



NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS JUNE 21, 2006

Take notice that the Annual and Special Meeting of the Shareholders of CAE Inc. (the "Corporation") will be held at Le Windsor, 1170 Peel Street, Montreal, Quebec on Wednesday, the 21st day of June, 2006, at 10:30 a.m. (Eastern Time) for the following purposes:

- 1) to receive the consolidated financial statements for the year ended March 31, 2006, together with the auditors' report thereon;
- 2) to elect Directors;
- 3) to appoint auditors and authorize the Directors to fix their remuneration;
- 4) to consider and, if deemed appropriate, adopt a resolution (see "Special Business of the Meeting" in the accompanying Proxy Information Circular) renewing the shareholder protection rights plan agreement, a summary of which is set forth in Appendix B to the accompanying Proxy Information Circular; and
- 5) to transact such further or other business as may properly come before the Meeting or any adjournment thereof.

The specific details of all matters proposed to be put before the Meeting are set forth in the accompanying Proxy Information Circular.

The Board of Directors has specified that proxies to be used at the Meeting or any adjournment thereof must be deposited in Montreal with the Corporation or Computershare Trust Company of Canada, as agent for the Corporation, not later than 10:30 a.m. (Eastern Time) on June 20, 2006.

DATED at Montreal, this 17th day of May, 2006.

By Order of the Board,

Hartland J. A. Paterson
Vice President, Legal,
General Counsel and Corporate Secretary

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Unless otherwise indicated, the information in this Information Circular is given as of April 30, 2006, and all dollar references are in Canadian dollars.

SOLICITATION OF PROXIES

This Proxy Information Circular (the “Information Circular”) is furnished in connection with the solicitation by management of CAE Inc. (“CAE” or the “Corporation”) of proxies to be used at the Annual and Special Meeting of Shareholders of the Corporation (the “Meeting”) to be held at the time and place and for the purposes set forth in the accompanying notice of the Meeting. The solicitation will be primarily made by mail but proxies may also be solicited personally by the officers and Directors of the Corporation at nominal cost. The cost of solicitation by management will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are Directors of the Corporation. Shareholders desiring to appoint some other person as their representative at the Meeting may do so either by inserting such other person’s name in the blank space provided or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Corporation’s Secretary at 8585 Côte-de-Liesse, Saint-Laurent, Quebec H4T 1G6 or to Computershare Trust Company of Canada, 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1, not later than 10:30 a.m. (Eastern Time) on June 20, 2006.

A proxy given pursuant to this solicitation may be revoked by instrument in writing executed by the shareholder or by his or her attorney authorized in writing, and delivered to the Corporation’s Secretary at 8585 Côte-de-Liesse, Saint-Laurent, Québec, H4T 1G6, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of such Meeting on the day of the Meeting, or any adjournment thereof, or in any other manner permitted by law.

VOTING OF PROXIES

The persons named in the accompanying form of proxy will vote or withhold from voting the common shares in respect of which they have been appointed on any ballot that may be called for in accordance with the directions of the shareholder as specified in the proxy. In the absence of such direction, such shares will be voted: (a) FOR the election as Directors of the persons designated in this Information Circular as nominees for such office; (b) FOR the appointment of PricewaterhouseCoopers LLP, Chartered Accountants, as auditors of the Corporation and for the authorization of the Directors to fix their remuneration; and (c) FOR the resolution to approve the renewal of the Shareholder Protection Rights Plan Agreement.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of the Meeting, or other matters that may properly come before the Meeting. At the time of printing this Information Circular, the management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting.

Shareholders who are unable to attend the annual and special meeting in person may vote by proxy in one of four ways: by telephone, by mail, on the Internet or by appointing another person to attend and vote at the Meeting on their behalf. However, certain shareholders must vote their proxy by mail. Refer to the enclosed form of proxy for instructions.

ELECTRONIC ACCESS TO PROXY-RELATED MATERIALS AND ANNUAL AND QUARTERLY REPORTS

We offer our shareholders the opportunity to view proxy information circulars, annual reports and quarterly reports through the Internet instead of receiving paper copies in the mail. If you are a registered shareholder you can choose this option by following the instructions on your form of proxy. If you hold your common shares through an intermediary (such as a bank or broker), please refer to the information provided by the intermediary on how to choose to view our proxy information circulars, annual reports and quarterly reports through the Internet.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

There are 250,719,030 outstanding common shares of the Corporation as of April 30, 2006. Each shareholder is entitled to one vote for each common share that is registered in his or her name on the list of shareholders which is available for inspection during usual business hours at Computershare Trust Company of Canada, 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1, and at the Meeting. The list of shareholders will be prepared as of May 1, 2006, the date (the "Record Date") fixed for determining shareholders entitled to receive notice of the Meeting.

To the knowledge of the Directors and officers of the Corporation, there are no persons who beneficially own or exercise control or direction over common shares carrying more than 10% of the voting rights attached to common shares of the Corporation other than Fidelity Management & Research Company.

SHAREHOLDERS ENTITLED TO VOTE

Only holders of record of common shares at the close of business on the Record Date are entitled to notice of and to attend the Meeting or any adjournment or adjournments thereof and to vote thereat.

ELECTION OF DIRECTORS

Under the articles of the Corporation, the Board of Directors may consist of a minimum of three (3) and a maximum of twenty-one (21) Directors. The Directors are to be elected annually as provided in the Corporation's by-laws. Each Director will hold office until the next annual meeting or until his successor is duly elected unless his office is earlier vacated in accordance with the by-laws. In accordance with the by-laws, the Board of Directors has fixed the number of Directors to be elected at the Meeting at thirteen (13).

The following table states the name of each person proposed to be nominated for election as a Director, all other positions and offices with the Corporation now held by him, if any, his principal occupation or employment, the period of service as a Director of the Corporation and the number of common shares and deferred share units of the Corporation beneficially owned by him or over which he exercises control or direction as of the date hereof.

Brian E. Barents
Age: 62
Andover, Kansas
Director Since: 2005
Independent¹

Brian E. Barents is a Director of several companies as well as a board member of the Flight Safety Foundation. A former Air National Guard Brigadier General and still an active pilot, Mr. Barents was the President, CEO and co-founder of Galaxy Aerospace Company, LP from 1997-2001 and before that President and CEO of Learjet, Inc. from 1989-1996.

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	7 of 7	100%	Kaman Corporation	'96 - now
Human Resources	4 of 5	80%	Eclipse Aviation Corporation	'01 - now
			Nordam Group	'03 - now
			Aerion Corporation	'02 - now

SECURITIES HELD

Year	Common Shares²	DSUs³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs⁴	Minimum Required⁵
April 30, 2006	–	6,954	6,954	\$63,976	20,000
May 12, 2005	–	1,163	1,163	\$6,722	

Robert E. Brown⁶

Age: 61

Westmount, Quebec

Director Since: 2004

Not Independent

(Management)

Robert E. Brown is President and Chief Executive Officer of the Corporation and a member of the Executive Committee. Prior to joining CAE, Mr. Brown was Chairman of the Board of Air Canada from May 2003 to October 2004, and before this, Mr. Brown was President and Chief Executive Officer of Bombardier Inc. from February 1999 to December 2002. Mr. Brown was also Chairman of Lyrtech, Inc. and Allen-Vanguard Corporation and has served as a Director of other public companies.

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	7 of 7	100%	Nortel Networks Corporation	'00 - now
Executive	N/A	N/A	Nortel Networks Limited	'00 - now
			ACE Aviation Holdings Inc.	'04 - now
			Aeroplan	'05 - now
			Jazz Air Income Fund*	'05 - now
			Air Canada	'03 - '04
			Bombardier Inc.	'99 - '02
			Lyrtech, Inc.	'03 - '04
			Allen-Vanguard Corporation	'03 - '05
			*Trustee	

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	182,519	287,898	470,417	\$4,327,836	300% of salary (\$2,820,000)
May 12, 2005	174,000	136,157	310,157	\$1,792,707	

John A. (Ian) Craig

Age: 63

Ottawa, Ontario

Director Since: 2000

Independent¹

John A. (Ian) Craig is a business consultant and a Director of the Ottawa Heart Institute.

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	7 of 7	100%	Bell Canada International Inc.	'00 - now
Audit	5 of 5	100%	Arris Group Inc.	'00 - now
			Trizec Hahn Corporation	'00 - '02
			Williams Communications Services, LLC	'00 - '02

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	30,000	21,091	51,091	\$470,037	20,000
May 12, 2005	30,000	17,739	47,739	\$275,931	

H. Garfield Emerson, Q.C., ICD.D⁸ H. Garfield Emerson is National Chairman of the national law firm of Fasken Martineau DuMoulin LLP and was formerly the President and CEO of NM Rothschild & Sons Canada Limited, investment bankers. He is also a Director of various companies.

Age: 65

Toronto, Ontario

Director Since: 1992

Independent¹

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	7 of 7	100%	Rogers Communications Inc.	'89 - '06
Corporate Governance	4 of 4	100%	Rogers Wireless Communications Inc. Canada Deposit Insurance Corporation Rogers Cable Inc. Rogers Media Inc. Wittington Investments, Limited Sentry Select Capital Corp.	'92 - '06 '94 - now '89 - '06 '89 - '06 '02 - now '06 - now

SECURITIES HELD

Year	Common Shares²	DSUs³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs⁴	Minimum Required⁵
April 30, 2006	16,600	33,761	50,361	\$463,321	20,000
May 12, 2005	16,600	25,990	42,590	\$246,170	

Anthony S. Fell, O.C. Anthony S. Fell is Chairman of RBC Capital Markets Inc. and was formerly Chairman and Chief Executive Officer of RBC Dominion Securities (and continues as Director thereof) and Deputy Chairman of Royal Bank of Canada. Mr. Fell is also Chairman of Munich Reinsurance Company of Canada and Chairman of the Board of Trustees of University Health Network.

Age: 67

Toronto, Ontario

Director Since: 2000

Independent¹

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	7 of 7	100%	BCE Inc.	'02 - now
Corporate Governance (Chairman)	4 of 4	100%	Bell Canada Loblaw Companies Limited Telesat Canada	'03 - now '01 - now '02 - now

SECURITIES HELD

Year	Common Shares²	DSUs³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs⁴	Minimum Required⁵
April 30, 2006	50,000	37,478	87,478	\$804,797	20,000
May 12, 2005	50,000	28,366	78,366	\$452,955	

Paul Gagné

Age: 59
Montreal, Quebec
Director Since: 2005
Independent¹

Paul Gagné is a Director of various public and private companies. Between 1998 and 2002, Mr. Gagné served as a consultant to Kruger Inc. and a Director of its UK Tissues Group. Prior to that, he was sequentially the Vice President Finance, Chief Operating Officer and Chief Executive Officer and Chairman of Canadian Pacific Forest Products Limited and Avenor Inc. Mr. Gagné is the Chairman of Wajax Income Fund and also chairs the Audit Committees of the boards of Textron Inc., Inmet Mining Corporation and Fraser Papers Inc. The CAE board has determined that such simultaneous service does not impair the ability of Mr. Gagné to effectively serve on CAE's Audit Committee.

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	6 of 7	85%	Textron Inc.	'95 - now
Audit	5 of 5	100%	Inmet Mining Corporation Wajax Income Fund* Fraser Papers Inc. *Trustee	'96 - now '96 - now '04 - now

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	–	6,954	6,954	\$63,976	20,000
May 12, 2005	–	1,163	1,163	\$6,722	

James A. Grant, P.C., C.M., Q.C.

