

TERMS OF REFERENCE AUDIT AND FINANCE COMMITTEE

Purpose

The purpose of the Audit and Finance Committee (the “Committee”) is to assist the Board of Directors in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of the Corporation’s pension plans, internal audit functions, treasury and legal compliance programs and when required, make recommendations to the full Board of Directors for approval. The Committee is also responsible for ensuring that principal risks associated with these issues are appropriately identified, monitored and managed.

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 resources necessary to carry out its responsibilities, including the authority to engage independent counsel and other advisers as part of this resource requirement.

In fulfilling its purpose, it is the responsibility of the Committee to maintain free and open communication between the Committee, the external auditors, the internal auditors, and management of the Corporation, and to determine that all parties are aware of their responsibilities.

The Board of Directors of BC Hydro’s subsidiary, Powerex Corp., has appointed its own Audit and Risk Management Committee. That committee has its own terms of reference and reports directly to the Powerex Corp. Board of Directors.

Composition

The Committee will be composed of at least three independent Directors. Determination as to whether a particular Director satisfies the requirements for membership on the Committee shall be made by the full Board of Directors.

Committee members will have a working familiarity with finance and accounting practices, and at least one Committee member will have accounting or related financial management expertise.

The External Auditors will be invited to attend Committee meetings as appropriate. The External Auditors will be notified of the Committee’s meeting schedule and receive the appropriate meeting materials in advance of meetings.

The Corporate Secretary will be secretary to the Committee.

Duties and Responsibilities

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to monitor the overall corporate ‘tone’ for quality financial reporting.

Subject to the powers and duties of the Board, the Committee, which shall hold a minimum of four meetings per year, will be responsible for addressing the issues and tasks specified in the Committee Timetable, below, and as further described in the sections which follow.

COMMITTEE TIMETABLE

	Q1 (May)	Q2 (Sept)	Q3 (Nov)	Q4 (Feb)
1. FINANCIAL REPORTING & FORECASTS				
a. Review and recommend Board approval of the Annual Financial Statements *	✓			
b. Review and recommend Board approval of Quarterly Financial Reports *		✓ (Aug)	✓	✓
c. Review and recommend Five Year Forecast (and quarterly updates thereto) to the Board of Directors for approval *	✓	✓ (Aug)	✓	✓
d. Review Risk Compliance Report *	✓	✓	✓	✓
2. EXTERNAL AUDIT				
a. Review External Auditor independence and quality control procedures *	✓			
b. Recommend appointment of External Auditors to Board	✓			
c. During the term of the external auditors engagement, review the proposed audit fees, review the qualifications and experience of senior audit personnel, assess the external auditors overall performance, and approve the annual renewal of the terms of the External Auditors' engagement	✓			
d. Annually (and otherwise, as required) approve, in advance, audit/non-audit services to be provided by the External Auditor and receive quarterly summaries of such services and related expenditures (in-camera)	<i>Approval</i>	✓	✓	✓
e. Review audit plan with External Auditors and management			✓	
f. Assess the relationship between the External Auditors and management	✓	✓	✓	✓
g. Review post-audit management letter prepared by the External Auditors and reviewing management's response and subsequent follow-up to any significant identified weaknesses		✓		
h. Review all issues related to any proposed change in External Auditors and the planned steps for an orderly transition	<i>As required</i>	<i>As required</i>	<i>As required</i>	<i>As required</i>
3. SYSTEMS AND CONTROLS				
a. Through communication with management, Internal Auditors and External Auditors, obtain assurance that accounting systems are reliable, and internal controls adequate, following up on any recommendations and management's responses	✓	✓	✓	✓
4. INTERNAL AUDIT				
a. Review and approve annual Internal Audit Plan, including an examination of the key risks identified for the organization and the appropriateness of Internal Audit resources	✓			
b. Review and approve the Audit Services Charter to ensure appropriateness of mission, accountability and scope of work for Internal Audit	✓			
c. Review Internal Audit reports, management's responses and any subsequent follow-up *	✓	✓	✓	✓

