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

CAMERON DOERKSEN: Hey, good afternoon. Question on the trading… the business, you're obviously announced a number of new customer wins this week, and also an expansion on the business training side. I'm just wondering if you can maybe talk about how many new simulators you expect to add to the network this year? And also whether you think that you're starting to or have won market share in the business aviation training segment in particular?

MARC PARENT (President and CEO, CAE Inc.): Well in terms of simulators that we're going to add this year, I think you can probably judge it, but if you look how much additional capex that we said we're going to be deploying this year, Cameron. I think that's a good proxy.

I mean you saw, as you just said, that ebase(ph), we announced that we're going to be doubling our BAT locations from four to eight. Now that's going to take maybe a year or two for us to deploy. We still see good opportunities for us to add simulators, but I think you should look at the capex, it'll give you a good idea.

The second part of your question, sorry, Cameron?

CAMERON DOERKSEN: Just on whether you think you're winning some market share in the business aviation training in particular?

MARC PARENT: Yes, okay. Thank you. Well I think that we're certainly holding our own in the developed markets, especially in North America, with our main competitor. I think internationally we're doing pretty well. Really, in my view, I think it's clear that we're the market leader in the international segment, and that's the focus we've had in keeping with CAE's overall business. So I think it's a smart competition there between us and the major competitor, and that's… and that will continue.

CAMERON DOERKSEN: Okay. Thank you.

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

CHRIS PARKINS: Good morning. This is Chris Parkins on behalf of Hamzah. I just had a couple of quick questions. One of them was can you just talk a little bit about how competitive pricing is on simulators right now in your bookings? And kind of comment on that trend now relative to what's currently rolling through your P&L on the civil products business?

MARC PARENT: Yes. I think it’s slightly better is how I would characterize it. It’s certainly not the Eldorado, I would say. I think if you look at margins expectations, I think you’re seeing maybe a combination of a slightly increased price, a better pricing environment. But I think more margin expansion will mainly, in my mind, come from the additional volume that are cycled through our plant over the next few quarters as a result of the higher orders we’ve booked last year and the year ahead. I think that’s where it’s going to come from.

CHRIS PARKINS: Perfect. Thank you. And then also, just turning into your new core market initiatives such as healthcare and mining, it appears there’s a bit of a drag on your civil training business based on your current reporting setup. Could you comment on what margin profiles those businesses currently look like, what you expect from them as you gain critical mass? And then just kind of comment on that relative to your current offering within civil training?

MARC PARENT: Yes. Well, I think we put it in civil training because we need a place to put in and we thought that was the most sensible place to put it. But as you saw, we break it out so that there’s no confusion as to what the margins are in the civil business. And you should get a good idea of what we’re doing in the new core there.

The first thing I would tell you is that we're not into running unprofitable businesses. So you can expect that that's not going to continue forever, that's for darn sure.

The phase we're in right now is we're investing. If you look at the simulators that we sell, whether the ultrasound, the ones that we have for surgery, the services we run in training centres for healthcare, those services, those products are profitable. The issue is one of scale. We're just not yet selling enough to overcome the amount of SG&A and R&D that we're putting into it.

But that, to me, is a temporary situation. How temporary is obviously the question, and I'm not really giving any much precision on that because in some points we don't actually know how fast that will be in the market expansion. But if you look at the progress we've made this year from 2 last year to 38 this year, I mean, we have expectations that we'll be able to get some scale in this business and margins will turn more positive, which you would expect.

CHRIS PARKINS: Perfect. Thank you. Very helpful colour.

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

BEN CHERNIAVSKY: Good morning. Can you hear me?

MARC PARENT: Yes, Ben. We hear you.

BEN CHERNIAVSKY: Hi. So I hope this doesn't count as my question. Can you clarify what the capex was? You mentioned it, but just a number for this year, where you guided to?

ALAIN RAQUEPAS (Chief Financial Officer, CAE Inc.): Yes, for next year, Ben, we've positioned it around 160 with the caveat of depending of the opportunity that might develop over the year. But 160 is probably a good number.

