REMARKS FOR CAE'S FIRST-QUARTER FISCAL YEAR 2015

August 13, 2014

Time: 1:30 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, Strategy and Investor Relations

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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. These include statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, market trends and outlook, future revenues, capital spending, expansions and new initiatives, financial obligations and expected sales. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, listeners are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking information and statements contained in this presentation are expressly qualified by this cautionary statement.

You will find more information about the risks and uncertainties associated with our business in our first quarter fiscal 2015 MD&A and in annual information form for the year ended March 31, 2014. 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 13, 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 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.

We presented our first quarter results this morning at our Annual General Meeting so I'll use the opportunity of this afternoon's call to recap some of the highlights of the quarter. Stephane will provide a detailed look at our financial results and then I'll come back at the end of the call to discuss our outlook for the year.

Operating income for the quarter was up 16 percent over last year on the back of a strong performance in Civil. We continued to fill capacity in our training centres and to ramp new and redeployed simulators. Civil operating income alone increased by nearly a third over last year. In defence, we had stable revenue in the quarter and seven percent lower operating income. The Defence business is normally lumpy, owing to the mix of programs that progress in a given quarter. In terms of fuelling more volume in Defence—a key enabler of higher margins—the story was much the same as it's been: the budgetary environment is more stable and we continue to win our fair share; however, program awards continue to come at a slow pace. In New Core Markets, we concluded a strategic review which served to reaffirm our conviction in Healthcare, and led us to a decision to divest Mining.

The outcome is that we're now focusing our capital and resources on the three remaining core businesses, namely: Civil Simulation and Training; Defence and Security; and Healthcare.

Looking more specifically at developments for each of these businesses in the quarter…

In **Civil**, we obtained solutions contracts totalling $365 million, including 11 full-flight simulators for airline customers around the world. We also signed some significant deals for pilot training services for Air Canada, Air Nostrum, Scandinavian Airlines, and British Midland Regional, as well as training centre operations services for Caverton Helicopters. The Civil book-to-sales ratio for the quarter was 1.18 times and 1.32 times for the last 12 months, which supports a healthy growth rate going forward. The Civil backlog reached $2.4 billion in the quarter.

In **Defence**, we booked simulator orders, upgrades, and services contracts with customers including NATO for upgrades to its AWACS aircraft simulators; Beechcraft for training support and maintenance services involving the T-6C aircraft for the Royal New Zealand Air Force; and an undisclosed international customer for a KC-135 refueling boom trainer.

We had success this quarter beyond aviation in the naval domain with a contract for the Swedish Navy to provide a comprehensive Naval Warfare Training System. In total, we received $149 million in Defence orders this quarter, representing a book-to-sales ratio of 0.75 times. The ratio for the last 12 months was 0.92 times. In addition to those orders, we received another $93 million in unfunded orders. In all, our Defence backlog reached $2.5 billion in the quarter, which includes joint ventures and the unfunded backlog.

Looking now at **Healthcare,** we concentrated on enhancing our position for a larger business with new product introductions and new sales channels. We continued to expand our international reach with new distributor agreements in France, South Korea and India. And in terms of product portfolio expansion, we introduced CAE Replay, an audiovisual solution for debrief used to capture both medical simulation scenarios and live clinical events. We also began production of our first Fidelis Maternal Fetal Simulators. During the quarter, we received notable orders in the United States, the U.K., China and Korea from universities, hospitals and medical device companies for our A/V solutions, patient simulators and surgical simulators.

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 $526.2 million and net income from continuing operations attributable to equity holders was $43.8 million or 17 cents per share. The operational improvement we achieved compared to last year is evident in our operating profit which was $71.7 million, up 16% from $61.6 million last year.

The divergence between operating profit and net income arises from the low income tax rate in the first quarter last year, when in fact taxes were nil, because of a one-time tax benefit. This quarter, taxes were $11.6 million, representing an effective tax rate of 21%. The takeaway is that our underlying operational performance was much stronger this quarter compared to last year.

Free cash flow from continuing operations was negative $20.9 million for the first quarter. The decrease from last quarter and the first quarter of fiscal 2014 was mainly due to higher working capital, involving an increase in contracts in progress assets and inventories. Our free cash flow is generally higher in the second half of the fiscal year and we expect that to be the case again this year.

Capital expenditures totaled $39.7 million this quarter with $26.4 million for growth and $13.3 million for maintenance.

Net debt was $901.6 million as at June 30, 2014, compared to $856.2 million as at March 31, 2014. Notwithstanding the typically higher consumption of cash in the first quarter, our net debt-to-capital ratio remained well within our target range at 37.9%.

