

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

I. PURPOSE

The primary responsibility for the Corporation's financial reporting, accounting, risk management, management plans and budgets, internal controls and treasury is vested in Management and overseen by the Board.

The role of the Audit Committee (the "Committee") is to support the Board in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of internal controls, the relationship with the external Auditors, governance of the Corporation's pension plan and risk management, and when required, make recommendations to the full Board for approval. The Committee is required to review and recommend for approval the Corporation's audited and unaudited financial statements.

II. COMPOSITION AND OPERATION

- A. The Committee will be composed of at least three Directors, all of whom must be independent Directors.
- B. Committee members will have a working familiarity with finance and accounting practices, know how to read financial statements, understand financial ratios and other indices for evaluating financial performance, and at least one member must have accounting or related financial management expertise.
- C. In the process of overseeing the Corporation's audit procedures, the Committee will have unrestricted access to the Corporation's personnel and documents, and will be provided with the necessary resources to carry out its responsibilities.
- D. The Corporation's external Auditors will be advised of the names of the Committee members and will receive notice of and be invited to attend meetings of the Audit Committee.
- E. The Committee will meet with the external Auditors as it deems appropriate to consider any matter that the Committee or Auditors determine should be brought to the attention of the Board or Shareholder.
- F. The Committee will require open communication among Management, employees, external and internal Auditors, and the Board and Shareholder.
- G. The Committee will meet at least four times per year, and as required.
- H. The Corporate Secretary, or a delegate, will be secretary to the Committee.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will be responsible for the following:

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A. Annual and Quarterly Financial Statements

- (i) Review the annual financial statements and recommend approval if appropriate. The review must include
 - a. Determining whether appropriate accounting methods are being applied,
 - b. Discussing with Management and with the external Auditor all proposed material changes in accounting policy, the import and prescription of all large risks or uncertainties, and all estimates or judgements of Management that may be material to financial reporting,
 - c. Questioning Management and the external Auditor regarding significant financial recording or presentation issues discussed during the fiscal period and the manner of their resolution and obtaining an explanation from management of all significant variances between comparative reporting periods, and
 - d. Examining the audited financial statements in conjunction with the report of the external Auditor.
- (ii) Review quarterly interim financial statements and related information and recommend their approval or disapproval to the Board.

B. External Audit

Oversee the external audit, including

- (i) Review and approve the terms of the external Auditor's engagement, and the appropriateness and reasonableness of the proposed audit fees,
- (ii) Review and approve the audit plan and the planning, conduct and reporting of the annual audit with the external Auditor and Management,
- (iii) Meet with the external Auditor to discuss the Corporation's financial statements and the Auditor's report including the appropriateness of accounting policies and underlying estimates,
- (iv) Review any problems experienced by the external Auditor in performing the audit, including any restrictions imposed by Management or significant accounting issues with which there was a disagreement with Management,
- (v) Review all post-audit or management letters, containing the recommendations of the external Auditor, and Management's response and subsequent follow-up to any identified weaknesses or significant comments,
- (vi) Assess the performance and consider the annual appointment of external Auditors for recommendation to the Shareholder,
- (vii) Review and receive assurances on the independence of the external Auditor,

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- (viii) Prior to approving non-audit services to be provided by the external Auditor's firm or its affiliates, review the nature and extent of the proposed services (including estimated fees) and consider the impact on the independence of the external audit firm. Prior approval of the Audit Committee, or when time is of the essence, the Chair of the Audit Committee, is required for any non-audit services to be acquired from the external audit firm or its affiliates. The Audit Committee will approve only if independence would not be compromised, and
- (ix) Meet periodically, and at least annually, with the external Auditor without Management present.

C. ACCOUNTING SYSTEMS AND INTERNAL CONTROLS

Through discussions with Management, external and internal Auditors

- (i) Obtain reasonable assurance that the Corporation's accounting systems are reliable and internal controls are adequate. For this purpose, the Committee may wish to direct the Auditor's examinations to particular areas and may request the Auditor to undertake special examinations, and
- (ii) Review the evaluation of internal controls by the external Auditor, including any recommendations for improvement of the Corporation's accounting procedures and internal controls, together with Management's response.

D. INTERNAL AUDIT

Oversee the Corporation's internal audit function, including

- (i) Review the organization and independence of the internal Auditor,
- (ii) Review the internal audit plan including goals, resources and work plans,
- (iii) Review any restrictions or problems,
- (iv) Review audit reports issued by the internal Auditor, Management's response and any subsequent follow-up of all identified weaknesses, and
- (v) Meet at least annually with the internal Auditor without Management present.

E. RISK MANAGEMENT OVERSIGHT

- (i) Receive regular reports on the operation of the Corporation's risk management system, including identification of principle risks and mitigation plans.
- (ii) Annually evaluate the Corporation's processes, procedures and mechanisms by which key matters of risk are to be identified and ensure that strategies are in place to manage such risks.

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- (iii) Review and confirm the approach to risk assessment, including the methods used by Management, Committees and the Board to assess risk.
- (iv) Periodically review business continuity plans to determine, on behalf of and reporting to the Board, that the Corporation is taking all necessary action in respect of those matters and that the Corporation has been duly diligent in carrying out its responsibilities and activities in that regard.
- (v) Determine whether appropriate systems are in place and in use to identify, manage and monitor material risks, including confirmation of appropriate reports as anticipated from the Human Resources, Safety & Environment Committee with respect to environmental, health and safety risk matters, and the Capital Review Committee with respect to capital project and planning risk matters. The Audit Committee will rely on the evaluation of these matters as conducted by the Human Resources, Safety & Environment Committee and the Capital Review Committee respectively.

F. PENSION PLAN OVERSIGHT

- (i) Review and recommend to the Board material changes to the Corporation's Pension Plan.
- (ii) Following Human Resources, Safety & Environment Committee concurrence, make recommendations to the Board respecting Pension Plan design and benefits levels.
- (iii) Review and approve non-material changes to the Corporation's Pension Plan.
- (iv) Review and approve accounting, funding and investment policies, including Pension Plan Statement of Investment Policies, and Pension Fund asset allocation and any required adjustments.
- (v) Monitor investment performance and investment policy compliance, and ensure compliance with the plans, the BC *Pension Benefits Standards Act* and the *Income Tax Act*.
- (vi) Review and approve the Audited Financial Statements of the Pension Plan.
- (vii) Review actuarial assumptions, monitor actuarial status and annual contribution to expense levels and review actuarial valuation of the Pension Plan at least every three years.
- (viii) Review and approve the appointment of actuaries, pension counsel, investment fund managers and other pension advisors.

G. OTHER RESPONSIBILITIES

- (i) Review the status of pending or threatened material litigation.

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- (ii) Ascertain, together with Management, whether the Corporation's financial results and condition satisfy the criteria for lenders, material agreements, applicable laws and insurers.
- (iii) Before public disclosure, review any reports on the financial condition or financial results of the Corporation.
- (iv) Confirm that appropriate policies and procedures are in place for monitoring compliance with applicable laws and ascertain their adequacy and the levels of compliance.
- (v) Review insurance coverage of significant business risks and uncertainties.
- (vi) Review and ensure that procedures are in place for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters.
- (vii) Review policies and procedures for the review and approval of the President's expenses and perquisites.
- (viii) Other matters as delegated to the Committee by the Board or Board Chair from time to time.

IV. ACCOUNTABILITY

The Committee will report its discussions to the Board by distributing the minutes of its meetings and, where appropriate, by oral report at the next meeting of the Board.