CAE

REMARKS FOR CAE’S FIRST-QUARTER FISCAL YEAR 2011

August 11, 2010

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Alain Raquepas, Vice President, Finance, and Chief Financial Officer

Mr. Andrew Arnovitz, Vice President, Investor Relations and Strategy

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Good afternoon, everyone, and thank you for joining us today. Before we begin I need to read the following:

"Certain statements made during this conference, including, but not limited to, statements that are not historical facts, are forward-looking and are subject to important risks, uncertainties and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events. These statements do not reflect the potential impact of any non-recurring or other special items or events that are announced or completed after the date of this conference, including mergers, acquisitions, or other business combinations and divestitures.

You will find more information about the risks and uncertainties associated with our business in the MD&A section of our annual report and annual information form for the year ended March 31, 2010. These documents have been filed with the Canadian securities commissions and are available on our website (www.cae.com) and on SEDAR (www.sedar.com). They have also been filed with the U.S. Securities and Exchange Commission under Form 40-F and are available on EDGAR (www.sec.gov). Forward-looking statements in this conference represent our expectations as of today, August 11, 2010, and, accordingly, are subject to change after this date.

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

On the call with me this afternoon are Marc Parent, CAE's President and Chief Executive Officer, and Alain Raquepas, our Chief Financial Officer.

After comments from Marc and Alain, we will take questions from financial analysts and institutional investors. Following the conclusion of that Q&A period we will open the call to members of the media.

For your convenience, this conference call will be archived on CAE's website:

Let me now turn the call over to Marc…

Marc Parent, President and Chief Executive Officer

Thank you, Andrew, and good afternoon to everyone joining us on the call.

We presented our first quarter results this morning at our annual general meeting so we'll provide a brief summary for the benefit of those of you who may not have been available to join in. After that, we'll be pleased to take your questions.

We're in the early stages of a market recovery and conditions in civil aerospace are clearly improving. I'm especially encouraged to see that in our first quarter the positive momentum has already begun to translate into higher demand for civil training. The downturn we recently experienced and the economic volatility that remains make forecasting markets more challenging, but at the same time, these conditions continue to prove the merits of our diversification strategy. We have shown our ability to adapt; to be competitive; and to generate good profits through some pretty tough conditions. Our business depends more on sources of recurring revenue like training and services than it ever has before, and we've maintained a strong balance sheet, which gives us flexibility to pursue growth initiatives. Putting this all together, we're confident about CAE's future and we were very pleased earlier today to announce that effective September 30th our quarterly dividend will increase from three cents to four cents per share.

Now looking at our performance in the first quarter, revenue was four percent lower than last year at $367 million and net earnings, excluding last year's restructuring, were down 15 percent to $39 million or 15 cents per share.

In the combined **Military segments** we had higher levels of training activity in the U.S. and Europe but revenue decreased 2% to $182 million, mainly because of foreign currency translation and also because of the back-ended profile of this year's production. We also had a lower contribution in the quarter from some large programs that are in early development. Nonetheless, our combined Military operating margin was 17.5% for the quarter.

Performance in Military is more representative over a 12 month period since orders and production tend to be lumpy between quarters. Our order intake last year was much higher in the second half of the year and this will translate to higher revenue in the second half of this year.

We had strong order activity in Military at $276 million for a book-to-sales ratio of one-and-a-half times. We received a $90 million maintenance training contract from Lockheed Martin for Canada's C-130J Hercules. This is an important milestone for CAE because it's a major simulation-based training contract in an area that goes beyond aircrew training. As well, we were awarded a contract to perform a major upgrade on the Puma helicopter simulator we operate for the UK Royal Air Force. This order showcases our ability to cover our defence customers' needs over an entire program lifecycle with a total array of product and service solutions.

In our combined **Civil segments** revenue was down seven percent to $185 million because of a 19 percent decrease in simulation products revenue, which results from the after-effects of the civil downturn. Although it will take a while to work through our backlog and for simulator margins to recover, the good news is that we believe the simulation products segment is bottoming. Also positive is the modest revenue growth we had in training and services despite the much stronger Canadian dollar. Simulator utilization was 69 percent during the quarter which helped us to generate an operating margin of 18.9 percent in training. Our simulation products segment margin reached 12.3 percent but on a combined Civil segment basis we generated 16.5 percent. This is much better performance than CAE has had in past market downturns and reflects the success of our efforts to control costs, and diversify revenue sources both geographically and through an expanded services offering.

In terms of Civil orders we received training and services contracts with an expected value of $82 million and another $69 million for simulation products including six full-flight simulators.

In **New Core Markets**, it's still early days but we are making steady progress in CAE Healthcare. We received five contracts for our new CAE Owl simulation centre management system, which is an example of a training technology and best practices that we leveraged from aviation training into the healthcare arena. We also sold our first ultrasound simulator to the Beth Israel Deaconess Medical Center, a teaching hospital of Harvard Medical School. Simulation-based medical imaging training is one of the key areas we are pursuing and this solution is in support of the new handheld ultrasounds. Also significant is the accreditation from the American College of Chest Physicians we received for our e-learning ultrasound curriculum.

