REMARKS FOR CAE'S SECOND-QUARTER FISCAL YEAR 2013

November 8, 2012

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

As delivered

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, 2012. 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, November 8, 2012, 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.

I'll first go through some of the highlights of the quarter, and then Stephane will provide more details about our segmented results. I'll come back at the end to talk about our outlook.

During the quarter, we had good order intake for the company as a whole, with book-to-sales of 1.15 times on $590 million of new business and total backlog of $3.9 billion. In Civil, we made good progress integrating Oxford and we had strong demand for simulators with 12 more orders in the quarter, for a total of 19 announced so far this year. In Military, we signed more long-term recurring training services contracts, and in New Core Markets, we had good growth and better margins.

Looking more specifically at **Civil**, revenue for our combined Civil segments increased 36 percent in the second quarter to $288 million and our operating margin was 16 percent. This includes a full quarter of Oxford, which at this stage of the integration process represents about three to four percentage points of dilution on the combined civil margin. The integration is a top priority and it's well on track, but it required a fair bit of our operational focus during the quarter. Civil training saw a slower than usual summer and our results were further impacted by some disruption from our ongoing integration of Oxford. However, we made appropriate use of the slower period to make the kinds of changes necessary to get us to the $22 million of cost synergies that we expect to realize by the time our integration work is done. We've been making significant adjustments to the combined workforce and we've taken some of our simulators offline to relocate them within our global network to better match supply with demand.

Turning now to our **Defence business**, revenue for our combined Military segments decreased two percent year over year in the second quarter to $198 million and our operating margin was 14.3 percent. The margin was helped by other gains, about which Stephane will elaborate.

Order activity was good in the quarter with a high proportion of multi-year services contracts materializing from our pipeline. We like these types of contracts because they increase the predictability of the Military business, but they translate to revenue over a longer period of time than products. In addition to the effect of our order mix between products and services, our

growth and profitability in Military was further impacted by the ongoing weakness in Europe – specifically Germany.

We announced last May the restructuring of our military operations primarily in Europe to adapt to lower demand. Since then, market conditions in Germany have further deteriorated, leading to new orders dropping off faster than we expected and it's taking longer to reduce the cost of our operations because of local labour laws. The result is lower revenue and profit in Germany during the quarter, which negated otherwise good performance in the rest of our military business.

In our **New Core Markets,** we generated $28 million of revenue for the quarter and we became more profitable with a segment operating profit of $2.2 million.

We had continued success with positive market reception to new products we've just launched and we had some good sales of existing product lines.

In **Mining**, we announced a strategic partnership with Devex, which is a technology company involved with mining operations management. This gives us more solutions to extend beyond mine planning and we have secured exclusive distribution rights for Devex technologies in a number of key markets. We continued to do well offering our existing software solutions also, with sales during the quarter to major mining customers in South America, South Africa and Australia.

In **Healthcare**, we launched our new Caesar trauma patient simulator and we prelaunched our new VIMEDIX Women's Health ultrasound simulator, both of which are exciting new additions to our portfolio. We also had a number of strategically important deals during the quarter, with the sale of our centre management system to the U.S. Veterans Health Administration for use in 159 of its centres throughout the U.S., and to the U.S. Air Force in 25 medical simulation centres around the world.

Stephane will now take you through the financials.

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

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the quarter was up 19 percent year-over-year at $514 million and net income attributable to equity holders was $36.5 million or 14 cents per share. We had a $9.8 million pre-tax impact from restructuring, integration and acquisition costs this quarter, and excluding these costs, net income attributable to equity holders was $43.5 million or 17 cents per share. More than offsetting those costs; however, were other pre-tax gains including $8.3 million in foreign exchange gains and a $5.0 million gain on the contractual expiration and reversal of contingent liability related to a prior acquisition in Military.

Income taxes this quarter were $12.5 million representing an effective tax rate of 25%, compared to 21% last year. The tax rate was lower in the second quarter last year due to the recognition of certain tax assets.

Free cash flow was positive $17.7 million this quarter, which is up from last quarter because of lower investment in non-cash working capital and more cash from operating activities. Free cash flow was lower; however, than second quarter last year because of higher investment in non-cash working capital, which was only partially offset by more cash from operating activities. That said, we still expect a partial reversal of our working capital investment toward the end of the fiscal year.

Capital expenditures totalled $44 million this quarter, including $33 million in support of growth and $11 million for maintenance. We still expect total CAPEX for the year to remain within our $150 million estimate.

Net debt at $995 million was stable compared to last quarter at 49 percent net debt to total capital. It remains our intent to decrease this ratio over time to around 40 percent.

The integration of Oxford is going as planned and we still expect to be within our $20 million cost estimate and we are on track to deliver $22 million of annual cost synergies by the time the initiative is complete in the coming fiscal year.

As we announced this morning, we are implementing additional restructuring in Europe with an estimated cost of $15 million and the related charges will be incurred in the second half of the current fiscal year.

Now looking at our segmented financial performance...

In our combined **Civil** segments, second quarter revenue increased 36 percent year over year, reaching $288 million. Combined Civil operating income was up nine percent to $46 million, for an operating margin of 16 percent. Utilization for the quarter was 65 percent, down from 77 percent last quarter. Excluding Oxford from our results, utilization was 69 percent. As Marc said, our second quarter was seasonally slower than usual and this combined with some disruption from the integration of Oxford added pressure on the margins. For a same store comparison, if we exclude the results of Oxford this quarter, the combined Civil margin was 19.4 percent.

