

TERMS OF REFERENCE: AUDIT COMMITTEE

I. PURPOSE

- A.** The primary purpose of the Audit Committee (the “**Committee**”) is to assist the BCLC Board of Directors (the “**Board**”) in fulfilling its oversight responsibilities to the Government of British Columbia (“**Government**”) relating to:
- i. the integrity of BCLC’s financial information that is provided to Government and the public;
 - ii. the effectiveness of BCLC’s systems of internal control over financial reporting;
 - iii. the External Auditor;¹
 - iv. the performance of BCLC’s internal Audit Services department (“**Audit Services**”);
 - v. the findings of other audit type services provided to BCLC by external audit service providers;
 - vi. BCLC’s compliance with laws, regulations and policies that may apply; and
 - vii. other matters that may be requested of the Committee by the Board from time to time.
- B.** The primary responsibility for the financial reporting, information systems, and internal controls of BCLC is vested in Management and is overseen by the Board.
- C.** The President and Chief Executive Officer (“**CEO**”), with the oversight of the Board and the Risk Committee, is responsible for ensuring BCLC establishes and implements an effective enterprise risk management (“**ERM**”) program for the identification, assessment and management of strategic and operational risks. The Audit Committee is responsible for ensuring the Audit Services Annual Audit Plan (“**AAP**”) is aligned with key risk areas identified through the ERM program.
- D.** In fulfilling its purpose, it is the Committee’s responsibility to maintain free and open communication among the Board, the Committee, the External Auditor, Audit Services and Management and to determine that all parties are aware of their respective responsibilities in this regard.

¹ For the purposes of this Terms of Reference, “External Auditor” is defined as that independent firm of Chartered Professional Accountants that have been specifically engaged to audit BCLC’s annual consolidated financial statements. The Committee recognizes that there may be other external audit service providers (including the External Auditor) and regulators that perform audit type mandates for BCLC. In such circumstances these providers are referred to throughout this Terms of Reference as “external audit service providers”.

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II. COMPOSITION AND OPERATIONS

- A. The Committee will be composed of not fewer than three Directors and not more than five Directors.
- B. All members of the Committee will be financially literate and at least one will have appropriate accounting or related financial expertise.²
- C. The Committee is anticipated to meet at least five times per year, once each quarter and an additional meeting in May to approve the annual audited financial statements, annual report and such other documents as required by Government.
- D. The External Auditor will be advised of the names of the Committee members and will receive notice of and be invited to attend meetings of the Committee, and to be heard at those meetings on matters relating to the External Auditor's duties.
- E. The Committee will meet with the External Auditor as it deems appropriate to consider any matter that the Committee or the External Auditor determines should be brought to the attention of the Board.
- F. The Committee has access to Management and documents as required to fulfill its responsibilities and is provided with the resources necessary to carry out its responsibilities.
- G. The Committee provides open avenues of communication among Management, employees, the External Auditor, Audit Services, other external audit service providers and the Board.
- H. The Committee will report regularly to the Board with respect to its activities.
- I. The secretary to the Committee will be either the Corporate Secretary or his or her delegate.
- J. The Committee will retain and compensate such outside legal, accounting or other advisors as it considers necessary in discharging its oversight role.

² The Board has defined being "financially literate" as: the ability to read and understand financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). Where there is a requirement for a committee member to have appropriate accounting or related financial expertise this means the committee member will have the ability to analyze and understand a full set of financial statements, including the notes attached thereto prepared in accordance with GAAP, have an understanding of the significant processes and internal controls required by management to prepare such financial statements and have an understanding of the significant internal and external audit processes and procedures required to audit such financial statements for an organization with comparable complexity to that of BCLC.

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III. DUTIES AND RESPONSIBILITIES

The Committee has the responsibilities and powers set out in these Terms of Reference. Management is responsible for the preparation, presentation and integrity of BCLC's financial statements, for the appropriateness of the accounting principles and reporting policies that are used by BCLC and for establishing and maintaining internal control over financial reporting. The External Auditor is responsible for auditing BCLC's annual consolidated financial statements.

The Committee in carrying out its responsibilities believes that 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, sound business risk practices and ethical behaviour.

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

- i. The Committee will review and recommend for approval to the Board the following financial information and any other financial information that will be made available to Government:
 - a. BCLC's quarterly revised forecast and projections;
 - b. BCLC's business plan, operating and capital budgets;
 - c. BCLC's Service Plan;
 - d. annual audited financial statements of BCLC's pension plan;
 - e. actuarial valuations for BCLC's pension plan;
 - f. BCLC's annual audited consolidated financial statements;
 - g. the annual unaudited financial statements of any BCLC subsidiary company;
 - h. BCLC's quarterly financial statements;
 - i. BCLC's Annual Service Plan Report; and
 - j. BCLC's *Financial Information Act* report.
- ii. The Committee will review and discuss:
 - a. the appropriateness of accounting policies and financial reporting practices;
 - b. any significant proposed changes in financial reporting and accounting policies and practices to be adopted by BCLC;

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- c. any new or pending developments in accounting and reporting standards that may affect BCLC; and
- d. Management's key estimates and judgments that may be material to financial reporting.