Age: 69
Montreal, Quebec
Director Since: 1991
Independent¹

The Honourable James A. Grant is a partner in the legal firm of Stikeman Elliott LLP (Montreal). Mr. Grant is a Director of various charitable and social organizations.

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	7 of 7	100%	Canadian Imperial Bank of Commerce	'91 - now
Human Resources Executive	5 of 5	100%	Shire Pharmaceuticals Group plc	'01 - now
	N/A	N/A		

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	10,000	17,739	27,739	\$255,199	20,000
May 12, 2005	10,000	13,480	23,480	\$135,714	

James F. Hankinson

Age: 62
Toronto, Ontario
Director Since: 1995
Independent¹

James F. Hankinson is President and Chief Executive Officer of Ontario Power Generation Inc. He is also Chairman of the Board of Trustees of Entertainment One Income Fund.

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	3 of 7	42%	Maple Leaf Foods Inc.	'95 - now
Audit (Chairman)	3 of 5	60%	Ontario Power Generation Inc.	'03 - now
Corporate Governance	2 of 4	50%	Entertainment One Income Fund	'03 - now

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	4,018	41,602	45,620	\$419,704	20,000
May 12, 2005	4,018	36,394	40,412	\$233,581	

E. Randolph (Randy) Jayne II E. Randolph (Randy) Jayne is a Senior Partner in Heidrick & Struggles International, Inc., an executive search firm (1996–present) and is currently the Office Managing Partner of the firm’s Tysons Corner, VA office.

Age: 61
McLean, Virginia
Director Since: 2001
Independent¹

Board/Committee Membership	Attendance	
Board of Directors	7 of 7	100%
Human Resources	5 of 5	100%

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	–	29,704	29,704	\$273,276	20,000
May 12, 2005	–	23,799	23,799	\$137,558	

Robert Lacroix, Ph.D. Robert Lacroix holds a Ph.D. in Economics, has been a Professor in the Department of Economics at the Université de Montréal since 1970 and has served as Chairman of that Department and Director of the Centre for Research and Development in Economics (CRDE). He was Dean of the Faculty of Arts and Sciences from 1987-1993, President and Executive Director of CIRANO (Centre for Interuniversity Research and Analysis on Organizations) from 1994-1998 and Rector of the Université de Montréal from 1998-2005. Dr. Lacroix is Member of the Order of Canada, Officer of the Order of Québec and a Fellow of the Royal Society of Canada. He has received the award for Exceptional Career of the National Policy Research Initiative (2001) and the Prix Armand-Frappier for outstanding achievement in the development of research activities (2002). Dr. Lacroix chaired the Board of Directors of the Association of Universities and Colleges of Canada from 2001-2003 and the Board of Directors of the Conference of Rectors and Principals of Québec Universities from 2003-2005 and was a member of the Board of Trade of Metropolitan Montreal from 2001-2004. Dr. Lacroix is also member of the Board of Governors of the Montreal Conference, member of the Board of the Trudeau Foundation, member of the National Statistics Council and Chairman of the Board of the Foundation for Educational Exchange between Canada and the United States of America (The Canada – U.S. Fulbright Program). He is also a Director of Pomerleau Inc.

Age: 66
Montreal, Quebec
Director Since: 2005
Independent¹

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	3 of 3	100%	Industrial Alliance Inc.	'04 - now
Corporate Governance	1 of 1	100%		

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	500	3,005	3,505	\$32,246	20,000

James W. McCutcheon, James W. McCutcheon is Legal Counsel and a Director of various companies and charitable organizations.

Q.C.

Age: 69
Toronto, Ontario
Director Since: 1979
Independent¹

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	7 of 7	100%	Canadian Satellite Radio Holdings Inc.	'05 - now
Audit	5 of 5	100%	Dominion of Canada General Insurance Company	'88 - now
			E-L Financial Corporation	'88 - '03
			Empire Life Insurance Company	'88 - now
			Guardian Capital Group Limited	'97 - '03
			Noranda Inc.	'93 - '05
			Falconbridge Limited	'05 - now

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	100,292	740	101,032	\$929,494	20,000
May 12, 2005	100,292	–	100,292	\$579,688	

Lawrence N. Stevenson Lawrence N. Stevenson is Chief Executive Officer of Pep Boys, a NYSE-listed US automotive services company.

Age: 49
Toronto, Ontario
Director Since: 1998
Independent¹

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	7 of 7	100%	SNC-Lavalin Group Inc.	'98 - now
Human Resources (Chairman)	5 of 5	100%	Sobeys Inc.	'99 - '03

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	45,038	26,436	71,474	\$657,560	20,000
May 12, 2005	45,038	25,567	70,605	\$408,097	

Lynton R. Wilson, O.C. ⁷ Lynton R. Wilson is Chairman of the Board of the Corporation, Chairman of the DaimlerChrysler Canadian Advisory Council and also of Allergen NCE Inc.

Age: 66
Oakville, Ontario
Director Since: 1997
Independent¹

Board/Committee Membership	Attendance		Public Board Membership During Last Five Years	Term
Board of Directors	7 of 7	100%	DaimlerChrysler AG	'98 - now
Human Resources	5 of 5	100%	Nortel Networks Corporation	'91 - '05
Governance	4 of 4	100%	Nortel Networks Limited	'91 - '05
Executive (Chairman)	N/A	N/A	Imperial Oil	'99 - '02
			Ontario Power Generation Inc.	'98 - '02

SECURITIES HELD

Year	Common Shares ²	DSUs ³	Total of Common Shares and DSUs	Total Market Value of Common Shares and DSUs ⁴	Minimum Required ⁵
April 30, 2006	2,308,300	22,037	2,330,337	\$21,439,100	20,000
May 12, 2005	2,308,300	21,926	2,330,226	\$13,468,706	

- 1 “Independent” refers to the standards of independence established under Section 2 of the New York Stock Exchange Corporate Governance Rules, Section 301 of the *Sarbanes-Oxley Act of 2002* and Section 12.2 of Canadian Securities Administrators’ National Instrument 58-101.
- 2 “Common Shares” refers to the number of common shares beneficially owned, or over which control or direction is exercised by the Director.
- 3 “DSUs” refers to the number of deferred share units held by the Director.
- 4 The “Total Market Value of Common Shares and DSUs” is determined by multiplying the closing price of the common shares on the Toronto Stock Exchange (“TSX”) on each of April 30, 2006 (\$9.20) and May 12, 2005 (\$5.78) respectively, times the number of common shares and DSUs held as of such dates.
- 5 All Directors are required to acquire an equity position in the Corporation of a minimum of 20,000 Common shares and/or DSUs. Directors must take compensation in DSUs until the minimum threshold is met (see “Compensation of Directors”).
- 6 Mr. Brown also holds 1,000,000 options to acquire common shares of the Corporation and as President & CEO has a higher share/DSU ownership target than an independent Director. Mr. Brown joined the Board of Air Canada two weeks before it filed for protection under the Companies’ Creditors Arrangement Act on April 1, 2003, to help manage the financial crisis in which that company found itself. From May 31, 2004 until on or about June 21, 2005, Mr. Brown, as a Director of Nortel Networks Corporation (NNC) and Nortel Networks Limited (NNL) was prohibited from trading in the securities of NNC and NNL pursuant to management cease trade orders issued by the Ontario Securities Commission (or OSC) and certain other provincial securities regulators in connection with the delay in the filing of certain of their financial statements. Mr. Brown, again as a Director of NNC and NNL, is currently subject to an April 10, 2006 OSC management cease trade order prohibiting all of the current directors of NNC and NNL, as well as certain other insiders, from trading in securities of NNC and NNL until two business days following the receipt by the OSC of all Nortel filings required pursuant to Ontario securities laws. On March 27, 2006, the Quebec Securities Commission issued a similar order applicable to Mr. Brown and other NNC and NNL management and Directors.
- 7 From May 31, 2004 until on or about June 21, 2005, Mr. Wilson, as a Director and Chairman of Nortel Networks Corporation (NNC) and Nortel Networks Limited (NNL) was prohibited from trading in the securities of NNC and NNL pursuant to management cease trade orders issued by the Ontario Securities Commission (or OSC) and certain other provincial securities regulators in connection with the delay in the filing of certain of their financial statements.
- 8 From August 28 to November 20, 1998, Mr. Emerson, as a Director of Livent Inc., was prohibited from trading in the securities of Livent pursuant to a management cease trade order issued by the OSC in connection with the delay in the filing of certain of its financial statements. Mr. Emerson resigned as a Director of Livent in November 1998; within a year of his resignation, Livent filed for bankruptcy.

If any of the above nominees is for any reason unavailable to serve as a Director, proxies in favor of management will be voted for another nominee, in their discretion, unless the shareholder has specified in the proxy that his or her common shares are to be voted for another nominee or are to be withheld from voting in the election of Directors.

Any nominee for Director in an uncontested election who receives a greater number of votes “withheld” from his or her election than votes “for” his or her election shall tender his or her resignation to the Chairman of the Governance Committee following certification of the shareholder vote.

The Governance Committee will consider the tendered resignation and recommend to the Board whether to accept or reject it. The Board will act following the Governance Committee’s recommendation not later than 90 days following the date of the shareholders’ meeting at which the election occurred. In deciding whether to accept the tendered resignation, the Board will consider the factors considered by the Governance Committee and any additional information and factors the Board believes to be relevant. The Board’s decision will be publicly disclosed.

APPOINTMENT OF AUDITORS

The Board proposes that PricewaterhouseCoopers LLP, Chartered Accountants, Montreal, Quebec (“PwC”) be appointed as auditors of the Corporation to hold office until the close of the next annual meeting of shareholders and that the Directors of the Corporation be authorized to fix their remuneration. PwC was first appointed as auditors of the Corporation in 1991.

SPECIAL BUSINESS OF THE MEETING

The Corporation is a party to a shareholder protection rights plan agreement with Computershare Trust Company of Canada, as rights agent, dated March 7, 1990, as subsequently amended (the “Rights Plan”). The Rights Plan will expire unless the shareholders vote at the Meeting to continue its operation. The Board of Directors has determined to recommend renewing the existing Rights Plan on identical terms. At the Meeting, shareholders will be asked to consider and vote to approve the renewal of the Rights Plan, a summary of which is set forth in Appendix B hereto. **This summary is qualified in its entirety by reference to the text of the Rights Plan, which is available upon request from the Secretary of the Corporation at CAE Inc., 8585 Côte-de-Liesse, Saint-Laurent, Quebec H4T 1G6 (telephone number [514] 734-5779 and facsimile number [514] 340-5530).** Capitalized terms used in such summary without express definition have the meanings ascribed thereto in the Rights Plan.

The Rights Plan will continue in effect only if it is approved by ordinary resolution of the holders of common shares of the Corporation at the Meeting. The text of the resolution approving the Rights Plan (the “Rights Plan Resolution”) is set forth in Appendix C hereto. If not so approved, the Rights Plan will terminate and the rights issued under it will be void.

The Board of Directors of the Corporation recommends that shareholders vote in favour of the Rights Plan Resolution.