BEN CHERNIAVSKY: Okay. Thanks. The question I wanted to ask was just with respect to the government funding. The Project Phoenix, just ran out and you've got a couple of other projects that I think you're getting support through but what can we expect the net impact to be on the margins, if any, and where might it show up as Project Phoenix runs its course?

ALAIN RAQUEPAS: Yes. Do you want me to take this one, Marc?

MARC: Well maybe I'll just preface it to say that when I talk about the margins in civil there, obviously we take that into account. And when we talked about the overall margins moving gradually north of mid-teens where we're at, but maybe I'll just ask Alain to give more precision on a couple of these programs.

ALAIN RAQUEPAS: Yes. The first thing to know, Ben – we've only discussed it at bit further in the IFRS call – but under Falcon you realize or people realize the support from the government with unconditionally refundable. And it was therefore partially as a loan. So you have in note 22 of the financial statement, Ben, the detail of how much Falcon has contributed to the income statement this year. And it was around $25 million this year. So this is probably a good number. That program continues for the next two, three years at least. It was a $250 million program, so...

BEN CHERNIAVSKY: Sorry, I'm confused. It's going to continue to contribute that amount? I thought it expired?

ALAIN RAQUEPAS: Yes, I'm talking about Falcon now. Phoenix...

BEN CHERNIAVSKY: Oh, Falcon now. Sorry.

ALAIN RAQUEPAS: Yes, yes. Sure. Sure, sure. Phoenix is behind us, yes.

BEN CHERNIAVSKY: Okay. Okay, that makes sense. Sorry about the confusion. Thanks very much.

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

DAVID NEWMAN: Good afternoon.

MARC PARENT: Hi, David.

DAVID NEWMAN: Just noticing on the simulation products sold that it was a little lighter in the quarter. Are you viewing this as somewhat a reflection of the market? Is fuel having some impact on your customers and of course, turmoil in the Middle East? And you're guiding to, I guess, 29 or thereabouts for next year. If you regain or they regain footing, would you think to step up your production once again?

MARC PARENT: In terms of production of full flight simulators for the civil market, you mean?

DAVID NEWMAN: Yes. So you were a little softer, you're guiding kind of flat year over year. Are you seeing… what are your customers saying, I guess, in terms of what they're feeling from the pressure of fuel, and I guess some of the conflicts in the Middle East? Obviously it's causing them to be a little bit cautious, I guess.

MARC PARENT: Okay. Okay. Well, I think if I look at orders for the year, the way I'd characterize it is we're going to update that number, as we usually do as the year progresses. Right now I'm looking at the fact that if you look at the 29 we won last year, we did really well, and market activity, if anything, is as robust or better in terms of the amount of proposals we got going and are coming in. But if you look at last year there was a number of programs that we won which are for development programs, like new aircraft.

DAVID NEWMAN: Right. Right.

MARC PARENT: So those steps, if you like, mess up the average because they come, how would I say, few and far between. And they came kind of lumps last year. So those kind of prototype programs don't necessarily reoccur. Having said that, as I mentioned, the market activity is, if anything, higher.

And the other thing is as well, as you saw, we had a few orders come in in the last month, and those you can't really predict…. You know, depending on which pace you close the contract, they could have easily dropped into this year.

DAVID NEWMAN: Right, right. Okay.

MARC PARENT: So to me, what I see, based on everything I see today, I'm pretty confident saying that we'll do as well as we did this year and we'll update that number, we'll get it in on the first quarter.

DAVID NEWMAN: And are you fairly comfortable with your current production rate through the next fiscal year?

MARC PARENT: Production rate in terms of activity?

DAVID NEWMAN: Yes, the actual civil sims that you're actually producing and pushing out the door, are you comfortable with that production rate going forward?

MARC PARENT: Yes. We can increase it. We react basically to the amount of sales that we have and we have ample capacity to bring it up. That's not really a concern to us.

DAVID NEWMAN: Okay. And last one for me, the utilization on your training network, I don't know if I saw a number. I think last quarter it was around the low 70s, if I'm mistaken, around 71. What was it at in the quarter and what do you think it could go to next year?

