

MASTER AGREEMENT - PURCHASE OF GOODS

This master agreement for the purchase of Goods ("Agreement") is made this ____ day of _____ 200__

BETWEEN CAE Inc., a Canadian corporation having offices at 8585 Cote-de-Liesse, Saint-Laurent, Quebec H4T 1G6, Canada ("CAE" or "CAE");

AND _____, a _____ corporation having offices at _____ ("Seller").

1. RECITALS

WHEREAS CAE may require the supply of certain Goods, as defined by Seller's Specifications and / or CAE's drawings and Specifications; and

WHEREAS Seller has represented to CAE that it has the capability and expertise to supply the Goods for use in CAE's goods and/or services; and

WHEREAS The Parties have agreed that such purchase and sale of Goods shall be governed by the terms, conditions and obligations contained herein.

NOW THEREFORE, the Parties hereto agree as follows:

1. Definitions:

Goods: shall mean goods, materials, or items ordered under this Agreement

Services: shall mean any service required under this Agreement

Work: shall mean the development of any intellectual property whatsoever under this Agreement

For the sake of brevity Goods, Services and Work under this agreement collectively shall be identified, where applicable, as "Goods"

2. Scope

This Agreement covers all Purchase Orders ("POs") which may be issued by CAE throughout its term for the supply by Seller of Goods for production and as spares. In addition to the terms, conditions and obligations contained herein, this Agreement is comprised of:

- I. All POs issued by CAE to Seller that reference this Agreement;
- II. Annex A – The Purchasing – General Terms & Conditions
- III. Annex B – Unit Prices Agreement;
- IV. Annex C – Product Specifications;

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- V. Annex D – Product Support Agreement;
- VI. Annex E - Statement of Work
- VII. Annex F – Project Schedule;
- VIII. Annex G – Non-Disclosure Agreement;

with all of the above forming an integral part of this Agreement.

3. Term

This Agreement shall remain in force and effect for the period commencing _____ 200_ and ending _____ 200_, unless earlier terminated pursuant to its terms.

Any Purchase Orders issued pursuant to this Agreement that are still open as at the expiration date hereof, shall continue to be governed by the terms, conditions and obligations contained herein.

The expiration or termination of this Agreement shall not relieve Seller of any of its obligations to satisfactorily complete all Purchase Orders placed prior to the date of expiration or termination, nor shall such termination or expiration relieve Seller of the obligations contained in Annex D - Product Support Agreement. The expiration or termination of this Agreement shall not relieve the parties of their respective obligations which are ongoing in nature.

4. Order of Precedence

The Parties agree that in the event of any inconsistency among the provisions of this Agreement, such inconsistency shall be resolved by giving precedence as follows:

- (i) Provisions typed on the face of CAE's Purchase Orders;
- (ii) This Master Agreement for the Purchase of Goods;
- (iii) Product Support Agreement as applicable (Annex D);
- (iv) Purchasing-General Terms and Conditions (Annex A);
- (v) Statement of Work as applicable (Annex E);
- (vi) Specifications (Annex C).

5. Ordering and Leadtime

- I. **Ordering:** The following note shall be contained on the face of all Purchase Orders placed pursuant to this Agreement:

"This Purchase Order is subject to the Master Agreement for the Purchase of Goods, reference Master Agreement /_____/ 200_, between CAE and _____."

- II. **Lead time after receipt of Order ("ARO"):** CAE agrees to provide Seller with the minimum lead-time ARO identified for each of the Goods listed in Annex B – Unit Prices Agreement.

- III. **Schedule Flexibility:** CAE may automatically, through the Purchase Order change process, pull-in or push-out scheduled delivery dates at no increase in cost or expense to CAE, provided the changes are made no later than four (4) weeks prior to the scheduled delivery date. For any changes made within said four (4) week period, CAE will contact Seller prior to modifying the Purchase Order's scheduled delivery date(s) and agree on a mutually acceptable date.

