

**BRITISH COLUMBIA RAILWAY COMPANY
AUDIT, FINANCE AND RISK MANAGEMENT COMMITTEE**

TERMS OF REFERENCE

1. MISSION

Senior management, as overseen by the Board of Directors, has primary responsibility for the Company's financial reporting, accounting systems and internal controls. The Audit, Finance and Risk Management Committee (the "Committee") is a standing committee of the Board of Directors established to assist the Board of Directors in fulfilling its responsibilities in this regard.

2. COMPOSITION AND MEETINGS

- (a) The Committee shall be composed of up to three but not less than two independent directors. Each member shall have the following qualifications: (a) working knowledge of financial matters; and (b) an understanding of financial accounting. At least one member of the Committee shall have accounting or related financial expertise.
- (b) The members of the Committee shall be appointed by the Board of Directors to serve one year terms and are permitted to serve an unlimited number of consecutive terms.
- (c) The Committee shall meet at least four times per year and any member may call special meetings as required. A quorum at meetings of the Committee shall be two members. The Committee may ask members of management or others to attend meetings and provide information where necessary. (See Annual Calendar appended.)
- (d) The minutes of the Committee meetings shall accurately record the decisions reached and shall be distributed to all directors with copies to the chief financial officer and the external auditor.
- (e) The Committee shall report after each meeting to the Board of Directors on significant results of the review of their responsibilities.

3. RESPONSIBILITIES

(a) Financial Information

Review:

- (i) the consolidated annual financial statements and all audited statements of subsidiaries or affiliate companies and/or pension plans and recommend their approval to the Board, after discussing matters such as the selection of accounting policies, major accounting judgements, accruals and estimates with management;
- (ii) other financial information included in the annual report;

- (iii) Management Discussions and Analysis contained in the annual report and quarterly statements, if any;
- (iv) the planning and results of the external audit, including:
 - A. the auditor's engagement letter;
 - B. the reasonableness of the estimated audit fees;
 - C. the scope of the audit, including materiality, locations to be visited, audit reports required, areas of audit risk, timetable, deadlines and coordination;
 - D. the post-audit management letter together with management's response;
 - E. the form of the audit report;
 - F. any other related audit engagements (e.g. audit of the company pension plan);
 - G. non-audit services performed by the auditor;
 - H. assessing the auditor's performance, confirming their independence and reviewing all significant relationships the accountants have with the Company;
 - I. ensuring that the external auditor is ultimately accountable to the Board of Directors and to this Committee as representatives of the shareholder;
 - J. recommending the auditor for appointment by the Board;
 - K. meeting privately, if, as and when required, but at least annually, with the external auditors to discuss pertinent matters, including the quality of accounting personnel, fullness and accuracy of the financial statements, the quality and acceptability of the corporation's accounting policies and the qualitative judgements applied to their deliberations; and
 - L. resolve disagreements between management and external auditor regarding financial reporting, if any.

(b) Interim Financial Statements

- (i) Obtain reasonable assurance on the process for preparing reliable quarterly interim financial statements from discussions with management and, where appropriate, reports from the external auditors.
- (ii) Review, or engage the external auditors to review, the quarterly interim financial statements.
- (iii) Obtain reasonable assurance from management about the process for ensuring the reliability of other public disclosure documents that contain audited and unaudited financial information.

(c) Accounting System and Internal Controls

- (i) Obtain reasonable assurance from discussions with and(or) reports from management, and reports from external auditors that the Company's accounting systems are reliable and that the prescribed internal controls are operating effectively.
- (ii) Direct the auditors' examinations to particular areas.
- (iii) Request the auditors to undertake special examinations (e.g., review compliance with conflict of interest policies).
- (iv) Review control weaknesses identified by the external auditors, together with management's response.
- (v) Review the appointments of the chief financial officer and key financial executives.
- (vi) Review accounting and financial human resources and succession planning within the corporation.

(d) Internal Audit

- (i) Review the requirement for internal audit activities and address specific issues as they arise or are identified.

(e) Risk Management

- (i) Approve the structure of the corporation's risk financing programme, including: retention levels, types and amounts of insurance, reinsurance and other risk financing mechanisms.
- (ii) Approve the selection and appointment of the organization's insurance brokers and BCR Captive's manager.
- (iii) Recommend the appointment of Directors and Officers of BCR Captive Insurance Co. Ltd.
- (iv) Review process over risk identification and monitoring of risks.
- (v) Review the corporation's treasury policy and cash investment program.

(f) Statutory Responsibilities

Ensure compliance by the corporation with the Company Act, Corporation Capital Tax Act, Excise Tax Act, Income Tax Act, Property Transfer Tax Act and Social Services Tax Act regulatory requirements.

(g) Legal Responsibilities

At least annually, review all litigation and potential claims.

