Third Quarter Report 2016

FINANCIAL REPORT

for the three months ended December 31, 2015

Report to Shareholders

CAE reported revenue of $616.3 million for the third quarter of fiscal year 2016, representing a 10% increase over the third quarter last year. Third quarter net income attributable to equity holders from continuing operations was $57.9 million ($0.21 per share) vs. $52.1 million ($0.20 per share) last year.

Third quarter net income before specific items* was $59.4 million ($0.22 per share), up 14% from the same period last year. Specific items this quarter include restructuring costs of $1.5 million (net after-tax) related to CAE's ongoing process improvement program. All financial information is in Canadian dollars.

"We had good performance in the third quarter, keeping us well on track to meet our positive outlook for the fiscal year," said Marc Parent, CAE's President and Chief Executive Officer. "In Civil, we expect to surpass our previous full-year outlook for simulator sales and we look forward to solid growth and a higher margin for the year as a whole. In Defence, our year-to-date performance, robust pipeline, and order backlog support our outlook for growth. Free cash flow was strong again in the quarter, and has increased on a year-to-date basis by more than $200 million compared to last year, fortifying an already solid financial position."

In addition to reporting quarterly results, CAE announced its intention to establish a normal course issuer bid (NCIB), which is expected to commence shortly after the regulatory approvals are obtained. The common shares that may be repurchased under the program over a period of approximately one year will represent up to two percent (2%) of the issued and outstanding common shares of CAE. The NCIB is being established as part of CAE's capital management strategy and is intended to be used primarily to mitigate the dilutive effect of treasury shares issued under CAE's dividend reinvestment and stock option plans.

Civil Aviation Training Solutions (Civil)
Third quarter Civil revenue was $334.7 million, up 4% compared to the same quarter last year. Year-to-date revenue was $1,036.1 million, up 12% over the same period last year. Third quarter segment operating income* was $55.3 million (16.5% of revenue), up 3% compared to the third quarter last year. For the year to date, segment operating income was $162.4 million (15.7% of revenue), up 9% over the prior year period. Training centre utilization rate* was 73% for the quarter.

During the quarter Civil signed a series of training solutions contracts with customers in the Middle East, Europe, Asia and North America. These include the sale of 9 full-flight simulators (FFSs) and training programs with airlines and aircraft operators valued at $389.9 million. New customer agreements include exclusive long-term pilot training contracts with KLM Cityhopper and Air Europa, and training services renewals and extensions with Arab Wings, Shenzhen Airlines and Spring Airlines. The Civil book-to-sales* ratio was 1.16x for the quarter and 1.11x for the last 12 months. The third quarter Civil backlog was $3.09 billion.

Defence and Security (Defence)
Revenue for Defence in the third quarter was $253.3 million, up 17% compared to the third quarter last year. Year-to-date revenue was $676.4 million, up 9% over the same period last year. Third quarter segment operating income was $29.7 million (11.7% of revenue), up 4% compared to the third quarter last year. For the year to date, segment operating income was $81.7 million (12.1% of revenue), up 7% over the prior year period.

During the quarter, Defence signed a contract to provide the U.S. Air Force with a high-fidelity fuselage trainer representing both the C-17 transport and KC-135 tanker that can be used and configured for aeromedical evacuation missions. Also for the U.S. Air Force, Defence was awarded a contract from Lockheed Martin to perform a range of upgrades and updates to C-130J transport simulators. Defence orders also involving the existing installed base include upgrades to a Lynx full-mission flight trainer from the NATO Support and Procurement Agency and from the Australian Defence Forces for upgrades on MRH90 helicopter simulators. In the land domain, Defence received an order from the U.S. Army for Abrams main battle tank trainers as part of a foreign military sale. In total, Defence received $128.5 million in orders this quarter, representing a book-to-sales ratio of 0.51x. The ratio for the last 12 months was 0.98x. Third quarter Defence backlog was $3.3 billion.

Healthcare
Revenue for Healthcare was $28.3 million in the third quarter, compared to $21.3 million last year. Third quarter segment operating income was $1.6 million (5.7% of revenue), compared to $0.5 million last year (2.3% of revenue).

During the quarter, CAE Healthcare released new products including its Blue Phantom Musculoskeletal ultrasound training model, a first for ultrasound-guided evaluation and procedures for the knee. Notable contracts during the quarter include 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. Also involving U.S. defence customers, Healthcare sold patient simulators, courseware and staffing services for a military aeromedical training facility.

Additional financial highlights
Free cash flow from continuing operations was positive $194.4 million in the third quarter compared to $70.0 million in the third quarter last year. The increase was mainly due to a lower investment in non-cash working capital* and an increase in cash provided by continuing operating activities. Free cash flow for the year to date was positive $234.9 million, $202.9 million higher than the same period last year.

Income taxes this quarter were $8.5 million, representing an effective tax rate of 13%, compared to 20% for the third quarter of fiscal year 2015. The lower rate this quarter results from a change in the mix of income from various jurisdictions and U.S. tax incentives applicable to domestic manufacturers. Excluding the effect of the tax incentives, the income tax expense this quarter would have been $10.9 million.

Growth and maintenance capital expenditures* totaled $29.2 million for the quarter and $78.0 million for the year to date.

Net debt* ended at $794.9 million this quarter, compared to $971.7 million in the third quarter last year. CAE's net debt-to-total capital ratio was lower at 29.0% compared to 38.3% in the third quarter last year.

Return on capital employed* (ROCE) was 11% this quarter, compared to 10.5% for the third quarter last year.

CAE will pay a dividend of 7.5 cents per share effective March 31, 2016 to shareholders of record at the close of business on March 15, 2016.

Management outlook for fiscal 2016

CAE continues to expect growth in fiscal 2016 across all business segments. In Civil, the Company expects double-digit annual operating income growth and an improvement in operating margins from the 16.3% level reached last year, driven mainly by higher training utilization. With 39 Civil FFS sales announced fiscal year-to-date, CAE now expects to exceed its prior year Civil FFS unit sales. In Defence, CAE expects modest growth with operating margins in the 12-13% range. CAE continues to anticipate higher annual returns on capital employed going forward as it fills training centre capacity, undertakes a greater share of its customers' training activities, brings its process improvement plan to fruition, and incrementally invests in accretive, customer-driven growth opportunities.

* This report includes non-GAAP and other financial measures. For information and a detailed reconciliation of these measures, please refer to Section 5 of CAE's Management's Discussion and Analysis.

Management's Discussion and Analysis

for the three months ended December 31, 2015

1. HIGHLIGHTS

FINANCIAL

THIRD QUARTER OF FISCAL 2016

Revenue from continuing operations stable compared to last quarter and higher compared to the third quarter of fiscal 2015

- Consolidated revenue from continuing operations was $616.3 million this quarter, stable compared to last quarter and $57.2 million or 10% higher than the third quarter of fiscal 2015;
- For the first nine months of fiscal 2016, consolidated revenue from continuing operations was $1,790.1 million, $175.4 million or 11% higher than the same period last year.

Net income attributable to equity holders of the Company from continuing operations lower compared to last quarter and higher compared to the third quarter of fiscal 2015

- Net income attributable to equity holders of the Company from continuing operations was $57.9 million (or $0.21 per share) this quarter, compared to $75.3 million (or $0.28 per share) last quarter, representing a decrease of $17.4 million or 23%, and compared to $52.1 million (or $0.20 per share) in the third quarter of fiscal 2015, representing an increase of $5.8 million or 11%;
- For the first nine months of fiscal 2016, net income attributable to equity holders of the Company from continuing operations was $178.1 million (or $0.67 per share) compared to $137.9 million (or $0.52 per share) for the same period last year, a $40.2 million or 29% increase;
- Specific items included in net income attributable to equity holders of the Company from continuing operations were restructuring costs of $2.0 million ($1.5 million after tax or $0.01 per share) this quarter and $12.1 million ($9.0 million after tax or $0.03 per share) for first nine months of fiscal 2016 and a one-time tax item of $29.4 million (or $0.11 per share) recorded last quarter. Net income before specific items[1] was $59.4 million and earnings per share before specific items[1] was $0.22 for the quarter. For the first nine months of fiscal 2016, net income before specific items was $157.7 million and earnings per share before specific items was $0.59;
- Net income attributable to equity holders of the Company included a loss from discontinued operations this quarter of $0.2 million (or nil per share) compared to $6.5 million (or $0.02 per share) last quarter and earnings from discontinued operations of $0.9 million (or nil per share) in the third quarter of fiscal 2015. For the first nine months of fiscal 2016, the loss from discontinued operations was $7.2 million (or $0.03 per share) compared to $0.2 million (or nil per share) for the same period last year.

Free cash flow[1] from continuing operations at positive $194.4 million this quarter

- Net cash provided by continuing operating activities was $214.9 million this quarter, compared to $126.3 million last quarter and $91.5 million in the third quarter of last year;
- Maintenance capital expenditures[1] and other asset expenditures were $15.7 million this quarter, $16.0 million last quarter, and $9.9 million in the third quarter of last year;
- Cash dividends were $12.4 million this quarter, $12.1 million last quarter and $12.0 million in the third quarter of last year.

Capital employed[1] decreased by $57.4 million from last quarter

- Non-cash working capital[1] decreased by $91.2 million, ending at $125.3 million;
- Property, plant and equipment increased by $24.3 million;
- Other long-term assets and other long-term liabilities increased by $21.9 million and $12.6 million respectively;
- Net debt[1] ended at $794.9 million this quarter compared to $936.8 million last quarter.

ORDERS[1]

- The book-to-sales ratio[1] for the quarter was 0.89x (Civil Aviation Training Solutions was 1.16x, Defence and Security was 0.51x and Healthcare was 1.00x). The ratio for the last 12 months was 1.06x (Civil Aviation Training Solutions was 1.11x, Defence and Security was 0.98x and Healthcare was 1.00x);
- Total order intake was $546.7 million, compared to $826.1 million last quarter and $673.4 million in the third quarter of fiscal 2015;
- Total backlog[1], including obligated, joint venture and unfunded backlog, was $6,367.2 million as at December 31, 2015.

[1] Non-GAAP and other financial measures (see Section 5).

Civil Aviation Training Solutions
- Civil Aviation Training Solutions obtained contracts with an expected value of $389.9 million, including contracts for 9 full-flight simulators (FFSs).

Defence and Security
- Defence and Security won contracts valued at $128.5 million.

Healthcare
- Healthcare order intake was valued at $28.3 million.

2. INTRODUCTION

In this report, *we, us, our, CAE* and *Company* refer to CAE Inc. and its subsidiaries. Unless we have indicated otherwise:
- *This year* and *2016* mean the fiscal year ending March 31, 2016;
- *Last year, prior year* and *a year ago* mean the fiscal year ended March 31, 2015;
- Dollar amounts are in Canadian dollars.

This report was prepared as of February 10, 2016, and includes our management's discussion and analysis (MD&A), unaudited consolidated interim financial statements and notes for the third quarter ended December 31, 2015. We have prepared it to assist in the understanding of our business, performance and financial condition for the third quarter of fiscal 2016. Except as otherwise indicated, all financial information has been reported in accordance with International Financial Reporting Standards (IFRS) and based on unaudited figures.

For additional information, please refer to our unaudited consolidated interim financial statements for the quarter ended December 31, 2015, and our annual consolidated financial statements, which you will find in our annual report for the year ended March 31, 2015. The MD&A section of our 2015 annual report also provides you with a view of CAE as seen through the eyes of management and helps you understand the Company from a variety of perspectives:
- Our vision;
- Our strategy;
- Our operations;
- Foreign exchange;
- Non-GAAP and other financial measures;
- Consolidated results;
- Results by segment;
- Consolidated cash movements and liquidity;
- Consolidated financial position;
- Business risk and uncertainty;
- Related party transactions;
- Changes in accounting policies;
- Controls and procedures;
- Oversight role of the Audit Committee and Board of Directors.

You will find our most recent annual report and Annual Information Form (AIF) on our website at www.cae.com, on SEDAR at www.sedar.com or on EDGAR at www.sec.gov.

ABOUT MATERIAL INFORMATION

This report includes the information we believe is material to investors after considering all circumstances, including potential market sensitivity. We consider something to be material if:

- It results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares, or;
- It is quite likely that a reasonable investor would consider the information to be important in making an investment decision.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking 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. Forward-looking statements normally contain words like *believe*, *expect*, *anticipate*, *plan, intend*, *continue*, *estimate*, *may*, *will*, *should, strategy, future* and similar expressions. 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, readers are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate.

Important risks that could cause such differences include, but are not limited to, risks relating to the industry such as competition, level and timing of defence spending, government-funded defence and security programs, economic factors affecting demand in the civil aviation industry, regulatory rules and compliance, risks relating to CAE such as product evolution, R&D activities, fixed-price and long-term supply contracts, procurement and original equipment manufacturer (OEM) leverage, warranty or other product-related claims, product integration, protection of our intellectual property, third-party intellectual property, loss of key personnel, environmental liabilities, claims arising from casualty losses, integration of acquired businesses, our ability to penetrate new markets, information technology systems, cyber-security, length of sales cycle and our reliance on technology and third-party providers, and risks relating to the market such as foreign exchange, political instability, availability of capital, pension plan funding, doing business in foreign countries and income tax laws. Additionally, differences could arise because of events announced or completed after the date of this report. You will find more information about the risks and uncertainties affecting our business in our 2015 annual report. We caution readers that the risks described above are not necessarily the only ones we face; additional risks and uncertainties that are presently unknown to us or that we may currently deem immaterial may adversely affect our business in the future.

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 report are expressly qualified by this cautionary statement.

3. ABOUT CAE

3.1 Who we are

CAE is a global leader in delivery of training for the civil aviation, defence and security, and healthcare markets. We design and integrate the industry's most comprehensive training solutions, anchored by the knowledge and expertise of our 8,000 employees, our world-leading simulation technologies and a record of service and technology innovation spanning nearly seven decades. Our global presence is the broadest in the industry, with 160 sites and training locations in 35 countries, including our joint venture operations, and the world's largest installed base of flight simulators. Each year, we train more than 120,000 civil and defence crewmembers and thousands of healthcare professionals worldwide.

CAE's common shares are listed on the Toronto and New York stock exchanges under the symbol CAE.

3.2 Our vision

Our vision is to be the recognized global training partner of choice to enhance safety, efficiency and readiness.

3.3 Our operations

We provide integrated training solutions to three markets globally:

- The civil aviation market includes major commercial airlines, regional airlines, business aircraft operators, civil helicopter operators, aircraft manufacturers, third-party training centres, flight training organizations (FTOs), maintenance repair and overhaul organizations (MROs) and aircraft finance leasing companies;
- The defence and security market includes defence forces, OEMs, government agencies and public safety organizations worldwide;
- The healthcare market includes hospital and university simulation centres, medical and nursing schools, paramedic organizations, defence forces, medical societies and OEMs.

CIVIL AVIATION MARKET

We provide comprehensive training solutions for flight, cabin, maintenance and ground personnel in commercial, business and helicopter aviation, a complete range of flight simulation training devices, as well as ab initio pilot training and crew sourcing services.

We address the total lifecycle needs of the professional pilot, from cadet to captain, with our comprehensive aviation training solutions. We are the world's largest provider of commercial and helicopter aviation training services and the second largest in business aviation training services. Our deep industry expertise and credibility, installed base, strong relationships and reputation as a trusted partner enable us to access a broader share of the market than any company in our industry. We are well established in North America and Western Europe, and lead the market in the high-growth regions of China, Eastern Europe, India, the Middle East, South America and Southeast Asia. Through our broad global network of training centres, we serve all sectors of civil aviation including airlines and other commercial, business and helicopter aviation operators.

We provide aviation training and services in approximately 30 countries. Among our thousands of customers, we have long-term training centre operations and training services agreements and joint ventures with approximately 40 major airlines and aircraft operators around the world. Our range of training solutions includes products and services offerings for pilot, cabin crew and aircraft maintenance technician training, training centre operations, curriculum development, courseware solutions and consulting services. We currently operate 258 FFSs, including those operating in our joint ventures. We offer industry-leading technology with a full solution capability to integrate flight data and simulator data to better understand the performance of trainees. CAE operates the largest ab initio flight training network in the world with 9 academies and a fleet of over 170 aircraft. CAE Parc Aviation is the global market leader in the provision of flight crew and technical personnel to airlines, aircraft leasing companies, manufacturers and MRO companies worldwide.

We are the world leader in the development of civil flight simulation equipment, including FFSs and a comprehensive suite of integrated procedures trainers, flight training devices and training tools such as software, courses and training aids using the same high-fidelity Level D software as the FFSs. Quality, fidelity and reliability are hallmarks of the CAE brand in flight simulation. We continuously innovate our processes and lead the market in the design, manufacture and integration of civil FFSs for major and regional commercial airlines, third-party training centres and OEMs. We have established a wealth of experience in developing first-to-market simulators for more than 35 types of aircraft models including the recent development of simulators for the Airbus A350 XWB and A320Neo, Cirrus SF50, Mitsubishi Regional Jet (MRJ), ATR42/72-600, Bombardier CSeries, Global 5000/6000 and Global 7000/8000, Dassault Falcon 5X and the Commercial Aircraft Corporation of China, Ltd (COMAC) ARJ21 and C919. Our flight simulation equipment, including FFSs, are designed to meet the rigorous demands of their long and active service lives, often spanning a number of decades of continuous use. We also provide best-in-class support with a full range of services and by leveraging our extensive worldwide network of spare parts and service teams.

Market drivers

Demand for training solutions in the civil aviation market is driven by the following:

- Pilot certification regulations;
- Expected global growth in air travel;
- Demand for trained aviation professionals;
- Growing active fleet of aircraft;
- Safety and efficiency imperatives of commercial airline operators.

