

# Table of Contents

## Management's Discussion and Analysis

1.	Highlights	1
2.	Introduction	2
3.	About CAE	4
4.	Foreign exchange	11
5.	Non-GAAP and other financial measures	12
6.	Consolidated results	17
7.	Results by segment	20
8.	Consolidated cash movements and liquidity	26
9.	Consolidated financial position	27
10.	Business combinations and acquisition of equity accounted investees	29
11.	Event after the reporting period	30
12.	Changes in accounting policies	31
13.	Controls and procedures	31
14.	Selected quarterly financial information	32

# Management's Discussion and Analysis

for the three months ended September 30, 2021

## 1. HIGHLIGHTS

### FINANCIAL

#### SECOND QUARTER OF FISCAL 2022

<i>(amounts in millions, except per share amounts, ROCE and book-to-sales)</i>	Q2-2022	Q2-2021	Variance \$	Variance %
<b>Income Statement</b>				
Revenue	\$ 814.9	\$ 704.7	\$ 110.2	16 %
Operating income <sup>1</sup>	\$ 39.2	\$ 28.2	\$ 11.0	39 %
Adjusted segment operating income (SOI) <sup>1</sup>	\$ 90.7	\$ 79.3	\$ 11.4	14 %
Adjusted SOI excluding COVID-19 government support programs <sup>1</sup>	\$ 90.7	\$ 44.1	\$ 46.6	106 %
Net income (loss) attributable to equity holders of the Company	\$ 14.0	\$ (5.2)	\$ 19.2	369 %
Basic and diluted earnings (loss) per share (EPS)	\$ 0.04	\$ (0.02)	\$ 0.06	300 %
Adjusted net income <sup>1</sup>	\$ 53.2	\$ 34.2	\$ 19.0	56 %
Adjusted EPS <sup>1</sup>	\$ 0.17	\$ 0.13	\$ 0.04	31 %
Adjusted net income excluding COVID-19 government support programs <sup>1</sup>	\$ 53.2	\$ 8.4	\$ 44.8	533 %
Adjusted EPS excluding COVID-19 government support programs <sup>1</sup>	\$ 0.17	\$ 0.03	\$ 0.14	467 %
<b>Cash Flows</b>				
Free cash flow <sup>1</sup>	\$ 19.4	\$ 44.9	\$ (25.5)	(57 %)
Net cash provided by operating activities	\$ 30.9	\$ 45.6	\$ (14.7)	(32 %)
<b>Financial Position</b>				
Capital employed <sup>1</sup>	\$ 6,500.1	\$ 4,707.8	\$ 1,792.3	38 %
Non-cash working capital <sup>1</sup>	\$ 318.6	\$ 193.2	\$ 125.4	65 %
Net debt <sup>1</sup>	\$ 2,481.5	\$ 2,358.9	\$ 122.6	5 %
Return on capital employed (ROCE) <sup>1</sup>	% 4.9	% 3.7		
Adjusted ROCE <sup>1</sup>	% 6.6	% 7.2		
Adjusted ROCE excluding COVID-19 government support programs <sup>1</sup>	% 5.5	% 6.0		
<b>Backlog</b>				
Total backlog <sup>1</sup>	\$ 8,827.9	\$ 8,296.2	\$ 531.7	6 %
Order intake <sup>1</sup>	\$ 871.4	\$ 667.8	\$ 203.6	30 %
Book-to-sales ratio <sup>1</sup>	1.07	0.95		
Book-to-sales ratio for the last 12 months	0.92	0.94		

#### FISCAL 2022 YEAR TO DATE

<i>(amounts in millions, except per share amounts)</i>	Q2-2022	Q2-2021	Variance \$	Variance %
<b>Income Statement</b>				
Revenue	\$ 1,567.6	\$ 1,255.2	\$ 312.4	25 %
Operating income (loss)	\$ 125.4	\$ (82.1)	\$ 207.5	253 %
Adjusted segment operating income	\$ 189.1	\$ 77.2	\$ 111.9	145 %
Adjusted SOI excluding COVID-19 government support programs	\$ 175.5	\$ (2.4)	\$ 177.9	7,413 %
Net income (loss) attributable to equity holders of the Company	\$ 60.4	\$ (115.8)	\$ 176.2	152 %
Basic and diluted earnings (loss) per share	\$ 0.20	\$ (0.44)	\$ 0.64	145 %
Adjusted net income	\$ 108.8	\$ 3.9	\$ 104.9	2,690 %
Adjusted EPS	\$ 0.35	\$ 0.01	\$ 0.34	3,400 %
Adjusted net income (loss) excluding COVID-19 government support programs	\$ 98.8	\$ (54.5)	\$ 153.3	281 %
Adjusted EPS excluding COVID-19 government support programs	\$ 0.32	\$ (0.21)	\$ 0.53	252 %
<b>Cash Flows</b>				
Free cash flow	\$ (128.2)	\$ (47.8)	\$ (80.4)	(168 %)
Net cash used in operating activities	\$ (98.2)	\$ (42.8)	\$ (55.4)	(129 %)

<sup>1</sup> Non-GAAP and other financial measures (see Section 5).

## BUSINESS COMBINATIONS

- On July 2, 2021, we concluded the previously announced acquisition of the L3Harris Technologies Military Training business (L3H MT) for \$1,337.7 million [US\$1,075.3 million], subject to additional purchase price adjustments. L3H MT includes Link Simulation & Training, Doss Aviation and AMI. Link Simulation & Training is one of the leading providers of military training solutions in the U.S., Doss Aviation is the provider of initial flight training to the United States Air Force, and AMI is a design and manufacturing facility for simulator hardware.

## OTHER

- On July 2, 2021, concurrent with the completion of the L3H MT acquisition, 22,400,000 outstanding subscription receipts were converted into CAE common shares on a one-for-one basis;
- On July 2, 2021, we entered into unsecured term loan agreements for an aggregate amount of US\$300.0 million to partially finance the payment for the L3H MT acquisition;
- On July 27, 2021, we were included in the S&P/TSX 60 index, which represents the 60 leading businesses in leading industries in Canada;
- In September 2021, we extended the maturity date of our US\$850.0 million unsecured revolving credit facility until September 29, 2026;
- In September 2021, we concluded new financial participation agreements with the Government of Canada and the Government of Québec who will fund up to \$190.0 million and \$150.0 million, respectively, in the form of partially repayable loans for eligible spending related to R&D projects. The investments will fund Project Resilience, a plan to invest \$1 billion in R&D innovations over the next 5 years.

## EVENT AFTER THE REPORTING PERIOD

- On October 28, 2021, we announced that we have entered into an agreement to acquire Sabre's AirCentre airline operations portfolio (AirCentre), a highly valuable suite of flight and crew management and optimization solutions, for US\$392.5 million excluding post-closing adjustments. The closing of the transaction is expected in the first quarter of calendar 2022 and is subject to customary conditions and regulatory approvals.

## 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 *2022* mean the fiscal year ending March 31, 2022;
- *Last year, prior year* and *a year ago* mean the fiscal year ended March 31, 2021;
- Dollar amounts are in Canadian dollars.

This report was prepared as of November 11, 2021 and includes our management's discussion and analysis (MD&A), unaudited consolidated interim financial statements and notes for the second quarter ended September 30, 2021. We have prepared it to help you understand our business, performance and financial condition for the second quarter of fiscal 2022. Except as otherwise indicated, all financial information has been reported in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and based on unaudited figures. For additional information, please refer to our unaudited consolidated interim financial statements for the quarter ended September 30, 2021, and our annual audited consolidated financial statements, which you will find in our financial report for the year ended March 31, 2021. The MD&A section of our 2021 financial 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 mission;
- Our vision;
- Our strategy;
- Our operations;
- Foreign exchange;
- Non-GAAP and other financial measures;
- Consolidated results;
- Results by segment;
- Consolidated cash movements and liquidity;
- Consolidated financial position;
- Business combinations;
- Events after the reporting period;
- Business risk and uncertainty;
- Related party transactions;
- Changes in accounting policies;
- Controls and procedures;
- Oversight role of Audit Committee and Board of Directors.

You will find our most recent financial report and Annual Information Form (AIF) on our website at [www.cae.com](http://www.cae.com), on SEDAR at [www.sedar.com](http://www.sedar.com) or on EDGAR at [www.sec.gov](http://www.sec.gov). Holders of CAE's securities may also request a printed copy of the Company's consolidated financial statements and MD&A free of charge by contacting Investor Relations ([investor.relations@cae.com](mailto:investor.relations@cae.com)).

## 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 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, available liquidities, expected sales, general economic outlook, prospects and trends of an industry, expected annual recurring cost savings from operational excellence programs, estimated addressable markets, statements relating to our acquisition of L3H MT and our proposed acquisition of Sabre's AirCentre airline operations portfolio, CAE's access to capital resources, the expected accretion in various financial metrics, expectations regarding anticipated cost savings and synergies, the strength, complementarity and compatibility of the L3H MT and Sabre acquisitions with our existing business and teams, other anticipated benefits of the L3H MT and Sabre acquisitions and their impact on our future growth, results of operations, performance, business, prospects and opportunities, our business outlook, objectives, development, plans, growth strategies and other strategic priorities, and our leadership position in our markets and other statements that are not historical facts. 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 COVID-19 pandemic such as health and safety, reduction and suspension of operations, global economic conditions, diversions of management attention, heightened IT risks, liquidity risks and credit risks, risks relating to the industry such as competition, business development and awarding of new contracts, level and timing of defence spending, government-funded defence and security programs, constraints within the civil aviation industry, regulatory matters, natural or other disasters, environmental laws and regulations, climate change, risks relating to CAE such as evolving standards and technology innovation, our ability to penetrate new markets, our estimates of the size of our addressable markets and market opportunity may not prove accurate, R&D activities, fixed-price and long-term supply contracts, strategic partnerships and long-term contracts, backlog, procurement and original equipment manufacturer (OEM) leverage, product integration and program management, protection of our intellectual property and brand, third-party intellectual property, loss of key personnel, labour relations, liability risks that may not be covered by indemnity or insurance, warranty or other product-related claims, reputational risk, U.S. foreign ownership, control or influence mitigation measures, foreign private issuer status, enforceability of civil liabilities against our directors and officers, length of sales cycle, seasonality, continued returns to shareholders, information technology and cybersecurity, our reliance on technology and third-party providers, data privacy, risks relating to the market such as foreign exchange, availability of capital, sales of additional common shares, market price and volatility of our common shares, credit risk, impairment risk, pension plan funding, doing business in foreign countries, geopolitical uncertainty, anti-corruption laws, taxation matters, and risks relating to mergers, acquisitions, joint ventures, strategic alliances or divestitures such as the risk that we will not effectively manage our growth, the failure to gain access to expected capital resources within anticipated timeframes or at all, risks relating to the Sabre acquisition, such as all or part of the intended benefits therefrom not being realized or unanticipated integration-related issues, costs or delays and reliance on information provided by Sabre, risks relating to the acquisition of L3H MT, including the integration of the L3H MT business, possible delay or failure to achieve the anticipated benefits and cost synergies, the continued reliance on L3Harris Technologies following the completion of the acquisition, potential undisclosed liabilities related to the acquisition, reliance on information provided by L3Harris Technologies, change of control and other similar provisions and fees, unanticipated acquisition and integration costs, increased indebtedness of CAE after closing of the acquisition, and risks relating to the post-acquisition of the operations of L3H MT, including the fact that the combined company will continue to face the same risks that CAE currently faces, but would also face increased risks relating to increasing Defence business and operations, dependence on U.S. Government contracts for a significant portion of revenue, which are often only partially funded, subject to immediate termination and heavily regulated and audited, U.S. Government's budget deficit and national debt, fixed-price contracts, ability to successfully obtain export licenses, reliance on subcontractors, uncertain economic conditions in the markets L3H MT participates in, government investigations, and liability risks that may not be covered by indemnity or insurance. The foregoing list is not exhaustive and other unknown or unpredictable factors could also have a material adverse effect on the performance or results of CAE. The completion of the Sabre acquisition is subject to customary closing conditions and regulatory approvals, and there can be no assurance that the Sabre acquisition will be completed. There can also be no assurance that the strategic and financial benefits expected to result from the L3H MT acquisition and the proposed Sabre acquisition will be realized. 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 2021 financial report. Any one or more of the factors described above and elsewhere in this MD&A may be exacerbated by the continuing COVID-19 pandemic and may have a heightened negative impact on CAE's business, results of operations and financial condition. Accordingly, readers are cautioned that any of the disclosed risks could have a material adverse effect on CAE's forward-looking statements. Readers are also cautioned that the risks described above and elsewhere in this MD&A 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.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this report. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

### **MATERIAL ASSUMPTIONS**

The forward-looking statements set out in this report are based on certain assumptions including, without limitation: the anticipated negative impacts of the COVID-19 pandemic on our businesses, operating results, cash flows and/or financial condition, including the intended effect of mitigation measures implemented as a result of the COVID-19 pandemic and the timing and degree of easing of global COVID-19-related mobility restrictions, the prevailing market conditions, customer receptivity to CAE's training and operational support solutions, the accuracy of our estimates of addressable markets and market opportunity, the realization of anticipated annual recurring cost savings and other intended benefits from recent restructuring initiatives and operational excellence programs, the stability of foreign exchange rates, the ability to hedge exposures to fluctuations in interest rates and foreign exchange rates, the availability of borrowings to be drawn down under, and the utilization, of one or more of our senior credit agreements, our available liquidity from cash and cash equivalents, undrawn amounts on our revolving credit facilities, the balance available under our receivable purchase program, our cash flows from operations and continued access to debt funding will be sufficient to meet financial requirements in the foreseeable future, access to expected capital resources within anticipated timeframes, no material financial, operational or competitive consequences from changes in regulations affecting our business, our ability to retain and attract new business, the completion of the proposed Sabre acquisition, the integration and the realization of the anticipated benefits and synergies of the proposed Sabre acquisition in the timeframe anticipated, our ability to achieve synergies and maintain market position arising from successful integration plans relating to the L3H MT acquisition, our ability to otherwise complete the integration of the L3H MT business acquired within anticipated time periods and at expected cost levels, our ability to attract and retain key employees in connection with the L3H MT acquisition, management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the L3H MT acquisition and resulting impact on growth and accretion in various financial metrics, the realization of the expected strategic, financial and other benefits of the L3H MT acquisition in the timeframe anticipated, economic and political environments and industry conditions, the accuracy and completeness of public and other disclosure, including financial disclosure, by L3Harris Technologies, absence of significant undisclosed costs or liabilities associated with the L3H MT acquisition. For additional information, including with respect to other assumptions underlying the forward-looking statements made in this report, refer to our 2021 financial report. Given the impact of the changing circumstances surrounding the COVID-19 pandemic and the related response from CAE, governments, regulatory authorities, businesses and customers, there is inherently more uncertainty associated with CAE's assumptions. Accordingly, the assumptions outlined in this report and, consequently, the forward-looking statements based on such assumptions, may turn out to be inaccurate.