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	Q1 (May)	Q2 (Sept)	Q3 (Nov)	Q4 (Feb)
d. Review quarterly summaries from Internal Audit of any reporting of financial concerns pursuant to the Code of Conduct	✓	✓	✓	✓
5. PENSION PLANS				
a. Receive annual and quarterly standing reports from the corporate Pension Management Committee	<i>Annual</i>	✓	✓	✓
b. Approve changes the British Columbia Hydro and Power Authority Pension Plan Funding Policy as required	<i>As required</i>	<i>As required</i>	<i>As required</i>	<i>As required</i>
c. Make recommendations to the Board respecting pension plan design, benefit levels and investment policies etc.	<i>As required</i>	<i>As required</i>	<i>As required</i>	<i>As required</i>
d. Approve Pension Plan Audited Statements, review actuarial methods and assumptions and review BC Hydro's contributions to the Pension plans				
e. Review actuarial valuation of Plan on a tri-annual basis	<i>As required</i>	<i>As required</i>	<i>As required</i>	<i>As required</i>
f. Receive pension fund asset allocation review, and make recommendations to Board (every 3-5 years)	<i>As required</i>	<i>As required</i>	<i>As required</i>	<i>As required</i>
g. Review and recommend to the Board of Directors the termination of investment managers, and review the appointment and termination by the PMC of actuaries, fund holders, advisors, administrators, External Auditors, investment managers (appointment only) and performance measurement service providers	<i>As required</i>	<i>As required</i>	<i>As required</i>	<i>As required</i>
h. At the request of the Board of Directors, and as appropriate, delegate to the PMC such other tasks relating to the operation of the pension plans that may be required from time to time	<i>As required</i>	<i>As required</i>	<i>As required</i>	<i>As required</i>
6. OTHER				
a. Receive reports on the status of any investigations underway pertaining to fraud, illegal acts or other compliance issues	<i>As required</i>	<i>As required</i>	<i>As required</i>	<i>As required</i>
b. Annually review a listing of all expenditures incurred by the Corporation with external audit firms other than those fees related to BC Hydro's own External Auditors which will be reported as previously described	✓			
c. Review and recommend approval of the annual Service Plan to the Board				✓
d. Receive an annual operations update from Generation Resource Management, including associated risks	✓			
e. Review Information Technology & Telecommunication Strategies	<i>As required</i>	<i>As required</i>	<i>As required</i>	✓
f. Review insurance program and insurance management strategies		✓		✓
g. Review status of current, pending or potential litigation	✓	✓	✓	✓
h. Review External Reporting of Financial Information				✓
i. Review expense reporting of Executive Officers and Directors			✓	

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	Q1 (May)	Q2 (Sept)	Q3 (Nov)	Q4 (Feb)
j. Review report from Management illustrating the Company's risk profile with respect to those risks related to the Committee's mandate and convey report to the Board	✓	✓	✓	✓
k. Review, revise and authorize routine banking arrangements and relationships	<i>As required</i>	<i>As required</i>	<i>As required</i>	<i>As required</i>
l. Approval of <i>Financial Information Act</i> return		✓		

* *Denotes further detail described in the sections below.*

Financial Reports and Forecasts*Annual Financial Statements (Timetable Item 1a)*

The Committee will review the annual consolidated financial statements and Management Discussion and Analysis, and recommend their approval to the Board of Directors. The Committee will draw to the attention of the Board of Directors all financial matters it is aware of which may materially affect the current or future financial position of the Corporation.

The review must include:

- a) determining whether appropriate accounting methods are being applied;
- b) discussing with management and with the External Auditors:
 - all proposed changes in accounting policy,
 - the import and presentation of all material risks or uncertainties associated with financial matters or related business processes,
 - compliance with accounting standards,
 - significant adjustments arising out of the audit process,
 - related party transactions, and the business rationale for the transactions and whether appropriate disclosures have been made,
 - major issues as to the adequacy of the Corporation's internal control over financial reporting and any specific remedial actions adopted in light of significant deficiencies or material weaknesses,
 - consideration of the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements,
 - all estimates or judgements of management that may be material to financial reporting,
 - consideration of the judgment of both management and the external auditors about the quality, not just the acceptability of accounting principles, and
 - the clarity of the disclosures in the financial statements;
- c) discussing with management and the External Auditors significant financial reporting, recording or presentation issues discussed during the fiscal period and the manner of their resolution;
- d) examining the consolidated audited annual financial statements in conjunction with the report of the External Auditors, which may include determining whether the statements:
 - properly reflect the significant accounting policies selected,
 - reflect estimates and other financial statement elements that are reasonable and consistent,

- adequately disclose all major transactions and issues,
 - disclose all post-year-end significant events, and
 - are understandable, relevant, reliable and comparable.
- e) considering management's assessment of how the annual financial results impact the risks faced by the Corporation, and
- f) considering any recommendations brought forward by management in terms of their impact on the risks faced by the Corporation.

