OPERATOR: Thank you. Ladies and gentlemen, if you’d like to register a question, please press the 1 followed by the 4 on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the 1 followed by the 3.

One moment, please, for our first question.

And our first question comes from the line of Steve Arthur with RBC Capital Markets. Please proceed.

STEVE ARTHUR: Great. Thank you very much. I just wanted to dig into the Civil margins just a little bit. The headline number is 16.7. It looked quite solid. But the 15 per cent number you mentioned was a little below our expectation and I think down sequentially from Q2, which you also had a lower utilization rate of, I think, 62 per cent. I’m just curious if there’s any colour on why that would have been down, the margins would have been down quarter over quarter? And I guess more importantly the factors you see driving the improvement in Q4, and where that heads into the next year or two?

STÉPHANE LEFEBVRE (Vice President, Finance and Chief Financial Officer, CAE Inc.): Steve, this is Stéphane. Look, you’ve – I think
we’ve normalized the margin to take into account some of the transactions that I mentioned in my remarks. So the 15 per cent takes into account the gains that we were able to crystallize on some of those transactions and some non-recurring expenses.

Now if you look at why is the margin at 15 per cent then? The first thing I would say is on the equipment side of our business, we’ve received quite a good number of orders in the third quarter, as you saw. So we’ve got more revenue than we’ve had last year. However, for a number of reasons the equipment side of the business did not contribute a lot in terms of bottom line. And one of the impacts that we saw is that you see that the weakness of the Canadian dollar is definitely a positive for us in the long run, but we’ve had to face some re-eval of some U.S. denominated costs in the quarter, which put some pressure on the margin on the equipment side of our business. So that’s one of the big reasons why we didn’t really pull the margins that... you know, higher than the 15 per cent.

The other element I’ll mention is on the training side of the business, we did deploy a number of assets in the quarter. I think if you go back to last year, we deployed about 10 additional SCUs. And so those SCUs did contribute to, you know, additional bottom line from last year. But some of them, especially the ones that were deployed in the quarter,
deployed, you know, lower than... lower profit than they will in the next quarter and next year.

The last point, I think Marc alluded to it in his remarks, we’ve seen a little softness in Europe in the third quarter, hence the 68-per-cent utilization rate in Q3. That’s a little down from the utilization rate we had last year at 69 per cent.

I think Marc mentioned it as well, going forward we'll look at the Q4 and the next year. We definitely see a significant pick-up in utilization by the end of the fiscal year.

MARC PARENT (President and Chief Executive Officer, CAE Inc.): And maybe some of the reasons for that going forward, Steve, near term, if you look at historic, say Q4, what you see is in business aircraft, which you'll remember is about 40 per cent of our Civil training business is in business aircraft of that kind of order based on revenue, that tends to be the strongest quarter for business aircraft because that’s typically where you get the greatest amount of training demand in our centres in Dallas and Dubai and Morristown.

And it’s no different this year. You know, we have pretty good visibility of the bookings that, you know, have occurred in January, and our book for February and April, so we feel pretty good that that’s a trend that we’ll see.
As well for the same reasons, you know, in the commercial aviation training network, well you continue to see a continuing ramp up of the SIMs lead that we’ve added recently and in the past year. They tend to ramp up, you know, more time that goes on the more customers you get on them. But more importantly, again, I would look at specifically Q4, you can see the bookings coming forward. You can see again in commercial aircraft across our network. Europe was a bit – as Stéphane was saying – you know, softer than, you know, we’d anticipate in the Q3. But as we look at Q4, and looking at the bookings and when we talk to airlines, we can see that picking up in Q4 quite nicely.

So that’s where we’re confident, and that’s trends that you’re going to continue going forward. And of course finally, you know, we got hit because of the precipitous rise of the Canadian dollar, which, you know, perversely hits us on the private business in the recent quarter, but that’s behind us, so clearly FX is a tailwind going forward.

