REMARKS FOR CAE'S FOURTH-QUARTER AND FULL FISCAL YEAR 2016

May 19, 2016

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

Ms. Sonya Branco, Vice President, Finance, and Chief Financial Officer (effective May 23, 2016)

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'd like to remind you that today's remarks, including management's outlook for FY17 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, May 19, 2016, and accordingly are subject to change. Such statements are based on assumptions that may not materialize and are subject to risks and uncertainties. Actual results may differ materially and listeners are cautioned not to place undue reliance on these forward-looking statements. A description of the risks, factors and assumptions that may affect future results is contained in CAE's Annual MD&A available on our corporate website and in our filings with the Canadian Securities Administrators on SEDAR at www.sedar.com and the U.S. Securities and Exchange commission on EDGAR at www.sec.gov.

On the call with me this afternoon are Marc Parent, CAE's President and Chief Executive Officer, Stephane Lefebvre, our Chief Financial Officer and Sonya Branco who becomes CAE's new CFO, effective Monday, May 23, 2016.

After remarks 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.

CAE had a strong performance in the fourth quarter and for the fiscal year, and I'm especially pleased with the positive response we've had from customers to our training solutions in all three of our segments.

We reported double-digit top and bottom line annual growth for the Company overall, and for the year we generated nearly $250 million of free cash flow. This provided us with great support for our three capital allocation priorities—namely, market-led growth, increased shareholder returns, and the maintenance of our solid financial position. During the year, we continued to invest in accretive opportunities by keeping pace with our customers' needs. We also increased our dividend and introduced a share repurchase plan. And in terms of financial position, we further strengthened an already solid balance sheet. We also saw CAE win its fair share of new business with its innovative training solutions. Annual order intake was up 18% this year to $2.8 billion and our backlog increased by over one billion dollars to $6.4 billion.

Now looking specifically at each of our business segments… as anticipated, the Company's growth was led by **Civil**, which saw higher demand for training in the fourth quarter drive the utilization rate of our training centres up to 76%. Underscoring the high degree of operating leverage in training, this translated into a Civil segment operating margin of 19.1% for the quarter and 16.6% for the year—both figures exceeding prior year margins. Demand for commercial full-flight simulators was strong as well. We sold 20 more in the quarter to operators including Southwest Airlines and Lion Air, who ordered five each, and I'm proud to say that despite aggressive competition, we've held our leading market share. We set a new all-time industry record with 53 full-flight simulator sales for the year. And total Civil orders for the quarter were $523 million, for a book to sales ratio of 1.33 times. The ratio for the year was 1.18 times and at the end of March our Civil backlog was a healthy $3.1 billion.

Turning to **Defence**, we continued to see good order momentum here too. During the quarter, we were awarded a range of contracts including an upgrade under the U.S. Air Force KC-135 Aircrew Training System program to link together refuelling aircraft simulators across the Air Force's training centre network.

We also received an order for a range of upgrades for the U.S. Navy's P-8 Poseidon aircraft simulators. Both of these contracts are good examples of the types of recurring business we generate from the installed base of enduring platforms. In total, Defence received $331 million in orders during the quarter, representing a book-to-sales ratio of 1.13x. The ratio for the last 12 months was 1.02x, which marks the first time in the last four years, annual orders have exceeded revenue. I was also very pleased to see Defence conclude the fiscal year with a solid $3.3 billion backlog.

And in **Healthcare**, we kept up our rhythm of new product releases during the quarter with a new female patient simulator called Athena and a brand new training centre management solution. Of notable interest, was a collaboration we formed with the American Society of Anesthesiologists—or ASA—to bring to market an interactive screen-based simulation product that will be offered for the first time as part of the Continuing Medical Education process. This is another step for CAE Healthcare into the professional practitioner segment and an example of the emergence of simulation in a regulatory context.

With that, I will now turn the call over to Stephane who will provide a detailed look at our financial performance. I'll return at the end of the call to comment on our outlook. Stephane?

