



## CAE INC.

### BOARD MEMBER CODE OF CONDUCT

#### Introduction

CAE directors are obliged to avoid situations or circumstances which result or could result in conflicts of interest and to adhere to the procedures set forth in this Code designed to identify such situations or circumstances and, where applicable, to resolve them. CAE directors are also obliged to keep non-public information about CAE and its business relationships confidential. Using confidential information for personal gain is prohibited by CAE. It is also illegal to trade in securities with the benefit of Inside Information. This Code is for the benefit of CAE and its directors. Adherence to this Code will assist CAE directors to avoid potentially embarrassing or damaging conflicts of interest and charges of insider trading or wrongfully using confidential information.

This Code shall be reviewed annually by the Governance Committee of the CAE board.

This Code is composed of eight parts:

Part One	Conflicts of Interest
Part Two	Confidentiality of Information
Part Three	Compliance with Laws and Regulations, including Personal Trading in Securities
Part Four	Directors' Duties and Conflicts
Part Five	Company Opportunities
Part Six	Fair Dealing
Part Seven	Protection of Company Assets
Part Eight	Compliance with Code.

#### Definitions

##### ***Conflict of Interest***

A situation in which the personal or business interests of a CAE director conflicts with his or her responsibilities to CAE.

##### ***Confidential Information***

All non-public information pertaining to CAE, and its business relationships that come to the attention of CAE directors.

##### ***Inside Information***

Non-public information relative to the business and affairs of CAE and its business relationships that would significantly affect or would reasonably be expected to have a material or significant effect on the value of CAE or its business relationships if it was generally known, e.g.:

- plans involving mergers or acquisitions
- significant changes in management
- changes in debt ratings

- significant litigation
- earnings information and forecasts
- stock splits
- changes in dividend policies.

### ***Insider***

All directors and officers and certain designated employees of CAE.

### ***Insider Trading***

Buying or selling securities with knowledge of inside information.

## **PART ONE - CONFLICTS OF INTEREST**

### **1.1 General Principle**

CAE directors must not engage, directly or indirectly, in or have any direct or indirect interest in or connection with any business activity that competes or conflicts with CAE's interests or in any other activity that is an apparent conflict of interest.

### **1.2 Outside Financial Interest**

CAE directors should not have or acquire a substantial financial interest in or with a company or other entity they know to have a business relationship with CAE, except for previously acquired holdings in publicly traded securities of such a company. However, if such an interest exists or is contemplated, it must be disclosed immediately to the Chairman of the Governance Committee for a determination as to the propriety of such interest.

### **1.3 Outside Business Interests**

It is considered a conflict of interest should a director conduct business other than CAE business utilizing CAE equipment, staff or facilities, unless prior approval has been obtained from either the President & CEO or the Executive Vice President and CFO of CAE.

### **1.4 Financial or Other Considerations**

Directors must not accept lavish gifts or entertainment from companies they know to have, or which are proposing to have, a business relationship with CAE.

In situations where the director is uncertain as to the appropriateness of accepting a gift or entertainment, counsel should be sought from the Chairman of the Governance Committee.

Unethical business solicitation and/or acceptance activity is forbidden, and any payments or offerings suggestive of bribes, or unauthorized commissions for new or enlarged business placements, must be referred to the Chairman of the Governance Committee for investigation. Any solicitation or acceptance of commissions or bribes for placement of CAE's business elsewhere is grounds for removal from office.

## **PART TWO - CONFIDENTIALITY OF INFORMATION**

### **2.1 Internal Disclosure of Confidential Information**

CAE directors should only disclose confidential information about CAE or its business relationships to other CAE directors and managers who have a need for the information to discharge their responsibilities.

## **2.2 External Disclosure of Confidential Information**

CAE directors may only disclose confidential information about CAE or its business relationships learned as a result of their CAE board responsibilities to third parties when one or more of the following conditions apply:

- where disclosure is required by law (i.e. under a search warrant);
- where disclosure is demanded in the public interest (i.e. in the case of fraud);
- where the parties involved have expressly consented to its disclosure; or
- where confidential information is disclosed to third parties engaged by CAE who have a need for the information to discharge their responsibilities and who have agreed to keep such information confidential (e.g. lawyers, accountants, consultants, etc.).

Any other external disclosure of such confidential information requires the prior approval of the President & CEO or the Executive Vice President and CFO of CAE.

## **2.3 Protection of Confidential Information**

To provide adequate physical protection for confidential information, CAE directors should where practical or necessary:

- ensure that confidential information is locked or under controlled access as appropriate;
- refrain from discussing confidential information in public places; and
- wherever practical, ensure that discarded confidential documents are shredded.