REPORT ON EXECUTIVE COMPENSATION

COMPENSATION PHILOSOPHY

Much of CAE's success in developing and growing its worldwide business is attributable to a highly motivated, entrepreneurial executive team. The cornerstone to the executive compensation program is a pay-for-performance philosophy in which executives receive salaries, annual short-term incentive awards contingent upon attaining consolidated, divisional and individual achievements, and long-term incentive awards that motivate executives to create increasing and sustainable value for the shareholders.

The objectives of the executive compensation program are to:

1. attract, retain and motivate qualified executives;
2. align the interests of executives with those of the shareholders;
3. foster teamwork and entrepreneurial spirit;
4. establish an explicit and visible link between all elements of compensation and corporate, subsidiary and individual performance; and
5. integrate compensation with the development and successful execution of strategic and operating plans.

REVIEW AND APPROVAL

The Human Resources Committee reviews and approves the design and administration of all compensation and benefit plans and policies for the Corporation other than in respect of the President and Chief Executive Officer, whose compensation arrangements are reviewed and approved by the Board of Directors based on recommendations from the Human Resources Committee.

BASE SALARY

The base salaries of the executives of the Corporation are competitive with like positions in other corporations with similar characteristics including the industry, revenues, assets and geographic location of operations. An executive's salary is generally targeted at a specific range around the median level, as determined by a variety of surveys conducted by independent professional compensation consultants, and supplemented by other sources of information. Such salary, however, will vary depending on the individual's performance, level of experience and years of service.

ANNUAL SHORT-TERM INCENTIVE AWARDS

The short-term incentive awards for executives of the Corporation are designed to recognize the Corporation's consolidated financial performance, reporting segment financial performance and individual achievements. At the beginning of each fiscal year, financial performance targets, based in large measure in fiscal 2006 ("FY2006") and onwards on economic value added, and individual objectives are established. Short-term incentives are paid in the form of cash bonuses based upon a percentage of the executive's base salary. The bonus as a percentage of salary varies by the level of the executive with target awards ranging from 8% for the lowest eligible position to 100% of salary for the President and Chief Executive Officer. Actual awards, however, could be up to 2.4 times greater than the target awards depending upon the achievement of the previously noted results and objectives. For FY2006, short-term incentive awards were paid to certain executives in the first quarter of fiscal 2007 for meeting financial and individual objectives.

LONG-TERM INCENTIVE AWARDS

The long-term incentive program is designed to reward executives for their contribution to the creation of shareholder value. These awards are considered annually as part of the total compensation review. The value of the long-term incentive award varies by the level of the executive ranging from a low of 20% for the lowest eligible position to a maximum of 350% of base salary for the President and Chief Executive Officer.

In fiscal 2004 ("FY2004"), the long-term incentive program was changed to reduce the use of stock options with the introduction of long-term incentive deferred share units (see "Long Term Incentive Deferred Share Unit Plans"). The value of the long-term incentive awards was allocated equally between these two components.

In fiscal 2005 (“FY2005”), the Board approved additional changes to the Corporation’s structure of long-term incentive compensation, further reducing the use of stock options. The changes restricted the number of executives entitled to receive stock options to approximately 30 (being the most senior executives) and added a performance-based Restricted Share Unit (“RSU”) (see description below). The Board also modified the existing Long Term Incentive Deferred Share Unit Plan to create a new version of such units (LTUs). In FY2006, the most senior executives received long-term compensation awards allocated in value equally between stock options, LTUs and RSUs. All other management entitled to long-term incentive awards will be allocated 20% LTUs and 80% RSUs.

STOCK OPTIONS

The number of options issued to each executive varies as a percentage of the executive’s base salary divided by the fair value (determined by application of the Black-Scholes option-pricing methodology) of an option at that time. Under the terms of the Employee Stock Option Plan (“ESOP”), the exercise price of the stock options is equal to the closing price of the common shares on the TSX on the last trading day immediately preceding the day on which the options are granted. During FY2006, stock options were granted to certain officers of the Corporation and key executives of its subsidiaries. The amount of outstanding options as well as the other elements of the long-term incentive program are taken into account by the Human Resources Committee in determining how many new options may be granted in a fiscal year. The Corporation expenses the cost of stock option grants.

As of March 31, 2006 the ESOP provides for the issuance of a maximum of 9,162,886 common shares upon exercise of options granted under it. Options issued under the ESOP have a term of six years and vest and are exercisable at 25% per year commencing one year after the date of grant.

Except as set forth below, no CAE options may be exercised unless the optionee is at the time of exercise an employee of the Corporation or one of its subsidiaries and has served continuously in such capacity since the date of the grant of the options. Each option shall, during the optionee’s lifetime, be exercisable only by the optionee. Options are not transferable or assignable otherwise than by will or by operation of estate law.

If an optionee should die while an employee of the Corporation or one of its subsidiaries, any option held by the optionee may be exercised, if the optionee was entitled to do so at the time of death, by the person to whom the optionee’s rights under the option shall pass by the optionee’s will or by operation of estate law. Any exercise of such option shall be subject to all terms and conditions of the ESOP.

If an optionee retires from the Corporation or one of its subsidiaries in accordance with the applicable retirement policies, unvested options held by such optionee shall, subject to the terms of the ESOP, continue to vest following the retiree’s retirement date. Such an optionee shall be entitled to (a) exercise any vested options held as of the retirement date until the termination date for each such option; and (b) exercise any options vesting after the retirement date only during the 30-day period following the vesting date of such options, after which time any such options which remain unexercised shall expire.

If an optionee ceases to serve the Corporation or a subsidiary as an employee otherwise than by reason of death or retirement, options held by the optionee terminate once he or she leaves such service.

The Human Resources Committee may, with respect to any option, in its discretion, waive, amend or vary the requirements set forth above. Except where required by law or other applicable regulations, shareholder approval is not required for such amendments.

EQUITY COMPENSATION PLAN INFORMATION

	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS	PERCENTAGE OF CAE'S OUTSTANDING SHARE CAPITAL REPRESENTED BY SUCH SECURITIES	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN 1 ST COLUMN)	PERCENTAGE OF CAE'S OUTSTANDING SHARE CAPITAL REPRESENTED BY SUCH SECURITIES
Equity compensation plans approved by shareholders	6,347,235	3.65%	\$7.66	2,815,651	1.12%

The Corporation’s only equity compensation plan is its ESOP, which was approved by its shareholders.

LONG TERM INCENTIVE DEFERRED SHARE UNIT PLANS

FISCAL 2004 PLAN

In FY2004 the Corporation adopted a Long Term Incentive Deferred Share Unit Plan (“FY2004 LTUP”) for executives and managers of the Corporation and its subsidiaries. The FY2004 LTUP partially replaced the grant of options under the Corporation’s ESOP, thereby ensuring that CAE management’s long-term incentive compensation included an element directly based on the market performance of CAE common shares. Determination of the number of Long Term Incentive Deferred Share Units (“FY2004 LTUs”) to be granted to a participant were made by dividing the dollar value of the FY2004 LTU grant by the market price of CAE common shares on the TSX upon the date of grant approval.

A FY2004 LTU is equal in value to one common share of the Corporation. FY2004 LTUs accrue dividend equivalents payable in additional units in amounts equal to dividends paid on CAE common shares. The FY2004 LTU grants vest in 25% increments over four years, commencing one year after the date of grant. Upon termination of their employment for reasons of long-term disability, involuntary termination, retirement or death, eligible FY2004 LTUP participants with vested FY2004 LTUs will be entitled to receive the fair market value of the equivalent number of CAE common shares. On voluntary termination, participants forfeit all amounts vested under the FY2004 LTUP.

FISCAL 2005 PLAN

While the grants of FY2004 LTUs remain in effect, the FY2004 LTUP has been replaced for succeeding years by the Long Term Incentive Deferred Share Unit Plan – FY2005 (“FY2005 LTUP”) adopted in May 2004. The Long Term Incentive Deferred Share Units (“FY2005 LTUs”) are granted to a participant on the same basis as the FY2004 LTUs and are valued the same way.

An FY2005 LTU grant will vest in 20% increments over five years, commencing one year after the date of grant. Upon termination of their employment, eligible FY2005 LTUP participants with vested FY2005 LTUs will be entitled to receive the fair market value of the equivalent number of CAE common shares.

RESTRICTED SHARE UNIT PLAN

In May 2004, the Corporation adopted a performance-based Restricted Share Unit Plan (“RSUP”) for executives and managers of the Corporation and its subsidiaries. The RSUP partially replaced the grant of options under the Corporation’s ESOP as well as LTUP grants, thereby ensuring that CAE management’s long-term incentive compensation includes an element directly based on the market performance of CAE common shares. Determination of the number of performance-based RSUs to be granted to a participant is made by dividing the dollar value of the RSU grant by the market price of CAE common shares on the TSX upon the date of grant approval.

A performance-based RSU is equal in value to one common share of the Corporation. RSUs granted pursuant to this Plan vest after three years from the date RSUs are granted as follows:

1. 100% of the units, if CAE common shares have appreciated at least 33% (10% annual compounded growth) during that timeframe; or
2. 50% of the units, if CAE common shares have appreciated at least 24% (7.5% annual compounded growth) but not as much as 33% during that timeframe.

No RSUs vest if the market value of the common shares has appreciated less than 24% during the specified timeframe. No pro-ration in the vesting percentage of RSUs occurs for any appreciation of the market value of CAE common shares of between 24% and 33% during the specified timeframe. RSUP participants with vested performance-based RSUs are entitled to receive the fair market value of the equivalent number of CAE common shares after the three-year term of each grant.

DEFERRED SHARE UNIT PLAN

The Corporation has a Deferred Share Unit Plan for executives under which an executive may elect to receive any cash incentive compensation in the form of Deferred Share Units (“DSUs”). The Plan is intended to enhance the Corporation’s ability to promote a greater alignment of interests between executives and the shareholders of the Corporation. A DSU is equal in value to one common share of the Corporation. The units are issued on the basis of the average closing board lot sale price per share of CAE common shares on the TSX during the last ten (10) days on which such shares traded prior to the date of issue. The DSUs also accrue dividend equivalents payable in additional units in an amount equal to dividends paid on CAE common shares. DSUs mature upon termination of employment, whereupon an executive is entitled to receive the fair market value of the equivalent number of CAE common shares.

EXECUTIVE SHARE OWNERSHIP POLICY

Under the Corporation’s share ownership policy, each key executive is expected to own a minimum number of common shares of the Corporation and/or units under the Deferred Share Unit Plan and LTUP. This number was increased during FY2006. The value of the required holding in common shares of the Corporation and/or units under the Deferred Share Unit Plan and LTUP represents 300% of the CEO’s annual salary, 150% for Group Presidents and the CFO and 100% of other executives’ annual salary. The required holding may be acquired over a five-year period from the date of hire or promotion into the executive position. This policy encourages all key executives to hold a meaningful ownership interest in the Corporation to further align management and shareholder interests.

DETERMINATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER’S COMPENSATION

The salary of the President and Chief Executive Officer (“CEO”) is determined in accordance with the Corporation’s salary philosophy and policy and is reviewed and approved annually by the independent members of the Board of Directors. See also Appendix A, “Compensation”.

SHORT-TERM INCENTIVE AWARDS PROGRAM

The Corporation has an executive short-term incentive program. See “Annual Short-Term Incentive Awards”. The short-term incentive program as it pertains to the President and CEO focuses on the attainment of pre-determined economic value creation targets at the Corporation’s consolidated level.

