REMARKS FOR CAE'S THIRD-QUARTER FISCAL YEAR 2010

February 10, 2010

Time: 12:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

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

Remarks for Third Quarter FY2010 Results
Wednesday, February 10, 2010

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 the MD&A section of our annual report and annual information form for the year ended March 31, 2009. 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, February 10, 2010, 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."

On the call with me this afternoon are Marc Parent, CAE's President and Chief Executive Officer, and Alain Raquepas, our Chief Financial Officer.

After comments from Marc and Alain, 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.

For your convenience, this conference call will be archived on CAE's website:

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 discuss a few highlights of the quarter and then Alain will take you through the financials. After that I'll provide you with our outlook for the remainder of the fiscal year.

(Pause)

Our performance in the third quarter was good in the current civil aerospace context. Military delivered more growth and our civil segments have held up reasonably well, thanks to our diversification between markets and regions and to the cost-saving measures that we've been putting in place since the start of the fiscal year to adapt our business. We're positioning CAE for an eventual gradual market recovery and long-term sustainable growth.

We generated $383 million of revenue on a consolidated basis and $65 million of operating income for a total segment operating margin of 17 percent.

Net debt at the end of the quarter was up by $14 million to $272 million and our net debt-to-capital remains at a reasonable 27 percent.

In **Training and Services/Civil** we booked orders with an expected value of $86 million. The average annualized number of RSEUs in our network in the third quarter was 129 and utilization was about 65%. This compares to a low of 60% last quarter and reflects some of the seasonal pickup that we normally see.

In **Simulation Products/Civil** we signed contracts for six full-flight simulators with customers in China, Malaysia and New Zealand, which brings our year to date orders announced to 14. During the quarter we also received a cancellation of a simulator order from a prior year. The current level of market activity and deals that we have in progress over the remaining two months of the fiscal year continue to support our order target of 20 simulators. CAE is today a different kind of company. Our Civil business is less cyclical as a result of our increased presence in services. And while products are integral to our total solutions, it's noteworthy that so far this year our Simulation Products / Civil segment accounted for about 19% of CAE's total business.

On a combined basis our two civil segments generated an operating margin of over 16 percent.

(Pause)

In the **combined military segments**, we received orders of $167 million during the quarter, including a long-term training services agreement with the Royal Netherlands Air Force and a maintenance and support services contract with the German Ministry of Defence. In addition, we won major upgrade work for Chinook helicopter and Tornado jet fighter simulators used to train these two national air forces.

We've been restructuring to size our business according to current and expected demand so that we can continue to be profitable through the downturn. At the same time we've made it a priority to maintain our technology leadership and to continue to position CAE for long-term sustainable growth. To do this we've maintained the scale of our R&D investments. And, we've also continued to pursue diversification to leverage CAE's core capabilities into new markets including healthcare. We've already made some incremental progress to establish a position in what we believe will one day become a material part of CAE. We've acquired two small companies, ICCU and VIMEDIX, to continue to build up our market offering and add a cadre of experts in the medical field to the CAE Healthcare team.

With that, I'll now ask Alain to provide a more detailed look at our financials.

Alain Raquepas, Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

From a **P&L standpoint**, in our **combined military segments** revenue was up 13 percent over last year and we achieved an operating margin of 17.2 percent. Our military segments had good execution on programs in backlog. And the growth in our order book over the past few years is contributing to the continued growth of this business overall. CAE is doing business with over 50 national defence forces, including all branches of the U.S. services. As such, the sources of revenue we derive are well diversified globally.

In **Training and Services / Civil**, compared to last year, we had 11 more RSEUs in the network in the third quarter and revenue was down 15%. In addition to market softness in North America and Europe, the strong appreciation of the Canadian dollar explains half of this decrease. Revenue and income generated by our foreign subsidiaries is mostly self-hedged but we are exposed to currency translation for Canadian dollar reporting purposes. Revenue was stable in Q3 compared to the second quarter even though we had seasonally higher utilization in our training centres. This is mainly explained by additional FX pressure and delayed revenue in our ab-initio flight schools, mostly caused by the extreme weather conditions in Europe, which limited the number of available flying hours in the quarter.

Revenue in **Simulation Products/Civil** was $73 million in the third quarter. We had a simulator cancellation, which lowered revenue and we achieved acceptance on a sales-type capital lease, which more than offset the cancellation. Without these two items, revenue would have been somewhat lower. We finished Q3 with an operating margin of 15.7%, which is beginning to reflect the market downturn conditions and pricing pressures that we highlighted in previous quarters.