B. Internal Control and Information Systems, and Financial Resources

The Committee will review and obtain reasonable assurance that Management has designed and implemented appropriate internal control and information systems which are operating effectively to produce accurate, appropriate and timely information. This includes:

- i. reviewing BCLC's internal control and information systems by reviewing with Management, the respective reports of Audit Services, the External Auditor and other external audit service providers issued throughout the year on risk, internal control and information systems;
- ii. monitoring compliance with statutory and regulatory obligations;
- iii. reviewing the appointment of the Chief Financial Officer taking into consideration, among other factors, previous employment by BCLC's External Auditor; and
- iv. reviewing the adequacy of accounting and finance resources.

C. Internal Audit

The Committee will oversee Audit Services and its relationship with the External Auditor and with Management. This includes:

- i. reviewing and approving on an annual basis, in consultation with the CEO and Management, the Audit Services Charter;
- ii. reviewing and approving on an annual basis, in consultation with the CEO and Senior Management, the mandate, goals, resources and planned audit activities set out in the Audit Services AAP, including planned interactions with the External Auditor and other external audit service providers;
- iii. reviewing and ensuring the AAP is aligned with key risks identified through the ERM program;
- iv. reviewing any restrictions being placed on Audit Services from carrying out its AAP or significant problems being encountered;
- v. reviewing Audit Services' quarterly audit reports and approving any significant changes to the AAP that may be required;
- vi. meeting quarterly with the Director of Audit Services without Management present;

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- vii. review and confirm Audit Services' compliance with its Charter on an annual basis;
- viii. providing feedback to the CEO of the Committee's assessment of the performance of the Director of Audit Services; and
- ix. reviewing and approving, in consultation with the CEO and Management, proposed changes in the position of the Director of Audit Services.

D. External Audit

The External Auditor is ultimately responsible to the Committee and the Board as representatives of Government. The Committee will review the planning and results of the work of the External Auditor and BCLC's ongoing relationship with the External Auditor. This includes:

- i. reviewing and recommending to the Board the engagement of the External Auditor;
- ii. reviewing the External Auditor's annual audit plan covering the audit of the annual consolidated financial statements of BCLC and of BCLC's Pension Plan including but not limited to the following:
 - a. engagement letter;
 - b. objectives and scope of the external audit work;
 - c. changes in applicable accounting and auditing standards;
 - d. materiality limit;
 - e. areas of audit risk;
 - f. staffing;
 - g. timetable; and
 - h. proposed fees;
- iii. meeting with the External Auditor to discuss BCLC's annual consolidated financial statements and the External Auditor's report thereon including the appropriateness of accounting policies and underlying estimates;
- iv. reviewing with and advising the Board with respect to the planning, conduct and reporting of the External Auditor's work, including but not limited to:
 - a. any difficulties encountered or restriction imposed by Management during the audit work; and
 - b. any significant accounting or financial reporting issue;
- v. reviewing the External Auditor's evaluation of BCLC's system of

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- internal controls, procedures and documentation;
- vi. reviewing the post audit or management letter containing any material findings or recommendation of the External Auditor, including Management's response thereto and the subsequent follow-up to any identified internal control weaknesses;
 - vii. reviewing any other matters the External Auditor brings to the Committee's attention including at least the communications required by appropriate professional standards in connection with carrying out the audits of BCLC's annual consolidated financial statements;
 - viii. reviewing the External Auditor's report, if any, on all material subsidiaries;
 - ix. reviewing and approving any non-audit services to be provided by the External Auditor or its affiliates (including estimated fees) and consider the impact of the independence of the External Auditor, with such approvals being provided by the Committee in advance of the External Auditor commencing any such service³;
 - x. assessing the performance, qualifications and independence and consider the annual appointment of External Auditor for recommendation to the Board;
 - xi. reviewing and receiving assurances on the independence of the External Auditor and the results of its own internal quality control findings and those of the auditing profession's regulators pursuant to its reviews of the External Auditor's audits; and
 - xii. meeting periodically, and at least annually, with the External Auditor without Management present.

E. Other

During the course of each fiscal year, the Committee will:

- i. review material litigation and its impact on financial reporting and meet at least annually with the BCLC's General Counsel to review outstanding legal issues relating to BCLC;

³ To facilitate such pre-approval in between regularly scheduled audit committee meetings, the Chair of the Committee (or his/her delegate) may pre-approve any non-audit service to be provided by the External Auditor for a specific mandate where estimated fees are not to exceed \$50,000. For a specific mandate where fees are estimated to exceed \$50,000, the Chair of the Committee will consult with the other members of the Committee to obtain their approval. Any non-audit service mandates pre-approved in this manner will be presented for formal approval at the next scheduled audit committee meeting.

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- ii. review significant findings of the work of all third party external audit service providers (which engagements are to be monitored by Audit Services) and consider having any such external audit service provider attend a Committee meeting for such purpose;
- iii. review BCLC's anti-fraud controls;
- iv. retain the opportunity to undertake exit interviews with senior financial staff;
- v. review policies and procedures for the review and approval of Management's expenses;
- vi. review expenses of the Board Chair and the CEO semi-annually;
- vii. review the Terms of Reference for the Committee annually and make recommendations to the Board as required;
- viii. review the quarterly Security, Privacy and Compliance report regarding key programs and projects; and
- ix. annually review a summary of the Operational Gaming Compliance plan and any significant changes to it.

