year going to be a more challenging year for margins than last year, or is there enough volumes somewhere in the mix to help out, or cost cuts or whatever?

MARC PARENT: I assume you're looking at mainly civil there?

DAVID TYREMAN: Yes.

MARC PARENT: Yes. I think what I'd say is what I qualified in my remarks, that the product... the most challenging period we saw is, I would think, largely behind us in the competitive environment that we were, coupled with hedges wearing off and that we've gained when the Canadian dollar was relatively low last year. That's cycling its way through the backlog now.

So to me, and what I see out there is a slight improvement in the relative pricing environment. It's still a challenging environment, there's no doubt, but throughout, if I look at this year, I'm pretty confident that we're going to be able to maintain mid-teens kind of EBIT margins when I look at the combined civil market. And really what you're looking at there is our training and services markets, which remember is about two-thirds now of our overall civil business that's starting to recover. It's slow and we'll see the airlines having to add back airplanes, but if you look at the relative strength of the margins, especially when you consider what we've just been through in terms of the bottom of the market... So if anything, I would think this year will be slightly better from that regard. So overall, you retain a mid-teen kind of EBIT of outlook in our civil markets.

DAVID TYREMAN: Okay, thank you.

OPERATOR: Thank you. The next question is from Marko Pencak, of GMP Securities. Please go ahead.

MARKO PENCAK: Yes, I just want to explore the civil equipment margins a little bit further as well. You commented in your MD&A about a new business strategy by Boeing in terms of charging you for a variety of things which I guess is a new phenomenon. And I'd like to understand how that balances off versus your military business because you obviously do get some benefit of spreading your overheads in your military business that flows through your Montreal facility. And just when you look at your military backlog and the composition, I'm just curious how much of that is actually flowing through Montreal versus other areas. I'm just really trying to get a balance of the sort of the pros and cons here. Thanks.

MARC PARENT: I lost the end of your question, I'm sorry. You're talking about what is affecting Montreal versus the others? Sorry if I didn't get...

MARKO PENCAK: Well, no, there's two things. There's one positive that could affect your business, I presume, is the fact that your military business is as strong as it is, at the extent that you flow some of that business through your Montreal facility, some of the overheads of that

facility get allocated to military, and therefore “boost your civil margins” right?

MARC PARENT: Yes, right.

MARKO PENCAK: So that’s one thing that I just want to get some clarity on because with all your military back, I’m just trying to understand how much of a benefit you might get from that effect. And then separately, you comment about a change in business practice at Boeing where they’re now charging simulator manufacturers for upgrades and changes and all that stuff. And I’m just trying to understand how significant an impact on the negative that is.

MARC PARENT: Okay, I get it. Sorry. To the first part of your question, I think you’ve got to look at, if you want to take a look at the impact on Montreal specifically, that’ll largely come from the products, the sim products in military where we record the build and manufactures of equipment for the military, and that’s built in the same factory largely than the civil product in Montreal. So the volume of business there, not in totality but certainly a good proportion, is the manufacture which of course would alleviate and will provide some overhead absorption that will be reflected in Montreal.

The second part, yes, we reflected that Boeing has come out publicly with their new royalty schemes that they put out. Now I think what I'd say about that is our plans take that into account. Like I said, Boeing has come public on that. Boeing has said that all manufacturers will be faced with the same impact of that. So our plans take that into account and we've got to remember, a lot of our business, our business cost comes from royalties or kind of other charges that we pay for, intellectual property rights from OEMs, so this is Boeing themselves changing their scheme there and our plans take that into account.

MARKO PANCAK: Can you not get the airlines to pay for those, your customers?

MARC PARENT: Well, you're clearly getting into kind of competitive information here and how we deal in pricing with airlines themselves. But clearly, I wouldn't want to get into too much more detail on that.

MARKO PANCAK: Are you guys still hedging the currency levels?

MARC PARENT: Yes, we hedge contracts when we get them. Maybe you want to elaborate a bit?

MARKO PANCAK: Then there's no change in proportion that you're hedging at current currency levels?

