REMARKS FOR CAE'S THIRD QUARTER FISCAL YEAR 2017

February 14, 2017

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Ms. Sonya Branco, 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'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, February 14, 2017, 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, and Sonya Branco, our Chief Financial Officer.

After remarks from Marc and Sonya, 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 comment on the operational highlights of the quarter and then Sonya will take us through the key financial metrics by business unit. I'll come back at the end of the presentation to comment on our outlook for the balance of the fiscal year.

The Company had a strong performance in the third quarter. Overall, we generated double-digit top and bottom line growth, order intake was robust, and we increased our substantial base of recurring business with a new record $7.4 billion backlog.

Revenue and operating income growth was especially strong in **Civil**, as we filled our training centres to 76 percent capacity on higher demand for training. We also had higher activity on simulator product solutions as we worked to deliver on our sizable backlog. Civil orders for the quarter reached $363 million, including training services agreements with airlines and business aircraft operators, and 12 full-flight simulator sales to customers including Southwest Airlines and China's Xiamen Airlines. Since the end of the quarter, Civil sold an additional six FFSs, bringing the total number announced fiscal year to date to 39. We also signed new long-term services agreements with customers, including Jetstar Airways Japan for crew resourcing, and with Jet Airways for Boeing 737NG pilot training. The Civil book-to-sales ratio for the quarter was 0.88x and for the trailing 12-month period it was 1.14x. Civil's backlog at the end of the quarter was $3.3 billion.

In **Defence**, our strategy to pursue a pipeline of comprehensive programs as a Training Systems Integrator, is bearing fruit. These large and complex programs involve the integration of live, virtual and constructive training into a complete training system and they usually take more time to convert from bid to award than more conventional programs. We've been successful going after these types of programs, which are at the centre of CAE's vision to be the recognized global training partner of choice. Financial performance this quarter was in line with our outlook for modest growth this fiscal year, and the more than $1 billion in Defence orders and options we received in Q3 underscore our potential for growth in this market. Notable program wins include a contract to upgrade and extend the Royal Canadian Air Force NATO Flying Training in Canada program to 2023. We also received a long-term contract to train and qualify new Army helicopter pilots under the U.S. Army's Initial Entry Rotary-Wing training program.

This is a nice follow-up to our win last year of the U.S. Army Fixed-wing training program, and is further testament to CAE's strong position as a Training Systems Integrator. It also underscores CAE's commitment to customers as their partner of choice. The Fixed-Wing training system is complex. Just the initial roll-out involved the construction of a new state-of-the-art training centre, the manufacture and deployment of flight simulators, and the delivery of new training aircraft. We're very proud to have delivered all of this in under a year's time, and to have become a sizable employer in the State of Alabama.

Also notable during the quarter, we signed a And this positive momentum has continued since the end of the quarter. Just yesterday, we announced that Airbus awarded CAE a contract for a comprehensive C295W training solution for Canada's Fixed-Wing Search and Rescue program. This has an expected value, including options, of more than $300 million over the next 26 years.

Total Defence orders this quarter were $601 million, for a book-to-sales ratio of 2.46x, and the ratio for the last 12 months was 1.41x. The Defence backlog reached a record $4.1 billion compared to $3.3 billion at the same point last year.

And finally, in **Healthcare**, revenue and operating income was softer in the quarter—and for the year to date—than we would have expected by this point in the year. We attribute this mainly to the timing of orders which are taking longer than we expected to materialize from our sales pipeline. Nevertheless, we continued to make good progress on our strategy to position the business for growth over the longer term. During the quarter, we were awarded a contract for simulators and training centre management solutions for the CEGEP pre-university college system in Quebec. And on the business development front, we hosted conferences in China and India to help expand Healthcare's reach internationally. We also continued to innovate with industry leading technologies. Two weeks ago, we announced the release of CAE VimedixAR, an ultrasound training simulator integrated with the Microsoft HoloLens. CAE Healthcare is the first company to bring a commercial Microsoft HoloLens mixed reality application to the medical simulation market and one of only a few authorized distributors of the Microsoft Hololens worldwide.

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

Ms. Sonya Branco, Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the third quarter was up 11% to $682.7 million, and operating profit was up 17% to $98.6 million, reflecting operational leverage and further process improvements. Quarterly net income, before specific items of $2 million, was $69.6 million, or 26 cents per share. As in previous quarters, timing differences in the recognition of revenue on our standardized commercial aircraft simulators, resulted in the deferral of approximately one cent of earnings per share. A full reconciliation of these timing differences can be found under 'additional financial highlights' in this morning's third quarter press release.

