REMARKS FOR CAE’S FIRST-QUARTER FISCAL YEAR 2012

August 10, 2011

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, 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, 2011. 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, August 10, 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 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 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've already presented a summary of our first quarter results this morning at our annual general meeting, but we'll do a recap for those of you who may not have been available to join in. Stephane will also provide a bit more detail about our results and I'll come back at the end to talk about the way forward.

We had good performance in the quarter led by **Civil** with an impressive 11 full-flight simulator orders and a range of new training agreements. We saw increased demand from mature markets and we particularly benefited from the higher growth emerging markets, where we've really hit our stride. The fact is, no other company in our business has the capabilities, credibility and presence that we have across global markets. We're well established in developed markets like North America and Europe and we are the leader in China, India, Southeast Asia, Latin America and the Middle East. The market is responding positively to the full portfolio of capabilities that we bring to bear, as demonstrated by our success at the recent Paris Air Show, where we announced three pivotal joint ventures in **commercial** aviation.

The first was with Malaysia's AirAsia to establish a centre of excellence for commercial aviation training for airlines in the rapidly growing ASEAN region. This deal marks a major milestone for CAE because it also means that one of the world's fastest growing airlines has chosen CAE to undertake responsibility for training all of its pilots, maintenance engineers, flight attendants and ground crew. This is a great validation of our go-to-market solutions strategy.

We announced a second JV with Interglobe, the parent company of IndiGo Airlines. Together we'll launch a new training centre in Delhi next year, which marks the fifth CAE-managed training centre in India and underscores our commitment to aviation safety in that country.

Our third joint venture announcement was with Mitsui to establish and operate a training centre in Japan for the new Mitsubishi Regional Jet. This follows our agreement last year with Mitsubishi including a 10-year Exclusive Training Provider program.

In business aviation we saw continued strength in training demand for large-cabin aircraft. Demand for mid-sized business aircraft also fared well during the quarter, while the small-jet segment – especially for out-of-production aircraft – continued to lag the recovery. Given the high number of new aircraft for delivery overseas, we announced that we will double to eight the number of locations in our global network offering business aviation training. This expansion will include new centres in Asia and South America.

For Civil overall, we booked $230 million in new orders during the quarter, for a book-to-sales ratio of 1.09 times.

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Turning now to **Defence**, during the quarter we continued to experience delays in procurement decisions in Europe; however, we received orders that we had been anticipating in the US which were delayed due to the 2011 Continuing Resolution. The US and Europe represent the majority of the world's defence spending, so what happens in those markets obviously matters a lot. Like our civil business, we have an established global position in defence which gives us access to markets such as Asia and the Middle East that are currently expanding. In fact, the emerging markets represented over a fifth of our military orders, which helped make up some of the shortfall in the traditional markets.

In our traditional **virtual air domain** we received a contract from the US Navy for two MH-60R Seahawk helicopter trainers. We also won a subcontract to design and manufacture trainers for the US Air Force under Boeing's C-130 Hercules Avionics Modernization Program. In fast jets, Boeing authorized CAE to provide 20 years of maintenance and support services to an international customer for M-346 full-mission simulators. Also overseas, we won an order for an AW139 helicopter full-flight simulator to support AgustaWestland's customers in Asia.

Beyond our success in our traditional air domain, I continued to be encouraged by our progress during the quarter to expand our core into the **land domain** where we won a contract for five Abrams tank maintenance trainers for the US Army, and in Canada, we teamed with Force Protection Industries to compete the Canadian Forces Tactical Armoured Patrol Vehicle or TAPV project.

In **Unmanned Aerial Systems** or UASs, we've teamed with General Atomics to offer the Predator to meet Canada's Intelligence, Surveillance and Reconnaissance needs under the JUSTAS program.

Total Military orders in the quarter totalled $210 million for a book-to-sales ratio of 1.02x, which adds to our solid backlog. The ratio for the last 12 months was 0.98x.

[PAUSE]

Now looking at **New Core Markets**…

In **CAE Mining**, we sold our geological modelling and mine planning systems to 18 new customers and in **CAE Healthcare**, we sold more than 25 surgical and ultrasound simulator systems and modules to institutions like the Mayo Clinic and Massachusetts General.

I continue to be encouraged by the progress we're making to ramp up in healthcare and mining and I am particularly pleased with the credibility we have earned with customers. We're reaching important milestones that validate our go-to-market approach to market and give us additional confidence that New Core Markets will become a material and profitable part of CAE in the years ahead.

With that, I'll now ask **Stephane** to take you through the financials.

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

Thank you, Marc, and good afternoon everyone.

