OPERATOR: Thank you. We will now take questions from the telephone lines. If you have a question, please press *1 on your telephone keypad. If you are using a speakerphone, please lift the handset and then press *1. If at any time you wish to cancel your question, please press the # sign. Please press *1 at this time if you have a question. There will be a brief pause while participants register for questions. We thank you for your patience. The first question is from Cameron Doerksen, from Versant Partners. Please go ahead.

CAMERON DOERKSEN: Good afternoon.

ROBERT E. BROWN (President and Chief Executive Officer, CAE Inc.): Good afternoon.

CAMERON DOERKSEN: A question on the acquisition that you made last week. I'm just wondering if you can detail, give us a little more detail on, you know, the rough size of what it means for revenues and, you know, what new capabilities does it bring to CAE that you maybe didn't have before?

ROBERT E. BROWN: Yes, I think, Cameron, if you look at revenues generally, on an annualised basis, it would be $30 million to $35 million on an annualised basis. And you know, we think that we can grow on that, as we've looked at the plans going forward at a pretty good rate.

I would say that you can see the way the deal has been structured, that it was $15 million plus an $11 million earn-out. The earn-out is specifically related to wins on contracts. So if we get some wins on those contracts, it would be more than the number that I provided to you.

The second thing is that this really improves our Canadian footprint. There's a number of jobs in Ottawa, in Nova Scotia, as well as in Esquimalt, British Columbia. So that helps us out very appreciably.

I think the other thing that you need to look at is this is very much going to complement what we're already doing in our professional services business and allow us to be able to provide advice and get in on the front end of a number of procurements as they're being formed. So I think it's a very, very good bolt-on acquisition that's been done, from a good point of view, from a financial point of view.

The only thing I'd remind you is that, you know, we've announced the deal. It's not closed yet and so you're not going to see any accretion on this probably until the start of next year.

CAMERON DOERKSEN: Great. Thanks very much.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Ben Cherniavski, from Raymond James. Please go ahead.

BEN CHERNIAVSKY: Good morning. My question is along the line of Cameron's. He asked about the Bell acquisition. What about the Sabena acquisition and I believe there was one other one recently announced. If you could just speak to the revenue implications and for that matter, what all of these acquisitions might mean individually for your margins? Are they higher-margin or lower-margin business than what you're currently operating in? And I think to just help us get a little better sense of the forecasting, we should assume for all of these transactions.

ROBERT E. BROWN: Yes. Ben, if you look in our current quarter, I think there's about $2.5 million of revenue that's coming from Sabena, so there's not very much. But on an annualised basis, again, it would be in the $35 million range, something of that nature on an annualised basis. And it has two elements to it. One is the simulators that we're operating in Brussels and the second one is the addition of the pilot training operation that they have in Arizona that I think they're currently training about 400 cadets, something like that. So that gives us some more critical mass to the efforts we're making to increase the size of our pilot training organization.

I would say, in looking at this one, again to be prudent, that it would be basically looking at the last quarter of this year again, the start of next year, that you would see some results. And the margins in this should be, I think, similar to the margins we already have in these businesses.

BEN CHERNIAVSKY: And the margins from the Bell acquisition?

ROBERT E. BROWN: Well, the Bell acquisition is a little different. On that one, let's wait and see if some of these contract wins related to the 11 million earn-out that we're got, I think we're going to have news on that, probably in the back half of this fiscal year. I think I'd be a better position to give you some guidance on that, probably at the next call.

BEN CHERNIAVSKY: So at this point just assume the status quo?

ROBERT E. BROWN: Yes, I would just assume the status quo in terms of anything that would be added on.

And don't forget, that one still has to close. Alain, what's the date we're looking at for closing?

ALAIN RAQUEPAS (Vice President, Finance and Chief Financial Officer, CAE Inc.): Yes, end of the year.

ROBERT E. BROWN: End of the calendar year, right.

BEN CHERNIAVSKY: And that one will show up in your military products division?

ALAIN RAQUEPAS: Yes.

ROBERT E. BROWN: Services.

ALAIN RAQUEPAS: But in the military.

ROBERT E. BROWN: Yes. Yes, sorry.

BEN CHERNIAVSKY: Yes. Not on the training side.

ROBERT E. BROWN: No. That's correct.

BEN CHERNIAVSKY: Was there another acquisition in there, a smaller one?

