

1.1 Audit, Finance and Risk Committee

1.1.1 PURPOSE

The purpose of the AFR Committee is to assist the Board in fulfilling its oversight responsibilities in relation to:

- the integrity and quality of CN's financial statements, financial reporting, systems of internal control and internal audit function;
- the qualifications, independence and performance of CN's auditor;
- CN's financing plans and programs relating to treasury operations, credit facilities and credit ratings, and financial risks and contingent exposures;
- the funding of CN's Pension Plans, the investment management performance of the CN Investment Division and the activities of the Pension Advisory Working Committee;
- CN's risk assessment and enterprise risk management process, policies and practices; and
- any additional matters delegated to the AFR Committee by the Board.

1.1.2 MEMBERSHIP

- **Number.** The Board shall appoint a minimum of four directors to be members of the AFR Committee, one of whom shall be a member of the HRC Committee.
- **Independent Directors.** Only independent directors, as determined by the Board and under Canadian and U.S. corporate governance standards, may be appointed. A member of the AFR Committee may not, other than in his or her capacity as a director or member of a Board committee and subject to the exceptions provided in Canadian and U.S. laws and regulations, accept directly or indirectly any fee from CN or any subsidiary of CN nor be an affiliated person of CN or any subsidiary of CN.
- **Qualifications.** Each member must be "financially literate" and at least one member must be an "audit committee financial expert", as determined by the Board.
- **Simultaneous Service.** Because of the AFR Committee's demanding role and responsibilities, the Board Chair, together with the GS Committee chair, shall review any invitation to the AFR Committee members to join the audit committee of another entity. Where a member of the AFR Committee simultaneously serves on the audit committee of more than three public companies, including CN, the Board shall determine whether such simultaneous service impairs the ability of such member to effectively serve on the AFR Committee and either requires a correction to the situation or discloses in CN's Information Circular that there is no such impairment.

1.1.3 MEETINGS

- **Meetings.** The AFR Committee shall meet at least four times annually, or more frequently as circumstances dictate. Such meetings may be held by telephone or by any other means which enables all participants to communicate with each other simultaneously and as necessary.

- **Quorum.** A quorum for the transaction of business at an AFR Committee meeting shall be a majority of the AFR Committee members.
- **Timing.** The AFR Committee shall typically meet one day prior to CN's Board meetings, or as otherwise required.
- **Meeting Without Management.** Each AFR Committee meeting will include a portion without the presence of management.
- **Access to Outside Advisers.** As appropriate, the AFR Committee may retain independent advisors to help it carry out its responsibilities, including fixing such advisors' fees and retention terms, subject to advising the Board Chair. The AFR Committee has the authority to independently make arrangements for the appropriate funding for payment of any advisors retained by it. The Board will make arrangements for the appropriate funding for all administrative expenses necessary or appropriate to allow the AFR Committee to carry out its duties.
- **Reporting.** The AFR Committee shall report to the Board following each regularly scheduled meeting of the AFR Committee, or more frequently if circumstances warrant, on the AFR Committee's activities.

1.1.4 RESPONSIBILITIES

The AFR Committee will be responsible for overseeing the performance of the following functions:

A. Audit Functions

- **Overseeing Financial Reporting.** The AFR Committee shall monitor and review the quality and integrity of CN's accounting and financial reporting process, which includes:
 - monitoring the quality and integrity of CN's accounting and financial reporting process through discussions with management, the external auditors and the internal auditors;
 - reviewing with management and the external auditors and recommending for approval to the Board both the annual audited financial statements to be included in the annual report of CN and the quarterly consolidated financial statements of CN and accompanying information, including in each case CN's MD&A disclosure and earnings press releases prior to their release, filing and distribution;
 - reviewing with management and the external auditors and recommending for approval to the Board the annual audited financial statements of CN's pension trust funds of CN's Pension Plans (the "**Pension Trust Funds**");
 - reviewing the level and type of financial information provided, from time to time, to financial markets;
 - reviewing and recommending for approval to the Board the financial information contained in the annual information form, prospectuses or other offering documents and other reports or documents, financial or otherwise, requiring Board approval;
 - reviewing with the external auditors and management, the quality, appropriateness and disclosure of CN's accounting principles and policies, underlying assumptions and reporting practices, and any proposed changes thereto, as well as any

significant financial reporting issues and judgments made in connection with the preparation of financial statements, including without limitation (i) all critical accounting policies and practices used, (ii) any alternative treatments of financial information that have been discussed with management, the ramification of their use and the treatment preferred by the external auditors, as well as (iii) any other material written communications between CN and the external auditors (including a disagreement, if any, with management and any audit problems or difficulties and management's response);