Pilot certification regulations

Civil aviation is highly-regulated through global and national standards for pilot licensing and certification, amongst other regulatory requirements. Training requirements are mandatory and recurring in nature and are regulated by national and international aviation regulatory authorities such as the International Civil Aviation Organization (ICAO), European Aviation Safety Agency (EASA), and Federal Aviation Administration (FAA).

Recent pilot certification processes and regulatory requirements drive more simulation-based training. Simulation-based pilot certification training is taking on a greater role internationally with the Multi-crew Pilot License (MPL), with stall and upset prevention and recovery training and with the Airline Transport Pilot (ATP) requirements in the U.S. Various national and regional aviation regulatory agencies have recently published regulatory requirements, standards and guidance on these specific topics.

The MPL is an alternative training and licensing methodology which we offer, in addition to the ATP licence. MPL places more emphasis on simulation-based training to develop ab initio students into First Officers of airliners in a specific airline environment. On average, current MPL programs in the industry consist of two thirds of ab initio training in flight simulation training devices and the balance in actual aircraft, whereas traditional training for ab initio licences average 80% to 90% in actual trainer aircraft. Today, there are approximately 50 nations that have MPL regulations in place and more than 15 of these nations already use these regulations with training providers and airlines. CAE delivers MPL programs in Asia, the Middle East and Europe with various airlines. As the MPL methodology continues to gain momentum, it will result in increased use of simulation-based training.

Expected global growth in air travel

Growth in air travel results in higher demand for flight, cabin, maintenance and ground personnel, which in turn drives demand for training solutions.

In commercial aviation, air travel has grown at an approximate average rate of 5% over the past 20 years and the aerospace industry's widely held expectation is that long-term average growth for air travel will continue at approximately 5% annually over the next two decades. In calendar 2015, global passenger traffic increased by 6.5% compared to calendar 2014. Emerging markets continued to outperform with passenger traffic in the Middle East, Asia and Latin America growing at 10.0%, 8.6% and 6.7% respectively, while Europe and North America increased 5.1% and 4.3% respectively.

According to the FAA, the total number of business jet flights, which includes all domestic and international flights, remained active with 1.2% growth over the past 12 months. There is a strong relationship between the level of corporate profitability and economic growth and demand for business jet travel. In helicopter aviation, demand is driven mainly by the level of offshore activity in the oil and gas sector, as helicopter operators catering to this sector make up the majority of a relatively small training segment. The current protracted downturn in petroleum prices has negatively impacted offshore activity for helicopter operators.

Potential impediments to steady growth in air travel include major disruptions such as regional political instability, acts of terrorism, pandemics, natural disasters, prolonged economic recessions or other major world events.

Demand for trained aviation professionals

Demand for aviation professionals is driven by air traffic growth, pilot retirements and by the number of aircraft deliveries. The expansion of global economies and airline fleets have resulted in a shortage of qualified personnel needed to fulfil this growing capacity. Pilot supply constraints include aging crew demographics and fewer military pilots transferring to civil airlines. In a study released in 2011, ICAO reports that approximately 26,000 new pilots will be needed per year by 2030 globally to support the average 5% annual growth in passenger travel. In support of this growth, the aviation industry will require innovative solutions to match the learning requirements of a new generation, leading to an increase in demand for simulation-based training services and products.

Growing active fleet of aircraft

Record backlog levels, sustained growth in global passenger traffic and airline capacity point to continued growth in the active commercial fleet and hence the need for pilot training solutions. In addition, much of the backlog consists of technologically advanced aircraft platforms, which in turn drives demand for new types of training solutions.

The global active commercial aircraft fleet has grown by an average of 3.1% annually over the past 20 years and is widely expected to continue to grow at an approximate average rate of 3.6% annually over the next two decades as a result of increasing emerging market and low-cost carrier demand and fleet replacement in established markets. From December 2014 to December 2015, the global commercial aircraft fleet increased by 4.1%, growing in the Middle East and Asia by 8.6% and 8.2% respectively and growing moderately in Latin America, North America and Europe.

We are well positioned to leverage our technology leadership and expertise to deliver training solutions, including CAE 7000XR Series FFSs, CAE SimfinityTM procedures trainers, comprehensive training programs and expansion of our network to meet airlines' training needs.

Business jet OEMs have announced plans to introduce a variety of new aircraft models incorporating the latest technologies to enhance performance and operator benefits such as range, speed, efficiency, comfort and the accessibility of business air travel. Examples include Bombardier's Global 7000/8000, Embraer's Legacy 450 and 500, Cessna's Citation Latitude and Longitude, Dassault's Falcon 5X, Gulfstream's 500/600, Cirrus' SF50, Pilatus' PC-24 and Honda's HondaJet.

Deliveries of new-model aircraft drive demand for training services and products; however, they may be subject to program delays, which in turn may affect the timing of training contracts and FFS orders and deliveries.

Safety and efficiency imperatives of commercial airline operators

The commercial airline industry is competitive, requiring operators to continuously pursue operational excellence and efficiency initiatives in order to achieve adequate returns while continuing to maintain the highest safety standards and the confidence of air travelers. Airlines are finding it increasingly more effective to seek expertise in training from trusted partners such as CAE to address the growing efficiency gaps, the pilot capability gaps, the evolving regulatory and training environment, and the large number of new aircraft programs being executed. Partnering with a training provider like CAE gives airlines immediate access to a world-wide fleet of simulators, courses, programs and instruction capabilities, and allows them flexibility in pursuing aircraft fleet options that suit their business.

DEFENCE AND SECURITY MARKET

We are a training systems integrator for defence forces across the air, land and sea domains, and for government organizations responsible for public safety.

We are a global leader in the development and delivery of integrated live, virtual and constructive (LVC) training solutions for defence forces. Our expertise spans a broad variety of aircraft, including fighters, helicopters, trainer aircraft, maritime patrol, tanker/transport aircraft and unmanned aerial systems (UAS). We also offer training solutions for land and naval forces, including a range of driver, gunnery and maintenance trainers for tanks and armoured fighting vehicles, constructive simulation for command and staff training, and naval warfare tactical training systems. We offer training solutions to government organizations for emergency and disaster management. Increasingly, we are pursuing larger programs that require the integration of LVC training as defence and security forces look to increasingly leverage virtual training and balance their training approach to achieve maximum readiness and efficiencies.

We are uniquely positioned as a training systems integrator, capable of offering our customers a comprehensive range of innovative LVC solutions, ranging from academic, virtual and live pilot training to immersive, networked mission rehearsal in a synthetic environment. Our solutions typically include a combination of training services, products and software tools designed to cost-effectively maintain and enhance safety, efficiency, mission readiness and decision-making capabilities. We have a wealth of experience delivering and operating training solutions across different business models, including government-owned government-operated; government-owned contractor-operated; or contractor-owned contractor-operated facilities. Our offerings include training needs analysis; instructional systems design; learning management information systems; purpose-built facilities; state-of-the-art synthetic training equipment; curriculum and courseware development; classroom, simulator, and live flying instruction; maintenance and logistics support; lifecycle support and technology insertion; and financing alternatives.

We have delivered simulation products and training systems to more than 50 defence forces in approximately 35 countries. We provide training support services such as contractor logistics support, maintenance services, classroom instruction, simulator training and support for live flying training at over 80 sites around the world, including our joint venture operations. Increasingly, we are offering our training systems integration expertise across air, land, sea and public safety to help our customers create an integrated, immersive training approach that blends LVC training. We also offer a variety of modeling and simulation-based professional services, and a range of in-service support solutions such as systems engineering and lifecycle management.

Market drivers

Demand for training solutions in the defence and security markets is driven by the following:

- Installed base of enduring defence platforms and new customers;
- Explicit desire of governments and defence forces to increase the use of synthetic training;
- Desire to integrate training systems to achieve efficiencies and enhanced preparedness;
- Attractiveness of outsourcing of training and maintenance services;
- Need for synthetic training to conduct integrated, networked mission training, including joint and coalition forces training;
- Relationships with OEMs for simulation and training.

Installed base of enduring defence platforms and new customers

Most defence forces in mature markets such as the United States have slowed down production of new platforms and delayed new acquisition programs, which has required military forces to maximize use of their existing platforms. Upgrades, updates, and life extension programs allow defence forces to leverage existing assets while creating a range of opportunities for simulator upgrades and training support services. Enduring platforms, such as the C-130 Hercules transport aircraft that is operated by more than 60 nations, provide a solid installed base from which to generate business. Because of our extensive installed base of simulators worldwide, and our experience on key enduring platforms, CAE is well-positioned for recurring product upgrades/updates as well as maintenance and support services. In addition, there is strong demand for U.S. and European enduring platforms such as the C-130, P-8A, MH-60R and MQ-1/MQ-9 in markets with growing defence budgets such as Asia and the Middle East, thus providing opportunities to provide new training systems and services for platforms where CAE has significant experience.

Explicit desire of governments and defence forces to increase the use of synthetic training

More defence forces and governments are increasingly adopting synthetic training in their overall training approach because it improves training effectiveness, reduces operational demands on aircraft, lowers risk compared to operating actual weapon system platforms and significantly lowers costs. Synthetic training offers defence forces a cost-effective way to provide realistic training for a wide variety of scenarios while ensuring they maintain a high state of readiness. The higher cost of live training and the desire to save aircraft for operational use are two factors prompting a greater adoption of synthetic training. The nature of mission-focused training demands at least some live training; however, the shift to more synthetic training is advancing. The U.S. Navy reports the share of simulation-based training on some of their existing aircraft platforms could increase to nearly 50% by 2020, and for new aircraft such as the P-8A the training program has been designed for approximately 70 percent synthetic training. Because of the high cost associated with conducting live training exercises, most defence forces are beginning to rebalance the mix of LVC training and shift more of the training curriculum to virtual and constructive simulation. For example, CAE supported the Royal Australian Air Force's (RAAF) participation in the Coalition Virtual Flag exercise, which according to the RAAF delivered training benefits that may not have been achievable using live aircraft.

In the United States, shifting priorities and program delays, particularly during an election year, mean that the timing of contract awards will continue to be difficult to predict as the U.S. military services work to achieve the right balance in military capacity, capabilities and readiness. This may impact our ability to grow revenue and income in the short term; however, our active bids and proposals pipeline is robust and our view is that the impediment to growth is not the size of the market, but rather the timing of procurements. In Europe, fiscal uncertainty and defence force structure reductions have slowed acquisition programs, but the increased adoption of simulation-based training is helping offset this decreased force structure. In Asia and the Middle East, the acquisition of advanced platforms is driving the requirement to acquire the sophisticated training systems and services needed to train and prepare aircrews and commanders.

Desire to integrate training systems to achieve efficiencies and enhanced preparedness

Increased operational tempo combined with limited personnel and budget pressures have prompted defence and security forces around the world to seek reliable partners who can help develop, manage and deliver the training systems required to support today's complex platforms and operations. Increasingly, defence forces are considering a more integrated and holistic approach to training. To help manage the complexities and challenges, many training programs are calling for an industry partner to help design and manage the total training system. CAE refers to this approach as training systems integration (TSI) and has positioned the Company globally as an independent, platform-agnostic training systems integrator. The overall intent for defence and security forces is to maximize commonality for increased efficiencies, cost savings, and most importantly, enhanced capability for mission preparedness. A training systems integrator can address the overall LVC domain to deliver comprehensive training – from undergraduate individual training all the way through to operational, multi-service and joint mission training.

Attractiveness of outsourcing of training and maintenance services

Defence forces and governments continue to manage expenditures to find ways to reduce costs while not impacting readiness levels, and allow active-duty personnel to focus on operational requirements. There has been a growing trend among defence forces to consider outsourcing a variety of training services and we expect this trend to continue. We believe governments will increasingly look to industry for training solutions to achieve faster delivery, lower capital investment requirements, and training support required to achieve desired readiness levels. For example, we are continuing deliveries of new flight training devices that will support comprehensive T-44C aircrew training services for the U.S. Navy and Marine Corps. These deliveries are part of a long-term contract for CAE to provide T-44C aircrew training services under a contractor-owned contractor-operated training services program, which is one of the first of its kind in the United States. We believe this type of training service delivery program will become increasingly attractive to defence forces globally.

Need for synthetic training to conduct integrated, networked mission training, including joint and coalition forces training
There is a growing trend among defence forces to use synthetic training to meet more of their mission training requirements, and increasingly to integrate and network various training systems so military forces can train in a virtual world. Simulation technology solutions enable defence customers to plan sophisticated missions and carry out full-mission rehearsals in a synthetic environment as a complement to traditional live training or mission preparation. Allies are cooperating and creating joint and coalition forces, which are driving the demand for networked training and operations. Training devices that can be networked to train different crews and allow for networked training across a range of platforms are increasingly important as the desire to conduct mission rehearsal exercises in a synthetic environment increases. For example, the Royal Canadian Air Force (RCAF) has released its Simulation Strategy 2025, which specifically calls for leveraging LVC domains within a networked common synthetic environment. The RCAF is transforming its training approach from one that relies on aircraft to one that exploits new technologies to train aircrews in a simulation-focused system that creates a virtual battlespace. We are actively promoting open, standard simulation architectures, such as the Common Database, to better enable integrated and networked mission training. The U.S., U.K. and Australian defence forces have published similar strategies.

Relationships with OEMs for simulation and training
We partner with manufacturers in the defence and security market to strengthen relationships and position for future opportunities. OEMs have introduced new platforms and continue to upgrade and extend the life of existing platforms, which drives worldwide demand for training systems. For example, Boeing has developed the P-8A maritime patrol aircraft, Airbus Military has sold and continues to market both the A330 MRTT and C295 globally, Alenia Aermacchi and BAE Systems are selling the M-346 and Hawk lead-in fighter trainers, and AgustaWestland is continuing to develop a range of helicopters such as the AW139, AW169 and AW189. In addition, Lockheed Martin is successfully marketing variants of the C-130J Hercules transport aircraft, and has now completed the acquisition of Sikorsky that will add the H-60 helicopter variants to their portfolio. We have established relationships with each of the OEMs on these platforms. We also have a memorandum of understanding with General Atomics Aeronautical Systems, the world's leading UAS manufacturer, to offer training solutions for GA-ASI's Predator/Reaper family of remotely piloted aircraft, and have signed a contract to develop a Predator/Reaper training system for the Italian Air Force.

HEALTHCARE MARKET
We design, manufacture and market simulators and audiovisual and simulation centre management solutions and offer consulting and courseware for training of medical and allied healthcare students as well as clinicians in educational institutions, hospitals and defence organizations worldwide.

Simulation-based training is one of the most effective approaches to prepare healthcare practitioners to care for patients and respond to critical situations while reducing the overall risk to patients. We are leveraging our experience and best practices in simulation-based aviation training to deliver innovative solutions to improve the safety and efficiency of this industry. The healthcare simulation market is growing rapidly, with simulation centres becoming the standard in nursing and medical schools.

We offer the broadest range of medical simulation products and services in the market today, including patient, ultrasound and interventional (surgical) simulators, audiovisual and simulation centre management solutions and courseware for healthcare education and training. We have sold simulators to customers in more than 80 countries that are currently supported by our network in Australia, Brazil, Canada, Germany, Hungary, India, Singapore, U.K. and U.S. We lead the market in high-fidelity patient simulators that are uniquely powered by complex models of human physiology to mimic human responses to clinical interventions. Our newest innovation, a childbirth simulator for both normal labor and delivery and rare maternal emergencies, was designed to offer exceptional reliability and realism in the high-fidelity patient simulation market. Our offerings include ongoing service and support, such as simulation centre management solutions for healthcare training, where we are a market leader. Through our Healthcare Academy, we are the only company to deliver peer-to-peer training at customer sites and in our training centres in the U.S., U.K., Germany and Canada. Our Healthcare Academy includes more than 50 adjunct faculty consisting of nurses, physicians, paramedics and sonographers who, in collaboration with leading healthcare institutions, have developed more than 500 Simulated Clinical Experience (SCE) courseware packages for our customers. We offer consulting and turnkey project management for healthcare simulation programs. Our OEM team delivers custom training solutions for medical manufacturers, and most recently, developed a specialized interventional simulator to train physicians to place the new AbioMed Impella heart pump under ultrasound and fluoroscopy guidance.

Market drivers
Demand for our simulation products and services in the healthcare market is driven by the following:
- Increasing use of simulation in healthcare;
- Growing emphasis on patient safety and outcomes;
- Limited access to live patients during training;
- Medical technology revolution.

Increasing use of simulation in healthcare

A recent study of the global healthcare simulation market, which includes products and services, valued the market at approximately $860 million in 2014 and reports that it is predicted to grow at a compound annual growth rate of 19.1% from 2014 to 2019. North America is the largest market for healthcare simulation, followed by Europe and Asia. The healthcare simulation market includes both products and services, which are segmented by high-fidelity patient simulators, interventional simulators, mid/low fidelity task trainers, ultrasound simulators, audiovisual and simulation centre management solutions, simulated clinical environments and training services. In the U.S., significant demand for healthcare services is driven by, among other factors, longer life expectancy and the baby boomer generation, resulting in higher healthcare spending. The U.S. Centers for Medicare and Medicaid Services (CMS) projects that annual national health spending will grow at an average rate of 5.7% annually over the next decade. Increasingly, hospitals are given incentives to become safer and more efficient which will drive higher demand for training. There is a growing body of evidence demonstrating that medical simulation improves patient outcomes and reduces medical errors, which can help mitigate the rate of increase in healthcare costs.

