

CAE INC.
MEMBERSHIP AND RESPONSIBILITIES OF
THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

1. ROLE AND MEMBERSHIP

The Audit Committee (the “Committee”) shall be a committee of the Board of Directors.

The Committee shall consist of three to five directors (one of whom shall be the Chairman of the Committee). All members of the Committee shall be independent directors, as determined by the Board taking into consideration applicable laws, regulations and other requirements and regulatory guidelines applicable to such determination. Each member shall annually certify to CAE Inc. (“CAE” or the “Company”) as to his or her independence, in form compliant with the standards of independence set out by regulatory authorities, stock exchanges and other applicable laws, regulations and requirements. Each member shall be able to read and understand financial statements (balance sheet, income statement, cash flow statement) that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by CAE’s financial statements, or shall become able to do so within a reasonable period of time after joining the audit committee. One member shall qualify as a “financial expert” (as defined by applicable regulation) and therefore have past employment in finance, accounting or any other comparable experience or background providing financial expertise. The Committee composition, including the qualifications of its members, shall comply with the requirements of regulatory authorities, stock exchanges and other applicable laws, regulations and requirements, as such requirements may be amended from time to time.

The Chairman of the Committee and its members shall be elected annually by the Board of Directors following recommendation of the Governance Committee and the Chairman of the Board. If the designated Chairman of the Committee is unable to attend a Committee meeting, the other Committee members present shall elect a replacement Chairman for that meeting.

A majority of members of the Committee shall constitute a quorum.

2. RESPONSIBILITIES

Work closely and cooperatively with such officers and employees of CAE, its auditors, and/or other appropriate advisors and with access to such information as the Committee considers to be necessary or advisable in order to perform its duties and responsibilities, as assigned by the Board of Directors, in the following areas:

3. REVIEW OF AUDITED FINANCIAL STATEMENTS

3.1 Review the annual audited consolidated financial statements and make specific recommendations to the Board of Directors. As part of this process the Committee should:

- Review the appropriateness of and any changes to the underlying accounting principles and practices.
- Review the appropriateness of estimates, judgments of choice and level of conservatism of accounting alternatives.
- Review annually with management, external and internal auditors the identification, assessment and resulting mitigation strategy for financial risks, and the input of the integrated risk assessment into the annual audit planning cycle with subsequent quarterly updates by Chief Financial Officer of any material changes with respect to financial risk assessment.
- Oversee the review by internal audit of the existence and effectiveness of CAE's group-wide risk management program.
- Review the annual audited financial statements and actuarial valuation reports, if any, for the Supplementary Pension, Designated Executive Pension Plan, Employee Pension Plan, U.S. 401(K) Retirement Savings Plans and other material pension plans of the Company and its subsidiaries.

4. ENGAGEMENT OF EXTERNAL AUDITORS

4.1 Recommend to the Board of Directors the appointment of the external independent auditor, which shall be accountable to the Board and the audit committee as representatives of the shareholders.

4.2 Review and approval of engagement letter. As part of this review the committee reviews and recommends to the Board of Directors for their approval the auditors' fees for the annual audit. The Committee is responsible for the oversight of the work of the Company's auditor for the purpose of preparing or issuing an audit report or related work, and the auditor shall report directly to the Committee. The Committee shall pre-approve the engagement of the external auditors for the audit, any audit-related services, advice with respect to taxation matters and other permitted services and fees for such services, including approval processes for any such service that comply with the requirements of regulatory authorities, stock exchanges and other applicable laws, regulations and requirements, as amended from time to time.

4.3 Receipt of a written statement not less than annually from the external auditor describing in detail all relationships between the auditor and CAE that may impact the objectivity and independence of the auditor. Review annually with the

Board of Directors the independence of the external auditors and either confirm to the Board of Directors that the external auditors are independent in accordance with applicable listing requirements, laws, regulations and other regulatory guidelines, or recommend that the Board of Directors take appropriate action to satisfy itself of the external auditors' independence. Review and approve CAE's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of CAE.

5. REVIEW AND DISCUSSION WITH EXTERNAL AUDITORS

- 5.1 Review with the external auditors and management the annual external audit plans and agenda which would include objectives, scope, risks assessments, timing, materiality level and fee estimate.
- 5.2 Request and review an annual report prepared by the external auditors of any significant recommendations to improve internal control over financial reporting and corresponding management responses.
- 5.3 Request and review an annual report prepared by the external auditors regarding the auditor's internal quality-control procedures, material issues raised by the most recent internal quality-control review of the auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding 5 years, respecting one or more audits carried out by the auditors, and any steps taken to deal with any such issues.
- 5.4 Hold timely discussions with the external auditors regarding (i) critical accounting policies and practices, (ii) alternative treatments of financial information within generally accepted accounting principles related to material items discussed with management, ramifications thereof and treatment preferred by the external auditor, and (iii) other material written communication between the external auditor and management, including the management letter and schedule of unadjusted differences.
- 5.5 Meet to review and discuss with the external auditors the annual audited financial statements and quarterly financial statements, including disclosures in management discussion and analysis.
- 5.6 Meet separately, quarterly, with the external auditors (including the lead partner).
- 5.7 Make specific and direct inquiry of the external auditors' work relating to:
 - Performance of management involved in the preparation of financial statements.
 - Any restrictions on the scope of audit work.
 - The level of cooperation received in the performance of the audit.