ALAIN RAQUEPAS: No, and the rate, the forward rate on whatever is left as hedges contracts, Marko, on the U.S. side is at 108. So we still get a little bit of protection there completing the backlog.

MARKO PENCAK: Okay, thanks.

OPERATOR: Thank you. The next question is from Steve Riccio of Buyside Research. Please go ahead.

STEVE RICCIO: Yes, hi, guys. Within your civil training backlog, could you just give us an idea of what the mix is like? Is it more skewed towards wet or dry?

MARC PARENT: Typically, all of the business aircraft training is wet. I don't know the exact breakdown, I think it'll be, Alain, maybe you have more of a background, but I think it'll be proportional to the amount of simulators relative BAT versus CAT versus cap that we have in the network.

ANDREW ARNOVITZ: I think another way to look at it, Steve, is that a lot of the aviation business that we do is more transactional and is not backlogged. There are some larger operators that have longer-term agreements with us on the business aviation side and those would fall into the category that Marc is describing. The others would be the commercial agreements that we have with our airline customers.

STEVE RICCIO: And are there any new opportunities or increased opportunities for you to do more wet training with the commercial airlines?

MARC PARENT: I wouldn't say that I've seen a change there from what we've seen before but I would say that there are more opportunities for airlines in this kind of downturn. And yet another crisis has hit the airline industry. Some airlines are looking to see how they can make their costs more variable. A training partner like us fits right in. So I've seen more opportunities. I wouldn't say though that I've seen a radical change.

STEVE RICCIO: Thank, guys. Good quarter.

MARC PARENT: Thank you.

OPERATOR: Thank you. The next question is from Scott Ratté, of Stonecap Securities. Please go ahead.

SCOTT RATTÉ: Thanks very much. Just a question with simulator products, civil. Around sort of the middle of the summer you'd introduced a sort of financing vehicle there. I guess I was just wondering, is that still being accessed? Has financing of the simulators been something where the access to credit and stuff like that has improved?

ALAIN RAQUEPAS: Let me take that one. In fact, we set up the facility at the beginning of the fall so the last few sales of last year, on some

of the opportunities, we did bring a financing offer from the fund. Right now there are two transactions in process for that, and we do intend to continue to use the vehicle to continue to help our customers that are looking for financing or a leasing solution from us.

SCOTT RATTÉ: Okay, and it sort of sounds from Marc's comments that the environment is improving, if you actually think the reliance on that facility will sort of diminish this coming year.

ALAIN RAQUEPAS: Sorry, I just missed the beginning of your question.

SCOTT RATTÉ: I think Marc's comments seem to be optimistic at this point in time, and I guess I was just wondering whether or not the reliance on that facility is expected to sort of diminish as we go into this next year.

ALAIN RAQUEPAS: Yes, it's just a tool, by the way. It's non-recourse to CAE, we have our financing partners. So therefore we continue to put it in the offering for our customers. It might help to do a couple of transactions next year as the market is resuming. So it's a tool we're keeping in our portfolio for sure.

MARC PARENT: Yes, I don't see a dynamic change there in terms of the ability of the customers wanting to use that. I don't really see that changing.

SCOTT RATTÉ: Okay, that's great. Thanks very much.

OPERATOR: Thank you. The next question is from Ben Cherniavsky, of Raymond James. Please go ahead.

BEN CHERNIAVSKY: Good morning, or I guess good afternoon for you. I just wanted to go back to a question that was asked earlier about acquisitions. Marc, you spoke about some of the things you might consider. And I don't know, correct me if I'm wrong, but I get the sense that your tone may be changing a little bit there. You sounded a little more open. I mean, the message in the past, certainly with Bob Brown around, was more that if you were going to do any acquisitions, they would be tuck unders. You wouldn't do any elephant hunting. Has that changed in this environment, and given your balance sheet now? Are you starting to look at maybe some bigger opportunities?

MARC PARENT: Well, to me, it would be good to put our balance sheet a little bit more to work. That's what I would say. But elephant hunting is a big word. I would say we're open to the right opportunities if they come. And we're actively, much more actively, looking in a higher bracket than

before. We've qualified in the past for these small acquisitions. What did we call them? Bolt-on. Sorry, a non-GAAP word. Bolt-on acquisition. We're still going to look at those, particularly to build some kind of market access in some of our new core markets, as an example.