## **3. ABOUT CAE**

### **3.1 Who we are**

CAE is a high technology company, at the leading edge of digital immersion, providing solutions to make the world a safer place. Backed by a record of more than 70 years of industry firsts, we continue to reimagine the customer experience and revolutionize training and operational support solutions in civil aviation, defence and security, and healthcare. We are the partner of choice to customers worldwide who operate in complex, high-stakes and largely regulated environments, where successful outcomes are critical. As testament to our customers' ongoing needs for our solutions, over 60 percent of CAE's revenue is recurring in nature. We have the broadest global presence in our industry, with more than 11,000 employees, 180 sites and training locations in over 35 countries.

CAE's common shares are listed on the Toronto and New York stock exchanges (TSX / NYSE) under the symbol CAE.

### **3.2 Our mission**

To lead at the frontier of digital immersion with high-tech training and operational support solutions to make the world a safer place.

### **3.3 Our vision**

To be the worldwide partner of choice in civil aviation, defence and security and healthcare by revolutionizing our customers' training and critical operations with digitally immersive solutions to elevate safety, efficiency, and readiness.

### 3.4 Our strategy

#### **CAE's eight pillars of strength**

We believe there are eight fundamental strengths that underpin our strategy and investment thesis:

- High degree of recurring business;
- Industry leader with a strong competitive moat;
- Headroom in large markets;
- Technology and industry thought leader;
- Potential for compound growth and superior returns over the long-term;
- Culture of innovation, empowerment, excellence and integrity;
- Excellent and diverse team with a unique social impact on safety;
- Solid financial position and highly cash generative business model.

#### ***High degree of recurring business***

We operate in highly regulated industries with mandatory and recurring training requirements for maintaining professional certifications. Over 60% of our business is derived from the provision of technology-enabled services and software-based solutions, which is an important source of recurring business, and largely involves long-term agreements with many airlines, business aircraft operators and defence forces.

#### ***Industry leader with a strong competitive moat***

We are an industry leader in each of our three segments by way of scale, the range of our technological solutions and services, and our global reach. We benefit from a strong competitive moat, fortified by seven decades of industry firsts and by continuously pushing the boundaries using digitally immersive, high-tech training and operational support solutions. Our broad global training network, unique end-to-end cadet to captain training capacities, technology-intensive training and operational support solutions, deep subject matter expertise and industry thought leadership, unrivaled customer intimacy and strong, recognizable brand further strengthen our competitive moat.

#### ***Headroom in large markets***

We provide innovative training and operational support solutions to customers in large addressable markets in civil aviation, defence and security and healthcare. We believe significant untapped market opportunities exist in these three core businesses, with substantial headroom to grow our market share and expand along adjacencies over the long-term.

#### ***Technology and industry thought leader***

CAE is a high-tech training and operational support solutions company and an industry thought leader in the application of modelling and simulation, virtual reality and advanced analytics to create highly innovative and digitally immersive training and operational support solutions for customers in civil aviation, defence and security and healthcare.

#### ***Potential for compound growth and superior returns over the long-term***

In each of our businesses, we believe we have the potential to grow at a rate superior to our underlying markets because of our potential to gain share within the markets we serve and expand through adjacencies. Our rising proportion of recurring revenue is largely driven by our customers' ongoing training, operational support requirements and our ability to assist them with these critical activities by means of our highly innovative products, and technology- and software-enabled service solutions. We leverage our leading market position to deepen and expand our customer relationships and gain more share of their critical responsibilities. We expect to optimize and increase the utilization of our global training network and to deploy new assets with accretive returns, over the long-term.

#### ***Culture of innovation, empowerment, excellence and integrity***

*One CAE* is the internal mantra that represents our culture of innovation, empowerment, excellence and integrity. It is the combination of these four key attributes that provides CAE with its market leadership, strong reputation and high degree of customer intimacy.

#### ***Excellent and diverse team with a unique social impact on safety***

CAE prides itself in having an excellent and diverse team with a unique social impact on safety. Each day, our employees support our customers' most critical operations with the most innovative solutions and in doing so, they help make the world a safer place. We help make air travel and healthcare safer and help our defence forces maintain security.

#### ***Solid financial position and highly cash generative business model***

A constant priority for CAE is the maintenance of a solid financial position and we use established criteria to evaluate capital allocation opportunities. Our business model and training network, specifically, is highly cash generative by nature.

### 3.5 Our operations

We provide digitally immersive training and operational support solutions to three markets globally:

- The civil aviation market includes major commercial airlines, regional airlines, business aircraft operators, civil helicopter operators, aircraft manufacturers, third-party training centres, flight training organizations, 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, public health agencies and OEMs.

#### **IMPACT OF THE COVID-19 PANDEMIC**

Almost two years since the outbreak of the novel coronavirus (SARS-CoV-2/COVID-19), the COVID-19 pandemic continues to affect our business and financial results due to unprecedented uncertainty in the global economy, the global air transportation environment, air passenger travel and CAE's business. These adverse economic conditions are expected to continue for as long as the measures taken to contain the spread of the COVID-19 virus persist and certain adverse economic conditions could continue even upon the gradual removal of such measures and thereafter, especially in the global air transportation environment and air passenger travel.

We continue to take measures to protect the health and safety of our employees, work with our customers to minimize potential disruptions and support our community in addressing the challenges posed by this global pandemic.

We entered this pandemic from a position of strength with a global leading market position, a balanced business with recurring revenue streams, and a solid financial position. We are a highly agile organization and we have taken decisive yet flexible actions to help protect our people and operations over the short-term. Our world-class operational and functional processes, best-in-class global supply chain, broad global footprint and short prototype-to-production cycle time underscore our unique capabilities.

Throughout the downturn, we executed several initiatives, both internally and externally, to strengthen CAE and enable us to emerge from the pandemic a stronger company. Last year, we successfully completed public equity offerings and private placements of subscription receipts and common shares, allowing us to complete certain strategic transactions and to pursue a pipeline of growth opportunities. Since the third quarter of fiscal 2021, we closed five acquisitions within the Civil aviation market and announced a sixth acquisition subsequent to the end of the second quarter of fiscal 2022, we completed one acquisition in Healthcare and, on July 2, 2021, we completed the largest acquisition in CAE's history in Defence, demonstrating that we are focused on deploying the capital we raised to bolster our position and expand our addressable markets, our global customer base and our suite of solutions for our customers during this unprecedented period of disruption. We also announced a restructuring program to best serve the market for which we expect to realize annual recurring cost savings ramping up to approximately \$65 to \$70 million by the end of this fiscal year.

Together, we believe this gives us the necessary agility to resume long-term growth when global air travel fully recovers. Overall, we believe the resumption of our recovery remains highly dependent on the timing and rate at which travel restrictions and quarantines can eventually be safely lifted and normal activities resume.

You will find more details on the impacts of the COVID-19 pandemic on our business in *Results by Segment* as well as in *Our Operations* and *Business Risk and Uncertainty* in our fiscal 2021 financial report.

## CIVIL AVIATION MARKET

*We provide comprehensive training solutions for flight, cabin, maintenance and ground personnel in commercial, business and helicopter aviation, a complete range of flight simulation training devices, ab initio pilot training and crew sourcing services, as well as end to end digitally-enabled crew management, training operations solutions and optimization software.*

We have the unique capability and global scale to address the total lifecycle needs of the professional pilot, from cadet to captain, with our comprehensive aviation training solutions. We are the world's largest provider of civil aviation training services. Our deep industry experience and thought leadership, large installed base, strong relationships, and reputation as a trusted partner, enable us to access a broader share of the market than any other company in our industry. We provide aviation training services in more than 35 countries and through our broad global network of more than 60 training locations, we serve all sectors of civil aviation including airlines and other commercial, business and helicopter aviation operators.

Among our thousands of customers, we have long-term training centre operations and training services agreements and joint ventures with approximately 40 major airlines and aircraft operators around the world. Our range of training solutions includes product and service offerings for pilot, cabin crew and aircraft maintenance technician training, training centre operations, curriculum development, courseware solutions and consulting services. We currently manage 312 full-flight simulators (FFSs)<sup>2</sup>, including those operating in our joint ventures. We offer industry-leading technology, and we are shaping the future of training through innovations such as our next generation training systems, including CAE Real-time Insights and Standardized Evaluations (CAE Rise™), which improves training quality, objectivity and efficiency through the integration of untapped flight and simulator data-driven insights into training. In the development of new pilots, CAE operates the largest ab initio flight training network in the world and has over 20 cadet training programs globally. In resource management, CAE is the global market leader in the provision of flight crew and technical personnel to airlines, aircraft leasing companies, manufacturers, and MRO companies worldwide. And in crew management, CAE provides robust crew operations and optimization software, helping airlines and business aircraft operators make optimal data-driven decisions.

Quality, fidelity, reliability, and innovation are hallmarks of the CAE brand in flight simulation and we are the world leader in the development of civil flight simulators. We continuously innovate our processes and lead the market in the design, manufacture, and integration of civil FFSs for major and regional commercial airlines, business aircraft operators, third-party training centres and OEMs. For example, as we are entering a new era of aviation with advanced air mobility, disruptive aerospace companies are building new aircraft types from the ground up. This will create a large demand for trained professional pilots to safely fly both passengers and cargo across markets. CAE has already partnered with three of the leading electric vertical takeoff and landing (eVTOL) developers, including Jaunt Air Mobility to build an engineering simulator which will accelerate cockpit design and system development and will reduce the airworthiness flight time, Volocopter to develop an eVTOL pilot training program in preparation for Volocopter's first eVTOL aircraft entry-into-service and BETA Technologies to design and develop pilot and maintenance training programs for the ALIA eVTOL aircraft with a focus on training design and courseware. We have established a wealth of experience in developing first-to-market simulators for more than 35 types of aircraft models. Our flight simulation equipment, including FFSs, are designed to meet the rigorous demands of their long and active service lives, often spanning several decades of continuous use. Our global reach enables us to provide best-in-class support services such as real-time, remote monitoring and enables us to leverage our extensive worldwide network of spare parts and service teams.

While reductions in domestic and international passenger demand as a result of the COVID-19 pandemic have severely impacted the aviation industry, we are seeing an increase in commercial and business traffic. As per the International Air Transport Association's (IATA) latest forecast issued May 26, 2021, they expect annual domestic and international passenger demand, or revenue passenger-kilometers (RPKs), to be 52% of calendar 2019 pre-COVID levels, which would be a 53% improvement over calendar 2020. Additionally, IATA now expects RPKs to recover to 2019 levels by calendar 2023. For the first nine months of calendar 2021, RPKs decreased by 62% compared to the first nine months of calendar 2019. North America has shown the strongest RPK recovery with a 31% decrease in September 2021, while Europe and Asia have been slower with a 50% decrease and 69% decrease respectively compared to September 2019.

Air Cargo is continuing to see strong performance with an increase of 8% in cargo tonne-kilometers for the first nine months of calendar 2021 compared to 2019. Among the regions, North America was one of the strongest with a 21% increase.

In business aviation, U.S. Federal Aviation Administration reported an increase of 8% in the total number of business jet flights, which includes all domestic and international flights, compared to the first nine months of calendar 2019. Additionally, monthly business jet activity has surpassed pre-COVID 2019 levels for the last seven months, specifically with September 2021 showing a 20% improvement over September 2019. Similarly, according to Eurocontrol, the European Organisation for the Safety of Air Navigation, the total number of business aviation flights in Europe has continued to improve and is gradually returning to pre-COVID 2019 levels. In the first nine months of calendar 2021, Eurocontrol reported a 2% decrease compared to the first nine months of calendar 2019, however September 2021 was above 2019 levels with a 25% increase.

