

Audit & Pension Investment Committee Mandate VIA Rail Canada Inc.

1. PURPOSE

The Board of Directors (“Board”) has delegated to the Audit & Pension Investment Committee the responsibility for oversight and monitoring of the following:

- 1.1 the Corporation’s financial reporting and disclosure such as the quarterly and annual reports, the financial statements, the MD&A and the related press release;
- 1.2 the business cases for major projects & programs requiring expenses in capital or considered out of “normal course of business” exceeding \$10M or \$5M if deemed high risk, excluding business cases for projects or programs pertaining to the High Frequency Rail Project, the whole in accordance with the Corporation’s Authority Matrix;
- 1.3 the financial components of the five (5) year Corporate Plans along with the annual operating and capital budgets and their alignment with the strategic orientations approved by the Board of Directors;
- 1.4 the Corporation’s internal control practices, including the internal audit process;
- 1.5 the Corporation’s external audit process, including any special examination launched by the Corporation’s external auditors;
- 1.6 the legal & regulatory compliance framework applicable to the Corporation;
- 1.7 the pension plans and supplemental retirement plans investment performances, policies and related matters thereto; and
- 1.8 the risk identification, evaluation and treatment related to each topic listed above.

As provided for in section 11 (4) to (6) of the Corporation’s By-Law No. 1, the Committee shall perform its oversight and monitoring responsibilities in accordance with the relevant provisions of the *Financial Administration Act* (R.S., 1085, c. F-11) and the public *Guidelines for Audit Committees in Crown Corporations and Other Public Enterprises* issued and updated from time to time by the Treasury Board of Canada Secretariat.

2. COMPOSITION

- 2.1 The Committee shall be appointed by the Board and consist of at least three (3) directors of the Corporation, none of whom may be officers or employees of the Corporation.

- 2.2 The Chairperson of the Committee shall be appointed by the Chairperson of the Board.
- 2.3 Each member of the Committee shall be financially literate, or shall become so within a reasonable period of time after appointment to the Committee. “Financially literate” shall mean the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level of complexity that can reasonably be expected to be raised by the Corporation’s financial statements.
- 2.4 The Chairperson of the Committee shall be a financial expert and ideally that expertise will be evidenced by a Chartered Professional Accounting designation, although in certain circumstances the professional designation requirement may be waived.
- 2.5 It is desirable that one other member of the Committee has experience or knowledge in financial markets, actuarial services or pension investment management.
- 2.6 The Chairperson of the Board is an ex officio member of the Committee and may attend Committee meetings at his/her discretion.
- 2.7 The President and Chief Executive Officer is an ad hoc participant of the Committee and may attend Committee meetings at his/her discretion but shall not be entitled to vote.
- 2.8 The membership of the Committee as well as the chairpersonship shall be reviewed from time to time at the discretion of the Chairperson of the Board.

3. GENERAL OPERATING PRINCIPLES AND PROCEDURES

- 3.1 **Chairpersonship:** The Chairperson of the Committee shall preside at all meetings of the Committee.
- 3.2 **Absence of Chairperson of the Committee:** Should the Chairperson be absent or unable or refuse or fail to act, the members present may choose a chairperson from among their number unless the Chairperson has already appointed one of the directors to act as the chairperson for this specific meeting.
- 3.3 **Quorum:** A majority of members of the Committee shall constitute a quorum.

In the event any Committee member declares a conflict of interest with regards to any one or more matters under consideration by the Committee, such Committee member will not attend that portion of the meeting dealing with such matter(s) and the foregoing quorum requirement will be reduced by one (1) or more if many

members are in conflict with regards to any decision or recommendation made with respect to such matter(s).

- 3.4 Voting:** A matter to be recommended for approval at a meeting of the Committee shall be decided by consensus. If no consensus is reached in the opinion of the Chairperson of the Committee, the Chairperson of the Committee may call for a vote and such matter shall then be decided by a majority of the votes cast. In the event of an equality of votes, the members shall attempt to resolve the matter by further discussion; however, in the absence of agreement, the Chairperson of the Committee has a casting vote.
- 3.5 Frequency of Meetings:** The Committee shall meet at least four times annually, or more as required.
- 3.6 In camera session:** At each Committee meeting, the Chairperson of the Committee shall determine if an in camera session is necessary with or without the participation of the Corporation's auditors.
- 3.7 Supplemental Attendees:** Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chairperson of the Committee to attend any meeting of the Committee.
- 3.8 Reporting:** The Committee shall report on its activities to the Board after each Committee meeting.
- 3.9 Review of Mandate:** The Committee shall review and assess annually the adequacy of its mandate in collaboration with the Chairperson of the Board, the President & Chief Executive Officer and the Corporate Secretary.
- 3.10 Self-assessment:** The Committee shall regularly conduct a self-assessment of its performance and the Chairperson of the Committee shall discuss the results with the Chairperson of the Board.
- 3.11 Outside Advisors:** Subject to approval of the Chairperson of the Board, the Committee has the authority to engage outside advisors including, but not limited to, legal counsels, independent audit consultants and other experts, as needed, to review any matter under its responsibility.
- 3.12 Workplan:** The Committee shall, in consultation with management and the auditors, develop an annual workplan responsive to the Committee's responsibilities and duties.