But if I look at our core markets, if I look at military, for example, if we see opportunities that make sense for the company, we can put our balance sheet at work. While still not being extravagant, we like the nice balance sheet, we like the protection it gives us... we're looking more actively.

BEN CHERNIAVSKY: Great. That's helpful. Thanks very much.

OPERATOR: Thank you. The next question is from Benoît Poirier of Desjardins Securities. Please go ahead.

BENOÎT POIRIER: Yes. So just about outside civil, since you made some very nice tuck-in acquisitions on the medical and mining sectors, you also announced some nice development. But where are you right now at this point in terms of total employees related to those sectors, in terms of capital invested, and what type of expectation should we look at this year in terms of revenue contribution, and also maybe profitability? Is it breakeven or more profitable in fiscal 2011?

MARC PARENT: Yes, I think maybe the first, to answer your question there, is about 90 employees right now that we have in the business. The rest of your question, to me, it really falls in the question that, in the GAAP, that it is not material for CAE right now. We clearly want to make it material one day, and that's why we're in there. But we're at the infancy, as I've said here. It's a start. And some of it, to be honest, if I take a look at healthcare, there's some sensitivity from a competitive standpoint. It's not relative to competitors, so I agree we wouldn't want to get too far down that road right now.

BENOÎT POIRIER: Okay, perfect. And maybe one question for Alain, if I may. The IFRS, you put a lot of disclosure in the report. I know the implementation is in progress, but could you maybe give just the big lines with respect to the potential impact of the IFRS at this point, Alain?

ALAIN RAQUEPAS: Yes, you've seen the couple of pages that we've bolted to the MD&A. I hope we have written it in a language that is comprehensible to everyone. We've tried to make an effort to simplify it. At this stage, Benoît, we do not see any major transformation from IFRS on what we do, and there's a couple of points that we thought would be worthy to note to the investor in the MD&A. And as the year progresses, we're going to give you more detail in terms of the quantum of these changes.

For instance, no surprise to everyone, leases will be all back on the balance sheet. It should not make a big difference to our investor community because we've managed these leases like they were on the balance sheet in the past. We've been transparent with operating leases. But now, IFRS are bringing them on the balance sheet. So that's one example of where we could be impacted. JVs are another one. There's discussion right now about potentially precluding under IFRS to get proportionate consolidation, but it won't be next year for sure. It's only talk that potentially in fiscal 13 proportionate consolidations won't be possible. So these are the types of things that we've described in the notes and we can update you as the year progresses on these changes, Benoît.

BENOÎT POIRIER: Thanks for the comments, Alain.

ALAIN RAQUEPAS: You're welcome.

MARC PARENT: Operator, we'd now like to use the time remaining to open the lines to the members of the media and conclude the session with investors.

OPERATOR: Thank you. If you are a member of the media, please press \*1 on your telephone keypad if you have a question.

The first question is from Ross Marowits of The Canadian Press. Please go ahead.

ROSS MAROWITS: Yes, I'm wondering if you could give an update. You mentioned that the salary freeze for employees is finished and I think the days off are finished as of what date? And how many people did you end up downsizing by?

MARC PARENT: Well, the actual number was close to what we talked about in the MD&A. It's the same number, it's about 600 personnel that we find that we've wound up doing overall in the company.

ANDREW ARNOVITZ: Last year.

MARC PARENT: Last year, sorry. Sorry, Ross, the first part of your question was?

ROSS MAROWITS: The salary freeze and days off.

MARC PARENT: Yes, well, that's over. Our financial year starts the first, so it's off now. This financial year is normal salary progression for employees.

ALAIN RAQUEPAS: In fact, we broke the news to the employees, so the annual salary increases are May to May, so as we speak.

ROSS MAROWITS: So people are getting increases now?

MARC PARENT: Yes, and they're well deserved, when you consider the performance that we've had in this time. We put those into place. I mean, you remember last year it was a pretty dodgy environment.