Growing emphasis on patient safety and outcomes

According to a study published in the Journal of Patient Safety, up to 440,000 deaths occur annually in the U.S. due to preventable adverse events during patient treatment, making such events the third leading cause of death annually. In a study by the International Society for Pharmacoeconomics and Outcomes Research, measurable medical errors cost U.S. hospitals more than $1 billion in 2009. Training through the use of simulation can help clinicians gain confidence, knowledge and expertise for improving patient safety in a risk-free environment. Simulation is a required or recommended element in a growing movement towards High Stakes Assessment and Certification. Examples in the U.S. include the Maintenance of Certification in Anesthesia (MOCA), Fundamentals of Laparoscopic Surgery (FLS) and Advanced Trauma Life Support (ATLS). Moreover, the Accreditation Council for Graduate Medical Education (ACGME) is evolving towards outcome-based assessment with specific benchmarks to measure and compare performance which favours the adoption of simulation products and training.

Limited access to live patients during training

Traditionally, medical education has been an apprenticeship model in which the student cares for patients under the supervision of more experienced staff. In this model, students have a limited role and access to high-risk procedures, rare complications and critical decision-making skills. The use of simulation in professional education programs complements traditional learning and allows students exposure and practice to hone their clinical and critical thinking skills for high risk, low frequency events. Simulation provides consistent, repeatable training and exposure to a broader range of patients and scenarios than one may experience in normal clinical practice. As an example, our Fidelis Lucina childbirth simulator is designed to allow healthcare teams to practice both normal deliveries and complex procedures in rare emergencies. The training and education model is evolving, as evidenced by military branches around the world and most recently the U.S. Pentagon, prohibiting the use of live tissue testing in most medical training. CAE Healthcare simulators provide a low-risk alternative for practicing life-saving procedures, major disaster response and anaesthesia administration.

Medical technology revolution

Advancements in medical technology are driving the use of simulation. New medical devices and advanced procedures, such as Intra-Cardiac Echocardiography (ICE), cardiac assist devices, and mechanical ventilation enhancements, require advanced training solutions, such as simulation, for internal product development and customer training. Regulatory and certification agencies are increasingly stringent in requesting that clinicians be trained before adopting new disruptive technologies, an undertaking for which simulation is well suited. As a Partner of Choice with leading OEMs, we continue to collaborate to deliver innovative and custom training for new technologies, such as the AbioMed Impella heart pump.

4. FOREIGN EXCHANGE

We report all dollar amounts in Canadian dollars. We value assets, liabilities and transactions that are measured in foreign currencies using various exchange rates as required by IFRS.

The tables below show the variations of the closing and average exchange rates for our three main operating currencies.

We used the closing foreign exchange rates below to value our assets, liabilities and backlog in Canadian dollars at the end of each of the following periods:

	December 31 2015	September 30 2015	Increase	March 31 2015	Increase
U.S. dollar (US$ or USD)	**1.38**	1.34	*3%*	1.27	*9%*
Euro (€ or EUR)	**1.50**	1.50	-	1.36	*10%*
British pound (£ or GBP)	**2.04**	2.02	*1%*	1.88	*9%*

We used the average quarterly foreign exchange rates below to value our revenues and expenses:

	December 31 2015	September 30 2015	Increase	December 31 2014	Increase
U.S. dollar (US$ or USD)	**1.33**	1.31	*2%*	1.14	*17%*
Euro (€ or EUR)	**1.46**	1.46	-	1.42	*3%*
British pound (£ or GBP)	**2.02**	2.03	-	1.80	*12%*

The effect of translating the results of our foreign operations into Canadian dollars resulted in an increase in this quarter's revenue of $40.9 million and an increase in net income of $3.1 million when compared to the third quarter of fiscal 2015. For the first nine months of fiscal 2016, the effect of translating the results of our foreign operations into Canadian dollars resulted in an increase in revenue of $92.1 million and an increase in net income of $9.3 million when compared to the first nine months of fiscal 2015. We calculated this by translating the current quarter and year-to-date foreign currency revenue and net income using the average monthly exchange rates from the prior year and comparing these adjusted amounts to our current quarter and year-to-date reported results.

Three areas of our business are affected by changes in foreign exchange rates:

– **Our network of foreign training and services operations**

  Most of our foreign training and services revenue and costs are denominated in local currency. Changes in the value of local currencies relative to the Canadian dollar therefore have an impact on these operations' net profitability and net investment. Gains or losses in the net investment in a foreign operation that result from changes in foreign exchange rates are deferred in the foreign currency translation account (accumulated other comprehensive income), which is part of the equity section of the consolidated statement of financial position. Any effect of the fluctuation between currencies on the net profitability has an immediate translation impact on the consolidated income statement and an impact on year-to-year and quarter-to-quarter comparisons.

– **Our production operations outside of Canada (Australia, Germany, India, U.K. and U.S.)**

  Most of the revenue and costs in these foreign operations are generated in their local currency except for some data and equipment bought in different currencies from time to time, as well as any work performed by our Canadian manufacturing operations. Changes in the value of the local currency relative to the Canadian dollar have a translation impact on the operations' net profitability and net investment when expressed in Canadian dollars, as described above.

– **Our production operations in Canada**

  Although the net assets of our Canadian operations are not exposed to changes in the value of foreign currencies (except for cash balances, receivables and payables in foreign currencies), a significant portion of our annual revenue generated in Canada is in foreign currencies (mostly U.S. dollar and Euro), while a significant portion of our expenses are in Canadian dollars.

  We generally hedge the milestone payments of sales contracts denominated in foreign currencies to mitigate some of the foreign exchange exposure.

  To this effect, we continue to hold a portfolio of currency hedging positions intended to mitigate the risk to a portion of future revenues presented by the volatility of the Canadian dollar versus foreign currencies. The hedges are intended to cover a portion of the revenue in order to allow the unhedged portion to match the foreign cost component of the contract. Since not all of our revenue is hedged, it is not possible to completely offset the effects of changing foreign currency values, which leaves some residual exposure that can affect the consolidated income statement. This residual exposure may be higher when currencies experience significant short term volatility. With respect to the remaining expected future revenues, our operations in Canada remain exposed to changes in the value of the Canadian dollar.

  In order to reduce the variability of specific British pound and Euro-denominated costs, we also hedge some of the foreign currency costs incurred in our manufacturing process.

5. NON-GAAP AND OTHER FINANCIAL MEASURES

This MD&A includes non-GAAP and other financial measures. Non-GAAP measures are useful supplemental information but may not have a standardized meaning according to GAAP. These measures should not be confused with, or used as an alternative for, performance measures calculated according to GAAP. Furthermore, these non-GAAP measures should not be compared with similarly titled measures provided or used by other companies.

Backlog

Obligated backlog is a non-GAAP measure that represents the expected value of orders we have received but have not yet executed.

- For the Civil Aviation Training Solutions segment, we consider an item part of our obligated backlog when we have a legally binding commercial agreement with a client that includes enough detail about each party's obligations to form the basis for a contract and includes the value of expected future revenues. Expected future revenues from customers under short-term and long-term training contracts are included when these customers commit to pay us training fees, or when we reasonably expect the revenue to be generated;
- For the Defence and Security segment, we consider an item part of our obligated backlog when we have a legally binding commercial agreement with a client that includes enough detail about each party's obligations to form the basis for a contract. Defence and Security contracts are usually executed over a long-term period but some of them must be renewed each year. For this segment, we only include a contract item in obligated backlog when the customer has authorized the contract item and has received funding for it;
- For the Healthcare segment, order intake is typically converted into revenue within one year, therefore we assume that order intake is equal to revenue and consequently, backlog is nil.

Joint venture backlog is obligated backlog that represents the expected value of our share of orders that our joint ventures have received but have not yet executed. Joint venture backlog is determined on the same basis as obligated backlog described above.

Unfunded backlog is a non-GAAP measure that represents firm Defence and Security orders we have received but have not yet executed and for which funding authorization has not yet been obtained. We include unexercised negotiated options which we view as having a high probability of being exercised, but exclude indefinite-delivery/indefinite-quantity (IDIQ) contracts.

Total backlog includes obligated backlog, joint venture backlog and unfunded backlog.

The book-to-sales ratio is the total orders divided by total revenue in a given period.

Capital employed

Capital employed is a non-GAAP measure we use to evaluate and monitor how much we are investing in our business. We measure it from two perspectives:

Capital used:

- For the Company as a whole, we take total assets (not including cash and cash equivalents), and subtract total liabilities (not including long-term debt and the current portion of long-term debt);
- For each segment, we take the total assets (not including cash and cash equivalents, tax accounts and other non-operating assets), and subtract total liabilities (not including tax accounts, long-term debt and the current portion of long-term debt, royalty obligations, employee benefit obligations and other non-operating liabilities).

Source of capital:

- In order to understand our source of capital, we add net debt to total equity.

Capital expenditures (maintenance and growth) from property, plant and equipment

Maintenance capital expenditure is a non-GAAP measure we use to calculate the investment needed to sustain the current level of economic activity.

Growth capital expenditure is a non-GAAP measure we use to calculate the investment needed to increase the current level of economic activity.

Earnings per share (EPS) before specific items

Earnings per share before specific items is a non-GAAP measure calculated by excluding the effect of restructuring costs and one-time tax items from the diluted earnings per share from continuing operations attributable to equity holders of the Company. The effect per share is obtained by dividing the restructuring costs, net of tax, and one-time tax items by the average number of diluted shares. We track it because we believe it provides a better indication of our operating performance on a per share basis and makes it easier to compare across reporting periods.

Free cash flow

Free cash flow is a non-GAAP measure that shows us how much cash we have available to invest in growth opportunities, repay debt and meet ongoing financial obligations. We use it as an indicator of our financial strength and liquidity. We calculate it by taking the net cash generated by our continuing operating activities, subtracting maintenance capital expenditures, investment in other assets not related to growth and dividends paid and adding proceeds from the disposal of property, plant and equipment, dividends received from equity accounted investees and proceeds, net of payments, from equity accounted investees.

Gross profit
Gross profit is a non-GAAP measure equivalent to the operating profit excluding research and development expenses, selling, general and administrative expenses, other (gains) losses – net, after tax share in profit of equity accounted investees and restructuring costs. We believe it is useful to management and investors in evaluating our ongoing operational performance.

Net debt
Net debt is a non-GAAP measure we use to monitor how much debt we have after taking into account liquid assets such as cash and cash equivalents. We use it as an indicator of our overall financial position, and calculate it by taking our total long-term debt, including the current portion of long-term debt, and subtracting cash and cash equivalents.

Net debt-to-capital is calculated as net debt divided by the sum of total equity plus net debt.

Net income before specific items
Net income before specific items is a non-GAAP measure we use as an alternate view of our operating results. We calculate it by taking our net income attributable to equity holders of the Company from continuing operations and adding back restructuring costs, net of tax, and one-time tax items. We track it because we believe it provides a better indication of our operating performance and makes it easier to compare across reporting periods.

Non-cash working capital
Non-cash working capital is a non-GAAP measure we use to monitor how much money we have committed in the day-to-day operation of our business. We calculate it by taking current assets (not including cash and cash equivalents and assets held for sale) and subtracting current liabilities (not including the current portion of long-term debt and liabilities held for sale).

Operating profit
Operating profit is a non-GAAP measure that shows us how we have performed before the effects of certain financing decisions, tax structures and discontinued operations. We track it because we believe it makes it easier to compare our performance with previous periods, and with companies and industries that do not have the same capital structure or tax laws.

Research and development expenses
Research and development expenses are a financial measure we use to measure the amount of expenditures directly attributable to research and development activities that we have expensed during the period, net of investment tax credits and government contributions.

Return on capital employed
Return on capital employed (ROCE) is a non-GAAP measure we use to evaluate the profitability of our invested capital. We calculate this ratio over a rolling four-quarter period by taking net income attributable to equity holders of the Company excluding net finance expense, after tax, divided by the average capital employed.

Segment operating income
Segment operating income (SOI) is a non-GAAP measure and our key indicator of each segment's financial performance. This measure gives us a good indication of the profitability of each segment because it does not include the impact of any items not specifically related to the segment's performance. We calculate it by taking the operating profit and excluding the impact of restructuring costs.

Simulator equivalent unit
Simulator equivalent unit (SEU) is an operating measure we use to show the total average number of FFSs available to generate earnings during the period. For example, in the case of a 50/50 flight training joint venture, we will report only 50% of the FFSs deployed under this joint venture as a SEU. If a FFS is being powered down and relocated, it will not be included as a SEU until the FFS is re-installed and available to generate earnings.

Utilization rate
Utilization rate is an operating measure we use to assess the performance of our Civil simulator training network. We calculate it by taking the number of training hours sold on our simulators during the period divided by the practical training capacity available for the same period.

6. CONSOLIDATED RESULTS

6.1 Results from operations – third quarter of fiscal 2016

(amounts in millions, except per share amounts)		**Q3-2016**	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Revenue	$	**616.3**	616.8	557.0	631.6	559.1
Cost of sales	$	**447.8**	457.6	399.4	449.6	410.1
Gross profit [2]	$	**168.5**	159.2	157.6	182.0	149.0
As a % of revenue	%	***27.3***	*25.8*	*28.3*	*28.8*	*26.6*
Research and development expenses [2]	$	**20.0**	20.3	20.8	19.5	13.6
Selling, general and administrative expenses	$	**81.5**	69.3	71.8	69.4	70.8
Other gains – net	$	**(6.7)**	(2.0)	(4.7)	(5.6)	(10.7)
After tax share in profit of equity accounted investees	$	**(12.9)**	(8.4)	(11.5)	(6.7)	(7.6)
Restructuring costs	$	**2.0**	2.4	7.7	-	-
Operating profit [2]	$	**84.6**	77.6	73.5	105.4	82.9
As a % of revenue	%	***13.7***	*12.6*	*13.2*	*16.7*	*14.8*
Finance income	$	**(2.4)**	(2.3)	(2.0)	(2.3)	(3.3)
Finance expense	$	**21.4**	21.4	20.7	20.6	21.1
Finance expense – net	$	**19.0**	19.1	18.7	18.3	17.8
Earnings before income taxes and discontinued operations	$	**65.6**	58.5	54.8	87.1	65.1
Income tax expense (recovery)	$	**8.5**	(17.2)	9.8	20.2	13.1
As a % of earnings before income taxes and discontinued operations (income tax rate)	%	***13***	*(29)*	*18*	*23*	*20*
Earnings from continuing operations	$	**57.1**	75.7	45.0	66.9	52.0
(Loss) earnings from discontinued operations	$	**(0.2)**	(6.5)	(0.5)	0.8	0.9
Net income	$	**56.9**	69.2	44.5	67.7	52.9
Attributable to:						
Equity holders of the Company						
Continuing operations	$	**57.9**	75.3	44.9	63.3	52.1
Discontinued operations	$	**(0.2)**	(6.5)	(0.5)	0.8	0.9
	$	**57.7**	68.8	44.4	64.1	53.0
Non-controlling interests	$	**(0.8)**	0.4	0.1	3.6	(0.1)
	$	**56.9**	69.2	44.5	67.7	52.9
Earnings per share (EPS) attributable to equity holders of the Company						
Basic and diluted - continuing operations	$	**0.21**	0.28	0.17	0.24	0.20
Basic and diluted - discontinued operations	$	**-**	(0.02)	-	-	-
	$	**0.21**	0.26	0.17	0.24	0.20

Revenue from continuing operations was stable compared to last quarter and 10% higher than the third quarter of fiscal 2015

Revenue from continuing operations was stable compared to last quarter mainly because:

- Civil Aviation Training Solutions revenue decreased by $30.5 million, or 8%, mainly due to lower revenue from our manufacturing facility due to the timing of sales of partially manufactured simulators partially offset by increased FFS utilization and training demand primarily in Europe;
- Defence and Security revenue increased by $27.1 million, or 12%, mainly due to the integration into our results of the revenues from Bombardier's Military Aviation Training (BMAT) acquired last quarter and higher revenue resulting from a higher level of activity on European and North American programs partially offset by lower revenue from Asian programs;
- Healthcare revenue increased by $2.9 million, or 11%, mainly due to higher revenue from our patient simulator product line attributable in part to a favourable foreign exchange impact on the translation of foreign operations.

[2] Non-GAAP and other financial measures (see Section 5).

Revenue from continuing operations was $57.2 million higher than the third quarter of fiscal 2015 largely because:

- Defence and Security revenue increased by $37.6 million, or 17%, mainly due to the integration into our results of BMAT, a favourable foreign exchange impact on the translation of foreign operations and higher revenue on European programs partially offset by a lower level of activity on Asian and North American programs;
- Civil Aviation Training Solutions revenue increased by $12.6 million, or 4%, mainly due to a favourable foreign exchange impact on the translation of foreign operations as well as increased FFS utilization and training demand in Europe and in the Americas. The increase was partially offset by lower revenue from our manufacturing facility due to the timing of sales of partially manufactured simulators;
- Healthcare revenue increased by $7.0 million, or 33%, mainly due to higher revenue from our patient simulator product line mainly attributable to a favourable foreign exchange impact on the translation of foreign operations.

Revenue year to date from continuing operations was $1,790.1 million, $175.4 million or 11% higher than the same period last year, largely because:

- Civil Aviation Training Solutions revenue increased by $109.1 million, or 12%, mainly due to a favourable foreign exchange impact on the translation of foreign operations, increased FFS utilization and training demand in Europe and in the Americas, the contribution of newly deployed simulators in our network, increased demand for our crew sourcing business and higher production levels from our manufacturing facility;
- Defence and Security revenue increased by $53.7 million, or 9%, mainly due to a favourable foreign exchange impact on the translation of foreign operations, higher revenue from European programs and to the integration into our results of BMAT. The increase was partially offset by lower revenue from North American programs due to a higher level of activity on programs nearing completion last year and a lower level of activity on Asian programs;
- Healthcare revenue increased by $12.6 million, or 19%, mainly due to higher patient simulator revenue resulting primarily from the introduction of new products, higher warranty revenue and a favourable foreign exchange impact on the translation of foreign operations.

