

NALCOR ENERGY
CHARTER OF THE AUDIT COMMITTEE
OF THE
BOARD OF DIRECTORS

April 2010

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OF
NALCOR ENERGY**

I. PURPOSE

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

The Audit Committee will provide the necessary audit committee oversight for Nalcor and all of its subsidiaries. CF(L)Co has its own audit committee that fulfills the audit committee activities for CF(L)Co.

The word “Company” as used in this document shall include Nalcor Energy, Newfoundland and Labrador Hydro, Nalcor Energy – Oil & Gas, Nalcor Energy - Bull Arm Fabrication Inc., and other subsidiaries of Nalcor that exist now or will be created in the future.

The individual Boards of each subsidiary will continue to be accountable for financial reporting and internal control activities, including the approval of annual audited financial statements, annual MD&A, and quarterly financial statements. The Audit Committee will have overall accountability for financial reporting, external audit, internal control, internal audit and related matters included in this charter. As required, the Chair of the Audit Committee will communicate and coordinate with the Boards of subsidiaries with regard to these issues. The Audit Committee Chair may attend the meetings of the subsidiary Board of Directors to address matters included in the scope of this charter.

The Audit Committee’s primary duties and responsibilities are to:

1. serve as an independent and objective party to monitor the integrity of the Company’s financial statements, financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance;
2. identify and monitor the management of the principal risks that could impact the financial reporting of the Company;
3. appoint, approve compensation, and monitor the independence and performance of the Company’s external auditors;

4. monitor the compliance by the Company with legal and regulatory requirements;
5. provide an avenue of communication among the external auditors, management, and the Board; and
6. encourage continuous improvement of, and foster adherence to, the Company's policies, procedures and practices at all levels.

The Audit 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. Subject to Board approval, the Audit Committee may retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

II. COMPOSITION AND MEETINGS

Composition

The Audit Committee shall be comprised of three or more directors as determined by the Board, none of whom shall be an officer or employee of the Company and each of whom shall be an independent non-executive director free from any relationship, that in the opinion of the Board, would 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 shall have accounting or related financial management expertise which results in the individual's financial sophistication.

Appointment

Audit Committee members and Chair shall be appointed by the Board of Nalcor. The Board shall fill any vacancy if the membership of the Committee is less than three directors.

Meetings

The Committee shall meet as often as it determines, but on at least three times per annum. The Audit Committee Chair shall prepare and/or approve an agenda to be circulated to Committee members in advance of each meeting.

If an Audit Committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. The Committee shall meet privately in executive session periodically. The Committee shall also meet at least annually with management, the independent auditors, and as a Committee, in separate executive sessions, to discuss any matters that the Committee or each of these groups believe should be discussed. The Committee may request any officer or employee of the Company or the Company's outside counsel or external auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

A majority of Committee members, present in person, by videoconference, by telephone or by a combination thereof, shall constitute a quorum.

The Committee shall appoint a secretary to be the secretary of all meetings of the Committee and to maintain minutes of all meetings and deliberations of the Committee.

Matters decided by the Committee shall be decided by a majority vote.

III. RESPONSIBILITIES AND DUTIES

The Committee shall:

A. Financial Statement and Disclosure Matters

1. Review the Company's annual audited financial statements 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. Consider the external auditors' judgments about the quality and appropriateness, not just the acceptability, of the Company'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.
2. Consider and approve, if appropriate, major changes to the Company's accounting principles and practices as suggested by the external auditors or management and assure that the reasoning is described in determining the appropriateness of changes in accounting principles and disclosures.
3. In consultation with the management and the external auditors, consider the integrity of the Company'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 auditors together with management's responses.

4. Review any significant disagreements among management and the external auditors in connection with the preparation of the financial statements.
5. Review with financial management and the independent auditors, when appropriate, the Company'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 Company's internal controls.
6. Discuss with management and the external auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
7. 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.
8. Review and discuss reports from the external auditors 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 auditors; and
 - (c) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

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

1. The Committee shall have the authority to recommend the external auditor of the Company and its subsidiaries. In the case of CF(L)Co., the final decision on the appointment of the external auditor rests with the Board of Directors of CF(L)Co. and is covered by the Shareholders Agreement. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors of Nalcor the appointment and retention of the external auditors or approve any discharge of auditors when circumstances warrant. The Board of each subsidiary will endorse the recommendation of the Committee with regard to the appointment of an external auditor.
2. The external auditors are directly accountable to the Nalcor Audit Committee and to the Board of Directors of each legal entity. The Committee shall be directly responsible for the compensation, such compensation to be paid by the Company, 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.

