

MINUTES OF THE FIFTY-FOURTH MEETING OF THE BOARD OF DIRECTORS OF NALCOR ENERGY HELD IN THE BOARDROOM, SIXTH LEVEL, HYDRO PLACE, ST. JOHN'S, NEWFOUNDLAND AND LABRADOR ON FRIDAY, SEPTEMBER 28, 2012 AT 08:30 A.M.

Present in Person: T. Styles, Chair
L. Abbass
E. Breen
T. Clift
A. Hawkins
K. Marshall
E. Martin
G. Shortall

Present by Invitation: C. Kieley, Vice-President Strategic Planning and Business Development
J. Keating, Vice-President Oil and Gas
K. Legge, General Manager, Finance & Corporate Services
K. Costello, Asset Manager, Nalcor Energy, Oil and Gas Inc.

Secretary: W. Chamberlain

702. CONSTITUTION OF THE MEETING

Notice for the meeting was forwarded to Directors on September 6, 2012. A quorum of Directors being present, the meeting was declared duly called and validly constituted for the transaction of business.

703. SAFETY MOMENT

Mr. Kieley joined the meeting and provided a safety moment on driver fatigue.
Mr. Kieley left the meeting.

704. VERIFICATION OF MINUTES

A copy of the minutes of the Fifty-First, Fifty-Second and Fifty-Third meetings of the Board of Directors of Nalcor Energy held on June 28, 2012, July 25, 2012

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and August 23, 2012, respectively, were included in the meeting papers circulated prior to the meeting.

On motion duly made by Mr. Martin, seconded by Mr. Hawkins and unanimously carried, it was resolved:

THAT the minutes of the **FIFTY-FIRST, FIFTY-SECOND** and **FIFTY-THIRD** meetings of the Board of Directors of Nalcor Energy held on June 28, 2012, July 25, 2012 and August 23, 2012, respectively, as amended by the Secretary, be and they are hereby verified as being correct; and

THAT the Chairperson be and is hereby authorized to verify the minutes by signing the Minute Book.

705. BUSINESS ARISING

There was no business arising.

706. ACTION LIST

Secretary advised that there was no opportunity to schedule a Board visit to Muskrat Falls in October and that a future opportunity would be explored to provide the Board with an opportunity to view the Muskrat Falls site.

707. BOARD COMMITTEE REPORTS

708. Audit Committee

Mr. Shortall reported that the Audit Committee met yesterday and had an opportunity to meet with the external auditors to review the 2012 Audit Plan and also reviewed the audit fees [REDACTED]

[REDACTED] The Committee agreed with the Audit Plan and the increased audit fees.

He advised that the Finance Department is examining a number of accounting issues relating to the Emera agreements among other matters and that Management is preparing position papers that will then need to be reviewed by

Deloitte. Deloitte has been requested to provide the Committee with a fee range related to the audit work regarding the Emera agreements.

Mr. Shortall further reported that the Corporation is revisiting the adoption of the IFRS standard by the regulated utility, Newfoundland and Labrador Hydro (NLH), since the deadline for regulated utilities to convert to IFRS has been extended to 2014. There are points for and against the adoption of the IFRS standard and the Committee has asked the Finance Department to review the merits of NLH converting to IFRS and to make a recommendation.

Mr. Legge joined the meeting and reconfirmed the amount of the external audit base fee and noted that there are additional fees associated with IFRS and for services being provided to the Lower Churchill Project.

Mr. Shortall advised that the Committee requested the Internal Audit Department to review the Lower Churchill Project (LCP) audit process and the role of Internal Audit therein and noted that the LCP audit process looked fine at this point.

Mr. Martin advised that the Acting Manager of Internal Audit has been requested to undertake a further analysis of internal audit controls.

709. PRESIDENT'S REPORT

710. Corporate Performance Review

Mr. Martin reviewed the 2012 Nalcor Plan Performance Report that was included in the Board papers circulated prior to the meeting. He reviewed the corporate plan highlights and noted that safety continues to be a key issue and although there have been some challenges with the number of injuries, the processes have been rechecked and have confirmed that there is no need to make any material changes. Upon examining the detail there are many areas with good safety performance but there are some areas where additional focus and effort is required. He advised that TRO Northern has struggled with their safety

performance and that senior leadership made a visit to and met with the TRO Northern employees to review the safety performance to date and to discuss opportunities to improve the safety focus and performance for the remainder of the year.