You will find more details in *Results by segment.*

Segment operating income[3] was $6.6 million higher than last quarter and $3.7 million higher compared to the third quarter of fiscal 2015

Operating profit this quarter was $84.6 million, or 13.7% of revenue, compared to $77.6 million, or 12.6% of revenue last quarter and $82.9 million or 14.8% of revenue in the third quarter of fiscal 2015. Restructuring costs of $2.0 million were recorded this quarter compared to $2.4 million last quarter and segment operating income was $86.6 million this quarter compared to $80.0 million last quarter.

Segment operating income was $6.6 million or 8% higher compared to last quarter. Increases in segment operating income were $5.2 million, $1.3 million and $0.1 million for Civil Aviation Training, Defence and Security and Healthcare respectively.

Segment operating income increased by $3.7 million or 4% over the third quarter of fiscal 2015. Increases in segment operating income were $1.5 million, $1.1 million and $1.1 million for Civil Aviation Training, Defence and Security and Healthcare respectively.

For the first nine months of fiscal 2016, operating profit was $235.7 million, or 13.2% of revenue, compared to $227.4 million, or 14.1% of revenue for the same period last year. Year to date, restructuring costs of $12.1 million were recorded and segment operating income was $247.8 million. Segment operating income was $20.4 million higher, or 9% compared to the same period last year resulting from increases of $13.7 million, $5.6 million and $1.1 million for Civil Aviation Training Solutions, Defence and Security and Healthcare respectively.

You will find more details in *Restructuring costs* and *Results by segment*.

Net finance expense was stable compared to last quarter and $1.2 million higher compared to the third quarter of fiscal 2015

Net finance expense remained stable compared to last quarter. The increase over the third quarter of fiscal 2015 was mainly due to lower interest income.

For the first nine months of fiscal 2016, net finance expense was $56.8 million, which was $4.2 million higher than the same period last year. The increase was mainly due to higher finance expense on R&D obligations, lower interest income and lower borrowing costs capitalized to certain long-term assets.

Income tax rate was 13% this quarter

Income taxes this quarter were $8.5 million, representing an effective tax rate of 13% compared to a negative effective tax rate of 29% last quarter and 20% for the third quarter of fiscal 2015. For the first nine months of fiscal 2016, income taxes were $1.1 million, representing an effective tax rate of 1% compared to 22% for the same period last year.

Last quarter, we had a negative tax rate of 29% resulting mainly from one-time items involving the favourable settlement of tax oppositions in Canada partially offset by the negative impact of certain tax audits and changes in exchange rates that gave rise to deferred tax liabilities. Excluding the effect of these one-time items recorded last quarter, the income tax rate would have been 21%.

[3] Non-GAAP and other financial measures (see Section 5).

Excluding the effect of one-time items mentioned above, the lower tax rate this quarter compared to last quarter was mainly due to a change in the mix of income from various jurisdictions and U.S. tax incentives applicable to domestic manufacturers. Excluding the effect of the tax incentives, the income tax expense would have been $10.9 million.

The lower tax rate this quarter compared to the third quarter of fiscal 2015 was mainly due to a change in the mix of income from various jurisdictions and U.S. tax incentives applicable to domestic manufacturers.

For the first nine months of fiscal 2016, excluding the effect of one-time items, the income tax rate would have been 17% compared to 22% for the same period last year. The lower tax rate was mainly due to a change in the mix of income from various jurisdictions and U.S. tax incentives applicable to domestic manufacturers.

6.2 Discontinued operations

In fiscal 2015, we decided to divest our mining division following the decision to focus our resources and capital investment in targeted growth opportunities in our three core markets: Civil Aviation Training Solutions, Defence and Security and Healthcare. The results of our mining division were classified and reported separately as discontinued operations.

On July 24, 2015, we completed the sale of our mining division known as Datamine for an amount totaling $32.0 million excluding a working capital adjustment and a potential consideration of up to $10.0 million that is contingent on certain financial results being met.

You will find more details in Note 3 of our consolidated interim financial statements.

6.3 Restructuring costs

We have implemented a process improvement program to realize the benefits from the transformation of our production processes and product offering to further strengthen our competitive position, which will result in a reduction of our workforce. Net restructuring costs, consisting mainly of severances and other related costs, of $1.5 million after-tax and $9.0 million after-tax were recognized in net income in the quarter and the first nine months of fiscal 2016 respectively.

You can find more details in Note 11 of our consolidated interim financial statements.

6.4 Consolidated orders and total backlog

Our total consolidated backlog was $6,367.2 million at the end of this quarter. New orders of $546.7 million were added this quarter, partially offset by $616.3 million in revenue generated from our obligated backlog. The adjustment of $34.8 million was mainly due to a positive foreign exchange impact. Our joint venture backlog[4] was $582.8 million and our unfunded backlog[4] was $770.8 million.

Total backlog stable compared to last quarter

(amounts in millions)	Three months ended December 31, 2015	Nine months ended December 31, 2015
Obligated backlog, beginning of period	$ 5,048.4	$ 4,354.1
+ orders	546.7	1,892.3
- revenue	(616.3)	(1,790.1)
+ / - adjustments	34.8	557.3
Obligated backlog, end of period	$ 5,013.6	$ 5,013.6
Joint venture backlog (all obligated)	582.8	582.8
Unfunded backlog	770.8	770.8
Total backlog	$ 6,367.2	$ 6,367.2

For the nine months ended December 31, 2015, adjustments and unfunded backlog include $383.9 million and $73.8 million respectively, related to the acquisition of BMAT last quarter.

The book-to-sales ratio for the quarter was 0.89x. The ratio for the last 12 months was 1.06x.

You will find more details in *Results by segment.*

[4] Non-GAAP and other financial measures (see Section 5).

7. RESULTS BY SEGMENT

We manage our business and report our results in three segments:

- Civil Aviation Training Solutions;
- Defence and Security;
- Healthcare.

The method used for the allocation of assets jointly used by the operating segments and costs and liabilities jointly incurred (mostly corporate costs) between operating segments is based on the level of utilization when determinable and measurable, otherwise the allocation is based on a proportion of each segment's cost of sales.

Unless otherwise indicated, elements within our segment revenue and segment operating income analysis are presented in order of magnitude.

KEY PERFORMANCE INDICATORS

Segment operating income

(amounts in millions, except operating margins)		**Q3-2016**	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Civil Aviation Training Solutions	$	**55.3**	50.1	57.0	61.8	53.8
	%	***16.5***	*13.7*	*17.0*	*16.8*	*16.7*
Defence and Security	$	**29.7**	28.4	23.6	39.5	28.6
	%	***11.7***	*12.6*	*12.0*	*16.8*	*13.3*
Healthcare	$	**1.6**	1.5	0.6	4.1	0.5
	%	***5.7***	*5.9*	*2.5*	*14.0*	*2.3*
Total segment operating income (SOI)	$	**86.6**	80.0	81.2	105.4	82.9
Restructuring costs	$	**(2.0)**	(2.4)	(7.7)	-	-
Operating profit	$	**84.6**	77.6	73.5	105.4	82.9

Capital employed[5]

(amounts in millions)		**Q3-2016**	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Civil Aviation Training Solutions	$	**2,022.6**	2,075.1	2,023.0	1,984.2	1,887.7
Defence and Security	$	**745.7**	746.3	749.4	675.5	661.8
Healthcare	$	**218.2**	210.4	197.8	206.5	191.4
	$	**2,986.5**	3,031.8	2,970.2	2,866.2	2,740.9

[5] Non-GAAP and other financial measures (see Section 5).

7.1 Civil Aviation Training Solutions

THIRD QUARTER OF FISCAL 2016 EXPANSIONS AND NEW INITIATIVES

Expansions

- We announced, with Líder Aviação, the expansion of our joint venture training program in Brazil with the purchase of a AW139 helicopter FFS. The FFS will support initial and recurrent training for AW139 pilots and enable mission specific training for various operating profiles;
- We entered into a partnership with Gulf Aviation Academy (GAA) to offer additional Embraer 170/190 training services in Europe. We will be relocating GAA's CAE-built Embraer 170/190 FFS and flight training device to our training centre in Amsterdam to cater to the increased demand for such training in Europe;
- We announced the relocation and deployment of the second A320 FFS to our Barcelona training centre as part of our training services agreement with Vueling Airlines, S.A. We also announced that the centre will be extended to provide further classrooms and training facilities to meet Vueling's growing training demand requirements.

New programs and products

- We announced, together with Bombardier Commercial Aircraft, that we achieved Interim Level C qualification on the FFS for the new CS100 aircraft.

ORDERS

Civil Aviation Training Solutions obtained contracts this quarter expected to generate future revenues of $389.9 million including contracts for 9 FFSs.

FFS contracts awarded for the quarter:
- Two FFSs, including one Boeing 787 and one Boeing 777 to Saudi Arabian Airlines' Prince Sultan Aviation Academy;
- One Airbus A350 FFS to Airbus Asian Training Center;
- One Airbus A320 FFS to CAE Simulation Training Private Limited, a joint venture of InterGlobe Enterprises and CAE;
- One Mitsubishi MRJ 90 FFS to Mitsubishi Aircraft Corporation;
- Four FFSs, including two Airbus A350, one Boeing 787 and one Boeing 737NG to undisclosed customers in North America.

This brings the civil FFS order intake for the nine months ended December 31, 2015 to 33 FFSs.

Other notable contract awards for the quarter included:
- An exclusive long-term contract with KLM Cityhopper for pilot training services;
- An exclusive long-term contract with Air Europa for pilot training services;
- A long-term renewal contract with Arab Wings for pilot training services;
- A cadet training program extension with Shenzhen Airlines for the creation of additional pilots;
- An exclusive long-term contract extension with Spring Airlines for pilot training services.

Financial results

(amounts in millions, except operating margins, SEU, FFSs deployed and utilization rate)		**Q3-2016**	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Revenue	$	**334.7**	365.2	336.2	367.6	322.1
Segment operating income	$	**55.3**	50.1	57.0	61.8	53.8
Operating margins	*%*	***16.5***	*13.7*	*17.0*	*16.8*	*16.7*
Depreciation and amortization	$	**34.5**	33.4	31.1	30.8	31.0
Property, plant and equipment expenditures	$	**21.3**	20.6	21.4	29.4	25.1
Intangible assets and other assets expenditures	$	**7.6**	10.6	7.2	8.8	11.5
Capital employed	$	**2,022.6**	2,075.1	2,023.0	1,984.2	1,887.7
Total backlog	$	**3,085.6**	3,003.1	2,789.4	2,903.3	2,586.1
SEU [6]		**205**	202	203	201	200
FFSs deployed		**258**	259	258	256	246
Utilization rate [6]	%	**73**	64	73	70	68

[6] Non-GAAP and other financial measures (see Section 5).

Revenue down 8% from last quarter and up 4% over the third quarter of fiscal 2015
The decrease from last quarter was mainly due to lower revenue from our manufacturing facility due to the timing of sales of partially manufactured simulators partially offset by increased FFS utilization and training demand primarily in Europe.

The increase over the third quarter of fiscal 2015 was mainly due to a favourable foreign exchange impact on the translation of foreign operations as well as increased FFS utilization and training demand in Europe and in the Americas. The increase was partially offset by lower revenue from our manufacturing facility due to the timing of sales of partially manufactured simulators.

Revenue year to date was $1,036.1 million, $109.1 million or 12% higher than the same period last year. The increase was mainly due to a favourable foreign exchange impact on the translation of foreign operations, increased FFS utilization and training demand in Europe and in the Americas, the contribution of newly deployed simulators in our network, increased demand for our crew sourcing business and higher production levels from our manufacturing facility.

Segment operating income up 10% over last quarter and up 3% over the third quarter of fiscal 2015
Segment operating income was $55.3 million (16.5% of revenue) this quarter, compared to $50.1 million (13.7% of revenue) last quarter and $53.8 million (16.7% of revenue) in the third quarter of fiscal 2015.

Segment operating income increased by $5.2 million, or 10%, over last quarter. The increase was mainly attributable to increased FFS utilization and training demand primarily in Europe and higher profitability from our Asian joint ventures, as well as a favourable foreign exchange impact from the revaluation of our non-cash working capital accounts. The increase was partially offset by lower revenue from sales of partially manufactured simulators this quarter and a less favourable program mix from our manufacturing facility.

Segment operating income increased by $1.5 million, or 3%, over the third quarter of fiscal 2015. The increase was attributable to increased FFS utilization and training demand primarily in Europe and higher profitability from our Asian joint ventures, as well as a favourable foreign exchange impact from the revaluation of our non-cash working capital accounts. The increase was partially offset by lower revenue from sales of partially manufactured simulators this quarter and a less favourable program mix from our manufacturing facility, higher net research and development expenses and higher income recorded last year from gains on the disposal of interests in investments and compensation for a terminated customer service agreement.

Segment operating income for the first nine months of the year was $162.4 million (15.7% of revenue), $13.7 million or 9% higher than the same period last year. The increase was mainly due to higher FFS utilization and training demand in Europe and in the Americas, higher profitability from our Asian joint ventures and to a favourable foreign exchange impact from the revaluation of our non-cash working capital accounts. The increase was partially offset by a less favourable program mix from our manufacturing facility, higher net research and development expenses and higher income recorded last year from gains on the disposal of interests in investments, compensation for a terminated customer service agreement and the recognition of a deferred tax asset in one of our joint ventures.

Property, plant and equipment expenditures at $21.3 million this quarter
Growth capital expenditures were $12.7 million for the quarter and maintenance capital expenditures were $8.6 million.

Capital employed decreased by $52.5 million from last quarter
The decrease in capital employed was primarily due to lower non-cash working capital resulting mainly from higher accounts payable and accrued liabilities and an increase in contracts in progress liabilities. The decrease was partially offset by higher property, plant and equipment resulting mainly from movements in foreign exchange rates and a higher investment in equity accounted investees due to movements in foreign exchange rates and increased profitability within our joint ventures.

Total backlog was at $3,085.6 million at the end of the quarter

(amounts in millions)	Three months ended December 31, 2015		Nine months ended December 31, 2015	
Obligated backlog, beginning of period	$	2,529.1	$	2,397.7
+ orders		389.9		1,160.1
- revenue		(334.7)		(1,036.1)
+ / - adjustments (mainly F/X)		20.0		82.6
Obligated backlog, end of period	$	2,604.3	$	2,604.3
Joint venture backlog (all obligated)		481.3		481.3
Total backlog	$	3,085.6	$	3,085.6

This quarter's book-to-sales ratio was 1.16x. The ratio for the last 12 months was 1.11x.

7.2 Defence and Security

THIRD QUARTER OF FISCAL 2016 EXPANSIONS AND NEW INITIATIVES

Expansions

- We commenced the provision of maintenance and support services on the New Zealand Defence Force's SH-2G(I) helicopter synthetic training devices.

ORDERS

Defence and Security was awarded $128.5 million in orders this quarter, including notable contract awards from:

- ADS Inc. to provide the U.S. Air Force with a high-fidelity fuselage trainer representing both the C-17 transport and KC-135 tanker that can be used and configured for aeromedical evacuation missions;
- The U.S. Army to develop two Abrams main battle tank virtual maintenance training systems for an undisclosed customer as part of a foreign military sale contract;
- The Australian Defence Forces to perform configuration upgrades on two MRH90 helicopter simulators;
- The NATO Support and Procurement Agency to perform several upgrades to the Lynx full-mission flight trainer at the Joint Lynx Simulator Training Establishment;
- Lockheed Martin to perform a range of upgrades and updates to U.S. Air Force C-130J simulators;
- The U.S. Navy to continue providing contractor operations and maintenance services on the Royal Australian Navy's MH-60R Seahawk simulators as part of a foreign military sale contract.

Financial results

(amounts in millions, except operating margins)		**Q3-2016**	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Revenue	$	**253.3**	226.2	196.9	234.7	215.7
Segment operating income	$	**29.7**	28.4	23.6	39.5	28.6
Operating margins	*%*	***11.7***	*12.6*	*12.0*	*16.8*	*13.3*
Depreciation and amortization	$	**17.0**	16.6	15.5	15.2	14.2
Property, plant and equipment expenditures	$	**7.4**	4.3	1.8	10.8	2.4
Intangible assets and other assets expenditures	$	**3.7**	3.8	2.0	5.5	3.0
Capital employed	$	**745.7**	746.3	749.4	675.5	661.8
Total backlog	$	**3,281.6**	3,378.9	2,642.9	2,453.9	2,381.9

Revenue up 12% over last quarter and up 17% over the third quarter of fiscal 2015

The increase over last quarter was mainly due to the integration into our results of the revenues from BMAT acquired last quarter and higher revenue resulting from a higher level of activity on European and North American programs partially offset by lower revenue from Asian programs.

The increase over the third quarter of fiscal 2015 was mainly due to the integration into our results of BMAT, a favourable foreign exchange impact on the translation of foreign operations and higher revenue on European programs partially offset by a lower level of activity on Asian and North American programs.

Revenue year to date was $676.4 million, $53.7 million or 9% higher than the same period last year. The increase was mainly due to a favourable foreign exchange impact on the translation of foreign operations, higher revenue from European programs and to the integration into our results of BMAT. The increase was partially offset by lower revenue from North American programs due to a higher level of activity on programs nearing completion last year and a lower level of activity on Asian programs.

Segment operating income up 5% over last quarter and up 4% over the third quarter of fiscal 2015

Segment operating income was $29.7 million (11.7% of revenue) this quarter, compared to $28.4 million (12.6% of revenue) last quarter and $28.6 million (13.3% of revenue) in the third quarter of fiscal 2015.

The increase over last quarter was mainly due to higher margins on North American programs, higher volume on European programs and the integration into our results of BMAT partially offset by lower activity on Asian programs and higher selling, general and administrative expenses.