6. Production Forecasts:

To assist Seller in forecasting future requirements, CAE agrees to provide to the Seller, upon request and where possible and/or appropriate, CAE's production schedules and revisions thereof for CAE products or services using Seller's Goods. The production schedules shall be used by Seller for forecasting and planning purposes only and shall not be construed as minimum commitments by CAE and/or an authority to incur costs in excess of released Purchase Orders or blanket Purchase Orders. Further, if the forecasting information does not result in a Purchase Order to Seller, that fact shall not constitute a basis for an increase to prices.

7. Delivery Performance

CAE's objective is to reach 100% on-time delivery by Seller. In order to achieve this target, CAE will monitor Seller's delivery performance based on a Purchase Order delinquency report. Seller shall achieve an average minimum performance level of ninety-six percent (96%) on-time delivery for three (3) consecutive months. In the event Seller performs below this level, Seller shall submit a recovery plan to CAE for review and approval. In the event that Seller is unable to improve the on-time delivery rate and/or if the recovery plan is not respected, CAE reserves the right to debit Seller for any damages resulting from delays in delivery, including but not limited to re-procurement costs, and CAE may take any other measures deemed necessary, including cancellation of Purchase Orders without penalty and/or termination of this Agreement in whole or in part without penalty.

8. Prices

- I. **Base recurring prices:** Base recurring prices for the Goods and, if so provided, Services, are defined in Annex B – Unit Prices Agreement. These prices are stated in **currency** and shall be firm fixed through _____, 200_.
- II. **Continuous improvement:** Seller commits, throughout the term of this Agreement, to make best efforts to identify and implement cost reduction initiatives for the Goods. It further commits to present CAE with cost reduction suggestions to ease the manufacturing of the Goods or propose alternate products, with a view to reduce life-cycle costs of the Goods.

To demonstrate this commitment, Seller's prices for the Goods shall be reduced by 2% annually on April 1st, starting in 200_. Any agreed-to net savings in excess of the

2% annual commitment, for suggestions accepted by CAE, shall be shared 50/50 between the Parties.

CAE and Seller agree to schedule meetings and have performance reviews every six (6) months to identify and evaluate any cost saving opportunities that Seller may submit.

For purposes of this Agreement, a Goods cost reduction is defined to mean reductions in the total cost to manufacture, produce and distribute a Good, including, but not limited to, lower costs of maintaining Goods inventory, design changes, reductions in Seller's administrative costs, raw material price changes; and/or Goods, material or grade substitutions, unless such substitutions were originated by Seller.

- III. **Most favoured customer:** Seller warrants to CAE that the prices charged to CAE are not in excess of the lowest price/rate charged anyone else, including the Seller's most favoured customer, for like quality and quantity of the Goods or Services. Such warranty is subject to verification by audit, at CAE's discretion, at any time during the term of this Agreement. If said audit demonstrates that the prices paid by CAE are higher, it is agreed that Seller shall make full repayment to CAE in the amount found to be in excess of the lowest price.

9. Payment

A payment shall not be construed as acceptance of any part of the Goods, nor shall final payment or acceptance affect the total and final responsibility of the Seller.

(Select one): Payment shall be made within sixty (60) days from the (i) CAECAE's acceptance of the Goods, Work and/or Services; and (ii) CAECAE's receipt of an accurate and acceptable invoice.

or

Payment shall be made net thirty (30) days after Ready For Test (RFT) at CAE's customers' sites.

10. Selection of Employees

Should any Services be provided under this Agreement, Seller shall designate its essential employee(s) who shall perform the Services, as well as a Project Manager who shall be responsible for overseeing Seller's performance hereunder. Seller shall use its best efforts to comply with requests from CAE for specific essential Seller employees. Seller shall replace employee(s) performing Services upon request by CAE for good and lawful reasons, including but not limited to an employee's lack of security clearance. If, for reasons beyond Seller's control, Seller's employee(s) assigned to the execution of the professional Services are not available, Seller shall (i) assign an employee with the same qualifications, and (ii) be responsible for the time and all associated charges required for the transfer of skills/knowledge necessary for the execution of the Professional Services, such time to be

mutually agreed by the Parties. Seller's personnel shall at all times remain under the sole authority and responsibility of Seller.

