REMARKS FOR CAE'S THIRD-QUARTER FISCAL YEAR 2011

February 9, 2011

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 FY2011 Results
Wednesday, February 9, 2011

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, 2010. 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 9, 2011, 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.

We've changed slightly the format for this afternoon's call. We'll first hear comments from Marc regarding the quarter and our outlook and then we will hear additional comments about our financial performance from Alain. Marc will then provide a wrap-up of the formal portion of the call. Afterwards 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.

[pause]

We continued to execute well in the third quarter with revenue up seven percent over last year at $411 million and net earnings of $41 million or 16 cents per share.

In our combined **Civil segments** revenue increased nine percent over last year, reaching $191 million. The strength of the commercial aviation recovery was evident in our training and services segment, which saw a double-digit increase in the quarter and higher utilization of 71 percent. Our operating margin in training and services excluding new core markets was 17.7 percent and in civil products it was 11 percent, for a combined civil margin of 15.2 percent.

We also had a strong quarter in terms of order intake with $311 million in combined Civil orders including $223 million for training and services, which involved a range of new and renewed long-term training agreements with airlines in the emerging markets. For example, we strengthened our position in South America with new long-term training agreements with TAM Airlines and LAN Airlines. Total Civil orders represented a book-to-sales ratio of 1.63 times, which gives us more visibility into the growth of these segments.

Also during the quarter, we made additional progress with our helicopter training initiative with the announcement that we have agreed to acquire CHC Helicopter's flight training operations. With this agreement we also become CHC's long-term partner and train its more than 2,000 helicopter pilots and maintenance engineers. The dynamics of this market are similar to fixed-wing in terms of the desire for greater safety and efficiency, which is something simulation-based training solutions can help to achieve. The high numbers of forecasted helicopter deliveries and expected new pilot demand in the years ahead will also serve as a positive driver. Unlike fixed wing aviation, however, the helicopter sector is largely unregulated. It will take some time for the market to develop but we're encouraged about the long term potential in this segment.

In Civil products, we announced another eight full-flight simulator sales involving customers in the Middle East, China and Australia. We've announced 22 sales so far this year, more than 60 percent of which have been for customers in the emerging markets, and we continue to expect unit sales in the mid-20s by March 31st. When we report our year-end results, we'll be in a position to provide an indication of what we expect for fiscal 2012.

Signs for commercial aviation continued to be positive with emerging markets still leading the recovery, which plays to CAE's well-established global footprint. Passenger traffic, airline capacity and load factors are all trending positively, and together with OEM production rate increases, this bodes well for future demand for our products and services.

In business aviation, we're encouraged by the modestly higher levels of aircraft utilization and the lower portion of used aircraft available for sale. Take-off and landing cycles are up 13 percent year to date but this is still 19 percent off the 2007 peak so there's still considerable ground to make up. Continued corporate profit growth will be key to reviving and sustaining the business jet segment recovery and we're in a good position both in North America and globally to meet the renewed demand for training.

[pause]

Revenue for our combined **Military segments** increased six percent over last year to $221 million. Simulation products revenue rose nine percent at $154 million, while revenue remained stable in training and services at $67 million. Combined Military operating income was $39 million and the operating margin was 17.6%.

We booked $204 million in orders in **Military** including a range of aircraft platforms we consider strategic to CAE. We won a contract to provide the US Navy with two MH-60R Seahawk flight trainers and an option for two more. Together with the MH-60S, we will have designed and built a total of 15 simulators for the Navy in a program with good future prospects for CAE. We received an order from Lockheed Martin for a suite of C-130J Hercules training devices as part of our long-term preferred supplier agreement with the OEM. We also won a contract from Boeing to supply two trainers for the Aermacchi M-346 jet trainer for an international customer. These contracts demonstrate CAE's important position on key platforms and the kinds of relationships we have with major OEMs to enable our mutual program success.

Also during the quarter, we announced that CAE USA was awarded prime contractor status on a major Aircrew Training Systems Contract to provide KC-135 training for the US Air Force. This 10-year, $250 million award represents an important milestone for CAE on two fronts: It marks the first time CAE will prime a major Aircrew Training Systems contract in the US, which broadens our position in the US defence market generally; and, it positions us well to address the growing demand by defence forces globally to outsource training and maintenance services to private industry. Our strategy involves increasing the portion of CAE's revenue that comes from recurring sources and this contract contributes nicely to that objective.

Our book-to-sales ratio was 0.92x for the quarter and 1.35x for the last 12 months. U.S. government budget approval delays are causing some of the programs we have already been selected on to move right so some of the revenue we thought we'd get in the second half of this fiscal year will now likely be realized next year. Having said this, we should close out the year with high single-digit percentage revenue growth and continued good margins since we're still expecting a much stronger fourth quarter. Of course the foreign exchange headwind hasn't helped and forecasting has become a bit more challenging, but our fundamental view of the market remains unchanged, and our position within it remains strong. Based on what we have in backlog and what we're projecting to win near term, we still expect double-digit percentage growth in fiscal 2012. A lot has to do with the timing of the budget resolution and we should be in a better position to refine our outlook by the time we report our year-end results.

[pause]

In **New Core Markets**, we're pleased with our progress to establish a presence in the healthcare and mining sectors. Year-to-date we've generated $27 million of revenue from selling products and services which are profitable at the gross margin level. It's still early days and we're still investing for a larger business in the years ahead. Sales volume is not yet at a level where we can cover our SG&A and R&D expenses so we saw a $1.3 million drag on Civil training and services income in the quarter. That's the business segment where we currently report these initiatives.