From a **balance sheet standpoint**, we have continued to protect the strength of our balance sheet and since the beginning of the year; we have been making selective investments to help realize future growth. As a result, goodwill and other assets have increased from acquisitions like Seaweed, which is now an integral part of Presagis; and the Defense System business unit we acquired from Bell Aliant. We made additional investments in our military training business in the U.K. And in support of our move into healthcare simulation, we invested in a partnership with Toronto's Michener Institute and we just bought ICCU Imaging Inc..

From a **cash flow standpoint**, during the quarter, we invested around $40 million in working capital accounts, mainly inventory, related to long-lead-items such as aircraft data, and equipment packages. Commensurate with our growth in defence services, we have also seen an increase in contracts in progress in Military. As a result of these changes, free cash flow this quarter was minimal at $300 thousand but still $64 million for the year to date.

Capital expenditures totalled $24 million with around $15 million of that for growth expenditures. Year to date we have invested $82 million and we expect total CAPEX this year to reach approximately $140 million.

During the quarter we incurred a restructuring charge of $3.9 million and we estimate total restructuring costs to be around $34 million, with the remaining $2 million to be expensed by year-end.

An that, thank you for your attention and back to you Marc.

Marc Parent, President and Chief Executive Officer

Thanks, Alain.

We're encouraged to see some indications that the civil aerospace market is bottoming although we are not yet in the clear. IATA reported that in 2009, passenger traffic worldwide had its largest-ever decline. The current forecast is for global passenger traffic to return to growth this year but the industry is clawing its way back from a very low base. Nonetheless, we're optimistic that both passenger and cargo markets will continue to show signs of progress.

Looking specifically at the airlines, it is still a bit of a mixed bag: North American and European carriers continue to rationalize capacity, while the Middle East and Asia Pacific continue to experience growth – especially in China. We think CAE is particularly well positioned for long-term growth in the world's most rapidly developing regions. While there are some bright spots, the prevailing view is that airlines globally will lose money in 2010 and may only become profitable in the 2011-2012 timeframe. Yields are still off significantly year over year and they have been recovering slowly in North America and more notably internationally.

In business aviation, much depends on the pace of global economic recovery and more specifically the sustainability of corporate growth in the U.S. as the economy is weaned off of economic stimulus. The inventory of used business aircraft has decreased modestly over the last few months and pricing appears to have stabilized. Another positive indicator is that business jet flying activity is up, especially in the large cabin segment, but again, this is from a very low level and we think recovery will be gradual.

In terms of opportunities for full-flight simulator sales, we'll be watching closely to see what develops in terms of aircraft production rates and the level of airline activity more generally. The large aircraft OEMs have not indicated there will be major cuts in 2010 but some aerospace suppliers have taken a more guarded view. Notwithstanding the market downturn and the intense competitive environment, we've maintained our industry-leading market share with over 70 percent of the competed market and we have continued to be profitable. We believe this is testament to our ability to support our customers through tough times as well as in good ones.

We continue to expect our combined civil segments to generate an average annual operating margin in the mid-teens. As recovery slowly takes hold, the margin in our civil training and services segment should help to offset some of the ongoing pressure in the simulation products / civil segment.

The outlook for our **combined military segments** remains upbeat. We continue to anticipate more than 10 percent combined revenue growth and 15 percent operating margins. CAE offers world-class simulation technologies and capabilities, and there remains a continued emphasis by governments and defence forces to increase the use of simulation to lower costs and increase the quality of training.

The timing of government contract awards can be elusive but we have good visibility into our order pipeline and we are encouraged by what we see. We expect to conclude this year with another good level of orders to support our growth and profit outlook.

Governments and industry will have to contend with budgetary constraints in the years ahead as well as increasing demands on national security. This will require some difficult tradeoffs and creative solutions to do things more efficiently. At present, the U.S. has signalled that the military and national security will remain a top priority. The President's proposed budget includes a more than 6 percent boost for the Special Operations Command. The proposed budget appears to be more favourable in those areas related to the use of simulation. Included in the proposal is a 30 percent increase for aircraft modernization, which involves platforms highly relevant for CAE's business including the C-130J transport aircraft, and H60 and CH-47 helicopters.

For **CAE overall**, our outlook hasn't changed much since last quarter. We are however encouraged by some of the positive market indicators we've seen more recently. Our performance through the civil aerospace downturn benefited from the actions we took early on to size our business. Indications are that civil aerospace may finally be stabilizing and while this gives us more confidence, we feel patience will be required as the market works it way back from very low levels. We benefit from good diversification between civil aerospace and defence markets and we have a good position in some of the fastest growing markets like Asia. The fundamentals of our business remain strong and we will continue to make investments in areas vital to our future.

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 yourself 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.