Free cash flow for the quarter was $124.7 million, which is higher than last quarter mainly due to a lower investment in non-cash working capital, as we normally expect in CAE's second half, and an increase in cash provided by continuing operating activities.

Free cash flow year to date was $167.5 million, lower than the same period last year, due to a higher investment in non-cash working capital and higher dividends paid. This was partially offset by an increase in cash provided by continuing operating activities this year. We continue to expect to see reversals in non-cash working capital accounts through the balance of the fiscal year.

Uses of cash during the quarter involved funding **capital expenditures** for $35.8 million, mainly in support of growth. We also distributed $20.8 million in dividends and repurchased and cancelled 308 thousand common shares under the NCIB program, for another $5.9 million. We announced this morning that CAE received approval from its Board of Directors to renew the NCIB program to purchase up to approximately 2% of CAE's outstanding shares.

Notwithstanding the expected dilution this year on return on capital employed from the additional approximately $100 million to establish the U.S. Army Fixed Wing training system, I'm pleased that we have held returns stable through solid operational performance. The Fixed-Wing program will begin to generate a return in March when it becomes operational. Return on capital employed was 11% in the third quarter, up from 10.7% last quarter and was stable compared with the same quarter last year.

CAE's financial position remained strong during the quarter with **Net debt** of $853.8 million at the end of December for a net debt-to-total capital ratio of 29.7%. This is down from 32.1% at the end of the last quarter.

Income taxes were $11.0 million this quarter, for an effective tax rate of 14%. This is up from 13% for the third quarter last year, mainly due to the benefit of certain U.S. tax incentives we received last year. This quarter, the rate was impacted by an audit settlement in Canada and a change in the mix of income from various jurisdictions. Excluding the effect of the settlement, the income tax rate this quarter would have been 16%.

I'll conclude with a few brief comments on our segmented performance.

Civil was indeed the growth driver in the quarter. Revenue was up 23% year over year to $412.8 million and operating income was up 29% to $71.4 million, for a margin of 17.3%. The Civil margin in the third quarter last year was 16.5%. On an apples-to-apples basis, Civil revenue and operating income would have been $6 million and $2 million higher if not for the deferral effect from standardized simulators.

In **Defence**, revenue was 4% lower than Q3 last year to $243.7 million and operating income was up 1% to $30.0 million, for an operating margin of 12.3%.

And in **Healthcare**, third quarter revenue was lower at $26.2 million compared to $28.3 million in Q3 last year, and segment operating income was nil compared to $1.6 million in Q3 of last year.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya;

We continue to make good progress with our training strategy and operational performance improvements, and I expect this momentum to continue through the balance of the fiscal year and beyond. Overall, we’re very pleased with CAE’s position and the progress we continue to make toward our vision to be training partner of choice.

In **Civil,** we’re on track to deliver on our annual outlook for low double-digit percentage operating income growth on higher utilization of our training network, higher production levels, and some of the benefits of our improved processes. Demand remains strong for CAE’s training solutions, supported by healthy growth in commercial passenger traffic and stable usage in the business aircraft segment. We expect to continue increasing revenue and profit per simulator by driving more wet training across our network and penetrating a greater share of the total $3.3 billion market. Demand for full-flight simulators also continues to be strong, and with 39 sales announced year-to-date, we will surpass our previous outlook for the fiscal year as a whole.

In **Defence**, we continue to expect modest growth this fiscal year. As we have seen so far this year, and especially in the last quarter, we have good momentum in converting a large bid pipeline of long-term training programs into orders. This positions our Defence business for more substantial and more sustainable growth going forward as we penetrate a larger share of the market. The macro environment is constructive and our bid activity continues to be strong. Our positive outlook for CAE in defence is further supported by anticipated increases in defence budgets, the high priority being placed by governments around the world on defence readiness, and the intrinsic benefits of simulation-based training. These factors are driving a greater need for training and we believe that CAE is well positioned.

And finally, in **Healthcare**, we still expect growth this year, but at a lower rate than the double-digit percentage we previously expected. We have a good understanding of the market as it exists today, and we have a vision of what we believe it will eventually become as the use of simulation-based training expands. Notwithstanding the slower pace of orders so far this year, we remain confident that Healthcare will deliver a high rate of growth over the longer term.

Before we open the lines for questions, I would like to mention on behalf of the CAE Board of Directors, the addition of François Olivier as a new director, effective today. François has been President and Chief Executive Officer of TC Transcontinental since 2008 and we look forward to having his strategic counsel.

With that, I thank you for your attention. We're 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.