In November 2020, we released our 2020-2029 Pilot Demand Outlook in which we estimate an expected global requirement of 264,000 new pilots in the civil aviation industry to sustain growth and support mandatory retirements over the next ten years. In the short-term, we estimate that approximately 27,000 of these new professional pilots are expected to be needed starting in late calendar 2021. Furthermore, in June 2021, we released a report on Pilot Training for Advanced Air Mobility (AAM) which estimates that AAM will create an additional surge in demand for pilots, which could be close to 60,000 pilots by 2028.

<sup>2</sup> Non-GAAP and other financial measures (see Section 5).

We believe CAE's Civil Aviation Training Solutions segment is positioned as a gateway in a highly regulated, secular growth market, with an addressable market estimated at approximately \$6.2 billion, and headroom for growth.

### **Market drivers**

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

- Pilot training and industry regulations;
- Safety and efficiency imperatives of commercial airlines and business aircraft operators;
- Expected long-term secular global growth in air travel;
- Expected long-term growth, including new aircraft deliveries and renewal of the active fleet of commercial and business aircraft;
- Demand for trained aviation professionals.

### **Profitability drivers**

We believe profitability drivers for CAE's civil aviation market include the following:

- Favourable business mix drivers, including large market headroom in training services;
- Potential to increase the ratio of wet versus dry training in commercial training;
- Expansion of operational support offering by using advanced analytics, software solutions and digital technology to enhance our value offering across the whole organization;
- Operational excellence programs expected to realize significant annual recurring cost savings;
- Training outsourcing and partnerships.

## **DEFENCE AND SECURITY MARKET**

*We are a training and mission support solutions provider for defence forces across multi-domain operations, and for government organizations responsible for public safety.*

We are adapting our Defence and Security business to confront the realities our customers are facing and aligning the business so that we are best positioned to address the needs of our defence and security customers. First and foremost is the shift in the nature of conflicts for the U.S. and its allies from focusing on an asymmetric, counterterrorism engagement to the need to prepare for a near-peer threat across multi-domain operations – air, land, maritime, space and cyber. This shift, combined with the budget challenges that will be manifested because of higher deficits, will push more training towards cost-effective virtual environments. In addition, these immersive virtual and synthetic environments will become much more prevalent as the only way for defence forces to “train like they fight” across multi-domain operations.

To address the market requirements, we have established a clear strategy for the Defence and Security business unit that outlines the strategic imperatives we are focusing on. We are aligning to the U.S. National Defense Strategy that demands training and readiness across multi-domain operations, developing strategic partnerships on next-generation platforms, expanding and extending our addressable markets, and positioning to pursue larger opportunities globally. During the second quarter of fiscal 2022, we concluded the previously announced L3H MT acquisition, which accelerates our strategy and capability for each of these strategic imperatives.

We are a global leader in the development and delivery of training and mission support solutions for defence forces. Increasingly, we are focused on digital technologies and data-driven solutions that help our defence customers plan, prepare, and analyze to enhance performance and make better decisions across multi-domain operations. Most militaries use a combination of live training on actual platforms, virtual training in simulators, and constructive training using computer-generated simulations. While militaries will always do some level of live training exercises, we believe there will be an increasing reliance on immersive synthetic environments and virtual training in order to prepare for the peer versus peer threat across multi-domain operations. Importantly, these immersive synthetic environments will also be used for mission and operational support by enabling course of action analysis and decision support.

### **Training Solutions**

We are a platform-agnostic training systems integrator capable of helping defence forces achieve an optimal balance of integrated live-virtual-constructive training to achieve mission preparedness. Following the acquisition of L3H MT, we have solidified our leadership in the air domain, augmented our capabilities in land and maritime, and established an induction to space and cyber. Our expertise in training, further enhanced by our acquisition of L3H MT, spans a broad variety of aircraft, including fighters, bombers, helicopters, trainer aircraft, maritime patrol, tanker/transport aircraft and remotely piloted aircraft, also called unmanned aerial systems. We are continuing to leverage our training systems integration capabilities in the maritime domain to provide training solutions, as evidenced by the program to provide the United Arab Emirates Navy with a comprehensive Naval Training Centre. The acquisition of L3H MT brings experience on submarine training to complement CAE's existing experience on surface ship training. We offer training solutions for land forces, including a range of driver, gunnery and maintenance trainers for tanks and armoured fighting vehicles as well as constructive simulation for command and staff training. The acquisition of L3H MT brings us into the space domain, as evidenced by the position on the Ground Based Strategic Deterrent program for the U.S. Air Force, as well as additional cyber capabilities through programs such as the U.S. Air Force's Simulator Common Architecture Requirements and Standards.

As a training systems integrator, we can offer our customers a comprehensive range of innovative training solutions, ranging from digital learning environments and mixed reality capabilities to integrated live, virtual and constructive training in a secure networked environment. Our solutions typically include a combination of training services, products and software tools designed to cost-effectively maintain and enhance safety, efficiency, and readiness. We have a wealth of experience delivering and operating outsourced training solutions with facilities that are government-owned government-operated; government-owned contractor-operated; or contractor-owned contractor-operated. We offer training needs analysis, training media analysis, courseware, instructional systems design, facilities, tactical control centres, synthetic environments, mixed reality solutions, a range of simulators and training devices, live assets, digital media classrooms, distributed training, scenario development, instructors, training centre operations, and a continuous training improvement process leveraging big data analytics.

We have delivered simulation products and training services to approximately 60 defence forces in over 50 countries. We provide training support services such as contractor logistics support, maintenance services, systems engineering, staff augmentation, classroom instruction and simulator training at over 120 sites around the world, including our joint ventures. We also support live flying training, such as the live training delivered as part of the U.S. Air Force Initial Flight Training program where all U.S. Air Force pilot candidates begin their aviation career. Other programs where we support live flying training include the North Atlantic Treaty Organization (NATO) Flying Training in Canada, the International Flight Training School (IFTS) in Italy, a joint venture between CAE and Leonardo, and the Army Fixed-Wing Flight Training programs in the U.S., as we help our customers achieve an optimal balance across their training enterprise. In addition, during the second quarter of fiscal 2022, we acquired a 37% equity interest in the flight training operation of SkyWarrior Flight Training LLC, a flight training operation based in Florida that primarily delivers Phase 1 initial flight training to U.S. and international military customers.

### **Mission and Operational Support Solutions**

Increasingly, we are engaged with defence customers to leverage synthetic environments and digital immersion technologies to provide a range of mission support solutions, including analytics and systems engineering, decision support and staff augmentation. For example, we are now the prime contractor for the U.S. Special Operations Command on a program called the Mission Command System Common Operational Picture that will deliver enhanced and improved global situational awareness. In addition, we are part of the development of a Single Synthetic Environment for the United Kingdom's Strategic Command, the major organization of the British Armed Forces responsible for leading integration across all domains — cyber, space, maritime, land and air. We are continuing to expand and extend our addressable market into mission and operational support as we leverage our modeling and simulation expertise to enable defence forces to use synthetic environments for planning, analysis and operational decision support.

We believe CAE's Defence & Security business unit is positioned as the partner of choice for training and operational support across multi-domain operations and is focused on becoming a global leader in digitally immersive training and operational support solutions. We estimate our addressable Defence market opportunity across all five operational domains to be approximately \$14 billion with the largest opportunity still remaining in the air domain where CAE is the platform-agnostic leader, a position that has been further solidified with the acquisition of L3H MT.

### **Market drivers**

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

- Defence budgets;
- Installed base of enduring defence platforms and new customers;
- Attractiveness of outsourcing training, maintenance and operational support services;
- Pilot and aircrew recruitment, training and retention challenges faced by militaries globally;
- Desire to network and integrate training systems to achieve efficiencies and better prepare for the complexities of conflict in a joint multi-domain environment;
- Need for synthetic environments to conduct complex and integrated multi-domain exercises to prepare for near-peer threats;
- Desire of governments and defence forces to increase the use of synthetic environments for training, planning, analysis and decision support;
- Adoption of new and innovative digital technologies for training;
- Relationships with OEMs for simulation and training.

### **Profitability drivers**

We believe profitability drivers for CAE's defence and security market include the following:

- Leading platform-agnostic position for synthetic training in the air domain in the U.S. and internationally;
- Expansion into adjacent markets through positions on strategic indefinite delivery/indefinite quantity (ID/IQ) contract vehicles;
- Increasing mix of international business opportunities, including foreign military sales (FMS);
- Increased focus on OEM partnerships to secure positions on next-generation platforms;
- Operational focus on improving contracting, sub-contracting and program delivery quality processes;
- Expansion of mission and operational support offering by using advanced analytics and synthetic environment software solutions;
- Operational excellence programs expected to realize significant annual recurring cost savings.

## HEALTHCARE MARKET

*We offer integrated education and training solutions to healthcare students and clinical professionals across their career life cycle, including surgical and imaging simulations, curricula, audiovisual debriefing solutions, centre management platforms and patient simulators.*

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 medical errors. We leverage our experience and best practices in simulation-based aviation training to deliver innovative solutions to improve the safety and efficiency in the delivery of patient care. As such, we have established five CAE Healthcare Centres of Excellence to date to improve clinical education and develop new training technologies and curricula for healthcare professionals and students. We see the healthcare simulation market expanding, with a shift in the U.S. from fee-for-service to value-based care in hospitals, and with simulation centres becoming increasingly more prevalent in nursing and medical schools.

We offer one of the broadest and most innovative portfolios of medical training solutions, including patient, ultrasound and interventional (surgical) simulators, audiovisual debriefing solutions, centre management platforms, augmented reality applications, e-learning and curricula for simulation-based healthcare education and training. We have provided training solutions to customers in more than 80 countries that are currently supported by our global network. We are a leader in patient simulators which are based on advanced models of human physiology that realistically mimic human responses to clinical interventions. For example, our high-fidelity childbirth simulator, CAE Lucina, was designed to offer exceptional realism for simulated scenarios of both normal deliveries and rare maternal emergencies. Throughout the past two years, we have continued to invest in the development of new products to address growing demand in the healthcare simulation market. We launched the CAE Juno clinical skills manikin, which enables nursing programs to adapt to decreased access to live patients due to the complex conditions of hospital patients and the liability concerns in healthcare; the CAE Ares emergency care manikin designed for advanced life support and American Heart Association (AHA) training; and the CAE Luna, which is an innovative critical-care simulation for newborns and infants. With these solutions, we are providing several of the industry's most innovative learning tools to academic institutions, which represent the largest segment of the healthcare simulation market. We continue to push the boundaries of technology, becoming the first to bring a commercial Microsoft HoloLens mixed reality application to the medical simulation market and the first to introduce an ultrasound simulator with 3D/4D scanning and multiplanar reconstruction to increase training capabilities, realism and accuracy. We continue to integrate augmented and virtual reality into our advanced software platforms to deliver custom training solutions and ground-breaking products. In July 2021, we completed a small tuck-in acquisition of Medicor Lab Inc. (Medicor), a company which specializes in task trainer and realistic synthetic skin production. The addition enhances and expands CAE Healthcare's procedure-focused portfolio, providing a full suite of products across three major categories: skills-training manikins, high-fidelity patient simulators and task trainers. The CAE Medicor line complements the CAE Blue Phantom line of ultrasound-focused training products.

We deliver peer-to-peer training at customer sites as well as in our training centres in Canada, Germany, the U.K. and U.S. Our Healthcare educational resources include more than 50 adjunct faculty consisting of nurses, respiratory therapists, physicians, paramedics and sonographers who, in collaboration with leading healthcare institutions, have developed more than 200 Learning Modules and over 3,500 Simulated Clinical Experience courseware packages for our customers across all our platforms.

We offer turnkey solutions, project management and professional services for healthcare simulation programs. We also collaborate with medical device companies and scientific societies to develop innovative and custom training solutions. In collaboration with the American Society of Anesthesiologists, we have released five online modules for Anesthesia SimSTAT, a virtual healthcare training environment for practicing physicians. This platform provides continuing medical education for Maintenance of Certification in Anesthesiology and has allowed us to expand access to simulation-based clinical training among the anesthesia community. Furthermore, through industry partnerships with medical device companies, we have developed a specialized interventional simulator to train physicians to implant a new generation of pacemakers as well as a modular, portable catheterization laboratory interventional simulator, CAE CathLabVR. We also have a collaboration with the AHA to establish a network of International Training Sites to deliver lifesaving AHA courses in countries that are currently underserved.

We see future opportunities arising in the Healthcare business, including areas to support government customers and our new digital and virtual learning products and increased recognition of the value of simulation-based preparedness for pandemics and other high-risk scenarios. This is supported by professional organizations, such as the International Nursing Association of Clinical Simulation and Learning and the Society for Simulation in Healthcare, who are proposing that regulatory bodies and policymakers demonstrate flexibility by allowing the replacement of clinical hours usually completed in a live healthcare setting with that of virtually simulated experiences because of the COVID-19 pandemic.

We believe CAE's Healthcare segment is positioned as a leader in developing healthcare professionals through technology, educational content and training, with an estimated healthcare simulation market of approximately US\$1.7 billion. North America is the largest market for healthcare simulation, followed by Europe and Asia.

### Market drivers

Demand for our simulation products and services in the healthcare market is driven by the following:

- Limited access to live patients during training;
- Medical and mixed reality technology revolution;
- Rising use of simulation, with a demand for innovative and custom training approaches to prevent medical errors;
- Increased focus on disaster preparedness, alongside chronic shortage of medical professionals, especially nurses;
- Growing emphasis on patient safety and outcomes.

You will find more information about our operations in our fiscal 2021 financial report, AIF or our Annual Activity and Corporate Social Responsibility Report.