ROBERT E. BROWN: No. No, we had a series of them before when we created our new business Presagis. There have not been any other... There was one other thing that perhaps you're seeing that relates to Portugal.

ALAIN RAQUEPAS: The Portugal school.

ROBERT E. BROWN: The school we've had there where we had 56 per cent and we've moved to 90 per cent.

BEN CHERNIAVSKY: Right.

ROBERT E. BROWN: At 56 per cent, it was not material, so it was never reported. Now that we've moved to 90 per cent, we're reporting it. But it's again a school that we've had in Portugal in collaboration with TAP, the local airline. And so we're now taking a larger part in that, again, to do a roll-up as part of our pilot training organization.

BEN CHERNIAVSKY: How many RSEUs does that add?

ROBERT E. BROWN: There are no simulators there. Its a few aircraft and the training of cadets.

BEN CHERNIAVSKY: I see. Okay, thanks very much, guys. Good quarter.

ALAIN RAQUEPAS: Okay.

ROBERT E. BROWN: Thanks.

OPERATOR: Thank you. The next question is from Nick Morton, from RBC Capital Markets. Please go ahead.

NICK MORTON: Good afternoon. I notice that your leverage is rising a little bit, not an alarming amount, but it is rising and you're continuing to acquire and have a fairly aggressive capex program. I just wondered, can you continue doing this without issuing equity or debt or doing something different?

ROBERT E. BROWN: Yes, I think even where we are now, if you look at the leverage, Alain, including our balance sheet, what are we at?

ALAIN RAQUEPAS: 31.69.

ROBERT E. BROWN: Yes, we're 31 per cent versus 69. We have lots and lots of flexibility as it relates to our covenants. We see the working capital correcting during the year, so we don't really see any requirement to go to the market and we think we're going to continue generating cash. So we're going to continue being careful and we're going to work hard, as we did last year, to reverse the working capital and I think, Nick, that will happen. So yes, in summary, no intention to go for capital.

NICK MORTON: Okay. I wonder if I could cheat and ask about the leasing market? Is the leasing market reasonably healthy for you, for your simulators?

ROBERT E. BROWN: In what sense?

NICK MORTON: That you lease them. Can you get those deals arranged?

ROBERT E. BROWN: We've been getting our deals arranged, but generally they're straight-out purchases that occur. And the ones that we put into our own network, into joint ventures are all being financed. It's not been an issue for us.

NICK MORTON: Okay, that's great.

ROBERT E. BROWN: I think they're very sound assets with long life to them. It's not a problem.

NICK MORTON: Great. Thank you.

ROBERT E. BROWN: No problem.

OPERATOR: Thank you. The next question comes from Tim James, from TD Securities. Please go ahead.

TIM JAMES: Thanks. Good afternoon. In regards to your training network, there's some commentary about costs associated with the implementation of the new full flight simulators and the deployment into the network and that created some unusually high costs in the quarter.

Is there something that's occurring that's making the cost higher than the normal deployment of simulators for you, or is this kind of an ongoing thing that we would expect, given sort of the build out of the network going forward?

I'm just trying to understand if there's a different dynamic in particular in this quarter relative to building out the network in other quarters.

ROBERT E. BROWN: Tim, there's not a lot that's unusual. We are putting more into the system now than we have in the past. So maybe that's partly contributing into it. We're finding, as well, that the cost of instructors is a bit more in the market environment that we're in. And you know, we're putting some of these simulators now into locations like, for instance, India where it's maybe going to take a bit more time to get the build up. Everything is positive. Everything will happen. I think it's just the sequence with which it's going to occur. Nothing more than that.

TIM JAMES: Okay. Thank you.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Richard Stoneman, from Dundee Securities. Please go ahead.

RICHARD STONEMAN: Good morning, Bob.

ROBERT E. BROWN: Good morning.

RICHARD STONEMAN: Bob, I was wondering when we could see some impact from the decline in the Canadian dollar given the hedging that you have. How many quarters before that starts to help you out?

ROBERT E. BROWN: I think there's a number of elements to this. One, of course, is translation that's going to help from a total amount as it relates to particularly our business in the United States coming back into Canadian dollars.

The second thing is that we can now, on contracts that we're bidding on, that we can obviously bid more cost effectively. In all of our bids we've been building in a certain percentage to be careful to make sure that the change from the time we bid to the time of the contract award, that we're protected. Maybe there'll be some gains on that. But those are things more for the future.