IV. ACCOUNTABILITY

The Committee will:

- i. report its discussions to the Board by oral or written report at the next Board meeting; and
- ii. confirm to the Board on an annual basis, the Committee's fulfillment of its mandate for the preceding year.

V. EDUCATION

The Committee will regularly update its members with leading practices and educational requirements of audit committees generally in Canada and specifically with respect to BCLC in order that the members are able to carry out their responsibilities as set out in this Terms of Reference efficiently and effectively.

VI. COMMITTEE TIMETABLE

The timetable on the following page outlines the Committee's anticipated schedule of activities during the year.

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	As needed	January	April	May	July	October	December
A. Financial Statements and Other Financial Information							
i.a. quarterly revised forecast and projections		✓		✓	✓	✓	
i.b. business plan, operating and capital budgets		✓					
i.c. Service Plan		✓					
i.d. annual audited financial statements of BCLC's pension plan				✓			
i.e. actuarial evaluations for BCLC's pension plan	✓						
i.f. BCLC's annual audited consolidated financial statements				✓			
i.g. annual unaudited financial statements of any BCLC subsidiary company				✓			
i.h. quarterly financial statements		✓			✓	✓	
i.i. Annual Service Plan Report				✓			
i.j. <i>Financial Information Act</i> report					✓		
ii.a. appropriateness of accounting policies and financial reporting practices		✓	✓		✓	✓	
ii.b. any significant proposed changes in financial reporting and accounting policies and practices		✓	✓		✓	✓	
ii.c. any new or pending developments in accounting and reporting standards		✓	✓		✓	✓	
ii.d. key estimates and judgments that may be material to financial reporting		✓	✓		✓	✓	

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	As needed	January	April	May	July	October	December
B. Internal Control and Information Systems							
i. review reports of Audit Services, the External Auditor and other external audit service providers on risk, internal control and information systems	✓						
ii. monitor compliance with statutory and regulatory obligations	✓						
iii. appointment of the Chief Financial Officer	✓						
iv. adequacy of accounting and finance resources		✓					
C. Internal Audit							
i. Audit Services' Charter			✓				
ii. & iii. review AAP, including its alignment with risks identified through ERM program			✓				
iv. any restrictions being placed on Audit Services from carrying out its AAP or significant problems being encountered		✓	✓		✓	✓	
v. Audit Services' quarterly audit reports and approving any significant changes to the AAP that may be required		✓	✓		✓	✓	
vi. meet with the Director of Audit Services without Management present		✓	✓		✓	✓	
vii. Audit Services' compliance with its Charter			✓				
viii. feedback to CEO on performance of Director of Audit Services			✓				
viii. changes in the position of Director of Audit Services	✓						

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	As needed	January	April	May	July	October	December
D. External Audit							
i. recommend engagement of External Auditor					✓		
ii. External Auditor's annual audit plan						✓	
iii. meet with External Auditor to discuss BCLC's annual consolidated financial statements and the External Auditor's report thereon including the appropriateness of accounting policies and underlying estimates				✓			
iv. advise Board with respect to the External Auditor's work including difficulties encountered, restrictions imposed and significant accounting or financial reporting issue	✓						
v. External Auditor's evaluation of internal controls, procedures and documentation	✓			✓			
vi. post audit or management letter containing any material findings or recommendation of the External Auditor, including Management's response thereto and the subsequent follow-up to any identified internal control weaknesses	✓			✓			
vii. other matters reported by the External Auditor	✓						
viii. External Auditor's report on material subsidiaries, if any				✓			
ix. review and approve non-audit services to be provided by External Auditor and consider impact on the External Auditor's independence	✓						
x. assess qualifications and independence and consider annual appointment of External Auditor for recommendation to Board					✓		

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	As needed	January	April	May	July	October	December
assess performance of External Auditor					✓		
xi. reviewing and receiving assurances on the independence of the External Auditor and the results of its own internal quality control findings and those of the auditing profession's regulators pursuant to its reviews of the External Auditor's audits				✓			
xii. meet with the External Auditor without management present		✓		✓	✓	✓	
E. Other							
i. material litigation and impact on financial reporting; meet with General Counsel		✓	✓		✓	✓	
ii. findings of all third party external audit service providers (other than External Auditor)	✓						
iii. anti-fraud controls					✓		
iv. conduct exit interviews with departing financial senior financial staff	✓						
v. policies and procedures for the review and approval of Management's expenses						✓	
vi. expenses of Board Chair and CEO			✓			✓	
vii. Committee Terms of Reference					✓		
viii. Security, Privacy and Compliance report		✓	✓		✓	✓	
ix. Summary of Operational Gaming Compliance plan			✓				
ACCOUNTABILITY							
Confirm Committee's fulfillment of its mandate to the Board (at Board Meeting)				✓			