



CAE INC.

Corporate Governance Guidelines

The Board of Directors of CAE Inc. has adopted the following Corporate Governance Guidelines to assist the Board in the exercise of its responsibilities. The Board is elected by the Company's shareholders to oversee management and the Company's business results. The Board's purpose is to build long-term value for the Company's shareholders and to ensure the continuity and vitality of the Company's businesses by setting policy for the Company, selecting the President and Chief Executive Officer, monitoring the performance of both the Company and the CEO, and providing management with appropriate advice and feedback. Management is responsible for and the Board is committed to ensuring that CAE operates in a legal and ethically responsible manner.

Director Qualification Standards

The Board has delegated to the Governance Committee the responsibility for reviewing and recommending nominees for membership on the Board. The President and Chief Executive Officer and the Chief Operating Officer, if any, shall be the only members of the Board who are employees of the Company. Candidates for election or re-election to the Board of Directors should possess: (i) the highest personal and professional ethics; (ii) a background and expertise that may be useful to the Company and complementary to and different from the background of the other directors; and (iii) a willingness to devote the required time to the duties and responsibilities of Board membership.

Director Responsibilities

Directors are expected to attend Board meetings and meetings of the committees on which they serve and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Board materials related to agenda items are provided to directors sufficiently in advance of meetings to allow them to prepare for discussion of the items, and directors should review these materials in advance of meetings. The Board expects that directors will attend the annual meeting of stockholders, unless they have a valid reason for not attending, such as a schedule conflict.

Director Independence

It shall be the policy of the Board that a substantial majority of the members of the Board of Directors, and all of the members of the Audit Committee, Human Resources Committee and the Governance Committee, qualify as "independent Directors" in accordance with applicable

provisions of securities legislation and regulation and the listing standards of the stock exchanges on which the Company's shares are listed, as they may from time to time be amended.

The Board of Directors shall annually review and determine the independence of each Director, taking into account the requirements of securities regulations, applicable legislation and stock exchange listing guidelines.

Board Size

The number of Directors shall, in accordance with the Company's articles, be no less than three nor more than twenty-one and the Board of Directors favors a board comprising approximately twelve Directors. This number provides diversity of thought and experience without hindering effective discussion or diminishing individual accountability.

Director Tenure

Directors will not be re-nominated as a Director of the Company following their 70th birthday, with the exception of a Director previously serving at the time of the 2003 AGM and being over 70 years of age. Employee Directors shall retire from the Board following their 65th birthday. Employee Directors shall not serve as Chairman of the Board.

Directors who change their employment are required to notify the Chairman of the Governance Committee and offer their resignation from the Board. These individuals shall be reviewed by the Governance Committee to determine continuation of Board service.

Director Compensation

Director compensation is determined by the Governance Committee. The Company's policy shall be to ensure that Director compensation is appropriate and competitive in order to ensure the Company's ability to attract and retain highly-qualified Directors. Director compensation will be disclosed each year in the Company's Annual Meeting proxy statement.

Director and Executive Employee Share Ownership Requirements

Requiring Directors and executive employees to have a reasonable equity ownership in the Company helps to more closely align their economic interests with those of other Company shareholders. Each Director shall, at all times, be an owner of the common shares and/or share units of the Company. Non-employee Directors shall own shares and/or deferred share units of the Company equivalent to three years base compensation and will receive their compensation (other than meeting attendance fees) in respect of his or her services as a director, including, without limitation, his or her annual retainer for serving as a member of the Board or a committee thereof, in deferred share units until such shareholding is attained. The Human Resources Committee shall maintain guidelines for common share ownership in the Company by executive employees.

Board Committees and Charters

The Board has established the following standing committees: Audit, Human Resources, Governance and Executive. Each standing committee has a written charter describing its duties.

Frequency of Board and Committee Meetings

The Board regularly meets four times a year. The Board may hold additional meetings from time to time. One meeting a year will be a review of the strategic issues and opportunities facing the Company. The frequency of committee meetings shall be set forth in each committee's charter. Additional meetings of all committees shall be held in circumstances that create the need for a special meeting.

Selection of Agenda Items for Board and Committee Meetings

The Chairman of the Board shall establish the agenda for Board meetings. Similarly, the committee chairs and other members shall establish the committee agendas in advance.

Board and Committee Materials Distributed in Advance

The Board and its committees shall be provided with appropriate materials in advance of each meeting, for review and study.

Chairman

The Board currently believes that it is in the best interest of the Company and its shareholders that the offices of Chairman of the Board and Chief Executive Officer be separate. Responsibilities of the Chairman of the Board of Directors shall include: leadership of meetings of the Board; preparation of the agendas for Board meetings; determination of material to be provided to the Board; facilitation of communications between the Board and management; focal point for shareholder communications addressed to independent members of the Board; ability to retain outside professionals on behalf of the Board as the Board may determine is necessary or appropriate; and such other functions as the Board may direct.

Executive Sessions of Non-Management Directors

The non-management Directors shall meet in executive sessions in connection with each regularly scheduled meeting of the Board, and at other times as they may wish. Committees of the Board may also call executive sessions of the committee as they may wish.

Board Self-Evaluation

The Governance Committee shall be responsible for the administration of the Board and Board committee evaluation process. The performance of the Board and each Board committee shall be evaluated annually. The qualifications and performance of individual Directors shall be evaluated by the Governance Committee each time a Director is nominated as a Director, when there has been a change of employment of a Director, and at other times as the Committee may deem appropriate.

Director Access to Management and Independent Advisors

The Company shall provide each Director with complete access to the management of the Company, subject to reasonable advance notice and reasonable efforts to avoid disruption to the Company's management, business and operations. The Board of Directors and Board committees shall have the right to consult and retain independent legal and other advisors, including determination of their fees, at the expense of the Company.

Reporting of Concerns to Non-Employee Directors

In order that interested parties may be able to make their concerns known to the non-employee Directors or the Chairman, the Company shall provide on its Corporate Governance website addresses at which such parties can communicate directly and confidentially with the Chairman, the chair of any committee or with the non-management Directors as a group.

Management Evaluation and Succession

The Human Resources Committee and the Board of Directors shall conduct an annual review of the performance of the President and Chief Executive Officer.

The Board will periodically perform succession planning for the President and Chief Executive Officer position to prepare for a possible emergency involving, or the departure or retirement of, the President and Chief Executive Officer.

Code of Business Conduct

The Company has a Code of Business Conduct to provide guidelines for ethical conduct by officers and employees as well as guidelines for financial managers concerning the preparation and disclosure quality of financial statements. In the area of corporate governance, the Code of Business Conduct contains guidance regarding conflicts of interest, corporate opportunities, confidentiality, protection of company assets, and related areas. The Board also has a code of conduct applicable to the Directors of the Company. The Code of Business Conduct and the Board Member Code of Conduct shall be posted on the Company's website.

Director Orientation and Continuing Education

The Company shall have an orientation program designed to familiarize new Directors with the Company, its management structure and operations, the industries in which the Company operates, and key legal, financial and operational issues. Directors shall be provided with information regarding corporate governance and the structure, and procedures of the Board and the committees on which the Directors will serve.

Directors of the Company shall have access to appropriate continuing Director education programs to help ensure that they stay current on corporate governance, best Board practices, financial and accounting practices, ethical issues for Directors and management, and similar matters. Continuing education relating to the Company's business matters shall occur regularly.

Periodic Review of Guidelines

The Governance Committee shall periodically review these Corporate Governance Guidelines.

As adopted by the Board of Directors of CAE Inc. on May 14, 2009.