REMARKS FOR CAE'S SECOND-QUARTER FISCAL YEAR 2014

November 13, 2013

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Stephane Lefebvre, 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 our second quarter fiscal 2014 MD&A and in annual information form for the year ended March 31, 2013. 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, November 13, 2013, and, accordingly, are subject to change after this date."

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

After comments from Marc and Stephane, 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.

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.

As is customary on these calls, I'll first go through some of the highlights of the quarter and then Stephane will provide a detailed look at our results. I'll come back at the end to talk about the way forward.

We made solid progress during the quarter toward restoring operating margins in both our Civil and Military segments. Our operational focus yielded higher margins, more efficient working capital levels, and significantly higher free cash flow, which have enabled us to meet our objective to reduce net debt below 40% of capital. We had a good quarter from an order standpoint as well. Overall, we achieved a book-to-sales ratio of 1.47 on strong order intake in both Civil and Military, and our consolidated backlog reached $3.9 billion. More than half of that involves Civil contracts and I'm pleased to report that our Civil backlog now stands at a record $2.0 billion. This milestone is a true testament to CAE's market leadership and to the strength of the aerospace cycle that underlies the CAE investment thesis.

Looking specifically at Civil, we continued to benefit from robust activity for our full-flight simulators with 13 more sales in the quarter. Since then, we've booked another five, which brings us to 33 sales for the year to date. We sold a Boeing B777 simulator to an undisclosed customer and we continued to build on our relationship with Indonesia's, Lion Air with the sale of four full-flight simulators and options for four more in support of its Airbus A320 operations.

In Civil training, we again relocated a high number of simulators during the quarter and we have now substantially bedded down the majority of simulators that were in flux during the first half of the year.

On the order front, we signed long-term contract renewals with Jazz Aviation and Execaire for training services and we commenced training at our second Civil simulation training centre in India—this time in New Delhi—with our joint venture partner, Interglobe, the parent of Indigo Airlines. For combined Civil, we received $515 million in orders this quarter for a book-to-sales ratio of 1.91 times.

In **Military**, our business continued to be resilient. Revenue was essentially stable with last year (down one percent) and we began to see the benefits of our restructuring in Europe. Our combined Military segment operating margin reached 13.2 percent.

In terms of new business, we booked orders for upgrades to the German Air Force's Tornado simulators as well as upgrades to the U.S. Air Force's KC-135 operational flight trainers, on which we also got an extension of our aircrew training services contract. Also with the U.S. Air Force, we signed a contract to train all 1,500 of its pilot and sensor operators of the Predator and Reaper remotely piloted vehicles.

Overall, we received $174 million in combined Military segment orders this quarter, for a book-to-sales ratio of 0.91 times. This figure by itself doesn't give the full picture because it excludes a significant $121 million in negotiated options received in the quarter on U.S. defence programs. It's noteworthy that these options have already been contracted but only get funded annually by the US Government. Taken together with funded orders, our book-to-sales for the quarter goes up to 1.54 times. Second quarter Military backlog was $1.94 billion, and the total of our unfunded backlog represented an additional $371 million.

Looking now at **New Core Markets,** in CAE Healthcare we had sales of our training centre management systems and patient simulators to customers in the U.S. and internationally. We also signed a contract with a medical device company in the U.S. to develop a cardiac procedure simulation solution. In CAE Mining, we released a major update to our geological data management system and our Sirovision product. Sales during the quarter included our resource modeling and open pit planning software and our Sirovision 3D mapping software and stereo camera systems to customers in India, Australia, Canada and Peru.

With that, I will now turn the call over to Stephane.

Mr. Stephane Lefebvre, Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the quarter was down four percent year-over-year at $487.5 million and net income attributable to equity holders was $38.3 million or 15 cents per share.

Income taxes this quarter were $8.4 million representing an effective tax rate of 18%, compared to 24% last year. The decrease in the effective tax rate from the second quarter last year was mainly due a change in the mix of income from various jurisdictions, and partially from an adjustment resulting from future changes in the U.K. statutory tax rate. Excluding the effect of this adjustment in the quarter, income taxes would have been $8.9 million.

We had excellent cash performance this quarter, owing to higher operating cash flow and our continued progress to improve the way we manage our working capital. Non-cash working capital decreased by $58.3 million from last quarter, ending at $106.3 million. We had $119.7 million in free cash flow this quarter and $108.2 million year-to-date, which represents a $217 million improvement over last year.

Capital expenditures totalled $24.6 million this quarter with $15.2 million for growth and $9.4 million for maintenance.

Net debt was $810.4 million as at September 30, 2013, down from $897.8 million as at June 30, 2013. One of our capital allocation priorities has been to deleverage our balance sheet with the objective to reduce net debt from approximately 50% of total capital in September, 2012 to about 40%. We had originally planned this to take 18 to 24 months and I am pleased to have reached our objective in a little over a year. As of the end of the second quarter, net debt-to-capital was down to 38.7%.

Now looking at our segmented financial performance...

