



MANDATE

AUDIT COMMITTEE

November 2017

**MANDATE
AUDIT COMMITTEE
of the BOARD OF DIRECTORS
NALCOR ENERGY**

I. PURPOSE

The Audit Committee (the “**Committee**”) is a committee of the Board of Directors of Nalcor Energy (the “**Board**”). The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities.

The Committee shall provide the necessary financial and audit oversight for Nalcor Energy (the “**Corporation**”) and its subsidiaries (collectively, the “**Corporate Group**”).

The individual boards of each subsidiary will continue to be accountable for the approval of annual audited financial statements. The Committee shall have overall accountability for financial reporting, external audit, internal control, internal audit and related matters included in this mandate. As required, the Chair of the Committee shall communicate and coordinate with the boards of the subsidiaries with regard to these issues. The Chair of the Committee may attend the meetings of any subsidiary board to address matters included in the scope of this Mandate.

The Committee’s primary duties and responsibilities are to:

- (i) serve as an independent and objective party to monitor the integrity of the Corporate Group’s financial statements, financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance;
- (ii) identify and monitor the management of the principal risks that could impact the financial reporting of the Corporate Group;
- (iii) appoint, approve compensation, and monitor the independence and performance of the Corporate Group’s external auditor;
- (iv) monitor the compliance by the Corporate Group with legal and regulatory requirements;
- (v) provide an avenue of communication among the external auditor, management, and the Board; and
- (vi) encourage continuous improvement of, and foster adherence to, the Corporate Group’s policies, procedures and practices at all levels.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization.

II. CONSTITUTION

1. The Committee shall have at least three members who shall be appointed to the Committee by the Board. All members shall be directors of the Board, none of whom shall be an officer or employee of the Corporate Group, and all of whom shall be free from any relationship, that in the opinion of the Board, could interfere with the exercise of his or her independent judgment as a member of the Committee. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee should have accounting or related financial management expertise which results in the individual's financial sophistication.
2. The Board shall appoint a Chair of the Committee from among the Committee members. If the Chair is not present at any meeting of the Committee, the Chair of the meeting shall be chosen from among the members present.
3. Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee upon ceasing to be a director of the Corporation.
4. In the event of any vacancy which results in less than three members of the Committee, the Board shall fill such vacancy in a reasonable time from among the directors of the Corporation.
5. The Chair presiding at any Committee meeting shall have a vote in all matters considered by the Committee.
6. The Corporate Secretary of the Corporation or designate shall be the Secretary of the Committee.

III. MEETINGS AND MINUTES

7. A majority of members shall constitute a quorum for all meetings of the Committee. The powers of the Committee may be exercised at a meeting at which a quorum of the Committee is present, in person or by telephone or other electronic means, or by a

resolution signed by all members entitled to vote on that resolution at a meeting of the Committee.

8. The Committee shall meet as frequently as it determines necessary but not less than twice per year.
9. At each meeting of the Committee, an opportunity shall be provided for its members to have an in camera session.
10. The Committee may invite such officers, directors and employees of the Corporate Group and external consultants and auditors as it may see fit, to attend its meetings and to take part in the discussions and consideration. The Committee shall have the right at all times to determine who shall and shall not be present at any or part of the meetings of the Committee.
11. The Manager of Internal Audit and the external auditor shall have the right to directly communicate with the Chair of the Committee concerning any significant financial, internal control, or audit related matters as well as the opportunity to meet in private with the Committee at each meeting.
12. A draft copy of the minutes of a meeting shall be circulated to the members of the Committee within a reasonable time following conclusion of the meeting. All minutes approved by the Committee shall be signed by the Secretary of the meeting and the Chair of the Committee.
13. All recommendations, decisions and directives of the Committee shall be duly recorded by the Secretary in the minutes of the meeting.
14. A written or verbal report on any meetings of the Committee shall be made by the Chair or designate of the Committee at a subsequent meeting of the Board.

IV. SCOPE, DUTIES AND RESPONSIBILITIES

The Committee shall:

A. Financial Statement and Disclosure Matters

15. Review the annual audited financial statements of the Corporation and related financial reporting, including disclosures made in management's discussion and analysis, and recommend to the Board whether they should be approved, prior to distribution. Review the annual audited financial statements of the Corporation's subsidiaries and related financial reporting, and recommend to the relevant subsidiary board, excluding Churchill Falls (Labrador) Corporation, Twin Falls Power Corporation Limited and Newfoundland and Labrador Hydro, whether they should be approved, prior to distribution. Review the external auditor's report to the Committee regarding their audit of the annual financial statements. Consider the external auditor's judgment about the quality and appropriateness, not just the acceptability, of the Corporate Group's accounting principles and financial disclosure practices, as applied in its financial reporting, particularly about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates and whether those principles are common practices or are minority practices.
16. Review the quarterly consolidated financial statements of the Corporation and related financial reporting, including disclosures made in management's discussion and analysis, and recommend to the Board whether they should be approved, prior to distribution. When authorized by the Corporation's subsidiaries, review and approve the quarterly financial statements of such subsidiaries, prior to distribution. Review the external auditor's report to the Committee regarding their review of the quarterly consolidated financial statements.
17. Consider and approve, if appropriate, major changes to the Corporate Group's accounting principles and practices as recommended by management.
18. In consultation with the management and the external auditor, consider the integrity of the Corporate Group's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the external auditor together with management's responses.
19. Review any significant disagreements among management and the external auditor in connection with the preparation of the financial statements.
20. Review with financial management and the external auditor, when appropriate, the Corporate Group's financial reporting, including disclosures made in management's discussion and analysis, prior to the release of such information, the operation of internal

controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Corporate Group's internal controls.