He reviewed the GRA performance noting that the GRA filing was deferred as requested and is in a state of readiness to file by year-end. Mr. Abbass advised that upon reviewing the General Rate Application Report in the Board papers of the last NLH Board meeting on June 28, 2012, that there was an error in the fourth bullet on page 13 which should read "secondary power" rather than "electricity".

711. BUSINESS UNIT REPORTS

712. Newfoundland and Labrador Hydro

The Chair advised that a report would be provided at the Board of Directors meeting of Newfoundland and Labrador Hydro which immediately follows this meeting.

713. CF(L)Co

The Chair advised that a report would be provided at the Board of Directors meeting of Newfoundland and Labrador Hydro which immediately follows this meeting.

714. Lower Churchill

Mr. Martin reviewed the Lower Churchill Project Report that was included in the Board papers circulated prior to the meeting. He advised that the early works being performed at the Muskrat Falls site are shut down as a result of safety issues related to the performance of the work by the contractor Pennecon. The contractor has a good reputation but the nature of the safety issues were serious and warranted shutting down the work to address these matters. The safety

issues are expected to be resolved shortly, whereby the work will then be permitted to resume.

He reviewed the 2012 plan highlights and advised that all targets except for the environment are on target and are expected to be achieved by year-end. He noted that the critical path date for release from EA for the Labrador-Island Link transmission is threatened and has been impacted as the responsible Government departments have been slow in responding and providing formal responses. He advised that a recovery plan is in place to advance this matter in a timely manner.

Mr. Martin reviewed the key performance measures noting that internal safety performance is good with no injuries to date and reporting is good such that the lead/lag ratio is on target to be achieved by year-end. He also noted that four of the five environmental targets have been achieved which is slightly lagging the target and there is a recovery plan in place to complete the remaining target.

Mr. Martin provided an overview of Phase 1 project execution including personnel engaged and performance of the early works to date. He reviewed the status of the work being completed with respect to the DG3 deliverables, including completion of cost estimates and CPW and the review of same by Manitoba Hydro International (MHI), completion of a wind study by Hatch and progress on long lead procurement contracts.

Copies of the Draft Report of MHI to the Government with respect to Decision Gate 3: Review of the Muskrat Falls and Labrador Island Link HVdc Link and the Isolated Island Option (Report) and the Muskrat Falls Net Benefit Analysis (Benefit Analysis) were circulated at the meeting and Mr. Martin advised that both were strictly confidential and commercially sensitive. He provided a brief overview of the key findings in the Report noting that it supported the Corporation's finding that the interconnected Island option is the least-cost option

compared to the isolated Island option. He also reviewed the Benefit Analysis which illustrates the net benefit to the Province from the interconnected Island alternative.

Mr. Martin reported on the preparation of NLH's submission regarding the judicial review of the Regie decision to deny NLH's complaint of unfair treatment against Hydro-Quebec which is scheduled to be filed with the Superior Court in October.

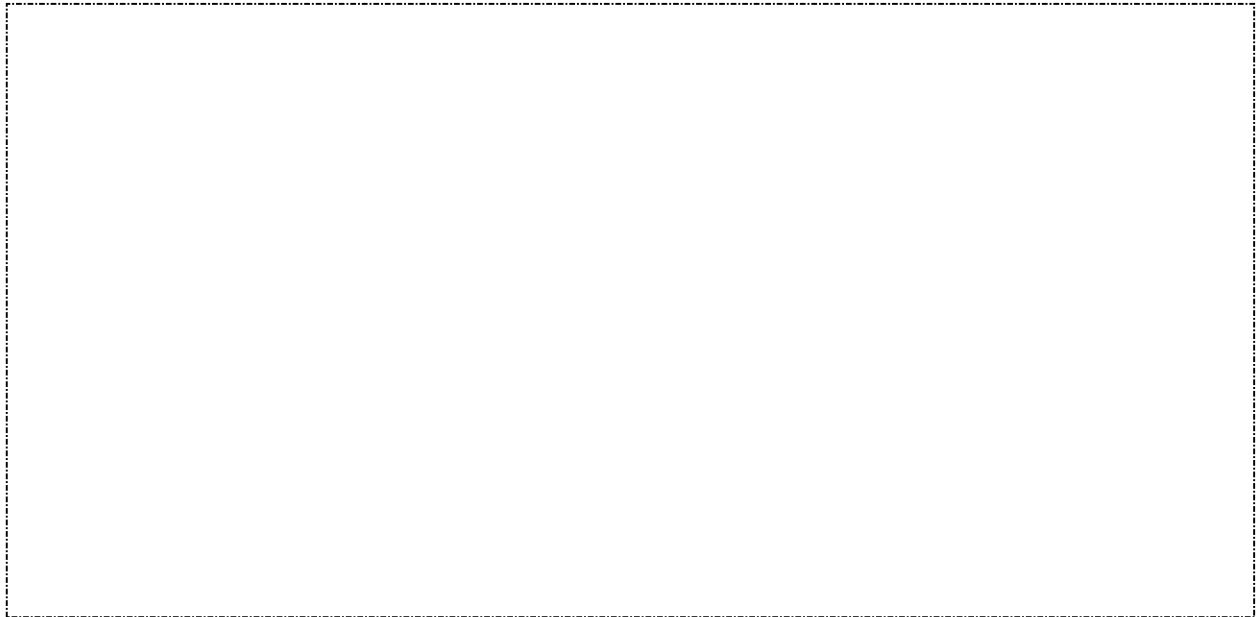
[redacted]
[redacted] and advised a meeting was held with the Ontario government as part of the Phase 2 market assessment.

