

TERMS OF REFERENCE - AUDIT AND INVESTMENT COMMITTEE

CLIMATE CHANGE AND EMISSIONS MANAGEMENT (CCEMC) CORPORATION

DATE OF APPROVAL: SEPTEMBER 28, 2010

A. OVERVIEW AND PURPOSE

The Climate Change and Emissions Management (CCEMC) Corporation ("CCEMC") has the corporate authority to appoint an Audit and Investment Committee (the "Committee"). The Board of Directors (the "Board") has appointed members to the Committee, who shall adhere to these terms of reference as well as CCEMC's Committee Guidelines.

CCEMC has an obligation to protect the integrity of its financial records and will do so by ensuring financial statements are prepared accurately by CCEMC's management ("Management") and arranging for the audit of CCEMC's annual financial statements by an auditor. The Committee is established to ensure these objectives of CCEMC are met.

The Committee is responsible for overseeing the audit of the annual financial statements and for helping to ensure the credibility of those statements.

CCEMC has recognized the benefit of investing a portion of the money from the Fund to generate a reasonable return while protecting the Funds against undue risk. CCEMC has also recognized the requirement that it have available to it sufficient cash resources to meet the operational needs of the CCEMC. It is with regard to these factors that CCEMC developed its investment strategy.

The key components of CCEMC's investment strategy are outlined in CCEMC's Statement of Investment Policies and Goals for the Fund (the "Investment Statements").

The Audit and Investment Committee will have responsibility for ensuring the Fund remains separate and is managed for the benefit of the programs of CCEMC they are intended to support.

The Committee approves, monitors, evaluates, advises and makes recommendations in accordance with these terms of reference, on matters affecting the external and internal audits, risk management matters, the integrity of financial reporting and the accounting control policies and practices of CCEMC.

The Committee shall:

1. not only focus on doing the required things, but also the right things;
2. maintain high quality of communications between the Committee and management, the external auditors and the board of directors;

3. focus on the integrity of financial information and the clarity with which it is disclosed;

The Committee recognizes that without effective and productive relationships, and direct and unequivocal communication, the Committee will never be a cornerstone of a successful financial reporting system.

It is not the duty of the Committee to plan or conduct audits, or to determine that CCEMC's financial statements are complete, accurate and in accordance with generally accepted accounting principles.

B. MEMBERSHIP

1. The Committee will be established by resolution of the Board.
2. The Committee shall consist of no less than three (3) members.
3. The chair ("Chair") of the Committee shall be designated by the Board.
4. The Board shall regularly review the membership of the Committee to ensure that membership is refreshed and undue reliance is not placed on particular individuals regarding membership on the Committee.

C. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

The Committee is responsible for the following:

1. Financial Oversight
 - (a) overseeing the preparation of annual financial statements by Management;
 - (b) review annual financial statements prepared by Management prior to the submission to the Board for approval;
 - (c) review any reports or notes prepared by Management which accompany annual financial statements to ensure consistency; and
 - (d) review, and challenge where necessary, the actions and judgments of Management, in relation to the annual financial statements before submission to the Board, paying particular attention to:
 - (i) any significant changes in accounting practices or internal controls adopted by Management;
 - (ii) decisions requiring a major element of judgment;
 - (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;

- (iv) the clarity of disclosures;
- (v) significant adjustments resulting from the audit;
- (vi) compliance with accounting standards;
- (vii) compliance with legal and regulatory requirements; and
- (viii) any litigation, claim or assessment which could have a material effect upon the financial position of CCEMC .

2. Audit Oversight:

- (a) overseeing the process for selecting the auditor and making appropriate recommendations through the Board to the Members to consider at the annual general meeting;
- (b) assessing the independence of the auditor;
- (c) reviewing and recommending the audit fee to the Board;
- (d) reviewing and confirming to the auditor the audit and non-audit services to be provided by the auditor, the engagement and scope of the audit, and timing of the audit;
- (e) before the audit commences, reviewing the auditor's quality control procedures and the manner by which CCEMC's auditor will determine factors which are material to CCEMC;
- (f) before the audit commences, inquiring of CCEMC's auditor the extent to which the proposed audit will detect weaknesses in accounting procedures and internal controls;
- (g) reviewing with the auditor the effects of new developments in accounting standards, or legislative or regulatory requirements, on financial reporting;
- (h) reviewing the results of the audit conducted by CCEMC's auditor and meeting with CCEMC's auditor following its review of the auditor's report; and
- (i) reviewing findings and recommendations of the auditor, including: misstatements, qualitative aspects of accounting principles; any disagreements with Management; whether Management consulted with other accountants; serious difficulties in performing the audit; procedures or practices suggested by CCEMC's auditor and observed internal control weaknesses and suggested improvement.

3. Operational Oversight:

- (a) assessing the adequacy and effectiveness of CCEMC's accounting procedures and internal controls and making recommendations to the Board concerning these matters as it deems appropriate;
- (b) establishing an annual planning and reporting schedule for the Committee, which specifically takes into account the duties and responsibilities of the Committee, the auditors and Management as set out in this Policy; and
- (c) reviewing its minutes to ensure the minutes accurately reflect the decisions and determinations of the Committee and provide sufficient detail to evidence due diligence.