## 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 the three main currencies in which we operate.

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:

	<b>September 30</b>	June 30	Increase /	March 31	Increase /
	<b>2021</b>	2021	(decrease)	2021	(decrease)
U.S. dollar (US\$ or USD)	<b>1.27</b>	1.24	2 %	1.26	1 %
Euro (€ or EUR)	<b>1.47</b>	1.47	– %	1.47	– %
British pound (£ or GBP)	<b>1.71</b>	1.71	– %	1.73	(1 %)

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

	<b>September 30</b>	September 30	Increase /
	<b>2021</b>	2020	(decrease)
U.S. dollar (US\$ or USD)	<b>1.26</b>	1.33	(5 %)
Euro (€ or EUR)	<b>1.48</b>	1.56	(5 %)
British pound (£ or GBP)	<b>1.74</b>	1.72	1 %

The effect of translating the results of our foreign operations into Canadian dollars resulted in a decrease in this quarter's revenue of \$30.2 million and a decrease in net income of \$1.3 million when compared to the second quarter of fiscal 2021. For the first six months of fiscal 2022, the effect of translating the results of our foreign operations into Canadian dollars resulted in a decrease in revenue of \$75.1 million and a decrease in net income of \$6.6 million when compared to the first six months of fiscal 2021. We calculated this by translating the current quarter foreign currency revenue and net income using the average monthly exchange rates from the prior year's second quarter and comparing these adjusted amounts to our current quarter reported results. You will find more details about our foreign exchange exposure and hedging strategies in *Business Risk and Uncertainty* in our 2021 financial report.

## 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 do not have a standardized meaning according to GAAP. These measures should not be confused with, or used as an alternative for, performance measures calculated according to GAAP. Furthermore, these non-GAAP measures should not be compared with similarly titled measures provided or used by other companies.

### Changes in non-GAAP measures and comparative figures

In the fourth quarter of fiscal 2021, we have changed the designation of the following profitability measures, without changing the composition of these financial measures:

- Operating income (formerly operating profit);
- Adjusted segment operating income (formerly segment operating income before specific items);
- Adjusted EBITDA (formerly EBITDA before specific items);
- Adjusted net income (formerly net income before specific items); and
- Adjusted earnings per share (formerly earnings per share before specific items).

We have also introduced new non-GAAP measures to reflect the impact of COVID-19 government support programs on the above metrics in order to incorporate recently published and evolving guidance by the Canadian Securities Administrators. These measures do not adjust for COVID-19 heightened operating costs that we have been carrying and that have been included in our results, as discussed in section 5.2 “Non-GAAP measure reconciliations” of this MD&A.

In addition, we no longer use segment operating income as a non-GAAP measure as it has been replaced with adjusted segment operating income.

Comparative figures have been reclassified to conform to these adopted changes in presentation.

### 5.1 Non-GAAP and other financial measure definitions

#### Adjusted earnings or loss per share (EPS)

Adjusted earnings or loss per share is a non-GAAP measure calculated by excluding restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or material events, after tax, as well as significant one-time tax items from the diluted earnings per share from continuing operations attributable to equity holders of the Company. The effect per share is obtained by dividing these restructuring, integration and acquisition costs and, impairments and other gains and losses, after tax, as well as one-time tax items by the average number of diluted shares. We track it because we believe it provides a better indication of our operating performance on a per share basis and facilitates the comparison across reporting periods.

Adjusted earnings or loss per share excluding COVID-19 government support programs further excludes the impacts of government contributions related to COVID-19 support programs that were credited to income, after tax, but does not adjust for COVID-19 heightened operating costs that we have been carrying and that have been included in our results. Refer to section 5.2 “Non-GAAP measure reconciliations” of this MD&A for a reconciliation of these non-GAAP measures to the most directly comparable measure under GAAP.

#### Adjusted net income or loss

Adjusted net income or loss is a non-GAAP measure we use as an alternate view of our operating results. We calculate it by taking our net income attributable to equity holders of the Company from continuing operations and excluding restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or material events, after tax, as well as significant one-time tax items. We track it because we believe it provides a better indication of our operating performance and facilitates the comparison across reporting periods.

Adjusted net income or loss excluding COVID-19 government support programs further excludes the impacts of government contributions related to COVID-19 support programs that were credited to income, after tax, but does not adjust for COVID-19 heightened operating costs that we have been carrying and that have been included in our results. Refer to section 5.2 “Non-GAAP measure reconciliations” of this MD&A for a reconciliation of these non-GAAP measures to the most directly comparable measure under GAAP.

#### Adjusted segment operating income or loss (SOI)

Adjusted segment operating income or loss is a non-GAAP measure and is the sum of our key indicators of each segment's financial performance. Adjusted segment operating income or loss gives us an 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 adjusted segment operating income by taking operating income and excluding restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or material events. We track it because we believe it provides a better indication of our operating performance and facilitates the comparison across reporting periods. Additionally, adjusted segment operating income or loss is the profitability measure employed by management for making decisions about allocating resources to segments and assessing segment performance.

Adjusted segment operating income or loss excluding COVID-19 government support programs further excludes the impacts of government contributions related to COVID-19 support programs that were credited to income but does not adjust for COVID-19 heightened operating costs that we have been carrying and that have been included in our results. While management is aware of such further adjusted measure, it is not specifically employed by management as a profitability measure for making decisions about allocating resources to segments and assessing segment performance. Refer to section 5.2 "Non-GAAP measure reconciliations" of this MD&A for a reconciliation of these non-GAAP measures to the most directly comparable measure under GAAP.

### **Capital employed**

#### *Capital employed*

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

Capital used:

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

Source of capital:

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

Refer to section 9.1 "Consolidated capital employed" of this MD&A for a reconciliation of this non-GAAP measure to the most directly comparable measure under GAAP.

#### *Return on capital employed (ROCE)*

ROCE is used to evaluate the profitability of our invested capital. We calculate this ratio over a rolling four-quarter period by taking net income attributable to equity holders of the Company excluding net finance expense, after tax, divided by the average capital employed.

### **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. Refer to section 8.1 "Consolidated cash movements" of this MD&A for a reconciliation of this non-GAAP measure to the most directly comparable measure under GAAP.

### **Gross profit**

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

### **Net debt**

Net debt is a non-GAAP measure we use to monitor how much debt we have after taking into account 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. Refer to section 9.1 "Consolidated capital employed" of this MD&A for a reconciliation of this non-GAAP measure to the most directly comparable measure under GAAP.

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

Net debt-to-EBITDA is calculated as net debt divided by the last twelve months EBITDA. EBITDA comprises earnings before income taxes, finance expense – net, depreciation and amortization. Adjusted EBITDA further excludes restructuring, integration and acquisition costs, and impairments and other gains and losses arising from significant strategic transactions or material events. Refer to section 5.2 "Non-GAAP measure reconciliations" of this MD&A for a reconciliation of these non-GAAP measures to the most directly comparable measure under GAAP.

### **Non-cash working capital**

Non-cash working capital is a non-GAAP measure we use to monitor how much money we have committed in the day-to-day operation of our business. We calculate it by taking current assets (not including cash and cash equivalents and assets held for sale) and subtracting current liabilities (not including the current portion of long-term debt and liabilities held for sale). Refer to section 9.1 "Consolidated capital employed" of this MD&A for a reconciliation of this non-GAAP measure to the most directly comparable measure under GAAP.

### **Operating income or loss**

Operating income or loss is an additional GAAP measure that shows us how we have performed before the effects of certain financing decisions, tax structures and discontinued operations. We track it because we believe it facilitates the comparison across reporting periods, and with companies and industries that do not have the same capital structure or tax laws.

### **Order intake and Backlog**

#### *Order intake*

Order intake is a non-GAAP measure that represents the expected value of orders we have received:

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

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

#### *Backlog*

Total backlog is a non-GAAP measure that represents expected future revenues and includes obligated backlog, joint venture backlog and unfunded backlog and options:

- Obligated backlog represents the value of our order intake not yet executed and is calculated by adding the order intake of the current period to the balance of the obligated backlog at the end of the previous fiscal year, subtracting the revenue recognized in the current period and adding or subtracting backlog adjustments. If the amount of an order already recognized in a previous fiscal year is modified, the backlog is revised through adjustments;
- 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 represents firm Defence and Security orders we have received but have not yet executed and for which funding authorization has not yet been obtained. Options are included in backlog when there is a high probability of being exercised, but indefinite-delivery/indefinite-quantity (ID/IQ) contracts are excluded. When an option is exercised, it is considered order intake in that period and it is removed from unfunded backlog and options.

### **Research and development expenses (R&D)**

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.

### **Simulator equivalent unit (SEU)**

#### *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 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.

#### *Full-flight simulators (FFSs) in CAE's network*

A FFS is a full-size replica of a specific make, model and series of an aircraft cockpit, including a motion system. In our count of FFSs in the network, we generally only include FFSs that are of the highest fidelity and do not include any fixed based training devices, or other lower-level devices, as these are typically used in addition to FFSs in the same approved training programs.

### **Utilization rate**

Utilization rate is one of the operating measures we use to assess the performance of our Civil simulator training network. While utilization rate does not perfectly correlate to revenue recognized, we track it, together with other measures, because we believe it is an indicator of our operating performance. 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.

## 5.2 Non-GAAP measure reconciliations

### Reconciliation of adjusted segment operating income

	Civil Aviation Training Solutions		Defence and Security		Healthcare		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
<i>Three months ended September 30</i>								
Operating income (loss)	\$ 49.9	\$ 15.5	\$ (8.9)	\$ 11.4	\$ (1.8)	\$ 1.3	\$ 39.2	\$ 28.2
Restructuring, integration and acquisition costs	15.4	36.4	35.6	12.8	0.5	1.9	51.5	51.1
Adjusted segment operating income (loss)	\$ 65.3	\$ 51.9	\$ 26.7	\$ 24.2	\$ (1.3)	\$ 3.2	\$ 90.7	\$ 79.3
COVID-19 government support programs	—	17.7	—	16.9	—	0.6	—	35.2
Adjusted SOI excluding COVID-19 government support programs	\$ 65.3	\$ 34.2	\$ 26.7	\$ 7.3	\$ (1.3)	\$ 2.6	\$ 90.7	\$ 44.1

	Civil Aviation Training Solutions		Defence and Security		Healthcare		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
<i>Six months ended September 30</i>								
Operating income (loss)	\$ 108.9	\$ (82.4)	\$ 13.7	\$ 2.2	\$ 2.8	\$ (1.9)	\$ 125.4	\$ (82.1)
Restructuring, integration and acquisition costs	26.1	36.4	36.7	12.8	0.9	1.9	63.7	51.1
Impairments and other gains and losses incurred in relation to the COVID-19 pandemic <sup>(1)</sup>	—	81.7	—	26.5	—	—	—	108.2
Adjusted segment operating income	\$ 135.0	\$ 35.7	\$ 50.4	\$ 41.5	\$ 3.7	\$ —	\$ 189.1	\$ 77.2
COVID-19 government support programs	\$ 5.2	\$ 40.3	\$ 8.0	\$ 37.5	\$ 0.4	\$ 1.8	\$ 13.6	\$ 79.6
Adjusted SOI excluding COVID-19 government support programs	\$ 129.8	\$ (4.6)	\$ 42.4	\$ 4.0	\$ 3.3	\$ (1.8)	\$ 175.5	\$ (2.4)

### Reconciliation of adjusted net income and adjusted earnings per share

	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
<i>(amounts in millions, except per share amounts)</i>				
Net income (loss) attributable to equity holders of the Company	\$ 14.0	\$ (5.2)	\$ 60.4	\$ (115.8)
Restructuring, integration and acquisition costs, after tax	39.2	39.4	48.4	39.4
Impairments and other gains and losses incurred in relation to the COVID-19 pandemic <sup>(1)</sup> , after tax	—	—	—	80.3
Adjusted net income	\$ 53.2	\$ 34.2	\$ 108.8	\$ 3.9
COVID-19 government support programs, after tax	—	25.8	\$ 10.0	\$ 58.4
Adjusted net income (loss) excluding COVID-19 government support programs	\$ 53.2	\$ 8.4	\$ 98.8	\$ (54.5)
Average number of shares outstanding (diluted)	318.7	265.8	307.3	265.7
Adjusted EPS	\$ 0.17	\$ 0.13	\$ 0.35	\$ 0.01
Adjusted EPS excluding COVID-19 government support programs	\$ 0.17	\$ 0.03	\$ 0.32	\$ (0.21)

**Reconciliation of EBITDA and adjusted EBITDA**

<i>(amounts in millions)</i>	<b>Last twelve months ending</b>	
	<b>September 30</b>	
	<b>2021</b>	<b>2020</b>
Operating income	<b>\$ 255.9</b>	\$ 219.3
Depreciation and amortization	<b>307.4</b>	318.0
EBITDA	<b>\$ 563.3</b>	\$ 537.3
Restructuring, integration and acquisition costs	<b>136.6</b>	63.3
Impairments and other gains and losses incurred in relation to the COVID-19 pandemic <sup>(1)</sup>	<b>—</b>	108.2
Impairment of goodwill	<b>—</b>	37.5
Adjusted EBITDA	<b>\$ 699.9</b>	\$ 746.3
COVID-19 government support programs	<b>(61.4)</b>	(79.6)
Adjusted EBITDA excluding COVID-19 government support programs	<b>\$ 638.5</b>	\$ 666.7

<sup>(1)</sup> Mainly from impairment charges on non-financial assets and amounts owed from customers. This reconciling item does not adjust for any operational elements, including COVID-19 heightened employee costs. Since fiscal 2021, we carried higher employee costs than we would have otherwise been carrying as amounts received under COVID-19 government support programs either flowed through directly to employees according to the objective of the subsidy programs and the way they were designed in certain countries, or the amounts were offset by the increased costs we incurred in revoking some of our initial cost saving measures including eliminating salary reductions and bringing back employees who were previously placed on furlough or reduced work weeks. We also incurred additional operating costs including the purchase of personal protective equipment, increased sanitary measures to protect the health and safety of our employees and costs of safety protocols implemented. These higher costs have been included in our results. While these additional costs are in certain cases estimated, they almost entirely neutralize the positive impacts of the COVID-19 government support programs. CAE's participation in the CEWS program ceased on June 5, 2021 and accordingly, we did not claim any CEWS benefits for wages and salary costs incurred subsequent to June 5, 2021.