4. SPECIFIC OPERATING PRINCIPLES AND PROCEDURES

4.1 Auditors:

The Audit & Pension Investment Committee shall:

- a) understand the nature of the Corporation's auditors' work and responsibilities and hold them accountable for fulfilling their responsibilities;
- b) ensure the independence of the Corporation's auditors in the performance of their duties;
- c) establish a clear understanding with management and the auditors about their accountability to the Board, the Committee and the Corporation's Shareholder; and
- d) meet regularly or at least annually with the auditors of the Corporation.

4.2 Assistance to the Board: The Committee shall assist the Board in discharging its duties relating to the Corporation's accounting, auditing and reporting practices.

4.3 Compliance: The Committee expects the management of the Corporation to operate in compliance with corporate policies; with the laws and regulations governing the Corporation; and to maintain strong financial reporting and internal control processes.

4.4 Accounting principles: The Committee shall consider the effect of any new or proposed accounting practices, principles, disclosure requirements and legislative or regulatory pronouncements.

4.5 Communication: The Committee shall maintain free and open communication between the Committee, the auditors and management.

4.6 Investigation: The Committee is entitled to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Corporation.

5. DUTIES AND RESPONSIBILITIES

5.1 Financial Reporting & Disclosure

The Audit & Pension Investment Committee shall review and recommend for approval to the Board all Quarterly and Annual Reports including the financial statements, the MD&A and the related press release.

The Audit & Pension Investment Committee shall also monitor:

- a) the quality and integrity of the Corporation's financial reports including the Corporation's accounting principles, policies, disclosures, reserves, key estimates and judgments;
- b) the compliance with regulation and corporate policies on travel, hospitality and other expenses incurred by the members of the Board, the Chairperson of

the Board, the President & Chief Executive Officer and the members of the Management Committee, including the appropriateness of the use of corporate assets and any mandated disclosure of such expenses on the Corporation's website.

The Audit & Pension Investment Committee shall review and recommend for approval to the Board the pension plans annual financial statements.

5.2 Corporate Plans, Operating & Capital Budgets

The Audit & Pension Investment Committee shall review and recommend for approval to the Board:

- a) the financial components of the five (5) year Corporate Plans and any material amendments to such Corporate Plans having an impact of a financial nature; and
- b) the Corporation's annual operating and capital budgets.

The Audit & Pension Investment Committee shall review and assess:

- a) the financial assumptions, forecasts and risks associated with the Corporate Plans while highlighting any discrepancies perceived in terms of the Corporation's strategy as known at the time;
- b) the viability and practicability of the proposed operating and capital budgets; and
- c) the financial performance and the progress in implementation of the annual operating and capital budgets including reports on actual results, variance in the budgets and success in meeting goals.

5.3 External Auditors (Office of the Auditor General of Canada)

The external auditors are appointed by the Governor in Council in accordance with the terms of the *Financial Administration Act* (R.S., 1985, c. F-11).

The Audit & Pension Investment Committee shall review and assess:

- a) the annual audit plan;
- b) the annual auditors' report on the Corporation, which examines the financial statements, accounts and records of the Corporation;
- c) the reports from management on follow-up to mitigate areas of concern and internal control weaknesses identified;

- d) the reports from management, to obtain reasonable assurance that the internal control systems and procedures are properly designed and effectively implemented, including steps taken as part of the prevention, identification and detection of fraud with respect of material misstatement of the financial statements; and
- e) the findings and recommendations resulting from auditors' examination.

The Audit & Pension Investment Committee shall also review and assess:

- a) the scope of any special examination;
- b) the draft special examination reports prepared by the external auditors and provide feedback before it is made final and submitted to the Board for information;
- c) the adequacy of management's draft responses and action plans resulting from any special examination and provide feedback before the report is made final and submitted to the Board for information; and
- d) review follow-up reports on the timing, execution and effectiveness of any agreed upon management actions resulting from any special examination.