For FY2006, Mr. R. E. Brown received a short-term incentive award of \$1,880,000 based on the short-term incentive formula as described under Annual Short-Term Incentive Awards. The level of achievement was over 200% against the plan performance target, however payment was limited to 200% of the bonus target.

LONG-TERM INCENTIVE AWARDS PROGRAM

The President and CEO is eligible to be granted stock options and to participate in both the Deferred Share Unit Plan and the Restricted Share Unit Plan, in accordance with the Corporation’s long-term incentive program. Mr. R. E. Brown was granted 1,000,000 options upon joining the Corporation in August 2004. This grant covers a three-year period and vests over that time as follows: 24 months from employment start date, 50%, 36 months from employment start date, 50%. The strike price is indexed upward by 5% for the first vesting and 10.25% for the second vesting. Future grants, issued in accordance with the Long Term Incentive Plan, will take into account the President and CEO’s performance when determining how many new options will be issued.

In addition, Mr. R. E. Brown was granted 135,000 LTUs and 135,000 RSUs upon joining the Corporation in 2004. He was granted an additional 148,993 LTUs and 148,993 RSUs in May 2005 as part of his FY2006 compensation package.

He is eligible for annual grants based on up to 350% of his base salary.

INDEBTEDNESS OF DIRECTORS AND MANAGEMENT

In accordance with the United States *Sarbanes-Oxley Act of 2002* and the past practices of the Corporation, the Corporation does not offer its Directors or executive officers loans. None of the Corporation and its subsidiaries has given any guarantee, support agreement, letter of credit or similar arrangement or understanding to any other entity in connection with indebtedness of the Corporation’s Directors or executive officers.

HUMAN RESOURCES COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Corporation's Human Resources Committee was an officer or employee of the Corporation or any of its subsidiaries at any time during FY2006.

The law firm of Stikeman Elliott LLP, of which Mr. Grant is a partner, provided legal services to the Corporation in FY2006 and continues to provide such services to the Corporation. The law firm's fees to the Corporation are less than 2% of the law firm's annual consolidated gross revenues. Mr. Grant does not provide any such services personally.

No executive officer of the Corporation serves on the Board of Directors or compensation committee of any other entity that has or has had one or more of its executive officers serving as a member of the Corporation's Board.

Submitted on behalf of the Human Resources Committee:

Lawrence N. Stevenson, Chairman

Brian E. Barents

James A. Grant

E. Randolph Jayne II

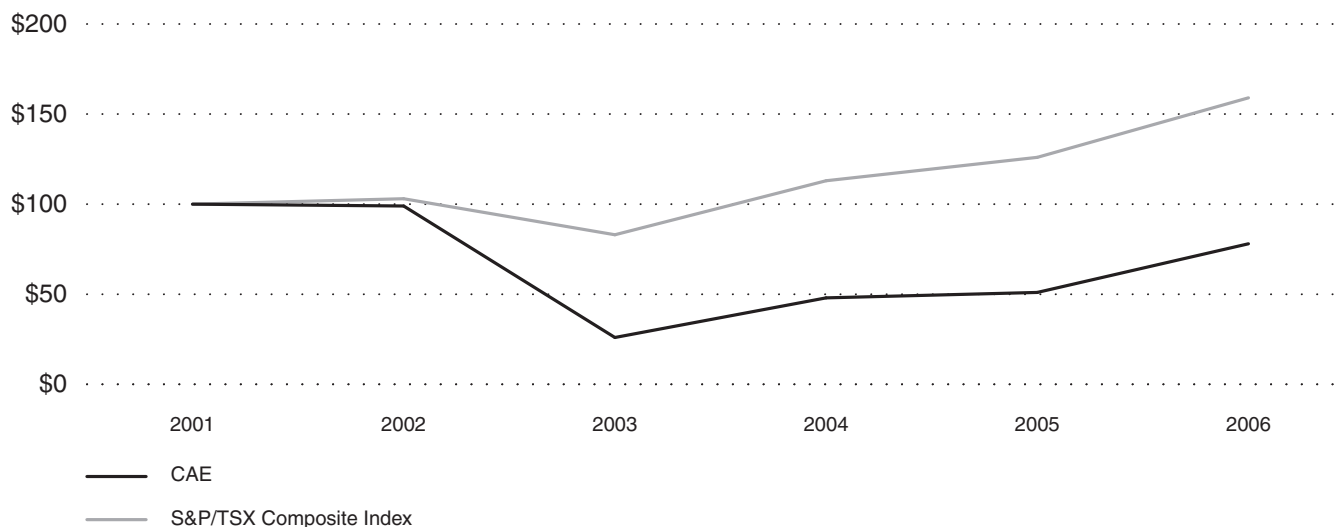
Lynton R. Wilson

PERFORMANCE GRAPH

The following graph compares the cumulative shareholder return of the common shares of the Corporation with the cumulative returns of the S&P/TSX Composite Index for a five-year period commencing March 31, 2001.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN CAE INC. VS. S&P/TSX COMPOSITE INDEX

	2001	2002	2003	2004	2005	2006
CAE Inc.	\$100	\$99	\$26	\$48	\$51	\$78
S&P/TSX Composite Index	\$100	\$103	\$83	\$113	\$126	\$159

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN**

Assumes \$100 invested in common shares of the Corporation on March 31, 2001. Values are as at March 31 of the specified years and from the S&P/TSX Composite Index, which assumes dividend reinvestment.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table provides a summary of compensation earned during each of the last three fiscal years by the Chief Executive Officer, the Chief Financial Officer and the three most highly compensated policy-making executives who served as executive officers of the Corporation or its subsidiaries at March 31, 2006 (collectively, “Named Executive Officers”).

Specific aspects of this compensation are dealt with in further detail in the following table:

EMPLOYEE NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION				
		SALARY	BONUS ¹	OTHER ANNUAL COMPENSATION ²	AWARDS		PAYOUTS		ALL OTHER COMPENSATION ⁵
					SECURITIES UNDER OPTIONS/ SARs GRANTED (#)	SHARES OR UNITS SUBJECT TO RESALE RESTRICTIONS (#) ³	LTIP PAYOUTS ⁴		
R. E. Brown									
President and Chief Executive Officer	2006	\$936,700	\$1,880,000	\$96,339	–	148,993	–	–	\$29,610
	2005	\$575,000	\$1,150,000	\$96,187	1,000,000	135,000	–	–	\$4,983
M. Parent									
Group President, Simulation Products	2006	\$365,000	\$439,500	\$27,580	–	–	–	–	\$13,707
	2005	\$58,000	\$248,350	–	–	–	–	–	–
J. Roberts									
Group President, Civil Training and Services	2006	\$360,000	\$439,500	\$66,000	77,400	30,142	–	–	\$7,190
	2005	\$312,500	\$212,436	\$93,214	60,300	25,749	–	–	\$8,853
	2004	\$269,800	\$57,750	\$93,400 ⁶	120,100	43,540	–	–	\$5,227
D. W. Campbell									
Group President, Military Simulation and Training	2006	\$345,000	\$420,000	\$40,000	58,200	29,717	–	–	\$4,900
	2005	\$317,500	\$215,808	–	56,700	24,220	–	–	\$2,567
	2004	\$305,000	\$100,902	–	203,500	73,776	–	–	\$4,829
A. Raquepas									
Vice President, Finance and Chief Financial Officer	2006	\$263,000	\$318,000	\$25,000	–	–	\$128,686	–	\$5,000
	2005	\$181,500	\$179,550	\$41,524	53,300	21,163	\$24,420	–	\$6,050
	2004	\$157,500	\$38,303	–	35,400	12,820	–	–	–

1 Amounts quoted in respect of Messrs. Brown, Parent and Raquepas for FY2005 include appointment bonuses paid in addition to the FY2005 Short-Term Incentive Plan bonus earned in FY2005 and paid in the first quarter of FY2006. Amounts quoted in respect of all named executives for FY2006 represent the FY2006 Short-Term Incentive Plan bonus earned in FY2006 and payable in the first quarter of FY2007.

2 Other Annual Compensation comprises other benefit expenses and allowances paid by the Corporation that aggregate \$50,000 or more or 10% of the officer's salary or bonus.

3 All of the indicated units are FY2004 and FY2005 LTUs – see “Report on Executive Compensation – Long Term Incentive Deferred Share Unit Plans – Fiscal 2004 and Fiscal 2005 Plans” except in the case of Messrs. Brown and Parent, who hold only FY2005 LTUs. 1,573,759 of these Units were outstanding as at March 31, 2006, with a value of \$14,447,108 based on CAE's closing share price of \$9.18 on that date. FY2005 LTUs vest over four years' time; accelerated vesting happens in limited circumstances (long-term disability, involuntary termination, retirement, take over bid or death). Dividend equivalents are paid on FY2004 and FY2005 LTUs, in the form of incremental units.

4 Revenue indicated represents revenue from the exercise of options by the officers.

5 Amounts quoted represent premiums paid by the Corporation for group term life insurance, health benefits and insurance, and amounts paid in respect of the Named Executive Officer's participation in the CAE Employee Stock Purchase Plan. Under the CAE Employee Stock Purchase Plan, employees and officers may make a contribution towards the purchase of CAE common shares of up to 18% of their base salary. Under the plan, the Corporation made a matching contribution on the first \$500 contributed and contributes \$1 for every \$2 on additional employee contributions, to a maximum of 3% of the participant's base salary.

6 J. Roberts' Other Annual Compensation amount includes \$48,000 in 2004, \$48,000 in 2005 and \$34,600 in 2006 for a cost-of-living adjustment related to his relocation costs to Montreal from Dallas in August 2003.

OPTION AND LTIP GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR

The following table sets forth grants to Named Executive Officers of 2005 LTUs during the financial year ended March 31, 2006.

LTIP – AWARDS IN MOST RECENTLY COMPLETED FINANCIAL YEAR

NAME	SECURITIES, UNITS OR OTHER RIGHTS (#) ¹	PERFORMANCE	SECURITIES, UNITS OR OTHER RIGHTS (#) ³	PERFORMANCE
		OR OTHER PERIOD UNTIL MATURATION OR PAYOUT ²		OR OTHER PERIOD UNTIL MATURATION OR PAYOUT ⁴
R. E. Brown	148,993	Upon termination of employment	148,993	16 May, 2008
M. Parent ⁵	-	Upon termination of employment	-	-
J. Roberts	30,142	Upon termination of employment	30,142	16 May, 2008
D. W. Campbell	29,717	Upon termination of employment	29,717	16 May, 2008
A. Raquepas	-	-	-	-

1 All of the indicated Units are FY2005 LTUs – see “Report on Executive Compensation – Long Term Incentive Deferred Share Unit Plans – Fiscal 2005 Plan”.

2 FY2005 LTUs vest over five years; accelerated vesting and payment occurs in the event of long-term disability, involuntary termination, retirement, take over bid or death.

3 All of the indicated units are FY2005 RSUs – see “Report on Executive Compensation – Restricted Share Unit Plan”.

4 FY2005 RSUs automatically pay out after three years provided and to the extent that performance targets are met.

5 In the case of Mr. Parent, 34,929 LTUs and RSUs respectively were granted to him on February 1, 2005 in connection with his joining CAE.

The following table sets forth grants to Named Executive Officers of stock options during the financial year ended March 31, 2006.

