REMARKS FOR CAE'S THIRD-QUARTER FISCAL YEAR 2014

February 11, 2014

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 third 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, February 11, 2014, 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 line 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 our usual practice, I'll first review some highlights of the quarter and then Stephane will provide a detailed look at our results. I'll conclude the formal portion of the call by commenting on the way forward.

I'm pleased with the results we've achieved in the third quarter. We saw an across-the-board improvement in our performance, with sequentially higher operating margins and stronger order intake. For the company overall, order backlog stood at $4.1 billion and we had an additional $421 million in backlog related to our joint ventures.

In **Civil**, we expected the combined operating margin to improve to the high-teens in the second half of the fiscal year, and the 16 percent margin reached in the quarter puts us right on track. We've now completed the majority of simulator relocations, and the higher margin owes mainly to operational improvements we've made, higher volume, and higher utilization in training, which reached 69 percent. The increased profitability we achieved since the start of the year underscores the operating leverage that exists in the business.

In Civil products, we sold 12 simulators in the quarter and 43 year-to-date, which is a new record, giving us good backlog visibility. Our strong sales this year are a testament to our market leadership and more specifically, our ability to deliver what matters to our customers. That being said, we don't take our success lightly and we constantly evaluate CAE's winning formula. Our customers tell us they value CAE's brand and the longstanding relationships they've held with the company. They enjoy the seamless, end-to-end experience they get by choosing us as their "Partner of Choice," and they value the technology and capability underlying our products, as well as the broad portfolio we offer.

In training and services, we signed long-term agreements with airlines and operators including Japan Airlines, Virgin Australia Regional Airlines, Air Transat and Jetflite. In business aviation, CAE was selected, since the end of the quarter, as the exclusive Dassault-Approved Training Provider for the newly-launched Falcon 5X long-range business jet. This adds to our broad relationship with Dassault involving the full range of Falcon business jets. In all, we received $329 million in combined civil segment orders this quarter for a book-to-sales ratio of 1.17 times and our Civil backlog reached a record $2.1 billion.

In **Military**, our business remained resilient this quarter. Revenue was up two percent over last year and up six percent over last quarter. The combined Military margin got up above 15 percent, driven by our restructuring in Europe and a strong program mix in the quarter.

In terms of new business, we booked orders during the quarter for simulators, upgrades and services on enduring aircraft platforms including the MH-60R Seahawk helicopter for the Royal Danish Navy, the P-8A Poseidon aircraft for the US Navy, and the C-130 Hercules aircraft for the US Air Force.

We had success getting orders on new aircraft programs for CAE, with contracts for a comprehensive ground-based training system for the T-6C aircraft for the Mexican Air Force, an Unmanned Aerial System Mission Trainer for the General Atomics Predator for the Italian Air Force, and an aircrew training services for the T-44C Pegasus for the US Navy.

And we also had success broadening our core market with a ten-year agreement with the Brunei Ministry of Home Affairs to establish a training centre and conduct emergency management training. This is our first major contract leveraging modelling, simulation and training in an adjacency such as public safety.

In total, we received $240 million in combined military segment orders this quarter, representing a book-to-sales ratio of 1.19x. This quarter marks the first time in the last four quarters that we've seen book-to-sales above one time for both products and services. Contract options were also significant, and not included in the order intake is another $97 million in options. Third quarter Military backlog was $2 billion and in addition to that, we had another $435 million of unfunded backlog.

Looking now at **New Core Markets,** in CAE Healthcare, we made further inroads in the defence market with the sale of a record 44 Caesar Trauma Patient Simulators for the U.S. Navy Expeditionary Combat Command. We also sold our centre management, ultrasound simulators and patient simulators to a range of teaching institutions in the United States.

Since the end of the quarter, we unveiled CAE's Fidelis Maternal Fetal Simulator at IMSH, which is the world's largest healthcare simulation conference. Our R&D efforts are bearing fruit and we're already seeing strong interest in this new simulator ahead of its official release. We at CAE are particularly proud of this solution which will be used by healthcare instructors to improve training for the serious complications that can arise during childbirth. Our vision for healthcare involves using simulation to help to improve the quality of patient outcomes, much in the same way we've made air travel safer with our simulation-based solutions.

In CAE Mining, we released a major update to our flagship resource modelling software. And in terms of business activity, we sold our resource modeling, open pit and underground mine planning solutions and engineering services to customers globally.

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 up three percent year-over-year at $513.6 million and net income attributable to equity holders was $46.1 million or 18 cents per share.

We've had very good cash performance on a year to date basis, with $96 million of free cash flow generated to the end of December. This is $117 million higher than the first nine months of last year. The improvement came mainly from favourable changes in non-cash working capital and an increase in cash provided by our operating activities. Free cash flow was negative $12.7 million in the third quarter, and as we look to the fourth quarter, we expect to see some improvement in non-cash working capital for the year and to sustain a sizable improvement in free cash flow for the year as a whole.

Third quarter capital expenditures totaled $37.2 million this quarter with $22.8 million for growth. This brings our year to date growth CAPEX to $60.7 million. Maintenance CAPEX was $14.4 million this quarter and $31.0 million for the year to date.

Net debt was $886.5 million as at December 31, 2013, compared to $810.4 million as at September 30, 2013, and our net debt-to-total capital ratio remained stable at 39%.

Now looking at our segmented financial performance...

For combined **Civil**, third quarter revenue increased three percent year over year, reaching $282.1 million. Operating income was relatively stable year over year at $45.2 million, for an operating margin of 16.0 percent.

In our combined **Military** segments, third quarter revenue was up two percent year over year, at $201.8 million, and we generated a 15.4 percent operating margin.

And finally, in **New Core Markets**, revenue was $29.7 million for the quarter, compared to $28.7 million in the third quarter last year. Operating income was $1.4 million compared to $1.7 million last year. We continue to invest in SG&A and new products to develop a larger business.

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

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Our discipline is continuing to drive positive results and we're meeting the objectives we established for operational improvements and greater financial performance.

In **Civil,** we expect to continue to lead the market and to see a higher combined segment margin in the fourth quarter as we continue to ramp up utilization in our training centres, grow our training network, and work through our record volume in products. Our business and commercial aviation customers expect CAE to continue offering the widest and most capable range of product and service solutions in the industry, with the broadest global reach. Taken together, this puts us in a prime position to continue to lead within a large and growing civil aviation market.

In **Military**, the U.S. Bipartisan Budget Act has given greater clarity to immediate spending priorities. In recent weeks, we've seen investment commitments in the U.S. and internationally to purchase enduring aircraft platforms where CAE has a strong position. In terms of our order outlook, we're continuing to build our bid pipeline, with more bids submitted fiscal year to date than all of last year. The increased level of orders booked in the quarter is the product of our increased bid pipeline and our global footprint, and we expect this trend to continue.

In **New Core Markets**, our research and development initiatives are translating into unique new products and expanding interest in the kinds of solutions that CAE is bringing to market.

To conclude, we are working from a solid base, with a well-diversified business, a record order backlog, and a strong financial position. The commercial aerospace market is robust with unprecedented aircraft orders and deliveries giving us good visibility. This, together with a clearer picture for defence, bolster our confidence for the way forward and position us well for growth.

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.