11. Kitting

Upon CAEs written request, Seller shall deliver all Goods covered by this Agreement in kits. Seller and CAE will mutually agree upon the Goods that form each kit (to maximize operational efficiencies for Seller and CAE).

12. System Integration and Evolution

As required by the Specifications, Seller shall deliver to CAE Goods that constitute a complete system with defined interfaces and assumes full responsibility and cost for such system development, design, functions, qualification, reliability, availability, maintainability, safety and quality as specified herein.

Seller commits to fully co-ordinate its Goods, Works and Services to provide the interface support necessary to CAE, including: interface with other subcontractors of CAE and third parties involved in a project in order to achieve a successful integration with other portions of the project and on-time delivery to CAE.

Notwithstanding the foregoing, if, at any time before the acceptance of a system by CAE or its customer(s) in which a system or Goods has been incorporated, CAE or a customer of CAE determines that the Goods or system do not meet the Specifications, the Seller shall make, at its expense, all necessary changes to its system or Goods and interface points in order to meet the requirements at no additional charge or expense to CAE.

13. Design Responsibility

The Seller acknowledges that CAE relies on the Seller's skill and judgement to produce Goods which are fit for their intended purposes and comply with CAE requirements. Any advice, clarification, assistance, input and information originating from CAE should not be construed as a direction to the Seller in relation to the design.

14. Insurance

Seller shall obtain and maintain the following insurance and shall require all sub-contractors at or agents at any tier to do the same (collectively, "Sellers") covering their activities under this Agreement for its duration:

- I. Worker's Compensation, Occupational Disease, and Disability Benefits as required by law for Seller's employees entering CAE premises.
- II. Employer's Liability for not less than USD\$ 1,000,000 per occurrence and in the annual aggregate for all persons employed by Sellers in connection with this Agreement.
- III. General Liability Insurance for not less than USD\$1,000,000 combined single limit per occurrence and in the annual aggregate Bodily Injury and Property

Damage General Liability insurance as respects activities, premises, services, operations, completed operations or products in connection with this Agreement. Such insurance shall include, but shall not be limited to:

- (a) Broad Form property damage;
- (b) Products & Completed operations hazard;
- (c) Contractual liability, Cross Liability;
- (d) Personal Injury; and

all such insurance shall name CAE and others at CAE's option as "Additional Insureds"

- IV. Automobile Liability Insurance for not less than \$1,000,000 combined single limit per occurrence for Bodily Injury and Property Damage Automobile Liability insurance covering "Seller's" owned, non-owned and hired motor vehicles that enter CAE premises in accordance with applicable laws.
- V. Umbrella Liability Insurance for not less than USD\$5,000,000 combined single limit per occurrence and in the annual aggregate excess of, and no less broad than, the above primary general liability, automobile liability and the employers liability coverages and covering "Additional Insureds" in the underlying policies.
- VI. Crime Insurance for Sellers' employee's dishonesty, computer theft and wire fraud for CAE property with a limit no less than USD \$3,000,000, with a maximum deductible of USD \$50,000 and providing the right of CAE to make claim under the bond.
- VII. Any Insurance Coverage required by any government authority for the types of services similar to those to be provided under this Agreement.
- VIII. Any Other insurance that a reasonable and prudent seller would carry for the provision of Goods or Work, or performance of the Services hereunder.
- IX. If the shipping terms obligate Seller to insure risks of transit loss, Seller shall procure Cargo Insurance for all risks of physical loss or damage (including flood, earth movement, strikes, riots, civil commotion and war) that are normally, customarily, and commercially insurable of property of or for CAE that are tendered for transportation under this Agreement while in transit by land, sea or air from or to CAE's Montreal facilities to or from anywhere in the world for the full value of any one conveyance or any one storage location. Such insurance shall provide that loss or damage to CAE property shall be adjusted with and payable to CAE.
- X. If Seller is providing professional Services, Seller shall procure Professional Errors and Omissions Liability Insurance to cover any act, error, or omission arising out of the performance or non-performance of professional services with limits not less than USD\$1,000,000 available for Services under this Agreement. If such insurance is written on a claims made basis:
 - a. Seller shall use its best efforts to maintain such coverage during the term of this Agreement and for at least one year following completion of it;
 - b. the retroactive effective date of such policies, including renewal or replacements must coincide with or precede the start of services;
 - c. if such insurance is terminated for any reason, Seller must purchase an extended reporting period of at least three months to report claims arising from services performed under this Agreement; and
 - d. such insurance must treat notices of circumstances or incidents that may give rise to future claims as a reported claim.
- XI. General Requirements for Insurance:

- a. Each required insurance policy shall provide that the policy shall not be materially changed, or canceled, or non-renewed without thirty (30) days advance written notice to CAE.
- b. Seller shall carry the above insurance until all required services under this Agreement have been satisfactorily completed.
- c. The cargo, general and umbrella liability insurance shall be primary and non-contributing with insurance available to the "Additional Insureds".
- d. Seller shall require the employer's, general and umbrella liability insurers to waive their right of recovery against "CAE."
- e. CAE and Seller hereby waive all rights against each other and their directors, officers, employees, servants and agents, for loss of or damage to any property owned, used or in the care, custody or control of either party under this Agreement to the extent such loss or damage is covered by insurance required by this Agreement.
- f. Seller will furnish and keep current insurance certificates evidencing the required insurance and general requirements for insurance. Such certificates shall include copies of policy endorsements or binders providing the above special provisions, including but not limited to thirty (30) day advance written notice of cancellation, modification, or non-renewal, covering CAE as "Additional Insured," confirming primary insurance and waiving subrogation. At CAE's request Seller will deliver to CAE copies of policies or certificates.
- g. All such insurance shall be written by reputable insurance companies licensed to do business where the work is performed and approved by the applicable government authority and reasonably acceptable to CAE.
- h. Upon discovery of the failure, or upon notice of intent not to comply with the required insurance and general requirements for insurance, Seller authorizes CAE to obtain such insurance at Seller's cost upon notice to Seller of its intent to do so.
- i. Seller shall provide immediate written notice to CAE of any occurrence, offense or incident which might lead to a claim against CAE or loss or damage to its assets under any of the required insurance and shall allow CAE to take over the conduct of the adjustment, negotiations, or defense of claims under policies in which CAE is a loss payee or additional insured as respects their interests.

15. Authorized Subcontractors

15.1 CAE subcontractors

Seller agrees to extend the terms of this Agreement to CAE appointed subcontractors. Seller reserves the right to establish terms of payments with such CAE-appointed subcontractors.

15.2 Supplier Subcontractors

In the event that Seller wishes to engage a subcontractor to perform any of Seller's obligations hereunder, seller shall i) provide CAE with details as to such subcontractor's identify, and ii) shall only engage such subcontractor if CAE has consented to such subcontractor's engagement by Seller. In any event, such subcontracting shall not release Seller from its responsibility for its obligations under this Agreement. Furthermore Seller Master Agreement - Purchase of Goods Rev. 1 June 28, 2006

shall be fully responsible for the compliance by its subcontractors with all terms of this Agreement. Seller is fully responsible for all payments of fees to its subcontractors.

16. Non-Recurring Costs

Seller's non-recurring costs for the development and/or certification of Goods, Work or Services relating to CAE's applicable Specification(s), shall be borne by Seller.

17. Product Support Agreement

Seller shall support the Goods procured pursuant to this Agreement in accordance with Annex D – Product Support Agreement.

18. Goods Recall

Seller shall reimburse CAE for costs incurred by CAE for any recall campaign related to the Goods, Work or Services provided hereunder (i) to remedy a breach of Seller's warranty; or (ii) that is undertaken to comply with a law or other governmental requirements; or (iii) at the election of Seller, to maintain its reputation for quality in the marketplace. A recall campaign, for purposes of this Agreement, is a systematic effort to locate products in the field and repair and replace them. Seller shall reimburse CAE for all costs incurred by CAE in the recall campaign within forty-five (45) days after being invoiced by CAE.