We have hedged all of our contracts. We'll continue to do that. But I think if you look right now, if you looked at where we were at the end of last year – Alain, maybe I'll let you explain – I think it was around $800,000 per cent that...

ALAIN RAQUEPAS: Yes. If I might help you, Richard, on that, in Q1 last year, if I'm looking at my average hedge rate, it was around 110 and if I'm looking at Q1, the quarter we just closed, my average hedge rate was at 102.

So that gives you a flavour of how much we had to improve over the year to deliver our results. And you know where the Canadian dollar is today. So you can...

ROBERT E. BROWN: So I think that if the dollar stays where it is, we may start to see some things happening in the third and fourth quarter that will help us in our products business, both military and civil.

RICHARD STONEMAN: Thank you very much.

ROBERT E. BROWN: You're welcome.

ALAIN RAQUEPAS: You're welcome.

OPERATOR: Thank you. The next question is from Chris Murray, from CIBC World Markets. Please go ahead.

CHRIS MURRAY: Good afternoon. Just to clarify, the press release on the $106 million in contracts for the military business, is that new contracts or were some of those actually included in Q1?

ROBERT E. BROWN: No, they're all new.

CHRIS MURRAY: So that's all new contracts. And then, I guess from that perspective, normally we've seen a drop off into Q2 and Q3 on a book-to-bill ratio. With the rate that you're booking, do you have an estimate of where your book to bill will be in your military segment for the full year?

ROBERT E. BROWN: No. I think last year we did something like $740 million.

And I think that we can't really predict where we're going. What I can tell you is that the rate of activity is very good and we feel that we're going to have momentum. I don't want to create expectations that we're going to do a lot better than last year. But I feel pretty confident where we are at this particular point in time. I think we're at about $260 million, something of that nature. So that's on the military side.

If you look at the civil side, you know, the summer time, our second quarter is always our weakest quarter, particularly as it relates to training because that's when all the pilots are flying and they're not doing training. So, you know, I think that's something to take into account.

But again, as we look at the military, we look at the training, we look at our products business over the full year, we feel pretty good at the point that we're at right now and as well, the level of activity that we're getting in talking with our customers.

CHRIS MURRAY: Good. Thank you very much.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from David Tyerman, from Scotia Capital. Please go ahead.

DAVID TYERMAN: Yes, perhaps following up on that, the 34 simulators that you've stated you think you have a shot at for this year and I guess you mentioned it the last two quarters, what goes into that? Is that based on the discussions you're having with customers so you can actually identify that kind of number or is it forecasted based on deliveries of airplanes? Or what goes into that?

ROBERT E. BROWN: Yes. I think right now, we're announced 14, right?

DAVID TYERMAN: Right.

ROBERT E. BROWN: So we did 13 in the quarter, plus we have the other one that we've done since then. We would then have a number of discussions that we know about where we're dealing with MOUs and things of that kind with customers for a certain number that would give us confidence that that's going to get us to a certain number.

And then generally we have two or three lists – the A list, B list, C list – of people that we know require simulators because they've ordered aircraft and we know the ones that have traditionally done business with us and we know as well generally a win rate we can have and we'll discount that win rate. And based on all of that, everything is based on very specific opportunities.

There's nothing that is being done in terms of from a general fashion. So when you approach it that way and we look at, that's why we say that we still think that the 34 number is valid.

DAVID TYERMAN: Okay, great. And just within that, how many of those would be internal? I think you've got two so far, two net?

ROBERT E. BROWN: Yes. In terms of looking forward, it would be a low number, I think, because the only ones we count that are internal are ones that go into JVs.

DAVID TYERMAN: Right.

ROBERT E. BROWN: I don't know, but there may be one or two in that projection, something of that nature.

DAVID TYERMAN: Okay, great. Thank you.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Marko Pencak, from GMP Securities. Please go ahead.

MARKO PENCAK: Thank you. Good afternoon. I just wanted to confirm a number and then ask a question. Did you provide a utilization rate for the simulators in your training centres? And if not, can you provide that?

ROBERT E. BROWN: I'm not sure if we have, but it's about 80 per cent.