OPTION GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR

NAME	SECURITIES UNDER OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS	EXERCISE OR BASE PRICE (\$/SECURITY) ¹	MARKET VALUE OF	EXPIRATION DATE
		GRANTED TO EMPLOYEES IN FINANCIAL YEAR		SECURITIES UNDERLYING OPTIONS ON THE DATE OF GRANT (\$/SECURITY)	
R. E. Brown ²	-	0%	N/A	N/A	N/A
M. Parent	-	0%	N/A	N/A	N/A
J. Roberts	77,400	13.62%	\$5.83	\$5.83	May 16, 2011
D. W. Campbell	58,200	10.24%	\$5.83	\$5.83	May 16, 2011
A. Raquepas	-	0%	N/A	N/A	N/A

1 Options were granted to the Named Executive Officers on May 16, 2005 at an exercise price of \$5.83 to purchase common shares of the Corporation. In the case of Mr. Parent, 195,000 options were granted on February 1, 2005 at an exercise price of \$4.96 in connection with his taking up employment with CAE. Exercise prices are equal to the closing price of the common shares on the TSX on the trading day immediately prior to the day the options were issued. The options vest over a period of four years commencing one year subsequent to the date of the grant. Options were granted to the current President and CEO on June 16, 2004 at exercise prices of \$5.89 for the first block of 50% and \$6.19 for the second block of 50%, the strike price being indexed upward from then-current market value by 5% for the first block and 10.25% for the second.

2 CEO's options vest 50% after two years and the remaining 50% after the third year.

The following table sets forth details of any stock options exercised by Named Executive Officers during the financial year ended March 31, 2006, and the value of remaining exercisable and unexercisable options held by such officers.

AGGREGATED OPTION EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION VALUES

NAME	SECURITIES, ACQUIRED ON EXERCISE (#)	AGGREGATE VALUE REALIZED (\$)	UNEXERCISED OPTIONS AT	VALUE OF UNEXERCISED
			FY-END (#) EXERCISABLE/ UNEXERCISABLE ¹	IN-THE-MONEY OPTIONS AT FY-END (\$) EXERCISABLE/ UNEXERCISABLE ²
			EXERCISABLE/UNEXERCISABLE	EXERCISABLE/UNEXERCISABLE
R. E. Brown	0	0	0 / 1,000,000	\$0 / \$3,140,000
M. Parent	0	0	48,750 / 146,250	\$205,725 / \$617,175
J. Roberts	0	0	113,375 / 195,425	\$359,482 / \$731,232
D. W. Campbell	0	0	361,175 / 224,225	\$566,710 / \$867,426
A. Raquepas	32,175	\$128,686	31,250 / 61,425	\$0 / \$246,161

1 Options were granted on (i) May 8, 2000 at an exercise price of \$6.65 per share; (ii) August 21, 2000 at an exercise price of \$9.20 per share; (iii) May 14, 2001 at an exercise price of \$12.23 per share; (iv) May 13, 2002 at an exercise price of \$12.73 per share; (v) May 23, 2003 at an exercise price of \$4.13 per share; (vi) May 14, 2004 at an exercise price of \$5.45 per share; (vii) June 16, 2004 at \$5.89 and \$6.19 per share; (viii) February 1, 2005 at an exercise price of \$4.96 per share; (ix) February 14, 2005 at an exercise price of \$5.20 per share; and (x) May 16, 2005 at an exercise price of \$5.83 per share. These options vest over a period of four years commencing one year subsequent to the date of the grant and, in each case, are exercisable until the sixth anniversary of the date of the grant, save and except for the options granted to the current President and CEO which vest in accordance with the schedule defined in the "Long Term Incentive Awards Program" section. Share prices are adjusted for the July 9, 2001 stock dividend. The Corporation did not price downward any options held by any Named Executive Officers.

2 Options are in-the-money if the market value of the common shares covered by the options is greater than the option exercise price. The closing price of CAE's common shares on the TSX on March 31, 2006 was \$9.18.

PENSION BENEFITS

The Named Executive Officers are members of CAE's non-contributory defined benefit pension plan and a supplementary executive retirement arrangement. The amounts payable under these arrangements are based on "average annual earnings" where "average annual earnings" is calculated on the basis of the 60 highest paid consecutive months of salary and short-term incentives.

The Corporation is obligated to fund or provide security to ensure payments under the supplementary executive retirement arrangement upon retirement of the executive. The Corporation has elected to provide security by facilitating the acquisition of letters of credit by a trust fund established for those executives who had retired on or before March 31, 2006.

The following table shows estimated annual pension benefits upon retirement at age 65 to Named Executive Officers covered by these pension arrangements at specified average earnings.

EXECUTIVE OFFICER PENSION PLAN TABLE

AVERAGE ANNUAL EARNINGS	YEARS OF SERVICE ¹				
	15	20	25	30	35
300,000	90,000	120,000	150,000	180,000	210,000
400,000	120,000	160,000	200,000	240,000	280,000
600,000	180,000	240,000	300,000	360,000	420,000
800,000	240,000	320,000	400,000	480,000	560,000
1,000,000	300,000	400,000	500,000	600,000	700,000
1,200,000	360,000	480,000	600,000	720,000	840,000
1,400,000	420,000	560,000	700,000	840,000	980,000
1,600,000	480,000	640,000	800,000	960,000	1,120,000
1,800,000	540,000	720,000	900,000	1,080,000	1,260,000

¹ The supplementary executive retirement arrangement for officers provides a pension benefit upon normal retirement at age 65 so that the total pensions payable under CAE's pension arrangements will result in an annual pension equal to 2% of "average annual earnings" for each year of pensionable service, assuming no limitation on the amount paid from a registered pension plan imposed by Canadian tax legislation. The benefits listed in the table are not subject to deduction for social security or other offset amounts such as Canada Pension Plan or Quebec Pension Plan amounts. R. E. Brown's pensionable service is calculated as 1.5 times continuous service.

The credited years of pensionable service as at March 31, 2006 for the Named Executive Officers who are members of the executive pension plan and supplementary executive retirement arrangement are:

NAME	R. E. BROWN	M. PARENT	J. ROBERTS	D. W. CAMPBELL	A. RAQUEPAS
Credited years of pensionable service – March 31, 2006	2.50	1.17	2.67	5.58	5.50

AGREEMENTS WITH EXECUTIVE OFFICERS

The terms and conditions, including dollar amounts, of any employment contract between CAE or its subsidiaries and a Named Executive Officer are as set out in this section of the Information Circular detailing Executive Compensation.

The Corporation is a party to agreements with ten executive officers, including the Named Executive Officers, pursuant to which such executives are entitled to termination of employment benefits following a change of control of the Corporation where either (i) the executive's employment is expressly or impliedly terminated without cause within two years following the change of control or (ii) the executive elects to resign employment within a period of 60 days after one year following the change of control. In such case, the executive is entitled to 24 months (36 months in the case of the President and Chief Executive Officer; starting August 1, 2007, this reduces by one month for each month of service accrued thereafter) of annual compensation (payable as a lump sum), credited service for the purposes of any pension or retirement income plans, vesting of and payment for long-term incentive deferred share units and extension of the exercise period for stock options within parameters consistent with the foregoing.

A change of control for the above purposes is defined to include any event as a result of or following which any person beneficially owns or exercises control or direction over voting securities carrying 35% or more of the votes attached to all outstanding voting securities of the Corporation; certain events which result in a change in the majority of the Board of Directors; and a sale of assets to an unaffiliated party at a price greater than or equal to 50% of the Corporation's market capitalization.

COMPENSATION OF DIRECTORS

Directors of the Corporation receive an annual retainer fee of \$50,000, of which \$20,000 is paid in DSUs. In addition, each Committee member, except for the Chairman, receives an annual Committee retainer fee of \$10,000. Each member of the Executive Committee is entitled to a fee of \$1,000 per meeting, but no annual retainer. The Chairman of the Audit Committee receives an annual retainer of \$25,000; the Chairmen of each of the Governance and Human Resources Committees also receive an additional annual retainer of \$10,000. L. R. Wilson receives \$200,000 annually for serving as the Chairman of the Board and for service as a Director and Committee member. Directors are reimbursed out-of-pocket expenses incurred in attending meetings.

Under the Deferred Share Unit Plan for Non-Employee Directors, a non-employee Director holding less than 20,000 common shares and/or units under the Deferred Share Unit Plan of the Corporation receives the retainer and attendance fees in the form of DSUs. A non-employee Director holding at least 20,000 common shares may elect to participate in the plan in respect of part or all of his or her retainer and attendance fees. A DSU is equal in value to one common share of the Corporation and accrues dividend equivalents payable in additional units in an amount equal to dividends paid on outstanding CAE common shares. DSUs mature upon the termination of service, whereupon a Director is entitled to receive the fair market value of the equivalent number of common shares, net of withholdings, in cash.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation maintains Directors' and officers' liability insurance for its Directors and officers, as well as those of its subsidiaries as a group. The yearly coverage limit of such insurance is \$50,000,000 for each loss and for the policy period, subject to a corporate deductible of \$250,000 per claim (\$1,000,000 for security suits brought in the United States; \$500,000 for security suits brought in Canada). The Corporation paid an insurance premium for this coverage of \$720,000 for the 12 months commencing October 1, 2005.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

No informed person (including any Director or executive officer) of the Corporation, any proposed Director of the Corporation, or any associate or affiliate of any informed person or proposed Director, had any material interest, direct or indirect, in any transaction since the commencement of the Corporation's most recently completed financial year or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries.

MANAGEMENT CONTRACTS

Management functions of the Corporation and of its subsidiaries are performed by the Directors or executive officers of the Corporation or of the subsidiary.

AUDITOR INDEPENDENCE

PricewaterhouseCoopers LLP ("PwC") is the auditor of the Corporation. PwC provides tax, financial advisory and other audit-related services to the Corporation and its subsidiaries. The Audit Committee of the Corporation's Board of Directors has considered and concluded that the provision of these services by PwC is compatible with maintaining PwC's independence. The following chart shows all fees paid to PwC by the Corporation and its subsidiaries in the most recent and prior fiscal years.

FEE TYPE	2006	2005
	(\$ MILLIONS)	
1. Audit services	2.3	2.3
2. Audit-related services	0.3	0.7
3. Tax services	0.6	0.3
	<u>3.2</u>	<u>3.3</u>

1. Audit fees are comprised of fees billed for professional services for the audit of CAE's annual financial statements and services that are normally provided by PwC in connection with statutory and regulatory filings.
2. Audit-related fees are comprised of fees relating to work performed in connection with the Corporation's divestitures.
3. Tax fees are related to tax compliance support.

OTHER MATTERS

The management of the Corporation is aware of no business to be presented for action by the shareholders at the Meeting other than that mentioned herein or in the Notice of Meeting.

SHAREHOLDER PROPOSALS

To propose any matter for a vote by the shareholders at an annual meeting of the Corporation, a shareholder must send a proposal to the Vice President, Legal, General Counsel and Corporate Secretary at the Corporation's office at 8585 Côte-de-Liesse, Saint-Laurent, Quebec H4T 1G6 at least 90 days before the anniversary date of the notice for the previous year's annual meeting. Proposals for the Corporation's 2007 annual meeting must be received no later than February 16, 2007. The Corporation may omit any proposal from its proxy circular and annual meeting for a number of reasons under applicable Canadian corporate law, including receipt of the proposal by the Corporation subsequent to the deadline noted above.

