REMARKS FOR CAE'S THIRD-QUARTER FISCAL YEAR 2016

February 10, 2016

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Stephane Lefebvre, Vice President, Finance, and Chief Financial Officer

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

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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. These include statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, market trends and outlook, future revenues, capital spending, expansions and new initiatives, financial obligations and expected sales. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, listeners are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking information and statements contained in this presentation are expressly qualified by this cautionary statement.

You will find more information about the risks and uncertainties associated with our business in our third quarter fiscal 2016 MD&A and in annual information form for the year ended March 31, 2015. These documents have been filed with the Canadian Securities Administrators 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, 2016, and, accordingly, are subject to change after this date."

On the call with me this afternoon are Marc Parent, CAE’s President and Chief Executive Officer, and Stephane Lefebvre, our Chief Financial Officer.

After comments from Marc and Stephane, we will take questions from financial analysts and institutional investors. Following the conclusion of that Q&A period we will open the call to questions from members of the media.

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.

We had good performance in the third quarter, keeping us on track to meet our positive outlook for the fiscal year.

In **Civil**, we continued to see strong demand for our training solutions from customers in the Middle East, Europe, Asia and North America. We had 73% utilization in our training network and we sold nine full-flight simulators and training programs totalling $390 million. We expanded our market share with new customer agreements for exclusive long-term pilot training, including KLM Cityhopper and Air Europa. And we also renewed and extended agreements with customers including Arab Wings, Shenzhen Airlines and Spring Airlines. In business aviation, we booked orders for over $100 million in training programs with more than 10 operators globally. These training contracts—involving both new and renewal business—are good examples of the recurring nature of our training segment, in both commercial and business aviation, and the headroom that exists to grow CAE's market share. Indicative of our progress to grow the business, the Civil book-to-sales ratio was 1.16x for the quarter and 1.11x for the last 12 months. And third quarter Civil backlog reached a new all-time high of $3.09 billion.

[PAUSE]

In **Defence**, we were awarded a range of contracts involving enduring aircraft platforms. We sold a high-fidelity fuselage trainer for the U.S. Air Force to rehearse aeromedical evacuation missions on the C-17 transport and KC-135 tanker aircraft. Also for the U.S. Air Force, Defence was contracted by Lockheed Martin to provide a range of upgrades and updates to C-130J transport aircraft simulators. The existing installed base is an important driver of recurring revenue for CAE, and during the quarter we received orders for upgrades to Lynx helicopter simulators from the NATO Support and Procurement Agency, and from the Australian Defence Forces to upgrade MRH90 helicopter simulators. We also had business in the land domain this quarter from the U.S. Army for Abrams main battle tank trainers as part of a foreign military sale. In total, Defence received $129 million in orders, representing a book-to-sales ratio of 0.51x. The ratio for the last 12 months was 0.98x and third-quarter Defence backlog was $3.3 billion.

And in **Healthcare**, we continued to expand our offering with the release of new products including our Blue Phantom ultrasound training model which is used for ultrasound-guided evaluation and procedures for the knee. This is the first of its kind on the market. There continued to be good synergies between Healthcare and Defence this quarter, as Healthcare received an order involving the U.S. Department of Defense for 57 patient simulators and training services for the tri-service Medical Education and Training Campus. Healthcare also sold patient simulators, courseware and staffing services for a U.S. Military aeromedical training facility.

[PAUSE]

With that, I will now turn the call over to Stephane who will provide a detailed look at our financial performance. I'll return at the end of the call to comment on our outlook. Stephane?

Mr. Stephane Lefebvre, Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the quarter was up 10% over third quarter last year at $616.3 million, and quarterly net income, before restructuring of $1.5 million, was up 14% to $59.4 million, or 22 cents per share.

In **Civil**, revenue increased 4% over the third quarter last year to $334.7 million, and segment operating income was up 3% to $55.3 million, for a margin of 16.5%. We reported some one-time gains in the third quarter of last fiscal year, before which, Civil's operating margin was approximately 15%. Normalizing for these one-time gains last year, segment operating income growth would be approximately 14% year over year, which demonstrates the leverage effect of third quarter utilization increasing from 68% to 73% year over year. For the first three quarters, Civil revenue was up 12% while segment operating income was up 9%. Again, normalizing for one-time gains, the year-to-date increase in operating income would be approximately 17%.

In **Defence**, revenue grew by 17% over Q3 last year to $253.3 million and operating income increased by 4% to $29.7 million for an operating margin of 11.7%. For the first three quarters, Defence revenue was up 9% and segment operating income was up 7% with a margin of 12.1%. Orders in Defence are normally lumpy from quarter to quarter, and while the book-to-sales ratio was 0.51x for the quarter, we believe the trailing 12-month ratio of nearly 1x is more representative.