MARC PARENT: Well if you look at Q4, we finished at 74 per cent.

DAVID NEWMAN: Okay, that's good. It's a good number.

MARC PARENT: Yes. And if you look at Q4 last year, it's good to be able to compare these year over year. It gives you… it takes seasonality somewhat out of it. Last year we were at 65 per cent.

DAVID NEWMAN: Excellent.

MARC PARENT: I think it's a good pickup, and is there room to grow? Yes. I think a better – we will grow utilization. But I think one metric to look at as well as it's probably more accurate is revenue per RSCU. And I think that's probably a good proxy to look at. And if you look at that metric, we're still about $400,000 in terms of revenue for RCU off the peak of the last cycle.

DAVID NEWMAN: Right. Right.

MARC PARENT: So I think if you look at the number of simulators we got – I mean, who knows how long it'll take. I mean it's your guess really in terms of when the complete business aircraft comes back in addition to what we already see the airline. But clearly there's no reason we can't go back to those kind of numbers.

DAVID NEWMAN: Right. Looking pretty good. Okay. Very good. Thanks, gentlemen.

OPERATOR: Our next question comes from the line of David Tyerman with Canaccord Genuity. Please proceed.

DAVID TYERMAN: Yes, good afternoon, gentlemen. Quick question on the defence side. You said it's going to grow. Can you provide any more specificity in what you see for the coming year?

MARC PARENT: Well, I think the way that I'll characterize it is, yes, I feel probably as good as I did when I started the year last year. If we look at how much orders we've got in backlog that we're already won, that we'll be executing, contributing to revenues this year, about 70 per cent of the revenue that I need to get this year is already there. It's already in my backlog. I just got to execute it. I feel good about that.

The rest I got to win. And do we feel good about our win probabilities and the programs being out there? The answer is yes. And the only thing that is harder to predict, and as I said on the call is if you look at what happened in the U.S. environment, what we've seen is obviously this six-month delay has to be caught up. And they've got a lot. So it's really going to be the pace and which they're able to be able to put those orders out. I mean, we're confident we're going to win them; we're already won them. But to put the contracts in place. So that's the only hesitation I have with providing a number.

Of course last year we had the big impact on FX. When I look at positive growth this year I'm considering the FX I see today, so spot rate. And that's important because if you look at the growth rate we had last year in military, we ended up with 7 per cent. But that was 12 per cent if you were to consider it FX neutral.

So a bit early to be able to provide you a solid number. The only thing I'll tell you is I'm confident that we'll have solid growth, both in revenue and profitability.

DAVID TYERMAN: Right. I understand you can't specifically answer, but if you've got the other 30 per cent, where would you end up? Would you end up 10 per cent higher, because I understand the...

MARC PARENT: That's the number I gave you last year, and to me I'm sticking to that with the caveat that I mentioned to you. It's really going to be pacing at the level of which these orders can be finalized in the U.S. contracting process. But what I see today, I don't see any reason why we can't achieve that.

DAVID TYERMAN: Okay. That's very helpful. And then on the civil side for SBC, I'm thinking, I'm wondering, is the competition stepped up now significantly? Mechtronix seems to be… they've been around a while now. And Rockwell Collins has a product that they went out and spent a whole bunch of money on. Presumably they want to actually win something with it. So I'm just wondering, is the profitability of that business impaired by increased competition, in your mind, or has anything changed there?

MARC PARENT: I think it's pretty nominal. All the players that you talked about have been around for quite a few years and there's nobody really new, certainly over the last couple of years. So I don't think anything's changed. I mean, there is a lot of competitors in this market.

As you've seen, we continue to do well on market share. It's for sure in the last few years that profitability has suffered as a result of the competition, but in the end, when I talk to you about margins moving above the mid-teens and combined civil, I'm taking that into account.

DAVID TYERMAN: Okay. So do you think that… just to try and put a number on it, for SBC, is 20 per cent out of the question now for an EBITDA margin or is that still the type of thing you think you'll be able to do? With more volume, obviously.