In mining, we concluded our acquisition of Datamine to advance our entry into mine simulation. The integration of this company with CAE is progressing well.

With that, I'll now ask Alain to comment on some specific financials.

Alain Raquepas, Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Revenue was $367 million in the first quarter compared to $383 million last year and net earnings were $39 million compared to $27 million last year, which included an after-tax restructuring charge of $19 million.

Free cash flow was negative $65.4 million, primarily because of an increase in our accounts receivable and contracts in progress as well as a reduction in our payables and accrued liabilities. We normally expect increases in these working capital accounts at the start of every new fiscal year. This is because our first quarter cash flow is normally impacted by cash payments for taxes, royalties and other expenses that are accrued during the prior year and paid in Q1. Similar to the last two years, we expect that a good portion of the non-cash working capital will come back over the balance of the year.

Net debt was $297 million at June 30, 2010, up $117 million from last quarter. Part of this is related to the increase in non-cash working capital.

We had a much stronger Canadian dollar this quarter compared to last year which negatively impacted our results because we account for our foreign operations in Canadian dollars. The effect of translating the results of our self-sustaining subsidiaries into Canadian dollars resulted in a decrease in this quarter's revenue of $34 million and a decrease in net earnings of $6 million, when compared to the first quarter of fiscal 2010. Revenue and earnings generated by our foreign subsidiaries is mostly self-hedged but create a translation exposure when we convert them to Canadian dollars for public reporting.

Finally Capital Expenditures were $22 million during the quarter with $14 million for growth and the balance for maintenance. We continue to expect total CAPEX this year to be about $130 million and for maintenance to account for about $50 million of that total.

Thank you for your attention and back to you Marc.

Marc Parent, President and Chief Executive Officer

Thanks, Alain.

The recent Farnborough Air Show and the improved market sentiment help to reaffirm that a civil aerospace recovery is underway with more than two-and-a-half times the number of aircraft orders placed at this year's show compared to last year in Paris.

In civil aviation, the emerging markets were less affected by the downturn and are now even stronger than before. We've been seeing an improvement in the Americas, and the Middle East remains solid. Europe is still struggling to regain its footing but the situation there for the training segment is certainly more stable than it was a year ago.

Airlines are getting stronger having mended their balance sheets and are now starting to generate decent cash flows. Passenger and cargo traffic is now at levels not seen since before the global recession began. While this has translated to higher load factors for the airlines – in some cases well above 80 percent - they have continued to be disciplined about adding back capacity. According to IATA, capacity (ASKs) in June increased by only 5.9% while passenger traffic (RPKs) was up 11.9%. We're encouraged by the rapid rebound in traffic and improved heath of the airline industry, but we also realize it will take a while longer before this leads to increased capacity being flown, which is a key driver for our Civil simulation products and Training and Services segments.

In business aviation, aircraft utilization is gradually improving and inventories of used aircraft have further declined. Our view here is largely unchanged: we expect to see a gradual pick-up commensurate with the pace of economic recovery and the strength of consumer confidence. We have recently expanded our relationships with business aircraft manufacturers and with the new training programs and simulators we have deployed in recent quarters to our network, we are well positioned for recovery.

The average revenue generated per simulator in our network over the last 12 months was $3.3 million, which is about $500K less than the amount we generated at the peak of the last cycle. At that time utilization rates reached about 80 percent and we had a mix of training which involved more initial type certifications than we had at the bottom of the cycle. Growth over the period ahead in Training and Services/Civil will come from a gradual recovery in revenue per simulator, commensurate with higher utilization and a better mix of training. We will also continue to invest selectively to keep pace with the growth of our customers and we will expand our relationships with aircraft OEMs like the recently announced ATR and Mitsubishi programs that we've been selected to support with global training solutions.

In Simulation Products/Civil we said last quarter that we expect to receive slightly more than 20 simulator orders this year and this is still our position. We're encouraged to see Boeing and Airbus announce further increases to aircraft production rates and maintain their already impressive backlogs. These production changes will take a while to be implemented but are a positive sign and will eventually lead to higher demand for training products and services. We're well positioned in the emerging regions and expect to maintain our market leadership overall.

In defence, we're monitoring government spending closely as nations make strides to do more with less. The positive is that CAE is a part of the solution by lowering the cost of training – and substantially at that. Simulation-based training is approximately one-tenth the cost of live training and it's highly effective for improving mission readiness, which helps save lives. As well, CAE is mainly involved with the kinds of defence platforms that remain highly relevant to current defence requirements like transport aircraft, helicopters and tankers. The outlook for our military segments continues to be encouraging, and based on our products backlog and what we see in the order pipeline, we remain confident in our 10-12% revenue growth estimate.

Thank you for your attention. We are now ready to take your questions. Andrew?

Andrew Arnovitz, Vice President, Investor Relations and Strategy

Operator, we would now be pleased to take questions from analysts and institutional investors.

Before we open the lines, let me first ask in the interest of fairness that you please limit yourself to a single, one-part question. If you have additional questions after that, and if time permits, please feel free to re-enter the queue.