

BRITISH COLUMBIA RAILWAY COMPANY

TERMS OF REFERENCE FOR DIRECTORS

OVERVIEW

The Board of Directors is appointed by Order in Council.

Broadly speaking, a Director has three fundamental duties.

1. Honesty and Good Faith

Both common law and the Business Corporations Act (the “Act”) require a Director to act honestly and in good faith in the best interests of the Company. The key elements of this standard of behavior are:

- a) a Director must act in the best interests of the Company and not in his or her self-interest. This also means a Director should not be acting in the interests of a any special interest group or constituency where such interest conflicts with the best interest of the Company;
- b) a Director cannot take personal advantage of opportunities that come before him/her in the course of performing his/her corporate duties;
- c) a Director must disclose to the Board any personal interests that he/she holds that may conflict with the interests of BCRC;
- d) a Director must respect BCRC’s confidentiality requirements.

2. Exercise Care and Diligence

Both common law and the Act provide that a Director must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances. This means:

- a) the standard of behavior expected of a Director will depend upon the particular qualities or characteristics of the Director in relation to the particular matters under consideration
- b) the Director must be proactive in the performance of his or her duties by:
 - i) Subject to extenuating personal or professional circumstances, Directors are expected to attend all meetings of the Board and of the Committees to which they belong, with issues of non-compliance being referred to the Chairman of the Board.
 - ii) participating in meetings in a meaningful way
 - iii) being vigilant to ensure that BCRC is being properly managed and is complying with the law

3. Disclosure of Interests

- a) a Director who is, in any way, directly or indirectly interested in an existing or proposed contract or transaction with the Company shall disclose the nature and

extent of that interest in accordance with the provisions of the Act and BCRC's policies

- b) a Director who holds any office or possesses any property whereby, directly or indirectly, a duty or interest might be created in conflict with that Director's duty or interest as a Director, shall declare the fact, and the nature and extent of the conflict or potential conflict in accordance with the provisions of the Act and BCRC policies.

DUTIES & RESPONSIBILITIES OF THE BOARD

In managing the management of the affairs and business of the Company, the Board operates by delegating certain duties to committees of the Board (as required) and Management and by reserving certain powers to itself.

The duties of the Board include:

- a) recommend candidates to the Minister Responsible for appointment to the Board
- b) appoint committees and Directors to subsidiary company boards;
- c) assess the effectiveness of the Board committees and Directors in fulfilling their responsibilities;

Human Resources

The Board has the responsibility to:

- d) approve terms of reference for the CEO;
- e) the appointment and succession of the CEO and monitoring CEO performance;
- f) establish CEO compensation subject to legislative requirements;
- g) provide advice and counsel to the CEO in the execution of the CEO's duties;
- h) approve acceptance of outside directorships on public or not-for-profit Boards by the CEO;
- i) review CEO performance at least annually, against agreed upon objectives;
- j) ensure that succession programs and plans are in place;
- k) approve certain matters relating to all employees, including the annual salary and incentive policy/program for employees, new benefit programs or material changes to existing programs and pension fund investment guidelines;

Mission and Plans

The Board has the responsibility to:

- l) ensure that there is a strategic planning process and approve the Company's strategic plan;
- m) monitor the Company's progress towards its strategic goals;
- n) review and approve significant changes to strategic plans.

Financial and Risk Issues

The Board has the responsibility to:

- o) approve annual capital, and operating budgets and treasury plans and monitor same collectively (and where warranted individually) against actual results and percentage completion reports;
- p) approve the entering into, or withdrawing from, lines of business that are, or are likely to be, material to the Company;
- q) approve material mergers, divestitures and acquisitions;
- r) take reasonable steps to ensure the implementation and integrity of the Company's internal control and management information systems;
- s) monitor and review operational and financial results relative to budgets and/or plans;
- t) ensure management identifies the principal risks of the Company's business and that management has implemented appropriate systems to manage these risks;
- u) approve annual financial statements, review quarterly financial results and approve release by management;
- v) approve financings and changes in authorized capital;
- w) approve auditors' fees;
- x) approve banking resolutions and significant changes in banking relationships;
- y) approve the Company's risk management plan including, insurance, hedging, guarantees, and derivatives;
- z) establish limits of spending authority for the CEO for expenditures not included in previously approved business plans;
- aa) monitor litigation that may have a material impact on the Company;

Shareholder and Stakeholder Communications

The Board has the responsibility to:

- bb) ensure the Company has in place effective communication processes with the Shareholder and other key stakeholders;
- cc) ensure the financial results are reported fairly and in accordance with generally accepted accounting principles;
- dd) ensure the timely reporting of any other developments that have a significant and material impact on the Company;
- ee) report annually to the Shareholder on the Board's stewardship for the preceding year.

Policies and Procedures

The Board has the responsibility to:

- ff) establish significant policies and procedures by which the Company is operated and monitor compliance;
- gg) direct management to ensure the Company operates at all times within applicable laws and regulations and ensure a code of ethical conduct is in place;

GENERAL LEGAL OBLIGATIONS OF THE BOARD OF DIRECTORS

The Board has the responsibility to:

- a) manage the business and affairs of the Company, including the relationships among the Company, its affiliates, the Shareholder, Directors and officers;
- b) act honestly and in good faith with a view to the best interests of the Company;
- c) exercise the care, diligence, and skill that reasonably prudent people would exercise in comparable circumstances;
- d) act in accordance with its obligations contained in the Business Corporations Act, the British Columbia Railway Act, and other applicable legislation, regulations and policies, and the Company's Articles and By-Laws including directing Management to ensure legal requirements have been met and documents and records have been properly prepared, approved and maintained;
- e) approve changes in the Company's By-Laws and Articles and any matters requiring Shareholder approval;
- f) receive, at least annually, reports from Management on matters relating to, among others, ethical conduct, environmental management, employee health and safety, human rights and related party transactions.