Where the confidential information is inside information, Part Three below on “Inside Information” requires that additional measures be implemented.

# **PART THREE – COMPLIANCE WITH LAWS AND REGULATIONS, INCLUDING INSIDER TRADING IN SECURITIES**

## **3.1 Compliance with Laws, Rules and Regulations**

It is CAE’s policy to comply with all laws and regulations governing it and its operations. Generally speaking, it is management and not CAE directors who are involved directly in the day-to-day management of the operations of CAE and its subsidiaries. However no CAE director shall sanction, authorize or condone any breach by CAE or a subsidiary of any applicable laws and regulations governing it and its operations. If any such breach comes to the attention of a CAE director, they shall promptly communicate the details of it to the Chairman, the President and Chief Executive Officer and the General Counsel of CAE.

### **3.2 Personal Trading in Securities**

It is against the law for a person to trade in a security while in possession of Inside Information. The law requires a person to prove that he or she did not trade with knowledge of Inside Information, and in certain circumstances this may be difficult to do. This Part Three is intended to assist CAE directors to avoid this difficulty.

CAE directors shall only trade in securities for their personal account in accordance with the following provisions.

CAE directors trade for their personal account when a securities account is operated in their own name or over which they exercise control or in which they have some beneficial interest. Mutual fund accounts and RSP/RIF accounts that are not self-directed are excluded.

### **3.3 Trading in any Securities**

CAE directors should not deal in securities of public corporations at any time when they have Inside Information concerning the issuer.

## **PART FOUR – DIRECTORS’ DUTIES AND CONFLICTS**

### **4.1 Directors Duties and Standards of Conduct**

The directors of CAE have responsibility for the supervision of the management of the business and affairs of CAE. In exercising their powers and discharging their duties to CAE, directors must comply with the *Canada Business Corporations Act* (Canada), its regulations, CAE’s by-laws, and all other applicable legislation. Directors must observe two standards of conduct. The first is a fiduciary standard, which requires directors to act honestly and in good faith with a view to the best interests of CAE. The second is a performance-related standard, which requires directors to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors stand in a fiduciary relationship to CAE. Their consequent duties to CAE are supplemented in many instances by a concurrent duty of confidentiality. Directors’ conduct should be governed by the basic principle that personal interests should not be brought into conflict with duties to CAE.

### **4.2 Conflicts of Interest**

Directors must provide CAE with complete information of all entities in which they have a material interest so that any conflicts, which they may have regarding these entities, can be identified. This requirement is extremely important in permitting the Governance Committee to properly identify and review “related party” transactions under applicable legislation. Directors (and officers) who (i) are parties to, (ii) are directors or officers of any entity who is a party to, or (iii) have a material interest in any person who is a party to a material contract or proposed material contract with CAE, must disclose in writing to CAE or request to have entered in the minutes of a board meeting the nature and extent of that interest. Applicable legislation provides for the time when such disclosure must be made (see s. 120 of the CBCA, set out in Annex A hereto). The disclosure should be accurate and complete in every instance. Directors should excuse themselves from participation in any board discussions of matters in respect of which they may have a real or potential conflict of interest. A director shall not be present or vote at a meeting of the board during the time of the meeting when the board is considering any such contract.

## **PART FIVE - COMPANY OPPORTUNITIES**

Directors are prohibited from personally taking an opportunity for business or profit that belongs to CAE. Directors must promptly disclose any actual or potential conflicting interests of this nature to the Chairman of the Board of Directors or the Governance Committee of the Board.

## **PART SIX - FAIR DEALING**

CAE Directors shall take reasonable steps to ensure that they and the company live up to the fair dealing practices outlined in CAE's Code of Business Conduct. These include avoiding agreements with any competitor of CAE on matters in restraint of trade, dealing fairly with all customers and suppliers, avoiding any use of coercion in the sale of products to customers, and avoiding any unfair or deceptive act or practice.

## **PART SEVEN - PROTECTION OF COMPANY ASSETS**

All Directors must protect CAE property as well as any CAE information and documentation under their custody and control.

## **PART EIGHT - COMPLIANCE WITH CODE**

### **8.1 Compliance Procedure**

The Governance Committee has been constituted to, among other things, monitor the procedures set forth in and compliance with this Code.

Any action, deed or transaction, past or proposed, that appears to violate the terms of this Code shall be referred to the Chairman of the Governance Committee. All information will, to the extent possible, be received in confidence. The Governance Committee will report its findings to the Board of Directors who will decide upon the action to be taken. The Governance Committee may itself initiate action to investigate and hear evidence regarding any action, deed or transaction, past or proposed that appears to violate the terms of this Code or may direct the President and CEO to do so.