4. Investment Fund Management:

- (a) ensuring the requirements set forth in the Investment Statements are observed;
- (b) comparing the investment objectives as set out in the Investment Statements against those actually achieved by the Fund;
- (c) reviewing and reporting on the relative performance of the investment manager(s), at least annually;
- (d) reviewing the current economic outlook and investment plans of the investment manager(s);
- (e) proposing the continued use or replacement of investment manager(s) as circumstances require and in any event every three (3) years;
- (f) proposing revisions to the Investment Statements where necessary or desirable;
- (g) recommending to the Board the allocations of additional funds beyond present holdings (if any) to each investment manager during the year; and
- (h) assessing the performance of the investment advisors, if any, as necessary or desirable.

D. REPORTING AND REVIEW

- 1. The Committee shall annually undertake a self-assessment. An example self-assessment guide is attached as Appendix "A" to this Policy.
- 2. The Committee shall report to the Board on all findings, recommendations and matters relating to the mandate of the Committee.
- 3. The Committee shall present mid-year and year-end investment reports to the Board.

E. ENSURING COMPLIANCE WITH THE INVESTMENT STATEMENTS

- (a) The Committee will review all statements and reports concerning CCEMC's investments to ensure compliance with the Investment Statements. Instances where the provisions of the Investment Statements have not been observed shall be noted and brought to the attention of the Board for its information and response, as determined appropriate.

F. PROPOSING THE CONTINUED USE OR REPLACEMENT OF CCEMC'S INVESTMENT MANAGER(S)

- (b) Having regard to advice and information received, the Committee shall assess the performance of CCEMC's investment manager(s) and shall recommend to the Board the continued use or replacement of CCEMC's investment manager(s) as circumstances require. The Committee shall outline to the Board the rationale for its recommendations regarding the continued use or replacement of CCEMC's investment manager(s).

G. PROPOSING REVISIONS TO THE INVESTMENT STATEMENTS

- (c) The Committee shall make recommendations to the Board as appropriate concerning proposed revisions to the Investment Statements.

APPENDIX "A"

Audit and Investment Committee Effectiveness Self-Assessment Guideline

RATE EFFECTIVENESS

1 = Less Effective

5 = Highly Effective

Comments

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| 1. The audit and investment committee (the "audit committee") meets periodically with management to review and question management on: | 1 2 3 4 5 |
| (a) annual financial statements prepared by management | |
| (b) reports or notes relating to the annual financial statements | |
| (c) any significant changes in accounting practices or internal controls adopted by management; | |
| (d) decisions requiring a major element of judgment; | |
| (e) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed; | |
| (f) the clarity of disclosures; | |
| (g) significant adjustments resulting from the audit; | |
| (h) compliance with accounting standards; | |
| (i) compliance with legal and regulatory requirements; | |
| (j) any litigation, claim or assessment which could have a material effect upon the financial position of CCEMC. | |
| 2. The audit committee has met at least twice this year with the auditors | 1 2 3 4 5 |
| 3. The audit committee has met at least | 1 2 3 4 5 |

once this year with the auditors without management present

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| 4. | The audit committee reviewed with the auditor: | 1 2 3 4 5 |
| | (a) the independence of the auditor; | |
| | (b) how they assess weaknesses in accounting procedures and internal controls, what those are and the recommendations of the auditor; | |
| | (c) the effects of new developments in accounting standards or legislative or regulatory requirements; | |
| | (d) the results of the audit and the auditor's opinion; | |
| | (e) finding and recommendations of the auditors including a review of the management letter and management's responses, ensuring all significant matters raised are addressed; | |
| | (f) what the major risk areas are; and | |
| | (g) the recommendations to respond to identified risks. | |
| 5. | The audit committee reviews the auditor's scope and audit plan to its satisfaction prior to the commencement of the audit. | 1 2 3 4 5 |
| 6. | The audit committee chair communicates to the auditor the expectation that the auditor will contact the committee when necessary. | 1 2 3 4 5 |
| 7. | The audit committee reports regularly to the Board all relevant recommendations and findings of the auditors. | 1 2 3 4 5 |
| 8. | The audit committee makes recommendations to the Board whenever changes are believed to be necessary. | 1 2 3 4 5 |
| 9. | The audit committee has evaluated the performance of the auditor and has made | 1 2 3 4 5 |

- a timely recommendation to the Members through the Board regarding the appointment of the auditor.
10. The audit committee has assessed the audit fee in light of the scope of the audit and the engagement, and recommended the audit fee to the Board or Members for approval. 1 2 3 4 5
 11. The audit committee requests and obtains sufficient information related to important financial reporting issues, such as the use of complex financial instruments, areas of judgment high subjectivity, unusual transactions, and changes in accounting policies 1 2 3 4 5
 12. The audit committee understands why critical accounting principles were chosen and how they were applied. 1 2 3 4 5
 13. The audit committee receives enough information to review, understand, and assess the organization's system of internal controls, including information technology controls. 1 2 3 4 5
 14. The audit committee makes enquiries of the auditor and management on the experience and sufficiency of finance staff. 1 2 3 4 5
 15. The audit committee reviews significant issues with management and the external auditor prior to annual financial statement release. 1 2 3 4 5
 16. The audit committee has an orientation program to educate new members on their responsibilities. 1 2 3 4 5

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