STEVE ARTHUR: Okay. And just to sum that up then I guess just on the near term it looks stronger for Q4. A quarter ago you I think had a comment that Q4 peak margins should be better than a year ago and the full year better than a year ago. Does that still kind of hold based on what you’re seeing now in the order books?

MARC PARENT: Yes. Absolutely.
STEVE ARTHUR: Good stuff. Okay, thanks very much.

STÉPHANE LEFEBVRE: Eh Steve, I just want to pick up on one of the comments you made. They’re... sequentially the margin hasn’t picked up. Just be careful. In Q2 we had quite a large (inaudible) in one of our JVs. So there is a quite significant pick-up in margin in Q3. Just want to mention that.

STEVE ARTHUR: Okay, thanks. I’ll check that.

OPERATOR: Our next question comes from the line of Cameron Doerksen with National Bank Financial. Please proceed.

CAMERON DOERKSEN: Yeah, thanks. Good afternoon. I guess my question’s on the foreign exchange. You know, you got hit in the Q3 from the big move. But we had in your fourth quarter, you know, again after a really significant move in the Canadian dollar. So I guess my question is are we going to see a similar impact on the Civil margins in Q4 from that move in the Canadian dollar? And assuming that the Canadian dollar stabilizes at the current rate, when are we actually going to see the bottom line benefit of the Canadian dollar weakness?

MARC PARENT: Look, I think, Cameron, I mean clearly for us, the fact that the Canadian dollar is down, clearly for us it’s a positive. We’re an exporter and we’ve got a lot of operations outside of Canada that we
translate back into Canadian dollars. So I mean clearly for us this can only be good news.

It’s just the timing really. We have a hedging policy in our product business, and it’s just that sometimes it creates some leakage. And it’s just really the timing of getting some payments in U.S. from our customers, payment that we’re not hedged against, re-evaluating some of the U.S.-denominated costs.

What I see is, going forward, Q4 and next year, it’s definitely going to help both sides of the business, the equipment, as well as the training... foreign training side of our business.

CAMERON DOERKSEN: Okay. So we shouldn’t expect to see any impact in Q4, given that the Canadian dollar has further weakened...

MARC PARENT: You won’t.

CAMERON DOERKSEN: ... during the fourth quarter?

MARC PARENT: No, you won’t.

CAMERON DOERKSEN: Okay. Okay. Thank you.

OPERATOR: Our next question comes from the line of Benoît Poirier with Desjardins Capital Markets. Please proceed.

BENOÎT POIRIER: Yeah. Good afternoon. Just to come back on the Civil margins, just wondering whether you still target the mid-70 utilization rate in the Q4? And also whether the Canadian dollar weakness
will allow you to outpace the kind of peak margin of 18 per cent you’ve been aiming at once you include Oxford?

STÉPHANE LEFEBVRE: Well maybe the last part of your question. I think we remain with the outlook that we’ve given before that higher average margins for the year and higher peak margins. I mean, I think you’re asking to maybe qualify if it’s more than that. I think remain the same statement. I think we’re confident what we’re going to get, and utilization will be definitely higher in the fourth quarter. You know, I can’t precisely say it’ll be 74 per cent at this point, but it definitely will be higher just based on the activity that we’re seeing at the moment, and what we foresee for the next two months and going into next year. There’s no doubt about that.

BENOÎT POIRIER: Okay. And Stéphane, maybe quickly, could you quantify the expense related to the closure of your training location in Norway?

STÉPHANE LEFEBVRE: That was actually in Q2. You know what, Benoît, let me... while we’re taking more questions, I’ll get back to you on this one.

BENOÎT POIRIER: Okay. Thanks.

OPERATOR: Our next question comes from the line of Turan Quettawala with Scotiabank. Please proceed with your question.
TURAN QUETTAWALA: Yes, good afternoon. I guess maybe I’ll talk about the Defence business for a minute here. So the U.S. air defence budget, obviously there was some good news there. Can you talk a little bit about how much this could help you and maybe how much or how fast it could manifest itself?