The increase over the third quarter of fiscal 2015 was mainly due to higher margins on North American programs, a favourable foreign exchange impact on the translation of foreign operations, the integration into our results of BMAT and higher volume on European programs partially offset by higher net research and development expenses and lower volume on Asian programs.

Segment operating income for the first nine months of the year was $81.7 million (12.1% of revenue), $5.6 million or 7% higher than the same period last year. The increase was mainly due to a favourable foreign exchange impact on the translation of foreign operations, higher investment tax credits claimed, higher margins from North American programs and higher volume on our European programs. The increase was partially offset by higher net research and development expenses, higher selling, general and administrative expenses and lower volume on Asian programs.

Capital employed decreased by $0.6 million from last quarter
The decrease from last quarter was mainly due to a lower investment in non-cash working capital resulting primarily from an increase in accounts payable and accrued liabilities, mainly as a result of advance payments received on service contracts, and a decrease in contracts in progress assets partially offset by a decrease in contract in progress liabilities. The decrease was partially offset by movements in foreign exchange rates on long-term assets.

Total backlog down 3% from last quarter

(amounts in millions)		Three months ended December 31, 2015		Nine months ended December 31, 2015
Obligated backlog, beginning of period	$	2,519.3	$	1,956.4
+ orders		128.5		654.6
- revenue		(253.3)		(676.4)
+ / - adjustments		14.8		474.7
Obligated backlog, end of period	$	2,409.3	$	2,409.3
Joint venture backlog (all obligated)		101.5		101.5
Unfunded backlog		770.8		770.8
Total backlog	$	3,281.6	$	3,281.6

This quarter's book-to-sales ratio was 0.51x. The ratio for the last 12 months was 0.98x.

Adjustments this quarter were mainly related to a positive foreign exchange impact.

This quarter, $4.5 million was transferred to obligated backlog.

7.3 Healthcare

THIRD QUARTER OF FISCAL 2016 EXPANSIONS AND NEW INITIATIVES

Expansions
- We signed agreements with new distributors in Chile and the Czech Republic.

New programs and products
- We released our new Blue Phantom Musculoskeletal ultrasound training model, the world's first training model for ultrasound-guided evaluation and procedures for the knee.

ORDERS
CAE Healthcare sales this quarter included:
- An order for 57 patient simulators and training to the Medical Education and Training Campus (METC) in the U.S.;
- Two patient simulators, custom courseware and staffing for a military aeromedical training facility in the U.S.;
- Six patient simulators, three simulation centre management solutions and a multi-year warranty service to a community college network in the U.S;
- Five patient simulators, an audiovisual solution and a multi-year warranty service to a public college in the U.S.;
- Eight patient simulators and three audiovisual and simulation centre management solutions, courseware and a multi-year warranty service to a government entity in Thailand;
- An interventional Cut Suit and training to a European Defence force.

Financial results

(amounts in millions, except operating margins)		**Q3-2016**	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Revenue	$	**28.3**	25.4	23.9	29.3	21.3
Segment operating income	$	**1.6**	1.5	0.6	4.1	0.5
Operating margins	*%*	***5.7***	*5.9*	*2.5*	*14.0*	*2.3*
Depreciation and amortization	$	**3.7**	3.4	3.5	3.6	3.3
Property, plant and equipment expenditures	$	**0.5**	0.3	0.4	0.5	0.5
Intangible assets and other assets expenditures	$	**0.9**	0.8	0.5	0.8	0.7
Capital employed	$	**218.2**	210.4	197.8	206.5	191.4

Revenue up 11% over last quarter and up 33% over the third quarter of fiscal 2015
The increase over last quarter and over the third quarter of fiscal 2015 was mainly due to higher revenue from our patient simulator product line attributable in part to a favourable foreign exchange impact on the translation of foreign operations.

Revenue year to date was $77.6 million, $12.6 million or 19% higher than the same period last year. The increase was mainly due to higher patient simulator revenue resulting primarily from the introduction of new products, higher warranty revenue and a favourable foreign exchange impact on the translation of foreign operations.

Segment operating income up over last quarter and the third quarter of fiscal 2015
Segment operating income was $1.6 million (5.7% of revenue) this quarter, compared to $1.5 million (5.9% of revenue) last quarter and $0.5 million (2.3% of revenue) in the third quarter of fiscal 2015.

The increase over last quarter and over the third quarter of fiscal 2015 was mainly due to higher revenue, as mentioned above, partially offset by a less favourable product mix.

Segment operating income for the first nine months of the year was $3.7 million (4.8% of revenue), $1.1 million higher than the same period last year. Higher revenue was partially offset by a less favourable product mix.

Capital employed increased by $7.8 million over last quarter
The increase over last quarter was mainly due to higher intangible assets as a result of movements in foreign exchange rates. The increase was also attributable to an increase in non-cash working capital resulting mainly from higher accounts receivable.

8. CONSOLIDATED CASH MOVEMENTS AND LIQUIDITY

We manage liquidity and regularly monitor the factors that could affect it, including:
- Cash generated from operations, including timing of milestone payments and management of working capital;
- Capital expenditure requirements;
- Scheduled repayments of long-term debt obligations, our credit capacity and expected future debt market conditions.

8.1 Consolidated cash movements

	Three months ended			Nine months ended	
	December 31		September 30	**December 31**	
(amounts in millions)	**2015**	2014	2015	**2015**	2014
Cash provided by continuing operating activities*	**$ 108.2**	$ 82.0	$ 73.6	**$ 248.6**	$ 236.7
Changes in non-cash working capital	**106.7**	9.5	52.7	**46.2**	(128.7)
Net cash provided by continuing operating activities	**$ 214.9**	$ 91.5	$ 126.3	**$ 294.8**	$ 108.0
Maintenance capital expenditures [7]	**(11.3)**	(6.1)	(9.1)	**(32.7)**	(37.0)
Other assets	**(4.4)**	(3.8)	(6.9)	**(13.6)**	(10.6)
Proceeds from the disposal of property, plant and equipment	**-**	0.6	1.4	**1.5**	1.5
Net proceeds from (payments to) equity accounted investees	**4.4**	(0.9)	-	**4.7**	(3.3)
Dividends received from equity accounted investees	**3.2**	0.7	2.1	**17.6**	7.7
Dividends paid	**(12.4)**	(12.0)	(12.1)	**(37.4)**	(34.3)
Free cash flow from continuing operations [7]	**$ 194.4**	$ 70.0	$ 101.7	**$ 234.9**	$ 32.0
Growth capital expenditures [7]	**(17.9)**	(21.9)	(16.1)	**(45.3)**	(66.5)
Capitalized development costs	**(7.8)**	(9.5)	(8.3)	**(23.2)**	(31.6)
Other cash movements, net	**1.7**	5.9	0.8	**14.1**	11.9
Business combinations, net of cash and cash equivalents acquired	**-**	-	14.3	**13.6**	(2.0)
Proceeds from partial disposal of interests in investments, net of cash and cash equivalents disposed	**-**	10.1	-	**-**	10.1
Proceeds from disposal of discontinued operations	**-**	-	29.2	**29.2**	-
Effect of foreign exchange rate changes on cash and cash equivalents	**7.4**	1.6	14.9	**21.8**	(2.6)
Net increase (decrease) in cash before proceeds and repayment of long-term debt	**$ 177.8**	$ 56.2	$ 136.5	**$ 245.1**	$ (48.7)

* before changes in non-cash working capital

[7] Non-GAAP and other financial measures (see Section 5).

Free cash flow from continuing operations of positive $194.4 million this quarter
The increase over last quarter and over the third quarter of fiscal 2015 was mainly due to a lower investment in non-cash working capital and an increase in cash provided by continuing operating activities.

Free cash flow year to date was positive $234.9 million, $202.9 million higher than the same period last year. The increase was mainly attributable to a lower investment in non-cash working capital, higher cash provided by continuing operating activities and an increase in dividends received from equity accounted investees.

Capital expenditures of $29.2 million this quarter
Growth capital expenditures were $17.9 million this quarter and $45.3 million for the first nine months of the year. Maintenance capital expenditures were $11.3 million this quarter and $32.7 million for the first nine months of the year.

9. CONSOLIDATED FINANCIAL POSITION

9.1 Consolidated capital employed

(amounts in millions)	**As at December 31 2015**	As at September 30 2015	As at March 31 2015
Use of capital:			
Current assets	**$ 1,810.8**	$ 1,645.9	$ 1,562.5
Less: cash and cash equivalents	**(541.4)**	(377.0)	(330.2)
Less: net assets held for sale	**(1.4)**	(1.2)	(47.0)
Current liabilities	**(1,268.4)**	(1,172.9)	(1,039.1)
Less: current portion of long-term debt	**125.7**	121.7	55.5
Non-cash working capital[8]	**$ 125.3**	$ 216.5	$ 201.7
Net assets held for sale	**1.4**	1.2	47.0
Property, plant and equipment	**1,557.9**	1,533.6	1,461.2
Other long-term assets	**1,792.3**	1,770.4	1,633.2
Other long-term liabilities	**(736.5)**	(723.9)	(729.6)
Total capital employed	**$ 2,740.4**	$ 2,797.8	$ 2,613.5
Source of capital:			
Current portion of long-term debt	**$ 125.7**	$ 121.7	$ 55.5
Long-term debt	**1,210.6**	1,192.1	1,224.3
Less: cash and cash equivalents	**(541.4)**	(377.0)	(330.2)
Net debt [8]	**$ 794.9**	$ 936.8	$ 949.6
Equity attributable to equity holders of the Company	**1,890.4**	1,803.7	1,612.7
Non-controlling interests	**55.1**	57.3	51.2
Source of capital	**$ 2,740.4**	$ 2,797.8	$ 2,613.5

Capital employed decreased $57.4 million from last quarter
The decrease was due to lower non-cash working capital and higher other long-term liabilities, partially offset by higher property, plant and equipment and other long-term assets.

Our return on capital employed[8] (ROCE) was 11.0% this quarter, compared to 11.0% last quarter.

Non-cash working capital decreased by $91.2 million from last quarter
The decrease was mainly due to higher accounts payable and accrued liabilities and a decrease in our contracts in progress assets, partially offset by higher inventories.

Net property, plant and equipment up $24.3 million over last quarter
The increase was mainly due to movements in foreign exchange rates and capital expenditures, partially offset by depreciation.

Other long-term assets up $21.9 million over last quarter
The increase was primarily due to movements in foreign exchange rates as well as a higher investment in equity accounted investees resulting from increased profitability within our joint ventures.

Other long-term liabilities up $12.6 million over last quarter
The increase was mainly due to an increase in deferred tax liabilities.

[8] Non-GAAP and other financial measures (see Section 5).

Change in net debt

(amounts in millions, except net debt-to-capital)		Three months ended December 31, 2015		Nine months ended December 31, 2015
Net debt, beginning of period	$	936.8	$	949.6
Impact of cash movements on net debt (see table in the consolidated cash movements section)		(177.8)		(245.1)
Effect of foreign exchange rate changes on long-term debt		27.8		76.4
Other		8.1		14.0
Decrease in net debt during the period	$	(141.9)	$	(154.7)
Net debt, end of period	$	794.9	$	794.9
Net debt-to-capital [9]	%	29.0		

We have committed lines of credit at floating rates, each provided by a syndicate of lenders. We and some of our subsidiaries can borrow funds directly from these credit facilities to cover operating and general corporate expenses and to issue letters of credit and bank guarantees.

We also have an agreement to sell certain of our accounts receivable for an amount up to US$150.0 million which was renewed in November 2015.

We have certain debt agreements which require the maintenance of a certain level of capital. As at December 31, 2015, we are compliant with all our financial covenants.

We believe that our cash and cash equivalents, access to credit facilities and expected free cash flow will provide sufficient flexibility for our business, the payment of dividends and will enable us to meet all other expected financial requirements in the near term.

Total equity increased by $84.5 million this quarter
The increase in equity was mainly due to net income of $56.9 million and a favourable foreign currency translation of $40.4 million, partially offset by dividends of $12.4 million.

Outstanding share data
Our articles of incorporation authorize the issue of an unlimited number of common shares and an unlimited number of preferred shares issued in series. We had a total of 269,920,215 common shares issued and outstanding as at December 31, 2015 with total share capital of $599.7 million.

As at January 31, 2016, we had a total of 269,932,164 common shares issued and outstanding.

[9] Non-GAAP and other financial measures (see Section 5).

10. BUSINESS COMBINATIONS

On September 30, 2015, we acquired the assets of BMAT, a defence training system integrator for a total purchase consideration of $19.8 million, excluding purchase price adjustments. This acquisition strengthens our core capabilities as a virtual and live training system integrator and further expands our offering into support for live flying training of future military pilots. Total acquisition costs relating to BMAT amount to $0.8 million and were included in selling, general and administrative expenses in the consolidated income statement.

The preliminary determination of the fair value of the identifiable assets acquired and liabilities assumed is included in the table below. The fair value of the acquired identifiable intangible assets and goodwill of $33.5 million is provisional until the valuation for those assets are finalized. The preliminary goodwill of $30.0 million arising from the acquisition of BMAT is attributable to the advantages gained, which include:
- Expansion of our offering into support for live flying training;
- Know-how as a training system integrator;
- Experienced workforce with subject matter expertise.

The fair value and the gross contractual amount of the acquired accounts receivable were $2.6 million.

The revenue and segment operating income included in the consolidated income statement from BMAT since the acquisition date is $21.3 million and $1.4 million respectively. Had BMAT been consolidated from April 1, 2015, the consolidated income statement would have shown additional revenue and segment operating income of $62.8 million and $4.1 million respectively. These unaudited pro-forma amounts are estimated based on the operations of the acquired business prior to the business combination by CAE. The amounts are provided as supplemental information and are not indicative of our future performance.

Net assets acquired and liabilities assumed arising from the acquisition are as follows:

		Total
Current assets [1]	$	21.3
Current liabilities		(59.3)
Non-current assets		5.7
Intangible assets [2]		33.5
Non-current liabilities		(17.7)
Fair value of net liabilities assumed, excluding cash and cash equivalents	**$**	**(16.5)**
Cash and cash equivalents acquired		37.4
Fair value of net assets acquired	**$**	**20.9**
Purchase price adjustment receivable		2.2
Total purchase consideration, settled in cash	**$**	**23.1**
Additional consideration related to previous fiscal years' acquisitions		0.7
Total cash consideration	**$**	**23.8**

[1] Excluding cash on hand.
[2] The goodwill is deductible for tax purposes.

The net assets, including goodwill, of BMAT are included in the Defence and Security segment.

You will find more details in Note 4 of our consolidated interim financial statements.

11. CHANGES IN ACCOUNTING POLICIES

New and amended standards adopted

The amendments to IFRS effective for the fiscal year 2016 have no material impact on our consolidated financial statements results.

New and amended standards not yet adopted

Revenue from contracts with customers

In May 2014, the IASB released IFRS 15, *Revenue from Contracts with Customers*, which supersedes IAS 11, *Construction Contracts* and IAS 18, *Revenue*, and the related interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate,* IFRIC 18, *Transfers of Assets from Customers* and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. We are currently evaluating the impact of the standard on our consolidated financial statements.

Financial Instruments

The IASB previously published versions of IFRS 9, *Financial Instruments* that introduced new classification and measurement requirements in 2009 and 2010 and a new hedge accounting model in 2013. In July 2014, the IASB released the final version of IFRS 9, *Financial Instruments* which replaces earlier versions of IFRS 9 issued and completes the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. We are currently evaluating the impact of the standard on our consolidated financial statements.

Leases

In January 2016, the IASB released IFRS 16, *Leases*, which supersedes IAS 17, *Leases*, and the related interpretations on leases: IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, Operating Leases – Incentives and SIC 27, *Evaluating the substance of transactions in the legal form of a lease*. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. We are currently evaluating the impact of the standard on our consolidated financial statements.

Use of judgements, estimates and assumptions

The preparation of consolidated interim financial statements requires our management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates. In preparing these consolidated interim financial statements, the significant judgements made by management in applying our accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the year ended March 31, 2015, with the exception of a refinement in the method to estimate the cost and obligation of defined benefit plans, and changes in estimates that are required in determining the provision for income taxes. Taxes on income in the interim periods are accrued by jurisdiction using the effective tax rate that would be applicable to expected total annual profit or loss of the jurisdiction.

As at April 1, 2015, we have refined the method to estimate the cost of the Canadian defined benefit pension plans and the present value of the employee benefit obligations. In prior years, the net pension cost was estimated utilizing a single weighted average discount rate derived from the yield curve used to measure the defined benefit obligations at the beginning of the year. Under the refined method, individual discount rates are derived from the same yield curve, which reflect the different timing of benefit payments. This change in accounting estimate is accounted for prospectively. This change does not significantly affect the measurement of the employee benefit obligations and the total net pension plan cost compared to the previous method.

12. CONTROLS AND PROCEDURES

In the third quarter ended December 31, 2015, the Company did not make any significant changes in, nor take any significant corrective actions regarding its internal controls or other factors that could significantly affect such internal controls. The Company's CEO and CFO periodically review the Company's disclosure controls and procedures for effectiveness and conduct an evaluation each quarter. As of the end of the third quarter, the Company's CEO and CFO were satisfied with the effectiveness of the Company's disclosure controls and procedures.

On September 30 2015, we acquired BMAT. In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the CEO and the CFO of the Company have limited the scope of their design of CAE's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of BMAT. BMAT utilizes separate information systems and processes. We have begun to integrate BMAT's internal controls, policies and procedures with our internal controls, policies and procedures. This integration process is expected to be completed during fiscal 2016. BMAT's contribution to our consolidated financial statements for the quarter ended December 31, 2015 was approximately 3% of consolidated revenues and 2% of consolidated segment operating income. Additionally, at December 31, 2015, BMAT's total assets and total liabilities were 1% and 3% of consolidated total assets and liabilities, respectively.