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

Thank you, Marc, and good afternoon everyone.

Consolidated revenue was up 14% over Q4 last year at $722.5 million, and quarterly net income, before restructuring of $11.6 million, was $72.8 million, or 27 cents per share, up 13% compared to Q4 last year. For the year, revenue was up 12% at $2.5 billion and net income—before restructuring and the tax item we had earlier in the year—was $230.5 million, or $0.86 per share also up 13% compared to last year.

We also had very good **free cash flow** performance at $248 million from continuing operations for the year, which is 42% higher than last year. As well, annual net cash from continuing operating activities less cash used in investing activities was $241 million. This represents more than a two-fold increase over the prior year.

Strong free cash flow enabled us to reduce even further our **net debt** at the end of the year to $787 million for a net debt-to-total capital ratio of 28.9%. This compares to net debt of $950 million and a net debt-to-total capital ratio of 36.0% a year earlier.

Growth and maintenance **capital expenditures** totaled $39.8 million this quarter and $117.8 million for the year, and in terms of our capital employed, **ROCE** was 10.6% this year up from 10.4% last year. We expect relatively stable ongoing capital expenditure requirements in fiscal 2017, focusing on steady-state maintenance and market-led investments driven by customer demand. In addition to this, we expect to invest approximately $100 million for a specific, long-term training systems integration contract with the U.S. Army to train of all of its fixed-wing aviators. The operation is scheduled to be ready for training in a year's time and is expected to be nicely accretive over the life of the program.

Income taxes this quarter were $19.3 million, representing an effective tax rate of 24%, compared to 23% for the fourth quarter last year. The higher tax rate was mainly due a change in the mix of income from various jurisdictions.

The Company introduced a **normal course issuer bid** last February, and as of the end of March, CAE had repurchased and cancelled a total of 515,200 common shares at a weighted average price of $15.01 per share, for a total consideration of $7.7 million.

Looking now at some of our business highlights, we saw the best results from the **Civil** segment, where revenue increased 7% over Q4 last year to reach $393 million. Civil segment operating income increased 21%—three times the rate of revenue growth—to $75 million, for a margin of 19.1%. For the year, Civil revenue was up 10%, at $1.4 billion, and segment operating income was up 13%, at $237.4 million. This gave us a Civil margin for the year of 16.6%, ahead of the 16.3% margin we reported in fiscal 2015. Also in Civil, we recently closed the acquisition of Lockheed Martin Commercial Flight Training, an opportunistic and relatively small bolt-on investment that gives CAE the benefits of a larger installed base and range of useful assets including facilities, simulator parts and technology, as well as some highly talented individuals.

In **Defence**, revenue grew by 25% over Q4 last year to $293.7 million, while operating income decreased by 4% to $38.1 million, for an operating margin of 13%. For the year, Defence revenue was $970.1 million, up 13%, and segment operating income was $119.8 million, up 4%, representing a segment operating margin of 12.3%. Defence results in the quarter include a one-time adjustment related to government royalty obligations, partially offset by some negative headwinds. Before these items, the Defence margin would have been closer to 11.4% for the quarter and approximately 12% for the year.

Moving to **Healthcare**, the very solid pick-up in top line performance for both the quarter and the year is a good indication of the market's positive response to our new products. Fourth quarter revenue was $35.8 million compared to $29.3 million in Q4 last year, while segment operating income was $3.5 million compared to $4.1 million in Q4 last year. We continued to invest in the larger potential to grow this segment of our business, and so, sales and marketing expenses were somewhat higher in the quarter. Annual Healthcare revenue reached $113.4 million, up 20 percent from $94.3 million last year, and annual segment operating income was $7.2 million up from $6.7 million.

Before I turn the call back over to Marc, I would like to say a few words to thank the members of the investment community for their support and good counsel over the years. I also want to thank Marc Parent, my finance staff, the executive management team, and CAE's Board of Directors for the extreme privilege to have served as your CFO.