MARKO PENCAK: Okay. And my second question, just again on order intake and prospects, and sort of a two-parter in the sense, have you yet seen any deferrals, push-outs, whatever you want to call them, for orders in your backlog? And secondly, can you just comment on sort of more specifically, financing issues that your customers may be facing with respect to order commitments?

ROBERT E. BROWN: We've seen no movement in terms of things being pushed out. And from a financing point of view, we haven't had any problems on that. We don't really see that as an issue as it relates to us.

MARKO PENCAK: Okay, thanks.

ROBERT E. BROWN: Welcome.

OPERATOR: Thank you. The next question is from Benoît Poirier, from Desjardins Securities. Please go ahead.

BENOÎT POIRIER: Yes, good afternoon. My question is related to military. I'm just wondering, you reported 16.9 EBIT margin on training military. I'm wondering if you could quantify the impact of the dividend and also the annual labour rate adjustments. And maybe related to the same question, could you comment about the ramp up on the NH90 going forward? And also to know if military margin, how sustainable the 15 per cent it is going forward?

ROBERT E. BROWN: First on the margin, we've changed the mix an awful lot and military products is helping us a lot and we basically know what's in backlog. So we have to execute. We feel that where before we talked about 10-11 per cent, we're very much above that right now. You know, we're in sort of the 14-15 range kind of thing that we think we can sustain for the rest of the year.

As you look at the labour contract, I think all of that has been built in to our budget for the year and our strategic plan going forward. We've done everything we said we would do with our unionized employees. That's working fine. But we are cutting costs overall in the business in a very good fashion, so what I would say is it's really not having an impact on us as it relates to our costs. Our costs, we continue to confront and very aggressively that and I think we'll continue to be able to make gains there going forward.

The dividend and the increase in the dividend, well, that's basically cash that you're seeing and we've said that we've made the move where we went to $0.03. We have no plans at this time to change it. When we did it, we thought it was the right thing to do for shareholders and also demonstrated the confidence that we have in being able to protect the company, to continue to invest and also return some capital to the shareholders. On the wrap up of the NH90, you've seen some of the contract wins that we've had. We've now, with our partners, won every single contract. We don't see any reason why that should not continue.

I think there's 12, 13 customers that have ordered the helicopter and I think only two or three have arranged their training systems. So there's lots more to come there. So that's been part of our strategy of getting involved at ground level with platforms that have long legs. I think you're going to see more of that over the next couple of years.

BENOÎT POIRIER: Okay, thank you very much.

OPERATOR: Thank you. Once again, please press * 1 if you have a question. The next question is from David Tyerman, from Scotia Capital. Please go ahead.

DAVID TYERMAN: Yes, hi. Just to go back to Benoît's question, the dividend on TSM was what?

ROBERT E. BROWN: You asked TSM. I missed your question. I apologize. Alain, go ahead.

ALAIN RAQUEPAS: It's around $1 million in the quarter.

DAVID TYERMAN: One million?

ALAIN RAQUEPAS: Yes.

ROBERT E. BROWN: Yes.

DAVID TYERMAN: Okay, thank you. The other question I had was I noticed that you added eight FFS to TSC but only four RSEUs. Is this just a timing issue, or why the difference?

ROBERT E. BROWN: Strictly timing.

DAVID TYERMAN: Okay, so we should see a ramp up in the number of RSEUs in the next quarter or two to kind of get back to a more normal ratio?

ROBERT E. BROWN: I think so, yes.

ALAIN RAQUEPAS: And don't forget the Sabena acquisition that we completed three weeks before quarter end brought six simulators in the fleet. But in terms of accretion, it was only three weeks in the quarter. So that impacts the RSEU, obviously.

ROBERT E. BROWN: And one of those simulators is just going into service.

DAVID TYERMAN: Okay, so one of them is, the FFS deployed is an end of quarter number and RSEU is...?

ALAIN RAQUEPAS: The average, yes.

ROBERT E. BROWN: And we should still be able to go, you know, we talked about 10 per cent.

DAVID TYERMAN: Yes.

ROBERT E. BROWN: Growth in the past. We still stay with that number even with the lower capex that we have.

DAVID TYERMAN: Would that include, with the six from Sabena, that would be a lot of your 10 per cent for this year or would the 10 per cent be over and above the Sabena or include the Sabena?

ROBERT E. BROWN: Well, it's only for a fraction, a part of the year, the Sabena.

DAVID TYERMAN: Yes.