MARC PARENT: Well I think that, as I said before, we’re not changing – at least on this call – we’re not changing our view towards the, you know, what our expectations are in the Military business, and I wouldn’t expect, frankly in the short term, any kind of radical change. Because, you know, the budget is expected to go up next year, which is good, I think overall. But, you know, I look at it very modestly.

The real issue for us is, you know, what kind of issues and compromises are still going to occur between the House and the Congress and the President? And so we’ll see.

I guess the big issue that we have, which I’ve said before, is because of this... and the fact that there still continues to be uncertainty on the budgets, whether or not... I mean the threat of sequestration to a certain extent, you know, comes back, it goes away. You have the issues of, you know, as I mentioned, battles in the Congress with both houses now be united against the White House, put it that way.
So really what that does is that, plus the high operational tempo that you say, which is new. You know, the recent times, you know, you had the draw down in Iraq and Afghanistan, but now you have the renewed operational tempo caused by the events in the Middle East. Really what’s happening there is program office that gives us contracts and the training industry, these tend to be long-term training contracts. And what we continue to see is delays in putting those contracts in place because people that put those contracts in place are afraid of is this money going to be there long term? So before they give you the long-term contract, you know, this is the dynamic that’s going on.

Now that has positive negatives because we actually have a lot of long-term contracts. So that’s, to a certain extent, good. Like if you looked at training contracts we have, the U.S. Air Force on the Predator, on the KC-135, for example. But getting new contracts, what we’ve continue to see is it’s taking longer than certainly we would like and anybody would like in getting these contracts in place.

Now having said all of that is really what you’re hearing is, you know, my outlook hasn’t changed.

TURAN QUETTAWALA: Great. Thank you very much.

OPERATOR: Our next question comes from the line of Fadi Chamoun with BMO Capital Markets. Please proceed.
FADI CHAMOUN: Okay. Good afternoon. I think you’ve said in the past that you would expect the Civil revenues to be up double digit this year. Is that still the case given where we are so far year to date? And it looks like you have a steep climb in Q4. Just wanted to see how much visibility you still have on this target?

MARC PARENT: Well I think I have just as much visibility as I had when I said it at the time, which is, you know, I think it’s still positive. If you look at the typical increase that we’d get, yeah, I think if you look at it in just absolute numbers, it looks high and it is high.

But I go back, Fadi, to, as I said, you know, to Steve Arthur’s question at the beginning, Q4 is our strongest quarter and led by business aircraft, and again, we see the bookings, we see the bookings in civil aircraft. So am I still confident in the outlook I’ve given for low double-digit revenue growth in Civil? The answer’s yes.

FADI CHAMOUN: Okay. And also just want to sort of revisit this target. In the past you’ve talked about combined 19 per cent EBIT margin in Civil at some point once you’ve sort of ramped up utilization and sort of integrated Oxford and all this. So now it feels like, you know, you’ve got the wind on your back. The cycle is strong. Do you feel confident about hitting that full year target of 19 per cent, and when would you think this is realistic to think about? Is it a couple of years away, three years away?
MARC PARENT: Well look, I don’t think... we never give outlook that far, but am I confident that we can hit that and go beyond? The answer is yes. I mean, if you just look at our peak margins last year were 17.8 I think, Stéphane? In that range? So the 17.8 in Q... And what we’ve said is we think that we can hit higher peak margins than we did last year. So it didn’t take much to get close to 19 per cent and beyond. And clearly with an FX tailwind, I think that’s clearly in the positive realm of possibility, although I wouldn’t guarantee it at this point.

FADI CHAMOUN: But would you be able to do that on a full year basis within a short timeframe like that? Because I’m not talking about Q4 as opposed to the whole year.

MARC PARENT: So you’re talking about next year or the year beyond? Is that what you’re saying?

FADI CHAMOUN: Yeah.

