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OPERATOR: Our first question comes from the line of Hamzah Mazari of Credit Suisse. Please proceed.

HAMZAH MAZARI: Good afternoon. My question is on the Oxford business. Could you maybe give some colour as to whether the dilution from that is higher than expected and how industry should think about the integration of the asset? You know, you did give some colour on it takes about a year for some of these newly installed simulators to get up to full utilization. Any colour how folks should think about how that business will fully integrate and the benefits there?

MARC PARENT (President and Chief Executive Officer, CAE Inc.): I think, Hamzah, the dilution's pretty much what we expected. There's a lot of factors playing, that call you to play this quarter, and I mentioned some of them, you know, the four training centres that are ramping up and the four more that we have on the way, the assets that we're moving. And overall, I mean, let's be honest. There's disruption associated with this size of move of acquisition and integration into the organization, all of which affects the SOI. But overall, the dilution is pretty much what we expected, and so are the benefits. And I'm quite pleased with the progress that we've made to not only identify but secure the synergies.

And we're still on the way, but we definitely are on track to realize the full synergies that we expected from that business. And I think to me within the timeframe that we talked about, we have said that we would expect that it would take about 15 months approximately for the synergies to fully ramp up. And I think we're about nine months in, and I think that time scale's probably pretty much on track.

HAMZAH MAZARI: Great. Thank you.

OPERATOR: Our next question comes from the line of Cameron Doerksen of National Bank Financial. Please proceed.

CAMERON DOERKSEN: Yes, thanks. My question's just on the military segment, and I guess maybe some comments on the impact of the issues with the budget in the U.S. and the sequestration potential. Have you seen any I guess delays, particularly on the training part of the business in the U.S.? Have you seen any sort of delays or reductions in training so far? And I guess within the contracts that you have there in the U.S., if the sequestration does go through and has an impact on training, do you have any kind of minimum guarantees with any of your contracts in the U.S.?

MARC PARENT: Well, I think the short answer is I'm not aware of any reductions in training. I have seen some increases though over this past year. Specifically U.S., I haven't seen any drops. We don't, as far as I know, have any guarantees of training. I could be wrong here, but we may have to check, but I don't believe so. But so I mean, yeah, we'll know. We're days away from knowing what is happening with this whole sequestration issue, which of course is a huge momentous event, so we'll see what happens after that, if anything. I would expect something. I mean, going forward it's almost like we kind of expect sequestration as almost baseline now. The question is how will it be implemented?

So it's up… it's really… I don't think I've seen any disruption so far. I would anticipate some if it happens. But I think, Cameron, what I would really be looking at more is that not as much training being reduced is the delays, a further delay in orders being placed because of the disruption in the military procurement agencies.

CAMERON DOERKSEN: Okay, that's good. Thanks very much.

MARC PARENT: Welcome.

OPERATOR: Our next question comes from the line of David Newman with Cormark Securities. Please proceed.

DAVID NEWMAN: Good afternoon, gentlemen.

MARC PARENT: Good afternoon.

DAVID NEWMAN: Just on the… back to Hamzah's question on the movement of the sims that you've actually moved out of Europe, and then you have another tranche of them to go, just in general, how do the markets compare between the markets that you're taking them out of and the markets that you're putting them into overall in terms of RSEU(ph) or utilization or any of the metrics? I mean, how busy are they in the new markets and how lagged are they I guess in the legacy markets?

MARC PARENT: Well, there has been some change. The way I would characterize it, you know, I think if I go back maybe a year, I think I would have characterized it, and I think I did at the time, as saying the market was white-hot. You know, we had some of our centres I remember operating at well over capacity, and we were having to add simulators just because we just couldn't meet the demand. It's less hot now, but I would still characterize it as hot.

And it's normal that things move around. It always does, even quarter to quarter because, you know, airlines are not the same everywhere and their dynamics are not the same. But more specifically lately what we've seen, I mean Europe is difficult. I mean, it's been difficult all year. But having said that, it's grown this year, continues to grow, although pretty modestly, probably around the 2-per-cent range. Asia has been very hot. You've seen the amount of simulators we've sold in China alone this year it's pretty much of a proxy to what you would see and the kind of training increase we've seen in those markets. South America's been slower. Still good, but slower.

