



## **Corporate Governance Guidelines**

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

### **Director Qualification Standards**

The Board has delegated to the Governance Committee the responsibility of reviewing and recommending nominees for membership on the Board. The CEO shall be the only member of the Board who is an employee of the Company. Candidates for election or re-election to the Board should possess: (i) the highest personal and professional ethics; (ii) a background and expertise that may be useful to the Company and complementary to and different from the background of the other directors; and (iii) a willingness to devote the required time to the duties and responsibilities of Board membership.

### **Director Responsibilities**

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

### **Director Independence**

It shall be the policy of the Board that a substantial majority of the members of the Board, and all of the members of the Audit Committee, Human Resources Committee, and the Governance Committee, qualify as “independent directors” in accordance with applicable provisions of securities legislation and regulation and the listing standards of the stock exchanges on which the Company’s shares are listed, as they may from time to time be amended.

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

**Board Size**

The number of directors shall, in accordance with the Company's articles, be no less than three nor more than 21 and the Board favours comprising membership of approximately 10 to 12 directors. This range provides diversity of thought and experience while facilitating effective decision-making.

**Director Tenure**

Directors will not be re-nominated as a director of the Company following their 72<sup>nd</sup> birthday, nor following 12 years of prior service on the Board, unless the Board determines there are good reasons for granting a waiver of either part of this rule. Employee directors shall not serve as Chair of the Board.

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

**Director Compensation**

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

**Director and Executive Employee Share Ownership Requirements**

Requiring directors and executive employees to have a reasonable equity ownership in the Company helps to more closely align their economic interests with those of other Company shareholders. Each director shall, at all times, be an owner of common shares and/or deferred share units of the Company. Non-employee directors shall own shares and/or deferred share units of the Company equivalent to three times the annual Board retainer and will receive compensation in respect of his or her services as a director, including, without limitation, his or her annual retainer for serving as a member of the Board or a committee thereof, in deferred share units until such shareholding is attained. Once the target is attained, there is no obligation on a director to buy or otherwise acquire additional common shares and/or share units of the Company if the value of his or her holdings dips below three times annual Board retainer value as a result of share price movement. The Human Resources Committee shall maintain guidelines for common share ownership in the Company by executive employees.

**Voting for Directors**

Each director of the Company must be elected by a majority (50% +1 vote) of the votes cast with respect to his or her election other than at contested meetings ("Majority Voting Requirement"). 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 (a "majority withhold vote") shall tender his or her resignation to the Chair of the Governance Committee immediately following certification of the shareholder vote.

The Governance Committee will promptly consider the tendered resignation and recommend to the Board whether to accept or reject it. In the absence of exceptional circumstances, the Board expects the Governance Committee will recommend that the Board accept such resignation.

The Board will act on 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 shall accept the resignation absent exceptional circumstances.

The resignation of the director whose election did not meet the Majority Voting Requirement will be effective when accepted by the Board. A director who tenders a resignation pursuant to this policy will not participate in the Governance Committee recommendation or the Board's consideration of whether to accept or reject the resignation, and will not attend any part of a meeting of the Board or the Governance Committee at which his or her resignation is discussed or a related resolution is voted upon.

Promptly following the Board's decision, the Company will issue a news release disclosing that decision and providing a full explanation of the decision reached. A copy of the news release with the Board's decision will be provided to the Toronto Stock Exchange.

If the Board decides to accept the director's resignation, the Governance Committee will recommend to the Board whether to fill the resulting vacancy or to reduce the size of the Board. If a majority of the members of the Governance Committee received a majority withhold vote at the same election, then the independent directors who did not receive a majority withhold vote will appoint a Board committee amongst themselves solely for the purpose of considering the tendered resignations and will recommend to the Board whether to accept or reject them.

This corporate governance guideline will be summarized or included in each Company proxy statement relating to an election of Company directors.

### **Board Committees and Charters**

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

### **Frequency of Board and Committee Meetings**

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

### **Selection of Agenda Items for Board and Committee Meetings**

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

### **Board and Committee Materials Distributed in Advance**

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

### **Chair**

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

### **Executive Sessions of Non-Management Directors**

The non-management directors shall meet in executive sessions in connection with each meeting of the Board, and at other times as they may wish. Committees of the Board shall also meet in executive sessions in connection with each meeting of such committees, and at other times as they may wish.

### **Board Self-Evaluation**

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

### **Director Access to Management and Independent Advisors**

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

### **Reporting of Concerns to Non-Employee Directors**

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

### **Management Evaluation and Succession**

The Human Resources Committee and the Board shall conduct an annual review of the performance of the CEO.

The Board will periodically perform succession planning for the CEO position to prepare for a possible emergency involving, or the departure or retirement of, the CEO.

### **Code of Business Conduct**

The Company has a Code of Business Conduct to provide guidelines for ethical conduct by directors, officers and employees. The Code of Business Conduct contains guidance regarding conflicts of interest, corporate opportunities, confidentiality, protection of company assets, preparation and disclosure of financial statements and related areas. The Code of Business Conduct is posted on the Company's website.

### **Director Orientation and Continuing Education**

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

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

### **Periodic Review of Guidelines**

The Governance Committee shall periodically review these Corporate Governance Guidelines.

*May 17, 2019*