715. Bull Arm

Mr. Kieley joined the meeting and commenced to review the Bull Arm Fabrication Report that was included in the Board papers circulated prior to the meeting. [redacted]

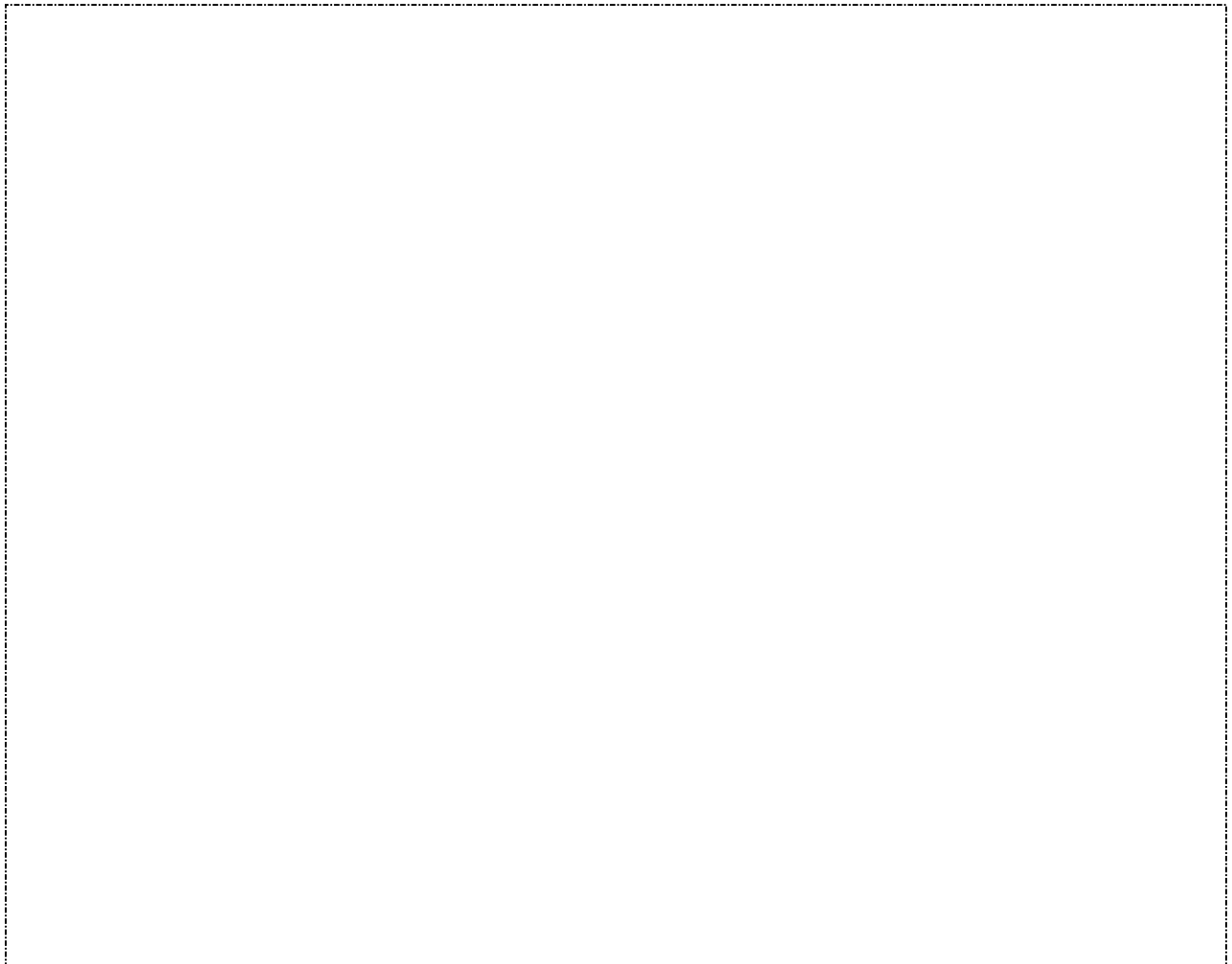
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716.