Quarterly Financial Reports (Timetable Item 1b)

The Committee will review quarterly financial reports and related information and recommend their approval to the Board of Directors. The Board of Directors has delegated approving authority of the quarterly financial report to the Committee, in the event the Board meeting schedule proves untimely.

The quarterly financial reports are required to be reviewed by the External Auditors prior to their submission to the Committee, the results of which are discussed with the Committee.

Five Year Forecasts (Timetable Item 1c)

The Committee will review the annual Five Year Forecast, as well as quarterly updates, and recommend approval to the Board of Directors. The Board of Directors has delegated approving authority of the quarterly updates to the Committee, in the event the Board meeting schedule proves untimely. In approving the Five Year Forecast or quarterly updates, the Committee shall review management's assessment of how the forecasts will likely impact the principal risks faced by the organization.

Risk Compliance Report (Timetable Item 1e)

The Committee will review the quarterly update to the Risk Compliance Report, which reports on the following seven corporate policies which explicitly identify limits in respect of the identified risk areas:

- a) Domestic Electricity Purchases and Sales - exposure to market energy prices
- b) Trade Commodity – Value at Risk (VAR) in Powerex forward portfolio relative to Powerex Risk Management Policy limits
- c) Trade Credit – credit exposures in Powerex portfolio (also relative to the Powerex Risk Management Policy limits)
- d) Financial Institution Credit - exposures relative to limits
- e) Foreign Exchange – exposures relative to limits
- f) Debt – exposure to interest rate volatility
- g) Pension Investments – asset allocation mix relative to limits

External Audit

The Committee shall have the direct responsibility for the appointment, compensation, retention and oversight of the External Auditors (including nominating the External Auditors to be proposed for Board approval). The Committee shall serve as the ultimate authority to which the Corporation's External Auditors are accountable. The Corporation shall provide appropriate funding, as determined by the Committee, for payment of compensation to the External Auditors and any experts or advisors employed by the Committee.

The Committee shall meet with the External Auditors, as the Committee may deem appropriate, to consider any matter which the Committee or External Auditors believe should be brought to the attention of the Board or the Shareholder.

External Auditor Independence (Timetable Item 2a)

In this respect, the Committee shall review and discuss with the External Auditors all relationships that the External Auditors and their affiliates have with the Corporation and its affiliates in order to determine the External Auditors' independence, including, without limitation (i) requesting, receiving and reviewing, on a periodic basis, a formal written statement from the External Auditors delineating all relationships that may reasonably be thought to bear on the independence of the External Auditors with respect to the Corporation (ii) discussing with the External Auditors any disclosed relationships or services that the External Auditors believe may affect the objectivity and independence of the External Auditors, and (iii) recommending that the Board take appropriate action in response to the External Auditors' report to satisfy itself of the External Auditors' independence.

External Auditor Quality Control (Timetable Item 2a)

In this respect, the Committee shall, at least annually, obtain and review a report by the External Auditors describing the auditing firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review or peer review of the auditing firm or by any inquiry or investigation by government or professional authorities within the preceding five years respecting one or more independent audits carried out by the External Auditors and any steps taken to deal with any such issues and all relationships between the External Auditors and the Corporation;

Internal Audit

Reports of Internal Audit (Timetable Item 4b)

The Committee will review audit reports issued by Internal Audit, management's response and subsequent follow-up of identified weaknesses. The review of audit reports will include:

- a) identification of significant risk exposures and effectiveness of related risk management measures;
- b) assessment of the adequacy of the Corporation's internal controls, and
- c) recommendations for the improvements of the Corporation's internal controls and risk management.

In order to focus on key risk areas, the Committee will only review the full audit report for reports identified as high risk by Internal Audit. However, executive summaries will be reviewed for all reports issued and the Committee will be provided with low and medium risk internal audit reports upon request.

The Committee's responsibilities with respect Internal Audit include reviewing any audit reports prepared with respect to the Corporation's enterprise risk management framework.

Meeting with the Director, Audit Services

The Committee Chair will meet with the Director, Audit Services in advance of each quarterly Committee meeting to discuss all items to be presented. During quarterly Committee meetings, the Committee shall:

- a) meet with the Director, Audit Services, without management present:

- b) review, in consultation with senior management, the performance of the Audit Services department; and
- c) review and approve, in consultation with senior management, proposed changes in the position of the Director, Audit Services.

Accountability

At every quarterly meeting of the Board, or more often if required, the Committee shall provide a report on its deliberations and recommendations since its last such report. Minutes of the Committee's meetings will also be made available to all Directors on request.