13. SELECTED QUARTERLY FINANCIAL INFORMATION

(amounts in millions, except per share amounts and exchange rates)		Q1	Q2	Q3	Q4	Year to date
Fiscal 2016						
Revenue	**$**	**557.0**	**616.8**	**616.3**	(1)	**1,790.1**
Net income	**$**	**44.5**	**69.2**	**56.9**	(1)	**170.6**
Equity holders of the Company						
Continuing operations	**$**	**44.9**	**75.3**	**57.9**	(1)	**178.1**
Discontinued operations	**$**	**(0.5)**	**(6.5)**	**(0.2)**	(1)	**(7.2)**
Non-controlling interests	**$**	**0.1**	**0.4**	**(0.8)**	(1)	**(0.3)**
Basic and diluted EPS attributable to equity holders of the Company	**$**	**0.17**	**0.26**	**0.21**	(1)	**0.64**
Continuing operations	**$**	**0.17**	**0.28**	**0.21**	(1)	**0.67**
Discontinued operations	**$**	**-**	**(0.02)**	**-**	(1)	**(0.03)**
Earnings per share before specific items	**$**	**0.19**	**0.18**	**0.22**	(1)	**0.59**
Average number of shares outstanding (basic)		**267.4**	**268.6**	**269.3**	(1)	**268.5**
Average number of shares outstanding (diluted)		**267.8**	**268.9**	**269.7**	(1)	**268.9**
Average exchange rate, U.S. dollar to Canadian dollar		**1.23**	**1.31**	**1.33**	(1)	**1.29**
Average exchange rate, Euro to Canadian dollar		**1.36**	**1.46**	**1.46**	(1)	**1.42**
Average exchange rate, British pound to Canadian dollar		**1.88**	**2.03**	**2.02**	(1)	**1.98**
Fiscal 2015						Total
Revenue	$	526.2	529.4	559.1	631.6	2,246.3
Net income	$	41.6	42.5	52.9	67.7	204.7
Equity holders of the Company						
Continuing operations	$	43.8	42.0	52.1	63.3	201.2
Discontinued operations	$	(2.0)	0.9	0.9	0.8	0.6
Non-controlling interests	$	(0.2)	(0.4)	(0.1)	3.6	2.9
Basic and diluted EPS attributable to equity holders of the Company	$	0.16	0.16	0.20	0.24	0.76
Continuing operations	$	0.17	0.16	0.20	0.24	0.76
Discontinued operations	$	(0.01)	-	-	-	-
Average number of shares outstanding (basic)		263.9	264.7	265.5	266.4	265.1
Average number of shares outstanding (diluted)		265.0	265.6	266.4	267.4	266.0
Average exchange rate, U.S. dollar to Canadian dollar		1.09	1.09	1.14	1.24	1.14
Average exchange rate, Euro to Canadian dollar		1.50	1.44	1.42	1.40	1.44
Average exchange rate, British pound to Canadian dollar		1.84	1.82	1.80	1.88	1.83
Fiscal 2014						Total
Revenue	$	520.1	478.2	503.9	575.7	2,077.9
Net income	$	45.4	38.2	47.6	59.9	191.1
Equity holders of the Company						
Continuing operations	$	44.7	38.2	45.5	59.9	188.3
Discontinued operations	$	0.9	0.1	0.6	0.1	1.7
Non-controlling interests	$	(0.2)	(0.1)	1.5	(0.1)	1.1
Basic and diluted EPS attributable to equity holders of the Company	$	0.18	0.15	0.18	0.23	0.73
Continuing operations	$	0.17	0.15	0.17	0.23	0.72
Discontinued operations	$	0.01	-	0.01	-	0.01
Average number of shares outstanding (basic)		260.2	261.0	261.5	262.7	261.3
Average number of shares outstanding (diluted)		260.2	261.5	262.3	264.0	261.9
Average exchange rate, U.S. dollar to Canadian dollar		1.02	1.04	1.05	1.10	1.05
Average exchange rate, Euro to Canadian dollar		1.34	1.38	1.43	1.51	1.41
Average exchange rate, British pound to Canadian dollar		1.57	1.61	1.70	1.83	1.68

(1) Not available

Consolidated Statement of Financial Position

(amounts in millions of Canadian dollars)	Notes	**December 31 2015**	March 31 2015
Assets			
Cash and cash equivalents		**$ 541.4**	$ 330.2
Accounts receivable	5	**498.8**	468.0
Contracts in progress: assets		**344.2**	309.8
Inventories		**268.0**	237.3
Prepayments		**87.5**	81.8
Income taxes recoverable		**45.9**	43.9
Derivative financial assets	14	**23.5**	30.3
Assets held for sale	3	**1.5**	61.2
Total current assets		**$ 1,810.8**	$ 1,562.5
Property, plant and equipment		**1,557.9**	1,461.2
Intangible assets		**923.6**	844.7
Investment in equity accounted investees		**351.7**	318.0
Deferred tax assets		**34.6**	33.2
Derivative financial assets	14	**24.1**	21.1
Other assets		**458.3**	416.2
Total assets		**$ 5,161.0**	$ 4,656.9
Liabilities and equity			
Accounts payable and accrued liabilities		**$ 860.2**	$ 732.7
Provisions	11	**19.0**	17.5
Income taxes payable		**12.2**	10.6
Contracts in progress: liabilities		**196.3**	154.6
Current portion of long-term debt		**125.7**	55.5
Derivative financial liabilities	14	**54.9**	54.0
Liabilities held for sale	3	**0.1**	14.2
Total current liabilities		**$ 1,268.4**	$ 1,039.1
Provisions		**6.6**	4.6
Long-term debt		**1,210.6**	1,224.3
Royalty obligations		**152.2**	158.4
Employee benefit obligations		**179.6**	185.7
Deferred gains and other non-current liabilities		**147.7**	165.1
Deferred tax liabilities		**231.7**	198.6
Derivative financial liabilities	14	**18.7**	17.2
Total liabilities		**$ 3,215.5**	$ 2,993.0
Equity			
Share capital		**$ 599.7**	$ 559.0
Contributed surplus		**18.1**	19.1
Accumulated other comprehensive income		**289.0**	177.3
Retained earnings		**983.6**	857.3
Equity attributable to equity holders of the Company		**$ 1,890.4**	$ 1,612.7
Non-controlling interests		**55.1**	51.2
Total equity		**$ 1,945.5**	$ 1,663.9
Total liabilities and equity		**$ 5,161.0**	$ 4,656.9

The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Income Statement

(amounts in millions of Canadian dollars, except per share amounts)	Notes	Three months ended December 31 2015	Three months ended December 31 2014	Nine months ended December 31 2015	Nine months ended December 31 2014
Continuing operations					
Revenue	15	**$ 616.3**	$ 559.1	**$ 1,790.1**	$ 1,614.7
Cost of sales		**447.8**	410.1	**1,304.8**	1,193.0
Gross profit		**$ 168.5**	$ 149.0	**$ 485.3**	$ 421.7
Research and development expenses		**20.0**	13.6	**61.1**	44.6
Selling, general and administrative expenses		**81.5**	70.8	**222.6**	195.2
Other gains – net	10	**(6.7)**	(10.7)	**(13.4)**	(14.7)
After tax share in profit of equity accounted investees	15	**(12.9)**	(7.6)	**(32.8)**	(30.8)
Restructuring costs	11	**2.0**	-	**12.1**	-
Operating profit		**$ 84.6**	$ 82.9	**$ 235.7**	$ 227.4
Finance income	6	**(2.4)**	(3.3)	**(6.7)**	(7.5)
Finance expense	6	**21.4**	21.1	**63.5**	60.1
Finance expense – net		**$ 19.0**	$ 17.8	**$ 56.8**	$ 52.6
Earnings before income taxes		**$ 65.6**	$ 65.1	**$ 178.9**	$ 174.8
Income tax expense	12	**8.5**	13.1	**1.1**	37.6
Earnings from continuing operations		**$ 57.1**	$ 52.0	**$ 177.8**	$ 137.2
Discontinued operations					
(Loss) earnings from discontinued operations	3	**(0.2)**	0.9	**(7.2)**	(0.2)
Net income		**$ 56.9**	$ 52.9	**$ 170.6**	$ 137.0
Attributable to:					
Equity holders of the Company		**$ 57.7**	$ 53.0	**$ 170.9**	$ 137.7
Non-controlling interests		**(0.8)**	(0.1)	**(0.3)**	(0.7)
		$ 56.9	$ 52.9	**$ 170.6**	$ 137.0
Earnings (loss) per share from continuing and discontinued operations attributable to equity holders of the Company					
Basic and diluted – continuing operations	8	**$ 0.21**	$ 0.20	**$ 0.67**	$ 0.52
Basic and diluted – discontinued operations	8	**-**	-	**(0.03)**	-
		$ 0.21	$ 0.20	**$ 0.64**	$ 0.52

The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

(amounts in millions of Canadian dollars)	Three months ended December 31 **2015**	2014	Nine months ended December 31 **2015**	2014
Net income	**$ 56.9**	$ 52.9	**$ 170.6**	$ 137.0
Items that may be reclassified to net income				
Foreign currency translation				
Net currency translation difference on the translation of financial statements of foreign operations	**$ 49.8**	$ 28.1	**$ 176.7**	$ (2.9)
Net loss on certain long-term debt denominated in foreign currency and designated as hedges of net investments in foreign operations	**(19.3)**	(16.4)	**(50.0)**	(22.9)
Reclassification to income	**-**	2.9	**(16.1)**	2.9
Income taxes	**(2.0)**	(1.9)	**(6.2)**	-
Share in foreign currency translation difference of equity accounted investees	**11.9**	4.2	**21.4**	6.9
	$ 40.4	$ 16.9	**$ 125.8**	$ (16.0)
Net change in cash flow hedges				
Effective portion of changes in fair value of cash flow hedges	**$ (16.6)**	$ (8.6)	**$ (53.4)**	$ (4.8)
Reclassification to income	**16.3**	8.7	**38.6**	4.8
Income taxes	**-**	-	**4.0**	-
After tax share in net change of cash flow hedges of equity accounted investees	**0.4**	0.4	**0.8**	0.5
	$ 0.1	$ 0.5	**$ (10.0)**	$ 0.5
Net change in available-for-sale financial instruments				
Net change in fair value of available-for-sale financial asset	**$ -**	$ -	**$ 0.1**	$ -
	$ -	$ -	**$ 0.1**	$ -
Items that are never reclassified to net income				
Defined benefit plan remeasurements				
Defined benefit plan remeasurements	**$ (4.3)**	$ (3.3)	**$ 21.2**	$ (29.6)
Income taxes	**1.2**	0.9	**(5.9)**	8.0
	$ (3.1)	$ (2.4)	**$ 15.3**	$ (21.6)
Other comprehensive income (loss)	**$ 37.4**	$ 15.0	**$ 131.2**	$ (37.1)
Total comprehensive income	**$ 94.3**	$ 67.9	**$ 301.8**	$ 99.9
Attributable to:				
Equity holders of the Company	**$ 96.5**	$ 67.2	**$ 297.9**	$ 99.1
Non-controlling interests	**(2.2)**	0.7	**3.9**	0.8
	$ 94.3	$ 67.9	**$ 301.8**	$ 99.9
Total comprehensive income (loss) attributable to equity holders of the Company:				
Continuing operations	**$ 96.7**	$ 66.5	**$ 309.7**	$ 100.2
Discontinued operations	**(0.2)**	0.7	**(11.8)**	(1.1)
	$ 96.5	$ 67.2	**$ 297.9**	$ 99.1

The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

Nine months ended December 31, 2015 (amounts in millions of Canadian dollars, except number of shares)	Notes	Common shares Number of shares	Common shares Stated value	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	**Total equity**
				Attributable to equity holders of the Company					
Balances, beginning of period		266,903,070	$ 559.0	$ 19.1	$ 177.3	$ 857.3	$ 1,612.7	$ 51.2	**$ 1,663.9**
Net income		-	$ -	$ -	$ -	$ 170.9	$ 170.9	$ (0.3)	**$ 170.6**
Other comprehensive income (loss):									
Foreign currency translation		-	-	-	121.6	-	121.6	4.2	**125.8**
Net change in cash flow hedges		-	-	-	(10.0)	-	(10.0)	-	**(10.0)**
Net change in available-for-sale financial instruments		-	-	-	0.1	-	0.1	-	**0.1**
Defined benefit plan remeasurements		-	-	-	-	15.3	15.3	-	**15.3**
Total comprehensive income		-	$ -	$ -	$ 111.7	$ 186.2	$ 297.9	$ 3.9	**$ 301.8**
Stock options exercised		1,490,180	14.1	-	-	-	14.1	-	**14.1**
Optional cash purchase		3,664	-	-	-	-	-	-	**-**
Transfer upon exercise of stock options		-	4.1	(4.1)	-	-	-	-	**-**
Share-based payments		-	-	3.1	-	-	3.1	-	**3.1**
Stock dividends	8	1,523,301	22.5	-	-	(22.5)	-	-	**-**
Cash dividends	8	-	-	-	-	(37.4)	(37.4)	-	**(37.4)**
Balances, end of period		**269,920,215**	**$ 599.7**	**$ 18.1**	**$ 289.0**	**$ 983.6**	**$ 1,890.4**	**$ 55.1**	**$ 1,945.5**

Nine months ended December 31, 2014 (amounts in millions of Canadian dollars, except number of shares)	Notes	Common shares Number of shares	Common shares Stated value	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
				Attributable to equity holders of the Company					
Balances, beginning of period		263,771,443	$ 517.5	$ 19.5	$ 129.5	$ 775.1	$ 1,441.6	$ 40.6	$ 1,482.2
Net income		-	$ -	$ -	$ -	$ 137.7	$ 137.7	$ (0.7)	$ 137.0
Other comprehensive (loss) income:									
Foreign currency translation		-	-	-	(17.5)	-	(17.5)	1.5	(16.0)
Net change in cash flow hedges		-	-	-	0.5	-	0.5	-	0.5
Defined benefit plan remeasurements		-	-	-	-	(21.6)	(21.6)	-	(21.6)
Total comprehensive (loss) income		-	$ -	$ -	$ (17.0)	$ 116.1	$ 99.1	$ 0.8	$ 99.9
Stock options exercised		1,246,614	11.9	-	-	-	11.9	-	11.9
Optional cash purchase		3,590	-	-	-	-	-	-	-
Transfer upon exercise of stock options		-	3.4	(3.4)	-	-	-	-	-
Share-based payments		-	-	2.6	-	-	2.6	-	2.6
Additions to non-controlling interests		-	-	-	-	-	-	3.6	3.6
Stock dividends	8	1,356,903	18.7	-	-	(18.7)	-	-	-
Cash dividends	8	-	-	-	-	(34.3)	(34.3)	-	(34.3)
Balances, end of period		266,378,550	$ 551.5	$ 18.7	$ 112.5	$ 838.2	$ 1,520.9	$ 45.0	$ 1,565.9

The balance of retained earnings and accumulated other comprehensive income as at December 31, 2015 was $1,272.6 million (2014 – $950.7 million).
The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Nine months ended December 31 *(amounts in millions of Canadian dollars)*	Notes	**2015**	2014
Operating activities			
Earnings from continuing operations		**$ 177.8**	$ 137.2
Adjustments for:			
Depreciation of property, plant and equipment	15	**89.5**	79.5
Amortization of intangible and other assets	15	**69.2**	60.0
After tax share in profit of equity accounted investees		**(32.8)**	(30.8)
Deferred income taxes		**14.1**	19.8
Investment tax credits		**(39.3)**	(8.2)
Share-based compensation		**5.5**	6.3
Defined benefit pension plans		**7.3**	7.5
Amortization of other non-current liabilities		**(30.7)**	(26.2)
Other		**(12.0)**	(8.4)
Changes in non-cash working capital	12	**46.2**	(128.7)
Net cash provided by operating activities		**$ 294.8**	$ 108.0
Investing activities			
Business combinations, net of cash and cash equivalents acquired	4	**$ 13.6**	$ (2.0)
Proceeds from disposal of discontinued operations	3	**29.2**	-
Proceeds from partial disposal of interests in investments, net of cash and cash equivalents disposed		**-**	10.1
Capital expenditures for property, plant and equipment		**(78.0)**	(103.5)
Proceeds from disposal of property, plant and equipment		**1.5**	1.5
Capitalized development costs		**(23.2)**	(31.6)
Enterprise resource planning (ERP) and other software		**(9.6)**	(17.2)
Net proceeds from (payments to) equity accounted investees		**4.7**	(3.3)
Dividends received from equity accounted investees		**17.6**	7.7
Other		**(4.0)**	6.6
Net cash used in investing activities		**$ (48.2)**	$ (131.7)
Financing activities			
Proceeds from borrowing under revolving unsecured credit facilities		**$ 426.7**	$ 378.7
Repayment of borrowing under revolving unsecured credit facilities		**(449.9)**	(369.2)
Proceeds from long-term debt, net of transaction costs		**19.7**	28.7
Repayment of long-term debt		**(20.2)**	(13.0)
Repayment of finance lease		**(10.2)**	(17.5)
Dividends paid		**(37.4)**	(34.3)
Common stock issuance		**14.1**	11.9
Net cash used in financing activities		**$ (57.2)**	$ (14.7)
Effect of foreign exchange rate changes on cash and cash equivalents		**$ 21.8**	$ (2.6)
Net increase (decrease) in cash and cash equivalents		**$ 211.2**	$ (41.0)
Cash and cash equivalents, beginning of period		**330.2**	312.3
Cash and cash equivalents, beginning of period, related to discontinued operations		**-**	(7.7)
Cash and cash equivalents, end of period		**$ 541.4**	$ 263.6
Supplemental information:			
Dividends received		**$ 17.6**	$ 7.7
Interest paid		**43.9**	37.9
Interest received		**6.9**	8.6
Income taxes paid		**14.5**	18.5

The accompanying notes form an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Interim Financial Statements

(Unless otherwise stated, all tabular amounts are in millions of Canadian dollars)

The consolidated interim financial statements were authorized for issue by the board of directors on February 10, 2016.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

CAE Inc. and its subsidiaries (or the Company) design, manufacture and supply simulation equipment, provide training, and develop integrated training solutions for defence and security markets, commercial airlines, business aircraft operators, helicopter operators, aircraft manufacturers and for healthcare education and service providers. CAE's flight simulators replicate aircraft performance in normal and abnormal operations as well as a comprehensive set of environmental conditions utilizing visual systems that contain an extensive database of airports, other landing areas, flying environments, mission-specific environments, and motion and sound cues to create a fully immersive training environment. The Company offers a range of flight training devices based on the same software used on its simulators. The Company also operates a global network of training centres with locations around the world.