## 6. CONSOLIDATED RESULTS

### 6.1 Results from operations – second quarter of fiscal 2022

<i>(amounts in millions, except per share amounts)</i>	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021
Revenue	\$ 814.9	752.7	894.3	832.4	704.7
Cost of sales	\$ 587.3	538.9	657.2	603.5	513.7
Gross profit <sup>3</sup>	\$ 227.6	213.8	237.1	228.9	191.0
<i>As a % of revenue</i>	% 27.9	28.4	26.5	27.5	27.1
Research and development expenses <sup>3</sup>	\$ 30.7	23.5	22.5	36.5	25.6
Selling, general and administrative expenses	\$ 122.1	105.9	111.5	105.3	88.2
Other (gains) and losses	\$ (4.1)	(5.7)	(0.7)	(1.5)	(2.7)
After-tax share in (profit) loss of equity accounted investees	\$ (11.8)	(8.3)	(2.4)	(8.6)	0.6
Restructuring, integration and acquisition costs	\$ 51.5	12.2	58.6	14.3	51.1
Operating income <sup>3</sup>	\$ 39.2	86.2	47.6	82.9	28.2
<i>As a % of revenue</i>	% 4.8	11.5	5.3	10.0	4.0
Finance expense – net	\$ 35.0	28.6	32.0	33.3	35.2
Earnings (loss) before income taxes	\$ 4.2	57.6	15.6	49.6	(7.0)
Income tax (recovery) expense	\$ (13.0)	10.3	(3.2)	(0.1)	(1.0)
<i>As a % of earnings (loss) before income taxes</i> <i>(income tax rate)</i>	% (310)	18	(21)	–	14
Net income (loss)	\$ 17.2	47.3	18.8	49.7	(6.0)
Attributable to:					
Equity holders of the Company	\$ 14.0	46.4	19.8	48.8	(5.2)
Non-controlling interests	\$ 3.2	0.9	(1.0)	0.9	(0.8)
	\$ 17.2	47.3	18.8	49.7	(6.0)
EPS attributable to equity holders of the Company					
Basic and diluted	\$ 0.04	0.16	0.07	0.18	(0.02)
Adjusted segment operating income <sup>3</sup>	\$ 90.7	98.4	106.2	97.2	79.3
Adjusted SOI excluding COVID-19 government support programs <sup>3</sup>	\$ 90.7	84.8	69.0	86.6	44.1
Adjusted net income <sup>3</sup>	\$ 53.2	55.6	63.2	60.0	34.2
Adjusted net income excluding COVID-19 government support programs <sup>3</sup>	\$ 53.2	45.6	35.9	52.2	8.4
Adjusted EPS <sup>3</sup>	\$ 0.17	0.19	0.22	0.22	0.13
Adjusted EPS excluding COVID-19 government support programs <sup>3</sup>	\$ 0.17	0.15	0.12	0.19	0.03

#### Revenue was 16% higher compared to the second quarter of fiscal 2021

Revenue was \$110.2 million higher than the second quarter of fiscal 2021. The increase in revenue was \$114.7 million from Defence and Security, partially offset by decreases of \$2.4 million and \$2.1 million from Civil Aviation Training Solutions and Healthcare respectively.

For the first six months of fiscal 2022, revenue was \$312.4 million or 25% higher than the same period last year. Increases in revenue were \$182.5 million, \$122.7 million and \$7.2 million from Civil Aviation Training Solutions, Defence and Security and Healthcare respectively.

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

#### Gross profit was \$36.6 million higher compared to the second quarter of fiscal 2021

Gross profit was \$227.6 million this quarter, or 27.9% of revenue, compared to \$191.0 million, or 27.1% of revenue, in the second quarter of fiscal 2021.

For the first six months of fiscal 2022, gross profit was \$441.4 million, or 28.2% of revenue, compared to \$299.0 million, or 23.8% of revenue, last year as savings from the comprehensive program put in place to structurally lower our cost base are beginning to ramp up.

<sup>3</sup> Non-GAAP and other financial measures (see Section 5).

**Adjusted segment operating income was \$11.4 million higher compared to the second quarter of fiscal 2021**

Operating income this quarter was \$39.2 million (4.8% of revenue), compared to \$28.2 million (4.0% of revenue) in the second quarter of fiscal 2021. Adjusted segment operating income was \$90.7 million this quarter (11.1% of revenue), compared to \$79.3 million (11.3% of revenue) in the second quarter of fiscal 2021. Increases in adjusted segment operating income were \$13.4 million and \$2.5 million from Civil Aviation Training Solutions and Defence and Security respectively, partially offset by a decrease of \$4.5 million from Healthcare.

For the first six months of fiscal 2022, operating income was \$125.4 million (8.0% of revenue), compared to a loss of \$82.1 million last year. Adjusted segment operating income was \$189.1 million (12.1% of revenue) compared to \$77.2 million (6.2% of revenue) for the same period last year, representing an increase of \$111.9 million. Increases in adjusted segment operating income were \$99.3 million, \$8.9 million and \$3.7 million from Civil Aviation Training Solutions, Defence and Security and Healthcare respectively.

**Adjusted segment operating income excluding COVID-19 government support programs was \$46.6 million higher compared to the second quarter of fiscal 2021**

To minimize the impact on employees through this difficult period, CAE previously accessed government emergency relief measures and wage subsidy programs available around the world, mainly the Canada Emergency Wage Subsidy (CEWS) program. CAE was eligible for the CEWS subsidy program during the first quarter of fiscal 2022, and the wage subsidies were applied as a substitute for some of the cost saving measures previously taken and to alleviate some of the impact on affected employees. The Government of Canada extended the CEWS program to October 2021, however CAE's participation in the CEWS program ceased on June 5, 2021 and accordingly, CAE did not claim any CEWS benefits for wages and salary costs incurred subsequent to June 5, 2021.

Adjusted segment operating income excluding COVID-19 government support programs was \$90.7 million (11.1% of revenue), compared to \$44.1 million (6.3% of revenue) in the second quarter of fiscal 2021, representing an increase of \$46.6 million. The increases were \$31.1 million and \$19.4 million from Civil Aviation Training Solutions and Defence and Security respectively, partially offset by a decrease of \$3.9 million from Healthcare.

For the first six months of fiscal 2022, adjusted segment operating income excluding COVID-19 government support programs for the year was \$175.5 million (11.2% of revenue), representing an increase of \$177.9 million compared to last year. The increases were \$134.4 million, \$38.4 million and \$5.1 million from Civil Aviation Training Solutions, Defence and Security and Healthcare respectively.

During the six months ended September 30, 2021 we also carried higher employee costs than we would have otherwise been carrying as amounts received under these programs flowed through directly to employees according to the objective of the subsidy programs and the way they were designed in certain countries. We also incurred additional operating costs including the purchase of personal protective equipment, increased sanitary measures to protect the health and safety of our employees and costs of safety protocols implemented. While these additional costs are in certain cases estimated, they almost entirely neutralize the positive impacts of the COVID-19 government support programs.

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

**Net finance expense was stable compared to the second quarter of fiscal 2021**

Higher finance expense on long-term debt was offset by lower finance expense on lease liabilities.

For the first six months of fiscal 2022, net finance expense was \$63.6 million, \$6.7 million lower compared to the same period last year. The decrease was mainly due to lower finance expense on lease liabilities, higher borrowing costs capitalized and higher finance income.

**Income tax rate was negative 310% this quarter**

Income tax recovery this quarter amounted to \$13.0 million, representing a negative effective tax rate of 310%, compared to an effective tax rate of 14% for the second quarter of fiscal 2021.

The income tax rate was impacted by the restructuring, integration and acquisition costs this quarter and in the second quarter of last year. Excluding the effect of the restructuring costs, the income tax rate would have been negative 1% this quarter and 25% in the second quarter of fiscal 2021. On this basis, the decrease in the tax rate this quarter compared to the second quarter of fiscal 2021 was mainly attributable to this year's beneficial impact on tax assets from changes in the substantially enacted tax laws in the Netherlands and Colombia, a positive impact of tax audits in Canada and the change in the mix of income from various jurisdictions.

For the first six months of fiscal 2022, the income tax recovery amounted to \$2.7 million, representing a negative effective tax rate of 4% compared to an effective tax rate of 24% for the same period last year.

The income tax rate was impacted by the restructuring, integration and acquisition costs this year. Excluding the effect of the restructuring costs, the effective tax rate would have been 10% this year. On this basis, the decrease in the tax rate from last year was mainly attributable to this year's beneficial impact on tax assets from changes in the substantially enacted tax laws in the UK, Netherlands and Colombia and the change in the mix of income from various jurisdictions, partially offset by last year's impairment charges on non-financial assets and amounts owed from customers incurred in relation to the COVID-19 pandemic and restructuring costs.

## 6.2 Restructuring, integration and acquisition costs

<i>(amounts in millions)</i>	Three months ended		Six months ended	
	September 30		September 30, 2021	
	2021	2020	2021	2020
Integration and acquisition costs	\$ 38.3	\$ —	\$ 43.7	\$ —
Impairment of non-financial assets	7.8	23.8	9.9	23.8
Severances and other employee related costs	0.7	19.9	2.0	19.9
Other costs	4.7	7.4	8.1	7.4
Total restructuring, integration and acquisition costs	\$ 51.5	\$ 51.1	\$ 63.7	\$ 51.1

On August 12, 2020, we announced that we would be taking additional measures to best serve the market by optimizing our global asset base and footprint and adjusting our business to correspond with the expected level of demand and the structural efficiencies that will be enduring. As a result of these measures, we expect to record restructuring expenses of approximately \$170 million for the entire program, of which \$124.0 million has already been incurred and reported during fiscal 2021 and \$20.0 million has been incurred in fiscal 2022 to date. These expenses consist mainly of real estate costs, asset relocations and other direct costs related to the optimization of our footprint and employee termination benefits, which have been carried out throughout fiscal 2021 and into fiscal 2022.

Impairment of non-financial assets incurred in relation to this restructuring program primarily includes impairment of property, plant and equipment of training devices determined to be in surplus, intangible assets related to the termination of certain product offerings, and buildings and right-of-use assets related to leased real estate facilities to align with the optimization of our footprint and asset base.

For the three and six months ended September 30, 2021, integration and acquisition costs associated with the L3H MT acquisition amounted to \$35.7 million and \$36.9 million, respectively.

## 6.3 Consolidated orders and total backlog

### Total backlog<sup>4</sup> up 11% compared to last quarter

<i>(amounts in millions)</i>	Three months ended	Six months ended
	September 30, 2021	September 30, 2021
Obligated backlog <sup>4</sup> , beginning of period	\$ 6,172.1	\$ 6,412.6
+ order intake <sup>4</sup>	871.4	1,392.9
- revenue	(814.9)	(1,567.6)
+ / - adjustments	594.1	584.8
Obligated backlog, end of period	\$ 6,822.7	\$ 6,822.7
Joint venture backlog <sup>4</sup> (all obligated)	354.3	354.3
Unfunded backlog and options <sup>4</sup>	1,650.9	1,650.9
Total backlog	\$ 8,827.9	\$ 8,827.9

Adjustments this quarter were mainly due to backlog acquired from the L3H MT acquisition completed during the quarter and positive foreign exchange movements, partially offset by the revaluation of prior year contracts.

The book-to-sales ratio<sup>4</sup> for the quarter was 1.07x. The ratio for the last 12 months was 0.92x.

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

<sup>4</sup> Non-GAAP and other financial measures (see Section 5).

## 7. RESULTS BY SEGMENT

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

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

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

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

### 7.1 Civil Aviation Training Solutions

#### SECOND QUARTER OF FISCAL 2022 EXPANSIONS AND NEW INITIATIVES

##### Expansions

- We have expanded our commercial aviation network by adding our first CAE-built Boeing 737 MAX FFS in Europe at our Amsterdam training centre;
- We have announced the expansion of our business aviation footprint with the introduction of a new flight-training location in Las Vegas, Nevada. The centre is expected to open in the summer of 2022 and will be our first west coast training facility in the U.S.

##### New programs and products

- We announced a strategic partnership with BETA Technologies to design and develop a best-in-class pilot and maintenance technician training program for the ALIA eVTOL aircraft with a focus on training design and courseware;
- We have been selected by Innotech-Exequire Aviation Group to provide our digital ecosystem to improve efficiency of their operations, and they will become our launch partner for our innovative suite of digital services in the business aviation market;
- We announced a new relationship with Starr Insurance Companies for a first of its kind program that combines a rigorous training regimen and insurance for single-pilot jet owners. The program will increase insurability and ensure the highest safety standards for single-pilot turbojet owners and operators who are not professional pilots.