19. Electronic Data Interchange

20. Quality Assurance

- I. Quality Assurance shall be provided in accordance with ISO 9001;2000.
- II. In lieu of ISO9001: 2000 or another equivalent Quality Management System, a Quality Assurance Plan will be prepared by the Seller and submitted to CAE's Quality Assurance Department which demonstrates the manner in which the Seller shall address, at a minimum, the following areas in order to ensure quality Goods:
 - Planning of product realization
 - Determination of requirements and risks
 - Review of requirements risks related to the Goods
 - Action plan to address requirements risks related to the Goods
 - Communication with CAE
 - All phases of design and development as per ISO9001: 2000
 - Control of Sellers and subcontractors
 - Verification of subcontracted or purchased parts
 - Preservation of Goods
 - Inspection and testing of Goods during all phases (receipt of Goods to delivery of Goods)

- Identification and traceability of production
 - Control of nonconforming Goods
 - Corrective and preventive action
- III. Source Inspection. CAE may witness all final inspection and acceptance testing prior to delivery of Goods.
- Workmanship Requirements. The standard of workmanship employed to construct the Goods shall be of the highest order normally associated with commercial products and shall be performed in accordance with the requirements of CAE's Supplier Quality Manual (SQM)..
- IV. Certificate of Compliance: A certificate of compliance and applicable test results shall accompany the Goods shipped indicating compliance to Specification.
- V. Interchangeability. All equipment, modules, assemblies and subassemblies with the same part number shall be fit, form and function interchangeable.
- VI. Factory Acceptance Tests: The Seller shall perform a functional test on each unit submitted for acceptance. (if applicable). Seller shall provide CAE at least five (5) days prior written notice for any functional testing on Goods. CAE and CAE's customer's reserve the right to witness any functional testing performed at Seller's facilities.
- VII. Test results shall be made available to CAE's Quality Assurance Department for auditing purposes. These results shall detail all failures, conditions under which the failures occurred, and the corrective action that was taken.

21. Amendments

This Agreement may be amended only by the issuance of amendments duly executed by both Parties.

22. CAE Affiliates

The provisions of this Agreement including, but not limited to pricing, terms, and conditions, shall be extended to CAE's affiliates..

22. Governing Laws

This Agreement shall be governed and interpreted in accordance with the laws of the Province of Quebec and the laws of Canada applicable therein, without reference to its conflict of law rules. The Parties also agree to specifically exclude the application of the United Nations Convention on Contracts for the International Sale of Goods, 1980, as may be amended.

23. Disputes and Jurisdiction

The Parties shall attempt to resolve any disagreements, disputes, controversies or claims arising out of, or relating to this Agreement, or the breach, termination, invalidity or Master Agreement - Purchase of Goods Rev. 1 June 28, 2006

interpretation of any part hereof, by escalating the matter through their respective management structures. The Parties will use all efforts in good faith to resolve the dispute. If the Parties cannot resolve the dispute with ninety (90) days of commencement, the Parties will be free to submit any dispute related to the acceptance, interpretation or execution of this Agreement to the courts of the Province of Quebec, District of Montreal. Each of the Parties irrevocably and unconditionally consents to the non-exclusive jurisdiction of each such courts of the Province of Quebec in any such suit, action or proceeding. Pending final resolution of any dispute or appeal hereunder, the Seller shall proceed diligently with the performance of its obligations under this Agreement as directed by CAE.

24. Entire Agreement

This Master Agreement and the documents incorporated by reference herein contain the full and complete understanding of the Parties with respect to the subject matter hereof and supersede all prior representations and understandings, whether oral or written.

In witness whereof, this Agreement has been executed on behalf of CAE and Seller:

CAE Inc.

[SELLER]

By:

By:

Title:

Title:

Date:

Date:

Annex A
Purchasing – General Terms & Conditions

**Annex B
Unit Prices Agreement**

Part Number	Unit Price	Effective date Through	Lead time	Time Fence

Annex C
Product Specifications

Annex D
Product Support Agreement

Annex E
Statement of Work

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Annex F
Project Schedule

Annex G
Non Disclosure Agreement