GENERAL INFORMATION

The Corporation shall provide to any person or company, upon request to the Vice President, Legal, General Counsel and Corporate Secretary of the Corporation:

1. one copy of the latest Annual Information Form of the Corporation together with one copy of any document or the pertinent pages of any document incorporated by reference therein;
2. one copy of the 2006 Annual Report to Shareholders containing comparative financial statements of the Corporation for fiscal 2006, together with the Auditors' Report thereon and Management's Discussion and Analysis; and
3. one copy of this Information Circular.

All such documents may also be accessed on CAE's web site (www.cae.com). Additional financial information is provided in the Corporation's comparative financial statements and Management's Discussion and Analysis for the most recently completed financial year.

The contents and the sending of this Information Circular have been approved by the Directors of the Corporation.

DATED at Montreal, this 17th day of May, 2006

Hartland J. A. Paterson
Vice President, Legal,
General Counsel and Corporate Secretary

APPENDIX A

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

As a Canadian reporting issuer with common shares listed on the Toronto Stock Exchange (TSX) and the New York Stock Exchange (NYSE), our corporate governance practices are required to meet applicable rules adopted by the Canadian Securities Administrators (CSA) and of the United States Securities and Exchange Commission (SEC), as well as provisions of the rules of the NYSE and of the *Sarbanes-Oxley Act of 2002* (SOX). The Board and its Corporate Governance Committee continue to monitor the governance reforms in Canada and the United States, and to implement changes to the Corporation's governance policies and practices as necessary to comply with any new rules issued by the CSA and other applicable regulatory authorities. Last year, the Corporation made its Statement of Corporate Governance Practices with reference to the Guidelines of the Toronto Stock Exchange (TSX), which have since been replaced by CSA rules.

Most of the NYSE's corporate governance listing standards are not mandatory for the Corporation as a non-US company, but the Corporation is required to disclose the significant differences between its corporate governance practices and the requirements applicable to United States companies listed on the NYSE. Except as summarized on CAE's web site (www.cae.com), the Corporation is in compliance with the NYSE requirements in all significant respects. The Corporation also complies with the applicable provisions of SOX and the rules adopted by the SEC pursuant to that Act which it is currently obliged to be in compliance with and as well the Corporation is actively engaged in preparing for further SOX compliance steps required next year.

CAE, throughout its nearly 60 years of operations, has maintained high standards of corporate governance. We believe that good corporate governance practices can contribute to the creation and preservation of shareholder value. The Governance Committee of the Board of Directors and CAE management continue to closely monitor all regulatory developments in corporate governance and will take appropriate action in response to any new standards that are established.

The Board of Directors of the Corporation has determined that it is comprised of independent Directors, except for the President and Chief Executive Officer, as defined under the listing requirements of the NYSE and as described herein pursuant to the CSA rules, and taking into account all relevant facts and circumstances. The Board of Directors has a non-executive Chairman. With the exception of the Executive Committee of the Board, Mr. R. E. Brown does not sit on Board Committees, and all Committees are composed of independent Directors only.

Directors are informed of the business of the Corporation through, among other things, regular reports from the President and Chief Executive Officer, and reviewing materials provided to them for their information and review for participation in meetings of the Board of Directors and its Committees.

The Committees of the Board of Directors of the Corporation are:

- the Audit Committee (which held five meetings in fiscal 2006; 88% aggregate Director attendance);
- the Executive Committee (no meetings were held in fiscal 2006);
- the Corporate Governance Committee (which held four meetings in fiscal 2006; 88% aggregate Director attendance); and
- the Human Resources Committee (which held five meetings in fiscal 2006; 96% aggregate Director attendance).

During fiscal 2006, the Board of Directors held seven meetings (94% aggregate Director attendance).

Documents and information that are stated in this appendix to be available on CAE's web site can be found at www.cae.com/Corporate-Governance. In addition, any information located on the web site is also available in print to any shareholder upon request to the Corporate Secretary's Department at the address set out in this Information Circular.

THE BOARD OF DIRECTORS

The Board of Directors of the Corporation is responsible for choosing the Corporation's Chief Executive Officer and for supervising the management of the business and affairs of the Corporation, and its Committees have adopted mandates describing their responsibilities. The Board reviews, discusses and approves various matters related to the Corporation's strategic direction,

business and operations, and organizational structure, including the approval of acquisitions, dispositions, investments, and financings that exceed certain prescribed limits.

The duties of the Board of Directors include a strategic planning process. This involves the annual review of a multi-year strategic business plan that identifies business opportunities in the context of the business environment and related corporate objectives, the approval of annual operating budgets and the examination of risks associated with the Corporation's business.

The Board of Directors oversees the identification of the principal risks of the business of the Corporation and the implementation by management of appropriate systems and controls to manage such risks. The Audit Committee reviews the adequacy of the processes for identifying and managing financial risk.

In addition to fulfilling all statutory requirements, the Board of Directors oversees and reviews: (i) the strategic and operating plans and financial budgets and the performance against these objectives; (ii) the principal risks and the adequacy of the systems and procedures to manage these risks; (iii) the compensation and benefit policies; (iv) management development and succession planning; (v) business development initiatives; (vi) the communications policies and activities, including shareholder communications; (vii) the integrity of internal controls and management information systems; (viii) the monitoring of the corporate governance system; and (ix) the performance of the President and Chief Executive Officer. The Board acts in a supervisory role and expects management to be responsible for the day-to-day operations of the Corporation and to implement the approved corporate objectives and strategic business plan within the context of authorized budgets, specific delegations of authority for various matters, and corporate policies and procedures. Management is expected to report regularly to the Board of Directors in a comprehensive, accurate and timely manner on the business and affairs of the Corporation. Any responsibility that is not delegated to senior management or to a Committee of the Board remains with the Board of Directors. The Board regularly receives and considers reports and recommendations from its Committees and, where required, from outside advisors.

Directors are expected to attend all Board and Committee meetings in person, although attendance by telephone is permissible in appropriate circumstances. Directors are also expected to prepare thoroughly in advance of each meeting in order to actively participate in the deliberations and decisions.

SUCCESSION PLANNING AND PERFORMANCE MONITORING

The Board of Directors has delegated to its Human Resources Committee initial responsibility to review the Corporation's processes for succession planning, reviewing succession plans for key members of senior management, and monitoring the performance of senior executives except for the President and Chief Executive Officer. The Board reviews and assesses the performance of the President and Chief Executive Officer of the Corporation, as well as the quality and effectiveness of the senior management team. Based upon that review, the Human Resources Committee reviews and makes a recommendation to the Board for the approval of the salary, short-term and long-term incentive award for the President and Chief Executive Officer. See also "Compensation".

COMPOSITION AND INDEPENDENCE OF THE BOARD

The Board has determined that 12 of the 13 nominees for election as Directors of the Corporation are independent within the meaning of National Instrument 58-101 and the NYSE rules; as CAE's President and Chief Executive Officer, Mr. R. E. Brown, is not considered to be independent within that meaning. Certain of the Corporation's Directors are partners in or officers of entities that provide financial, legal or other services to the Corporation and/or its subsidiaries. The Board considers these Directors to be independent because:

- such services are provided in the ordinary course, on customary commercial terms and are fully disclosed to the Audit Committee which in turn reports on them to the Board;
- no such service is considered material to the Corporation or its subsidiaries, and could be sourced from other suppliers of a similar quality standard;
- no such Director provides any of such services personally; and
- the amount of fees received by any such entity for services to the Corporation or its subsidiaries is not material to such entity.

INDEPENDENT DIRECTORS' MEETINGS

The independent Directors meet separately at each regularly scheduled meeting of the Board of Directors—six times during FY2006. Their meetings are chaired by the non-executive Chairman. The Board has access to information independent of management through the external and internal auditors. The Board believes that sufficient processes are in place to enable it to function independently of management.

INDEPENDENT CHAIR

Mr. L. R. Wilson, the current non-executive Chairman of the Board, is responsible for ensuring that the Board of Directors discharges its responsibilities independently of management. Correspondence to the independent Directors may be sent to the attention of Mr. L. R. Wilson, at CAE's address listed under "Special Business of the Meeting" in this Information Circular.

The Board and its Committees are also able to retain and meet with external advisors and consultants.

BOARD SIZE

The Board of Directors is of the view that its size (13 members) is conducive to efficient decision-making.

BOARD MANDATE

The Board, either directly or through its Committees, is responsible for the supervision of management of the business and affairs of CAE with the objective of enhancing the Corporation's value.

The Board Mandate, the text of which can be found in Appendix D of this Information Circular, sets out the responsibilities to be discharged by the Board.

POSITION DESCRIPTIONS

In addition, the Board has adopted position descriptions for the Chairman and the Committee Chairs, which are available on CAE's web site (www.cae.com).

The Committee Chair position description sets out the responsibilities and duties of the Chair of each Committee in guiding the Committee in the fulfillment of its duties.

The position description for the President and Chief Executive Officer is developed with input from the President and Chief Executive Officer, and is approved by the Governance Committee and the Board of Directors. The description provides that the President and Chief Executive Officer is responsible for defining, communicating and implementing the strategic direction, goals and core values of CAE with a view to maximizing the Corporation's value. It also provides that the President and Chief Executive Officer is accountable to the Board for, amongst other things: formulating and executing business strategies; overseeing CAE's corporate governance structure and framework; building and maintaining a network of strategic relationships with business leaders, governmental officials and investors; developing and implementing a human resource strategy which develops leadership capabilities; and creating an organizational structure and culture that optimize and sustain high levels of performance.

In addition, the Human Resources Committee reviews and approves corporate goals and objectives that the President and Chief Executive Officer is responsible for meeting each year. The Human Resources Committee also conducts an annual assessment of the President and Chief Executive Officer's performance in relation to those objectives and reports the results of the assessment to the Board.

ORIENTATION AND CONTINUING EDUCATION

The Governance Committee is responsible for overseeing and making recommendations to the Board regarding the orientation of new Directors and to establish procedures for, and approve and ensure an appropriate orientation program for new Directors. New Directors meet with the Corporation's executive officers, including the CEO and CFO, to discuss the Corporation's expectations of its Directors and to discuss the Corporation's business and strategic plans. New Directors also review the Corporation's current business plan, detailed agendas and materials of previous Board meetings. CAE management and the Governance Committee keep all Directors aware of major developments in corporate governance, important trends and new legal or regulatory requirements. Due to the experience level of the Corporation's board of director members, no formal continuing education program is believed to be required at this time but the Governance Committee will monitor both external developments and the board's composition to determine whether such a program may become useful in the future.

New Directors of the Corporation receive an induction package comprising information on the Corporation, its Code of Business Conduct, the Board Member's Code of Conduct and other relevant materials and executive briefing sessions. The Board also receives presentations from senior management on the Corporation's performance and issues relevant to the business of the Corporation, the industry and the competitive environment in which it operates.

COMPENSATION

The Governance Committee of the Board annually reviews the adequacy and form of compensation (cash or stock-based) received by Directors to ensure that the compensation received by the Directors is competitive and accurately reflects the risks and responsibilities involved in being an effective Director.

As indicated above, the Human Resources Committee reviews and approves the design and administration of all compensation and benefit plans and policies for the Corporation other than in respect of the President and Chief Executive Officer, whose compensation arrangements are reviewed and approved by the Board of Directors based on recommendations from the Human Resources Committee. The Human Resources Committee is also responsible for the administration of the Corporation's executive pension plans, the monitoring of the Corporation's pension fund investments and for management development and succession planning. The Human Resources Committee consists of L. N. Stevenson (Chairman), B. E. Barents, J. A. Grant, E. R. Jayne II and L. R. Wilson.

