REMARKS FOR CAE'S FIRST-QUARTER FISCAL YEAR 2014

August 8, 2013

Time: 1:00 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, Investor Relations and Strategy

Remarks for CAE's First Quarter Fiscal Year 2014 Results
Thursday, August 8, 2013

Andrew Arnovitz, Vice President, Investor Relations and Strategy

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. The results or events predicted in these forward-looking statements may differ materially from actual results or events. These statements do not reflect the potential impact of any non-recurring or other special items or events that are announced or completed after the date of this conference, including mergers, acquisitions, or other business combinations and divestitures.

You will find more information about the risks and uncertainties associated with our business in our first quarter fiscal 2014 MD&A and in annual information form for the year ended March 31, 2013. 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 8, 2013, 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.

I'll first go through some of the highlights and challenges of the quarter and then Stephane will provide a detailed look at our segmented results. I'll come back at the end of the call to talk about the way forward.

We maintained our market leadership this quarter with a high number of full–flight simulator sales in Civil and more orders in Military than we had at this point last year. In Civil, we had disappointing margin performance this quarter, and while that clearly does not reflect the underlying strength of the business, we are off to a strong start to the year with 15 full-flight simulator sales booked in the quarter and another eight announced today, bringing us to 23 for the year to date. In Military, we sustained revenue and grew orders over last year, which demonstrates the resiliency of our business in the face of a challenging defence budget environment that is underscored by the sequestration in the U.S. In New Core Markets, we continued to perform well.

Looking specifically at Civil, some of the lower margin performance in the quarter was attributable to factors outside our control like softer market conditions in some regions as well as increased competition. That said, our performance shortfall largely resulted from temporary factors that we do control, and we have a very clear view of what they are and how to address them. The Civil training business has a high degree of operating leverage, meaning that margins are sensitive to changes in volume and operating costs. The factors contributing to the combined 12.5 percent operating margin in the quarter, beyond market forces, include a slower than expected ramp up of new simulators and training centres that we launched over the last six to 12 months. We have as well, a higher number of simulators in our network that are being relocated. This entails both the costs incurred to move the simulators and the opportunity cost during the ramp down and ramp up of the simulators. And we've recently had to increase the number of planned simulator moves in response to softer conditions this year in Europe and South America compared to last. Those markets are still attractive and growing in terms of air travel, but at a more modest pace, and as a result, we're somewhat ahead of the market in terms of capacity deployed.

Notwithstanding the issues affecting profitability in the quarter, we had a good performance order-wise in Civil with $314 million in combined segment orders for a backlog of $1.75 billion. In addition to this, we had a $311 million backlog related to our joint ventures.

Now turning to Military, performance was largely as we expected at this point in the year. We continued to make progress to reduce our workforce in Europe and we had a combined segment operating margin of 11.9 percent.

We booked orders during the quarter in both established and emerging defence markets including the sale of three full-mission simulators for the Hawk Mk127 trainer for the Royal Australian Air Force, which we announced today, and an AW139 helicopter simulator for Coptersafety, in Finland. Under U.S. foreign military sales programs, we were awarded a contract to expand a training facility for the Kuwait Air Force, and we received a contract for KC-130R Hercules training services for the Japan Maritime Self Defense Force.

Our first quarter Military backlog was $1.96 billion. In addition to this, we had $258 million of unfunded backlog and another $126 million from our joint ventures.

In New Core Markets, we maintained our positive momentum from last year.

In CAE Healthcare, we've been successfully leveraging CAE's global reach. We signed an agreement with a private hospital group in Brazil to establish a training centre, using our patient simulators and centre management system. We also sold our centre management systems to a public research university in the U.S, and a private hospital group in Turkey.

In CAE Mining, we sold our resource modeling and mine planning software to customers in Russia, India and Mexico. A notable milestone during the quarter involved the delivery to Fresnillo, the world's largest silver producer, of our first turnkey mining training solution. This is a unique offering because it's based on aviation standards and the way we train pilots. The solution involves our CAE Mining Terra simulators and e-learning courseware.

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 15 percent year-over-year at $530.4 million and net income attributable to equity holders was $45.6 million or 18 cents per share. The quarter included a one-time tax benefit of $11.0 million and severance costs of $2.8 million after-tax, excluding which, EPS would have been three cents lower.

Income taxes this quarter were $0.3 million representing an effective tax rate of 1%, compared to 19% last year. The decrease in the effective tax rate from the first quarter last year was mainly due to a favorable decision by the Federal Court of Appeal of Canada, rendered April 17, 2013, with respect to the tax treatment of the depreciation and sale of simulators in Canada. Also affecting the tax rate was a change in the mix of income from various jurisdictions. Excluding the impact of this one-time tax benefit our tax rate for the quarter would have been 25 percent.