The Company's operations are managed through three segments:

(i) Civil Aviation Training Solutions – Provides comprehensive training solutions for flight, cabin, maintenance and ground personnel in commercial, business and helicopter aviation, a range of flight simulation training devices, as well as ab initio pilot training and crew sourcing services;

(ii) Defence and Security – Is a training systems integrator for defence forces across the air, land and sea domains, and for government organizations responsible for public safety;

(iii) Healthcare – Designs, manufactures and markets simulators, audiovisual and simulation centre management solutions, offers consulting and courseware for training of medical and allied healthcare students as well as clinicians in educational institutions, hospitals and defence organizations.

The Company's mining division known as Datamine was sold during the second quarter of fiscal 2016 (see Note 3).

CAE is a limited liability company incorporated and domiciled in Canada. The address of the main office is 8585 Côte-de-Liesse, Saint-Laurent, Québec, Canada, H4T 1G6. CAE shares are traded on the Toronto Stock Exchange and on the New York Stock Exchange.

Seasonality and cyclicality of the business

The Company's business operating segments are affected in varying degrees by market cyclicality and/or seasonality. As such, operating performance over a given interim period should not necessarily be considered indicative of full fiscal year performance.

The Civil Aviation Training Solutions segment sells equipment directly to airlines and to the extent that the entire commercial airline industry is affected by cycles of expansion and contraction, the Company's performance will also be affected. The segment activities are also affected by the seasonality of its industry – in times of peak travel (such as holidays), airline and business jet pilots are generally occupied flying aircraft rather than attending training sessions. The opposite also holds true – slower travel periods tend to be more active training periods for pilots. Therefore, the Company has historically experienced lower demand during the second quarter.

Order intake for the Defence and Security segment can be impacted by the unique nature of military contracts and the irregular timing in which they are awarded.

Basis of preparation

The key accounting policies applied in the preparation of these consolidated interim financial statements are consistent with those disclosed in Note 1 of the Company's consolidated financial statements for the year ended March 31, 2015, except for the changes in accounting policies described in Note 2. These policies have been consistently applied to all periods presented. These condensed consolidated interim financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements for the year ended March 31, 2015.

These consolidated interim financial statements have been prepared in accordance with Part I of the CPA Canada Handbook (referred to as IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, IAS 34, *Interim Financial Reporting*.

These consolidated interim financial statements have been prepared under the historical cost convention, except for the following items measured at fair value: contingent consideration, derivative financial instruments, financial instruments at fair value through profit and loss, available-for-sale financial assets and liabilities for cash-settled share-based arrangements.

The functional and presentation currency of CAE Inc. is the Canadian dollar.

Use of judgements, estimates and assumptions

The preparation of consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates. In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the year ended March 31, 2015, with the exception of a refinement in the method to estimate the cost and obligation of defined benefit plans, and changes in estimates that are required in determining the provision for income taxes. Taxes on income in the interim periods are accrued by jurisdiction using the effective tax rate that would be applicable to expected total annual profit or loss of the jurisdiction.

As at April 1, 2015, the Company has refined the method to estimate the cost of the Canadian defined benefit pension plans and the present value of the employee benefit obligations. In prior years, the net pension cost was estimated utilizing a single weighted average discount rate derived from the yield curve used to measure the defined benefit obligations at the beginning of the year. Under the refined method, individual discount rates are derived from the same yield curve, which reflect the different timing of benefit payments. This change in accounting estimate is accounted for prospectively. This change does not significantly affect the measurement of the employee benefit obligations and the total net pension plan cost compared to the previous method.

NOTE 2 – CHANGES IN ACCOUNTING POLICIES

New and amended standards adopted by the Company

The amendments to IFRS effective for the fiscal year 2016 have no material impact on the Company's consolidated financial statements results.

New and amended standards not yet adopted by the Company

Revenue from contracts with customers

In May 2014, the IASB released IFRS 15, *Revenue from Contracts with Customers*, which supersedes IAS 11, *Construction Contracts* and IAS 18, *Revenue*, and the related interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate,* IFRIC 18, *Transfers of Assets from Customers* and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

Financial Instruments

The IASB previously published versions of IFRS 9, *Financial Instruments*, that introduced new classification and measurement requirements in 2009 and 2010 and a new hedge accounting model in 2013. In July 2014, the IASB released the final version of IFRS 9, *Financial Instruments*, which replaces earlier versions of IFRS 9 issued and completes the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

Leases

In January 2016, the IASB released IFRS 16, *Leases*, which supersedes IAS 17, *Leases*, and the related interpretations on leases: IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, Operating Leases – Incentives and SIC 27, *Evaluating the substance of transactions in the legal form of a lease*. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

NOTE 3 – NET ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The Company decided to divest its mining division following the decision to focus its resources and capital investment in targeted growth opportunities in its three core markets: Civil Aviation Training Solutions, Defence and Security and Healthcare. The related assets and liabilities have been presented as held for sale.

On July 24, 2015, the Company completed the sale of its mining division known as Datamine for an amount totaling $32.0 million excluding a working capital adjustment and a potential consideration of up to $10.0 million that is contingent on certain financial results being met. Remaining as held for sale are certain net assets excluded from the transaction, consisting mainly of inventories.

The assets and liabilities classified as held for sale are as follows:

		December 31 2015		March 31 2015
Current assets[1]	$	**1.4**	$	15.8
Intangible assets		**-**		42.9
Other non-current assets		**0.1**		2.5
Assets held for sale	$	**1.5**	$	61.2
Current liabilities	$	**0.1**	$	12.9
Other non-current liabilities		**-**		1.3
Liabilities held for sale	$	**0.1**	$	14.2
Net assets held for sale	$	**1.4**	$	47.0

(1) Includes cash and cash equivalents

Analysis of the result of discontinued operations is as follows:

	Three months ended December 31				Nine months ended December 31			
		2015		2014		**2015**		2014
Revenue	$	**0.1**	$	9.0	$	**9.6**	$	26.3
Expenses		**0.4**		7.5		**10.7**		24.2
(Loss) earnings before income taxes, measurement to fair value and disposal	$	**(0.3)**	$	1.5	$	**(1.1)**	$	2.1
Income tax (recovery) expense		**(0.1)**		0.6		**(0.7)**		1.4
(Loss) earnings before measurement to fair value and disposal	$	**(0.2)**	$	0.9	$	**(0.4)**	$	0.7
Loss on measurement to fair value and disposal		**-**		-		**(7.7)**		(1.0)
Income tax recovery on measurement to fair value and disposal		**-**		-		**0.9**		0.1
(Loss) earnings from discontinued operations	$	**(0.2)**	$	0.9	$	**(7.2)**	$	(0.2)

Nine months ended December 31		**2015**		2014
Net cash provided by (used in) operating activities	$	**4.0**	$	(0.9)
Net cash used in investing activities		**(0.7)**		(2.1)
Net cash used in financing activities		**(0.1)**		-

NOTE 4 – BUSINESS COMBINATIONS

On September 30, 2015, the Company acquired the assets of Bombardier’s Military Aviation Training business (BMAT), a defence training system integrator for a total purchase consideration of $19.8 million, excluding purchase price adjustments. This acquisition strengthens CAE’s core capabilities as a virtual and live training system integrator and further expands its offering into support for live flying training of future military pilots. Total acquisition costs relating to BMAT amount to $0.8 million and were included in selling, general and administrative expenses in the consolidated income statement.

The preliminary determination of the fair value of the identifiable assets acquired and liabilities assumed is included in the table below. The fair value of the acquired identifiable intangible assets and goodwill of $33.5 million is provisional until the valuation for those assets are finalized. The preliminary goodwill of $30.0 million arising from the acquisition of BMAT is attributable to the advantages gained, which include:

- Expansion of CAE’s offering into support for live flying training;
- Know-how as a training system integrator;
- Experienced workforce with subject matter expertise.

The fair value and the gross contractual amount of the acquired accounts receivable were $2.6 million.

The revenue and segment operating income included in the consolidated income statement from BMAT since the acquisition date is $21.3 million and $1.4 million respectively. Had BMAT been consolidated from April 1, 2015, the consolidated income statement would have shown additional revenue and segment operating income of $62.8 million and $4.1 million respectively. These unaudited pro-forma amounts are estimated based on the operations of the acquired business prior to the business combination by the Company. The amounts are provided as supplemental information and are not indicative of the Company’s future performance.

Net assets acquired and liabilities assumed arising from the acquisition are as follows:

		Total
Current assets (1)	$	**21.3**
Current liabilities		**(59.3)**
Non-current assets		**5.7**
Intangible assets (2)		**33.5**
Non-current liabilities		**(17.7)**
Fair value of net liabilities assumed, excluding cash and cash equivalents	**$**	**(16.5)**
Cash and cash equivalents acquired		**37.4**
Fair value of net assets acquired	**$**	**20.9**
Purchase price adjustment receivable		**2.2**
Total purchase consideration, settled in cash	**$**	**23.1**
Additional consideration related to previous fiscal years' acquisitions		**0.7**
Total cash consideration	**$**	**23.8**

(1) Excluding cash on hand.

(2) The goodwill is deductible for tax purposes.

The net assets, including goodwill, of BMAT are included in the Defence and Security segment.

Changes in goodwill are as follows:

Nine months ended December 31		2015		2014
Net book value, beginning of period	**$**	**487.4**	$	502.5
Acquisition of subsidiary		**30.0**		-
Disposal of subsidiary		**-**		(1.6)
Transferred to assets held for sale (Note 3)		**-**		(26.0)
Exchange differences		**42.0**		(4.8)
Net book value, end of period	**$**	**559.4**	$	470.1

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable are carried on the consolidated statement of financial position net of allowance for doubtful accounts. This provision is established based on the Company's best estimates regarding the ultimate recovery of balances for which collection is uncertain. Uncertainty of ultimate collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client and delay in collection beyond the contractually agreed upon payment terms. Management regularly reviews accounts receivable, monitors past due balances and assesses the appropriateness of the allowance for doubtful accounts.

Details of accounts receivable are as follows:

		December 31		March 31
		2015		2015
Current trade receivables	**$**	**156.5**	$	170.6
Past due trade receivables				
1-30 days		**44.0**		52.9
31-60 days		**24.8**		10.9
61-90 days		**11.0**		12.8
Greater than 90 days		**61.0**		58.9
Allowance for doubtful accounts		**(15.7)**		(15.6)
Total trade receivables	**$**	**281.6**	$	290.5
Accrued receivables		**118.4**		103.0
Receivables from related parties (Note 16)		**45.3**		28.7
Other receivables		**53.5**		45.8
Total accounts receivable	**$**	**498.8**	$	468.0

NOTE 6 – FINANCE EXPENSE – NET

	Three months ended December 31 2015	2014	Nine months ended December 31 2015	2014
Finance expense:				
Long-term debt (other than finance leases)	**$ 13.9**	$ 13.9	**$ 42.0**	$ 41.3
Finance leases	**2.6**	2.6	**7.9**	7.5
Royalty obligations	**2.0**	3.0	**6.1**	6.2
Employee benefit obligations	**1.4**	1.2	**4.1**	3.7
Financing cost amortization	**0.4**	0.2	**1.1**	0.9
Provisions and other non-current liabilities	**0.6**	0.3	**1.0**	1.0
Other	**1.6**	1.0	**4.1**	2.8
Borrowing costs capitalized [1]	**(1.1)**	(1.1)	**(2.8)**	(3.3)
Finance expense	**$ 21.4**	$ 21.1	**$ 63.5**	$ 60.1
Finance income:				
Loans and finance lease contracts	**$ (2.2)**	$ (1.9)	**$ (6.2)**	$ (5.6)
Other	**(0.2)**	(1.4)	**(0.5)**	(1.9)
Finance income	**$ (2.4)**	$ (3.3)	**$ (6.7)**	$ (7.5)
Finance expense – net	**$ 19.0**	$ 17.8	**$ 56.8**	$ 52.6

[1] The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 4.00% for the three months ended December 31, 2015 (2014 – 3.75%), 4,00% for the three months ended September 30, 2015 (2014 – 3.75%) and 4.00% for the three months ended June 30, 2015 (2014 – 3.75%).

NOTE 7 – GOVERNMENT ASSISTANCE

The following table provides aggregate information regarding contributions recognized and amounts not yet received for the projects New Core Markets and Innovate:

	Three months ended December 31 2015	2014	Nine months ended December 31 2015	2014
Outstanding contribution receivable, beginning of period	**$ 6.7**	$ 7.9	**$ 8.8**	$ 5.0
Contributions	**7.8**	6.9	**20.7**	22.4
Payments received	**(7.3)**	(7.8)	**(22.3)**	(20.4)
Outstanding contribution receivable, end of period	**$ 7.2**	$ 7.0	**$ 7.2**	$ 7.0

The aggregate contributions recognized for all programs are as follows:

	Three months ended December 31 2015	2014	Nine months ended December 31 2015	2014
Contributions credited to capitalized expenditures:				
Project New Core Markets	**$ 0.3**	$ 0.1	**$ 0.6**	$ 0.8
Project Innovate	**1.7**	1.9	**4.8**	7.4
Contributions credited to income:				
Project New Core Markets	**0.9**	0.5	**2.2**	1.3
Project Innovate	**4.9**	4.4	**13.1**	12.9
Total contributions:				
Project New Core Markets	**$ 1.2**	$ 0.6	**$ 2.8**	$ 2.1
Project Innovate	**6.6**	6.3	**17.9**	20.3

There are no unfulfilled conditions or unfulfilled contingencies attached to these government contributions.

NOTE 8 – EARNINGS PER SHARE AND DIVIDENDS

The denominators for the basic and diluted earnings per share computations are as follows:

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
Weighted average number of common shares outstanding	**269,309,666**	265,491,855	**268,456,711**	264,714,997
Effect of dilutive stock options	**432,143**	875,947	**401,359**	808,239
Weighted average number of common shares outstanding for diluted earnings per share calculation	**269,741,809**	266,367,802	**268,858,070**	265,523,236

For the three months ended December 31, 2015, options to acquire 1,567,700 common shares (2014 – 1,359,000) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect.

For the nine months ended December 31, 2015, options to acquire 1,567,700 common shares (2014 – 1,395,100) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect.

The dividends declared for the third quarter of fiscal 2016 were $20.4 million or $0.075 per share (2015 – $18.6 million or $0.07 per share). For the first nine months of fiscal 2016, dividends declared were $59.9 million or $0.22 per share (2015 – $53.0 million or $0.20 per share).

NOTE 9 – EMPLOYEE COMPENSATION

The total employee compensation expense recognized in the determination of net income is as follows:

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
Salaries and other short-term employee benefits	**$ 191.0**	$ 177.1	**$ 561.3**	$ 517.8
Share-based payments, net of equity swap	**7.4**	6.7	**20.7**	14.8
Post-employment benefits – defined benefit plans[1]	**9.4**	6.4	**26.0**	19.3
Post-employment benefits – defined contribution plans	**1.9**	2.1	**6.9**	6.1
Termination benefits	**2.2**	1.8	**12.3**	6.2
Total employee compensation expense	**$ 211.9**	$ 194.1	**$ 627.2**	$ 564.2

[1] Includes net interest on employee benefit obligations.

NOTE 10 – OTHER GAINS – NET

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
Disposal of property, plant and equipment	**$ -**	$ 0.3	**$ 0.4**	$ 0.6
Net foreign exchange gains (losses)	**4.0**	1.2	**8.8**	(1.8)
Settlement of legal claim	**-**	4.6	**-**	4.6
Partial disposal of interests in investments	**-**	4.4	**-**	4.4
Reversal of royalty obligations	**-**	-	**-**	4.0
Other	**2.7**	0.2	**4.2**	2.9
Other gains – net	**$ 6.7**	$ 10.7	**$ 13.4**	$ 14.7

NOTE 11 – RESTRUCTURING COSTS

Restructuring costs, consisting mainly of severances and other related costs, were recognized in net income and in current provision during the quarter.

Changes in the restructuring provision are as follows:

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
Provision, beginning of period	**$ 9.8**	$ 9.6	**$ 4.7**	$ 13.1
Additions	**2.0**	-	**13.2**	-
Amounts used	**(3.0)**	(2.5)	**(8.4)**	(5.4)
Unused amounts reversed	**-**	-	**(1.1)**	-
Exchange differences	**-**	-	**0.4**	(0.6)
Provision, end of period	**$ 8.8**	$ 7.1	**$ 8.8**	$ 7.1

NOTE 12 – SUPPLEMENTARY CASH FLOWS AND INCOME INFORMATION

a) Changes in non-cash working capital are as follows:

Nine months ended December 31	**2015**	2014
Cash provided by (used in) non-cash working capital:		
Accounts receivable	**$ 35.4**	$ (38.5)
Contracts in progress: assets	**(34.2)**	(29.7)
Inventories	**(8.9)**	(28.2)
Prepayments	**4.3**	4.2
Income taxes recoverable	**(2.7)**	(13.4)
Accounts payable and accrued liabilities	**6.5**	(25.0)
Provisions	**3.2**	(9.7)
Income taxes payable	**4.7**	6.7
Contracts in progress: liabilities	**37.9**	4.9
Changes in non-cash working capital	**$ 46.2**	$ (128.7)

b) Income tax recovery

During the second quarter of fiscal 2016, a net income tax recovery of $29.4 million was recorded in income for the settlement of tax oppositions in Canada with respect to the tax treatment of the sale of certain simulators, for certain tax audits and the changes in exchange rates that gave rise to deferred tax liabilities.

NOTE 13 – CONTINGENCIES

The Company is subject to audits from various government and regulatory agencies on an ongoing basis. As a result, from time to time, authorities may disagree with positions and conclusions taken by the Company in its filings.

During fiscal 2015, the Company received a reassessment from the Canada Revenue Agency challenging the Company's characterization of the amounts received under the SADI program. No amount has been recognized in the Company's financial statements, since the Company believes that there are strong grounds for defence and will vigorously defend its position. Such matters cannot be predicted with certainty, however, the Company believes that the resolution of these proceedings will not have a material adverse effect on its financial position.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is determined by reference to the available market information at the reporting date. When no active market exists for a financial instrument, the Company determines the fair value of that instrument based on valuation methodologies as discussed below. In determining assumptions required under a valuation model, the Company primarily uses external, readily observable market data inputs. Assumptions or inputs that are not based on observable market data incorporate the Company's best estimates of market participant assumptions, and are used when external data is not available. Counterparty credit risk and the Company's own credit risk are taken into account in estimating the fair value of all financial assets and financial liabilities.

The following assumptions and valuation methodologies have been used to measure the fair value of financial instruments:

(i) The fair value of accounts receivable, contracts in progress, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities;

(ii) The fair value of derivative instruments, which include forward contracts, swap agreements and embedded derivatives accounted for separately, is determined using valuation techniques and is calculated as the present value of the estimated future cash flows using an appropriate interest rate yield curve and foreign exchange rate. Assumptions are based on market conditions prevailing at each reporting date. Derivative instruments reflect the estimated amounts that the Company would receive or pay to settle the contracts at the reporting date;

(iii) The fair value of the available-for-sale investment, which does not have a readily available market value, is estimated using a discounted cash flow model, which includes some assumptions that are not based on observable market prices or rates;

(iv) The fair value of non-current receivables is estimated based on discounted cash flows using current interest rates for instruments with similar terms and remaining maturities;

(v) The fair value of provisions, long-term debts and non-current liabilities, including finance lease obligations and royalty obligations, are estimated based on discounted cash flows using current interest rates for instruments with similar terms and remaining maturities.

The carrying values and fair values of financial instruments, by class, are as follows at December 31, 2015:

	At FVTPL [1]	Available-for-Sale	Loans & Receivables	DDHR [2]	Carrying Value Total	Fair Value
Financial assets						
Cash and cash equivalents	**$ 541.4**	**$ -**	**$ -**	**$ -**	**$ 541.4**	**$ 541.4**
Accounts receivable	**-**	**-**	**478.5** [3]	**-**	**478.5**	**478.5**
Contracts in progress: assets	**-**	**-**	**344.2**	**-**	**344.2**	**344.2**
Derivative financial assets	**15.2**	**-**	**-**	**32.4**	**47.6**	**47.6**
Other assets	**28.1** [4]	**1.7** [5]	**165.9** [6]	**-**	**195.7**	**213.4**
	$ 584.7	**$ 1.7**	**$ 988.6**	**$ 32.4**	**$ 1,607.4**	**$ 1,625.1**

	At FVTPL [1]	Other Financial Liabilities	DDHR [2]	Carrying Value Total	Fair Value
Financial liabilities					
Accounts payable and accrued liabilities	**$ -**	**$ 635.5** [7]	**$ -**	**$ 635.5**	**$ 635.5**
Provisions	**0.9**	**18.1**	**-**	**19.0**	**19.0**
Total long-term debt	**-**	**1,340.2** [8]	**-**	**1,340.2**	**1,420.6**
Other non-current liabilities	**-**	**173.1** [9]	**-**	**173.1**	**176.7**
Derivative financial liabilities	**17.2**	**-**	**56.4**	**73.6**	**73.6**
	$ 18.1	**$ 2,166.9**	**$ 56.4**	**$ 2,241.4**	**$ 2,325.4**

The carrying values and fair values of financial instruments, by class, were as follows at March 31, 2015:

	At FVTPL [1]	Available-for-Sale	Loans & Receivables	DDHR [2]	Carrying Value Total	Fair Value
Financial assets						
Cash and cash equivalents	$ 330.2	$ -	$ -	$ -	$ 330.2	$ 330.2
Accounts receivable	-	-	451.1 [3]	-	451.1	451.1
Contracts in progress: assets	-	-	309.8	-	309.8	309.8
Derivative financial assets	15.2	-	-	36.2	51.4	51.4
Other assets	23.7 [4]	1.6 [5]	155.1 [6]	-	180.4	197.2
	$ 369.1	$ 1.6	$ 916.0	$ 36.2	$ 1,322.9	$ 1,339.7

	At FVTPL [1]	Other Financial Liabilities	DDHR [2]	Carrying Value Total	Fair Value
Financial liabilities					
Accounts payable and accrued liabilities	$ -	$ 556.5 [7]	$ -	$ 556.5	$ 556.5
Provisions	1.5	15.1	-	16.6	16.6
Total long-term debt	-	1,284.0 [8]	-	1,284.0	1,406.2
Other non-current liabilities	-	181.2 [9]	-	181.2	216.5
Derivative financial liabilities	16.0	-	55.2	71.2	71.2
	$ 17.5	$ 2,036.8	$ 55.2	$ 2,109.5	$ 2,267.0

(1) FVTPL: Fair value through profit and loss.

(2) DDHR: Derivatives designated in a hedge relationship.

(3) Includes trade receivables, accrued receivables and certain other receivables.

(4) Represents restricted cash.

(5) Represents the Company's portfolio investment.

(6) Includes non-current receivables and advances.

(7) Includes trade accounts payable, accrued liabilities, interest payable, certain payroll-related liabilities and current royalty obligations.

(8) Excludes transaction costs.

(9) Includes non-current royalty obligations and other non-current liabilities.

The Company did not elect to voluntarily designate any financial instruments at FVTPL; moreover, there have not been any changes to the classification of the financial instruments since inception.

Fair value hierarchy

The fair value hierarchy reflects the significance of the inputs used in making the measurements and has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices in markets that are not active) or indirectly (i.e. quoted prices for similar assets or liabilities);

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the financial instruments, by class, which are recognized at fair value:

			December 31 2015			March 31 2015
	Level 2	**Level 3**	**Total**	Level 2	Level 3	Total
Financial assets						
At FVTPL						
Cash and cash equivalents	**$ 541.4**	**$ -**	**$ 541.4**	$ 330.2	$ -	$ 330.2
Restricted cash	**28.1**	**-**	**28.1**	23.7	-	23.7
Forward foreign currency contracts	**8.8**	**-**	**8.8**	12.4	-	12.4
Embedded foreign currency derivatives	**3.9**	**-**	**3.9**	2.8	-	2.8
Equity swap agreements	**2.5**	**-**	**2.5**	-	-	-
Available-for-sale	**-**	**1.7**	**1.7**	-	1.6	1.6
Derivatives designated in a hedge relationship						
Forward foreign currency contracts	**8.4**	**-**	**8.4**	18.0	-	18.0
Foreign currency swap agreements	**24.0**	**-**	**24.0**	18.2	-	18.2
	$ 617.1	**$ 1.7**	**$ 618.8**	$ 405.3	$ 1.6	$ 406.9
Financial liabilities						
At FVTPL						
Contingent consideration arising on business combinations	**$ -**	**$ 0.9**	**$ 0.9**	$ -	$ 1.5	$ 1.5
Forward foreign currency contracts	**17.2**	**-**	**17.2**	15.5	-	15.5
Embedded foreign currency derivatives	**-**	**-**	**-**	0.1	-	0.1
Equity swap agreements	**-**	**-**	**-**	0.4	-	0.4
Derivatives designated in a hedge relationship						
Forward foreign currency contracts	**54.7**	**-**	**54.7**	52.7	-	52.7
Interest rate swap agreements	**1.7**	**-**	**1.7**	2.5	-	2.5
	$ 73.6	**$ 0.9**	**$ 74.5**	$ 71.2	$ 1.5	$ 72.7

Changes in Level 3 financial instruments are as follows:

	Three months ended December 31		**Nine months ended December 31**	
	2015	2014	**2015**	2014
Balance, beginning of period	**$ 0.8**	$ (0.5)	**$ 0.1**	$ (2.7)
Total realized and unrealized gains :				
Included in income	**-**	0.2	**-**	0.4
Issued and settled	**-**	-	**0.7**	2.0
Balance, end of period	**$ 0.8**	$ (0.3)	**$ 0.8**	$ (0.3)

NOTE 15 – OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION

The Company elected to organize its operating segments principally on the basis of its customer markets. The Company manages its operations through its three segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

Results by segment

The profitability measure employed by the Company for making decisions about allocating resources to segments and assessing segment performance is operating profit (hereinafter referred to as segment operating income). The accounting principles used to prepare the information by operating segments are the same as those used to prepare the Company's consolidated financial statements. The method used for the allocation of assets jointly used by operating segments and costs and liabilities jointly incurred (mostly corporate costs) between operating segments is based on the level of utilization when determinable and measurable, otherwise the allocation is based on a proportion of each segment's cost of sales.

	Civil Aviation Training Solutions		**Defence and Security**		**Healthcare**		**Total**	
Three months ended December 31	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
External revenue	**$ 334.7**	$ 322.1	**$ 253.3**	$ 215.7	**$ 28.3**	$ 21.3	**$ 616.3**	$ 559.1
Depreciation and amortization								
Property, plant and equipment	**26.5**	23.9	**3.7**	3.1	**0.8**	0.7	**31.0**	27.7
Intangible and other assets	**7.9**	7.1	**13.3**	11.1	**3.0**	2.6	**24.2**	20.8
Write-downs (reversals of write-downs) of accounts receivable – net	**0.4**	0.7	**(0.4)**	0.9	**0.1**	(0.1)	**0.1**	1.5
After tax share in profit of equity accounted investees	**10.4**	4.9	**2.5**	2.7	**-**	-	**12.9**	7.6
Segment operating income	**55.3**	53.8	**29.7**	28.6	**1.6**	0.5	**86.6**	82.9

	Civil Aviation Training Solutions		**Defence and Security**		**Healthcare**		**Total**	
Nine months ended December 31	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
External revenue	**$ 1,036.1**	$ 927.0	**$ 676.4**	$ 622.7	**$ 77.6**	$ 65.0	**$ 1,790.1**	$ 1,614.7
Depreciation and amortization								
Property, plant and equipment	**76.3**	68.8	**11.0**	8.7	**2.2**	2.0	**89.5**	79.5
Intangible and other assets	**22.6**	20.5	**38.1**	31.8	**8.5**	7.7	**69.2**	60.0
Write-downs (reversals of write-downs) of accounts receivable – net	**1.3**	0.9	**(0.7)**	1.1	**-**	0.2	**0.6**	2.2
After tax share in profit of equity accounted investees	**27.3**	23.9	**5.5**	6.9	**-**	-	**32.8**	30.8
Segment operating income	**162.4**	148.7	**81.7**	76.1	**3.7**	2.6	**247.8**	227.4

Capital expenditures which consist of additions to non-current assets (other than financial instruments and deferred tax assets), by segment are as follows:

	Three months ended December 31		**Nine months ended December 31**	
	2015	2014	**2015**	2014
Civil Aviation Training Solutions	**$ 28.9**	$ 36.6	**$ 88.7**	$ 113.7
Defence and Security	**11.1**	5.4	**23.0**	33.0
Healthcare	**1.4**	1.2	**3.4**	6.0
Total capital expenditures	**$ 41.4**	$ 43.2	**$ 115.1**	$ 152.7

Operating profit

The following table provides a reconciliation between total segment operating income and operating profit:

	Three months ended December 31 2015	2014	Nine months ended December 31 2015	2014
Total segment operating income	**$ 86.6**	$ 82.9	**$ 247.8**	$ 227.4
Restructuring costs (Note 11)	**(2.0)**	-	**(12.1)**	-
Operating profit	**$ 84.6**	$ 82.9	**$ 235.7**	$ 227.4

Assets and liabilities employed by segment

The Company uses assets employed and liabilities employed to assess resources allocated to each segment. Assets employed include accounts receivable, contracts in progress, inventories, prepayments, property, plant and equipment, intangible assets, investment in equity accounted investees, derivative financial assets and other assets. Liabilities employed include accounts payable and accrued liabilities, provisions, contracts in progress, deferred gains and other non-current liabilities and derivative financial liabilities.

Assets and liabilities employed by segment are reconciled to total assets and liabilities as follows:

	December 31 2015	March 31 2015
Assets employed		
Civil Aviation Training Solutions	**$ 2,722.9**	$ 2,587.8
Defence and Security	**1,222.6**	1,079.3
Healthcare	**262.4**	250.1
Assets classified as held for sale (Note 3)	**1.5**	61.2
Assets not included in assets employed	**951.6**	678.5
Total assets	**$ 5,161.0**	$ 4,656.9
Liabilities employed		
Civil Aviation Training Solutions	**$ 700.3**	$ 603.6
Defence and Security	**476.9**	403.8
Healthcare	**44.2**	43.6
Liabilities classified as held for sale (Note 3)	**0.1**	14.2
Liabilities not included in liabilities employed	**1,994.0**	1,927.8
Total liabilities	**$ 3,215.5**	$ 2,993.0

Products and services information

The Company's revenue from external customers for its products and services are as follows:

	Three months ended December 31 2015	2014	Nine months ended December 31 2015	2014
Revenue				
Simulation products	**$ 263.5**	$ 265.2	**$ 812.2**	$ 767.2
Training and services	**352.8**	293.9	**977.9**	847.5
	$ 616.3	$ 559.1	**$ 1,790.1**	$ 1,614.7

Geographic information

The Company markets its products and services globally. Sales are attributed to countries based on the location of customers. Non-current assets other than financial instruments and deferred tax assets are attributed to countries based on the location of the assets.

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
Revenue from external customers				
Canada	**$ 61.6**	$ 41.0	**$ 161.0**	$ 115.3
United States	**218.3**	189.9	**624.2**	533.5
United Kingdom	**76.5**	59.8	**199.5**	178.2
Germany	**28.2**	23.6	**67.9**	59.8
Other European countries	**98.6**	98.9	**301.3**	287.6
United Arab Emirates	**14.2**	17.4	**51.2**	69.7
China	**38.1**	31.3	**128.1**	87.3
Other Asian countries	**51.4**	62.2	**158.8**	156.2
Australia	**12.9**	15.2	**40.9**	55.8
Other countries	**16.5**	19.8	**57.2**	71.3
	$ 616.3	$ 559.1	**$ 1,790.1**	$ 1,614.7

	December 31 2015	March 31 2015
Non-current assets other than financial instruments and deferred tax assets		
Canada	**$ 981.3**	$ 852.4
United States	**941.4**	872.3
Brazil	**100.1**	90.7
United Kingdom	**289.9**	292.6
Luxembourg	**189.3**	170.3
Netherlands	**127.4**	116.1
Other European countries	**272.9**	261.8
Asian countries	**113.9**	113.5
Other countries	**79.6**	90.0
	$ 3,095.8	$ 2,859.7

NOTE 16 – RELATED PARTY TRANSACTIONS

The following table presents the Company's outstanding balances with its joint ventures:

	December 31 2015	March 31 2015
Accounts receivable (Note 5)	**$ 45.3**	$ 28.7
Contracts in progress: assets	**24.2**	28.1
Other assets	**24.2**	29.2
Accounts payable and accrued liabilities	**12.7**	13.9
Contracts in progress: liabilities	**3.8**	3.9

Other assets include a finance lease receivable of $16.5 million (March 31, 2015 – $17.0 million) maturing in October 2022 and carrying an interest rate of 5.14% per annum, loans receivable of $0.7 million (March 31, 2015 – $5.7 million) maturing in December 2017 and August 2018 and carrying respectively interest rates of 11% and 5% per annum, and a long-term interest free receivable of $7.0 million (March 31, 2015 – $6.5 million) with no repayment term. As at December 31, 2015 and March 31, 2015, there are no provisions held against any of the receivables from related parties.

The following table presents the Company's transactions with its joint ventures:

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
Revenue	**$ 13.2**	$ 25.8	**$ 67.2**	$ 95.5
Purchases	**0.4**	3.7	**1.9**	6.5
Other income	**0.5**	1.4	**1.8**	2.5

In addition, during the third quarter of fiscal 2016, transactions amounting to $0.4 million (2015 – $0.6 million) were made, at market prices, with organizations of which some of the Company's directors are officers. For the first nine month of fiscal 2016, these transactions amount to $1.6 million (2015 – $1.8 million).

Compensation of key management personnel

Key management personnel have the ability and responsibility to make major operational, financial and strategic decisions for the Company and include certain executive officers. The compensation of key management for employee services is shown below:

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
Salaries and other short-term employee benefits	**$ 1.1**	$ 1.1	**$ 3.0**	$ 3.1
Post-employment benefits – defined benefit plans[(1)]	**0.3**	0.4	**0.8**	1.1
Share-based payments	**4.2**	2.7	**8.8**	4.3
	$ 5.6	$ 4.2	**$ 12.6**	$ 8.5

[(1)] Includes net interest on employee benefit obligations.


472
CAE
cae.com