(h) Other Responsibilities

Additional responsibilities to be defined as required, but may include:

- (i) reviewing the prospectuses and other offering memoranda;
- (ii) monitoring compliance with the corporate code of conduct;
- (iii) investigating fraud, illegal acts or conflicts of interest;
- (iv) discussing selected issues with corporate counsel; and
- (v) reviewing compliance with environmental codes of conduct and legislation.

(i) Liaison with Chief Financial Officer/Audit Committees of Subsidiary Companies

Where appropriate:

- (i) Review the mandate and terms of reference of a subsidiary's Audit Committee.
- (ii) Review the report(s) of the subsidiary's Audit Committee to its Board of Directors.
- (iii) Follow up, as appropriate, with management, the chairperson of the Audit Committee or the audit partner of the subsidiary on any matters of concern.

(j) Reporting

- (i) Provide an open avenue of communication between the external auditors and the Board of Directors.
- (ii) Report, through the chairperson, to the Board of Directors following each meeting on the major discussions and decisions made by the Committee.
- (iii) Report annually, through the Board of Directors, to the shareholder on the Committee's responsibilities and how it has discharged them.
- (iv) Review the Committee's terms of reference annually and propose recommended changes to the Board of Directors.

4. REGULATIONS

- (a) The members and the chairperson of the Committee shall be appointed by the Board of Directors for a one year term and may serve any number of consecutive terms.
- (b) The chairperson shall, in consultation with management and the auditors, establish the agenda for the meetings and ensure that properly prepared agenda materials are circulated to members with sufficient time for study prior to the meeting.
- (c) The Committee shall have the power, authority and discretion delegated to it by the Board of Directors which shall not include the power to change the membership of or fill vacancies in the Committee.
- (d) The Committee shall conform to the regulations which may from time to time be imposed upon it by the Board of Directors.
- (e) The Committee may meet and adjourn, as they think proper. Questions arising shall be determined by a majority of votes of the members of the Committee present, and in the case of an equality of votes, the chair shall not have a second or casting vote.
- (f) A resolution approved in writing by the members of the Committee shall be valid and effective as if it had been passed at a duly called meeting. Such resolution shall be filed with the minutes of the proceedings of the Committee and shall be effective on the date stated thereon or on the latest date stated in any counterpart.
- (g) The Committee shall keep regular minutes of its meetings and record all material matters and shall cause such minutes to be recorded in the books kept for that purpose and shall distribute such minutes to the Board of Directors.
- (h) The Board of Directors shall have the power at any time to revoke or override the authority given to or acts done by the Committee except as to acts done before such revocation or act of overriding and to terminate the appointment or change the membership of the Committee or fill vacancies in it as it shall see fit.
- (i) If the Committee shall have only two members, then both members shall be required to constitute a quorum thereof otherwise a majority shall constitute a quorum thereof.
- (j) The Committee shall have unrestricted and unfettered access to all Company personnel and documents and shall be provided with the resources, including independent counsel and other professional advisors where necessary, to carry out its responsibilities.

BRITISH COLUMBIA RAILWAY COMPANY AUDIT COMMITTEE

ANNUAL CALENDAR

Year-End Meeting

Feb./March

- Review audited consolidated financial statements
- Review any audited financial statements of subsidiaries
- Review report of the external auditors
- Consider internal control and financial risk issues
- Review report of the captive insurance and risk manager
- Review litigation and outstanding legal matters
- Review auditors' independence letter
- Hold private session with external auditors
- Confirm that all responsibilities in the terms of reference have been carried out
- Prepare minutes and report to Board of Directors
- Other matters as may be determined

First Quarter: April/May

- Review first quarter financial statements and external auditors' review, if provided, and recommend approval to the Board of Directors
- Review revised financial outlook for balance of year
- Review risk manager report, if provided
- Review Audit Committee Mandate
- Review previous year audit fees, recommend re-appointment of auditors to the Board
- Review any audited financial statements of subsidiary companies and/or pension plans
- Review any annual regulatory filings
- Prepare minutes and report to the Board of Directors
- Other matters as may be determined.

Second Quarter: July/August

- Review second quarter financial results and external auditors' review, if provided, and recommend approval to the Board of Directors
- Review revised financial outlook for balance of the year
- Review risk manager report, if provided
- Consider internal controls and financial risks
- Review corporate code of conduct
- Review insurance coverage/renewal
- Review risk management program
- Prepare minutes and report to the Board of Directors
- Other matters as may be determined.

Third Quarter

- Review third quarter financial statements and external auditors' review, if provided, and recommend approval to the Board of Directors.
- Review revised financial outlook for the balance of the year
- Review external auditors' audit plan and schedule for the year-end audit and estimate of audit fees
- Review annual budget for next year and recommend approval to the Board
- Prepare minutes and report to the Board of Directors
- Other matters as may be determined.