REMARKS FOR CAE'S FIRST-QUARTER FISCAL YEAR 2009

August 13, 2008

Time: 1:00 p.m.

Speakers:

Mr. Robert E. Brown, President and Chief Executive Officer

Mr. Alain Raquepas, Vice-President, Finance, and Chief Financial Officer

Mr. Andrew Arnovitz, Vice President, Investor Relations and Strategy

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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. 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 the MD&A section of our annual report and annual information form for the year ended March 31, 2008. 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 August 13, 2008 and, accordingly, are subject to change after this date.

We do not update or revise forward-looking information even if new information becomes available unless legislation requires us to do so. You should not place undue reliance on forward-looking statements."

Robert E. Brown, CAE's President and Chief Executive Officer, and Alain Raquepas, our Chief Financial Officer, are participating in the call today.

Following the remarks, we will invite questions from financial analysts and institutional investors.

For your convenience, this conference call will be archived on CAE's Website.

Let me now turn the call over to Bob…

Robert E. Brown, President and Chief Executive Officer

Thank you, Andrew, and thank you everyone for joining us this afternoon.

Since we already reviewed our first quarter results this morning at our annual general meeting, I will only briefly highlight our performance. Alain will take you through some financial areas of interest and then I will then conclude our presentation with some market observations and our outlook for the way forward.

We had a good performance overall this quarter, with continued revenue and earnings growth in the combined civil and military segments of our business.

Revenue was $392 million, up 9% compared to last year and earnings from continuing operations were $47 million, up 21%.

We took in $357 million in new orders and concluded the quarter with a $2.8 billion backlog, which provides a solid base for the period ahead.

In **Training & Services/Civil** we signed $89 million in new training contracts and we expanded our global training network to an average of 114 RSEUs, up from 105 last year. Our first quarter is seasonally stronger for training and average annualized revenue per simulator reached $3.9 million dollars, which compares to $3.6 million last year. On the business development front, we acquired Sabena Flight Academy to consolidate training capacity in Europe and to bolster our ability to address the global pilot shortage.

In **Simulation Products/Civil**, we signed orders for 13 full-flight simulators during the quarter from customers around the world, including airlines, training providers and OEMs.

In the **combined military segments**, we won new contracts totalling $138 million. The U.S. Navy ordered an additional MH-60R avionics maintenance trainer and we made important progress in the jet trainer market with the selection of CAE to provide two Hawk 128 full-mission simulators for the U.K. military. Also in the fast jet market, we received an update contract for the Eurofighter training systems being used by several European nations.

On the services side, we received a five-year contract extension to manage and support simulators for the Australian Air Force.

Our positive momentum has continued since the end of the quarter. Last week, we signed an agreement to acquire xwave's Defence, Security and Aerospace unit, which is an important step in our strategy to expand the range of defence products and services that we offer. We also announced that Rotorsim, the consortium owned equally by CAE and AgustaWestland, signed approximately $80 million in contracts with the Netherlands Ministry of Defence to provide comprehensive NH90 helicopter training systems and services—that contract is worth about $40 million to CAE. And this morning we announced an additional $106 million in military order contracts involving updates for the Eurofighter program, solutions for the US Navy and Air Force, and services for the Canadian Forces.

With that, I will ask Alain to discuss our financial results.

Alain Raquepas, Chief Financial Officer

Thank you, Bob and good afternoon everyone.

Since we have already run through our financial results at the AGM this morning, I will briefly discuss our operating performance by segment, and then focus my comments on two specific areas which we feel could benefit from more elaboration: capital expenditures and free cash flow.

In **Training and Services/Civil**, revenue was up 16% over last year to $110 million. The increase came mainly from stronger demand and the addition of nine more RSEUs to our network. Segment operating income of $20.7 million was up over last year but lower than last quarter, mainly because of costs associated with the ramp up of new assets and training programs. Also, we recognized a gain of $500 thousand last quarter for the sale of a used simulator. The segment operating margin was 18.8% this quarter compared to 22.8% last quarter and 20.7% last year.