So look, I think there's ebbs and flows, but I think overall it's still growing quite a bit, and long term we're still looking at 5-per-cent overall passenger growth, which is a pretty good passenger growth. Of course stronger emerging markets.

DAVID NEWMAN: Okay, just a quick one if I can slide it in there. Just on the KC46 program, where does that stand overall?

MARC PARENT: Well, I think that it depends, I guess. Again, you're a couple of days… not a couple, but probably two weeks away from a decision on sequestration. So far the KC46 decision, you know, they say that they would make a decision relatively shortly. And I think at this moment, I think I heard last night that they said that if sequestration happens the KC45 decision could be protracted.

So look, we'll see. I guess it'll depend. So far what we expect is the decision within the next couple. I think it's two to six months is what I believe.

DAVID NEWMAN: And you feel pretty confident, Marc?

MARC PARENT: As confident as I am about, you know, considering that the U.S. Congress will make a decision…

DAVID NEWMAN: That's right. Right.

MARC PARENT: …about sequestration. And obviously, you know, that's as far as I can… But if you're asking about how confident I am about the deal, is that what you're asking about?

DAVID NEWMAN: Yeah. Absolutely, yeah.

MARC PARENT: Well, look, I think we've got… I think we have a very competitive bid. We have great past performance on the KC135 air crew training because we are the air crew training company for the U.S. Air Force on the current tanker fleet, which will be replaced by the KC46. So our chances are very good, but I mean this will be very competitive, and every company will be in this. So I think it'll be a shoot-out, for sure.

DAVID NEWMAN: Excellent.

MARC PARENT: I think our chances are good.

DAVID NEWMAN: Very good. Thank you.

OPERATOR: Our next question comes from the line of Steve Arthur with RBC Capital Markets. Please proceed.

STEVE ARTHUR: Great. Thanks very much. Maybe you've addressed some of this, but I just want to clarify a couple of points further on the Oxford business. I guess just is there any change to the level of – now that you're further into it – any change to the level of synergies or midterm margins that you were looking at? I think you were discussing something like $22 million in cost synergies. So is that still the case, and any further colour on revenue opportunities or synergies that are materializing?

MARC PARENT: No, I think the $22 million is an impact. And I think revenue synergies… again, a little too early to talk about material numbers right now, but what I see is good, as expected. The fact that we have for example, contracts or have relationships with the majority of the airlines in the world is good, for example, for our Parc business where (inaudible) we provide pilots. So the amount of leads that we're able to provide to our Parc business has improved dramatically. So we have to convert those into dollars, and we've started to, so I feel good about that. I feel good about the opportunities with OEMs as well for that same business. So look, I think early days, but I'm quite positive on what I see so far.

STEVE ARTHUR: With Parc specifically are you thinking more revenue synergies or will margins move there materially as well would you think?

MARC PARENT: I think both. I think materially is a big word I think, but certainly we'd like to see that improve over, you know, the 2-, 3-per-cent business that we inherited. I mean it is notwithstanding it's a no capital investment business, we'd still like to do better there. And then that's going to be our target.

STEVE ARTHUR: Okay. Thanks very much.

OPERATOR: Our next question comes from the line of Ben Cherniavsky of Raymond James. Please proceed.

BEN CHERNIAVSKY: Oh, hi guys. Can you… I guess the question I'll ask just as a housekeeping one, there were some gains on the full flight simulators. Can you quantify that?

STÉPHANE LEFEBVRE (Vice President, Finance and Chief Financial Officer, CAE Inc.): That's a couple of devices, Ben, that were sold off our training and services civil business. I think the profit that we recorded is 2.6 million on those transactions.

BEN CHERNIAVSKY: Okay, and…

STÉPHANE LEFEBVRE: I'm sorry. And it's part of our TSC segment results, unlike what we've done in the past when we had similar transactions. And I guess part of the process of looking at our overall portfolio of assets and managing them, you know, in a proper way, and we make decisions on disposing of some once in a while. It's part of our business.