MARC PARENT: I’m just going back to what we’ve said in the past. I think what we’ve said in the past is 19 per cent – what did we say? I mean remind me of what we’ve said in the past.

Well look, I’m just getting back to what you’re saying. Is it possible? Absolutely. Absolutely. But I think – well what we’ve always said is when we get to those kind of margins is you have to assume that we’re at the peak of the cycle, which we are definitely in commercial aviation. But it
has to be accompanied by a really solid, you know, market in business aircraft... of business aircraft.

And that’s where we’ve said this outlook, which before we acquired Oxford I think was 22 per cent, and we said adjusted for Oxford is 19. So when we get back to peak of the business, both Civil and Mat(ph), for sure we can get to 19 per cent.

Now I guess I’m uncomfortable of being able to tell you is to really say when the business aircraft would get back to a peak margin or a peak of the cycle. I mean, people have been trying to predict that for years and haven't been successful. I mean, what we do see is we see higher activity in business aircraft, and that continues this quarter, so... And on the full year basis, business aircraft is still high.

But if you look at comparing with the kind of market activity that you had before the financial crisis, I mean business aircraft, especially the smaller and the medium-sized jets, is still, you know, significantly lower than it was at the peak of the cycle, before the financial crisis.

FADI CHAMOUN: Okay. Thank you.

OPERATOR: Our next question comes from the line of David Newman with Cormark Securities. Please proceed.

DAVID NEWMAN: Good morning, gentlemen. Or good afternoon I should say. Just on the Defence side, you know, it sounds like a bit of a
longer tail. You do have a... you’re bidding on quite a bit, but I think you said
the execution’s taking a bit longer. And you had about a 13.3 per cent
margin and I did notice that some of the... it was a little lower on the
unfunded backlog moving into the funded, so kind of a testament to the
longer time it’s taking. So in the past you sort of said a resilience... you
know, is resilient, and it’s been moving around in terms of margins overall.
About 13.3 in the quarter is better than the last several, but year over year it
was a little lower. So as you head into the back half of the year, are we still
talking about that kind of a range, 13, 14? Or is there anything else that
could conceptually move it higher?

MARC PARENT: I think, David, I think I’ve been guiding for a few
quarters now that I believe that we have about a 12, 13 per cent margin
business in our hands right now. And so with this kind of volume that’s what
I can see. And you’ll see that in certain quarters. For instance, we’ve
exceeded that guidance in Q3. If I recall, I think at the beginning of the year
it was a bit lower at 11 per cent. It’s a business, and what you can see some
higher basis points up or down. But I think we’re kind of within that range of
12-13, and that’s what you can foresee, up until there’s a more significant
pick-up in revenue, in volume then we can see the margins going back to
over 13 per cent on a recurring basis.
DAVID NEWMAN: Okay. And then just on the... obviously you flag I guess in your MD&A the fallout from, you know, 5 per cent of your business being related to helicopter offshore business overall. But are there any larger impacts that you might see from a crude oil perspective? I know you have a lot of Middle East customers, et cetera, and as well as Canada that could obviously feel the impact either through governmental budgets or whatever. Any expected fallout in either side of the business that could come out of that?

MARC PARENT: I think... short term, I think it’s positive fallout in that, you know, I guess, you know, when you look at what it’s done to the Canadian dollar. I think that’s...

DAVID NEWMAN: Yeah.

MARC PARENT: For us that’s the short-term impact. As you say, a bit of – not much yet – a little bit, but, you know, what will it to the helicopter market? It’s having some impact, but I wouldn’t say it’s huge right now in terms of offshore operators. But it definitely could. Because, you know, the offshore operations that we support so far are pretty... they’re held up pretty well. Longer term, I think... yeah, I guess it really depends, you know, how long is this going to last? And I don’t think... I’d be hard pressed to predict that.