21. Discuss with management and the external auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporate Group's financial statements.
22. Discuss with the external auditor matters relating to the conduct of the audit including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
23. Review and discuss reports from the external auditor on:
 - (a) all critical accounting policies and practices to be used;
 - (b) all alternative treatments of financial information within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor; and
 - (c) other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences.

B. Oversight of the Corporation's Relationship with the External Auditor

24. The Committee shall review the independence and performance of the auditor and annually recommend to the Board the appointment and retention of the external auditor or approve any discharge of the auditor when circumstances warrant.
25. The external auditor is directly accountable to the Committee and to the board of each legal entity. The Committee shall be directly responsible for the compensation, such compensation to be paid by the appropriate legal entity, and oversight of the work of the external auditor (including resolution of disagreements between management and the external auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services.
26. The Committee shall pre-approve all audit fees and terms and all non-audit services provided by the external auditor for the Corporate Group, and consider whether these services are compatible with the auditor's independence. The Chair of the Committee may

delegate approval of proposed non-audit services that arise between Committee meetings provided that the decision to pre-approve the services is presented and approved at the next scheduled Committee meeting. Further discussion of the pre-approval process is contained in the Corporation's External Auditor Independence Policy.

27. The Committee shall review the independence of the Auditor in accordance with the External Auditor Independence Policy.
28. Prior to the commencement of the audit the Committee shall review the external auditor's audit plan and discuss scope, staffing, locations, reliance upon management and general audit approach with the external auditor.
29. The Committee shall consider the external auditor's judgments about the quality and appropriateness of the Corporate Group's accounting principles as applied in its financial reporting.
30. Prior to approving the annual audited financial statements, the Committee shall discuss the results of the audit with the external auditor, as well as certain matters required to be communicated to audit committees in accordance with Canadian Generally Accepted Auditing Standards.
31. Each legal entity shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the external auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.
32. Discuss any significant changes to the Corporate Group's accounting principles.
33. Evaluate the qualifications, performance and independence of the external auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. The Committee shall present its conclusions with respect to the independent auditor to the Board.
34. Review and evaluate the lead partner of the external auditor team in accordance with the External Auditor Independence Policy.
35. Recommend to the Board policies for the Corporate Group's hiring of employees or former employees of the present or former external auditor who participated in any capacity in

the audit of the Corporate Group. Further details are included in the Corporation's External Auditor Independence Policy.

C. Oversight of the Corporation's Internal Audit Function

36. Review the appointment, replacement or reassignment of the Manager, Internal Audit.
37. Review the significant reports to management prepared by the Internal Audit Department and management's responses.
38. Discuss with the external auditor and management, the adequacy and effectiveness of the internal control systems and procedures, the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.
39. Review internal audit's mandate, functional reporting, and the appropriateness of its staffing.
40. Review the planned scope of the internal and external auditors, results of their work, changes in planned scope, the extent of control testing performed, and the extent and appropriateness of the coordination of their activities.
41. Annually, the Committee shall approve the Internal Audit Plan.
42. The Committee shall satisfy itself that there are no unjustified restrictions placed on the scope of the internal audit activity.

D. Compliance Oversight Responsibilities

43. Establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
44. On at least an annual basis, review with the Corporation's General Counsel or designate, any legal matters that could have a significant impact on the organization's financial statements, the Corporate Group's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

E. Financial Risk Oversight

With respect to financial risks related to commodity prices, foreign currency, interest rates, and granting credit, the Committee has the following responsibilities:

45. Provide the initial review of matters related financial risks prior to presentation to the Board;
46. Review the Corporate Group's Financial Risk Management Policy and recommended approval of the policy (and subsequent changes) to the Board;
47. Review proposed hedging or derivative arrangements that the Corporate Group is considering entering into and recommend approval to the Board as required by Financial Risk Management Policy;
48. Review the Corporate Group's accounting policies with respect to how it accounts for hedges and other derivative instruments;
49. Receive periodic reports from management on the effectiveness of the Corporate Group's strategy for managing financial risks.

F. Other Audit Committee Responsibilities

50. Review with the Chief Financial Officer of the Corporation and the external auditor: (i) all significant deficiencies and material weaknesses in the design or operation of the Corporate Group's internal controls and procedures for financial reporting which could adversely affect the Corporate Group's ability to record, process, summarize and report financial information required to be disclosed by the Corporate Group, and (ii) any fraud, whether or not material, that involves management of the Corporate Group or other employees who have a significant role in the Corporate Group's internal controls and procedures for financial reporting;
51. Discuss with management and the external auditor the effect of regulatory and accounting directives on the Corporation's consolidated financial statements.
52. The Committee shall perform such other duties as may be necessary or appropriate under applicable law or as may be delegated to the Committee by the Board from time to time.

V. GENERAL

53. The Committee shall have full, free and unrestricted access to management, employees and relevant information.
54. Subject to Board approval, the Committee shall have the authority to retain legal counsel, consultants or other advisors, with respect to any issue or to assist in fulfilling its responsibilities.

55. The Committee shall conduct an annual review and assessment of its performance, including a review of its compliance with this Mandate.
56. The Committee shall review and assess the Mandate as necessary taking into account all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines.