flexible > experienced > reliable > accommodating > prompt > responsive > trusted > agile > forward-thinking > focused > expert > determined
> leading-edge > global > thorough > strong > dedicated > proven > passionate > respected > solution-minded > credible > conscientious >
leader > solid > local > dependable > ethical > committed > responsible > efficient > innovative > authentic > creative > confident > easy-to-
do-business-with > realistic > strong > dedicated > proven > passionate > respected > solution-minded > credible > flexible > experienced
reliable > accommodating > prompt > responsive > trusted > agile > conscientious > leader > solid > local > dependable > ethical > committed
> responsible > forward-thinking > focused > expert > determined > leading-edge > global > thorough > efficient > innovative > authentic
> creative > confident > easy-to-do-business-with > flexible > experienced > reliable > accommodating > prompt > responsive > trusted >
agile > forward-thinking > focused > expert > determined > leading-edge > global > thorough > strong > dedicated > proven > passionate >
respected > solution-minded > credible > conscientious > leader > solid > local > dependable > ethical > committed > responsible > efficient
> innovative > authentic > creative > confident > easy-to-do-business-with > realistic > strong > dedicated > proven > passionate > respected
> focused > expert > dedicated > trusted > **PASSIONATE** > dependable > conscientious > solid > local > ethical > thorough
> responsible > efficient > innovative > authentic > creative > proven > passionate > respected > solution-minded > dependable >
credible > responsible > reliable > solution-minded > **INNOVATIVE** > dependable > reliable > accommodating
> prompt > responsive > trusted > agile > conscientious > leader > solid > local > dependable > ethical > committed
> respected > easy-to-do-business-with > leading-edge > authentic > dedicated > **FOCUSED** > focused > expert > determined

CAE

Second Quarter Report 2015

FINANCIAL REPORT

for the three months ended September 30, 2014

> efficient > innovative > authentic > creative > realistic > innovative > dedicated > **TRUSTED** > respected > credible > flexible
> experienced > reliable > accommodating > prompt > responsive > solid > local > dependable > ethical > committfocused > respected >
responsive > confident > creative > easy-to-do-business-with > **GLOBAL** > strong > respected> flexible > experienced
> reliable > credible > realistic > ethical > passionate > dependable > flexible > responsive > innovative > authentic > creative > prompt
> responsible > dependable > credible > **INTEGRATED** > global > dedicated > ethical > credible > conscientious >
flexible > experienced > reliable > accommodating > prompt > responsive > trusted > agile > forward-thinking > focused > expert > determined
leading-edge > global > thorough > strong > dedicated > proven > passionate > respected > solution-minded > credible > conscientious >
leader > solid > local > dependable > ethical > committed > responsible > efficient > innovative > authentic > creative > confident > easy-to-do-
business-with > realistic > strong > dedicated > proven > passionate > respected > solution-minded > credible > flexible > experienced > reliable
> accommodating > prompt > responsive > solid > local > dependable > ethical > committed > responsible > forward-thinking > focused >
expert > determined > leading-edge > global > thorough > efficient > innovative > authentic > creative > confident > easy-to-do-business-with >
flexible > experienced > reliable > accommodating > prompt > responsive > trusted > agile > forward-thinking > focused > expert > determined
> leading-edge > global > thorough > strong > dedicated > proven > passionate > respected > solution-minded > credible > conscientious >
leader > solid > local > dependable > ethical > committed > responsible > efficient > innovative > authentic > creative > confident > easy-to-
do-business-with > realistic > strong > dedicated > proven > passionate > respected > solution-minded > credible > flexible > experienced >

Report to Shareholders

CAE reported financial results for the second quarter ended September 30, 2014. Net income attributable to equity holders from continuing operations was $42.0 million ($0.16 per share) this quarter, compared to $38.2 million ($0.15 per share) in the second quarter last year. Revenue for the quarter was $529.4 million, compared to $478.2 million in the second quarter last year. All financial information is in Canadian dollars.

“Performance for the second quarter was in line with our outlook for growth in Civil and Healthcare, and for resiliency in Defence,” said Marc Parent, CAE’s President and Chief Executive Officer. “In Civil, we made important progress with our solutions strategy, with Japan Airlines agreeing to conduct all its pilot training at the upcoming CAE-JAL joint venture. In Defence, we received contract extensions and technology upgrades from our existing installed base and long-term services programs. And in Healthcare, we made good progress and continue to be encouraged by our prospects in this growing market. For CAE overall, we are reiterating our expectations for a stronger performance in the second half and solid growth for the year as a whole.”

Civil Simulation and Training (Civil)

Revenue for Civil was $296.0 million in the second quarter, up 10% compared to $269.3 million last year. Second quarter operating income* was $45.4 million (15.3% of revenue), up 16% compared to $39.0 million (14.5% of revenue) last year.

During the quarter we announced a joint venture agreement with Japan Airlines to provide flight crew training services across Northeast Asia. Japan Airlines will conduct all its training at the CAE-JAL joint venture starting in April 2015.

Also during the quarter, we signed solutions agreements with an expected value of $297.5 million, including a long-term contract extension with LATAM Airlines in South America to include training for the new Airbus A350; a contract with Air Algérie in Africa to train 200 new cadets for the airline over the next four years; and, two full-flight simulator (FFS) sales and training centre operations services for customers in the Middle East and Asia. The Civil book-to-sales* ratio for the quarter was 1.01x and 1.11x for the last 12 months. Second quarter Civil backlog* was $2.4 billion, including our share of joint ventures but not yet including the upcoming joint venture with Japan Airlines.

Defence and Security (Defence)

Revenue for Defence was $209.1 million, up 9% compared to $191.1 million last year. Operating income was $25.6 million (12.2% of revenue), up 2% compared to $25.2 million (13.2% of revenue) last year.

During the quarter, we continued to expand our base of long-term, recurring services contracts and our worldwide customer fleet of flight training devices with new deployments, contract extensions and technology upgrades. The U.S. Air Force exercised options on existing contracts to provide training services for the Predator/Reaper remotely piloted vehicles and the KC-135 tanker aircraft, and the U.S. Navy also exercised options for training on the T-44C aircraft. We also received contracts to upgrade simulators for the German Air Force’s Eurofighter, the Royal Canadian Air Force’s CP-140 Aurora, the U.S. Air Force's C-5 Galaxy, and the Royal Australian Air Force's AP-3C Orion aircraft. And, we won orders for a UH-72A Lakota helicopter simulator for the U.S. Army and a C-130 Fuselage trainer for the U.S. Air Force Reserve Command. The latter contract includes the provision of high-fidelity trauma patient simulators from CAE Healthcare, to create an immersive environment for airmen involved in aeromedical evacuation training. In total, we received $167.4 million in Defence orders this quarter, representing a book-to-sales ratio of 0.80x. The book-to-sales ratio for the last 12 months was 0.89x. Second quarter Defence backlog was $2.4 billion, including joint ventures and unfunded backlog.

Healthcare

Revenue in Healthcare was up 37% to $24.3 million for the quarter, compared to $17.8 million in the second quarter last year. Operating income was up to $1.8 million (7.4% of revenue) compared to $0.4 million (2.2% of revenue) last year.

We had success across a number of healthcare market segments during the quarter involving sales of our patient and ultrasound simulators, audiovisual solutions, courseware, training and multi-year services. Defence customers included the U.S. Navy and U.S. Air Force Reserve Command as well as a military training centre in Saudi Arabia. In nursing and health science education, we sold patient simulators and multi-year services to the Southeast Technical Institute in the U.S. In the professional and OEM market, we developed a simulation-based training solution for physicians using the Impella® heart pump in partnership with Abiomed.

Additional financial highlights

Income taxes this quarter were $12.9 million representing an effective tax rate of 24%, compared to 17% last year. The higher rate this year results mainly from a change in the mix of income from various jurisdictions.

Free cash flow* from continuing operations was negative $17.1 million for the second quarter. The increase from last quarter was mainly attributable to favourable changes in non-cash working capital*, partially offset by lower cash provided by continuing operating activities. The decrease from second quarter last year was mainly due to unfavourable changes in non-cash working capital. We continue to expect stronger free cash flow in the second half of the fiscal year.

Capital expenditures* totaled $35.8 million this quarter, with growth expenditures representing 51% of the total and maintenance capital expenditures the balance.

Net debt* was $998.5 million as at September 30, 2014, compared to $901.6 million as at June 30, 2014. Approximately one-third of the increase results from foreign exchange on long-term debt. Our net debt-to-capital* ratio was 39.9%.

CAE will pay a dividend of $0.07 per share effective December 31, 2014 to shareholders of record at the close of business on December 15, 2014.

* 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 September 30, 2014

1. HIGHLIGHTS

FINANCIAL

SECOND QUARTER OF FISCAL 2015

Revenue from continuing operations higher compared to last quarter and the second quarter of fiscal 2014

- Consolidated revenue from continuing operations was $529.4 million this quarter, $3.2 million or 1% higher than last quarter and $51.2 million or 11% higher than the second quarter of fiscal 2014;
- For the first six months of fiscal 2015, consolidated revenue from continuing operations was $1,055.6 million, $57.3 million or 6% 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 second quarter of fiscal 2014

- Net income attributable to equity holders of the Company from continuing operations was $42.0 million (or $0.16 per share) this quarter, compared to $43.8 million (or $0.17 per share) last quarter, representing a decrease of $1.8 million or 4%, and compared to $38.2 million (or $0.15 per share) in the second quarter of fiscal 2014, representing an increase of $3.8 million or 10%;
- For the first six months of fiscal 2015, net income attributable to equity holders of the Company from continuing operations was $85.8 million (or $0.32 per share) compared to $82.9 million (or $0.32 per share) for the same period last year, a $2.9 million or 3% increase;
- Net income attributable to equity holders of the Company included earnings from discontinued operations this quarter of $0.9 million (or nil per share) compared to a loss from discontinued operations of $2.0 million (or $0.01 loss per share) last quarter and earnings from discontinued operations of $0.1 million (or nil per share) in the second quarter of fiscal 2014. For the first six months of fiscal 2015, the loss from discontinued operations was $1.1 million (or nil per share) compared to earnings from discontinued operations of $1.0 million (or nil per share) for the same period last year.

Free cash flow[1] from continuing operations at negative $17.1 million this quarter

- Net cash provided by continuing operating activities was $13.7 million this quarter, compared to $2.8 million last quarter and $114.7 million in the second quarter of last year;
- Maintenance capital expenditures[1] and other asset expenditures were $20.7 million this quarter, $17.0 million last quarter, and $9.4 million in the second quarter of last year;
- Cash dividends were $11.8 million this quarter, $10.5 million last quarter and $9.4 million in the second quarter of last year.

Capital employed[1] increased by $125.3 million over last quarter

- Non-cash working capital[1] increased by $39.1 million, ending at $247.3 million;
- Assets net of liabilities held for sale increased by $1.0 million;
- Property, plant and equipment increased by $49.2 million;
- Other long-term assets and other long-term liabilities increased by $41.5 million and $5.5 million respectively;
- Net debt[1] ended at $998.5 million this quarter compared to $901.6 million last quarter.

ORDERS[1]

- The book-to-sales ratio[1] for the quarter was 0.92x (Civil Simulation and Training was 1.01x, Defence and Security was 0.80x and Healthcare was 1.00x). The ratio for the last 12 months was 1.02x (Civil Simulation and Training was 1.11x, Defence and Security was 0.89x and Healthcare was 1.00x);
- Total order intake was $489.2 million, compared to $533.5 million last quarter and $706.3 million in the second quarter of fiscal 2014;
- Total backlog[1], including obligated, joint venture and unfunded backlog, was $4,812.9 million as at September 30, 2014.

Civil Simulation and Training

- Civil Simulation and Training obtained contracts with an expected value of $297.5 million, including contracts for 2 full-flight simulators (FFSs).

Defence and Security

- Defence and Security won contracts valued at $167.4 million.

Healthcare

- Healthcare order intake was valued at $24.3 million.

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

OTHER

- During the quarter, we entered into two new joint venture agreements. We announced the signing of an agreement with Japan Airlines (JAL) to form the CAE-JAL joint venture starting in April 2015 (50% participation) and announced the creation of Flight Training Alliance with Lufthansa Flight Training (50% participation);

- During the first quarter of fiscal 2015, we modified our operating segments and the former New Core Markets segment was renamed Healthcare following our decision to divest our mining business. As a result, operating segments' disclosure has been restated to conform to the new operating segments, as described in *Changes in accounting policies* and Note 13 of our consolidated interim financial statements. Additional information on the divestiture of our mining business can be found in *Results from discontinued operations* and in Note 3 of our consolidated interim financial statements.

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 *2015* mean the fiscal year ending March 31, 2015;
- *Last year, prior year* and *a year ago* mean the fiscal year ended March 31, 2014;
- Dollar amounts are in Canadian dollars.

This report was prepared as of November 12, 2014, and includes our management's discussion and analysis (MD&A), unaudited consolidated financial statements and notes for the second quarter ended September 30, 2014. We have written it to help you understand our business, performance and financial condition for the second quarter of fiscal 2015. Except as otherwise indicated, all financial information has been reported in accordance with International Financial Reporting Standards (IFRS). All tables disclosed are based on unaudited figures.

For additional information, please refer to our unaudited consolidated interim financial statements for the quarter ended September 30, 2014, and our annual consolidated financial statements, which you will find in our annual report for the year ended March 31, 2014. The MD&A section of our 2014 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 and value proposition;
- Our operations;
- Foreign exchange;
- Non-GAAP and other financial measures;
- Consolidated results;
- Results by segment;
- Consolidated cash movements and liquidity;
- Consolidated financial position;
- Business combinations;
- 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 military programs, constraints within 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 intellectual property, loss of key personnel, environmental liabilities, claims arising from casualty losses, integration of acquired businesses, our ability to penetrate new markets, length of sales cycle and our reliance on technology, and risks relating to the market such as foreign exchange, 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 2014 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.

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 provides the industry's most comprehensive integrated training solutions based on world-leading simulation technology and integrated training services. Our vision is to be our customers' Partner of Choice and we take a long-term approach to customer relationships. We offer our civil aviation, defence and security and healthcare customers a complete range of highly innovative products, services and training centre solutions designed to help them meet their mission critical needs for safety, efficiency and readiness. We have the broadest global presence in our industry, enabling us to respond to our customers locally, with 8,000 people at more than 160 sites and training locations in 35 countries, including our joint venture operations. In fiscal 2014, we had annual revenue of $2.0 billion, with 90% coming from worldwide exports and international activities. We have the largest installed base of civil and military flight simulators, supported by a range of after-sales services. We have the broadest training services network in the world and offer civil aviation and military training services in 67 locations worldwide where we train more than 120,000 civil and military crewmembers annually.

Approximately half of our revenue comes from the sale of simulators and related products, and the balance from services including training, maintenance, ab initio (cadet) pilot training and aircraft crew sourcing services.

Founded in 1947 and headquartered in Montreal, Canada, CAE has built an excellent reputation and long-standing customer relationships based on nearly 70 years of experience, strong technical capabilities, a highly trained workforce and global reach.

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

3.2 Our vision

We intend to be the partner of choice for customers operating in complex mission-critical environments by providing the most innovative modeling and simulation-based solutions to enhance safety and improve efficiency.

3.3 Our operations

We are a global leader with an extensive range of capabilities to help our customers achieve greater levels of safety, operational efficiency, decision-making capabilities and mission readiness. We offer integrated solutions, which often involve multi-year agreements with our customers to provide a full complement of products and services.

We primarily serve three markets globally:
- The civil market includes aircraft manufacturers, major commercial airlines, regional airlines, business aircraft operators, civil helicopter operators, third-party training centres, flight training organizations (FTOs), maintenance repair and overhaul organizations (MRO) 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 MARKET

We provide comprehensive civil aviation training solutions, including CAE civil flight simulation training devices, as well as commercial, business and helicopter aviation training for flight, cabin, maintenance and ground personnel, ab initio pilot training and crew sourcing services.

We strive to be the partner of choice for customers operating in increasingly complex, mission-critical environments by providing a combination of innovative simulation-based products, solutions, world class training and services to provide value in terms of enhancing the safety and efficiency of their operations. Our partnership approach brings with it a wealth of experience operating and delivering training solutions across varied business models including completely customized product solutions, joint ventures, partnerships, long-term training contracts, outsourcing solutions and various crew, technical and management solutions for our customers' operational needs. Our track record of dependability, cooperation with OEMs and innovation in technology and practices position us well to be a true solution partner to our customers.

We are the world leader in the provision of civil flight simulation equipment, including FFSs and a comprehensive suite of integrated procedures trainers, flight training devices and computer-based tools, using the same high-fidelity Level D software as the FFSs. We have designed and manufactured more civil FFSs for major and regional commercial airlines, third-party training centres and OEMs than any other company. We have acquired a wealth of experience in developing first-to-market simulators for more than 35 new types of aircraft models including recent years' development of simulators for the Airbus A350 XWB, AVIC Medium-Sized Transport, Mitsubishi Regional Jet (MRJ), ATR42-600 and ATR72-600, Bombardier CSeries, Global 5000/6000, Global 7000/8000 and Learjet 85, Dassault Falcon 5X and the Commercial Aircraft Corporation of China, Ltd (COMAC) ARJ21 and C919. Leveraging our extensive worldwide network of spare parts and service teams, we also offer a full range of support services. This includes emergency support, simulator updates and upgrades, maintenance services and simulator relocations.

We are the largest provider of commercial and helicopter aviation training services in the world and the second largest provider of business aviation training services. We lead the market in 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. Our comprehensive training solutions, industry expertise and reputation as a trusted partner enable us to access a broad share of the market. Airlines and aviation service companies choose CAE as their partner of choice to implement tailored training programs and deliver best-in-class services that meet their specific needs. For example, we recently announced the signature of a joint venture agreement with Japan Airlines to provide flight crew training services across Northeast Asia and we also recently launched Multi-crew Pilot License (MPL) training for Japan Airlines and became its primary source of cadet pilots.

We currently operate 245 FFSs, including FFSs operating in our joint ventures, and provide aviation training and services, including simulation-based crew training, crew sourcing, ab initio pilot training and training centre operations in approximately 30 countries around the world. Among our thousands of customers, we have long-term training centre operation and training services agreements and joint ventures with approximately 30 major airlines and aircraft operators around the world. We offer a comprehensive range of training solutions and services, including curriculum development, training centre operations, pilot training, cabin crew training, aircraft maintenance technician training, courseware solutions and consulting services. We are a leader in flight sciences, using flight data analysis to improve airline safety, maintenance, flight operations and training. CAE Oxford Aviation Academy is the largest ab initio flight training network in the world with 9 academies, a fleet of over 220 aircraft and the resources and expertise to train more than 2,000 cadets annually. 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.

Market trends and outlook

In commercial aviation, aircraft capacity and passenger traffic growth are primarily driven by gross domestic product (GDP). Over the past 20 years, air travel has grown at an average rate of 4.8% in terms of revenue passenger kilometers (RPK) and the aerospace industry's widely held expectation is that long-term average growth for air travel will be approximately 5% annually over the next two decades. The International Air Transport Association (IATA) forecasts that by 2017 total passenger demand is expected to increase by 31%, representing 930 million more passengers compared to 2012. Growth rates are higher in the emerging markets than in large and established markets like Europe and the U.S. Continued growth in air travel and re-fleeting requirements have led to record commercial aircraft backlogs and OEM production rates.

In the business and helicopter aviation sector, demand for air travel is primarily driven by corporate profitability and general economic conditions. According to the U.S. Federal Aviation Administration (FAA), the total number of business jet flights, which includes all domestic and international flights, has increased by 4.1% in the past 12 months. The industry remains optimistic of further recovery and long-term growth in business aircraft travel, and consistent with this view, major business aircraft OEMs have announced new aircraft programs.

Consolidation of the industry continues as companies position themselves to capitalize on this robust commercial aerospace market.

To date, the imposition of economic sanctions on persons and companies conducting business in the Russian Federation, or by the Russian Federation, have not significantly impacted our operations. The risk of potential escalation of these sanctions and their impacts will continue to be monitored.

The following secular trends continue to form the basis of our civil market investment hypothesis:

- Expected long-term growth in air travel;
- Demand in emerging markets arising from secular growth and a need for infrastructure to support air travel;
- Aircraft backlogs and delivery rates;
- More efficient and technologically advanced aircraft platforms;
- Long-term demand and shortage of trained aviation professionals (pilots, maintenance, cabin crew).

Expected long-term growth in air travel

For the first nine months of calendar 2014, global passenger traffic increased by 5.9% compared to the first nine months of calendar 2013. Emerging markets outperformed with passenger traffic in the Middle East, Asia and Latin America growing at 13.0%, 6.9% and 6.2% respectively, Europe increased 5.9% and North America increased 2.8%. The global commercial aircraft fleet increased by 3.9% from September 2013 to September 2014, growing in the Middle East, Latin America, Asia/Pacific and Europe by 8.0%, 6.8%, 6.2% and 3.8% respectively and remaining fairly stable in North America. Possible impediments to steady growth progression in air travel include major disruptions such as regional political instability, acts of terrorism, pandemics, natural disasters, sharp and sustained increases in fuel costs, prolonged economic recessions or other major world events.

Demand in emerging markets arising from secular growth and a need for infrastructure to support air travel

Emerging markets such as China, Eastern Europe, India, the Middle East, South America and Southeast Asia are expected to continue experiencing higher air traffic growth over the long term than mature markets such as North America and Western Europe.

Aircraft backlogs and delivery rates

Commercial aircraft OEMs continue to work through record backlog levels of over 13,600 aircraft. Our civil business relies mainly on the already in-service fleet to drive demand as revenue is generated from training and services in support of the global fleet and are driven mainly by aircraft deliveries coming from OEMs' production lines. Recent aircraft order intake remains strong, with airlines in the Middle East such as Emirates Airline and Qatar Airways, All Nippon Airways and Garuda Indonesia in Asia and Republic Airlines in North America leading the intake. We expect the continued high rate of aircraft deliveries to translate into continued high demand for training products and incremental demand for services.

More efficient and technologically advanced aircraft platforms

More efficient and technologically advanced aircraft platforms will drive the demand for new types of simulators and training programs. New platforms and programs allow us to leverage our modeling, simulation and training expertise to deliver training solutions, including CAE 7000 Series FFS and the recently launched CAE 7000XR Series FFS, CAE Simfinity™ procedures trainers, comprehensive training programs and expansion of our network to meet airlines' training needs. The demand for new and more efficient platforms is driven by better operational flexibility, reduced maintenance costs, reduced fuel costs and improved emissions and environmental footprints. Airlines are actively seeking ways to reduce fuel costs and the operational risk against further fuel cost fluctuations, as well as ways to obtain benefits offered by new generation aircraft and propulsion technologies.

Business jet operators also demand high performance aircraft. 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. Some examples include Bombardier's Learjet 85 and Global 7000/8000, Embraer's Legacy 450 and 500, Cessna's Citation Latitude and Longitude, Dassault's Falcon 5X and 8X, Pilatus' PC-24 and Honda's HondaJet.

Deliveries of new-model aircraft are subject to program delays, which in turn affect the timing of FFS orders and deliveries.

Long-term demand and shortage of trained aviation professionals (pilots, maintenance, cabin crew)

Worldwide demand is expected to increase over the long term. Growth in the civil aviation market has driven the demand for pilots, maintenance technicians and cabin crew worldwide, resulting in a shortage of qualified professionals in several markets, notably the faster growing emerging markets. Pilot supply constraints include aging crew demographics and fewer military pilots transferring to civil airlines.

New pilot certification processes require more simulation-based training. Simulation-based pilot certification training is taking on a greater role internationally with the MPL, with stall and upset prevention and recovery training and with new Airline Transport Pilot (ATP) requirements in the U.S. Indeed, the International Civil Aviation Organization (ICAO) and various national and regional aviation regulatory agencies have published new regulatory requirements, standards and guidance on these specific topics.

MPL is an alternative training and licensing methodology which 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 one third of the training in actual aircraft and two thirds of the training in flight simulation training devices, versus traditional training for other licences that average 80% to 90% in actual aircraft. Today, there are approximately 50 nations that have MPL regulations in place and over 15 of these nations already use these regulations with training providers and airlines. CAE has MPL programs in Asia and in Europe with various airlines. From a global industry perspective, MPL is producing promising results and over 850 MPL graduates are already flying successfully with different airlines. Early MPL graduates are now upgrading to captain status. As the MPL methodology continues to gain momentum, it will result in increased use of simulation-based training.

Finally, the FAA in the U.S. enacted its final set of rules on July 15th, 2013 on new pilot certification and qualification requirements for air carrier operations, requiring pilots to obtain a Multi-engine class ATP and Type Rating. As of August 2014, pilots applying for an ATP certificate must complete practical requirements which call for more simulation-based training that includes adverse weather conditions, low energy states, stalls, upset prevention and recovery, and high altitude operations. We have received formal approval from the FAA to conduct the Airline Transport Pilot Certification Training Program (ATP CTP) at our Dallas training centre and will expand as demand increases. We believe these new requirements will lead to an increase in demand for training in simulators.

DEFENCE AND SECURITY MARKET

We are a training systems integrator that provides comprehensive training centres, training services and simulation products to defence and security forces across the air, land and sea, and public safety market segments.

We believe that in the simulation-based training market, we are uniquely positioned to be part of the solution for governments and defence forces looking to take greater advantage of virtual training to reduce costs while maintaining readiness. Four important factors help distinguish our defence business and underlie the large pipeline of opportunities for our modeling and simulation-based solutions. First, we have a unique global position that provides balance and diversity across the world's defence and security markets. Second, we have a strong position on mission-critical, enduring platforms that are expected to have long program lives. Third, we have all the capabilities of a world-class training systems integrator, enabling us to design, develop and deliver comprehensive training programs across air, land, sea and public safety. Fourth, and most fundamentally, simulation-based solutions provide considerable value as governments and defence forces operate in a constrained budget environment yet still need to prepare and maintain a high state of readiness.

We are uniquely positioned as a training systems integrator, capable of offering governments, defence forces and OEMs a comprehensive range of integrated, innovative training solutions. Increasingly, our solutions include a combination of products and services designed to cost-effectively maintain and enhance our defence and security customer safety, efficiency, mission readiness and decision making capability. We have a wealth of experience operating and delivering training solutions across different business models, including government-owned, government-operated (GOGO); government-owned, contractor-operated (GOCO); or contractor-owned, contractor-operated (COCO) facilities. Our offerings include training needs analyses, instructional systems design, learning management information systems, purpose-built facilities, state-of-the-art synthetic training equipment, curriculum and courseware development, classroom and simulator instruction, maintenance and logistics support, lifecycle support and technology insertion, and financing alternatives. This portfolio of products, services and expertise along with our focus help make us a uniquely qualified and positioned training systems integrator.

We are a world leader in the design and production of military flight simulation equipment and training solutions. We develop simulation equipment, training systems and software tools for a variety of military aircraft, including fighters, helicopters, trainer aircraft, maritime patrol, tanker/transport aircraft and unmanned aerial systems (UAS). We also offer simulation-based solutions for land and naval forces, including a range of driver and gunnery trainers for tanks and armoured fighting vehicles, virtual trainers for shipboard systems and naval warfare tactical training systems. We have begun to offer simulation-based solutions for the public safety domain, such as emergency management training solutions. We have delivered simulation products and training systems to more than 50 defence operators in approximately 35 countries. We provide training support services such as contractor logistics support, maintenance services, classroom instruction and simulator 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 enterprise. 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 trends and outlook

In the United States, continuing uncertainty in the government's fiscal year 2015 budget and the threat of sequestration in 2016 mean 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 view is that the impediment to growth is not the size of the market, but rather the timing of procurements. In Europe, force structure reductions and reduced future investment plans have narrowed the pipeline of new opportunities. While the United States and European markets still present some challenges, we are seeing increased opportunities originating from regions with growing defence and security budgets, like Asia and the Middle East where we have an established and growing presence. We also continue to bid on a solid pipeline of global opportunities. In addition, there are encouraging signs for our market segment and we are confident that the use of simulation-based analysis, training and decision-support will continue to increase in the future.

The following trends continue to drive the use of our training centres, services and products in defence:
- Explicit desire of governments and defence forces to increase the use of modeling and simulation to mitigate budget pressures;
- Attractiveness of outsourcing of training and maintenance services;
- Need for synthetic training to conduct mission rehearsal, including joint and coalition forces training;
- Relationships with OEMs for simulation and training;
- Use of modeling and simulation for analysis and decision support.

Explicit desire of governments and defence forces to increase the use of modeling and simulation to mitigate budget pressures

More defence forces and governments are adopting simulation in training programs because it improves training effectiveness, reduces operational demands on aircraft, lowers risk compared to operating actual weapon system platforms and significantly lowers costs. For example, the U.S. Air Force (USAF) is making more extensive use of simulation for KC-135 tanker boom operator training, which costs approximately $20,000 for a three-hour training mission in the actual aircraft, but only $1,000 for that same three-hour training mission in simulators. The higher cost of live training and the desire to save aircraft for operational use are two factors prompting a greater adoption of simulation-based training. Unlike civil aviation, where the use of simulators for training is common practice, there are no regulatory requirements to train in simulators in the military and the nature of mission-focused training demands at least some live training; however, the balance of live and synthetic training is shifting more to simulation.

We have begun to see militaries plan for the increased use of simulation as part of the overall training curriculum. For example, the U.S. Navy reports the share of simulation-based training on some specific U.S. Navy aircraft platforms could rise close to 50% by 2020. Because of the high cost associated with conducting live training exercises, most militaries expect to rebalance the mix of live, virtual and constructive (computer-based) training and shift more of the training curriculum to home station virtual and constructive simulation. For example, the U.S. Army is planning to reduce the use of live training ranges and transfer some of this training to virtual and constructive simulation to reduce costs. This will ultimately create opportunities for simulation-based training centres, services and products. We view CAE as being part of the solution to achieving lower training costs while maintaining or improving readiness.

Attractiveness of outsourcing of training and maintenance services

Defence forces and governments continue to scrutinize expenditures to find ways to reduce costs and allow active-duty personnel to focus on operational requirements, which has an impact on defence budgets and resources. There has been a growing trend among defence forces to consider outsourcing a variety of training services and we expect this trend to continue. For example, we recently inaugurated training at the CAE Brunei Multi-Purpose Training Centre (MPTC) where one of the training programs is for the Royal Brunei Armed Forces (RBAF) on the PC-7 trainer aircraft. The CAE Brunei MPTC will provide PC-7 training to the RBAF under a long-term training services contract. Also, during fiscal year 2014 we opened a new military training centre in Australia where the Australian Defence Forces will train their King Air 350 aircrews. This represents the first simulator services contract that the Australian Defence Forces have signed as part of a contractor-owned/contractor-operated service delivery program. We believe governments will increasingly look to industry for the delivery of training services because they often can be delivered faster and more cost effectively.

Need for synthetic training to conduct mission rehearsal, 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. 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. Synthetic training offers militaries a cost-effective way to provide realistic training for a wide variety of scenarios while ensuring they maintain a high state of readiness. 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, we recently networked a CAE-built C-130J full-mission simulator with a C-130J tactical airlift crew trainer developed by another company to demonstrate a single virtual aircraft operating in a common synthetic environment for the Royal Australian Air Force. The networked training devices demonstrated how the entire mission crew, including C-130J pilots and loadmasters, could train together in an integrated virtual environment. We are actively promoting open, standard simulation architectures, such as the Common Database, as well as new capabilities such as the CAE Dynamic Synthetic Environment, to better enable mission rehearsal and joint, networked training.

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 new P-8A maritime patrol aircraft, Airbus Military has sold and continues to market both the A330 MRTT and C295 globally, Lockheed Martin is successfully marketing variants of the C-130J Hercules transport aircraft and F-35 fighter, 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. We have established relationships with each of the OEMs on these platforms. We also signed a memorandum of understanding to pursue working with General Atomics Aeronautical Systems, the world's leading manufacturer of unmanned aircraft systems, on offering training solutions for GA-ASI's Predator family of remotely piloted aircraft, and during fiscal year 2014 sold a Predator UAS mission trainer to the Italian Air Force.

Use of modeling and simulation for analysis and decision support

Traditionally, modeling and simulation have been used to support training, but is now increasingly applied across the program lifecycle, including support for analysis and decision-making operations. We see governments and defence forces looking to use simulation-based synthetic environments to support research and development programs, system design and testing, intelligence analysis, integration and exploitation, and to provide the decision support tools necessary to support mission planning in operations. As an example, during fiscal year 2014 we were contracted to establish a training centre and conduct emergency management training for the Brunei Ministry of Home Affairs and see further opportunities to develop integrated modeling and simulation centres.

HEALTHCARE MARKET

We design, manufacture and sell simulators, audiovisual solutions and courseware for training of medical and allied healthcare students and clinicians in educational institutions, hospitals and defence organizations worldwide.

Simulation-based training is one of the most effective ways 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 breadth of medical simulation products and services in the market today, including patient, ultrasound and interventional simulators, audiovisual 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 offices in Australia, Brazil, Canada, Germany, Hungary, India, UK and the US. 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 maternal-fetal 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. We are a leader in audiovisual solutions for healthcare training with more than 600 installations in our customers' training facilities throughout the world. 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 US, UK, Germany and Canada. Our Healthcare Academy includes more than 60 adjunct faculty consisting of nurses, physicians, paramedics and sonographers. In collaboration with leading healthcare institutions, they have developed more than 500 Simulated Clinical Experience (SCE) courseware packages for our customers.

Market trends and outlook

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 solutions, simulated clinical environments and training services. End-users are predominantly academic institutions, hospitals and defence forces. A recent study of the global healthcare simulation market, which includes products and services, valued the market at $790 million in 2012 and reports that it is predicted to grow at a compound annual growth rate of 19.6%. North America is the largest market for healthcare simulation with the U.S. contributing a major share, followed by Europe and Asia.

The factors driving the demand for our products are:

- Growing emphasis on patient safety and outcomes;
- Limited access to live patients during training;
- Medical technology revolution;
- Demand for healthcare services and growing cost of healthcare.

Growing emphasis on patient safety and outcomes

According to the Institute of Medicine, up to 98,000 deaths occur annually in the U.S. due to medical errors during patient treatment. 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 element in a growing movement towards High Stakes Assessment and Certification, including 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 would influence the concept of education throughout the healthcare community and favor 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. For example, complications of childbirth can impact long-term health of both mother and baby. Our Fidelis Maternal Fetal Simulator is designed to allow healthcare teams to practice both normal deliveries and complex procedures in rare emergencies.

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.

Demand for healthcare services and growing cost of healthcare

Longer life expectancy and the baby boomer generation have generated significant demand for healthcare services fueling healthcare spending, which rose 9.9 percent in the U.S. in the first quarter of 2014. The U.S. Centers for Medicare and Medicaid Services (CMS) projects that annual national health spending will grow 5.8 percent annually over the next decade. Increasingly, hospitals are given incentives to become 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 errors, which can help mitigate the rate of increase in healthcare costs.

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:

	September 30 2014	June 30 2014	Increase / (decrease)	March 31 2014	Increase / (decrease)
U.S. dollar (US$ or USD)	**1.12**	1.07	*5%*	1.11	*1%*
Euro (€ or EUR)	**1.42**	1.46	*(3%)*	1.52	*(7%)*
British pound (£ or GBP)	**1.82**	1.83	*(1%)*	1.84	*(1%)*

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

	September 30 2014	June 30 2014	Decrease	September 30 2013	Increase
U.S. dollar (US$ or USD)	**1.09**	1.09	-	1.04	*5%*
Euro (€ or EUR)	**1.44**	1.50	*(4%)*	1.38	*4%*
British pound (£ or GBP)	**1.82**	1.84	*(1%)*	1.61	*13%*

The effect of translating the results of our foreign operations into Canadian dollars resulted in an increase in this quarter's revenue of $18.9 million and an increase in net income of $0.4 million when compared to the second quarter of fiscal 2014. For the first six months of fiscal 2015, the effect of translating the results of our foreign operations into Canadian dollars resulted in an increase in revenue of $46.1 million and an increase in net income of $1.9 million when compared to the first six months of fiscal 2014. We calculated this by translating the current quarter foreign currency revenue and net income using the average monthly exchange rates from the prior year quarter and comparing these adjusted amounts to our current quarter 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, Singapore, U.K. and U.S.)**
  Most of the revenue and costs in these operations from 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 operation's 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 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. 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.

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. 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. You should not confuse this information with, or use it as an alternative for, performance measures calculated according to GAAP. You should also not use them to compare with similar measures from 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 Simulation and Training 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 or an order and we include revenues from customers with both long-term and short-term contracts 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 or an order. Defence and Security contracts are usually executed over a long-term period and 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.

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 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 benefits 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.

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 from continuing operations excluding research and development expenses, selling, general and administrative expenses, other (gains) losses – net and after tax share in profit of equity accounted investees.

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.

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 related to assets 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 and tax structures. We track operating profit 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 interest 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 using segment operating profit, including the after tax share in profit of equity accounted investees and excluding net finance expense, income taxes and other items not specifically related to the segment's performance.

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 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 – second quarter of fiscal 2015

(amounts in millions, except per share amounts)		**Q2-2015**	Q1-2015	Q4-2014	Q3-2014	Q2-2014
Revenue	$	**529.4**	526.2	575.7	503.9	478.2
Cost of sales	$	**393.2**	389.7	415.7	363.3	352.0
Gross profit[2]	$	**136.2**	136.5	160.0	140.6	126.2
As a % of revenue	*%*	***25.7***	*25.9*	*27.8*	*27.9*	*26.4*
Research and development expenses[2]	$	**16.6**	14.4	19.5	16.0	14.9
Selling, general and administrative expenses	$	**60.5**	63.9	70.0	61.9	59.8
Other gains – net	$	**(0.2)**	(3.8)	(8.1)	(2.2)	(5.6)
After tax share in profit of equity accounted investees	$	**(13.5)**	(9.7)	(8.1)	(11.5)	(7.5)
Operating profit from continuing operations[2]	$	**72.8**	71.7	86.7	76.4	64.6
As a % of revenue	*%*	***13.8***	*13.6*	*15.1*	*15.2*	*13.5*
Finance income	$	**(2.1)**	(2.1)	(2.3)	(2.3)	(2.3)
Finance expense	$	**20.4**	18.6	18.7	21.0	20.9
Finance expense – net	$	**18.3**	16.5	16.4	18.7	18.6
Earnings before income taxes and discontinued operations	$	**54.5**	55.2	70.3	57.7	46.0
Income tax expense	$	**12.9**	11.6	10.5	10.7	7.9
As a % of earnings before income taxes and discontinued operations (income tax rate)	%	***24***	*21*	*15*	*19*	*17*
Earnings from continuing operations	$	**41.6**	43.6	59.8	47.0	38.1
Earnings (loss) from discontinued operations	$	**0.9**	(2.0)	0.1	0.6	0.1
Net income	$	**42.5**	41.6	59.9	47.6	38.2
Attributable to:						
Equity holders of the Company						
Continuing operations	$	**42.0**	43.8	59.9	45.5	38.2
Discontinued operations	$	**0.9**	(2.0)	0.1	0.6	0.1
		42.9	41.8	60.0	46.1	38.3
Non-controlling interests	$	**(0.4)**	(0.2)	(0.1)	1.5	(0.1)
	$	**42.5**	41.6	59.9	47.6	38.2
Earnings per share (EPS) attributable to equity holders of the Company						
Basic and diluted - continuing operations	$	**0.16**	0.17	0.23	0.17	0.15
Basic and diluted - discontinued operations	$	**-**	(0.01)	-	0.01	-
	$	**0.16**	0.16	0.23	0.18	0.15

Revenue from continuing operations was 1% higher than last quarter and 11% higher than the second quarter of fiscal 2014

Revenue from continuing operations was $3.2 million higher than last quarter mainly because:

- Defence and Security revenue increased by $11.2 million, or 6%, mainly due to higher revenue resulting from a higher level of activity on North American, European and Asian programs, partially offset by lower revenue from Australian programs;
- Healthcare revenue increased by $4.9 million, or 25%, due to higher patient simulator revenue resulting, in part, from the introduction of our new maternal fetal simulator and higher revenue from audiovisual solutions;
- Civil Simulation and Training revenue decreased by $12.9 million, or 4%, mainly due to a seasonally weaker training demand in Europe and North America, as pilot training decreases during peak travel season in the summer, and an unfavourable foreign exchange impact resulting mainly from a weaker Euro against the Canadian dollar. The decrease was partially offset by higher production levels from our manufacturing facility.

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

Revenue from continuing operations was $51.2 million higher than the second quarter of fiscal 2014 largely because:

- Civil Simulation and Training revenue increased by $26.7 million, or 10%, mainly due to a favourable foreign exchange impact resulting from a stronger British pound, Euro and U.S. dollar against the Canadian dollar, higher production levels from our manufacturing facility and a higher training demand in North and South America;
- Defence and Security revenue increased by $18.0 million, or 9%, mainly due to a favourable foreign exchange impact on the translation of foreign operations and higher revenue on European and Asian programs;
- Healthcare revenue increased by $6.5 million, or 37%, mainly due to higher patient simulator revenue resulting primarily from our new maternal fetal simulator and our Caesar trauma patient simulator, driven by increased demand from defence forces, and higher revenue from audiovisual solutions.

Revenue year to date from continuing operations was $1,055.6 million, $57.3 million or 6% higher than the same period last year, largely because:

- Civil Simulation and Training revenue increased by $33.8 million, or 6%, mainly due to a favourable foreign exchange impact resulting from a stronger Euro, British pound and U.S. dollar against the Canadian dollar and a higher training demand in North and South America. The increase was partially offset by lower revenue from our crew sourcing business;
- Defence and Security revenue increased by $17.1 million, or 4%, mainly due to a favourable foreign exchange impact on the translation of foreign operations and higher revenue from European and Asian programs. 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;
- Healthcare revenue increased by $6.4 million, or 17%, mainly due to higher patient simulator revenue resulting primarily from our new maternal fetal simulator and our Caesar trauma patient simulator, driven by increased demand from defence forces, and higher revenue from audiovisual solutions.

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

Operating profit from continuing operations was $1.1 million higher than last quarter and $8.2 million higher compared to the second quarter of fiscal 2014

Operating profit from continuing operations for this quarter was $72.8 million, or 13.8% of revenue, compared to $71.7 million, or 13.6% of revenue last quarter and $64.6 million, or 13.5% of revenue in the second quarter of fiscal 2014.

Operating profit increased by 2% compared to last quarter. Increases in segment operating income[3] of $3.7 million for Defence and Security and $1.5 million for Healthcare were partially offset by a decrease of $4.1 million for Civil Simulation and Training.

Operating profit increased by 13% over the second quarter of fiscal 2014. Increases in segment operating income were $6.4 million for Civil Simulation and Training, $1.4 million for Healthcare and $0.4 million for Defence and Security.

For the first six months of fiscal 2015, operating profit was $144.5 million, $18.3 million or 15% higher than the same period last year. Increases in segment operating income of $18.3 million for Civil Simulation and Training and $1.3 million for Healthcare were partially offset by a decrease of $1.3 million for Defence and Security.

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

Net finance expense was $1.8 million higher than last quarter and $0.3 million lower compared to the second quarter of fiscal 2014

Net finance expense was higher this quarter compared to last quarter. The increase was mainly due to a higher utilization of our credit facilities and an increase in R&D obligations.

The decrease from the second quarter of fiscal 2014 was mainly due to lower finance expense on royalty obligations, partially offset by a higher utilization of our credit facilities and an unfavourable foreign exchange impact from U.S. dollar denominated senior notes.

For the first six months of fiscal 2015, net finance expense was $34.8 million, which was $1.0 million lower than the same period last year. Lower finance expense on royalty obligations was partially offset by higher finance expense resulting from an unfavourable foreign exchange impact from senior notes and a higher utilization of our credit facilities.

Income tax rate was 24% this quarter

Income taxes this quarter were $12.9 million, representing an effective tax rate of 24%, compared to 21% last quarter and 17% for the second quarter of fiscal 2014. Income taxes for the first six months of fiscal 2015 were $24.5 million, representing an effective tax rate of 22%, compared to 9% for the same period last year.

The higher tax rate this quarter compared to last quarter and the second quarter of fiscal 2014 was mainly due to a change in the mix of income from various jurisdictions.

The higher tax rate for the first six months of fiscal 2015 compared to the same period last year was mainly attributable to a favourable decision by the Federal Court of Appeal of Canada, rendered last year, with respect to the tax treatment of the depreciation and sale of simulators in Canada, as well as a change in the mix of income from various jurisdictions.

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

6.2 Results from discontinued operations

During the first quarter of fiscal 2015, we decided to divest our mining business (CAE Mining) which was previously reported within the former New Core Markets segment in order to focus our resources and capital investment in targeted growth opportunities in our other three core markets: Civil Simulation and Training, Defence and Security and Healthcare. CAE Mining delivers products and services across the mining value chain. In accordance with the requirements of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, income and expenses associated with CAE Mining have been classified and reported separately as discontinued operations in our unaudited interim consolidated financial statements and the results for prior years were restated accordingly.

Revenue for CAE Mining was $8.9 million this quarter, $0.5 million or 6% higher over last quarter and $0.4 million or 4% lower compared to the second quarter of fiscal 2014. For the first six months of fiscal 2015, revenue was $17.3 million, $2.3 million or 12% lower than the same period last year.

Earnings from discontinued operations were $0.9 million this quarter compared to a loss of $2.0 million last quarter and earnings of $0.1 million in the second quarter of fiscal 2014.

The increase in earnings from discontinued operations over last quarter was mainly due to non-recurring expenses recorded in the last quarter related to the measurement to fair value of certain assets held for sale and higher administrative expenses associated with the discontinued operations of CAE Mining.

The increase compared to the second quarter of last year was mainly due to lower depreciation and amortization.

For the first six months of fiscal 2015, the loss from discontinued operations was $1.1 million compared to earnings of $1.0 million for the same period last year. The decrease was mainly attributable to lower revenue and non-recurring expenses related to the measurement to fair value of certain assets held for sale.

6.3 Consolidated orders and total backlog

Our total consolidated backlog was $4,812.9 million at the end of this quarter. New orders of $489.2 million were added this quarter, partially offset by $529.4 million in revenue generated from our obligated backlog. The adjustment of $3.3 million was mainly related to foreign exchange and an adjustment related to the termination of a Defence and Security contract in North America. Our joint venture backlog[4] was $359.9 million and our unfunded backlog[4] was $370.0 million.

Total backlog down 2% compared to last quarter

(amounts in millions)	Three months ended September 30, 2014	Six months ended September 30, 2014
Obligated backlog, beginning of period	$ 4,126.5	$ 4,205.6
+ orders	489.2	1,022.7
- revenue	(529.4)	(1,055.6)
+ / - adjustments	(3.3)	(89.7)
Obligated backlog, end of period	$ 4,083.0	$ 4,083.0
Joint venture backlog (all obligated)	359.9	359.9
Unfunded backlog	370.0	370.0
Total backlog	$ 4,812.9	$ 4,812.9

The book-to-sales ratio for the quarter was 0.92x. The ratio for the last 12 months was 1.02x.

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

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

7. RESULTS BY SEGMENT

During the first quarter of fiscal 2015, we modified our operating segments. This resulted from changes in the organizational structure undertaken to better reflect our operating segments with our integrated solutions approach to market. This change reflects the way management measures profitability and performance and how we allocate resources. As such, we believe the information presented to be more relevant as it is better aligned with the way our business is managed internally.

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

- Civil Simulation and Training;
- 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)		**Q2-2015**	Q1-2015	Q4-2014	Q3-2014	Q2-2014
Civil Simulation and Training	$	**45.4**	49.5	58.0	45.2	39.0
	%	***15.3***	*16.0*	*17.9*	*16.0*	*14.5*
Defence and Security	$	**25.6**	21.9	28.0	31.0	25.2
	%	***12.2***	*11.1*	*12.2*	*15.4*	*13.2*
Healthcare	$	**1.8**	0.3	0.7	0.2	0.4
	%	***7.4***	*1.5*	*3.2*	*1.0*	*2.2*
Total segment operating income (SOI)	$	**72.8**	71.7	86.7	76.4	64.6

Capital employed[5]

(amounts in millions)		**Q2-2015**	Q1-2015	Q4-2014	Q3-2014	Q2-2014
Civil Simulation and Training	$	**1,879.4**	1,795.8	1,776.3	1,665.2	1,567.6
Defence and Security	$	**619.6**	590.4	567.3	576.7	517.9
Healthcare*	$	**188.7**	181.1	181.6	175.5	167.5
	$	**2,687.7**	2,567.3	2,525.2	2,417.4	2,253.0

* Comparative periods exclude net assets related to discontinued operations.

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

7.1 Civil Simulation and Training

SECOND QUARTER OF FISCAL 2015 EXPANSIONS

Expansions

- We announced the signature of a joint venture agreement with Japan Airlines (JAL) to provide flight crew training services across Northeast Asia, where JAL's training will be conducted starting in April 2015;
- We announced, with Lufthansa Flight Training, the creation of a joint venture operating under the name of Flight Training Alliance to provide pilot and cabin crew training for Bombardier's CSeries aircraft. Flight Training Alliance was appointed by Bombardier as its exclusive Authorized Training Provider for CSeries aircraft worldwide.

ORDERS

Civil Simulation and Training obtained contracts this quarter expected to generate future revenues of $297.5 million including contracts for 2 FFSs.

FFS contracts awarded for the quarter:
- One Bell 412 to Abu Dhabi Aviation;
- One Airbus 330 to an undisclosed customer.

This brings the civil FFS order intake for the first half of the year to 13 FFSs.

Other notable contract awards for the quarter included:
- A long-term contract extension with LATAM Airlines Group and its affiliates for pilot training services, including A350 pilot training;
- A new long-term contract with Air Algerie for cadet training services;
- A long-term renewal contract with Sunwing Airlines for pilot training services;
- A new long-term contract with Jet Airways for training centre operations services;
- A long-term renewal contract with Hangar 8 for pilot training services;
- A new long-term contract with Jeju Air for pilot training services;
- A new long-term contract with VipJet Limited for pilot training services.

Financial results

(amounts in millions, except operating margins, SEU, FFSs deployed and utilization rate)		**Q2-2015**	Q1-2015	Q4-2014	Q3-2014	Q2-2014
Revenue	$	**296.0**	308.9	323.5	282.1	269.3
Segment operating income	$	**45.4**	49.5	58.0	45.2	39.0
Operating margins	*%*	***15.3***	*16.0*	*17.9*	*16.0*	*14.5*
Depreciation and amortization	$	**29.5**	28.8	29.3	26.6	26.4
Property, plant and equipment expenditures	$	**28.5**	28.3	57.0	32.0	17.6
Intangible assets and other assets expenditures	$	**9.3**	11.0	12.0	8.4	7.1
Capital employed	$	**1,879.4**	1,795.8	1,776.3	1,665.2	1,567.6
Total backlog	$	**2,415.9**	2,414.7	2,424.8	2,377.3	2,277.2
SEU[6]		**196**	192	194	190	188
FFSs deployed		**245**	241	239	238	233
Utilization rate[6]	%	**62**	72	71	69	62

Revenue down 4% from last quarter and up 10% over the second quarter of fiscal 2014

The decrease from last quarter was mainly due to a seasonally weaker training demand in Europe and North America, as pilot training decreases during peak travel season in the summer, and an unfavourable foreign exchange impact resulting mainly from a weaker Euro against the Canadian dollar. The decrease was partially offset by higher production levels from our manufacturing facility.

The increase over the second quarter of fiscal 2014 was mainly due to a favourable foreign exchange impact resulting from a stronger British pound, Euro and U.S. dollar against the Canadian dollar, higher production levels from our manufacturing facility and a higher training demand in North and South America.

Revenue year to date was $604.9 million, $33.8 million or 6% higher than the same period last year. The increase was mainly due to a favourable foreign exchange impact resulting from a stronger Euro, British pound and U.S. dollar against the Canadian dollar and a higher training demand in North and South America. The increase was partially offset by lower revenue from our crew sourcing business.

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

Segment operating income down 8% from last quarter and up 16% over the second quarter of fiscal 2014
Segment operating income was $45.4 million (15.3% of revenue) this quarter, compared to $49.5 million (16.0% of revenue) last quarter and $39.0 million (14.5% of revenue) in the second quarter of fiscal 2014.

Segment operating income decreased by $4.1 million, or 8%, from last quarter. The decrease was mainly attributable to a seasonally weaker training demand in Europe and North America, as mentioned above, non-recurring expenses related to the closure of our training location in Stavanger, Norway and to an unfavourable foreign exchange impact arising on the revaluation of our non-cash working capital accounts. The decrease was partially offset by higher income in one of our joint ventures arising from the recognition of a deferred tax asset and higher production levels from our manufacturing facility.

Segment operating income increased by $6.4 million, or 16%, over the second quarter of fiscal 2014. The increase was mainly due to higher production levels from our manufacturing facility, a higher training demand in North and South America and higher income in one of our joint ventures arising from the recognition of a deferred tax asset. The increase was partially offset by a gain recognized last year on the reversal of an acquisition-related provision, an unfavourable foreign exchange impact arising on the revaluation of our non-cash working capital accounts and non-recurring expenses related to the closure of our training location in Stavanger, Norway.

Segment operating income for the first six months of the year was $94.9 million (15.7% of revenue), $18.3 million or 24% higher than the same period last year. The increase was mainly attributable to a higher training demand in North and South America and Asia, higher income in one of our joint ventures arising from the recognition of a deferred tax asset, higher project margin resulting from a favourable program mix and a favourable foreign exchange impact. The increase was partially offset by the realization of gains last year on disposal of assets and on the reversal of an acquisition-related provision, non-recurring expenses related to the closure of our training location in Stavanger, Norway and an unfavourable foreign exchange impact arising on the revaluation of our non-cash working capital accounts.

Property, plant and equipment expenditures at $28.5 million this quarter
Maintenance capital expenditures were $13.4 million for the quarter and growth capital expenditures were $15.1 million.

Capital employed increased by $83.6 million over last quarter
The increase in capital employed was due to higher property, plant and equipment as a result of capital expenditures and movements in foreign exchange rates, partially offset by depreciation. The increase was also attributable to a higher investment in equity accounted investees as a result of movements in foreign exchange rates and net income recognized this quarter, a decrease in accounts payable and accrued liabilities and lower contracts in progress liabilities.

Total backlog was at $2,415.9 million at the end of the quarter

(amounts in millions)	Three months ended September 30, 2014	Six months ended September 30, 2014
Obligated backlog, beginning of period	$ 2,172.5	$ 2,161.7
+ orders	297.5	662.8
- revenue	(296.0)	(604.9)
+ / - adjustments (mainly F/X)	(4.8)	(50.4)
Obligated backlog, end of period	$ 2,169.2	$ 2,169.2
Joint venture backlog (all obligated)	246.7	246.7
Total backlog	$ 2,415.9	$ 2,415.9

This quarter's book-to-sales ratio was 1.01x. The ratio for the last 12 months was 1.11x.

7.2 Defence and Security

SECOND QUARTER OF FISCAL 2015 NEW INITIATIVES

New programs and products

- We officially inaugurated training at the CAE Brunei MPTC where training programs for the S-92 helicopter and PC-7 trainer aircraft as well as emergency and crisis management training are now being offered;
- We announced that we will develop and deliver an Aeromedical Evacuation Training System for the U.S. Air Force that includes a high-fidelity C-130 fuselage trainer as well as CAE Healthcare human patient simulators.

ORDERS

Defence and Security was awarded $167.4 million in orders this quarter, including notable contract awards from:

- The USAF including a contract option exercised to continue providing MQ-1 Predator and MQ-9 Reaper remotely piloted aircraft aircrew training services and courseware development and a contract option exercised for KC-135 tanker aircrew training services;
- The German Federal Office of Bundeswehr, Equipment, Information Technology and In-Service Support for further upgrades to the visual systems on the German Air Force's Eurofighter simulators;
- The Government of Canada to perform a major update to the Royal Canadian Air Force's CP-140 full-flight simulator;
- Airbus Defense and Space to manufacture a new UH-72A Lakota Synthetic Flight Training System for the United States Army;
- ADS Inc. to provide the United States Air Force Reserve Command at Dobbins Air Force Base with a comprehensive Aeromedical Evacuation Training System.

Financial results

(amounts in millions, except operating margins)		**Q2-2015**	Q1-2015	Q4-2014	Q3-2014	Q2-2014
Revenue	$	**209.1**	197.9	230.3	201.8	191.1
Segment operating income	$	**25.6**	21.9	28.0	31.0	25.2
Operating margins	*%*	***12.2***	*11.1*	*12.2*	*15.4*	*13.2*
Depreciation and amortization	$	**14.1**	12.2	12.2	11.4	10.8
Property, plant and equipment expenditures	$	**6.5**	10.5	8.0	4.6	6.3
Intangible assets and other assets expenditures	$	**5.8**	4.8	6.0	3.7	2.5
Capital employed	$	**619.6**	590.4	567.3	576.7	517.9
Total backlog	$	**2,397.0**	2,516.8	2,580.0	2,585.7	2,437.2

Revenue up 6% over last quarter and up 9% over the second quarter of fiscal 2014

The increase over last quarter was mainly due to higher revenue resulting from a higher level of activity on North American, European and Asian programs, partially offset by lower revenue from Australian programs.

The increase over the second quarter of fiscal 2014 was mainly due to a favourable foreign exchange impact on the translation of foreign operations and higher revenue on European and Asian programs.

Revenue year to date was $407.0 million, $17.1 million or 4% higher than the same period last year. The increase was mainly due to a favourable foreign exchange impact on the translation of foreign operations and higher revenue from European and Asian programs. 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.

Segment operating income up 17% over last quarter and up 2% over the second quarter of fiscal 2014

Segment operating income was $25.6 million (12.2% of revenue) this quarter, compared to $21.9 million (11.1% of revenue) last quarter and $25.2 million (13.2% of revenue) in the second quarter of fiscal 2014.

The increase over last quarter was mainly due to lower selling, general and administrative costs and higher volume on Asian programs partially offset by lower volume on Australian programs.

The increase over the second quarter of fiscal 2014 was mainly due to lower selling, general and administrative costs and higher volume on European programs partially offset by lower margins on North American programs due to more programs nearing completion in the second quarter of last year.

Segment operating income for the first six months of the year was $47.5 million (11.7% of revenue), $1.3 million or 3% lower than the same period last year. The decrease was mainly due lower volume from North American programs partially offset by higher volume on our European and Australian programs combined with lower selling, general and administrative costs as well as a favourable foreign exchange impact on the translation of foreign operations.

Capital employed increased by $29.2 million over last quarter

The increase over last quarter was mainly due to higher property, plant and equipment resulting from the addition of a building under a new finance lease entered into during the quarter and an increase in capital expenditures, as well as a decrease in other non-current liabilities. The increase was partially offset by a lower investment in non-cash working capital resulting mainly from a decrease in accounts receivable and an increase in accounts payable and accrued liabilities, partially offset by higher contracts in progress assets.

Total backlog down 5% from last quarter

(amounts in millions)		Three months ended September 30, 2014		Six months ended September 30, 2014
Obligated backlog, beginning of period	$	1,954.0	$	2,043.9
+ orders		167.4		316.2
- revenue		(209.1)		(407.0)
+ / - adjustments		1.5		(39.3)
Obligated backlog, end of period	$	1,913.8	$	1,913.8
Joint venture backlog (all obligated)		113.2		113.2
Unfunded backlog		370.0		370.0
Total backlog	$	2,397.0	$	2,397.0

Adjustments this quarter are mainly due to a positive foreign exchange impact partially offset by the termination of a contract in North America.

This quarter's book-to-sales ratio was 0.80x. The ratio for the last 12 months was 0.89x.

This quarter, $90.7 million of unfunded backlog was transferred to obligated backlog and $4.3 million was added to the unfunded backlog.

7.3 Healthcare

SECOND QUARTER OF FISCAL 2015 EXPANSION AND NEW INITIATIVES

Expansion
- We expanded our agreement with Tellyes Scientific, which is now the exclusive distributor for all CAE Healthcare products in China.

New programs and products
- We developed a simulation-based training solution for physicians using the Impella® heart pump in partnership with device manufacturer Abiomed, a leading provider of breakthrough heart support technologies;
- We released an updated operating system for the VIMEDIX Ob/Gyn ultrasound simulator with 12 new first trimester pathologies;
- We released an Airway Management Learning Module for patient simulators, developed in partnership with the American College of Chest Physicians.

ORDERS
CAE Healthcare sales this quarter included:
- Nine patient simulators and six ultrasound simulators with training and multi-year services to the U.S. Navy;
- Six patient simulators with courseware, training and multi-year services for the United States Air Force Reserve Command at Dobbins Air Force Base, as part of a comprehensive Aeromedical Evacuation Training System;
- Five patient simulators, three audiovisual solutions, training and multi-year services to a military training centre in Saudi Arabia;
- Six patient simulators with training and multi-year services to the Southeast Technical Institute in the U.S.

Financial results

(amounts in millions, except operating margins)		**Q2-2015**	Q1-2015	Q4-2014	Q3-2014	Q2-2014
Revenue	$	**24.3**	19.4	21.9	20.0	17.8
Segment operating income	$	**1.8**	0.3	0.7	0.2	0.4
Operating margins	*%*	***7.4***	*1.5*	*3.2*	*1.0*	*2.2*
Depreciation and amortization	$	**3.2**	3.2	3.1	2.9	2.9
Property, plant and equipment expenditures	$	**0.8**	0.9	0.5	0.6	0.6
Intangible assets and other assets expenditures	$	**0.8**	2.3	2.5	3.2	1.7
Capital employed	$	**188.7**	181.1	181.6	175.5	167.5

Revenue up 25% over last quarter and up 37% over the second quarter of fiscal 2014
The increase over last quarter was mainly due to higher patient simulator revenue resulting, in part, from the introduction of our new maternal fetal simulator and higher revenue from audiovisual solutions.

The increase over the second quarter of fiscal 2014 was mainly due to higher patient simulator revenue resulting primarily from our new maternal fetal simulator and our Caesar trauma patient simulator, driven by increased demand from defence forces, and higher revenue from audiovisual solutions.

Revenue year to date was $43.7 million, $6.4 million or 17% higher than the same period last year. The increase was mainly due to higher patient simulator revenue resulting primarily from our new maternal fetal simulator and our Caesar trauma patient simulator, driven by increased demand from defence forces, and higher revenue from audiovisual solutions.

Segment operating income up over last quarter and over the second quarter of fiscal 2014
Segment operating income was $1.8 million (7.4% of revenue) this quarter, compared to $0.3 million (1.5% of revenue) last quarter and $0.4 million (2.2% of revenue) in the second quarter of fiscal 2014.

The increase over last quarter and the second quarter of fiscal 2014 was mainly due to higher revenue driven by higher volume on patient and audiovisual solutions.

Segment operating income for the first six months of the year was $2.1 million (4.8% of revenue), $1.3 million higher than the same period last year. The increase was mainly due to higher revenue driven by higher volume on patient and audiovisual solutions.

Capital employed increased by $7.6 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.

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			**Six months ended**	
	September 30		June 30	**September 30**	
(amounts in millions)	**2014**	2013	2014	**2014**	2013
Cash provided by continuing operating activities*	**$ 69.2**	$ 65.3	$ 85.5	**$ 154.7**	$ 147.8
Changes in non-cash working capital	**(55.5)**	49.4	(82.7)	**(138.2)**	(17.1)
Net cash provided by continuing operating activities	**$ 13.7**	$ 114.7	$ 2.8	**$ 16.5**	$ 130.7
Maintenance capital expenditures[7]	**(17.6)**	(9.4)	(13.3)	**(30.9)**	(16.6)
Other assets	**(3.1)**	-	(3.7)	**(6.8)**	(12.9)
Proceeds from the disposal of property, plant and equipment	**0.5**	4.7	0.4	**0.9**	6.4
Net proceeds from (payments to) equity accounted investees	**0.1**	1.5	(2.5)	**(2.4)**	2.0
Dividends received from equity accounted investees	**1.1**	14.2	5.9	**7.0**	14.2
Dividends paid	**(11.8)**	(9.4)	(10.5)	**(22.3)**	(19.6)
Free cash flow from continuing operations[7]	**$ (17.1)**	$ 116.3	$ (20.9)	**$ (38.0)**	$ 104.2
Growth capital expenditures[7]	**(18.2)**	(15.1)	(26.4)	**(44.6)**	(37.7)
Capitalized development costs	**(9.2)**	(9.1)	(12.9)	**(22.1)**	(19.8)
Other cash movements, net	**0.6**	3.2	5.4	**6.0**	(11.4)
Business combinations, net of cash and cash equivalents acquired	**-**	(0.4)	(2.0)	**(2.0)**	(0.4)
Effect of foreign exchange rate changes on cash and cash equivalents	**3.4**	(0.5)	(7.6)	**(4.2)**	4.4
Net (decrease) increase in cash before proceeds and repayment of long-term debt	**$ (40.5)**	$ 94.4	$ (64.4)	**$ (104.9)**	$ 39.3

* before changes in non-cash working capital

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

Free cash flow of negative $17.1 million this quarter
The increase over last quarter was mainly due to a lower investment in non-cash working capital, partially offset by lower cash provided by continuing operating activities.

The decrease from the second quarter of fiscal 2014 was mainly due to unfavourable changes in non-cash working capital.

Free cash flow year to date was negative $38.0 million, $142.2 million lower than the same period last year. The decrease was mainly attributable to unfavourable changes in non-cash working capital.

Capital expenditures of $35.8 million this quarter
Growth capital expenditures were $18.2 million this quarter and $44.6 million for the first six months of the year. Our growth capital allocation decisions are market-driven in nature and are intended to keep pace with the demands of our existing and new customers. Maintenance capital expenditures were $17.6 million this quarter and $30.9 million for the first six months of the year.

9. CONSOLIDATED FINANCIAL POSITION

9.1 Consolidated capital employed

(amounts in millions)	**As at September 30 2014**	As at June 30 2014	As at March 31 2014
Use of capital:			
Current assets	**$ 1,407.9**	$ 1,397.3	$ 1,350.8
Less: cash and cash equivalents	**(277.8)**	(280.8)	(312.3)
Less: assets net of liabilities held for sale	**(45.6)**	(44.6)	-
Current liabilities	**(888.7)**	(912.8)	(964.5)
Less: current portion of long-term debt	**51.5**	49.1	50.6
Non-cash working capital[8]	**$ 247.3**	$ 208.2	$ 124.6
Assets net of liabilities held for sale	**45.6**	44.6	-
Property, plant and equipment	**1,364.5**	1,315.3	1,341.2
Other long-term assets	**1,520.7**	1,479.2	1,544.7
Other long-term liabilities	**(676.3)**	(670.8)	(672.1)
Total capital employed	**$ 2,501.8**	$ 2,376.5	$ 2,338.4
Source of capital:			
Current portion of long-term debt	**$ 51.5**	$ 49.1	$ 50.6
Long-term debt	**1,224.8**	1,133.3	1,117.9
Less: cash and cash equivalents	**(277.8)**	(280.8)	(312.3)
Net debt[8]	**$ 998.5**	$ 901.6	$ 856.2
Equity attributable to equity holders of the Company	**1,459.0**	1,434.9	1,441.6
Non-controlling interests	**44.3**	40.0	40.6
Source of capital	**$ 2,501.8**	$ 2,376.5	$ 2,338.4

Capital employed increased $125.3 million over last quarter
The increase was mainly due to higher property, plant and equipment, higher other long-term assets and an increase in non-cash working capital.

Our return on capital employed[8] (ROCE) was 10.7% this quarter, compared to 10.9% last quarter.

Non-cash working capital increased by $39.1 million over last quarter
The increase was mainly due to lower contracts in progress liabilities, higher contracts in progress assets and lower accounts payable and accrued liabilities, partially offset by a decrease in accounts receivable and an increase in derivative financial liabilities.

Net property, plant and equipment up $49.2 million over last quarter
The increase was mainly due to capital expenditures, movements in foreign exchange rates and the addition of a building under a new finance lease entered into during the quarter, partially offset by depreciation.

Other long-term assets up $41.5 million over last quarter
The increase was mainly due to a higher investment in equity accounted investees as a result of movements in foreign exchange rates and net income recognized this quarter, and higher intangible assets resulting mainly from movements in foreign exchange rates.

[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 September 30, 2014		Six months ended September 30, 2014	
Net debt, beginning of period	$	901.6	$	856.2
Cash, beginning of period, related to discontinued operations	$	-	$	7.7
Impact of cash movements on net debt				
(see table in the consolidated cash movements section)		40.5		104.9
Effect of foreign exchange rate changes on long-term debt		32.9		6.6
Net finance lease addition		18.3		18.3
Other		5.2		4.8
Increase in net debt during the period	$	96.9	$	142.3
Net debt, end of period	$	998.5	$	998.5
Net debt-to-capital[9]	%	39.9		

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 and contracts in progress assets (current financial assets program) for an amount up to $150.0 million.

We have certain debt agreements which require the maintenance of a certain level of capital. As at September 30, 2014, we are compliant with all our financial covenants.

In July 2014, we entered into a finance lease for a building for our Brunei Multi Purpose Training Centre. This represents a finance lease obligation of $18.5 million as at September 30, 2014.

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 $28.4 million this quarter
The increase in equity was mainly due to net income of $42.5 million and a favourable foreign currency translation of $16.7 million, partially offset by defined benefit plan remeasurements of $12.3 million, dividends of $11.8 million and net changes in cash flow hedges of $11.7 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 265,237,613 common shares issued and outstanding as at September 30, 2014 with total share capital of $537.2 million.

As at October 31, 2014, we had a total of 265,294,962 common shares issued and outstanding.

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

10. CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies

Operating segments

As at April 1st, 2014, we modified our operating segments. Our former segments, Training & Services/Civil and Simulation Products/Civil, have been combined to form Civil Simulation and Training and our former Training & Services/Military and Simulation Products/Military segments have been combined to form Defence and Security. This resulted from changes in the organizational structure undertaken to better reflect our operating segments with our integrated solutions approach to market. In addition, the former New Core Markets segment was renamed Healthcare following our decision to divest our mining business as described in Note 3 of our consolidated interim financial statements. This information reflects the way management measures profitability and performance and how we allocate resources. As such, we believe the information presented to be more relevant as it is better aligned with the way our business is managed internally. The change has been made retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The change did not impact the consolidated financial statement results. Operating segments' disclosure has been restated to conform to the new operating segments, as described in Note 13 of our consolidated interim financial statements.

New and amended standards adopted

The amendments to IFRSs effective for the fiscal year 2015 have no material impact on the Company.

New and amended standards not yet adopted

Employee benefits

In November 2013, the IASB amended IAS 19, *Employee Benefits*. The amendment simplifies the accounting for contributions from employees or third parties to defined benefit plans that are independent of the number of years of service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for annual periods beginning on or after July 1st, 2014, with earlier application permitted. We are currently evaluating the impact of the amendment on our consolidated financial statements.

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 1st, 2017, 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 1st, 2018, with earlier application permitted. We are currently evaluating the impact of the standard on our consolidated financial statements.

11. CONTROLS AND PROCEDURES

During the first quarter of fiscal 2015, we adopted the new *Internal Control – Integrated Framework* released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. The adoption of the new framework did not have a significant impact on our internal controls over financial reporting.

In the second quarter ended September 30, 2014, 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 second quarter, the Company's CEO and CFO were satisfied with the effectiveness of the Company's disclosure controls and procedures.

12. SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited) *(amounts in millions, except per share amounts and exchange rates)*		Q1	Q2	Q3	Q4	Year to date
Fiscal 2015						
Revenue	**$**	**526.2**	**529.4**	[1]	[1]	**1,055.6**
Net income	**$**	**41.6**	**42.5**	[1]	[1]	**84.1**
Equity holders of the Company						
Continuing operations	**$**	**43.8**	**42.0**	[1]	[1]	**85.8**
Discontinued operations	**$**	**(2.0)**	**0.9**	[1]	[1]	**(1.1)**
Non-controlling interests	**$**	**(0.2)**	**(0.4)**	[1]	[1]	**(0.6)**
Basic and diluted EPS attributable to equity holders of the Company	**$**	**0.16**	**0.16**	[1]	[1]	**0.32**
Continuing operations	**$**	**0.17**	**0.16**	[1]	[1]	**0.32**
Discontinued operations	**$**	**(0.01)**	**-**	[1]	[1]	**-**
Average number of shares outstanding (basic)		**263.9**	**264.7**	[1]	[1]	**264.3**
Average number of shares outstanding (diluted)		**265.0**	**265.6**	[1]	[1]	**265.3**
Average exchange rate, U.S. dollar to Canadian dollar		**1.09**	**1.09**	[1]	[1]	**1.09**
Average exchange rate, Euro to Canadian dollar		**1.50**	**1.44**	[1]	[1]	**1.47**
Average exchange rate, British pound to Canadian dollar		**1.84**	**1.82**	[1]	[1]	**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
Fiscal 2013						Total
Revenue	$	451.6	496.6	490.2	555.3	1,993.7
Net income	$	21.9	35.9	37.2	45.7	140.7
Equity holders of the Company						
Continuing operations	$	20.4	35.0	36.2	42.7	134.3
Discontinued operations	$	1.1	0.6	1.3	0.4	3.4
Non-controlling interests	$	0.4	0.3	(0.3)	2.6	3.0
Basic and diluted EPS attributable to equity holders of the Company	$	0.08	0.14	0.14	0.17	0.53
Continuing operations	$	0.08	0.14	0.14	0.17	0.52
Discontinued operations	$	-	-	-	-	0.01
Average number of shares outstanding (basic)		258.4	258.7	259.2	259.7	259.0
Average number of shares outstanding (diluted)		258.6	259.0	259.5	260.2	259.4
Average exchange rate, U.S. dollar to Canadian dollar		1.01	1.00	0.99	1.01	1.00
Average exchange rate, Euro to Canadian dollar		1.30	1.25	1.29	1.33	1.29
Average exchange rate, British pound to Canadian dollar		1.60	1.57	1.59	1.57	1.58

[1] Not available

Consolidated Statement of Financial Position

(Unaudited) *(amounts in millions of Canadian dollars)*	Notes	**September 30 2014**	March 31 2014
Assets			
Cash and cash equivalents		**$ 277.8**	$ 312.3
Accounts receivable	4	**415.0**	453.9
Contracts in progress: assets		**295.0**	256.4
Inventories		**246.4**	219.5
Prepayments		**75.9**	76.6
Income taxes recoverable		**30.0**	24.8
Derivative financial assets		**11.1**	7.3
Assets held for sale	3	**56.7**	-
Total current assets		**$ 1,407.9**	$ 1,350.8
Property, plant and equipment		**1,364.5**	1,341.2
Intangible assets		**821.8**	870.7
Investment in equity accounted investees		**254.7**	234.6
Deferred tax assets		**33.1**	31.8
Derivative financial assets		**11.4**	7.5
Other assets		**399.7**	400.1
Total assets		**$ 4,293.1**	$ 4,236.7
Liabilities and equity			
Accounts payable and accrued liabilities		**$ 646.1**	$ 685.0
Provisions		**21.1**	28.6
Income taxes payable		**7.2**	8.3
Contracts in progress: liabilities		**125.8**	167.4
Current portion of long-term debt		**51.5**	50.6
Derivative financial liabilities		**25.9**	24.6
Liabilities held for sale	3	**11.1**	-
Total current liabilities		**$ 888.7**	$ 964.5
Provisions		**6.2**	6.4
Long-term debt		**1,224.8**	1,117.9
Royalty obligations		**153.7**	161.5
Employee benefits obligations		**143.5**	115.5
Deferred gains and other non-current liabilities		**191.5**	204.2
Deferred tax liabilities		**171.7**	166.1
Derivative financial liabilities		**9.7**	18.4
Total liabilities		**$ 2,789.8**	$ 2,754.5
Equity			
Share capital		**$ 537.2**	$ 517.5
Contributed surplus		**19.7**	19.5
Accumulated other comprehensive income		**95.9**	129.5
Retained earnings		**806.2**	775.1
Equity attributable to equity holders of the Company		**$ 1,459.0**	$ 1,441.6
Non-controlling interests		**44.3**	40.6
Total equity		**$ 1,503.3**	$ 1,482.2
Total liabilities and equity		**$ 4,293.1**	$ 4,236.7

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

Consolidated Income Statement

(Unaudited) *(amounts in millions of Canadian dollars, except per share amounts)*	Notes	**Three months ended September 30** **2014**	2013	**Six months ended September 30** **2014**	2013
Continuing operations					
Revenue	13	**$ 529.4**	$ 478.2	**$ 1,055.6**	$ 998.3
Cost of sales		**393.2**	352.0	**782.9**	733.8
Gross profit		**$ 136.2**	$ 126.2	**$ 272.7**	$ 264.5
Research and development expenses		**16.6**	14.9	**31.0**	32.2
Selling, general and administrative expenses		**60.5**	59.8	**124.4**	127.4
Other gains – net	9	**(0.2)**	(5.6)	**(4.0)**	(10.9)
After tax share in profit of equity accounted investees	13	**(13.5)**	(7.5)	**(23.2)**	(10.4)
Operating profit		**$ 72.8**	$ 64.6	**$ 144.5**	$ 126.2
Finance income	5	**(2.1)**	(2.3)	**(4.2)**	(5.0)
Finance expense	5	**20.4**	20.9	**39.0**	40.8
Finance expense – net		**$ 18.3**	$ 18.6	**$ 34.8**	$ 35.8
Earnings before income taxes		**$ 54.5**	$ 46.0	**$ 109.7**	$ 90.4
Income tax expense	10	**12.9**	7.9	**24.5**	7.8
Earnings from continuing operations		**$ 41.6**	$ 38.1	**$ 85.2**	$ 82.6
Discontinued operations					
Earnings (loss) from discontinued operations	3	**0.9**	0.1	**(1.1)**	1.0
Net income		**$ 42.5**	$ 38.2	**$ 84.1**	$ 83.6
Attributable to:					
Equity holders of the Company		**$ 42.9**	$ 38.3	**$ 84.7**	$ 83.9
Non-controlling interests		**(0.4)**	(0.1)	**(0.6)**	(0.3)
		$ 42.5	$ 38.2	**$ 84.1**	$ 83.6
Earnings per share from continuing and discontinued operations attributable to equity holders of the Company					
Basic and diluted – continuing operations	7	**$ 0.16**	$ 0.15	**$ 0.32**	$ 0.32
Basic and diluted – discontinued operations	7	**-**	-	**-**	-
		$ 0.16	$ 0.15	**$ 0.32**	$ 0.32

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

Consolidated Statement of Comprehensive Income

	Three months ended		Six months ended	
(Unaudited)	September 30		September 30	
(amounts in millions of Canadian dollars)	**2014**	2013	**2014**	2013
Net income	**$ 42.5**	$ 38.2	**$ 84.1**	$ 83.6
Items that may be reclassified to net income				
Foreign currency translation				
Net currency translation difference on the translation of financial statements of foreign operations	**$ 29.1**	$ (4.7)	**$ (31.0)**	$ 43.7
Net (losses) gains on certain long-term debt denominated in foreign currency and designated as hedges of net investments in foreign operations	**(22.2)**	9.5	**(6.5)**	(5.4)
Income taxes	**(0.9)**	(1.7)	**1.9**	-
Share in foreign currency translation difference of equity accounted investees	**10.7**	(5.2)	**2.7**	1.8
	$ 16.7	$ (2.1)	**$ (32.9)**	$ 40.1
Net changes in cash flow hedges				
Effective portion of changes in fair value of cash flow hedges	**$ (14.7)**	$ 2.6	**$ 3.8**	$ (12.8)
Reclassification to income or to the related non-financial asset	**(1.2)**	4.1	**(3.9)**	6.6
Income taxes	**4.3**	(1.9)	**-**	1.5
After tax share in net changes of cash flow hedges of equity accounted investees	**(0.1)**	0.3	**0.1**	(0.7)
	$ (11.7)	$ 5.1	**$ -**	$ (5.4)
Net changes in available-for-sale financial instruments				
Net change in fair value of available-for-sale financial assets	**$ -**	$ 0.1	**$ -**	$ 0.1
	$ -	$ 0.1	**$ -**	$ 0.1
Items that are never reclassified to net income				
Defined benefit plan remeasurements				
Defined benefit plan remeasurements	**$ (16.9)**	$ 11.3	**$ (26.3)**	$ 35.0
Income taxes	**4.6**	(3.1)	**7.1**	(9.4)
	$ (12.3)	$ 8.2	**$ (19.2)**	$ 25.6
Other comprehensive (loss) income	**$ (7.3)**	$ 11.3	**$ (52.1)**	$ 60.4
Total comprehensive income	**$ 35.2**	$ 49.5	**$ 32.0**	$ 144.0
Attributable to:				
Equity holders of the Company	**$ 34.5**	$ 49.6	**$ 31.9**	$ 144.3
Non-controlling interests	**0.7**	(0.1)	**0.1**	(0.3)
	$ 35.2	$ 49.5	**$ 32.0**	$ 144.0
Total comprehensive income (loss) attributable to equity holders of the Company:				
Continuing operations	**$ 33.9**	$ 48.5	**$ 33.7**	$ 141.7
Discontinued operations	**0.6**	1.1	**(1.8)**	2.6
	$ 34.5	$ 49.6	**$ 31.9**	$ 144.3

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

Consolidated Statement of Changes in Equity

(Unaudited) *six months ended September 30, 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		-	$ -	$ -	$ -	$ 84.7	$ 84.7	$ (0.6)	**$ 84.1**
Other comprehensive income (loss):									
Foreign currency translation		-	-	-	(33.6)	-	(33.6)	0.7	**(32.9)**
Defined benefit plan remeasurements		-	-	-	-	(19.2)	(19.2)	-	**(19.2)**
Total comprehensive income (loss)		-	$ -	$ -	$ (33.6)	$ 65.5	$ 31.9	$ 0.1	**$ 32.0**
Stock options exercised		550,514	6.0	-	-	-	6.0	-	**6.0**
Optional cash purchase		2,754	-	-	-	-	-	-	**-**
Transfer upon exercise of stock options		-	1.6	(1.6)	-	-	-	-	**-**
Share-based payments		-	-	1.8	-	-	1.8	-	**1.8**
Additions to non-controlling interests		-	-	-	-	-	-	3.6	**3.6**
Stock dividends	7	912,902	12.1	-	-	(12.1)	-	-	**-**
Cash dividends	7	-	-	-	-	(22.3)	(22.3)	-	**(22.3)**
Balances, end of period		265,237,613	$ 537.2	$ 19.7	$ 95.9	$ 806.2	$ 1,459.0	$ 44.3	**$ 1,503.3**

(Unaudited) *six months ended September 30, 2013* *(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		259,979,059	$ 471.7	$ 21.9	$ (12.0)	$ 633.0	$ 1,114.6	$ 31.8	$ 1,146.4
Net income		-	$ -	$ -	$ -	$ 83.9	$ 83.9	$ (0.3)	$ 83.6
Other comprehensive income (loss):									
Foreign currency translation		-	-	-	40.1	-	40.1	-	40.1
Net changes in cash flow hedges		-	-	-	(5.4)	-	(5.4)	-	(5.4)
Net changes in available-for-sale financial instruments		-	-	-	0.1	-	0.1	-	0.1
Defined benefit plan remeasurements		-	-	-	-	25.6	25.6	-	25.6
Total comprehensive income (loss)		-	$ -	$ -	$ 34.8	$ 109.5	$ 144.3	$ (0.3)	$ 144.0
Stock options exercised		820,778	6.7	-	-	-	6.7	-	6.7
Optional cash purchase		681	-	-	-	-	-	-	-
Transfer upon exercise of stock options		-	1.8	(1.8)	-	-	-	-	-
Share-based payments		-	-	2.2	-	-	2.2	-	2.2
Additions to non-controlling interests		-	-	-	-	-	-	2.2	2.2
Stock dividends	7	604,601	6.5	-	-	(6.5)	-	-	-
Cash dividends	7	-	-	-	-	(19.6)	(19.6)	-	(19.6)
Balances, end of period		261,405,119	$ 486.7	$ 22.3	$ 22.8	$ 716.4	$ 1,248.2	$ 33.7	$ 1,281.9

The balance of retained earnings and accumulated other comprehensive income as at September 30, 2014 was $902.1 million (2013 – $739.2 million).
The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

(Unaudited)
six months ended September 30

(amounts in millions of Canadian dollars)	Notes	**2014**	2013
Operating activities			
Earnings from continuing operations		**$ 85.2**	$ 82.6
Adjustments for:			
Depreciation of property, plant and equipment		**51.8**	49.1
Amortization of intangible and other assets		**39.2**	30.0
Financing cost amortization	5	**0.7**	0.8
After tax share in profit of equity accounted investees		**(23.2)**	(10.4)
Deferred income taxes		**11.8**	14.8
Investment tax credits		**(4.2)**	(7.3)
Share-based compensation		**3.0**	1.2
Defined benefit pension plans		**3.2**	(0.3)
Amortization of other non-current liabilities		**(16.9)**	(11.2)
Derivative financial assets and liabilities – net		**(15.1)**	(0.8)
Other		**19.2**	(0.7)
Changes in non-cash working capital	10	**(138.2)**	(17.1)
Net cash provided by operating activities		**$ 16.5**	$ 130.7
Investing activities			
Business combinations, net of cash and cash equivalents acquired	10	**$ (2.0)**	$ (0.4)
Capital expenditures for property, plant and equipment		**(75.5)**	(54.3)
Proceeds from disposal of property, plant and equipment		**0.9**	6.4
Capitalized development costs		**(22.1)**	(19.8)
Enterprise resource planning (ERP) and other software		**(11.7)**	(3.9)
Net (payments to) proceeds from equity accounted investees		**(2.4)**	2.0
Dividends received from equity accounted investees		**7.0**	14.2
Other		**4.9**	(9.0)
Net cash used in investing activities		**$ (100.9)**	$ (64.8)
Financing activities			
Net change in restricted cash		**$ -**	$ (18.1)
Proceeds from borrowing under revolving unsecured credit facilities		**243.7**	279.0
Repayment of borrowing under revolving unsecured credit facilities		**(169.0)**	(294.1)
Proceeds from long-term debt, net of transaction costs		**19.6**	39.0
Repayment of long-term debt		**(8.4)**	(28.6)
Repayment of finance lease		**(7.8)**	(9.1)
Dividends paid		**(22.3)**	(19.6)
Common stock issuance		**6.0**	6.7
Net cash provided by (used in) financing activities		**$ 61.8**	$ (44.8)
Effect of foreign exchange rate changes on cash and cash equivalents		**$ (4.2)**	$ 4.4
Net (decrease) increase in cash and cash equivalents		**(26.8)**	25.5
Cash and cash equivalents, beginning of period		**312.3**	260.0
Cash and cash equivalents, beginning of period, related to discontinued operations		**(7.7)**	(11.8)
Cash and cash equivalents, end of period		**$ 277.8**	$ 273.7
Supplemental information:			
Dividends received		**$ 7.0**	$ 14.8
Interest paid		**26.7**	26.3
Interest received		**5.1**	2.7
Income taxes paid		**15.2**	10.5

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

Notes to the Consolidated Interim Financial Statements (Unaudited)

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

The consolidated interim financial statements were authorized for issue by the board of directors on November 12, 2014.

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 (see Note 2):

(i) Civil Simulation and Training – Provides comprehensive civil aviation training solutions, including CAE civil flight simulation training devices as well as commercial, business and helicopter aviation training for flight, cabin, maintenance and ground personnel, ab initio pilot training and crew sourcing services;

(ii) Defence and Security – Provides comprehensive training centres, training services and simulation products as a training systems integrator to defence and security forces across the air, land and sea, and public safety market segments;

(iii) Healthcare – Designs, manufactures and sells simulators, audiovisual solutions and courseware for training of medical and allied healthcare students and clinicians in educational institutions, hospitals and defence organizations worldwide.

The Company's mining business which provides mining services and tools has been classified as held for sale (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 Simulation and Training 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, 2014, 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, 2014.

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, income 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, 2014, with the exception of 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.

NOTE 2 – CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies

Operating segments

As at April 1st, 2014, the Company modified its operating segments. The former segments, Training & Services/Civil and Simulation Products/Civil, have been combined to form Civil Simulation and Training and the former Training & Services/Military and Simulation Products/Military segments have been combined to form Defence and Security. This resulted from changes in the organizational structure undertaken to better reflect the Company's operating segments with its integrated solutions approach to market. In addition, the former New Core Markets segment was renamed Healthcare following the Company's decision to divest its mining business (see Note 3). This information reflects the way management measures profitability and performance and how it allocates resources. As such, the Company believes the information presented to be more relevant as it is better aligned with the way the business is managed internally. The change has been made retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The change did not impact the consolidated financial statement results. Operating segments' disclosure has been restated to conform to the new operating segments (see Note 13).

New and amended standards adopted by the Company

The amendments to IFRSs effective for the fiscal year 2015 have no material impact on the Company.

New and amended standards not yet adopted by the Company

Employee benefits

In November 2013, the IASB amended IAS 19*, Employee Benefits*. The amendment simplifies the accounting for contributions from employees or third parties to defined benefit plans that are independent of the number of years of service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for annual periods beginning on or after July 1st, 2014, with earlier application permitted. The Company is currently evaluating the impact of the amendment on its consolidated financial statements.

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 1st, 2017, 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 1st, 2018, with earlier application permitted. 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 has decided to divest its mining business following the decision to focus its resources and capital investment in targeted growth opportunities in its other three core markets: Civil Simulation and Training, Defence and Security and Healthcare. The related assets and liabilities, which were previously reported within the former New Core Markets segment, have been presented as held for sale.

As at September 30, 2014, the assets and liabilities classified as held for sale are as follows:

(Unaudited) *(amounts in millions)*		
Current assets[1]	**$**	**13.3**
Current liabilities		**(9.3)**
Property, plant and equipment		**1.2**
Intangible assets		**41.2**
Deferred gains and other non-current liabilities		**(0.4)**
Deferred tax assets and liabilities – net		**(0.4)**
Total net assets held for sale	**$**	**45.6**

[1] Including cash and cash equivalents

Analysis of the result of discontinued operations is as follows:

(Unaudited) *(amounts in millions)*		**Three months ended September 30** **2014**		2013		**Six months ended September 30** **2014**		2013
Revenue	**$**	**8.9**	$	9.3	**$**	**17.3**	$	19.6
Expenses		**7.4**		8.7		**16.7**		17.7
Earnings before income taxes and measurement to fair value	**$**	**1.5**	$	0.6	**$**	**0.6**	$	1.9
Income tax expense		**0.6**		0.5		**0.8**		0.9
Earnings (loss) before measurement to fair value	**$**	**0.9**	$	0.1	**$**	**(0.2)**	$	1.0
Loss on measurement to fair value of assets held for sale		**-**		-		**1.0**		-
Income tax recovery		**-**		-		**(0.1)**		-
Earnings (loss) from discontinued operations	**$**	**0.9**	$	0.1	**$**	**(1.1)**	$	1.0

(Unaudited) *six months ended September 30* *(amounts in millions)*		**2014**		2013
Net cash (used in) provided by operating activities	**$**	**(2.0)**	$	4.0
Net cash used in investing activities		**(2.1)**		(2.8)

NOTE 4 – 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:

(Unaudited)	**September 30**	March 31
(amounts in millions)	**2014**	2014
Current trade receivables	**$ 136.0**	$ 178.4
Past due trade receivables		
1-30 days	**31.8**	43.3
31-60 days	**18.8**	17.2
61-90 days	**16.4**	14.0
Greater than 90 days	**50.3**	55.5
Allowance for doubtful accounts	**(13.2)**	(13.8)
Total trade receivables	**$ 240.1**	$ 294.6
Accrued receivables	**90.9**	84.4
Receivables from related parties (Note 14)	**42.9**	30.1
Other receivables	**41.1**	44.8
Total accounts receivable	**$ 415.0**	$ 453.9

Changes in the allowance for doubtful accounts are as follows:

	Three months ended		**Six months ended**	
(Unaudited)	**September 30**		**September 30**	
(amounts in millions)	**2014**	2013	**2014**	2013
Allowance for doubtful accounts, beginning of period	**$ (12.4)**	$ (10.9)	**$ (13.8)**	$ (9.8)
Additions (Note 13)	**(1.2)**	(0.5)	**(2.2)**	(1.9)
Amounts charged off	**0.2**	-	**0.4**	0.1
Unused amounts reversed (Note 13)	**0.1**	0.1	**1.5**	0.6
Exchange differences	**0.1**	(0.1)	**0.6**	(0.4)
Transferred to assets held for sale	**-**	-	**0.3**	-
Allowance for doubtful accounts, end of period	**$ (13.2)**	$ (11.4)	**$ (13.2)**	$ (11.4)

NOTE 5 – DEBT FACILITIES AND FINANCE EXPENSE – NET

Long-term debt

In July 2014, the Company entered into a finance lease for a building for the CAE Brunei Multi Purpose Training Centre. This represents a finance lease obligation of $18.5 million as at September 30, 2014.

Finance expense – net

(Unaudited) (amounts in millions)	Three months ended September 30 **2014**	2013	Six months ended September 30 **2014**	2013
Finance expense:				
Long-term debt (other than finance leases)	**$ 14.1**	$ 13.5	**$ 27.4**	$ 26.3
Finance leases	**2.5**	2.4	**4.9**	4.7
Royalty obligations	**1.6**	2.6	**3.2**	5.1
Employee benefits obligations	**1.3**	1.3	**2.5**	2.6
Financing cost amortization	**0.3**	0.4	**0.7**	0.8
Provisions and other non-current liabilities	**0.3**	0.4	**0.7**	0.7
Other	**1.5**	1.1	**1.8**	2.1
Borrowing costs capitalized [(1)]	**(1.2)**	(0.8)	**(2.2)**	(1.5)
Finance expense	**$ 20.4**	$ 20.9	**$ 39.0**	$ 40.8
Finance income:				
Interest income on loans and receivables	**$ (0.5)**	$ (0.4)	**$ (0.9)**	$ (0.7)
Other	**(1.6)**	(1.9)	**(3.3)**	(4.3)
Finance income	**$ (2.1)**	$ (2.3)	**$ (4.2)**	$ (5.0)
Finance expense – net	**$ 18.3**	$ 18.6	**$ 34.8**	$ 35.8

[(1)]The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 3.75% for the three months ended September 30, 2014 (2013 – 3.50%) and 3.75% for the three months ended June 30, 2014 (2013 – 3.75%).

NOTE 6 – GOVERNMENT ASSISTANCE

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

(Unaudited) (amounts in millions)	Three months ended September 30 **2014**	2013	Six months ended September 30 **2014**	2013
Outstanding contribution receivable, beginning of period	**$ 9.9**	$ 5.4	**$ 5.0**	$ 5.8
Contributions	**7.7**	4.1	**15.5**	9.7
Payments received	**(9.7)**	(5.4)	**(12.6)**	(11.4)
Outstanding contribution receivable, end of period	**$ 7.9**	$ 4.1	**$ 7.9**	$ 4.1

The aggregate contributions recognized for all programs are as follows:

(Unaudited) (amounts in millions)	Three months ended September 30 **2014**	2013	Six months ended September 30 **2014**	2013
Contributions credited to capitalized expenditures:				
Project Falcon	**$ -**	$ 0.6	**$ -**	$ 1.7
Project New Core Markets	**0.1**	0.8	**0.7**	1.7
Project Innovate	**3.0**	-	**5.5**	-
Contributions credited to income:				
Project Falcon	**-**	2.3	**-**	5.5
Project New Core Markets	**0.4**	0.4	**0.8**	0.8
Project Innovate	**4.2**	-	**8.5**	-
Total contributions:				
Project Falcon	**$ -**	$ 2.9	**$ -**	$ 7.2
Project New Core Markets	**0.5**	1.2	**1.5**	2.5
Project Innovate	**7.2**	-	**14.0**	-

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

NOTE 7 – EARNINGS PER SHARE AND DIVIDENDS

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

	Three months ended September 30		Six months ended September 30	
(Unaudited)	**2014**	2013	**2014**	2013
Weighted average number of common shares outstanding	**264,699,281**	260,991,411	**264,324,446**	260,577,673
Effect of dilutive stock options	**887,822**	521,537	**998,680**	319,766
Weighted average number of common shares outstanding for diluted earnings per share calculation	**265,587,103**	261,512,948	**265,323,126**	260,897,439

For the three months ended September 30, 2014, options to acquire 1,416,800 common shares (2013 – 1,121,040) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect.

For the six months ended September 30, 2014, options to acquire 1,405,000 common shares (2013 – 3,081,460) have been excluded from the above calculation since their inclusion would have had an anti-dilutive effect.

The dividends declared for the second quarter of fiscal 2015 were $18.6 million or $0.07 per share (2014 – $13.1 million or $0.05 per share). For the first six months of fiscal 2015, dividends declared were $34.4 million or $0.13 per share (2014 – $26.1 million or $0.10 per share).

NOTE 8 – EMPLOYEE COMPENSATION

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

(Unaudited)	Three months ended September 30		Six months ended September 30	
(amounts in millions)	**2014**	2013	**2014**	2013
Salaries and other short-term employee benefits	**$ 167.1**	$ 157.8	**$ 340.7**	$ 322.9
Share-based payments, net of equity swap	**3.5**	3.2	**8.1**	8.9
Post-employment benefits – defined benefit plans[1]	**6.5**	6.5	**12.9**	14.4
Post-employment benefits – defined contribution plans	**2.0**	1.5	**4.0**	3.2
Termination benefits	**1.5**	2.5	**4.4**	6.3
Total employee compensation expense	**$ 180.6**	$ 171.5	**$ 370.1**	$ 355.7

[1]Includes net interest on employee benefits obligations (Note 5).

NOTE 9 – OTHER GAINS – NET

(Unaudited)	Three months ended September 30		Six months ended September 30	
(amounts in millions)	**2014**	2013	**2014**	2013
Disposal of property, plant and equipment	**$ 0.2**	$ (0.2)	**$ 0.3**	$ 3.5
Net foreign exchange (losses) gains	**(1.6)**	0.9	**(3.0)**	-
Reversal of unused portion of an acquisition-related provision	**0.9**	3.3	**0.9**	3.3
Reversal of royalty obligations	**-**	-	**4.0**	2.2
Other	**0.7**	1.6	**1.8**	1.9
Other gains – net	**$ 0.2**	$ 5.6	**$ 4.0**	$ 10.9

NOTE 10 – SUPPLEMENTARY CASH FLOWS AND INCOME INFORMATION

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

(Unaudited) *six months ended September 30* *(amounts in millions)*	**2014**	2013
Cash (used in) provided by non-cash working capital:		
Accounts receivable	**$ 20.1**	$ 42.3
Contracts in progress: assets	**(44.6)**	35.5
Inventories	**(28.0)**	(30.7)
Prepayments	**1.5**	(5.4)
Income taxes recoverable	**(6.2)**	(4.8)
Accounts payable and accrued liabilities	**(32.5)**	(62.9)
Provisions	**(7.1)**	(13.9)
Income taxes payable	**(1.5)**	0.1
Contracts in progress: liabilities	**(39.9)**	22.7
Changes in non-cash working capital	**$ (138.2)**	$ (17.1)

b) Business combinations:

During the first quarter of fiscal 2015, the Company paid $2.0 million for business combination transactions that occurred in previous periods of which $0.7 million was for the payment of a contingent consideration and $1.3 million was for a balance of payment.

c) Income tax income:

During the first quarter of fiscal 2014, a significant tax income of $11.0 million was recorded in income and was due to a favourable decision by the Federal Court of Appeal of Canada rendered April 17, 2013, with respect to the tax treatment of the depreciation and sale of simulators in Canada.

d) After tax share in profit of equity accounted investees:

During the second quarter of fiscal 2015, one of the Company's joint ventures recognized a deferred tax asset following the approval of an investment tax allowance from the Malaysian Investment Development Authority. The Company's share of the deferred tax benefit amounts to $9.4 million and is included in the after tax share in profit of equity accounted investees.