- reviewing the external auditors' reports on the annual consolidated financial statements and internal controls over financial reporting of CN and on the annual financial statements of CN's Pension Trust Funds;
 - reviewing the external auditors' quarterly review engagement reports on the quarterly consolidated financial statements of CN;
 - reviewing the compliance of management certification of financial reports with applicable legislation; and
 - reviewing the results of the external audit, any significant problems encountered in performing the audit, and management's response and/or action plan related to any Management Letter issued by the external auditors and any significant recommendations contained therein.
- **Monitoring Internal Controls over Financial Reporting ("Internal Controls").** The AFR Committee shall monitor the integrity and quality of CN's Internal Controls. This includes:
 - receiving periodically management's report assessing the adequacy and effectiveness of CN's disclosure controls and procedures and Internal Controls;
 - reviewing CN's compliance with applicable legal and regulatory requirements relating to Internal Controls;
 - while ensuring confidentiality and anonymity, establishing procedures for the receipt, retention and treatment of complaints received by CN regarding any matter that could pose a risk to CN's business, including concerns regarding accounting or auditing matters; and
 - requesting the performance of an audit of any specific risk or of Internal Controls, as required.
- **Monitoring Internal Auditors.** The AFR Committee will monitor the performance of the internal auditors. This includes:
 - ensuring that the chief internal auditor reports directly to the AFR Committee and recommending the appointment and termination of the chief internal auditor;
 - regularly monitoring the internal audit function's performance, responsibilities, staffing and resources;
 - approving at least annually the internal audit plan and monitoring the progress thereof on a regular basis; and
 - ensuring that the internal auditors are accountable to the AFR Committee and to the Board.

- **Monitoring External Auditors.** The external auditor is accountable to and reports directly to the AFR Committee. Accordingly, the AFR Committee will evaluate and be directly responsible for CN's relationship with the external auditor. Specifically, this includes:
 - recommending to the Board and CN's shareholders the appointment and, if appropriate, the removal of external auditors for CN and CN's Pension Trust Funds, evaluating and remunerating them, and monitoring their qualifications, performance and independence;
 - approving and overseeing the disclosure of all audit, review and attest services provided by the external auditors, determining which non-audit services the external auditors are prohibited from providing, and pre-approving and overseeing the disclosure of permitted non-audit services by the external auditors to CN or any of its subsidiaries, in accordance with applicable laws and regulations;
 - approving all fees paid to the external auditors;
 - reviewing at least annually, a report by the external auditors describing their internal quality-control procedures; any material issues raised by their most recent internal quality-control review of their firm, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more audits carried out by them, to the extent available, and any steps taken to deal with any such issues;
 - reviewing at least annually, the formal written statement from the external auditors stating all relationships the external auditors have with CN and confirming their independence, and holding discussions with the external auditors as to any relationship or services that may impact their objectivity or independence;
 - reviewing hiring policies for employees or former employees of CN's external auditors; and
 - ensuring the rotation of lead, concurring and other audit partners, to the extent required by Canadian corporate governance standards and US corporate governance standards.

- **Communications with Auditors and Management.** The AFR Committee has direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. In addition, each must meet separately with the AFR Committee, without management, quarterly, and more frequently as required; the AFR Committee must also meet separately with management quarterly, and more frequently as required.

- **Communications with Investors.** The AFR Committee shall oversee CN's policies and procedures related to disclosure of financial and other material information to investors and the processes in place to ensure the information is accurate, complete and consistent with other public disclosures made by CN; the AFR Committee will ensure procedures in place for the review of CN's disclosure of financial information extracted or derived from CN's financial statements and periodically assessing the adequacy of those procedures.

B. Finance Matters

- **Operating and Capital Plans.** Following the Board's annual approval of CN's strategic and business plan, and overall capital allocation plan and shareholder distributions (including with respect to dividends and share repurchases), the AFR Committee shall

monitor performance against CN's annual operating plans, capital expenditures programs and capital allocation plans, including monitoring CN's capital structure and cash flows, and the alignment of these plans to CN's long-term strategy.

- **Financial Policy and Financings.** The AFR Committee shall review and make recommendations to the Board relating to CN's financial policies and financing plans, including:
 - treasury operations such as the opportunity and parameters of debt and equity financings and the prepayment, redemption, repurchase or defeasance of any indebtedness;
 - the use of financial derivatives and hedging activities;
 - loans, guarantees of the credit of others, or other extensions of credit by CN; and
 - significant additional voluntary pension contributions above current service cost and above any required special payments that would materially impact CN's capital allocation plan,
 - in each case that exceed any delegation of authority to management.
- **Credit Ratings.** The AFR Committee shall regularly review CN's credit ratings and monitor CN's activities relating to credit rating agencies.
- **Credit Facilities.** The AFR Committee shall review CN's credit facilities, including amendments thereto, and review compliance by CN with its financial covenants.
- **Significant Investments.** The AFR Committee shall receive regular reports from management on the status and risks related to CN's significant or strategic investments, such that the AFR Committee may monitor the execution of such investments against objectives and oversee any related risks.