5.4 Internal Auditors

The Audit & Pension Investment Committee shall review and recommend for approval to the Board:

- a) the appointment and termination of the internal auditors of the Corporation; and
- b) the annual internal audit plan.

The Audit & Pension Investment Committee shall review and assess:

- a) the internal audit reports;
- b) the reports from management on follow-up to mitigate areas of concern and internal control weaknesses identified;
- c) the reports from management, to obtain reasonable assurance that the internal control systems and procedures are properly designed and effectively implemented, including steps taken as part of the prevention, identification and detection of fraud with respect of material misstatement of the financial statements;
- d) the findings and recommendations resulting from auditors' examination; and

- e) the Corporation's practices regarding non-auditing services performed by the internal auditors and the amount of fees to be paid for such services

5.5 External Auditors of Pension Plans

The Audit & Pension Investment Committee shall review and recommend for approval to the Board:

- a) the annual audit plan; and
- b) the appointment and termination of the auditors for the Corporation's pension plans.

The Audit & Pension Investment Committee shall review and assess:

- a) the pension annual report, which examines the financial statements, accounts and records of the pension plans;
- b) the reports from management on follow-up to mitigate areas of concern and internal control weaknesses identified;
- c) the reports from management, to obtain reasonable assurance that the internal control systems and procedures are properly designed and effectively implemented, including steps taken as part of the prevention, identification and detection of fraud with respect of material misstatement of the pension financial statements; and
- d) the findings and recommendations resulting from auditors' examination.

5.6 Legal & Regulatory Compliance

The Audit & Pension Investment Committee shall review and assess:

- a) the policies and practices relating to the legal and regulatory compliance framework in the context of the Corporation's status as a Federal Crown Corporation;
- b) the reports from management on compliance with laws and regulations including reports from management on the Corporation's compliance with tax and financial reporting laws and regulations, legal withholding requirements, and other matters for which directors face liability exposure; and
- c) any remedial plans and programs in place to eliminate the risks of non-compliances.

5.7 Contracts

In accordance with the Authority Matrix and Approval Policy, the Audit & Pension Investment Committee shall review and recommend for approval to the Board the following:

- a) highest ranking contract requests exceeding \$3 million;
- b) lowest tender contract requests exceeding \$5 million; and
- c) direct award contract requests exceeding \$200,000.

The Audit & Pension Investment Committee shall also review periodically the Authority Matrix and Approval Policy and recommend for approval to the Board any modification or addition elaborated for specific major initiatives to such Authority Matrix and Approval Policy as required from time to time.

5.8 Pension Investment Related Matters

The Audit & Pension Investment Committee shall review and recommend for approval to the Board:

- a) the actuarial valuations of pension funds for unionized and non-unionized employees as well as funding requirements based on such actuarial valuations;
- b) the Corporation's investment policies as well as recommended changes to such policies in order to maintain prudent investment practices based on appropriate risk assessment; and
- c) the selection of the investment managers of the pension funds, subject to exceptions defined in the investment policies of the pension funds.

The Audit & Pension Investment Committee shall review and assess:

- a) the appropriate implementation of the investment policies;
- b) at least quarterly, the management of assets or any other issue related to the Registered Defined Benefit Pension Plans;
- c) at least annually, the management of assets or any other issue related to the Supplemental Retirement Plans and the Registered Defined Contribution Pension Plans; and
- d) the performance of the investment managers within the parameters of the investment policies approved by the Board.

5.9 Business Cases

In accordance with the Corporation's Authority Matrix, the Audit & Pension Investment Committee shall review, monitor and recommend for approval to the Board the business cases for projects or programs in capital or considered out of "normal course of business":

- a) exceeding \$10M; or
- b) with a value between \$5M and \$10M for which at least one of the risk factors is rated as high;

excluding business cases for projects and programs pertaining to the High Frequency Rail Project which shall be exclusively reviewed and recommended for approval by the Board by the High Frequency Rail & Stakeholders relations Committee.

The Audit & Pension Investment Committee shall also be informed of business cases for projects in capital or considered out of "normal course of business" with a value between \$5M and \$10M for which no risk factor is rated as high.

5.10 Risk Assessment

The Audit & Pension Investment Committee shall periodically review, identify, evaluate and assess the treatment of risks to which the Finance and Pension Investment functions are exposed, and provide its input to the Board, including risks related to:

- a) fraud;
- b) the legal and regulatory compliance framework;
- c) the Corporation's investment policies for its pension funds; and
- d) any other risks related to the finance and pension investment function that may arise from time to time.