In terms of cash performance, I'm pleased with the progress we've made to improve the way we manage our working capital. We had a $96.5 million improvement in free cash flow this quarter compared to first quarter last year, which put us at negative $11.5 million. Most of this improvement comes from a lower investment in non-cash working capital. 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 totalled $29.9 million this quarter, including $22.7 million for growth and $7.2 million for maintenance. This is down 13% from the expenditure level in Q1 last year.

Net debt was $897.8 million as at June 30, 2013, compared with $813.4 million as at March 31, 2013. This represents a net debt to total capital ratio of 42 percent, stable with last quarter.

Now looking at our segmented financial performance...

In our combined **Civil** segments, first quarter revenue increased 27 percent year over year, reaching $302 million. Notwithstanding this higher revenue, combined Civil operating income was down 20 percent year over year to $37.6 million, for an operating margin of 12.5 percent.

The utilization rate in our training centres was 69 percent for the quarter, up slightly from 66 percent last quarter but down from 77 percent last year. The low utilization rate is primarily a reflection of the slower than planned execution and ramp up of assets deployed over the last 6-12 months, combined with some comparably softer demand in Europe and South America.

In our combined **Military** segments, first quarter revenue was up one percent year over year, at $198.8 million, and we generated an 11.9 percent operating margin.

In **New Core Markets**, first quarter revenue was up 14 percent to $29.8 million and operating income was $1.6 million.

Effective the first quarter, we implemented the new IFRS 11, Joint Arrangements and the amended IAS 19, Employee Benefits. You will note in our disclosure that we restated comparative figures for each quarter of the year ended March 31, 2013 to reflect the adoption of these accounting standards. We have prepared tables to summarize the impact of the changes in the accounting of our joint ventures, which can be found on the investor page of our website.

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

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Notwithstanding the low margin performance in Civil, which impacted the quarter overall, the long term fundamentals of CAE's business remain strong and we have a good handle on resolving our execution issues.

In Civil, full-flight simulator sales fiscal year to date, including today's announcement of another eight gives us a strong start and we now expect to reach 40 sales by March 31st. Our previous high was 38 so this would be a new record for the company. The market has been consolidating and competition has become more determined, but I'm pleased with our success to win business with our comprehensive solutions. Our broad portfolio and unique approach has enabled us to maintain our leading share of the market. Price competition is a factor, but we are disciplined and deliberate in our pursuit of market opportunities. Our strategy involves being our customers' partner of choice and we are most successful when competing on the basis of differentiation with our broad solutions offering, superior technology and reliable long term service. At the same time, we continue to address our cost base so that we can offer our customers the best possible value and continue to win our fair share.

In terms of getting Civil unit margins back on track, the team in Civil, led by its new group president, Nick Leontidis, is focused on the execution of its plan and we fully expect the business unit's operating margin to reach high-teens percentages in the second half of the fiscal year. CAE is in a coveted position in terms of its global reach and offering within a large and growing civil aviation market. The underlying strengths of our business remain intact and our strategic priorities remain unchanged.

In **Military**, signing contracts remains our priority and we have been active on all fronts to develop our pipeline. We currently have $2.3 billion in submitted proposals and another $780 million in process. This together with our $2 billion backlog and new orders like the ones announced today will enable our defence business to remain resilient. Longer term, the fundamentals remain attractive for CAE with a well-diversified business geographically, with a customer base of over 50 different national defence forces and strategic positions on enduring aircraft platforms.

During the Paris Air Show in June, we signed two strategically important memoranda of understanding with original equipment manufacturers. The first with Lockheed Martin, which names CAE the preferred provider of Canadian F-35 training support, systems integration, operations and maintenance. This would give us a position on the latest fifth-generation fast jet program, should Canada ultimately select the F-35. We also signed an MOU with General Atomics to pursue international opportunities for CAE to offer its simulation and training systems for the Predator family of remotely piloted vehicles. These aircraft systems are poised for long term growth and represent a strategically important segment for our defence business. We have a demonstrated capability in this space, and today's contract announcement for the U.S. Air Force is further confirmation of our ability to win large competitive contracts of this nature in the world's largest defence market. The contract has an expected value of approximately $100 million to be generated over a five-year period and it entrusts CAE to train the Air Force's total population of about 1,500 pilots and sensor operators of the Predator and Reaper remotely piloted vehicles. This involves CAE providing classroom, simulator and live flying instruction at USAF bases in New Mexico, Nevada, California, and New York.

In **New Core Markets**, we expect to maintain our positive momentum with double-digit revenue growth and we expect to remain profitable.

To conclude, I have complete confidence in the leadership team at CAE and our employees worldwide. In Civil, and for CAE overall, I expect that we will see much better performance in the second half of the fiscal year.

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.