Now looking at our segmented financial performance...

For **Civil**, first quarter revenue was $308.9 million, stable year over year. Operating income for the quarter was up 32% year over year to $49.5 million, owing mainly to our ongoing operational improvements as well as higher volume and utilization. These factors gave us an operating margin of 16 percent, up from 12.5% last year. Training utilization was 72% in the quarter, which is only three percentage points higher than the same quarter last year but underscores the kind of operational leverage we get in training.

In **Defence**, first quarter revenue was flat year over year at $197.9 million and operating income was down seven percent at $21.9 million for a margin of 11.1 percent. As Marc has said, program mix and volume largely explain the variances in margin from quarter to quarter. A 12-month span generally provides a better picture of performance; especially when dealing with such long cycle programs.

Looking at **Healthcare**, revenue was $19.4 million for the quarter and operating income was $300 thousand. This is essentially flat with last year. We began production of some of our new products a bit later than planned, which mainly explains the delayed growth in the quarter, as well, we had some one-time costs that weighed on the margin.

Finally, **Mining** will continue to operate as usual and be reported as a discontinued operation until it is sold. The business recorded an operating loss in the quarter but most of this was triggered by the divestiture process itself.

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

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Our first quarter results underscore that the current major growth driver for CAE's earnings is **Civil**. We have the benefit of a record backlog and significant operational leverage remaining that will see us post higher margins in Civil than last year. Underpinning our operational performance are continued strong market fundamentals. Global passenger traffic grew at nearly six percent in the first half of 2014, with emerging markets growing even more. Demand for pilot training in the US is being led by the refleeting of regional and mainline carriers, and also by stricter regulations. Demand in Europe is resuming on the back of the early stages of an economic recovery. And in the Middle East, the continued high rate of growth is being driven by major long haul operators as well as low-cost carriers. In Asia, Chinese domestic travel and a robust low-cost carrier segment are driving steady traffic growth. Aircraft manufacturers have eight year backlogs and are delivering planes at record rates. Boeing and Airbus combined are currently delivering nearly 80 narrowbody aircraft per month, which is up over 20% from just five years ago.

There has never been a better time for commercial aviation and we're in a good position to reap the benefits of the investments we've made in recent years. We're off to a good start in orders with significant training contracts and with 11 full-flight sales announced in Q1. We see potential for about 40 FFS sales this year while maintaining our leading market share. Overall, we expect Civil performance for the year to follow the usual seasonal patterns, whereby the second half is strongest. The summer months are quieter because of the annual shutdown of our main manufacturing facility and also because our customers are mostly in the air flying passengers and not on the ground training. For the year, we expect to see strong double-digit growth in Civil, and as I've said, with even higher margins.

Now looking at **Defence**, the short-term story is pretty much the same as it's been. As we saw in Fiscal '14, the business proved to be resilient through some challenging market conditions, and we continue to expect it to be resilient for the year in Fiscal '15. Our confidence in both the short-term resiliency and the longer-term growth potential of our Defence business comes from a number of CAE strengths. Firstly, we have a solid backlog involving enduring platforms and we have a strong bid pipeline from which we expect to win our fair share.

We also have a broad geographic reach involving growing markets like the Middle East and Asia. Lastly and most fundamentally, our confidence stems from the value proposition of simulation-based training and our leading position within this enduring segment.

In **Healthcare**, we remain excited about our long-term prospects and we're encouraged by what we see as a sizable opportunity for CAE to lead in what we expect to become a much larger market. The demands placed on the healthcare industry by an aging population, limited access to live patients for training, and the rising use of revolutionary medical technology are all driving the need for simulation-based medical training.

We got off to a slower start than planned in healthcare in the first quarter but we expect to resume double-digit growth and to see margins notch up with the higher volume. We've learned a lot about the business in the last three years and we have the right mix of subject expertise, innovation and leadership to see this through to the next level in an expanding market.

As for our decision to divest **Mining**, it was the product of a strategic review and a strict adherence to our investment discipline. We like the business, and it meets several of the criteria we originally established for diversification, but it no longer fits with our core.

We've remained true to our capital allocation priorities by selectively investing in market-led growth opportunities, maintaining a strong financial position, and growing current returns for shareholders. As you will have seen this morning, we increased the quarterly dividend by $0.01 per share for the fourth year in a row. This serves to underscores our confidence in our end markets and our ability to lead and grow within them.

To conclude, we continue to expect solid growth for CAE overall this fiscal year, with strong performance in Civil, continued resilience in Defence, and the resumption of double-digit growth in Healthcare.

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.