##### ORDERS

Civil Aviation Training Solutions obtained contracts this quarter expected to generate revenues of \$408.9 million including contracts for 9 FFSs sold in the quarter, bringing the civil FFS order intake for the first six months of the fiscal year to 14 FFSs, including:

- Two Embraer 170 FFS to Envoy Air;
- One Airbus A320 FFS to CAE Simulation Training Private Limited (CSTPL), a joint venture between CAE and InterGlobe Enterprises;
- One A320NEO FFS to Civil Aviation University of China;
- Five FFSs to undisclosed customers.

Notable contract awards for the quarter included:

- A 5-year commercial aviation training agreement with Envoy Air;
- A 5-year full-flight simulator use agreement with Alaska Airlines;
- A 3-year exclusive commercial aviation training agreement with Brussels Airlines;
- A 4-year commercial aviation training agreement with PGA Portugalia;
- A 5-year aircraft maintenance training partnership agreement with Air Canada.

**FINANCIAL RESULTS**

(amounts in millions, except SEU, FFSs, utilization rate and FFS deliveries)

	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021
Revenue	\$ 362.1	432.9	388.2	412.2	364.5
Operating income	\$ 49.9	59.0	40.5	48.4	15.5
Adjusted SOI	\$ 65.3	69.7	66.6	62.0	51.9
As a % of revenue	% 18.0	16.1	17.2	15.0	14.2
Adjusted SOI excluding COVID-19 government support programs	\$ 65.3	64.5	46.9	58.4	34.2
As a % of revenue	% 18.0	14.9	12.1	14.2	9.4
Depreciation and amortization	\$ 55.4	55.5	58.2	58.2	58.9
Property, plant and equipment expenditures	\$ 39.3	70.2	40.7	21.2	11.7
Intangible assets and other assets expenditures	\$ 13.3	9.8	9.9	8.4	4.8
Capital employed <sup>5</sup>	\$ 3,937.5	3,885.5	3,808.1	3,792.6	3,737.6
Total backlog	\$ 4,263.2	4,200.4	4,293.1	4,198.1	4,399.4
SEU <sup>5</sup>	245	243	240	245	251
FFSs in CAE's network <sup>5</sup>	312	319	317	320	308
Utilization rate <sup>5</sup>	% 53	56	55	50	49
FFS deliveries	5	11	14	10	10

**Revenue stable compared to the second quarter of fiscal 2021**

For the second quarter of fiscal 2022, revenues were stable compared to the second quarter of fiscal 2021. Increased utilization in the Americas, the integration into our results of our recently acquired businesses, and increased demand for our crew sourcing business were offset by lower revenue recognized from simulator sales, mainly due to lower deliveries, and an unfavourable foreign exchange impact on the translation of foreign operations.

Revenue year to date was \$795.0 million, \$182.5 million or 30% higher than the same period last year. The increase in revenue from the same period of fiscal 2021 is due to increased utilization, mainly in the Americas and Europe, higher revenue recognized from simulator sales mainly driven by higher deliveries and program mix and the integration into our results of our recently acquired businesses. The increase was partially offset by an unfavourable foreign exchange impact on the translation of foreign operations.

**Adjusted segment operating income up \$13.4 million compared to the second quarter of fiscal 2021**

Adjusted segment operating income was \$65.3 million (18.0% of revenue) this quarter, compared to \$51.9 million (14.2% of revenue) in the second quarter of fiscal 2021.

Adjusted segment operating income increased by \$13.4 million over the second quarter of fiscal 2021. The increase was mainly due to increased utilization in the Americas and the ramping up of savings from the comprehensive program in place to structurally lower our cost base. The increase was partially offset by lower revenue recognized from simulator sales, as described above, and lower government support programs obtained in relation to the COVID-19 pandemic.

Adjusted segment operating income for the first six months of the year was \$135.0 million (17.0% of revenue), \$99.3 million or 278% higher than the same period last year. The increase was mainly due to increased utilization in the Americas and Europe, the ramping up of savings from the comprehensive program in place to structurally lower our cost base and higher revenue from simulator sales, as described above. The increase was partially offset by lower government support programs obtained in relation to the COVID-19 pandemic.

**Adjusted segment operating income excluding COVID-19 government support programs up \$31.1 million over the second quarter of fiscal 2021**

CAE's participation in the CEWS program ceased on June 5, 2021 and accordingly, we did not claim any CEWS benefits for wages and salary costs incurred subsequent to June 5, 2021. During the second quarter of fiscal 2021, \$17.7 million of COVID-19 government support programs were credited to income. On this basis, and without adjusting for the COVID-19 heightened operating costs that we continued to incur, adjusted segment operating income excluding COVID-19 government support programs was up \$31.1 million over the same period last year.

For the first six months of fiscal 2022, \$5.2 million of COVID-19 government support programs were credited to income compared to \$40.3 million in the same period last year. On this basis, and without adjusting for the COVID-19 heightened operating costs that we have been carrying, adjusted segment operating income excluding COVID-19 government support programs was up \$134.4 million over last year.

<sup>5</sup> Non-GAAP and other financial measures (see Section 5).

**Property, plant and equipment expenditures at \$39.3 million this quarter**

Growth capital expenditures were \$32.1 million for the quarter and maintenance capital expenditures were \$7.2 million.

**Capital employed increased by \$52.0 million from last quarter**

The increase over last quarter was due to higher property, plant and equipment and movements in foreign exchange rates.

**Total backlog up 1% compared to last quarter**

<i>(amounts in millions)</i>	Three months ended September 30, 2021	Six months ended September 30, 2021
Obligated backlog, beginning of period	\$ 3,971.5	\$ 4,047.4
+ order intake	408.9	747.0
- revenue	(362.1)	(795.0)
+ / - adjustments	9.7	28.6
Obligated backlog, end of period	\$ 4,028.0	\$ 4,028.0
Joint venture backlog (all obligated)	235.2	235.2
Total backlog	\$ 4,263.2	\$ 4,263.2

Adjustments this quarter were mainly due to positive foreign exchange movements, partially offset by the revaluation of prior year contracts.

This quarter's book-to-sales ratio was 1.13x. The ratio for the last 12 months was 0.92x.

**7.2 Defence and Security****SECOND QUARTER OF FISCAL 2022 EXPANSIONS AND NEW INITIATIVES****Acquisitions**

- On July 2, 2021, we concluded the previously announced acquisition of L3H MT. The acquisition is highly complementary to CAE's core military training business in the U.S. and broadens CAE's position in training and simulation across multi-domain operations;
- We acquired a 37% equity interest in SkyWarrior Flight Training LLC, a flight training operation based in Florida that primarily delivers Phase 1 initial flight training to U.S. and international military customers. This equity interest expands CAE's connection to the initial flight training of all aviation candidates entering the U.S. military.

**New programs and products**

- We were contracted to develop and deploy new build Joint Terminal Control Training Rehearsal System simulators for the USAF, a new program and offering in CAE's portfolio resulting from the acquisition of L3H MT.

**ORDERS**

Defence and Security was awarded \$427.6 million in orders this quarter, including notable contract awards from:

- The U.S. Army to continue providing fixed-wing flight training and support services at the CAE Dothan Training Center;
- The USAF and Air National Guard to perform a range of simulator upgrades and modifications on F-16 simulators;
- The Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support (BAAINBw) in Germany to upgrade and modify the Joint Lynx Simulator Training Establishment full-mission flight trainer based at Naval Air Station Nordholz;
- The U.S. Navy to perform a range of simulator upgrades and modifications on F/A-18 training devices;
- BAAINBw in Germany to upgrade and modify German Army NH90 simulators;
- The USAF to perform a range of simulator upgrades and modifications on C-130H training devices;
- The USAF to perform a range of simulator upgrades and modifications on E-3 Airborne Early Warning & Control training devices;
- The USAF to continue providing Initial Flight Training services;
- The General Headquarters of the United Arab Emirates to continue providing the UAE Air Force and Air Defence with training services for remotely piloted aircraft;
- The U.S. Army Contracting Command-Orlando to lead the Beyond 3D prototype development and integration efforts for the National Geospatial Intelligence Agency.

**FINANCIAL RESULTS***(amounts in millions)*

	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021
Revenue	\$ 417.9	288.2	334.4	299.3	303.2
Operating (loss) income	\$ (8.9)	22.6	(8.5)	21.8	11.4
Adjusted SOI	\$ 26.7	23.7	23.2	22.3	24.2
As a % of revenue	% 6.4	8.2	6.9	7.5	8.0
Adjusted SOI excluding COVID-19 government support programs	\$ 26.7	15.7	6.8	15.9	7.3
As a % of revenue	% 6.4	5.4	2.0	5.3	2.4
Depreciation and amortization	\$ 20.0	12.2	13.8	12.9	13.3
Property, plant and equipment expenditures	\$ 5.7	3.4	9.3	2.1	3.2
Intangible assets and other assets expenditures	\$ 3.5	5.5	0.5	3.9	3.8
Capital employed	\$ 2,466.2	1,100.8	1,021.4	945.2	1,147.9
Total backlog	\$ 4,564.7	3,733.7	3,908.0	3,622.0	3,896.8

**Revenue up 38% compared to the second quarter of fiscal 2021**

The increase over the second quarter of fiscal 2021 was mainly due to the integration into our results of L3H MT for an amount of \$135.1 million, acquired this quarter. The increase was partially offset by lower revenue from our North American programs and an unfavourable foreign exchange impact on the translation of foreign operations.

Revenue year to date was \$706.1 million, \$122.7 million or 21% higher than the same period last year. The increase was mainly due to the integration into our results of L3H MT and higher revenue on our European and North American programs, partially offset by an unfavourable foreign exchange impact on the translation of foreign operations.

Since the first quarter of fiscal 2021, we have seen some gradual recoveries from the initial impacts of the COVID-19 pandemic with regards to order intake, however execution of certain product programs continue to be affected by travel bans, border restrictions, client access restrictions and supply chain disruptions in certain regions.

**Adjusted segment operating income up 10% compared to the second quarter of fiscal 2021**

Adjusted segment operating income was \$26.7 million (6.4% of revenue) this quarter, compared to \$24.2 million (8.0% of revenue) in the second quarter of fiscal 2021.

The increase over the second quarter of fiscal 2021 was mainly due to the integration into our results of L3H MT for an amount of \$16.2 million and lower net research and development expenditures. The increase was partially offset by lower government support programs obtained in relation to the COVID-19 pandemic and an increase in selling, general and administrative expenses from the easing of prior year temporary cost containment measures introduced in the first quarter of fiscal 2021.

Adjusted segment operating income for the first six months of the year was \$50.4 million (7.1% of revenue), \$8.9 million or 21% higher than the same period last year. The increase was mainly due to higher margins on our North American programs, the integration into our results of L3H MT and lower net research and development expenses. The increase was partially offset by lower government support programs obtained in relation to the COVID-19 pandemic and an increase in selling, general and administrative expenses from the easing of prior year temporary cost containment measures introduced in the first quarter of fiscal 2021.

**Adjusted segment operating income excluding COVID-19 government support programs up \$19.4 million compared to the second quarter of fiscal 2021**

CAE's participation in the CEWS program ceased on June 5, 2021 and accordingly, we did not claim any CEWS benefits for wages and salary costs incurred subsequent to June 5, 2021. During the second quarter of fiscal 2021, \$16.9 million of COVID-19 government support programs were credited to income. On this basis, and without adjusting for the COVID-19 heightened operating costs that we continued to incur, adjusted segment operating income excluding COVID-19 government support programs was up \$19.4 million over the same period last year.

For the first six months of fiscal 2022, \$8.0 million of COVID-19 government support programs were credited to income compared to \$37.5 million in the same period last year. On this basis, and without adjusting for the COVID-19 heightened operating costs that we have been carrying, adjusted segment operating income excluding COVID-19 government support programs was up \$38.4 million over last year.

**Capital employed increased by \$1,365.4 million from last quarter**

The increase over last quarter was mainly due to integration into our results of the L3H MT acquisition, resulting in an increase in intangible assets, property plant and equipment and other non-current liabilities. The increase was also due to movements in foreign exchange rates.

**Total backlog up 22% compared to last quarter**

<i>(amounts in millions)</i>	Three months ended September 30, 2021	Six months ended September 30, 2021
Obligated backlog, beginning of period	\$ 2,200.6	\$ 2,365.2
+ order intake	427.6	579.4
- revenue	(417.9)	(706.1)
+ / - adjustments	584.4	556.2
Obligated backlog, end of period	\$ 2,794.7	\$ 2,794.7
Joint venture backlog (all obligated)	119.1	119.1
Unfunded backlog and options	1,650.9	1,650.9
Total backlog	\$ 4,564.7	\$ 4,564.7

Adjustments this quarter were mainly due to backlog acquired from the L3H MT acquisition completed during the quarter and positive foreign exchange movements.

This quarter's book-to-sales ratio was 1.02x. The ratio for the last 12 months was 0.90x.

This quarter, \$8.9 million was added to the unfunded backlog and \$241.3 million was transferred to obligated backlog.

**7.3 Healthcare****SECOND QUARTER OF FISCAL 2022 EXPANSIONS AND NEW INITIATIVES****Acquisition**

- On July 5, 2021, we completed a small tuck-in acquisition of Medicor, a company which specializes in task trainer and realistic synthetic skin production. This acquisition augments CAE Healthcare's portfolio of products and expands our capabilities to offer improved quality simulators for a better customer experience.