DAVID NEWMAN: Okay.
MARC PARENT: But in regions like the Middle East, you talked about, they’ve been making very significant investments in air transportation, and that’s not a short-term thing. That’s not a program that’s going to stop. And a lot of that is related to diversifying their economies away from oil-based revenue. And that’s not a trend that’s going to stop based on short-term dynamics of oil prices. At least that’s not what I see.

DAVID NEWMAN: Okay. And just lastly, if I can squeeze one in. Just on the Healthcare, guys. I mean, what do you think it takes to get this thing on steroids, pardon the pun?

MARC PARENT: Just before I answer that, the one thing obviously that I negated to say is what is an overwhelming positive for us on the oil is that it leads to more profitable airlines. And if I look at the latest IATA prediction for airline profits, it’s going up and going up quite significantly. And profitable airlines is a good thing for us, a good thing for the whole industry, so beyond the dollar, that’s the short-term effect.

Going back to Healthcare, look, I think I continue to be very excited about this business, and we... to use your term, what’s going to drive it on steroids, really what it would be is that, you know, just like our training business overall in aviation is that you see adoption of regulations that basically mandate that training for healthcare procedures or personnel are done using simulation-based training tools. That... there’s very, very little
of that done, almost nothing that is done today that way. But clearly there’s a growing, growing consensus that that has to happen. And we have, you know, a significant number of, you know, pretty involved dialogues with medical societies that are discussing those very topics. So that’s really what would turn this on steroids.

But in the meantime I think just the growth that we see just by more global market penetration of our products and services, and you know, us stimulating the market with new products themselves for the R&D that we’ve brought to it, you’ll best, I guess, epitomize this year by the Lucina birthing simulator I think is going to drive the kind of growth that I’ve talked about in the past.

So look, I think this quarter, I mean, if we look at the number, I guess you can’t get too excited about that number, but I think it won’t take long before we’ll start to see some number back more we were to and beyond.

DAVID NEWMAN: And when do you anticipate...? I mean these things take a long time, but when do you anticipate sort of a regulatory change? Is that just... does that take a long time, like several years, or what do you think the timeline is of that, Marc?

MARC PARENT: I can’t predict it. I think you’re in the years for sure, as a...
DAVID NEWMAN: Yeah.

MARC PARENT: ... wholesale. But you know, one thing that... when you get into it that you learn, which is anybody that’s in the healthcare arena will know is this is a very, very diversified business, and there’s a huge number of societies that control, you know, all sides of the sector, you know, from interventional, from... you know, including surgical, from ultrasound, for example, which we’re in in a big way, non-invasive surgery. What you see is you don’t have to have a wholesale, you know, change in people... societies adopting regulation.

I think my prediction is that what you’ll see is you’ll start seeing more of them. You could start in the short term. You’ll see some adopting it, and I think this will grow and I think this will snowball at some point. It’s very hard for me to predict when that will be.

DAVID NEWMAN: Very good. Thanks, guys.

OPERATOR: Our next question comes from the line of Ben Cherniavsky with Raymond James. Please proceed.

BEN CHERNIAVSKY: Good morning, guys.

MARC PARENT: Good morning, Ben.

BEN CHERNIAVSKY: I just... I guess I want to clarify, first of all, you know, there’s a lot of talk about the back half of the year, and I just want to clarify how you’re defining the back half. I mean, your fiscal year, we’re in
mid-February and you end in March. So I mean presumably you've got... you know, we’re almost through this period. So what’s the reference you’re thinking about when you talk about the big improvement in the back half of the year?

MARC PARENT: Well, it’s Q4.

BEN CHERNIAVSKY: So Q4. And clearly you’ve got some visibility on that so far, being in February.

MARC PARENT: Yeah. You know, we have numbers for January at this point, and you know, it’s no secret, we’ve said that the growth comes largely from training, and training, you know, typically, you know, we have pretty good visibility because people have to sign up for training because obviously it’s a slot-based business; you have to reserve. So when we look at the level of bookings, it’s very strong for the quarter as a whole, meaning what’s remaining, February and March.

