Audit, Finance and Risk Committee

1.1.1 PURPOSE

The AFR Committee assists 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, 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 also 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 their 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 needed. 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.

- **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

- **Financial Reporting**. The AFR Committee shall:
    - monitor the quality and integrity of CN's accounting and financial reporting process through discussions with management, the external auditors and the internal auditors;
    - review – with management and the external auditors – and recommend to the Board for approval the annual audited financial statements and the quarterly consolidated financial statements of CN as well as any accompanying information, including in each case CN's MD&A disclosure and earnings press releases prior to their public release, filing and distribution;
    - review – with management and the external auditors – and recommend to the Board for approval the annual audited financial statements of CN's pension trust funds of CN's Pension Plans (CN's Pension Trust Funds);
    - review the level and type of financial information provided, from time to time, to financial markets;
    - review and recommend to the Board for approval the financial information contained in the annual information form, prospectuses or other offering documents and any other document including financial information requiring Board approval;
    - review – with management and the external auditors – 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; and be directly responsible

for the resolution of any disagreement with management regarding CN's financial reporting and any audit problems or difficulties and management's response;

- review 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;
- review the external auditors' quarterly review engagement reports on the consolidated financial statements of CN;
- review the compliance of management certification of financial reports with applicable legal and regulatory requirements; and
- review 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, including any significant recommendations contained therein.

- **Internal Controls over Financial Reporting (Internal Controls)**. The AFR Committee shall:
  - oversee and monitor the integrity and quality of CN's Internal Controls;
  - review management's report assessing the adequacy and effectiveness of CN's disclosure controls and procedures as well as Internal Controls;
  - review CN's compliance with applicable legal and regulatory requirements relating to Internal Controls;
  - while ensuring confidentiality and anonymity, establish 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
  - request the performance of an audit of any specific risk or of Internal Controls, as required.

- **Internal Auditors**. The chief internal auditor reports directly to the AFR Committee and the internal auditors are accountable to the AFR Committee as well as to the Board. Accordingly, the AFR Committee shall:
  - recommend to the Board the appointment and termination of the chief internal auditor;
  - monitor the internal audit function's performance, responsibilities, staffing and resources; and
  - approve at least annually the internal audit plan and regularly monitor its progress.

- **External Auditors**. The external auditor is accountable to and reports directly to the AFR Committee. Accordingly, the AFR Committee shall:
  - be directly responsible for the appointment, compensation, retention and oversight of the work of the external auditor and oversee and be directly responsible for CN's relationship with the external auditor;
  - recommend 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;

- oversee the evaluation and compensation of the external auditors, and monitor their qualifications, performance and independence in this context;
- approve and oversee 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;
- approve all fees paid to the external auditors;
- review 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;
- review 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;
- review hiring policies for employees or former employees of CN's external auditors;
- ensure the rotation of lead, concurring and other audit partners, to the extent required by Canadian corporate governance standards and US corporate governance standards; and
- every five (5) years, oversee a comprehensive review of CN's external auditor.

- **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, or more frequently as required. The AFR Committee must also meet separately with management quarterly, or 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**. In each case that exceeds any delegation of authority to management, 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.

- **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

- **Enterprise Risk Management.** The AFR Committee is responsible for the overall oversight of CN's enterprise risk management program and the work carried out by management in this regard. The Board, upon recommendation of the AFR Committee, also has the authority to delegate to other committees the responsibility for oversight of specific risks that fall within such committee's mandate.
- In this context, the AFR Committee shall:
    - review regular enterprise risk management reports prepared by management;
    - 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; and
    - monitor the work of other committees which have delegated authority to oversee specific risks through periodic reporting, such that the AFR Committee can have a holistic view of all risks CN faces, including their potential interplay and/or cumulative effect on CN's business and strategy.

- **Risk Monitoring and Assessment**. The AFR Committee shall:
    - oversee management's assessment of CN's major risk exposures having the potential to materially impact CN's ability to meet or support its business objectives, and report to the Board on any significant risks (with the exception of risks for which another committee has been delegated responsibility for by the AFR Committee or

the Board). The AFR Committee shall oversee the steps management has taken to monitor/control and mitigate those exposures;

- in coordination with the GS, HRC and SE Committees, review any risks overseen by such Committees and the adequacy and effectiveness of applicable internal controls related to such risks;
- review 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 facing CN;
- monitor management's oversight of matters relating to non-operating information technology, cybersecurity or data governance affecting CN and CN's information technology systems;
- review CN's business continuity plans and disaster recovery plans; and
- monitor 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.

- **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 Matters and Investment

- **Pension Plan Funding**. The AFR Committee shall:
  - review the funding and investment management of CN's Pension Plans;
  - 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 non-redeemable investment term averaging more than five 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 for approval any changes to the Statement of Investment Policies and Procedures and Derivative Policy for CN's Pension Trust Funds, including the investment beliefs and principles that are to underlie 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**. The AFR Committee shall:
  - review and recommend to the Board the governance structure of the management Pension Advisory Working Committee;
  - appoint members of the management Pension Advisory Working Committee, including the Chair of the management Pension Advisory Working Committee; and
  - through the Pension Advisory Working Committee, oversee 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 shall review its mandate at least annually.

- **Report**. The AFR Committee shall report to the Board on its deliberations relating to its mandate and, annually, on the adequacy of its mandate.

- **Assessment**. At least annually, the AFR Committee shall 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.