NOTE 11 – 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 the quarter, 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 12 – 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, including derivatives.

The following assumptions and valuation methodologies have been used to measure 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, including forward contracts, swap agreements and embedded derivatives with economic characteristics and risks that are not clearly and closely related to those of the host contract, are determined using valuation techniques and are 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 supportable by observable market prices or rates;

(iv) The fair value of non-current receivables are 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 debt 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 September 30, 2014:

(Unaudited) *(amounts in millions)*	At FVTPL [1]	Available-for-Sale	Loans & Receivables	DDHR [2]	Carrying Value Total	Fair Value
Financial assets						
Cash and cash equivalents	**$ 277.8**	**$ -**	**$ -**	**$ -**	**$ 277.8**	**$ 277.8**
Accounts receivable	**-**	**-**	**397.0** [3]	**-**	**397.0**	**397.0**
Contracts in progress: assets	**-**	**-**	**295.0**	**-**	**295.0**	**295.0**
Derivative financial assets	**9.6**	**-**	**-**	**12.9**	**22.5**	**22.5**
Other assets	**23.1** [4]	**1.5** [5]	**135.6** [6]	**-**	**160.2**	**169.1**
	$ 310.5	**$ 1.5**	**$ 827.6**	**$ 12.9**	**$ 1,152.5**	**$ 1,161.4**

(Unaudited) *(amounts in millions)*	At FVTPL [1]	Other Financial Liabilities	DDHR [2]	Carrying Value Total	Fair Value
Financial liabilities					
Accounts payable and accrued liabilities	**$ -**	**$ 488.8** [7]	**$ -**	**$ 488.8**	**$ 488.8**
Provisions	**2.0**	**18.7**	**-**	**20.7**	**20.7**
Total long-term debt	**-**	**1,280.6** [8]	**-**	**1,280.6**	**1,383.5**
Other non-current liabilities	**-**	**193.4** [9]	**-**	**193.4**	**204.4**
Derivative financial liabilities	**8.3**	**-**	**27.3**	**35.6**	**35.6**
	$ 10.3	**$ 1,981.5**	**$ 27.3**	**$ 2,019.1**	**$ 2,133.0**

(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 carrying values and fair values of financial instruments, by class, are as follows at March 31, 2014:

					Carrying Value	Fair Value
(amounts in millions)	At FVTPL [1]	Available-for-Sale	Loans & Receivables	DDHR [2]	Total	
Financial assets						
Cash and cash equivalents	$ 312.3	$ -	$ -	$ -	$ 312.3	$ 312.3
Accounts receivable	-	-	431.4 [3]	-	431.4	431.7
Contracts in progress: assets	-	-	256.4	-	256.4	256.4
Derivative financial assets	6.0	-	-	8.8	14.8	14.8
Other assets	24.1 [4]	1.5 [5]	133.5 [6]	-	159.1	152.8
	$ 342.4	$ 1.5	$ 821.3	$ 8.8	$ 1,174.0	$ 1,168.0

				Carrying Value	Fair Value
(amounts in millions)	At FVTPL [1]	Other Financial Liabilities	DDHR [2]	Total	
Financial liabilities					
Accounts payable and accrued liabilities	$ 1.3	$ 529.1 [7]	$ -	$ 530.4	$ 532.3
Provisions	2.9	25.3	-	28.2	28.2
Total long-term debt	-	1,173.2 [8]	-	1,173.2	1,251.9
Other non-current liabilities	-	197.5 [9]	-	197.5	223.4
Derivative financial liabilities	9.7	-	33.3	43.0	43.0
	$ 13.9	$ 1,925.1	$ 33.3	$ 1,972.3	$ 2,078.8

[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 fair value through profit and loss (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) or indirectly (i.e., derived from prices);

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 in the statement of financial position:

(Unaudited) *(amounts in millions)*			**September 30 2014**			March 31 2014
	Level 2	**Level 3**	**Total**	Level 2	Level 3	Total
Financial assets						
At FVTPL						
Cash and cash equivalents	**$ 277.8**	**$ -**	**$ 277.8**	$ 312.3	$ -	$ 312.3
Restricted cash	**23.1**	**-**	**23.1**	24.1	-	24.1
Forward foreign currency contracts	**8.6**	**-**	**8.6**	2.0	-	2.0
Embedded foreign currency derivatives	**1.0**	**-**	**1.0**	1.4	-	1.4
Equity swap agreements	**-**	**-**	**-**	2.6	-	2.6
Available-for-sale	**-**	**1.5**	**1.5**	-	1.5	1.5
Derivatives designated in a hedge relationship						
Forward foreign currency contracts	**5.4**	**-**	**5.4**	2.1	-	2.1
Foreign currency swap agreements	**7.5**	**-**	**7.5**	6.7	-	6.7
	$ 323.4	**$ 1.5**	**$ 324.9**	$ 351.2	$ 1.5	$ 352.7
Financial liabilities						
At FVTPL						
Accounts payable and accrued liabilities	**$ -**	**$ -**	**$ -**	$ -	$ 1.3	$ 1.3
Contingent consideration arising on business combinations	**-**	**2.0**	**2.0**	-	2.9	2.9
Forward foreign currency contracts	**7.2**	**-**	**7.2**	9.4	-	9.4
Embedded foreign currency derivatives	**0.5**	**-**	**0.5**	0.3	-	0.3
Equity swap agreements	**0.6**	**-**	**0.6**	-	-	-
Derivatives designated in a hedge relationship						
Forward foreign currency contracts	**24.5**	**-**	**24.5**	29.6	-	29.6
Interest rate swap agreements	**2.8**	**-**	**2.8**	3.7	-	3.7
	$ 35.6	**$ 2.0**	**$ 37.6**	$ 43.0	$ 4.2	$ 47.2

Changes in Level 3 financial instruments are as follows:

(Unaudited) *(amounts in millions)*	**Three months ended September 30**		**Six months ended September 30**	
	2014	2013	**2014**	2013
Balance, beginning of period	**$ (0.7)**	$ (2.6)	**$ (2.7)**	$ 1.3
Total realized and unrealized gains (losses):				
Included in income	**0.2**	(0.3)	**0.2**	(0.2)
Included in other comprehensive income	**-**	0.1	**-**	0.1
Issued and settled	**-**	0.8	**2.0**	(3.2)
Balance, end of period	**$ (0.5)**	$ (2.0)	**$ (0.5)**	$ (2.0)

NOTE 13 – OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION

The Company elected to organize its operating segments principally on the basis of its customer markets. As at April 1st, 2014, the Company changed its operating segments (see Note 1 and 2). 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.

(Unaudited)	**Civil Simulation**		**Defence**					
three months ended September 30	**and Training**		**and Security**		**Healthcare**		**Total**	
(amounts in millions)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
External revenue	**$ 296.0**	$ 269.3	**$ 209.1**	$ 191.1	**$ 24.3**	$ 17.8	**$ 529.4**	$ 478.2
Depreciation and amortization								
Property, plant and equipment	**22.9**	21.3	**2.9**	2.6	**0.6**	0.5	**26.4**	24.4
Intangible and other assets	**6.6**	5.1	**11.2**	8.2	**2.6**	2.4	**20.4**	15.7
Write-downs (reversals of write-downs)								
of inventories – net	**-**	0.2	**-**	0.1	**0.2**	-	**0.2**	0.3
Write-downs (reversals of write-downs)								
of accounts receivable – net (Note 4)	**0.5**	-	**0.3**	0.4	**0.3**	-	**1.1**	0.4
After tax share in profit of equity								
accounted investees	**11.6**	4.4	**1.9**	3.1	**-**	-	**13.5**	7.5
Segment operating income	**45.4**	39.0	**25.6**	25.2	**1.8**	0.4	**72.8**	64.6

(Unaudited)	**Civil Simulation**		**Defence**					
six months ended September 30	**and Training**		**and Security**		**Healthcare**		**Total**	
(amounts in millions)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
External revenue	**$ 604.9**	$ 571.1	**$ 407.0**	$ 389.9	**$ 43.7**	$ 37.3	**$ 1,055.6**	$ 998.3
Depreciation and amortization								
Property, plant and equipment	**44.9**	42.9	**5.6**	5.1	**1.3**	1.1	**51.8**	49.1
Intangible and other assets	**13.4**	11.7	**20.7**	13.7	**5.1**	4.6	**39.2**	30.0
Impairment (reversal of impairment)								
of non-financial assets	**-**	0.6	**-**	-	**-**	-	**-**	0.6
Write-downs (reversals of write-downs)								
of inventories – net	**-**	(0.1)	**-**	-	**0.2**	-	**0.2**	(0.1)
Write-downs (reversals of write-downs)								
of accounts receivable – net (Note 4)	**0.2**	0.1	**0.2**	1.4	**0.3**	(0.2)	**0.7**	1.3
After tax share in profit of equity								
accounted investees	**19.0**	5.5	**4.2**	4.9	**-**	-	**23.2**	10.4
Segment operating income	**94.9**	76.6	**47.5**	48.8	**2.1**	0.8	**144.5**	126.2

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		**Six months ended**	
(Unaudited)	**September 30**		**September 30**	
(amounts in millions)	**2014**	2013	**2014**	2013
Civil Simulation and Training	**$ 37.8**	$ 24.7	**$ 77.1**	$ 59.3
Defence and Security	**12.3**	8.8	**27.6**	20.0
Healthcare	**1.6**	2.3	**4.8**	4.6
Total capital expenditures	**$ 51.7**	$ 35.8	**$ 109.5**	$ 83.9

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:

(Unaudited)	**September 30**	March 31
(amounts in millions)	**2014**	2014
Assets employed		
Civil Simulation and Training	**$ 2,416.8**	$ 2,364.3
Defence and Security	**997.9**	988.2
Healthcare(1)	**226.5**	272.4
Assets classified as held for sale (Note 3)	**56.7**	-
Assets not included in assets employed	**595.2**	611.8
Total assets	**$ 4,293.1**	$ 4,236.7
Liabilities employed		
Civil Simulation and Training	**$ 537.4**	$ 588.0
Defence and Security	**378.3**	420.9
Healthcare(1)	**37.8**	50.0
Liabilities classified as held for sale (Note 3)	**11.1**	-
Liabilities not included in liabilities employed	**1,825.2**	1,695.6
Total liabilities	**$ 2,789.8**	$ 2,754.5

(1)The comparative period includes amounts related to the Company's mining business (see Note 1 and 2). The amounts have been classified and presented as held for sale in the current period (see Note 3).

Products and services information

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

	Three months ended		**Six months ended**	
(Unaudited)	**September 30**		**September 30**	
(amounts in millions)	**2014**	2013	**2014**	2013
Revenue				
Simulation products	**$ 261.1**	$ 237.0	**$ 502.0**	$ 511.0
Training and services	**268.3**	241.2	**553.6**	487.3
	$ 529.4	$ 478.2	**$ 1,055.6**	$ 998.3

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		**Six months ended**	
(Unaudited)	**September 30**		**September 30**	
(amounts in millions)	**2014**	2013	**2014**	2013
Revenue from external customers				
Canada	**$ 36.6**	$ 39.2	**$ 74.3**	$ 85.9
United States	**181.1**	168.4	**343.6**	330.2
United Kingdom	**62.8**	59.6	**118.4**	120.8
Germany	**17.0**	14.1	**36.2**	29.2
Other European countries	**87.6**	87.2	**188.7**	172.8
United Arab Emirates	**26.8**	13.2	**52.3**	25.9
China	**22.6**	28.5	**56.0**	85.5
Other Asian countries	**53.1**	37.1	**94.0**	78.9
Australia	**15.5**	16.2	**40.6**	35.1
Other countries	**26.3**	14.7	**51.5**	34.0
	$ 529.4	$ 478.2	**$ 1,055.6**	$ 998.3

(Unaudited) *(amounts in millions)*	**September 30 2014**	March 31 2014
Non-current assets other than financial instruments and deferred tax assets		
Canada	**$ 810.9**	$ 775.9
United States	**739.1**	715.9
Brazil	**82.0**	82.9
United Kingdom	**300.2**	335.6
Luxembourg	**156.7**	168.6
Netherlands	**120.3**	128.0
Other European countries	**275.6**	300.7
Asian countries	**94.2**	74.3
Other countries	**101.5**	105.6
	$ 2,680.5	$ 2,687.5

NOTE 14 – RELATED PARTY TRANSACTIONS

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

(Unaudited) *(amounts in millions)*	**September 30 2014**	March 31 2014
Accounts receivable (Note 4)	**$ 42.9**	$ 30.1
Contracts in progress: assets	**46.2**	13.5
Other assets	**30.1**	30.6
Accounts payable and accrued liabilities	**13.4**	16.3
Contracts in progress: liabilities	**4.3**	6.3

Other assets include a finance lease receivable of $16.1 million (March 31, 2014 – $16.9 million) maturing in October 2022 and carrying an interest rate of 5.14% per annum, loans receivable of $8.2 million (March 31, 2014 – $8.4 million) maturing in September 2016 and December 2017 and carrying respectively an interest rate of LIBOR 6 month plus 1% and 11% per annum and a long-term receivable of $5.8 million (March 31, 2014 – $5.3 million) with no repayment term. As at September 30, 2014 and March 31, 2014, 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:

(Unaudited) *(amounts in millions)*	**Three months ended September 30 2014**	2013	**Six months ended September 30 2014**	2013
Revenue	**$ 34.0**	$ 13.9	**$ 69.7**	$ 53.3
Purchases	**2.5**	7.2	**2.8**	8.0
Other income	**0.5**	0.7	**1.1**	1.6

In addition, during the second quarter of fiscal 2015, transactions amounting to $0.6 million (2014 – $0.8 million) were made, at normal market prices, with an organization whose partner or officer included one of the Company's directors. For the first half of fiscal 2015, these transactions amount to $1.2 million (2014 – $1.4 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:

(Unaudited) *(amounts in millions)*	**Three months ended September 30 2014**	2013	**Six months ended September 30 2014**	2013
Salaries and other short-term employee benefits	**$ 0.8**	$ 0.8	**$ 2.0**	$ 1.6
Post-employment benefits(1)	**0.3**	0.3	**0.7**	1.0
Termination benefits	**-**	-	**-**	2.4
Share-based payments	**0.9**	0.7	**1.6**	2.4
	$ 2.0	$ 1.8	**$ 4.3**	$ 7.4

(1)Includes net interest on employee benefits obligations (Note 5).

CAE

cae.com