In our combined **Civil** segments, second quarter revenue decreased 6 percent year over year, reaching $269.3 million. Combined Civil operating income was down 14 percent year over year to $39.0 million, for an operating margin of 14.5 percent. The quarter included a few positive and negative one-time items, including the reversal of a provision, severance costs, and costs related to the high level of simulator movements.

Taken together, we still saw the Civil margin move up in the right direction with some sequential improvement over last quarter.

The second quarter is seasonally slower for training and the utilization rate in our training centres was 62 percent. This is low, even for the second quarter, and reflects our ongoing ramp up of assets and centres, and the continued softer conditions in Europe and South America. The rate compares to 65% in the same quarter last year and there's quite a lot of headroom that remains to be filled in the quarters ahead. The improvement in operating margin since last quarter on lower utilization underscores the progress made to improve efficiency and reduce costs.

In our combined **Military** segments, second quarter revenue was down one percent year over year, at $191.1 million, and we generated a 13.2 percent operating margin. The margin improvement over last quarter mainly reflects the actions we have taken to reduce costs in Europe.

In **New Core Markets**, second quarter revenue was $27.1 million compared to $28.3 million in the second quarter last year. Operating income was $1.0 million compared to $2.2 million last year.

With that, I will turn the call back over to Marc.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

We’re very encouraged by the operational progress we made in the second quarter and many of the execution-related issues that impacted us at the start of the year are being resolved. The fundamentals of CAE’s business remain strong and we continue to be well positioned for growth.

In Civil, we have successfully maintained our leading position in full-flight simulator sales in a highly competitive market. With 33 FFS sales year to date, we are well on our way to reach our goal of a record 40 sales this fiscal year.

The fundamentals of the aerospace cycle are strong and we see an expanding market for simulation products and training services inside of a highly regulated industry. Aircraft OEMs have been steadily increasing production rates and have announced plans to increase them substantially more on the back of a record order backlog. Just this month, Boeing announced it will increase its production rate for the 737 program to 47 jets per month by 2017 from the current 38. This is significant because higher aircraft deliveries drive higher demand for full-flight simulators. Demand drivers for training services and more enhanced training capabilities also remain strong, as the skies become more crowded and aircraft more complex. Just recently, The U.S. FAA issued a final rule under the nation’s Airline Safety and Federal Aviation Administration Extension Act of 2010 to ensure enhanced pilot training. And in Asia, Japan Airlines signed a contract with CAE to implement the first Multi-Crew Pilot License training program in that country. MPL is an advanced training and licensing methodology being adopted by a growing list of major airlines around the world. It is a great testament to our credibility that an established carrier like Japan Airlines entrusts CAE with the nation’s first MPL. This methodology introduces pilot trainees to the multi-crew environment at an early stage of their training and it puts more emphasis on simulation-based training to increase safety and efficiency. CAE is well positioned to support our customers as their Partner of Choice to find the right solutions for them to meet these new and evolving regulatory standards.

We’ve turned the corner in terms of getting Civil unit margins back on track and we continue to expect the business unit’s operating margin to reach high-teens percentages in the second half of the fiscal year. We’re in a prime position within a large and growing civil aviation market.

The landscape continues to portend well for CAE's business—especially as customers look for more comprehensive solutions to meet their simulation products and training services needs. We have deep industry knowledge, the widest range of product and service solutions and the broadest global reach. The CAE's brand is synonymous with safety and quality the world over, and testament to that are recent selections of CAE by airlines such as Lion Air, Etihad, Ethiopian Airlines, Turkish Airlines and China Eastern Airlines.

In **Military**, the market is still challenging from an order timing standpoint but we're making good progress to cultivate new opportunities. We've been steadily increasing our tempo of activity to build up our bid pipeline. In the first half of the fiscal year we submitted over $1 billion of new proposals, which is nearly as much as we added to our bid pipeline all of last year. Our Military business has proven resilient with an improved margin, and we expect that to continue to be the case for the remainder of the fiscal year. Longer term, the fundamentals of our Military business remain conducive to growth. We have a well-diversified business geographically, with a customer base of over 50 different national defence forces and strategic positions on enduring aircraft platforms.

In **New Core Markets**, I remain encouraged by our prospects. We are continuing to develop new products and our global reach, and we have been identifying more opportunities for synergies with the rest of CAE.

I want to conclude with a few words about the good progress that we have made against the three capital allocation priorities we communicated last year.

First, we've been continuing to fund growth opportunities through capital investments that are market-led in nature. Growth capital is deployed to keep pace with our customers and where returns are highly tangible.

Second, we have continued to balance our investment in long term growth with current returns for shareholders.

To reflect our confidence in CAE's position and outlook, we are pleased to have announced this morning a 20 percent dividend increase to six cents per quarter. This is the third time CAE has increased its dividend in the last three years.

Third, we have continued to improve the quality of our balance sheet. With net debt to capital now below 40 percent, we are in an even stronger financial position.

Finally, I am pleased with the operational improvements we have seen in the second quarter and I expect that we will see more performance improvements in coming quarters. We expect stronger margins and that we will continue to benefit from our leading position in a robust aerospace market.

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 yourselves 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.