C. Risk Management

- **Risk Monitoring and Assessment.** The AFR Committee shall oversee and monitor management's assessment of CN's major risk exposures, defined as exposures that have the potential to materially impact CN's ability to meet or support its business objectives, and report to the Board on any significant risks. This includes reviewing:
 - principal risks and their potential impact on CN's ability to achieve its business and financial objectives, including, in coordination with the GS, HRC and SE Committees, any risks overseen by such Committees and the adequacy and effectiveness of applicable internal controls related to such risks;
 - CN's processes and policies for identifying, assessing and managing risks, including CN's insurance coverage, to satisfy itself as to the effective risk management of all risks to CN's business;
 - management's oversight of matters relating to non-operating information technology, cyber security or data governance affecting CN and CN's information technology systems;
 - CN's business continuity plans and disaster recovery plans; and

- any litigation, claim or other contingency, any investigations and any regulatory or accounting initiatives that could have a material effect upon the financial position or operating results of CN.
- **Enterprise Risk Management.** The AFR Committee shall be responsible for the overall oversight of CN's enterprise risk management program and the work carried out by management in this regard. This shall include the review of regular enterprise risk management reports prepared by management. The AFR Committee shall review and discuss with management all key enterprise risk exposures (with the exception of risks for which another committee has been delegated responsibility for by the AFR Committee or the Board) and the steps management has taken to monitor/control and mitigate those exposures. The AFR Committee shall be informed of any risk reports relating to specific risks which fall within the mandate of, or have been delegated to, other Board committees, enabling the AFR Committee to have a holistic view of all risks faced by CN. The AFR Committee shall periodically report to the Board on any significant risks or other matters identified in the enterprise risk management reports it receives and on any major issues arising with respect to the management of those risks.

The GS Committee will ensure that a proper governance framework over risks is in place between the Board and each of its committees and that specific risks which naturally fall within the expertise or mandate of a committee receive appropriate oversight within such committee. The AFR Committee will ensure the proper identification of all key risks and will work with the GS Committee in ensuring proper oversight of such key risks across committees.

- **Delegation to Other Board Committees.** The AFR Committee shall have the authority to delegate to other committees of the Board the responsibility for oversight of specific risks that fall within such committee's mandate and receive periodic reports from any such committee on the management of those risks.
- **Fraud Control.** The AFR Committee shall oversee CN's anti-fraud programs and controls, including its policies and procedures over fraud risk assessments and fraud risk management.

D. Delegation of Authority.

- The AFR Committee shall review and recommend for approval CN's Standing Resolutions on Delegation of Authority, including the delegation of authority to approve financing transactions and other matters.

E. Pension and Investment

- **Pension Plan Funding.** The AFR Committee shall oversee and review the funding and investment management of CN's Pension Plans. In this regard, the AFR Committee shall:

- approve CN's overall pension risk management strategy and report thereon to the Board;
- approve all of CN's Pension Trust Funds investments made in any one real estate property, resource property, the shares or debt of any single corporation not listed on a prescribed stock exchange as defined in the Income Tax Act (Canada), or any investment in a single externally managed fund in any asset class with a locked-in investment term of more than three years, including real estate, oil and gas, private equities, private debt, infrastructure, and absolute return, for which the aggregate investment exceeds CAD \$150,000,000 (or the equivalent thereof),

except when the loan or interest is by way of a first mortgage. Debt securities included in standard investment-grade Canadian bond indices are excluded from this requirement;

- review and recommend to the Board changes to the Statement of Investment Policies and Procedures and Derivative Policy for CN's Pension Trust Funds for approval, including the investment beliefs and principles that are to underly investment decisions to ensure alignment with CN's overall values and risk tolerance; and
- review and recommend to the Board actuarial valuations and funding of CN's Pension Plans.
- **Pension Advisory Working Committee.**
 - review and recommend to the Board the governance structure of the management Pension Advisory Working Committee; and
 - appoint members of the management Pension Advisory Working Committee and its Chair.
- **Investment Division.** Oversee, through the Pension Advisory Working Committee, the Investment Division performance on investment of assets of CN's Pension Trust Funds in accordance with the Statement of Investment Policies and Procedures approved by the Board, as well as the funded status of CN's Pension Plans more broadly.

1.1.5 EVALUATION OF THE AFR COMMITTEE

- **Review.** The AFR Committee will review and assess its mandate annually or otherwise as it deems appropriate and shall report to the Board regularly on its deliberations and annually on the adequacy of its mandate.
- **Assessment.** At least annually, the AFR Committee will review its effectiveness in fulfilling its responsibilities and duties as set out in its mandate.

1.1.6 GENERAL

Nothing contained in the above mandate is intended to assign to the AFR Committee the Board's responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the AFR Committee. Even though the AFR Committee has a specific mandate and its members may have financial experience and expertise, it is not the duty of the AFR Committee to plan or conduct audits, or to determine that CN's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditors and the external auditors.

Members of the AFR Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided to CN by the external auditors.