**New programs and products**

- We forged a new collaborative partnership with RCSI University of Medicine and Health Sciences (RCSI) to advance healthcare education, technology, and research through simulation, including support for RCSI simulation research initiatives. RCSI was also certified a CAE Centre of Excellence for simulation-based education and training, the first of its kind in Europe;
- We launched two updates for CAE Maestro, the latest generation of software driving our patient simulators. The updates significantly expand the value of CAE Maestro and enhance the capabilities of our products;
- We also expanded the standardized CAE Maestro Evolve operating system to additional simulators, including Lucina. The CAE Maestro Evolve system features CAE Physiology for model-driven simulation as well as a streamlined interface for instructor-driven scenarios.

**FINANCIAL RESULTS**

<i>(amounts in millions)</i>	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021
Revenue	\$ 34.9	31.6	171.7	120.9	37.0
Operating (loss) income	\$ (1.8)	4.6	15.6	12.7	1.3
Adjusted SOI	\$ (1.3)	5.0	16.4	12.9	3.2
<i>As a % of revenue</i>	%	15.8	9.6	10.7	8.6
Adjusted SOI excluding COVID-19 government support programs	\$ (1.3)	4.6	15.3	12.3	2.6
<i>As a % of revenue</i>	%	14.6	8.9	10.2	7.0
Depreciation and amortization	\$ 3.2	3.4	6.5	8.1	4.0
Property, plant and equipment expenditures	\$ 1.7	0.3	0.5	0.6	0.3
Intangible assets and other assets expenditures	\$ 2.8	4.0	0.6	4.0	2.3
Capital employed	\$ 210.1	185.9	90.9	261.1	152.1

**Revenue down 6% compared to the second quarter of fiscal 2021**

The decrease in revenue over the second quarter of fiscal 2021 was due to the contribution in the prior year from the CAE Air1 ventilators in the amount of \$7.1 million, partially offset by an increase in revenue from centre management solutions and ultrasound simulators, and the integration into our results of Medicor, acquired this quarter. Excluding the CAE Air1 ventilators, revenue was up 17% compared to the second quarter of fiscal 2021.

Revenue year to date was \$66.5 million, \$7.2 million or 12% higher than the same period last year. The increase was due to higher revenue across all core product categories, mainly from centre management solutions and ultrasound and patient simulators. The increase was partially offset by the contribution in the prior year from the CAE Air1 ventilators. Excluding the CAE Air1 ventilators, revenue was up 27% compared to the same period last year.

**Adjusted segment operating income down \$4.5 million compared to the second quarter of fiscal 2021**

Adjusted segment operating loss was \$1.3 million this quarter, compared to an adjusted segment operating income of \$3.2 million (8.6% of revenue) in the second quarter of fiscal 2021.

The decrease over the second quarter of fiscal 2021 was driven by increased selling, general and administrative expenses due to the easing of prior year temporary cost containment measures introduced in the first quarter of fiscal 2021 and increased marketing and travel costs. The decrease was also due to lower government support programs obtained in relation to the COVID-19 pandemic.

Adjusted segment operating income for the first six months of the year was \$3.7 million (5.6% of revenue), \$3.7 million higher than the same period last year. The increase was driven by lower net research and development expenses due to the recognition of previously unrecognized investment tax credits this year and higher revenue, as described above, partially offset by increased selling and general administrative expenses.

**Adjusted segment operating income excluding COVID-19 government support programs down \$3.9 million over the second quarter of fiscal 2021**

CAE's participation in the CEWS program ceased on June 5, 2021 and accordingly, we did not claim any CEWS benefits for wages and salary costs incurred subsequent to June 5, 2021. During the second quarter of fiscal 2021, \$0.6 million of COVID-19 government support programs were credited to income. On this basis, and without adjusting for the COVID-19 heightened operating costs that we continued to incur, adjusted segment operating income excluding COVID-19 government support programs was down \$3.9 million over the same period last year.

For the first six months of fiscal 2022, \$0.4 million of COVID-19 government support programs were credited to income compared to \$1.8 million in the same period last year. On this basis, and without adjusting for the COVID-19 heightened operating costs that we have been carrying, adjusted segment operating income excluding COVID-19 government support programs was up \$5.1 million over last year.

**Capital employed increased by \$24.2 million from last quarter**

The increase over last quarter was due to higher intangible assets, mainly as a result of the Medicor acquisition completed during the quarter and movements in foreign exchange rates. The increase was also due to higher non-cash working capital, driven by higher accounts receivable, and higher inventory, partially offset by higher contract liabilities.

## 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

<i>(amounts in millions)</i>	Three months ended		Six months ended	
	September 30		September 30	
	2021	2020	2021	2020
Cash provided by operating activities*	\$ 78.2	\$ 103.9	\$ 213.3	\$ 141.5
Changes in non-cash working capital	(47.3)	(58.3)	(311.5)	(184.3)
Net cash provided by (used in) operating activities	\$ 30.9	\$ 45.6	\$ (98.2)	\$ (42.8)
Maintenance capital expenditures <sup>6</sup>	(10.3)	(4.6)	(21.2)	(13.6)
Change in other assets	(8.0)	(0.6)	(16.9)	(2.5)
Proceeds from the disposal of property, plant and equipment	6.1	0.2	7.9	0.2
Net proceeds from (payments to) equity accounted investees	0.1	0.4	(0.4)	0.9
Dividends received from equity accounted investees	0.6	3.9	0.6	10.0
Free cash flow <sup>6</sup>	\$ 19.4	\$ 44.9	\$ (128.2)	\$ (47.8)
Growth capital expenditures <sup>6</sup>	(36.4)	(10.6)	(99.4)	(19.6)
Capitalized development costs	(11.6)	(10.3)	(24.4)	(26.3)
Net proceeds from the issuance of common shares	671.6	0.2	691.8	2.4
Other cash movements, net	—	—	—	(0.7)
Business combinations, net of cash acquired	(1,360.4)	—	(1,376.4)	—
Acquisition of investment in equity accounted investees	(4.3)	—	(4.3)	—
Effect of foreign exchange rate changes on cash and cash equivalents	(1.3)	1.7	(3.9)	(7.7)
Net change in cash before proceeds and repayment of long-term debt	\$ (723.0)	\$ 25.9	\$ (944.8)	\$ (99.7)

\* before changes in non-cash working capital

#### Free cash flow of \$19.4 million this quarter

Free cash flow was \$19.4 million for the quarter, \$25.5 million lower than the second quarter of fiscal 2021. The decrease was mainly due to a decrease in cash provided by operating activities, including payments of approximately \$52 million in the quarter related to the acquisition costs associated with the L3H MT acquisition as well as integration costs for our recently acquired businesses and severances and other costs associated with our previously announced restructuring program. The decrease is also due to a higher investment in other assets, partially offset by lower investments in non-cash working capital.

Free cash flow year to date was negative \$128.2 million, \$80.4 million lower than the same period last year. The decrease was mainly attributable to higher investments in non-cash working capital and a higher investment in other assets, partially offset by an increase in cash provided by operating activities. We usually see a higher level of investment in non-cash working capital accounts during the first half of the fiscal year and tend to see a portion of these investments reverse in the second half.

#### Capital expenditures of \$46.7 million this quarter

Growth capital expenditures were \$36.4 million this quarter and \$99.4 million for the first six months of the year. Maintenance capital expenditures were \$10.3 million this quarter and \$21.2 million for the first six months of the year.

#### COVID-19 government support programs

Cash received from COVID-19 government support programs claimed in previous quarters amounted to \$11.8 million this quarter and \$38.3 million for the first six months of the year. CAE's participation in the CEWS program ceased on June 5, 2021 and accordingly, we did not claim any CEWS benefits for wages and salary costs incurred subsequent to June 5, 2021.

<sup>6</sup> Non-GAAP and other financial measures (see Section 5).

## 9. CONSOLIDATED FINANCIAL POSITION

### 9.1 Consolidated capital employed

<i>(amounts in millions)</i>	As at September 30 2021	As at June 30 2021	As at March 31 2021
<b>Use of capital:</b>			
Current assets	\$ 2,156.6	\$ 3,091.1	\$ 3,378.6
Less: cash and cash equivalents	(340.4)	(690.5)	(926.1)
Current liabilities	(1,703.3)	(2,378.4)	(2,633.3)
Less: current portion of long-term debt	205.7	229.6	216.3
Non-cash working capital <sup>7</sup>	\$ 318.6	\$ 251.8	\$ 35.5
Property, plant and equipment	2,111.9	1,976.8	1,969.4
Other long-term assets	4,884.1	3,453.6	3,400.4
Other long-term liabilities	(814.5)	(764.6)	(767.1)
Total capital employed	\$ 6,500.1	\$ 4,917.6	\$ 4,638.2
<b>Source of capital<sup>7</sup>:</b>			
Current portion of long-term debt	\$ 205.7	\$ 229.6	\$ 216.3
Long-term debt	2,616.2	2,130.1	2,135.2
Less: cash and cash equivalents	(340.4)	(690.5)	(926.1)
Net debt <sup>7</sup>	\$ 2,481.5	\$ 1,669.2	\$ 1,425.4
Equity attributable to equity holders of the Company	3,944.4	3,178.1	3,140.5
Non-controlling interests	74.2	70.3	72.3
Source of capital	\$ 6,500.1	\$ 4,917.6	\$ 4,638.2

#### Capital employed increased by \$1,582.5 million from last quarter

The increase was mainly due to integration into our results of the L3H MT acquisition, resulting in higher other long-term assets and higher property, plant and equipment. The increase was also due to higher non-cash working capital.

#### Return on capital employed (ROCE)<sup>7</sup>

Our ROCE was 4.9% this quarter. Adjusted ROCE was 6.6% this quarter, which compares to 7.2% in the second quarter of last year and 6.7% last quarter. Adjusted ROCE excluding COVID-19 government support programs was 5.5% this quarter.

#### Non-cash working capital increased by \$66.8 million from last quarter

The increase was mainly due to higher contract assets and accounts receivable, partially offset by higher contract liabilities and accounts payable and accrued liabilities.

#### Property, plant and equipment increased by \$135.1 million from last quarter

The increase was mainly due to the integration into our result of the L3H MT acquisition, movements in foreign exchange rates, and capital expenditures in excess of depreciation.

#### Other long-term assets increased \$1,430.5 million

The increase was mainly due to higher intangible assets mainly as a result of the integration into our result of the L3H MT acquisition and movements in foreign exchange rates, partially offset by depreciation in excess of capital expenditures.

<sup>7</sup> Non-GAAP and other financial measures (see Section 5).

**Change in net debt**

<i>(amounts in millions, except net debt-to-capital and net debt-to-EBITDA)</i>	Three months ended September 30, 2021	Six months ended September 30, 2021
Net debt, beginning of period	\$ 1,669.2	\$ 1,425.4
Impact of cash movements on net debt (see table in the consolidated cash movements section)	723.0	944.8
Effect of foreign exchange rate changes on long-term debt	37.1	15.4
Impact from business combinations	33.9	34.9
Non-cash lease liability movements	10.9	48.8
Other	7.4	12.2
Change in net debt during the period	\$ 812.3	\$ 1,056.1
Net debt, end of period	\$ 2,481.5	\$ 2,481.5
Net debt-to-capital <sup>8</sup>	% 38.2	
EBITDA <sup>8</sup>	\$ 563.3	
Net debt-to-EBITDA <sup>8</sup>	4.41	
Adjusted EBITDA <sup>8</sup>	\$ 699.9	
Net debt-to-adjusted EBITDA <sup>8</sup>	3.55	
Adjusted EBITDA excluding COVID-19 government support programs <sup>8</sup>	\$ 638.5	
Net debt-to-adjusted EBITDA excluding COVID-19 government support programs <sup>8</sup>	3.89	

We have a committed line of credit at floating rates, provided by a syndicate of lenders. We and some of our subsidiaries can borrow funds directly from this credit facility to cover operating and general corporate expenses and to issue letters of credit. In September 2021, we extended the maturity date of our US\$850.0 million unsecured revolving credit facility until September 29, 2026.

We manage a committed receivable purchase facility of up to US\$400.0 million, in which we sell interests in certain of our accounts receivable to third parties for cash consideration. This committed facility is renewed annually.

In July 2021, to finance the L3H MT acquisition, we issued a total of US\$300.0 million of unsecured term loans in two tranches. The first tranche consists of US\$175.0 million due in 2023 and the second tranche of US\$125.0 million is due in 2025. The term loans bear interest at variable rates.

In September 2021, we concluded new financial participation agreements with the Government of Canada and the Government of Québec who will fund up to \$190.0 million and \$150.0 million, respectively, in the form of partially repayable loans for eligible spending related to R&D projects. The investments will fund Project Resilience, a plan to invest \$1 billion in R&D innovations over the next five years with the aim to develop technologies of the future, including digitally immersive solutions using data ecosystems and artificial intelligence in Civil Aviation, Defence and Security and Healthcare. The project will also allow CAE to position itself as a leader in end-to-end technology, operational support and training solutions for Advanced Air Mobility, as well as develop green light aircraft technologies.

We have certain debt agreements which require the maintenance of standard financial covenants. As at September 30, 2021, we are compliant with all our financial covenants.

Total available liquidity as at September 30, 2021 was approximately \$2.2 billion, including \$340.4 million in cash and cash equivalents, undrawn amounts on our revolving credit facility and the balance available under our receivable purchase facility.