In **Simulation Products/Civil**, revenue increased 21% over last year to $137 million. This increase was the result of two main factors: first, we had the benefit of a higher number of simulator orders; and second, we recognized revenue on a number of simulators that were being manufactured and near completion for which sales were obtained during the quarter. Segment operating income increased 39% over last year to $27.4 million. The operating margin was 20.1% compared to 22.3% last quarter and 17.4% last year. The increase over last year is mainly from cost improvement, while the decrease from last quarter mainly comes from differences in the program mix. Also, we are now working with an overall hedge position on U.S. contracts in backlog that is close to par. Our ability to maintain the margin above 20% is testament to our sustained continuous improvements.

In **Simulation Products/Military**, revenue was 7% lower than last year at $88.4 million. The rate of our order bookings has grown appreciably over the past two years and we are confident this will continue to translate into higher revenue growth. The decrease in revenue this quarter is the result of a timing issue related to subcontractor milestones on certain helicopter programs. Segment operating income was $13.6 million and the operating margin was 15.4%, compared to 12.9% last year.

In **Training and Services/Military**, revenue was up 3% over last year to $56.9 million. Segment operating income was up 50% from last year at $9.6 million. The operating margin was 16.9% compared to 11.6% last year. Results this quarter included a dividend from our MSH investment in the U.K.

Now a few words about **Capital expenditures**, which totalled $38.4 million for the quarter. This was comprised of $5.5 million for maintenance expenditures and $32.9 for growth. The growth portion was mainly related to the expansion of our global civil training network.

We are a fully integrated training solutions provider and over the past four years we have substantially reduced our manufacturing cycle times. We now have the advantage of being able to react more quickly to challenges and opportunities in the market and adjust our rate of investment accordingly.

We said last quarter that we expect capital expenditures this year to be similar to last year at about $190 million. The total range of investments that we could undertake would actually involve more capital, but we felt that maintaining last year's pace would be more conservative. The majority of our growth CAPEX is targeted for investments that will allow us to add civil training programs for aircraft models that we do not currently provide and that are supported by aircraft fleets already in service. Some of our investment plan also relates to an expectation for market expansion, and given our shorter lead times, we believe that we can afford to moderate further the pace of these expenditures this year while still staying committed to our growth objectives. We therefore have lowered our total expected CAPEX this year to around $170 million.

Free cash flow this quarter was negative $42.4 million, primarily because of investments in our non-cash working capital account for inventory and lower payables and accrued liabilities. We normally anticipate a reversal in working capital at the start of CAE's fiscal year. Our first quarter is always impacted by cash payments for taxes, royalties and world wide employee incentives that are accrued during the prior year.

Similar to last year, we expect that a good portion of the working capital will come back over the balance of the year.

Net debt increased $130 million to reach $254.5 million as a result of our investment in non-cash working capital, our ongoing growth capital expenditures and our recent acquisitions.

Thank you for your attention. I will now turn the call back to Bob.

Robert E. Brown, President and Chief Executive Officer

Thanks, Alain.

The strategy we embarked upon four years ago to diversify CAE geographically, between civil and military markets, and between products and services is intended to provide us with a level of stability and predictability. When all segments of the market are performing well at the same time, diversification seems less important. But, having taken lessons from the past, we made diversification a priority and remained disciplined in our execution. The strategic direction that we have chosen has effectively prepared CAE for conditions like the present when not all segments of the market and not all regions of the world are firing on all cylinders. No company is immune to economic and market fluctuations, but the majority of our revenue is now derived from military or recurring training revenue sources. We are financially strong and operationally nimble, which means that we have the ability to seize opportunities when they arise and adjust quickly to changes. We are, *as usual*, cautiously optimistic about the future and we remain confident in the execution of our long-term plans.

Our business should to be regarded on the basis of long-term opportunities in addition to short-term factors. As most of you are aware, we are involved in both the civil aerospace and military business and it is important to recognize that the drivers for each are very different.