BEN CHERNIAVSKY: Okay, fair enough. If I could squeeze in one other housekeeping one just on the restructuring costs, do you have an estimate of what they'll be in the fourth quarter, and if or how much they might carry into the next fiscal year?

STÉPHANE LEFEBVRE: Yeah, so far this year we've incurred around 55 million overall across our different restructuring programs. The first one that we announced last spring, the Oxford integration cost and more recently the second phase of the military restructuring in Germany. And across all three restructuring efforts, we'll be within our guidance. As far as restructuring cost is concerned, we don't expect to… I mean we'll incur pretty much all of them in this side of… in this fiscal year.

BEN CHERNIAVSKY: Okay. Thanks a lot.

OPERATOR: Our next question comes from the line of Tim James with TD Securities. Please proceed.

TIM JAMES: Thank you. What growth rate do you plan for your overall RSEU base over the next two years approximately relative to the third quarter period end level of 186 units?

MARC PARENT: Early days to say that. You know, it's customer driven. I think we said before we're going to continue to invest. Obviously our first priority for our cash is to… we have three priorities, but I mean the first one is to invest in our business where we see growth opportunities that are going to give us a good return in relatively short term. So it's going be customer driven. You've seen us do some this year, and we'll continue to do that, but early days to be able to tell you exactly how many RSEUs that would be because it very much depends on the opportunities we'll see in front of us.

TIM JAMES: Okay. Thank you.

OPERATOR: Our next question comes from the line of Turan Quettawala with Scotiabank. Please proceed.

TURAN QUETTAWALA: Yes, good afternoon. I guess I just had a question on the military side as well. And I appreciate this might be a little bit hard to answer, but just wondering if… have you done any analysis in terms of looking at how much your footprint may need to shrink or maybe it doesn't need to shrink, you know, based on some of the scenarios that might play out in the U.S., particularly with sequestration.

MARC PARENT: You know, we have, but it depends on how you pick the scenario, right? As you say, it's a difficult question. The good thing is that overall, you know, in the U.S. we have an ability I think to adapt to our workforce easier than we would anywhere else. And not to say that we think we have to at this moment. It will depend on how, if and when and how they implement sequestration.

I mean, when they put in sequestration this was never supposed to happen. It's very punitive. It was designed that way. It would have an overall disastrous effect to U.S. GDP. I have trouble believing it will happen the way it's been planned. So if you leave that aside for a second, if the services are allowed, which is what they're looking for, if they are allowed to basically achieve the results by cutting in the targeted way and achieve the same result, that will have a different impact on us because I think the kind of things we're involved are mission critical. So I think if you can make a scenario in there that, you know, we won't be affected at all, but I think probably that will be rose-coloured glasses one that you wouldn't be affected at all.

But again, I really believe that this for us doesn't really change the dynamic that we've been over the last really year and a half to two years. It really is a question for us of these persistent order delays. And to the extent of how sequestration, if it's done, how it's implemented, how does that affect the people that place orders, you know, the procurement agencies? That's really what we're watching. I think we're so close to this momentous event that I think we'll be in a lot better position to talk about that, you know, once this is over as we get onto the next call in the next quarter.

TURAN QUETTAWALA: Okay, great. And maybe if I can just ask again, last year there was a bit of a bump in terms of revenues and I guess order flow in Q4. Is there something like that, Marc, that maybe happens this year as well just based on some pent-up spending or something?

MARC PARENT: Well, I wouldn't comment on orders because, you know, I know what we've bid and I know what I think will happen, but you know, again, I don’t control when they’re going to actually make a decision.

In terms of the revenue, look, I think that we’ve said that it will be lower this year. We’re lower 4 per cent I think year to date. I think 7 per cent on a quarter, I think. We’re going to be within those kind of ballparks for the year I think. That’s what we anticipate.

TURAN QUETTAWALA: That’s great. Thank you very much.

OPERATOR: Our next question comes from the line of Ron Epstein, Bank of America-Merrill Lynch. Please proceed.

RON EPSTEIN: Hey. Good afternoon, guys. Maybe I got a quick one on the commercial side. With the slowdown in 787 deliveries have you seen any airlines come back to you wanting to delay or slow down deliveries of flight simulators for 787s?

