REMARKS FOR CAE'S FIRST-QUARTER FISCAL YEAR 2016

August 12, 2015

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 fourth quarter fiscal 2015 MD&A and in annual information form for the year ended March 31, 2015. 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 12, 2015, 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 questions from 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.

I'll first review some of the highlights of the quarter and then Stephane will provide additional details about our financial results. I'll then come back at the end of the call to discuss our outlook for the period ahead, including some of the benefits of our process improvement plan currently underway.

We're off to a solid start to the new fiscal year in executing our strategy and meeting the growth and profitability milestones we established. We had a good first-quarter performance and we maintained our strong financial position.

In **Civil**, we had a good pick up in training activity with 73% utilization of our training network this quarter and a 15% increase in operating income compared with the first quarter last year. Civil's operating margin was 17% for the quarter, which is up 100 basis points from last year.

We signed training solutions agreements during the quarter that highlight some of our broad-ranging capabilities. We won contracts with customers including Southwest Airlines to re-equip its entire fleet of full-flight simulators with CAE's state-of-the-art visual system. We also sold eight full-flight simulators to airlines worldwide involving a range of Airbus, Boeing and Bombardier aircraft types. We extended our Multi-crew Pilot Licence First Officer Program with Japan Airlines and we signed and renewed long term agreements with easyJet, EVA Air and Air China for First Officer and Commercial Pilot License training. In total, Civil received $288 million in orders this quarter for a book-to-sales ratio of 0.86x. For the last 12 months it was 1.09x. Our first quarter Civil backlog was $2.8 billion.

Looking now at **Defence**, we had 8% higher operating income compared with the first quarter last year for a margin of 12% compared to 11.1% last year. We had robust order activity in Q1, which gave us our second quarter in a row with a book-to-sales ratio above one time.

We signed notable contracts involving enduring platforms and we made more progress on our strategy to pursue larger, integrated training systems. Examples include a contract award to CAE for a comprehensive solution to train all future U.S. Army fixed-wing pilots. We also won a range of other U.S.-related contracts, including an order from Boeing to build P-8A Poseidon operational flight trainers for the U.S. Navy, and from Airbus Defence and Space for UH-72A Lakota flight training devices for the U.S. Army. As part of the U.S. foreign military sale program, we were also awarded a contract by the U.S. Navy for MH-60R Seahawk helicopter trainers for the Royal Australian Navy. In total, Defence received $207 million in orders this quarter, for a book-to-sales ratio of 1.05x. The ratio was 0.95x for the last 12 months. First quarter Defence backlog was $2.6 billion.

And finally in **Healthcare**, we had double-digit revenue and income growth compared to last year, and we continued to innovate our offering. During the quarter we sold patient, ultrasound and surgical simulators, as well as our simulation centre management solutions and courseware to a range of healthcare education and defence customers in the U.S., Eurasia and the Middle East.

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 6% over Q1 last year at $557 million, while quarterly net income before restructuring costs was up 16% to $50.6 million, or 19 cents per share. Our effective tax rate was 18% this quarter compared to 21% last year, which reflects a change in the mix of income from various jurisdictions.

We began to implement this quarter a process improvement program to transform our processes and product offering to harness the technology investments we have made in recent years, and ultimately to further strengthen our competitive position. We incurred net after-tax restructuring costs of $5.7 million during the quarter and we anticipate approximately an additional $19 million after-tax expenditure, consisting mainly of severance and other related costs to bring the transformation to fruition. The transformation is expected to be substantially completed by the first half of fiscal 2017, and with all new processes in place, we believe it will result in annualized cost savings in the range of approximately $15 million to $20 million thereafter, depending on our mix of programs.

In line with our outlook, capital expenditures were substantially lower this quarter at $23.6 million compared to $39.7 million in the first quarter last year.

Our free cash flow was negative $61.2 million this quarter, mainly attributable to a high investment in non-cash working capital, typically seen in our first quarter. Our net cash provided by continuing operating activities after deducting net cash used in investing activities was negative $67.4 million, down $15.7 million from the prior year. Net debt was $1.006 billion, compared to $950 million last quarter, resulting in a net debt to total capital ratio at the end of Q1 of 36.6%, underscoring the robustness of our balance sheet.

Before I turn the call back over to Marc, I would add that subsequent to the end of the first quarter, we concluded the sale of our mining business to Constellation Software for $32 million with a potential earn-out of another $10 million. We have since used the net proceeds of the sale to reduce our indebtedness under our revolving credit facility. The result is an estimated loss on discontinued operations of $6.0 million which will be reported in our second quarter results.

Considering the current state of the mining cycle, we are pleased with this outcome and we believe there is good strategic fit between Constellation and Datamine, our former CAE Mining Division, which is in the long term best interests of the business and its employees.

With that, I will turn the call back over to Marc who will discuss the way forward.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

We're continuing to make good progress executing our strategy to address the larger training market with our unique, comprehensive training solutions.

In **Civil**, our sales activity remains high and we have an increased bid pipeline of training opportunities. We continue to expect a comparable number of full-flight simulator sales this year as we had last year, and we expect higher margins for the current year, driven primarily by higher utilization in our training centres.

In **Defence**, we also have a number of irons in the fire in our bid pipeline, involving the training systems integration of our live, virtual and constructive training capabilities. Our Defence bids outstanding are currently at $2.5 billion, which supports our outlook for growth. Larger and more comprehensive training solutions take more time from bid to award but we are very encouraged by our progress so far and by what we see ahead as potential to grow our business with increasingly stable and predictable sources of revenue.

And in **Healthcare**, we again see a robust pipeline for our simulation, courseware and centre management solutions. We continue to expect good growth for the year with improved margins.

CAE is in a position of strength in all three core markets, nevertheless they are highly competitive and we have a long history of innovation that has enabled us to remain the market leader. In recent years, we've invested in refining and streamlining our technologies and we have developed new flagship products like our 7000 XR Series full-flight simulator that represents the most advanced and most reliable flight simulation capability on the market today.

The process improvement plan that we've just announced, and which will be underway over the next 12 months, will bring about new production processes that enable us to become even more efficient in the way we engineer, manufacture and deliver simulators. This ultimately means that at current volumes, we expect to reduce our workforce by a further 350 people out of 8,000 worldwide over the next 12 months. We will do everything we can to mitigate the impact on those of our employees and their families who will unfortunately be affected by these changes.

We see this as a necessary and logical step in CAE’s longer term transformation in support of our overarching strategy to grow in the larger training market. We are the go-to provider for flight simulators, and this is a position we intend to protect. This process improvement program will help to create an even bigger gap between CAE and its competitors as they vie for a slice of the simulator products pie.

Now looking at our capital allocation priorities, they remain unchanged. We’re maintaining a strong financial position as demonstrated by our healthy balance sheet. We look forward to increasing returns on capital as we fill training centre capacity, undertake a greater share of our customers’ training activities, and incrementally invest in accretive, customer-driven growth opportunities like outsourcings.

We also continue to prioritize current returns for shareholders and I’m pleased that CAE’s Board of Directors has approved another increase this year to CAE’s quarterly dividend. This marks our fifth dividend increase in the last five years and underscores our confidence in the business.

Thank you for your attention. We are now ready to answer your questions.

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.