Moving to **Healthcare**, revenue of $28.3 million was 33% higher than the third quarter last year and we generated $1.6 million of operating income for a margin of 5.7%. This compares to a margin of 2.3% in Q3 last year.

[pause]

Income taxes this quarter were $8.5 million, for an effective tax rate of 13%. This compares to 20% for the third quarter of last year. The lower tax rate this quarter results from a change in the mix of income from various jurisdictions and also some U.S. tax incentives for domestic manufacturers. Excluding the tax incentives, our income tax expense this quarter would have been $10.9 million.

We had good **free cash flow** this quarter and I am pleased with our progress to reduce our investment in non-cash working capital. Free cash flow from continuing operations was $194.4 million this quarter compared to $70.0 million in Q3 last year. On a year-to-date basis, net cash from continuing operating activities less cash used in investing activities was $247 million. This compares to negative $24 million for the same period last year, representing a $270 million improvement.

And finally, **net debt** as at the end of December was, $795 million, down from $972 million for the same period last year. From a capital structure standpoint, we continued to de-lever our balance sheet with net debt-to-total capital decreasing to 29% at the end of the quarter compared to 38% a year earlier. Third-quarter CAPEX was $29.2 million, and for the year-to-date it was $78.0 million.

Taken together, good free cash flow, lower CAPEX and lower net debt contributed to higher return on capital employed which reached 11% in the quarter. This is an improvement from 10.5% a year earlier.

With that, I will turn the call back over to Marc who will discuss the way forward.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Our performance year-to-date highlights several positive characteristics underlying CAE’s long-term investment thesis. These include a high measure of recurring income; large markets with ample headroom for us to grow market share; a strong and defendable competitive position; and, attractive secular tailwinds in our end markets. These characteristics together with CAE’s culture of innovation, and a strategy focused on being the ‘Training Partner of Choice,’ support our positive long-term view.

In **Civil**, we expect to continue to make good progress increasing our share of a large training services market and we continue to see favourable conditions for our unique, comprehensive solutions. Following a number of years of heavy capital expansion to pre-fund growth and to establish our global training enterprise, we have been focused on increasing utilization of our training centres and we continue to expect higher utilization for the year as a whole. In products, with 39 Civil FFS sales announced to date, we now expect to exceed our prior year Civil FFS unit sales. And for Civil overall, we continue to expect double-digit operating income growth and a higher margin for the year as a whole.

In **Defence**, our year-to-date performance, robust pipeline and healthy backlog, support our view for growth this fiscal year. Long term, the positive inflection in defence spending and increasing use of simulation-based training help reaffirm our view that Defence offers solid growth prospects ahead. We currently have over $3 billion in bids and proposals pending with customers, and we continue to win our fair share of opportunities in the larger Training Systems Integrator market.

And finally, in **Healthcare**, we have really just begun to demonstrate what we believe is possible in terms of long-term growth potential. CAE brings the advantages of technical innovation, training know-how borrowed from aviation, and front-end synergies in segments like defence that no other competitor can claim. Our success so far has come largely from our ability to bring new product innovations to market and we will continue to pursue this strategy. In the immediate term, we expect to complete the year with solid growth and higher margins.

Before I conclude, I would like to make a few comments about our capital management strategy and how this relates to today's announcement of a Normal Course Issuer Bid.

Our capital priorities remain unchanged. First and foremost, *growth* remains our top priority; and we see no shortage of attractive opportunities to enable our vision to be *the recognized global training partner of choice*. We're selectively pursuing growth investments that are consistent with our training vision and where we can realize good value and attractive returns, while keeping pace with our customers.

Our second priority is to maintain a strong financial position, and as you will have seen from our results, we have more than met our target for capital structure, positioning us well to support growth.

Our third priority involves increasing current returns to shareholders. In the last five years, we've steadily increased CAE's dividend as we augmented the Company's sources of recurring cash flows. And in keeping with this same capital allocation priority, I am pleased that our Board of Directors today approved our intention to implement a Normal Course Issuer Bid for the repurchase of up to 2% of CAE's shares. The NCIB is intended to be used primarily to mitigate the dilutive effect of treasury shares issued under CAE's dividend reinvestment and stock option plans. Once approved, this will give us another avenue to enhance current returns to shareholders.

[PAUSE]

With that, I thank you for your attention. We are now ready to answer your questions.

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 yourselves 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.