During FY2006, the Human Resources Committee retained the services of Towers Perrin HR Consulting to assist the committee in its assessment of CAE executive compensation.

ETHICAL BUSINESS CONDUCT

The Corporation has a Code of Business Conduct that governs the conduct of CAE's officers, employees, contractors and consultants, as well as a Board Member's Code of Conduct that governs the conduct of CAE's Directors. The Code of Business Conduct and the Board Member's Code of Conduct are available on CAE's web site (www.cae.com) and are also available in print to any shareholder upon request to the Vice President Legal, General Counsel and Corporate Secretary of the Corporation. See also "Committees – Governance Committee". The Corporation has launched a third-party whistleblower reporting service to facilitate reporting of breaches of the Code of Business Conduct and any other misconduct. Apart from any individual reports, the Board or Audit Committee may receive from management or the whistleblower service, the Governance Committee receives an annual report from management on the Corporation's compliance with the Code of Business Conduct.

COMMITTEES

Each of the Committees of the Board of Directors is currently composed entirely of independent Directors, except the Executive Committee (two of the three members of which are independent Directors).

EXECUTIVE COMMITTEE

During the interval between meetings of the Board of Directors, the Executive Committee may, subject to any limitations which the Board of Directors may from time to time impose and limitations provided by statute and the Corporation's by-laws, exercise all of the powers of the Board in the management and direction of the operations of the Corporation. The members of the Executive Committee are R. E. Brown, L. R. Wilson (Chairman), and J. A. Grant.

Current mandates for each of the Committees as well as the Corporation's Corporate Governance Guidelines are available on CAE's web site (www.cae.com) and are also available in print to any shareholder upon request to the Vice President Legal, General Counsel and Corporate Secretary of the Corporation.

GOVERNANCE COMMITTEE

The Governance Committee is responsible for reviewing the effectiveness of the Board and the Corporation's corporate governance system. As part of this broad mandate, duties of the Governance Committee include: (i) reviewing with the Chairman of the Board on an annual basis the performance of the Board of Directors and its Committees; (ii) monitoring conflicts of interest, real or perceived, of both the Board of Directors and management and monitoring that the Corporation's Code of Business Conduct is implemented throughout the Corporation; (iii) reviewing methods and processes by which the Board of Directors fulfills its duties, including the number and content of meetings and the annual schedule of issues for the consideration of the

Board of Directors and its Committees; (iv) reviewing the size and composition of the Board of Directors; (v) establishing selection criteria for Board members; (vi) evaluating the contribution of each Director, and recommending annually to the Board of Directors the slate of Directors (including new nominees) for shareholder approval; (vii) assessing the adequacy and form of compensation of Directors; and (viii) reviewing and approving the Corporation's Donation policy. The Governance Committee uses the following process to select and nominate directors: it identifies desirable skill sets, industry experience, relationships and other attributes that would assist the Board of Directors in the conduct of its responsibilities and also further the Corporation's interests. The Governance Committee reviews with the Chairman, CEO and other Directors possible candidates, including the existing members of the Board of Directors, which may meet some or all of such attributes. The Chairman and other Directors may then approach potential candidates not already serving as Directors to determine their availability and interest in serving on the Corporation's Board, and will interview those interested to determine their suitability for nomination. The potential nomination of any new Director is then reviewed with other members of the Board of Directors before a final determination to nominate them is made. The Governance Committee is responsible for reviewing, reporting and providing recommendations for improvement to the Board with respect to all aspects of corporate governance including the effectiveness of the Board and its Committees. This Committee is responsible for the Statement of Corporate Governance Practices included in this Proxy Information Circular. The Governance Committee monitors best practices among major North American companies to help ensure CAE continues to meet high standards of corporate governance.

The Governance Committee is also responsible for: providing the Board of Directors with an appropriate succession plan for Board members; providing an orientation program for new Board members; and monitoring compliance with the Board Member's Code of Conduct.

The members of the Governance Committee of the Board are A. S. Fell (Chairman), H. G. Emerson, J. F. Hankinson, R. Lacroix, and L. R. Wilson, all of whom are independent Directors. Royal Bank of Canada, the parent entity of RBC Dominion Securities Inc. (of which Mr. Fell is Chairman), provided routine non-advisory lending and foreign exchange-related services to the Corporation in FY2006 and continues to provide such services to the Corporation. The Bank's fees to the Corporation are less than 2% of the Bank's annual consolidated gross revenues.

The Governance Committee oversees a system that enables an individual Director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. All Committees may engage outside advisors at the expense of the Corporation.

AUDIT COMMITTEE

The Audit Committee is responsible for the oversight of the reliability and integrity of accounting principles and practices, financial statements and other financial reporting, and disclosure practices followed by management. The Audit Committee has oversight responsibility for the establishment by management of an adequate system of internal controls and the maintenance of practices and processes to assure compliance with applicable laws.

SEC rules require the Corporation to disclose annually whether its Board of Directors has determined that there is at least one "audit committee financial expert" on its audit committee, and if so, the name of the audit committee financial expert. The rules define an "audit committee financial expert" to be a person who has:

- an understanding of financial statements and, in the case of the Corporation, Canadian generally accepted accounting principles;
- the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements, or experience actively supervising one or more persons engaged in such activities;
- an understanding of internal controls and procedures for financial reporting; and
- an understanding of audit committee functions.

One Audit Committee member, Mr. J. F. Hankinson, has been determined by the Board to be an “audit committee financial expert” as defined by the SEC.

The SEC rules also require that each member of Audit Committee be independent. In order to be considered independent for these purposes, a member may not, other than in his capacity as a member of the Audit Committee, the Board of Directors or any other Committee:

- accept any consulting, advisory or other compensatory fee from CAE or any subsidiary thereof; or
- be an affiliated person of CAE or any subsidiary thereof.

All of the Audit Committee members are “independent” as defined by the SEC and NI 58-101.

The Audit Committee reviews, reports, and where appropriate, makes recommendations to the Board of Directors on: (i) the internal audit plan and the adequacy of the system of internal controls; (ii) the external audit plan, the terms of engagement and fees and the independence of the external auditors; (iii) the adequacy of the processes for identifying and managing financial risk; (iv) the integrity of the financial reporting process; and (v) material public financial documents of the Corporation, including the annual and interim consolidated financial statements, the Interim Management’s Discussion and Analysis, the Annual Information Form and Management’s Discussion and Analysis contained in the annual report.

The Audit Committee has oversight responsibility for the qualifications, independence and performance of the external auditors, any non-audit engagements given to the external auditors and the maintenance of practices and processes to assure compliance with applicable laws. The Audit Committee reviews the independence of the external auditors and confirms to the Board the independence of the external auditors in accordance with applicable regulations.

The external auditors are accountable to the Audit Committee and to the Board as representatives of the shareholders. The Audit Committee meets regularly, without management present, with the internal auditors and external auditors to discuss and review specific issues as appropriate.

The Audit Committee consists of J. F. Hankinson (Chairman), J. A. Craig, Paul Gagné and J. W. McCutcheon.

ASSESSMENT OF DIRECTORS

The Governance Committee has the mandate and responsibility to review, on a periodic basis, the performance and effectiveness of the Directors as a whole, and each individual Director.

The Governance Committee annually assesses and provides recommendations to the Board on the effectiveness of the Committees and the contributions of the Directors. The Committee annually surveys Directors to provide feedback on the effectiveness of the Board and its Committees. The Governance Committee may then recommend changes based upon such feedback to enhance the performance of the Board and its Committees.

COMMUNICATION POLICY

The disclosure policy and procedures of the Corporation are reviewed periodically by the Board of Directors. The objectives of the policy include continuing to ensure that communications of material information to investors are timely and accurate and are broadly disseminated in accordance with all applicable securities laws and stock exchange rules. The Corporation has a Global Communications and Investor Relations Department that responds to investor inquiries. The Corporation’s transfer agent, Computershare Trust Company of Canada, has a toll-free number (1-800-564-6253) and web site (www.computershare.com) to assist shareholders. Shareholders may also send comments via email to investor.relations@cae.com. In addition, CAE provides information on its business on CAE’s web site (www.cae.com) and its filing with the Canadian securities regulators and the SEC can be accessed at www.sedar.com and www.sec.gov/edgar respectively.

APPENDIX B

SUMMARY OF THE PRINCIPAL TERMS OF THE RIGHTS PLAN

This summary is qualified in its entirety by reference to the text of the Rights Plan which is available upon request from the Secretary of the Corporation at CAE Inc., 8585 Côte-de-Liesse, Saint-Laurent, Quebec H4T 1G6 (telephone number [514] 734-5779 and facsimile number [514] 340-5530). Capitalized terms used in this summary without express definition have the meanings ascribed thereto in the Rights Plan.

ISSUE OF RIGHTS

The Corporation issued one right (a “Right”) in respect of each common share outstanding at the close of business on March 7, 1990 (the “Record Time”). The Corporation will issue Rights on the same basis for each common share issued after the Record Time but prior to the earlier of the Separation Time and the Expiration Time (both defined below).

RIGHTS CERTIFICATES AND TRANSFERABILITY

Before the Separation Time, the Right will be evidenced by certificates for the common shares which are not transferable separate from the common shares. From and after the Separation Time, the Rights will be evidenced by separate Rights Certificates which will be transferable separate from and independent of the common shares.

EXERCISE OF RIGHTS

Rights are not exercisable before the Separation Time. After the Separation Time and before the Expiration Time, each Right entitles the holder to acquire one common share for the Exercise Price of \$100 (subject to certain anti-dilution adjustments). This Exercise Price is a price in excess of the estimated maximum value of the common shares during the term of the Rights Plan as determined by the Board of Directors.

Upon the occurrence of a Flip-In Event (defined below) prior to the Expiration Time (defined below), each Right (other than any Right held by an “Acquiring Person”, which will become null and void as a result of such Flip-In Event) may be exercised to purchase that number of common shares which have an aggregate Market Price equal to twice the Exercise Price of the Rights for a price equal to the Exercise Price. Effectively, this means a shareholder of the Corporation (other than the Acquiring Person) can acquire additional common shares from treasury at half their Market Price.

DEFINITION OF “ACQUIRING PERSON”

Subject to certain exceptions, an Acquiring Person is a person who is the Beneficial Owner (defined below) of 20% or more of the outstanding common shares.

DEFINITION OF “BENEFICIAL OWNERSHIP”

A person is a Beneficial Owner if such person or its affiliates or associates or any other person acting jointly or in concert:

1. owns the securities in law or equity; and
2. has the right to acquire (immediately or within 60 days) the securities upon the exercise of any convertible securities or pursuant to any agreement, arrangement or understanding.

However, a person is not a Beneficial Owner under the Rights Plan where:

1. the securities have been deposited or tendered pursuant to a take-over bid, unless those securities have been taken up or paid for;
2. by reason of the holders of such securities having agreed to deposit or tender such securities to a take-over bid pursuant to a Permitted Lock-Up Agreement;

3. such person (including a fund manager, trust company, pension fund administrator, trustee or non-discretionary client accounts of registered brokers or dealers) is engaged in the management of investment funds for others, as long as that person:
 - a) holds those common shares in the ordinary course of its business for the account of others;
 - b) holds not more than 30% of the common shares; and
 - c) is not making a take-over bid or acting jointly or in concert with a person who is making a take-over bid; or
4. such person is a registered holder of securities as a result of carrying on the business of or acting as a nominee of a securities depository.