BEN CHERNIAVSKY: And what’s the sustainability of... I mean I’m beating a dead horse here a little bit, but the sustainability of those margins into next fiscal year. I’m thinking more about the Civil products side, you know, just given the order intake, where you’re at, where you were last year. You know, unless you’ve got a lack of orders coming in the next six weeks, which I know it’s lumping, maybe that’s what’s happening, but you know, the volume-related component of your margins and throughput,
overhead absorptions and such, doesn’t that become more of a challenge for next year unless you get another increase in total orders?

MARC PARENT: Well we haven’t given any outlook for our orders next year. What I would tell you is that, without giving any guidance, as I maybe insinuated on the call is that the demand remains very strong. There’s no shortage of things to bid on, either on products or services. So I’m not overly concerned about, you know, continuing a solid kind of volume to support our factories. And yes, you’re right, it absorbs overhead, but I don’t see any negatives to that at this point.

BEN CHERNIAVSKY: I see. So you think you can sustain order intake in the 45 to 50 range for the next year or two? I mean... well let me ask you this way: If you don’t get that kind of order intake, you think you can still see your margins go up?

MARC PARENT: Well, I can’t comment on if we don’t or we do, Ben. I can only comment on facts. And when we give the outlook, which we always give in the first quarter, we can comment at that point. All I’m saying is that at this point, without giving you a specific number – I guess I’m repeating myself as well – but I see strong demand in our end markets. A lot of people looking to buy simulators.

BEN CHERNIAVSKY: Okay. But you think you can deliver higher margins year over year on lower volumes?
STÉPHANE LEFEBVRE: Ben, this is Stéphane. If you look at the order intake that we’ve had last year, and we’ve given a guidance for this year, Marc said in his remarks, and we’re on track to meet that guidance, we’ll enter into a year the next year with quite a large backlog that we’re going to be executing. So I don’t see at this point a reduction in volume getting into next year, and I don’t see, quite frankly, an issue in overhead absorption, what-have-you. So that’s one part of the equation.

The other part in Civil is, you know, us continuing increasing utilization rates, and we will have deployed a number of assets this year. So I mean definitely it sets the foundation for growth, both top line and bottom line next year.

BEN CHERNIAVSKY: Yeah. I mean, I guess that sort of leads to my second question is just trying to clarify your guys’ commitments to sweating the assets harder and ROIC and utilization rates and so forth because, you know, the last couple of quarters utilization rate is down or at least of the five – or your last five quarters, the last two have had lower utilization rates than the previous three. Margins are... I mean, they’re kind of creeping along. And return on capital was down in the quarter. Your debt-to-cap was where it was at the start of the fiscal year. So I just... like how are you guys defining this commitment to those kind of targets on return on capital and pre-cash flow and so forth?
MARC PARENT: Well again, it’s the items that we’ve talked about and you’ve reiterated right there it’s that higher utilization, which, you know, we’re confident will occur, and overall growth in the volume of business that we’re going to have.

The training business is a largely quasi-fixed cost business, so again, we throw more revenue across the same assets. And we’re confident it will be there, and that’s going to drive a large part of the revenue and income growth that we see in the future. And the commitment is exactly that is sweating those assets. And if we look...

BEN CHERNIAVSKY: Well, let me ask you a little more bluntly then because you know, you guys have been talking about these sort of commitments for a couple of years now, frankly. I mean do you have a sense of urgency to start delivering it?

MARC PARENT: Well I would think yes, absolutely. Absolutely, Ben.

BEN CHERNIAVSKY: Okay, great. Well I look forward to that. Thank you.

OPERATOR: Our next question comes from the line of David Tyerman with Canaccord Genuity. Please proceed.

DAVID TYERMAN: Yes. Sort of a follow-up I think in a way here. On the backlog turnover, your backlog is up I think 9 per cent year over year
in Civil. It’s down 8 per cent in the Military side. Does the backlog turnover change with those numbers, which would... what I guess what I’m driving at is does the higher backlog imply higher sales for fiscal ’16 for Civil and lower for Military?