In terms of our consolidated financial performance, revenue for the quarter was up 17 percent year-over-year at $427.9 million and net income attributed to equity holders of the company was up 16 percent at $43.1 million. We generated $72 million of operating profit in the quarter for a margin of 16.8 percent.

Orders continued to be good during the quarter with $450.9 million booked for a consolidated backlog of $3.5 billion. Bookings came in at 1.05 times revenue.

We had negative free cash flow of $88.5 million in the quarter because of unfavourable movements in our non-cash working capital accounts and lower cash provided by operating activities compared to the recent fourth quarter. We normally expect to see significant negative changes in our non-cash working capital in the first quarter of the fiscal year. The change this quarter was mostly due to a decrease in accounts payable and accrued liabilities and an increase in the net position of contracts in progress and in accounts receivable. As in the past, we expect that a portion of this will reverse as the year progresses.

Income taxes were $13.6 million, for an effective tax rate of 24 percent. We had strong demand for our products and services in the emerging markets and in those parts of the world, we benefit from lower effective tax rates. During the quarter we generated a higher proportion of income from these jurisdictions than last year. Taking that into consideration, we now expect CAE’s effective tax rate for the full year to be slightly lower than the 28 percent we previously indicated.

While a lower tax rate resulting from doing more business in the emerging markets is definitely positive, from a macro standpoint, the growth in those markets has helped to strengthen the Canadian dollar. Hedging contracts gives us some breathing room for a period of time but the prevailing rates eventually do catch up as we sign and hedge more contracts at current levels. Also, most of our currency exposure is translation related and therefore is not hedged. Although the Canadian dollar has retreated somewhat lately, the fact is that it still persists above parity with the US dollar, the impact of which can be expected to offset any benefit we might get from a lower tax rate this year.

Capital expenditures totalled $30.5 million, including $19.6 million in support of our growth initiatives and the balance for maintenance. We continue to expect total CAPEX this year to be in the range of $160 million as we keep pace with the growth of our customers and position for new opportunities.

[PAUSE]

Now looking at our segmented financial performance...

In our combined **Civil segments,** first quarter revenue increased 19 percent year over year, reaching $210.1 million. Our combined Civil operating income was up 24 percent to $45.2 million, which gave us an operating margin of 21.5 percent. IFRS has the most impact on the way our results are presented in Civil and as a result our combined Civil margin is about 200 basis points higher that it would have been under Canadian GAAP.

In **Simulation Products/Civil,** segment operating income remained stable compared to last year at $9.7 million or 11.3 percent of revenue. While we had the benefit of increased volume, we're still working through lower margin backlog. We did however, see some improvement in project margins, but this was offset by less favourable hedging rates.

In **Training and Services/Civil**, we had more activity in Europe, the emerging markets and the Americas and we generated revenue in helicopter training for CHC. We reached 75 percent utilization compared to 69 percent last year and annualized revenue per simulator was $3.6 million compared to $3.3 million. Our operating profit in training and services was up 32 percent to $35.5 million for a margin of 28.6 percent. Despite the currency translation headwind, we had a sizable increase in profit this quarter from higher demand in a number of regions. We also realized approximately $6.8 million in gains on some simulators that we had previously built and put into operation in our network ahead of agreeing to form certain joint ventures in the quarter.

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In our combined **Military** segments, first quarter revenue increased 14 percent year over year, reaching $206.4 million. Our combined Military operating income was down 6 percent to $29.4 million, which gave us an operating margin of 14.2 percent.

In **Simulation Products/Military,** segment operating income increased 9 percent over last year at $18.8 million or 13.9 percent of revenue. This compares to 14.9 percent of revenue last year and reflects a less favourable program mix.

On a sequential basis, revenue and operating income were down $44 million and $15 million respectively. We had a particularly strong fourth quarter last year with programs in Australia and Europe having reached significant milestones or delivery, which made for a difficult comparable. We also had a higher level of activity on our big Canadian programs in the fourth quarter last year.

The lower volume this quarter also had a bearing on our operating margin as we had to absorb a similar level of R&D and SG&A expenses. We felt it was important to maintain our level of effort in support of new products and development program commitments, as well as the expansion of our core into new domains such as land, UASs and professional services.

In **Training and Services/Military**, segment operating income was down 24% compared to last year at $10.6 million, which represents 14.9 percent of revenue. First quarter last year benefited from a favourable contract extension that saw our operating margin reach 21.1 percent. The operating margin this quarter is more in line on a sequential basis and more typical of that segment's run rate.

[PAUSE]

In **New Core Markets,** first quarter revenue increased 48 percent year over year, reaching $11.4 million and our operating loss was $2.6 million as we continued to invest in creating a larger business for the future.