ROBERT E. BROWN: It won't be full, but we should still have the 10 per cent on the original basis that we talked about.

DAVID TYERMAN: Okay, thank you.

ROBERT E. BROWN: You're welcome.

ANDREW ARNOVITZ (Vice President, Investor Relations and Strategy, CAE Inc.): Operator, so that we have time for questions from the media, I think we probably should turn the call over to them. I want to thank investors and analysts for joining us. I will now open the lines to media.

OPERATOR: Thank you. So again, if you have a question, please press * 1 on your telephone keypad. The first question from the media is from Hugo Miller, from Bloomberg News. Please go ahead.

HUGO MILLER: Yes, good morning or good afternoon, rather. Mr. Brown, you said that demand was slowing a little bit from China, India and Southeast Asia, but it's still ahead of the mature markets. Would I be right if we were to assume, though, that the one exception to any of that slowing growth, as you suggested in what you said about Farnborough is the Gulf States and is there going to be, in any sense, the Gulf sort of supplanting China or Southeast Asia as probably one of your number-one markets?

ROBERT E. BROWN: I think it's already an excellent market for us.

HUGO MILLER: Yes.

ROBERT E. BROWN: On both the military and the civil side, so it's very good. And I didn't want to give the impression that there's not growth in China and India. I think that we just have to be careful with everything that's going on in the next period. We still see more business there; but you know, again it comes back to the diversification, the geographic and the product diversification that we have that we're able to move essentially, and unlike anyone else anywhere in the world and be able to supply the customer because of the roots that we have there and the relationships with the customer. I think we're feeling good and we're feeling good about the Middle East as well.

HUGO MILLER: Okay. And just to follow up, obviously you've decided – and I know some of the big civilian customers you have in the Gulf and India and Southeast Asia – but in terms of actually military customers outside of Europe and the U.S., who are we talking about? Which are the biggest countries spending the most on military spending; let's say from the Gulf right all the way across to East Asia?

ROBERT E. BROWN: Well, the first one, Australia, has had a very big defence budget and we've been very successful there.

I think that in India, they have announced a $50 billion, ten-year program for the re-equipping of their armed forces and our acquisition of Macmet there in the military segment that do simulation and modelling technologies served us well.

We are also working, have a MOU, with HAL, Hindustani Aeronautics Limited, which is the largest defence supplier in India for the training of pilots on helicopters. So I think that we're well positioned there as well.

In the United States, which is a traditional market, we believe because of the fact that their fleet is being worn out more quickly than anticipated because of all the conflicts they're involved in any potential tightening of budgets, that it really makes sense for them to do more training on simulators than in actual aircraft. And I think the U.S. Air Force announced that it costs about one-tenth the cost to train in a simulator than it does to use a real airplane. And never mind the logistics of trying to get a real airplane to train in.

Of course, in Canada, there's a re-equipping that's going on and we've been identified to provide the training solution for the C-130Js and as well for the CH-47s that are coming in. We've received the RFP and we're on an exclusive basis now. We are going forward and finalizing that contract. There are lots of opportunities that are shaping up around the world.

HUGO MILLER: Okay, thank you.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Casey Chi(ph) from Innovative. Please go ahead.

CASEY CHI: You mentioned about the call relations between crude oil prices and the use of simulators. How accurate is that interpretation that you mentioned?

ROBERT E. BROWN: The one I mentioned I think was a number given out by the U.S. Air Force. It's basically costs one-tenth of the money to train in a simulator than it does to use an aircraft.

CASEY CHI: So can I infer that the higher the crude price, the higher the probability of military or civilian companies using your products?

ROBERT E. BROWN: Well, I think as a general statement, that's true. But you have to look at all of the operating costs that are in there. I think I quoted a number; the cost of fuel for the Air Force went up in the United States to $6 billion in 2007. And these are their numbers, not ours.

CASEY CHI: I see. Okay. Thank you very much.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. Mr. Arnovitz, there are no further questions registered at this time. I would now like to turn the meeting back over to you.

ANDREW ARNOVITZ: Thank you, Operator, and thank you to all our participants today. I'd like to remind you that a transcript of today's conference can found on CAE's website at www.cae.com. Thank you.

OPERATOR: Thank you, Mr. Arnovitz. The conference has now ended. Please disconnect your line at this time. We thank you for your participation.