The negative impact of COVID-19 on our liquidity is evolving in real time and differs geographically from one region to another. The management of consolidated liquidity requires a regular monitoring of expected cash inflows and outflows, which is achieved through a forecast of our unconsolidated and consolidated liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is assessed in view of seasonal needs, stress-test results, growth requirements and capital expenditures, and the maturity profile of indebtedness, including availability of credit facilities, working capital requirements, compliance with financial covenants and the funding of financial commitments. Based on our scenario analysis, we believe that our cash and cash equivalents, the availability under our committed revolving credit facility and cash we expect to generate from our operations will be sufficient to meet financial requirements in the foreseeable future. To preserve liquidity, we continued to operate with certain flexible measures, including the suspension of our common share dividends and share repurchase plan. This position is being reviewed periodically.

<sup>8</sup> Non-GAAP and other financial measures (see Section 5).

**Total equity increased by \$770.2 million this quarter**

The increase in equity was mainly due to issuance of common shares upon conversion of subscription receipts completed during the quarter, defined benefit plan remeasurements and net income realized this quarter.

*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 316,787,756 common shares issued and outstanding as at September 30, 2021 with total share capital of \$2,219.7 million. In addition, we had 7,071,089 options outstanding under the Employee Stock Option Plan (ESOP).

As at October 31, 2021, we had a total of 316,799,656 common shares issued and outstanding and 7,051,189 options outstanding under the ESOP.

*Issuance of common shares upon conversion of subscription receipts*

On July 2, 2021, concurrent with the completion of the L3H MT acquisition, 22,400,000 outstanding subscription receipts were converted into CAE common shares in accordance with the terms of the subscription receipts, on a one-for-one basis. Proceeds from the issuance of the subscription receipts of \$700.0 million together with interest earned of \$0.4 million were released from escrow and used to fund the acquisition of L3H MT. Total issuance-related costs amounted to \$31.0 million, less income tax recovery of \$8.2 million.

**9.2 Contingencies**

During fiscal 2015, we received tax notices of reassessment from the Canada Revenue Agency (CRA) in connection with our characterization of amounts received under the Strategic Aerospace and Defence Initiative (SADI) program during our 2012 and 2013 taxation years. Under the SADI program, we received funding from the Government of Canada for our eligible spending in R&D projects, in the form of an unconditionally repayable interest-bearing loan, which we commenced repayment of the principal and interest in fiscal 2016 in accordance with the terms of the agreement. The CRA has taken the position that amounts received under the SADI program qualify as government assistance. We filed notices of objection against the CRA's reassessments and subsequently filed a notice of appeal to the Tax Court of Canada.

On September 14, 2021, the Tax Court of Canada ruled in favour of the CRA's contention and held that the amounts received under the SADI program qualified as government assistance. On October 8, 2021, we filed a notice of appeal to the Federal Court of Appeal against the Tax Court's decision. Accordingly, as at September 30, 2021, we have not recognized the impacts of the CRA's reassessments in its consolidated financial statements.

Although we believe that our position will ultimately prevail at the Federal Court of Appeal level, should we be unsuccessful, the impact of the reassessments would not result in a material adverse effect on our overall income tax expense nor income tax payable, but would, however, affect the timing of payment of such tax.

**10. BUSINESS COMBINATIONS AND ACQUISITION OF INVESTMENT IN EQUITY ACCOUNTED INVESTEEES****Business combinations****L3Harris Technologies' Military Training business**

On July 2, 2021, we concluded the previously announced acquisition of L3Harris Technologies' Military Training business (L3H MT) for cash consideration of \$1,337.7 million [US\$1,075.3 million], subject to additional purchase price adjustments. L3H MT includes Link Simulation & Training, Doss Aviation and AMI. Link Simulation & Training is one of the leading providers of military training solutions in the U.S., Doss Aviation is the provider of initial flight training to the United States Air Force, and AMI is a design and manufacturing facility for simulator hardware. The acquisition expands our position as a platform-agnostic training systems integrator by diversifying our training and simulation leadership in the air domain, complementing land and naval training solutions, and enhancing our training and simulation capabilities in space and cyber.

The net assets acquired, including intangibles, of L3H MT are included in the Defence and Security segment. The purchase price allocation is preliminary as at September 30, 2021.

**Other fiscal 2022 business combinations****RB Group**

On April 1, 2021, we acquired the remaining 79% equity interest in the RB Group, a leading provider of fully integrated solutions that modernize the way airlines and business aircraft operators interact with their crew. This acquisition further supports CAE's expansion into digital flight crew management in our goal to drive additional software-enabled Civil aviation services. Prior to this transaction, our 21% ownership interest in the RB Group was accounted for using the equity method.

### **GlobalJet Services**

On June 10, 2021, we acquired GlobalJet Services (GlobalJet), a provider of aviation maintenance training that is recognized around the world for its services for both business and helicopter sectors. This acquisition expands our aircraft platform addressability in the maintenance training market through world-class, regulatory approved training programs.

### **Medicor Lab Inc.**

On July 5, 2021, we acquired the shares of Medicor Lab Inc. (Medicor), a company which specializes in task trainer and realistic synthetic skin production. This acquisition augments our portfolio of products and expands our capabilities to offer improved quality simulators for a better customer experience.

The aggregate purchase price for the acquisitions of the RB Group, GlobalJet and Medicor consist of cash consideration (net of cash acquired) of \$19.0 million, a long-term payable of \$1.2 million and a contingent consideration of up to \$4.0 million if certain targets are met, and are mainly allocated to goodwill and intangible assets.

The net assets acquired, including intangibles, of the RB Group and GlobalJet are included in the Civil Aviation Training Solutions segment, and those of Medicor are included in the Healthcare segment. The purchase price allocations of the RB Group, GlobalJet and Medicor are preliminary as at September 30, 2021.

### **Other**

During the six months ended September 30, 2021, we completed our final assessment of the fair value of assets acquired and liabilities assumed of Flight Simulation Company B.V. and Merlot Aero Limited acquired in fiscal 2021.

During the six months ended September 30, 2021, adjustments to preliminary purchase price allocations of acquisitions realized in fiscal 2021 resulted in increases of intangible assets of \$19.1 million, current liabilities of \$8.5 million, and deferred tax assets of \$4.8 million, and a decrease of current assets of \$15.4 million.

During the six months ended September 30, 2021, net cash considerations of \$4.9 million were paid for acquisitions realized in prior years.

### **Investment in equity accounted investees**

#### **SkyWarrior Flight Training LLC**

In August 2021, we acquired a 37% equity interest in SkyWarrior Flight Training LLC (SkyWarrior) for cash consideration of \$4.3 million. SkyWarrior is a flight training operation which primarily delivers Phase 1 initial flight training to U.S. and international military customers.

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

## **11. EVENT AFTER THE REPORTING PERIOD**

### **Agreement to acquire Sabre's AirCentre airline operations portfolio**

On October 28, 2021, we announced that we have entered into an agreement to acquire Sabre's AirCentre airline operations portfolio (AirCentre), a highly valuable suite of flight and crew management and optimization solutions, for US\$392.5 million excluding post-closing adjustments. The transaction will provide CAE with the Sabre AirCentre product portfolio, related technology and intellectual property as well as the transfer of its highly talented workforce. Subject to completion, the acquisition will further expand CAE's reach across our broad customer base beyond pilot training and establish ourself as a technology leader in the growing market for industry-leading, digitally-enabled flight and crew operations solutions. The closing of the transaction is expected in the first quarter of calendar 2022 and is subject to customary conditions and regulatory approvals.

## 12. CHANGES IN ACCOUNTING POLICIES

### New and amended standards adopted

#### **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest rate benchmark reform – Phase 2**

In August 2020, the IAS issued an amendment to IFRS 9 – *Financial instruments*, IAS 39 – *Financial instruments: recognition and measurement*, IFRS 7 – *Financial instrument: disclosures*, IFRS 4 – *Insurance contracts* and IFRS 16 – *Leases*. The amendments address issues that arise from implementation of Interbank Offered Rate (IBOR) reform, where IBORs are replaced with alternative benchmark rates. For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized. The amendments also provide additional temporary relief from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships affected by IBOR reform and will require disclosure of information about new risks arising from the reform and how the transition to alternative benchmark rates will be managed.

This amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 was adopted April 1, 2021. CAE has elected to apply the practical expedient and will apply to transactions occurring subsequent to April 1, 2021. Our treasury department is managing the transition plan so that the existing contracts that refer to IBORs shall be adjusted to ensure contract continuity and address term and credit differences between IBORs and alternative reference rates. The adoption of this amendment had no material impact on the consolidated interim financial statements.

## 13. CONTROLS AND PROCEDURES

In the second quarter ended September 30, 2021, we did not make any significant changes in, nor take any significant corrective actions regarding our internal controls or other factors that could significantly affect such internal controls. Our CEO and CFO periodically review our disclosure controls and procedures for effectiveness and conduct an evaluation each quarter. As of the end of the second quarter, our CEO and CFO were satisfied with the effectiveness of our disclosure controls and procedures.

During the second quarter of fiscal 2022, we acquired L3H MT. In accordance with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, the CEO and the CFO of the Company have limited the scope of their design of CAE's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of L3H MT, for up to one year following the acquisition. We have begun to integrate their internal controls, policies and procedures and we have incorporated internal controls over significant processes specific to the acquisition that we believe are appropriate and necessary in consideration of the level of related integration. As the post-closing integration continues, we will continue to review the internal controls and processes with those of CAE. L3H MT's contribution to our consolidated financial statements for the second quarter ended September 30, 2021 was 17% and 18% of each consolidated revenues and adjusted segment operating income. Additionally, at September 30, 2021, L3H MT's total assets and total liabilities were 18% and 6% of consolidated total assets and liabilities, respectively.

## 14. SELECTED QUARTERLY FINANCIAL INFORMATION

<i>(amounts in millions, except per share amounts and exchange rates)</i>	Q1	Q2	Q3	Q4	Year to date
<b>Fiscal 2022</b>					
Revenue	\$ 752.7	814.9	(1)	(1)	1,567.6
Net income	\$ 47.3	17.2	(1)	(1)	64.5
Equity holders of the Company	\$ 46.4	14.0	(1)	(1)	60.4
Non-controlling interests	\$ 0.9	3.2	(1)	(1)	4.1
Basic and diluted EPS attributable to equity holders of the Company	\$ 0.16	0.04	(1)	(1)	0.20
Adjusted EPS	\$ 0.19	0.17	(1)	(1)	0.35
Adjusted EPS excluding COVID-19 government support programs	\$ 0.15	0.17	(1)	(1)	0.32
Average number of shares outstanding (basic)	293.6	316.5	(1)	(1)	305.1
Average number of shares outstanding (diluted)	295.8	318.7	(1)	(1)	307.3
Average exchange rate, U.S. dollar to Canadian dollar	1.23	1.26	(1)	(1)	1.24
Average exchange rate, Euro to Canadian dollar	1.48	1.48	(1)	(1)	1.48
Average exchange rate, British pound to Canadian dollar	1.72	1.74	(1)	(1)	1.73
<b>Fiscal 2021</b>					
Revenue	\$ 550.5	704.7	832.4	894.3	2,981.9
Net (loss) income	\$ (110.0)	(6.0)	49.7	18.8	(47.5)
Equity holders of the Company	\$ (110.6)	(5.2)	48.8	19.8	(47.2)
Non-controlling interests	\$ 0.6	(0.8)	0.9	(1.0)	(0.3)
Basic and diluted EPS attributable to equity holders of the Company	\$ (0.42)	(0.02)	0.18	0.07	(0.17)
Adjusted EPS	\$ (0.11)	0.13	0.22	0.22	0.47
Adjusted EPS excluding COVID-19 government support programs	\$ (0.24)	0.03	0.19	0.12	0.12
Average number of shares outstanding (basic)	265.7	265.8	271.7	285.2	272.0
Average number of shares outstanding (diluted)	265.7	265.8	273.0	287.3	272.0
Average exchange rate, U.S. dollar to Canadian dollar	1.39	1.33	1.30	1.27	1.32
Average exchange rate, Euro to Canadian dollar	1.53	1.56	1.55	1.53	1.54
Average exchange rate, British pound to Canadian dollar	1.72	1.72	1.72	1.75	1.73
<b>Fiscal 2020</b>					
Revenue	\$ 825.6	896.8	923.5	977.3	3,623.2
Net income	\$ 63.0	75.0	99.8	81.1	318.9
Equity holders of the Company	\$ 61.5	73.8	97.7	78.4	311.4
Non-controlling interests	\$ 1.5	1.2	2.1	2.7	7.5
Basic EPS attributable to equity holders of the Company	\$ 0.23	0.28	0.37	0.29	1.17
Diluted EPS attributable to equity holders of the Company	\$ 0.23	0.28	0.37	0.29	1.16
Adjusted EPS	\$ 0.24	0.28	0.37	0.46	1.34
Average number of shares outstanding (basic)	265.8	266.2	265.8	266.1	266.0
Average number of shares outstanding (diluted)	267.6	268.2	267.6	267.7	267.6
Average exchange rate, U.S. dollar to Canadian dollar	1.34	1.32	1.32	1.34	1.33
Average exchange rate, Euro to Canadian dollar	1.50	1.47	1.46	1.48	1.48
Average exchange rate, British pound to Canadian dollar	1.72	1.63	1.70	1.72	1.69

(1) Not available.