People were talking about even, heaven forbid, a depression at that time. And so we took the steps at the time to protect the company. Everybody in the company had those salary freezes and furlough days imposed on them.

But I think that what was very heartening is that, because of the diversification that we had, even though we had a pretty significant drop in our civil business, because of our diversification in the military, you saw the big contracts we've been able to get. Some big ones in Canada, just in time... the Canadian government with investments, giving the troops what they need in terms of aircraft. You're really doing a great thing by reinvesting that money in Canadian companies allowing us to protect a lot of employees.

That plus the R&D that we've done, thanks to the R&D programs we put into place with the Government of Canada, and Investissement Québec. I'm glad that this is behind us, and it's not to say we're out of the woods... we constantly remind that to employees.

But, yes, well-deserved normal salary progression will be gladly given back to employees. And I've sent a letter to all employees to that effect today.

ROSS MAROWITS: And what is the order of those increases?

MARC PARENT: We don't really get into that Ross, ever.

ROSS MAROWITS: Okay. A year ago, you talked about 700, including 600 in Montreal. Is that the number, or is it 600 total?

MARC PARENT: 700 in total. I was talking more about the Canadian.

ROSS MAROWITS: Okay, fair enough. And the last thing is, are you going to be hiring people? What is the status of that going forward, do you think?

MARC PARENT: You know the interesting thing is we've hired employees throughout and we still have open reqs. Even with the layoffs that we've done, we've done normal hiring for different skills and we've had acquisitions, so we're back up to approximately 7,000 employees now and we've open requisitions because the company is growing. If you think about military contracts, we've grown 10 to 12 per cent in revenue, so it requires people in Montreal and around the world to be able to execute those programs.

ROSS MAROWITS: So net, what are you down then?

MARC PARENT: We're about what right now? We're exactly 7,050 employees. So net, what is that? I think that we went down to about 6,500; so we're almost back to where we were. Obviously a different kind of mix of employees, and in some cases different locations.

ROSS MAROWITS: Okay, great. Thanks a lot.

OPERATOR: Thank you. The next question is from Marie Tison, of La Presse. Please go ahead.

MARIE TISON: Oui, bonjour. Monsieur Parent, vous avez parlé d'acquisitions. Ce que vous dites, c'est que vous avez recommencé à regarder du côté de plus grosses acquisitions possibles?

MARC PARENT: Oui, Marie, ce qu'on dit, c'est qu'on n'a pas arrêté de faire des acquisitions. Regarde, on en a fait cinq l'année passée. Mais ce que je dirais, c'est qu'on avait un appétit de regarder, on regarde plus gros maintenant, mais je ne voudrais pas gonfler les ambitions dans ce sens-là. On regarde plus gros, on n'a pas arrêté de regarder jamais. C'est que si on voit une opportunité qui est plus grosse, on ne se fermera pas les yeux si c'est la bonne compagnie.

MARIE TISON: Puis ça, ça serait dans vos domaines de l'aviation ou les autres domaines?

MARC PARENT: Ça serait dans nos domaines, ce que j'appelle nos business, core business de civil et militaire.

MARIE TISON: D'accord, merci.

OPERATOR: Thank you. The next question is from Robert Gibbons of the Montreal Gazette. Please go ahead.

ROBERT GIBBONS: The total of full simulators last year was 24.

Did you say you will exceed that in the current year?

MARC PARENT: Yes. Actually we sold, Robert, 20 last year; and this year, we expect to sell more than that. That's what we expect. Two more net is my feeling at this moment.

ROBERT GIBBONS: Could you (inaudible) the maximum, you know, the record that you did maybe in 2008?

MARC PARENT: Yes, I think it was about that. I think it was about 37.

ROBERT GIBBONS: Okay, thank you.

MARC PARENT: You're welcome.

ANDREW ARNOVITZ: Operator, thanks very much. That's all the time we have for this afternoon. I'd like to thank all participants, investors and media for joining us on the call and to remind everyone that a transcript of today's conference can be found at CAE's website at [www.cae.com](http://www.cae.com). Thank you.

OPERATOR: Thank you. This concludes today's conference call. Please disconnect your lines at this time and we thank you for your participation.

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