As you will have seen, we now report New Core Markets as a fifth business segment. The rationale behind this decision was to provide greater visibility into New Core Markets and to enable investors to have a plain view of the Civil business without complications to get to the underlying performance.

Thank you for your attention and back to you Marc.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Our outlook for Civil is positive as we see higher demand for products and services as a result of the market up-cycle and especially because of our unique position in the world's fastest growing regions.

Commercial aircraft order backlogs have now reached a combined 8,600 aircraft, which represents about seven years of production, and Boeing and Airbus have recently signalled production rate increases to unprecedented levels.

The agreements we announced with AirAsia and Interglobe, the parent of IndiGo, are examples of CAE's ability to develop long term strategic partnerships with major airlines. These are in addition to over a dozen other partnerships, alliances, and joint ventures we have established with customers which involve CAE undertaking responsibility for all or part of their training-related operations.

We're monitoring economic indicators closely and while predictions are more difficult to make given the level of volatility, the secular civil aerospace picture remains attractive. We believe it will continue to be driven by a combination of passenger growth, particularly in the emerging markets, and also by the re-fleeting opportunity in the mature markets.

In business aviation, we've seen gradual improvement in demand for business aviation training but there's considerable upside remaining for a broader recovery, which depends mainly on sustained corporate profitability.

In civil helicopter aviation we have seen a very positive market reaction to CAE's value proposition. In fact, we've been pleasantly surprised by the strong performance in helicopter training, in particular in support of the offshore helicopter operators.

As for the year ahead in **Civil**, we expect to see continued improvements in capacity utilization and revenue per simulator in our training centres. I would highlight, however, that we do experience seasonally lower demand for training in our second quarter due to the busy summer travel period. As well, our products segment is impacted by the regular summer shutdown at our major manufacturing facility in Montreal.

In simulation products we've had a very good start of the year so there's a good probability that we will sell a few more than 30 full-flight simulators this year. As well, we expect the products segment's operating margin to gradually improve over the course of the year as volume picks up and we get through more of the low margin backlog.

[PAUSE]

In **defence**, we're confident in the quality of our backlog and we're in a good position having started the year with about 70 percent of our budgeted revenue already booked. And while that usually gives us a good base to forecast our performance, there's more uncertainty about the remaining portion we need to win – mainly in terms of timing. In recent months we've seen defence procurements in the US and Europe either freeze up, scale down or generally take longer than we expected. This has been partially counterbalanced by the wins we've had in the rest of the world and by the resumption of procurement activity in the US following the FY11 budget resolution. Of course, given the recent US government budget debate, the FY12 defence budget appropriations process is less than certain.

Taking all the known puts and takes into account, we still expect to win our fair share of orders this year and to grow revenue overall. Our operating margin slipped below 15 percent this quarter for the first time in a long while, and for the same reasons Stephane explained, we expect that level of performance to persist over the first half of the year. We got off to a softer start but we expect margins to get back into the 15 percent range once volume picks up in the back half. Even in the best of times, the defence business is lumpy and can only really be judged on a 12 month basis.

Looking out longer term, the good news remains that there's an explicit desire by defence forces and governments to move more training hours from aircraft to simulators as a means of achieving recurring savings. So far we've witnessed some tangible evidence of a shift towards simulation, but not yet a wholesale change.

In Germany and the UK, for example, the cost efficiencies that increased simulation use can provide resonates well, but they're still trying to figure out what their future force structures should look like. We're realizing that in practice, the urgency of budget reductions in the immediate term has meant that the first priority for defence forces in these regions is finding areas to cut, and then secondly to look for ways to save going forward.

To conclude, CAE remains well positioned for the future.

In **Military**, we expect lower growth this year than previously anticipated but the overriding point is that we still have a strong defence business and we expect growth despite a tough market. We've got a solid backlog; we're well diversified between traditional and emerging markets; and we're making good progress expanding our core in adjacencies like land. Over the longer term, as force structures, budgets and training needs become better defined in the US and Europe, we expect to see the benefits of an uptake in the use of simulation to reduce costs.

In **civil,** so far we've experienced stronger than expected performance, owing mainly to the demand in emerging markets and the positive market reception to the full range of CAE's capabilities. We have demonstrated three new examples of key strategic relationships in the first quarter and we will work to build on those successes with our other airline and OEM partners.

In **New Core Markets**, our progress to date and the opportunities we see ahead of us put us on track to create material and profitable new businesses for CAE.

While there's no shortage of macroeconomic uncertainty, we have a strong financial position and we have a track record of being able adapt to changing market conditions and opportunities. CAE's future is bright and we expect more CAE to achieve solid growth overall in the period ahead.

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 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.