CAE is a Canadian gem and global leader that is well positioned for sustainable growth well into the future. Next week, I officially start my new position with another Canadian gem, albeit in a very different kind of industry, and I leave here with the confidence of knowing that you are in excellent hands with my successor, Sonya Branco, your new CFO.

With that, I will ask Marc to discuss the way forward.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane; I very much appreciate your kind words and professionalism. It's been an absolute pleasure to have you as part of my team and I value the contribution you've made to help maintain CAE's solid financial position and the growth we've had over the years.

I'm also very pleased to welcome Sonya Branco in her new role as our CFO. Her appointment is testament to the quality of CAE's executive succession plan. Sonya is a highly skilled and successful financial executive and already a strong leader within CAE. Just last week, the Quebec Chapter of FEI (Financial Executives International) Canada recognized her with the prestigious "Aces of Finance award," which is conferred upon outstanding financial executives. We are indeed fortunate to have someone of Sonya's caliber to join the executive team. She has participated in our growth and she will provide continuity to CAE's good financial stewardship.

At our recent investor day at the end of March, we highlighted CAE's 'Six Pillars of Strength.' They are the fundamentals that define CAE's investment thesis and underpin our strategy. Namely, CAE has the advantages of: a high degree of recurring business; a strong competitive moat; ample headroom in large markets; underlying secular tailwinds; potential for superior returns; and what I always call CAE's secret sauce: CAE's culture of innovation. These six strengths, together with CAE's singular vision focused on being the 'Training Partner of Choice,' are the basis of our positive long-term view for sustainable growth.

We are working from a solid position with a large backlog in Civil and Defence and a robust bid pipeline across all segments. Our unique, comprehensive training solutions and global reach give us the opportunity to increase CAE's share of the overall training markets. Looking specifically at the year ahead, we expect to see growth in all business segments, primarily led by Civil.

Our assumptions for growth in **Civil** are based on the continued healthy growth rate of passenger traffic, which continues to add to the regulated training needs of the global active fleet which is the principal driver of our Civil business. As well, we assume we'll continue to make good inroads capturing more headroom in the overall $3.3 billion annual Civil training market. Similar to last year, we expect higher demand to translate into higher annual utilization of our Civil training network, and as a result, we expect Civil operating income to grow at a low double-digit rate.

Contributing to our positive view for Civil, we've continued to implement our process improvement program, which is expected to conclude by the second half of this fiscal year and yield approximately $15-20 million of annualized cost savings. Our new processes enable CAE to improve the way its sells, designs, builds and delivers commercial full-flight simulators and to gain even greater competitive advantage.

In **Defence**, we have good visibility with approximately 70% of our expected fiscal 2017 revenue already in backlog. And we're confident we'll continue to win our fair share of new business. We've got a high level of bid activity and more than $3 billion of bids and proposals currently submitted and pending with customers. In addition, we see an improving defence landscape. Governments in North America and Europe are reaching a positive inflection point in defence spending, while customers in Asia and the Middle East continue to renew and upgrade their defences. Here too, in Defence, we have the benefit of ample headroom in a large and growing market. We estimate the total Training Systems Integration market to be $9.5 billion annually and so we don't see ourselves being market constrained. We continue to see positive trends toward increased use of simulation for mission rehearsal, and governments are looking to industry outsourcing partners for their training systems. Our healthy backlog, bid pipeline and market outlook continue to portend well for modest growth this fiscal year in the Defence segment.

And finally, in **Healthcare**, we're making progress on a number of avenues to unlock what we believe will become a much larger business in future. We've been releasing a steady stream of innovative products, which not only drive sales of *new* products but also have a great halo effect on our portfolio of *existing* ones. We are also continuing to make inroads with medical device manufacturers and scientific societies to advance the use of simulation in the professional segment of the market. We continue to be very positive about the long term potential for growth in this area, and for the year ahead we continue to anticipate a double-digit rate of growth.

With that, I 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.