STÉPHANE LEFEBVRE: No, I guess... I mean, the profile in each of the Civil and Military backlog, the only changes that I can see is we’ve signed... I know we’ve signed a lot of products’ business in our Civil business, but we see more and more long-term training services as well. And so what it does is for me at least it reduces the risk when we look forward in the mid to long term. So that could be a bit of a shift.

And I see kind of the same trend in the Defence business as well. If you look at the kind of contracts that we currently sign, although the year-to-date book-to-sale is slightly below 1-to-1 at this point, the kind of contracts that we’ve signed are more service based rather than product based. And they tend to be repeatable. They tend to be a little longer term.

From what I can see it does... if you combine both, it does support growth, you know, for coming into the next fiscal year. We always look at how much of our revenue over the next 12 months is in the backlog, and we’re pretty much where we used to be in the past. So we haven’t seen any degradation in the kind of backlog coverage that we currently have.
DAVID TYERMAN: Okay. So just to clarify that, Stéphane, so if I understand what you just said, it sounds like your backlog turnover is stretching because you’ve got more training, long-term training contracts. So wouldn’t that slow down the revenue generation out of backlog? And if you have a negative year-over-year comp on the Defence side, wouldn’t that imply lower sales in fiscal ’16 than in fiscal ’15?

STÉPHANE LEFEBVRE: Well no, not necessarily. It really depends on the timing in which we receive the orders, David. You know, even so far, if you look at where we’re at at the end of Q3. And Marc said a few times we see our Defence business... it’s tough for us to say what kind of growth that we see, whether it’s going to go up or down by a couple of percentage points and that’s why Marc very often refers to that business as being resilient. But I think the timing of signing some product contracts... product orders plays a lot into whether we can do some growth in the future.

The other point that I will make is that... and we see that very often. We sign contracts on the Defence side, the service contracts, and then we generate more revenue than what the contracts are for.

DAVID TYERMAN: Okay. Okay, very good. That’s my question.

STÉPHANE LEFEBVRE: And we see – Yeah.

ANDREW ARNOVITZ (Vice President, Strategy and Investor Relations, CAE Inc.): Operator, we’ve run over our allotted time somewhat
here, so I would ask that we now open the lines to members of the media so they have an opportunity to engage in the Q&A. And if there are any investor questions remaining, of course the team and I are available after the call.

Operator, if you could please open the line now to members of the media.

OPERATOR: And as a reminder, ladies and gentlemen, please press 1-4 on your dial pad.

Our first question comes from the line of Ross Marowits with the Canadian Press. Please proceed.

ROSS MAROWITS: Yes, hi. I'm wondering first of all if you could talk about the business that you're buying from Bombardier? How will... what is the opportunity going forward? And when you say it'll strengthen your position to about future pilot training and next-generation fighter program, what do you mean about that?

MARC PARENT: Well I think that on the next-generation fighter program, I mean the cadets... just as a start, I think when you look at the pilots that we're graduating, these are fighter pilots that are going straight into the next fighter program... into Canada’s next fighter, when it comes. So we have a lot more visibility, a lot more intimacy with the Canadian Air Force. We're adding, you know, 200 employees in Moose Jaw and Cold
Lake fighter bases. So there’s a lot more intimacy with the Canadian Air Force, and that, you know, gives us a much better visibility in the next-generation fighter program, and our chances to secure a strong position in training for whichever fighter that the Canadian Air Force decides to buy.

With regards to the first part of your question, I’m sorry, was the... Say it again, the first part? Oh yeah, how does... Go ahead?

ROSS MAROWITS: What do you see as the outlook? Like, is there a dollar figure as to how much you think you could boost this business by?