- The effectiveness of the work of internal audit.
 - Any unresolved material differences of opinion or disputes between management and the external auditors, and be directly responsible for overseeing the resolution of disagreements between management and the external auditors regarding financial reporting.
 - Any transactions or activities which may be illegal or unethical.
 - Independence of the external auditor including the nature and fees of non-audit services performed by external audit firm and its affiliates.
 - Any other matter so desired.
- 5.8 Provide evaluation and regular feedback to the external auditors.

6. REVIEW AND DISCUSSION WITH INTERNAL AUDITORS

- 6.1 Review the annual internal audit plan including assessment of audit risk, planned activities, level and nature of reporting, audit organization and annual budget.
- 6.2 Periodically review the adequacy and effectiveness of the Company's disclosure controls and procedures and the Company's internal control over financial reporting, including any significant deficiencies and significant changes in internal controls.
- 6.3 Set and communicate to the director of internal audit high expectations and hold him/her and the department accountable for meeting them. Provide guidance on reported potential management lapses and evaluate the status and implementation of recommendations.
- 6.4 Meet separately, regularly, with the director of internal audit.
- 6.5 Make specific and direct inquiry of the internal auditors' work relating to:
- Any significant recommendations to improve financial, operational and compliance internal controls and corresponding management responses.
 - The level of independence of internal audit.
 - Any material disagreement with management or scope or restrictions encountered in the course of the function's work.
 - Any other matter so desired.
- 6.6 Discuss goals and evaluate the performance of the Director of Internal Audit. Oversee at least once every five years an external review of the internal audit function.

7. REVIEW AND DISCUSSION WITH MANAGEMENT

- 7.1 Review and assess the adequacy and quality of organization, staffing and succession planning for accounting and financial responsibilities (including internal audit).
- 7.2 Review analyses prepared by management setting forth significant financial reporting issues and judgements made in connection with the preparation of the financial statements, including analyses of the effect of alternative and/or new GAAP methods on the financial statements.
- 7.3 Discuss with management the annual audited financial statements and quarterly financial statements and the independent auditor, including CAE's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).
- 7.4 Review with management the annual performance of external and internal audit and respond to results thereof.
- 7.5 Review at least annually with management:
- Tax compliance;
 - IT and Cyber-Security risks and controls; and
 - Capital structure appropriateness and efficiency.

8. REVIEW AND DISCUSSION WITH THE HUMAN RESOURCES COMMITTEE

- 8.1 On request, provide support to the Human Resources Committee of the Board ("HR Committee") regarding management incentives and related topics (including compensation and appropriate use of corporate assets).
- 8.2 Support with the HR Committee in its assessment of the incentive structure and whether it contributes to increased fraud or other risks.

9. REVIEW OF PUBLIC DISCLOSURE DOCUMENTS

- 9.1 Review all material public documents relating to CAE's financial performance, financial position or analyses thereon, including financial statements, MD&A, annual and interim earnings press releases and the Annual Information Form (AIF), prior to their release. Review and monitor practices and procedures adopted by the Company to assure compliance with applicable listing requirements, laws, regulations and other rules, and where appropriate, make recommendations or reports thereon to the Board of Directors. Discuss CAE's financial information and earnings guidance, if any, provided to analysts and rating agencies.

- 9.2 Review major issues regarding accounting principles and financial report presentations, including any significant changes in the accounting principles to be observed in the preparation of the accounts of the Company and its subsidiaries, or in their application; major issues as to the Company's internal controls; and any special audit steps adopted in light of material control deficiencies.
- 9.3 Prepare/review such reports of the Committee as may be required by any applicable securities regulatory authority to be included in the Company's management proxy circular or any other disclosure document of the Company.
- 9.4 The Committee shall review and approve the procedures set out in the Company's Corporate Communications & Disclosure Policy and will annually verify that adequate procedures exist within the Company for the review of its disclosure of financial information derived from its financial statements.

10. ETHICAL AND LEGAL COMPLIANCE

- 10.1 Oversee, review, and annually update the Company's code of business conduct and the company's system to monitor compliance with and enforce this code.
- 10.2 Review, with the Company's general counsel, legal compliance and legal matters that could have a significant impact on the Company's financial statements.

11. OTHER RESPONSIBILITIES

- 11.1 The Board may refer from time to time such matters relating to the financial affairs and risk management of the Company as the Board may deem appropriate.

12. MEETINGS

- 12.1 The Committee shall meet at such times as deemed necessary by the Board or the Committee and shall report regularly to the Board.

13. ENGAGEMENT OF PROFESSIONAL SERVICES

- 13.1 The Committee is authorized to engage independent counsel, and other advisers, as it determines necessary to carry out its duties. The Company shall provide for appropriate funding, as determined by the Committee, for such services.

14. HANDLING OF COMPLAINTS

- 14.1 The Committee shall maintain procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

15. ANNUAL REVIEW

- 15.1 The Committee shall review and assess the adequacy of its mandate annually, report to the Board of Directors thereon and recommend to the Board of Directors (for approval) any proposed changes to its processes, procedures and agendas, as well as this charter.
- 15.2 The Committee shall also perform an annual evaluation of the composition (including considering periodically rotating its members), independence and performance of the Committee and shall report to the Chairman of the Governance Committee of the CAE Board of Directors thereon.

16. ORIENTATION AND CONTINUING EDUCATION

- 16.1 Identify and participate where appropriate or necessary in continuing audit committee education reading and/activities.

May 15, 2013