

## AUDIT COMMITTEE

### 1. **Membership and Quorum**

- a minimum of five directors appointed by the Board, one of whom must be the chair of the HR and Compensation Committee;
- only Independent directors, as determined by the Board and under Canadian and U.S. Corporate Governance Standards, may be appointed. A member of the Audit 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;
- each member must be “financially literate” (as determined by the Board);
- at least one member must be an “audit committee financial expert” (as determined by the Board);
- quorum of majority of members.

### 2. **Frequency and Timing of Meetings**

- normally one day prior to CN Board meetings;
- at least five times a year and as necessary;
- committee members meet before or after every meeting without the presence of management.

### 3. **Mandate**

The responsibilities of the Audit Committee include the following:

#### A. Overseeing financial reporting

- 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, the annual audited financial statements to be included in the annual report of CN, including CN’s MD&A disclosure and earnings press releases prior to their release, filing and distribution;
- reviewing with management and the external auditors, quarterly consolidated financial statements of CN and accompanying information, including CN’s MD&A disclosure and earnings press releases prior to their release, filing and distribution, and reviewing the level and type of financial information provided, from time to time, to financial markets;
- reviewing the financial information contained in the annual information form and other reports or documents, financial or otherwise, requiring Board approval;

- reviewing the 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;
- 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;
- reviewing any analysis or other written communications prepared by management, the internal auditors or external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effect of alternative generally accepted accounting principles methods;
- reviewing the external auditors' report on the consolidated financial statements and internal controls over financial reporting of CN and on the financial statements of CN's Pension Trust Funds;
- reviewing the external auditors' quarterly review engagement report;
- reviewing the compliance of management certification of financial reports with applicable legislation;
- reviewing any litigation, claim or other contingency and any regulatory or accounting initiatives that could have a material effect upon the financial position or operating results of CN and the appropriateness of the disclosure thereof in the documents reviewed by the Committee;
- 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.

**B. Monitoring risk management and internal controls**

- receiving periodically management's report assessing the adequacy and effectiveness of CN's disclosure controls and procedures and systems of internal control;
- reviewing CN's risk assessment and risk management policies, including CN's insurance coverage (annually and as otherwise may be appropriate);
- assisting the Board with the oversight of CN's compliance with applicable legal and regulatory requirements;
- reviewing CN's delegation of financial authority;
- making recommendations with respect to the declaration of dividends;
- while ensuring confidentiality and anonymity, establishing procedures for the receipt, retention and treatment of complaints received by CN regarding accounting, internal accounting controls or auditing matters or employee concerns regarding accounting or auditing matters;
- requesting the performance of any specific audit, as required.

C. Monitoring internal auditors

- ensuring that the chief internal auditor reports directly to the Audit Committee;
- regularly monitoring the internal audit function's performance, its responsibilities, staffing, budget and the compensation of its members;
- reviewing annually the internal audit plan;
- ensuring that the internal auditors are accountable to the Audit Committee and to the Board.

D. Monitoring external auditors

- recommending to the Board and CN's shareholders the retention and, if appropriate, the removal of external auditors, 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;
- reviewing recommendations to shareholders on the continued engagement or replacement of external auditors, for CN and CN's Pension Trust Funds;
- ensuring that the external auditors are accountable to the Audit Committee and to the Board;
- discussing with the external auditors the quality and not just the acceptability of CN's accounting principles, including (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 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 firm of external auditors;

- ensuring the rotation of lead, concurring and other audit partners, to the extent required by Canadian Corporate Governance Standards and US Corporate Governance Standards.

*E. Evaluating the performance of the Audit Committee*

- ensuring that processes are in place to annually evaluate the performance of the Audit Committee.

In addition to the above responsibilities, the Audit Committee may discharge the responsibilities of the Finance Committee if no meeting of the Finance Committee is scheduled to be held in the immediate future.

Because of the Audit Committee's demanding role and responsibilities, the Board Chair, together with the Governance Committee chair, reviews any invitation to Audit Committee members to join the audit committee of another entity. Where a member of the Audit Committee simultaneously serves on the audit committee of more than three public companies, including CN, the Board determines whether such simultaneous service impairs the ability of such member to effectively serve on the Audit Committee and either requires a correction to the situation or discloses in CN's Information Circular that there is no such impairment.

As appropriate, the Audit 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 Audit Committee makes arrangements for the appropriate funding for payment of the external auditors and any advisors retained by it. The Board also makes arrangements for the appropriate funding for all administrative expenses necessary or appropriate to allow the Audit Committee to carry out its duties.

The Audit 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 Audit Committee, without management, twice a year, and more frequently as required; the Audit Committee must also meet separately with management twice a year, and more frequently as required.

The Audit Committee shall report to the Board regularly on its deliberations and annually on the adequacy of its mandate.

Nothing contained in the above mandate is intended to assign to the Audit 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 Audit Committee. Even though the Audit Committee has a specific mandate and its members may have financial experience and expertise, it is not the duty of the Audit Committee to plan or conduct audits, or to determine that the Company'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 Audit 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 the Company by the external auditors.

The Audit Committee's oversight responsibilities are not established to provide an independent basis to determine that (i) management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures, or (ii) the Company's financial statements have been

prepared and, if applicable, audited in accordance with generally accepted accounting principles or generally accepted auditing standards.