In our combined **Military** segments, second quarter revenue was two percent lower year over year, at $198 million, and we generated a 14.3 percent operating margin. If we remove the benefit of non-recurring gains in the quarter, the margin would have been 10.4 percent. The lower results this quarter are mainly due to our German operations, before which, Military would have shown modest growth and profitability more in line with our expectations.

With that, I will turn the call back over to Marc.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

With more than half of fiscal year 2013 now behind us, we've got a better sense of how we expect the year to shape up as a whole.

In **Civil**, we're highly leveraged to a growth market with excellent long term fundamentals and we're seeing a positive response from customers to our recent addition of Oxford and the expanded range of capabilities it gives us. We're still very much in the midst of a strong commercial aviation cycle and we've already seen utilization in our training centres return to normal levels in October. We're expecting higher demand in the second half and increased margins as we continue to ramp up synergies with Oxford. In business aviation we're bolstering our position in the large aircraft segment, which continues to outperform the small and mid-sized markets. Our recent agreements with Bombardier, naming CAE its authorized training provider for all Bombardier business jets models in Europe, and naming us its worldwide authorized training provider for the Global series business jets are testament to CAE's strong market position. In products, we're continuing to see good momentum for simulator sales, and with 19 already announced, our mid-30s target is well within reach.

In **defence**, the challenges presented by government budget processes are well known, and while this has caused some uncertainty about the timing of orders, we do know the market for CAE’s solutions remains large. We have good reason to be confident in the long term growth and profitability of CAE’s Military business.

There are three factors that distinguish our defence business from the sector at large: first, we have a solid position in terms of platform exposure; second, we have a diversified global footprint; and finally, the fundamental value of our simulation-based solutions is even more compelling in an environment where defence forces are given the challenge to do more with less.

Let me first talk about platforms. We have an excellent position on aircraft that remain highly relevant in the current context and we’ve grown our portfolio of solutions for long-legged platforms like the C-130 and MH-60 helicopter, which have an ever-increasing installed base around the world.

Next, in terms of global reach, we’re continuing to make excellent progress developing new markets with over one-third of our orders year to date coming from the emerging markets. Our defence customers in Asia and the Middle East are increasing investments in defence to modernize their forces, and we expect these markets to continue to present significant opportunities for CAE. Just in the last three years, we have seen our Military orders from emerging markets more than triple.

The third factor that defines CAE’s Military business and the most fundamental is the very nature of what we do. Simulation-based modelling and training is an important answer to the question about how defence forces can maintain mission readiness at a lower cost. The argument for increased use of simulation is strong and we see buy-in from heads of government and defence forces. In the U.S., the world’s largest market by far, the Government Accountability Office has clearly acknowledged the need for the U.S. military to make more use of virtual training. And both the U.S. Air Force and the U.S. Navy have recently reiterated their explicit intent to increase the use of simulation for maintaining mission readiness. The U.S. military currently uses simulation for training about 35 percent of the time and industry estimates it will increase to a targeted 50 percent over the next decade. Given the size of the U.S. installed base, this movement alone represents a very material opportunity for our industry and our company.

In Europe, the landscape is changing. Future opportunities are now expected to involve more training services integration than traditional products. This bodes well for CAE’s expertise

but we need to align our capabilities in the region to this new reality. In light of the clarity we now have about the magnitude of the expected restructuring of the German armed forces and the state of European business originating from our German operations, we’re undertaking additional restructuring. In doing so, we believe we will have accounted for the full brunt of current and potential defence cuts in the region. Once the restructuring is complete, we’ll be able to more profitably deliver existing defence programs in the region and we’ll be in a better position to meet the future needs of the broader European market.

The long-term fundamentals of CAE’s market position in defence remain attractive and we have also reason to be confident in the near term. We currently have over $2.7 billion of defence bids and proposals submitted, which is as large as our pipeline has ever been.

That said, we have a high proportion of long-term services contracts booked so far this year and they convert to revenue more slowly than products. This factor, combined with lower revenue in Germany, lead us to expect Military revenue to decline slightly this year. We expect Military margins to remain stable next quarter and begin recovering toward the latter part of the year as we continue to restructure our operations. This view is based on work we already have in backlog and plan to execute; orders recently won and are currently negotiating with customers; and, orders we believe we have a high probability of winning before the end of the year.

Finally, in **New Core Markets**, I continue to be pleased with the progress our teams in Healthcare and Mining are making to develop our offering and penetrate the market. We’ve recently signed significant contracts with some of the most sought-after government and industry customers, which is a testament to our innovative technology and the CAE brand. Just this week, we announced a bolt-on acquisition in Healthcare that is immediately accretive and gives us additional capability and products in the rapidly-growing ultrasound simulation market. Even without this acquisition, we are well on our way to generating $100 million revenue this year and I am encouraged by our increased profitability.

To conclude, there’s no doubt this was a challenging quarter, but we know where the challenges exist and we’re addressing them. We’ve already begun to implement additional measures that we believe reflect a conservative outlook for defence in Europe and also position us better to meet the changing needs of what remains a large and attractive market overall. We’re a leader in our niche in the U.S. defence market and we continue to see large opportunities to support the expanded use of simulation. Adding to our long-term confidence in CAE, we’re highly leveraged to a robust civil aviation cycle and we have a strong position in the more rapidly

growing emerging markets. Our integration of Oxford is strengthening our position even more and we expect our business to continue outpacing the global growth rate in air travel overall. Lastly, in New Core Markets, we’re succeeding to foster additional long-term growth drivers for the company that leverage our unique capabilities.

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.