In terms of business development, we made additional progress in our **CAE Mining** business with the acquisition on January 1st of Century Systems Technologies, which complements our offering.

And in **CAE Healthcare** we sold more of our imaging solutions as well as our surgical simulators to customers around the world. Following the end of the quarter we launched our CAE Caesar™ trauma patient simulator. This is a high-fidelity patient simulator for training civil and military practitioners who are responsible for the care of trauma patients in the field.

[pause]

With that, I'll now ask **Alain** to comment on some specific financials.

Alain Raquepas, Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Revenue was $411 million in the third quarter compared to $383 million last year. Net earnings were $41 million compared to $38 million last year, which included an after-tax restructuring charge of $2.6 million. We generated $65 million of EBIT for a margin of 15.8 percent.

The strong Canadian dollar continued to be a challenge in the quarter. For the first nine months of fiscal 2011, the effect of translating the results of our foreign subsidiaries into Canadian dollars resulted in a decrease in revenue of $70 million, and a decrease in net earnings of $10 million year over year.

On an FX neutral basis, the year-to-date revenue for our combined civil segments would have been up about 9 percent and our combined military segments would have been up about 10 percent.

Cash from continuing operating activities in the quarter was $56 million and free cash flow was $5 million. Non-cash working capital increased by $23.8 million in the quarter. Our cash position has been effected by a number of factors, which required more investment in our non-cash working capital accounts.

Foremost is the high number of contracts that we have won that are based on new developmental aircraft programs for the civil and military markets. In Civil we are under contract to develop simulators for new aircraft types including the Airbus A350, Boeing B787 and B747-800, Bombardier C-Series, the MRJ, and the ATR-600. On the military side we are developing solutions for new aircraft programs like the Boeing P-8, Aermacchi M-346, Airbus A400M and the Canadian Maritime Helicopter Project.

The overriding positive is that we have been entrusted by the aircraft manufacturers and our customers to develop simulators for this broad range of new aircraft. CAE has excellent longstanding reputation for developing simulators for new aircraft types, which is more demanding and complex than simulating something that already flies. Consequently, these programs require more up-front investment on CAE's part in order to <u>first</u>, be in a position to pursue these growth platforms; and second, to be able to meet and maintain program schedules essential to delivery with our OEM partners.

So far this year we have invested $136.3 million in non-cash working capital. The growth of our Military business and the nature of our program mix account for 70 percent of that amount, and lower volume in our Civil simulation products segment explains the remainder.

One third of the cash invested in Military went to carry additional accounts receivable. Another third went to support contracts in progress (or WIP) on projects such as the P-8, MH-60 and the Airbus A330 Multi Role Tanker Transport. The remaining third arises from lower deposits on contract. Adding to this situation are the more recent delays in the US government budget approval, which is really more a matter of timing, but because we have not been able to invoice the customers, this also results in more cash being invested in work-in-progress.

The cash invested in the Simulation Products Civil segment is explained by lower accounts payable and lower deposits on contract resulting from the cycle contraction. As the cycle expands and volume increases, we should see these trends begin to reverse.

Finally, notwithstanding the extra investments we have had to make this year, we do expect a portion of the working capital to reverse toward the end of the fiscal year.

Our effective tax rate was 28 percent this quarter and year-to-date, which compares to 29 percent for the first nine months of last year. The difference is explained by the lower portion of revenue that we generated in the US – our highest tax jurisdiction. As our US business recovers, the portion of our higher taxable income will be relatively greater.

Finally, capital expenditures were $24 million during the quarter, with $15 million for growth and the balance for maintenance. We will provide an update on our CAPEX plans for fiscal 2012 following the end of the current year.

Thank you for your attention and back to you Marc.

Marc Parent, President and Chief Executive Officer

Thanks, Alain.

The fundamentals for **commercial** aviation continue to be positive and we expect this to drive improved performance in our Civil business where we lead our markets and are well positioned in key growth regions. We anticipate that volume and revenue will continue a gradual recovery in training and services. And in products we are encouraged by the activity levels we're seeing.

Business aviation normally takes longer to recover from a down-cycle and this time is no different. We're more optimistic given the steady, albeit modest, progress this sector has made and we're confident that it's only a matter of time before it fully recovers. Our view has been corroborated by the majority of business aircraft OEMs, which have announced new aircraft development programs and committed billions of dollars of investment, which speaks to their confidence in the future.

In **defence**, we'll deliver good growth and margins this year notwithstanding some program delays and the foreign exchange headwind, and we still see good growth potential beyond. Here too, we're well positioned globally and we look to build on successes like our recent KC-135 win to grow our sources of recurring revenue.

Our domestic defence market has not historically been very large and so CAE is by its very definition a global defence company. We have a well-established presence in key growth markets where defence budgets have increased and we are currently addressing new opportunities. As for Europe and the United States, we've announced a number of important wins recently, and we're continuing to monitor the ongoing defence reviews as they develop. Thus far, we have seen that the kinds of defence platforms we're involved with – helicopters, transport aircraft, fuel tankers and jet trainers - are all highly germane to current defence requirements. And long term we remain confident simulation-based training will be an integral part of the solution to the challenges facing the defence establishment.

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.