In the **civil market**, high fuel prices and economic weakness are triggering a series of reactions among airlines and aircraft operators. Airline consolidations and rationalizations are starting to take shape in the U.S. and parts of Europe. A number of carriers have taken 10-15% of their fleet capacity offline, parking older and less fuel efficient models like MD-80s, DC-9s and B737 classics. The clear consensus is that it is better to ground old aircraft and take delivery of new ones. Aircraft financing for some carriers remains challenging as they redraft their business models, but eventual fleet replacements do represent a potential silver lining. The shape of the airline industry must continue to adapt to new realities. Most of today's established carriers are working from leaner cost structures than they would have had at the start of the decade. Unfortunately, the precipitous rise in fuel prices has more than eclipsed their productivity gains. We do not wish to create expectations of major outsourcing by airlines, but we are engaged in more discussions with customers about how CAE can help them to improve their operating efficiency. There may be some additional opportunities to replicate what we have done with a few of the world's leading airlines already.

The U.S. and Western Europe are more acutely affected by fuel prices and economic malaise than the rest of the world. The recent Farnborough Air Show was dominated by orders for aircraft placed by Middle Eastern carriers. Etihad - one of our customers in the region - ordered more than 200 aircraft alone. Demand from China, South-East Asia and India is moderating from its intense rate, but should still far outpace the mature markets. We believe the OEM aircraft order backlogs will experience some shuffling of delivery slots but that ultimately the delivery of aircraft will continue at a good pace for a while to come. As a result, demand should continue to be supported for our suite of simulation products. We said last quarter that we expect to sell 34 full-flight simulators this year and that we would update this figure as the year progresses. We continue to feel comfortable with that outlook.

Business aviation is highly related to corporate profits. Used aircraft inventories have increased and the time used aircraft spend on the market is taking longer. Lower turnover of existing aircraft means that initial training transactions will depend more on the new aircraft being delivered – most of which are for markets outside North America. Our training business is mainly dependent on the recurrent training requirements to support the existing installed base of aircraft. OEM business aircraft backlogs are at record levels as well, which underlines the long-term growth opportunities in this segment.

Having a geographically diversified footprint in both the commercial and business segments ultimately helps to stabilize our performance. High fuel prices, tight credit markets and economic malaise are factors we consider carefully, but we believe the fundamental long term trend continues to support growth in air travel globally. We will selectively make investments to secure market share within certain established markets and to expand our position in new markets.

In **military** we are on pace for another year of solid order bookings. We have good momentum in our niche market and we remain confident about our expected higher top line growth and higher margins.

We are a truly global entity in the defence market with a major presence in the U.S., U.K., Australia, Germany, Canada and India. Simulation-based training has not penetrated the military market like in civil aerospace and therefore many opportunities exist for defence forces globally to offload training from real aircraft and other vehicles to simulators. The tempo of current conflicts around the world is putting high operational demands on weapons systems. Defence forces are exhausting aircraft faster than expected, leading them to question how they can extend the life of their platforms. The response has been simulation-based training and updates and upgrades to existing platforms. All of this creates opportunities for CAE's military business.

The U.S. Air Force spent $6 billion on fuel in 2007. Given that the average price of jet fuel has roughly doubled year over year, the urgency to lower operational costs has only increased. In recent months, the procurement authorities in the U.S. have become more vocal about their desire to increase the use of simulation for training – in particular for platforms such as transports, tankers and maritime patrol aircraft.

Additional trends in military that play well to CAE's strengths are the outsourcing of maintenance and support services to help maintain concurrency between training systems and the updates made to aircraft. As well, we see increasing use of modelling and simulation in a number of areas in defence programs that go beyond traditional training applications. CAE's professional services group, complemented by our recent acquisition of xwave's Defence, Security and Aerospace unit, is in a good position to further our entry into these domains.

In summary, market conditions across the segments we serve are best described as a mix of plusses and minuses. Balance and diversification in our business is more relevant than ever. We believe that our strategic direction continues to be the right way forward. We will continue to invest prudently and selectively, while maintaining our strong financial foundation.

Thank you for your attention. I think we are ready to take questions now.

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 limit yourself to a single, one-part question. If you have additional questions and time permits, please feel free to re-enter the queue.