3. The Committee shall pre-approve all audit fees and terms and all non-audit services provided by the external auditor for Nalcor and its subsidiaries (except CF(L)Co), and consider whether these services are compatible with the auditors' 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 company's Auditor Independence Policy.
4. On a regular basis, but at least annually, the Committee shall review and discuss with the external auditors all relationships that the external auditors and their affiliates have with the Company and its affiliates in order to determine the auditors' independence, including:
 - (a) requesting, receiving and reviewing, on a periodic basis, a formal written statement from the external auditors delineating all relationships between the external auditors and the Company, consistent with applicable laws;
 - (b) discussing with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors; and
 - (c) recommending that the Board take appropriate actions to oversee and satisfy itself of the external auditors' independence.
5. Prior to the commencement of the audit the Committee shall review the external auditors' audit plan and discuss scope, staffing, locations, reliance upon management and general audit approach with the external auditors.
6. The Committee shall consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
7. Prior to approving the annual audited financial statements, the Committee shall discuss the results of the audit with the external auditors. Discuss certain matters required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants.
8. The Company 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.
9. Discuss any significant changes to the Company's accounting principles.
10. Obtain and review a report from the external auditor at least annually regarding:

- (a) the external auditor's internal quality-control procedures,
 - (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm,
 - (c) any steps taken to deal with any such issues, and
 - (d) all relationships between the external auditor and the Company.
11. 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 Audit Committee shall present its conclusions with respect to the independent auditor to the Board.
 12. Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit. Review and evaluate the lead partner of the external auditor team.
 13. Recommend to the Board policies for the Company's hiring of employees or former employees of the present or former external auditor who participated in any capacity in the audit of the Company. Further details are included in the Corporation's Auditor Independence Policy.
 14. Obtain confirmation from the independent auditors that the Audit Committee has received from such auditors all reports required by law.

C. Oversight of the Company's Internal Audit Function

1. Review the appointment, replacement or reassignment of the Manager, Internal Audit.
2. Review the significant reports to management prepared by the Internal Audit Department and management's responses.
3. 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.
4. Review internal audit's charter, functional reporting, and the appropriateness of its staffing.

5. 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.
6. At each meeting, the Manager, Internal Audit will have the opportunity to meet in private with the Audit Committee.
7. Annually, the Committee will approve the Internal Audit Plan.
8. The Committee will satisfy itself that there are no unjustified restrictions placed on the scope of the internal audit activity.

D. Compliance Oversight Responsibilities

1. Establish procedures for the receipt, retention and treatment of complaints received by the Company and its subsidiaries regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
2. On at least an annual basis, review with the Company's legal counsel, any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.
3. Annually conduct self-assessment of Committee performance including a review and discussion of the Committee roles and responsibilities, seeking input from senior management, the full Board and others if needed.
4. Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.

E. Financial Risk Oversight

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

1. Provide the initial review of matters related financial risks prior to presentation to the Board;
2. Review the Corporation's policy for managing financial risks and recommended approval of the policy (and subsequent changes) to the Board;
3. Review proposed hedging or derivative arrangements that the Corporation is considering entering into and recommended approval to the Board as required by the Corporation's policy;
4. Review the Corporation's accounting policies with respect to how it accounts for hedges and other derivative instruments;

5. Receive periodic reports from management on the effectiveness of the Corporation's strategy for managing financial risks.

F. Other Audit Committee Responsibilities

1. Create an agenda for the ensuing year.
2. Describe in the Nalcor annual report the Committee's composition and responsibilities and how they were discharged.
3. Review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board for approval.
4. Report to the Board on a regular basis on the activities of the Committee.
5. Review with management and independent auditors and oversee, as deemed necessary, any director and officers' related party transactions and potential conflicts of interest with directors and officers or any affiliated parties of the Company.
6. Review with the Chief Executive Officer and Chief Financial Officer of the Company and the external auditors: (i) all significant deficiencies and material weaknesses in the design or operation of the Company's internal controls and procedures for financial reporting which could adversely affect the Company's ability to record, process, summarize and report financial information required to be disclosed by the Company, and (ii) any fraud, whether or not material, that involves management of the company or other employees who have a significant role in the company's internal controls and procedures for financial reporting;
7. Discuss with management and the external auditors the effect of regulatory and accounting directives on the Company's financial statements.

F. Limitation of Audit Committee's Role

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the external auditor.