DEFINITION OF "SEPARATION TIME"

Separation Time occurs on the tenth business day after the earlier of:

1. the first date of public announcement that a Flip-In Event has occurred;
2. the date of the commencement or announcement of the intent of a person to commence a take-over bid (other than a Permitted Bid or Competing Bid) or such later date as determined by the Board; and
3. the date on which a Permitted Bid or Competing Bid ceases to qualify as such or such later date as determined by the Board.

DEFINITION OF "EXPIRATION TIME"

Expiration Time occurs on the date being the earlier of:

1. the time at which the right to exercise Rights is terminated under the terms of the Rights Plan; and
2. the date immediately after the Corporation's annual meeting of shareholders to be held in 2006.

DEFINITION OF A "FLIP-IN EVENT"

A Flip-In Event occurs when a person becomes an Acquiring Person.

Upon the occurrence of a Flip-In Event, any Rights that are beneficially owned by an Acquiring Person or any of its related parties to whom the Acquiring Person has transferred its Rights will become null and void as a result of which the Acquiring Person's investment in the Corporation will be greatly diluted if a substantial portion of the Rights are exercised after a Flip-In Event occurs.

DEFINITION OF "PERMITTED BID"

A Permitted Bid is a take-over bid made by a person (the "Offeror") pursuant to a take-over bid circular that complies with the following conditions:

1. the bid is made to all registered holders of common shares (other than common shares held by the Offeror) on identical terms and conditions;
2. the Offeror agrees that no common shares will be taken up or paid for under the bid for 60 days following the commencement of the bid and that no common shares will be taken up or paid for unless more than 50% of the outstanding common shares held by shareholders other than the Offeror and certain related parties have been deposited pursuant to the bid and not withdrawn;
3. the Offeror agrees that the common shares may be deposited to and withdrawn from the take-over bid at any time before its expiry; and
4. if, on the date specified for take-up and payment, the condition in paragraph (b) above is satisfied, the bid shall remain open for an additional period of at least 10 business days to permit the remaining shareholders to tender their common shares.

DEFINITION OF "COMPETING BID"

A Competing Bid is a take-over bid that:

1. is made while another Permitted Bid is in existence; and
2. satisfies all the requirements of a Permitted Bid except that the common shares under a Competing Bid may be taken up on the later of 35 days after the Competing Bid was made and 60 days after the earliest date on which any other Permitted Bid or Competing Bid that was then in existence was made.

DEFINITION OF "PERMITTED LOCK-UP AGREEMENT"

A Permitted Lock-Up Agreement is an agreement between a person making a take-over bid and one or more shareholders (each a "Locked-up Person") under which the Locked-up Persons agree to deposit or tender their common shares to such take-over bid and which provides:

1. (i) no limit on the right of the Locked-up Persons to withdraw its common shares in order to deposit them to a Competing Bid (or terminate the agreement in order to support another transaction) where the price or value represented under the Competing Bid (or other transaction) exceeds the price or value represented under the original take-over bid; or (ii) limits such right to withdraw its common shares in order to deposit them to a Competing Bid (or terminate the agreement in order to support another transaction) where the price or value represented under the Competing Bid (or other transaction) exceeds the price or value represented under the original take-over bid by as much as or more than an amount specified under the original take-over bid, and the specified amount is not more than 7% of the price or value represented under the original take-over bid, and the Competing Bid (or other transaction) is made for the same number of common shares as the original take-over bid; and
2. for no "break-up" fee or "top-up" fee in excess of the greater of: (i) 2.5% of the price or value payable under the original take-over bid to Locked-up Persons; and (ii) 50% of the amount by which the price or value payable to Locked-up Persons under a Competing Bid (or other transaction) exceeds the price or value payable to Locked-up Persons under the original take-over bid, shall be payable by such Locked-up Persons in the event that the original take-over bid is not successfully completed or if any Locked-up Person fails to tender their common shares under the original take-over bid.

REDEMPTION OF RIGHTS

The Rights may be redeemed by the Board at its option with the prior approval of the shareholders at any time before a Flip-In Event occurs at a redemption price of \$0.00001 per Right. In addition, the Rights will be redeemed automatically in the event of a successful Permitted Bid, Competing Bid or a bid for which the Board has waived the operation of the Rights Plan.

WAIVER

Before a Flip-In Event occurs, the Board may waive the application of the Flip-In provisions of the Rights Plan to any prospective Flip-In Event which would occur by reason of a take-over bid made by a take-over bid circular to all registered holders of common shares. However, if the Board waives the Rights Plan with respect to a particular bid, it will be deemed to have waived the Rights Plan with respect to any other take-over bid made by take-over bid circular to all registered holders of common shares before the expiry of that first bid. Other waivers of the "Flip-In" provisions of the Rights Plan will require prior approval of the shareholders of the Corporation.

The Board may also waive the "Flip-In" provisions of the Rights Plan in respect of any Flip-In Event provided that the Board has determined that the Acquiring Person became an Acquiring Person through inadvertence and has reduced its ownership to such a level that it is no longer an Acquiring Person.

TERM OF THE RIGHTS PLAN

Unless otherwise terminated, the Rights Plan will expire on the date immediately after the Corporation's annual meeting of shareholders to be held in 2009.

AMENDING POWER

Except for minor amendments to correct typographical errors and amendments to maintain the validity of the Rights Plan as a result of a change of law, shareholder or rightsholder approval is required for amendments to the Rights Plan.

RIGHTS AGENT

Computershare Trust Company of Canada.

RIGHTSHOLDER NOT A SHAREHOLDER

Until a Right is exercised, the holders thereof as such, will have no rights as a shareholder of the Corporation.

APPENDIX C

RIGHTS PLAN RESOLUTION

“Be it resolved that:

1. The renewal of the shareholder protection rights plan agreement between the Corporation and Computershare Trust Company of Canada (the “Rights Plan”), a summary of which is set forth in Appendix B to the accompanying proxy information circular, is hereby approved.
2. Any one officer or Director of the Corporation be and is hereby authorised and directed for and on behalf and in the name of the Corporation to execute, whether under the corporate seal of the Corporation or otherwise, and deliver all such documents and instruments, and to do or cause to be done all such other acts and things, as may be necessary or desirable to give effect to the foregoing.”

APPENDIX D

CAE INC. BOARD MANDATE

CAE INC. BOARD OF DIRECTORS' RESPONSIBILITIES

Management is responsible for the management of the Company. The Board is responsible for the stewardship of the Company and for monitoring the actions of, and providing overall guidance and direction to, management.

In fulfilling its mandate, the Board shall, among other things:

MANDATE

The Board shall act in the best interest of the Company.

COMMITTEES

The Board will maintain an Audit Committee, a Human Resources Committee and a Governance Committee, each comprised entirely of independent directors. The Board may also maintain an Executive Committee. The Board may establish such other committees as it deems necessary or desirable, to assist it in the fulfillment of its duties and responsibilities, with such terms of reference as the Board may determine, and may delegate from time to time to such committees or other persons any of the Board's responsibilities that may be lawfully delegated. The Board shall determine whether Directors satisfy the requirements for membership on each such committee. The independent directors will periodically, as they see fit, hold meetings without management.

STRATEGY

The Board will maintain a strategic planning process and annually approve a strategic plan that takes into account, among other things, the opportunities and principal risks of the Company's business. The Board also supervises management in the implementation of appropriate risk management systems. Separately from the strategic plan, the Board also approves an annual budget for financial performance.

CORPORATE GOVERNANCE

Corporate Governance issues are the responsibility of the full Board. This includes the disclosure thereof in the Company's annual report and management proxy circular.

The Board periodically reviews a Disclosure Policy for the Company that, inter alia: addresses how the Company shall interact with shareholders, analysts and the public and covers the accurate and timely communication of all important information. The Company communicates with its stakeholders through a number of channels including its website, and they in turn can provide feedback to the Company in a number of ways, including email.

The Board, through its Audit Committee, monitors the integrity of the Company's internal controls and management information systems.

The Board, through its Governance Committee, regularly reviews reports on compliance with the Company's Code of Business Conduct and ethical practices generally.

The Board periodically reviews Company policies with respect to decisions and other matters requiring Board approval.

AUDIT, FINANCE AND RISK MANAGEMENT

The Board authorizes the Audit Committee to assist the Board in overseeing:

- (i) the integrity and quality of the Company's financial reporting and systems of internal control and risk management;
- (ii) the Company's compliance with legal and regulatory requirements;
- (iii) the qualifications and independence of the Company's external auditors; and
- (iv) the performance of the Company's internal accounting function and external auditors.

SUCCESSION PLANNING

The Board develops, upon recommendation of the Human Resources Committee, and monitors a succession plan for senior officers of the Company.

OVERSIGHT AND COMPENSATION OF MANAGEMENT

The Board considers recommendations of the Human Resources Committee with respect to:

- (i) the appointment and compensation of senior officers of the Company at the level of Vice President and above;
- (ii) the compensation philosophy for the Company generally;
- (iii) the adoption of any incentive compensation and equity based plans, including stock option, stock purchase, deferred share unit, restricted share unit or other similar plans, in which officers are or may be eligible to participate, and;
- (iv) the Company's retirement policies and special cases.

The Board communicates to the CEO and periodically reviews the Board's expectations regarding management's performance and conduct of the affairs of the Company. The Board also periodically reviews the CEO's position description and objectives and his performance against these objectives.

ENVIRONMENTAL AND SAFETY MATTERS

The Board approves Health & Safety and Environmental policies and procedures and reviews any material issues relating to environmental and safety matters and management's response thereto.

DIRECTORS' QUALIFICATIONS, COMPENSATION, EDUCATION AND ORIENTATION

The Board, through the Corporate Governance Committee, develops a process to determine, in light of the opportunities and risks facing the Company, what competencies, skills and personal qualities are required for new Directors in order to add value to the Company while ensuring that the Board is constituted of a majority of individuals who are independent.

The Board, through the Corporate Governance Committee, develops a program for the orientation and education of new Directors, and to ensure that prospective candidates for Board membership understand the role of the Board and its Committees and the contributions that individual Directors are expected to make, and develops a program of continuing education if needed for Directors.

The Board considers recommendations of the Corporate Governance Committee with respect to the level and forms of compensation for Directors, which compensation shall reflect the responsibilities and risks involved in being a Director of the Company.

ASSESSMENT OF BOARD AND COMMITTEE EFFECTIVENESS

The Board considers recommendations of the Corporate Governance Committee for the development and monitoring of processes for assessing the effectiveness of the Board, the Committees of the Board and the contribution of individual Directors, which assessments shall be made annually. These results are assessed by the Chairman of the Board and/or the Chairman of the Corporate Governance Committee and are reported to the full Board, which decides on actions deemed necessary, if any. The number of Directors permits the Board to operate in a prudent and efficient manner.

PENSION PLANS

The Board is responsible to oversee the management of the Company's pension plans and does this through its Human Resources Committee.

OUTSIDE ADVISERS

Directors may hire outside advisers at the Company's expense, subject to the approval of the Chairman of the Board, and have access to the advice and services of the Company's Secretary, who is also the Vice President, Legal and General Counsel.

May 17, 2006