MARC PARENT: No, I haven’t seen anything at all on that front, Ron.

RON EPSTEIN: Okay. Okay. And then not to kind of beat a dead horse, but it’s come up a couple of times on the call. You probably know I’m of the view sequestration actually does play out. It happens. So when you think about strategically, you know, running your company and that side of your business, I mean really what do you do to face that? I mean, how do you think about, and what do you have to change to deal with that?

MARC PARENT: Well, you know, look, I'm a bit with you. Look, I think sequestration, you know, the way we're thinking, we've almost pretty much accepted as our baseline. The question that we've also… we also believe, certainly I always believe is that – and I hope I'm right – is that this will be done in a way that the cuts will be selective and not across the board. If it's across the board, you know, I think we have a scenario that in the end, we'll be affected the same way as everybody else. We're halfway through the year, so flying hours will be cut. The U.S. Air Force, U.S. Navy have already come out with how much it would cut flying hours. So we'll be affected, but on the other side they've also said that they would try to maintain readiness using flight simulators. So, you know, I think we'll be affected. The question is how much would come back the other way? Either way, you know, it's not a very big impact to us.

Remember that 65 per cent of CAE's business is outside of the U.S., first of all. That's one thing. But again, I think coming back to it, Ron, I really am more concerned if anything about sequestration, about how that affects government decision-making with regards to placing contracts.

RON EPSTEIN: Sure.

MARC PARENT: And for us how we would react. I think, you know, in the end look, I think if our business and training goes down, you know, we'd have to probably furlough. We'd want to keep our people. You know, you'd see scenarios, we'd go to four-day weeks, that kind of thing, in our training centres. And those are the kind of measures we would take.

But look, to me, again, as you know we're about a few days away from knowing which way this is going to go down. And then we'll be a lot smarter next quarter.

RON EPSTEIN: And then maybe one more question maybe on the more constructive side. How would you expect it to play out that you get it back, right, because, you know, the thesis that you'd see more training in an environment, you know, simulator training in an environment where you're more cost conscious makes a lot of sense. So how do you think that would reverse? I mean, what would we have to see to really start to see that…? I'm sorry, I'm struggling for words, but what would we have to see to have that really gain traction?

MARC PARENT: Well look, I think we're already seeing it, and in my mind this is such a big event. I was talking to our U.S. board and some… we have pretty, you know, senior people that are very connected to the U.S. military and the dynamic there about how training is done. And it's clear that mindsets are changing. And if under the dramatic cuts that were being considered things are going to continue more.

And here's some of the things that I would point to. If you look at the P8, we are contracted to build P8 simulators for Boeing under their contract with the government. The numbers of simulators that we've been tasked to build for the P8 is literally an order of magnitude more than the equivalent number that the U.S. Navy would have for the P3. And when asked, it's very clear that the U.S. Navy has said that they're going to be using the aircraft for the mission and not for training. They're going to use simulators for training, which of course is the way we do it in the civil business.

We see that more and more. We've seen a lot of upgrades to programs this year, programs we have in place where people have been operating the simulators in order for them to be able to do more training using the sims. So look, to me this is something that's going to accelerate. How long it's going to take, you know, I think we're cautious on that; but clearly to me the trend is already in that direction.

RON EPSTEIN: Yeah. Yeah. Okay, great. Thank you very much.

MARC PARENT: Thank you. And just one anecdote: I think it's public. The Air Force and the Navy have both said that they plan to increase use of simulation from 25 per cent to 50 per cent. And this is before I think the sequestration actually comes to play.

RON EPSTEIN: Okay, great. Thank you. Yeah.

MARC PARENT: You're welcome.

OPERATOR: Our next question comes from the line of Steve Riccio with Buyside Research. Please proceed.

STEVE RICCIO: Yes, hi, guys. Question on the new core markets. And I missed the first part of the call, so I apologize if you already went over this. It looks like you sold out your modelling and mine planning software?

MARC PARENT: We sold out? What do you mean?

STEVE RICCIO: That you… did you sell that entire business?

MARC PARENT: No, no, no, no.

STEVE RICCIO: Okay.