MARC PARENT: Yes. Now you know what I've said is – and I'm sticking to it – what I'm basically saying is that look at the combined civil numbers. That's what I've been saying...

DAVID TYERMAN: Okay.

MARC PARENT: ... for quite a few quarters now. And part of the reason for that is because we're really… one of the competitive differentiators that we have at CAE is solution selling. We sell simulators. We deliver training. We can manage training centres. We run the largest network of ab initio training centres where we actually train people to become pilots so we can provide pilots to the airlines.

So what we use is we use all of these various arrows in our quiver to be able to offer combined solutions. So in some case that may mean that

I will have a lower profit in one area rather than another and that varies. So that's why I'd rather look at giving you some numbers on combined civil margins, which is what I'm giving you.

DAVID TYERMAN: Okay. Very good. Thank you.

OPERATOR: Our next question comes from the line of Marko Pencak with GMP Securities. Please proceed.

MARKO PENCAK: Thank you. I'd like to get two numbers and then one qualitative question. The numbers are, can you tell me what your market share was in the fiscal year that ended in terms of how many civil sims you won in the competed market?

MARC PARENT: Seventy-six per cent.

MARKO PENCAK: Okay. Can you tell me how many simulators you physically delivered in the course of fiscal '11?

MARC PARENT: Yes. We delivered – let me check – 17 to the external market and internally we built four, so our total of 21 went through our plant.

MARKO PENCAK: Great. And then my qualitative question is with the military budget pressures, can you just describe how are your customers reacting to that? I mean, are they just basically sitting back and waiting for the politicians and the budget process to roll forward to determine what gets approved? Or is there any actual changes that they're contemplating?

And specifically what I'm trying to understand is do you see any shift towards more training rather than asset acquisition because it simply pushes out the actual total dollar spent in a given year. So I'm just trying to understand what that dynamic is. Thanks.

MARC PARENT: I think maybe the short-term dynamic, which I've talked about when talking about this year, it's really a question of the contracts being able to be put in place. The customers in the U.S., the various branches of U.S. defence forces, can't move forward, clearly, until the contracting mechanism is finished. And in a lot of cases, if you look at the amount of work that's got to be done, I would maybe… maybe summarize it as saying that the U.S. procurement agencies have got to do the work of 12 months into six months to get back on schedule for what they've lost. So that's really what we're seeing as we look at this year.

MARKO PENCAK: Okay. But I guess… I mean, the budget pressures and the positions of governments all over the world, I mean, clearly this isn't a short-term fix in terms of their overall financial position. So I wonder, longer term, do you think that more and more of your military business shifts to training simply because the governments could then effectively push out the total dollars that they're spending?

MARC PARENT: Too early to say. It varies depending on which governments you're looking at. I mean, the first thing I'd say is good news is that we haven't really seen any cuts yet that have really materially affected our… certainly our backlog, haven't seen anything has hurt or cut our backlog. And nothing that's really affecting our pipeline in any significant way. Too early to say it's going to switch to more services or, as you say, to offset the capital acquisition costs. What we'll possibly see is more outsourcing. Definitely that's been a trend that we've seen over the last few years. That may accelerate that.

But as I said, there's definitely a trend towards more use of training using simulation than live, just because it's cheaper and you can do more effective training.

MARKO PENCAK: Right. Okay. Thank you.

MARC PARENT: You're welcome.

OPERATOR: Our next question comes from the line of Michael Williamse of CIBC. Please proceed.

MICHAEL WILLIAMSE: Thank you. Just wondering if you can give us a sense of the size of your civil helicopter business, both on the simulation side and the training side?

MARC PARENT: Well, I think as far as… I don't have it in dollars. I don't know that we have… well we haven't broken it down, so I don't think I would at the moment.

I think I would tell you, maybe to give you some colour on it, we've expanded from… our footprint from four locations to eight that have helicopter simulators. We have a prime position in the oil and gas sector with the outsourcing that we've reached this year Canadian Helicopters Corporation because they're the largest offshore oil and gas helicopter flyer(ph) in the world.

And we've just expanded recently into China, into South America with Leader, as I mentioned, on the call.