MARC PARENT: We haven’t provided one yet, but do I think we can grow this business? The answer is yes, and significantly. And I think that’s going to come not only from what we can do in Canada, but this is strategic for us because what it does, suddenly we now have what’s called past performance for the Military. So we now have not only credibility, but we have an established track record to be able to bid on Military contracts for live military flight training.

I mean, we already do that on the Civil business. I mean we’re the largest in the world with the CAE Oxford Aviation Academy. You know, we fly over 200 airplanes around the world. Now, what we have is we have that capability in the military area, and on none other than fighter jets. So the opportunity now is when you look at the number of bids, there’s a number of
bids throughout the world that are asking for that capability. Before we wouldn’t have been eligible to bid those and now we can. So those are the really new capabilities it provides us to be able to increase the size of that business.

ROSS MAROWITS: So without this you wouldn’t have been able to bid on the next-generation fighter program?

MARC PARENT: No, we would have in Canada, on the next-generation fighter...

ROSS MAROWITS: Okay.

MARC PARENT: ... for the virtual part of it. But just like this contract here, you know, NATO flying contract in Canada, this contract, what it does, is trains pilots for Canada, and it also trains pilots for NATO countries, so allies of Canada. So there’s potential for us to be able to grow and get more pilots from foreign air forces to come and train in Canada – Moose Jaw and Cold Lake.

But what it does is a number of these contracts in the world that we can now be eligible to bid live training, not the virtual part, but the live part, where we wouldn’t have been able to bid before. And these tend to be very large contracts.

Some example, a few years ago, the United Kingdom outsourced their pilot training, and they called it the MFTS program and which calls
military flight training system, and they outsourced all of their military airplane flight training to private contractors. A consortium bid that and won that. At the time it was Lockheed Martin and Babcock. They won that contract. So we wouldn’t have been eligible to go after that multi-billion dollar contract.

Now what we did win out of that contract, when that consortium basically went out for bid for simulators to support the training, we won them. We won two Hawk simulators at the time. But we wouldn’t have been eligible to bid on the big contracts, which encompasses live, virtual, and what’s called constructive. Now we can.

ROSS MAROWITS: Also, I’m wondering what is the impact on CAE of Bombardier’s decision to pause the Lear Jet 85?

MARC PARENT: We don’t have an impact on it. We were selected on the Lear 85. And we have started the manufacture, but you know, we have been... I mean, if we look at how much money that we’ve been, you know, transacted with Bombardier on that program, we don’t have a financial exposure on that program one way or another. And we...

ROSS MAROWITS: You didn’t deliver the... I’m sorry?

MARC PARENT: We had full... we were basically selected to do the training on that... doing the simulator. We started the simulator’s
construction, but we’ve been paid for what we’ve done, and we’ve stopped the production, is basically the sum total of it.

ROSS MAROWITS: Okay. So you never delivered the prototype to them?

MARC PARENT: No. No.

ROSS MAROWITS: Okay.

MARC PARENT: No. And what we need to do is... what we have, what we have done is covered. I mean we don’t have any financial exposure. So it’s... I guess beyond the fact that we will not be doing the simulator as a whole, there is no other impact.

ROSS MAROWITS: And finally, is Bombardier’s financial issues and their efforts to cut costs, is that affecting you? Are they squeezing you in any way?

MARC PARENT: No. Well I can’t comment on Bombardier one way or another, and I would never talk about any other, you know, supplier or customer one way or another. But the short answer is not any more than any other time. I mean, Bombardier is a strong company, and they... you know, we have very, very solid contract with them. We are their partner on most... in fact all of their business aviation platforms, on the CRJ. So we have very strong relations with them. But they always drive a hard bargain.

ROSS MAROWITS: Thanks very much.
ANDREW ARNOVITZ: Thank you, Operator. I believe that’s all the time we have for this afternoon.

I wish to thank all participants, members of the investment community and the media for their time this afternoon, listening to us, our third quarter remarks. I’d remind you the transcript of today’s discussion will be available on CAE’s website at CAE.com.

Thank you, and over and out.

OPERATOR: Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

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