MARC PARENT: No, no. I'm just saying that we sold more of our software planning solutions. No, sorry. Hopefully I gave nobody else that impression. No, no.

STEVE RICCIO: No, I missed part of it.

MARC PARENT: We're quite happy with mining business. No, we're quite happy with our mining business.

STEVE RICCIO: All right, a question then. What do you anticipate, once you sort of scale up both mining and healthcare, what type of EBIT margins can we expect in this area?

MARC PARENT: More. I don't want to be glib about it, but look, what we said, you know, I mean look, the short answer is I guess I would tell you is not dilutive to the rest of CAE. I mean that's what we're targeting. Now we're targeting a bigger business. I think what I've always said on this is we wouldn't be in this business, in either of these businesses if we didn't think that new core markets could be at least 250 million within a reasonable timeframe. You know, we've targeted it to be $100 million this year, and we'll exceed that. We've targeted to be profitable this year and we're doing that. We're going to continue that way. So I think what you should expect is margins to continue to improve.

But having said that, you know, in order to be able to target the growth that we want to get, the actual revenue number we want to get, we're going to continue to invest in R&D and SG&A probably at a disproportionate level, which means you're not going to reach margins that are not dilutive to CAE probably into next year. But you will see better margins than you see now.

STEVE RICCIO: Got it. And the $250 million that's per business line, like healthcare and mining, or is it combined?

MARC PARENT: Combined.

STEVE RICCIO: Combined. And that would be basically just through organic growth without any sort of supplemental bolt-on acquisitions?

MARC PARENT: Well, I wouldn't expect… here are probably some acquisitions to gain some market access, some niche products like we did recently with acquiring Blue Phantom. But I would expect the bulk of it to be organic.

STEVE RICCIO: Beautiful. Okay. Thank you very much, guys.

ANDREW ARNOVITZ (Vice President, Investor Relations and Strategy, CAE Inc.): Operator, we have time for one more question from investors and analysts, and then we'll open the lines to members of the media.

OPERATOR: Our last question comes from the line of Chris Bowes of Canaccord Genuity. Please proceed.

CHRIS BOWES: Hi. Thank you. Marc, you mentioned that profitability in military was a little bit better than anticipated owing to mix. I'm hoping you can talk about what drove the positive mix, and maybe whether we can expect this sort of contextually good profitability to persist?

MARC PARENT: Yeah, maybe I'll start with just saying as usual, military's a bit lumpy, and that's part of the answer. I mean, when you execute a program in one quarter that's operating a higher profitability, if you reach a milestone then you tend to attract more profitability in that quarter than you would. So that's what we mean by mix of programs. But Stéphane, maybe you have a better wholesome response.

STÉPHANE LEFEBVRE: Sure. And, well, just to maybe echoing what Marc just said, taking you back to when we say it was better than what we had expected, when we look back at the second quarter of this year, really our margins in mill as we said was 10.4 per cent. And quite frankly, by the time that we see the benefits of all the restructuring that we currently do, you know, we could see the margins pretty much being steady at around 10, 11 per cent.

So from that perspective the profitability was better in Q3 than what we had expectedon the mix of programs, and it's really been both in product and service. And just as we have more effort on programs that are driving better margins it tends to increase our profitability on the overall portfolio. So that's what happened in Q3. I think, as we said before, what I think we could see is Q4 of this year likely to still be soft in terms of profit margin, and I can say that the benefits of the restructuring being done in Europe, we'll see those benefits likely when the restructuring activities themselves are completed, which is likely to be the beginning of the second half of next year.

CHRIS BOWES: That's great. Thank you very much.

ANDREW ARNOVITZ: I'd like to thank members of the investment community for their attention and their questions. And Operator, we'll now open the lines to members of the media.

OPERATOR: Ladies and gentlemen, if you are from the press and media, please press the 1-4 on your telephone.

ANDREW ARNOVITZ: Okay, Operator, it appears that there are no questions.

OPERATOR: There seems to be no questions at this time.

ANDREW ARNOVITZ: Okay. Then I will thank all participants again for participating and remind you that a transcript of today's call can be found on CAE's website at CAE.com. Thank you.

OPERATOR: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines. Have a great day, everyone.

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