If you receive a written enquiry or complaint with respect to CAE's accounting practices and/or financial records, a copy of such communication should be promptly forwarded to the Chairman of the Audit Committee.

Any Director who fails to comply with the Code, or who withholds information during the course of an investigation regarding a possible violation of the Code, is subject to disciplinary action up to and including termination as Director.

### **8.2 Annual Confirmation**

Each CAE directors shall be required to confirm in writing that he or she has received a copy of this Code and has read and understood it (Annex B). CAE directors will also be asked to confirm annually their adherence to this Code and/or that they have reported any known breaches of this Code by signing the copy of the annual reporting letter and forwarding same to the Chairman of the Governance Committee. They must also undertake to report any irregularity or impropriety, or reasonable suspicion of same to the Chairman of the Governance Committee.

The Chairman of the Governance Committee will subsequently report to the Governance Committee on completion of the procedure described above.

### **8.3 Waiver**

Any proposed waiver of a breach of this Code must be reviewed by the Chairman and the Chairman of the Governance Committee. Any decision to waive a breach must be promptly communicated by them to the President and CEO, who shall be responsible for arranging any public disclosure of same required by any applicable law, rule or regulation.

May 11, 2004

## Annex A

### Section 120, CBCA

**120.** (1) A director or officer of a corporation who

(a) is a party to a material contract or proposed material contract with the corporation, or

(b) is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with the corporation,

shall disclose in writing to the corporation or request to have entered in the minutes of meetings of directors the nature and extent of his interest.

(2) The disclosure required by subsection (1) shall be made, in the case of a director,

(a) at the meeting at which a proposed contract is first considered;

Time of disclosure for director

(b) if the director was not then interested in a proposed contract, at the first meeting after he becomes so interested;

(c) if the director becomes interested after a contract is made, at the first meeting after he becomes so interested; or

(d) if a person who is interested in a contract later becomes a director, at the first meeting after he becomes a director.

(3) The disclosure required by subsection (1) shall be made, in the case of an officer who is not a director,

Time of disclosure for officer

(a) forthwith after he becomes aware that the contract or proposed contract is to be considered or has been considered at a meeting of directors;

(b) if the officer becomes interested after a contract is made, forthwith after he becomes so interested; or

(c) if a person who is interested in a contract later becomes an officer, forthwith after he becomes an officer.

Time of disclosure for director or officer

(4) If a material contract or proposed material contract is one that, in the ordinary course of the corporation's business, would not require approval by the directors or shareholders, a director or officer shall disclose in writing to the corporation or request to have entered in the minutes of meetings of directors the nature and extent of his interest forthwith after the director or officer becomes aware of the contract or proposed contract.

Voting

(5) A director referred to in subsection (1) shall not vote on any resolution to approve the contract unless the contract is

(a) an arrangement by way of security for money lent to or obligations

undertaken by him for the benefit of the corporation or an affiliate;

(b) one relating primarily to his remuneration as a director, officer, employee or agent of the corporation or an affiliate;

(c) one for indemnity or insurance under section 124; or

(d) one with an affiliate.

Continuing disclosure (6) For the purposes of this section, a general notice to the directors by a director or officer, declaring that he is a director or officer of or has a material interest in a person and is to be regarded as interested in any contract made with that person, is a sufficient declaration of interest in relation to any contract so made.

Avoidance standards (7) A material contract between a corporation and one or more of its directors or officers, or between a corporation and another person of which a director or officer of the corporation is a director or officer or in which he has a material interest, is neither void nor voidable by reason only of that relationship or by reason only that a director with an interest in the contract is present at or is counted to determine the presence of a quorum at a meeting of directors or committee of directors that authorized the contract, if the director or officer disclosed his interest in accordance with subsection (2), (3), (4) or (6), as the case may be, and the contract was approved by the directors or the shareholders and it was reasonable and fair to the corporation at the time it was approved.

Application to court (8) Where a director or officer of a corporation fails to disclose his interest in a material contract in accordance with this section, a court may, on the application of the corporation or a shareholder of the corporation, set aside the contract on such terms as it thinks fit.

**Annex B**

**CAE INC.**

**BOARD MEMBER CODE OF CONDUCT**

**CAE DIRECTOR'S ACKNOWLEDGMENT**

The undersigned acknowledges having read the Board Member's Code of Conduct (the "Code") of CAE Inc. and understands the implications thereof to himself or herself and to CAE of a violation of the Code. The undersigned undertakes to report any irregularity or impropriety in respect of the Code to the Chairman of the Governance Committee. The undersigned further acknowledges and understands that violation of the Code may constitute cause for removal as a director of CAE, depending on the particular circumstances.

DATED this \_\_\_\_\_ day of \_\_\_\_\_, 200 .

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Signature

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Name (Please Print)