So the market's evolving. We're well positioned to cultivate it. I'm confident that we're… with what we've done this year we're in the number-one position in terms of offering simulator-based training for civil helicopters at the moment.

MICHAEL WILLIAMSE: Would you say that the revenue per facilities should be similar to the rest of your training business for RSCU?

MARC PARENT: Yes. Yes, that's what I would expect. Yes.

MICHAEL WILLIAMSE: Okay. Thank you.

MARC PARENT: You're welcome.

ANDREW ARNOVITZ: Operator, we'll take one more question from investors so that we have some time for the media.

OPERATOR: Very good. Then our last question is a follow-up question from the line of David Tyerman with Canaccord Genuity. Please proceed.

DAVID TYERMAN: Yes. Just two quick things. On the tax rates, so Alain, you said that it's going higher. I'm wondering if you can give us some thought for this year and maybe where you ultimately see it going?

ALAIN RAQUEPAS: Yes. I mean, what we're seeing for a fact is the business in the U.S. is picking up, like I said on the remark. And David, this is by far the highest tax jurisdiction. Tax rates are north of 30 per cent.

DAVID TYERMAN: Right. Thirty-seven per cent.

ALAIN RAQUEPAS: So as we're seeing the recovery in the U.S. market, obviously it will hike my tax rate up.

DAVID TYERMAN: Right.

ALAIN RAQUEPAS: So this year we've done well, 28 per cent in average for the year. And so it will be around that number, depending of the share we're getting in the U.S.

DAVID TYERMAN: Okay. So not a huge increase, it sounds like, this year. Okay. And then the other question I had is your training, services, military depreciation bumped up. It was over $5 million and it's been running more like $3 or $3 and change. I'm not sure what was going on there. Is this a new run rate?

ALAIN RAQUEPAS: On the depreciation in TSM?

DAVID TYERMAN: Yes.

ALAIN RAQUEPAS: I would have to go back to you, David, to tell you exactly why there was a reduction in the quarter for that.

DAVID TYERMAN: Okay. An increase. It went up. Yes, okay, if you could let me know, Alain. I just want to know, should I be modelling that going forward or is it something unusual in the quarter and it's going to step back?

ALAIN RAQUEPAS: Yes, we'll get back to you with the reason and we'll be able to conclude if it's a good run rate.

DAVID TYERMAN: Thank you.

ANDREW ARNOVITZ: Operator, we'll now open the lines for members of the media.

OPERATOR: Very good. Participants who are associated with the media, please dial 1-4 if you wish to register a question. Again, please dial 1-4 to register a question.

And the first question comes from the line of Marie Tison with La Presse. Please proceed.

MARIE TISON: Oui, bonjour, Monsieur Parent. Au sujet des nouveaux marchés principaux, les mines et la santé, vous avez parlé d'acquisition possible. Qu'est-ce que vous avez en tête?

MARC PARENT: Bien, merci, Marie. Bien, la sorte d'acquisition qu'on considérerait, ça serait des compagnies qui permettraient d'augmenter notre gamme de produits, de nous ouvrir d'autres marchés ou de nous donner de l'expertise dans certains domaines particuliers. Comme l'an passé, on a établi l'expertise dans l'ultrason, par exemple, avec l'acquisition de la compagnie VIMEDIX(ph). Ça fait que ça serait ça la sorte de compagnie qu'on regarderait.

MARIE TISON: Puis la taille des acquisitions, ça serait semblable aux acquisitions que vous avez faites dans ces domaines-là?

MARC PARENT: Bien, ça dépendrait. Ce qu'on regarde, c'est plutôt est-ce que ça rencontre notre stratégie? Est-ce qu'on peut s'assurer d'avoir un avantage compétitif? C'est plutôt ça qu'on regarde que la taille. C'est sûr qu'on ne regarde pas quelque chose d'excessif, mais quand même, ça pourrait être plus gros que qu'est-ce qu'on a fait jusqu'à date.

MARIE TISON: D'accord. Je vous remercie.

MARC PARENT: Merci beaucoup.

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