Energy Marketing

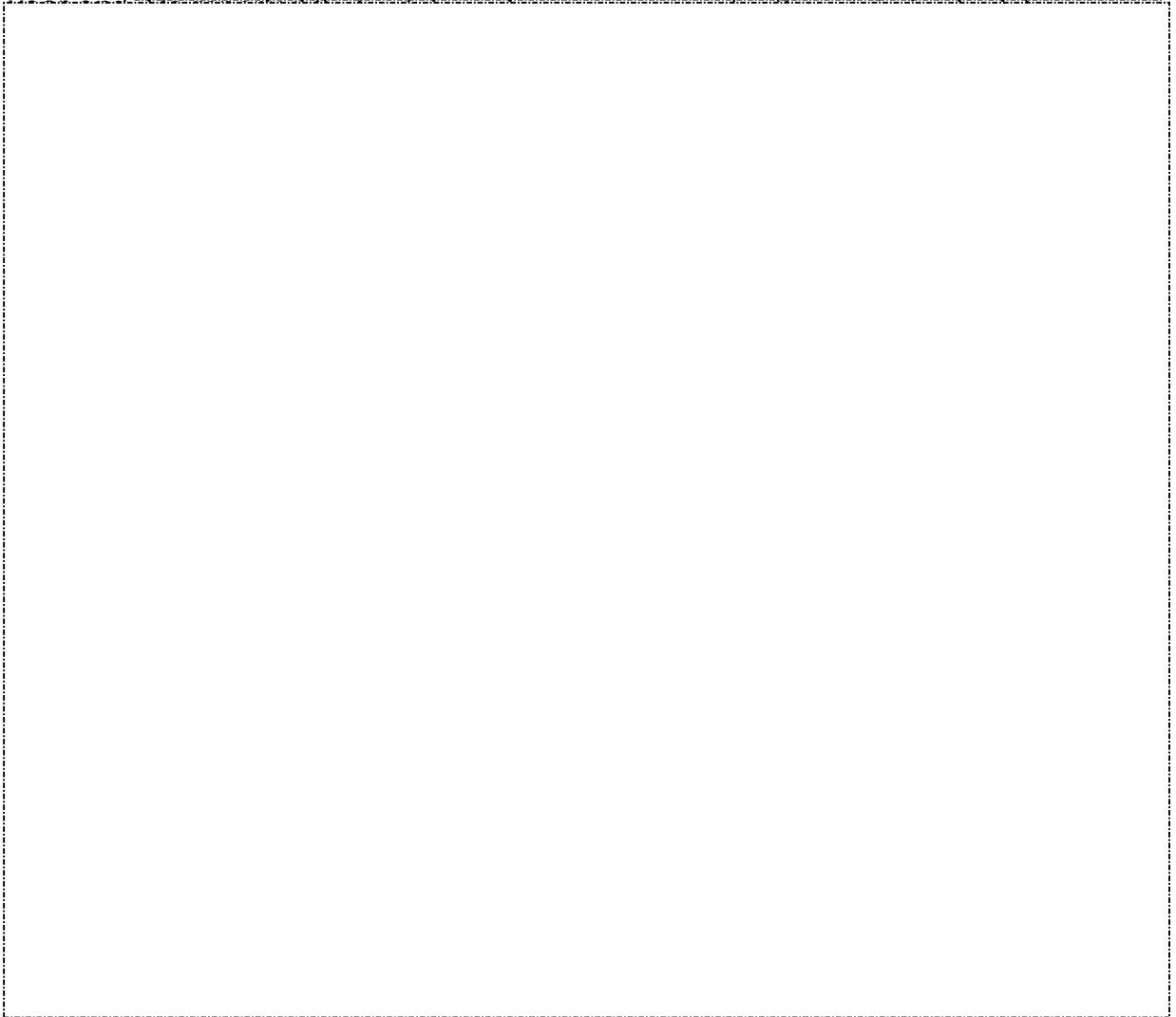




717.

Oil and Gas

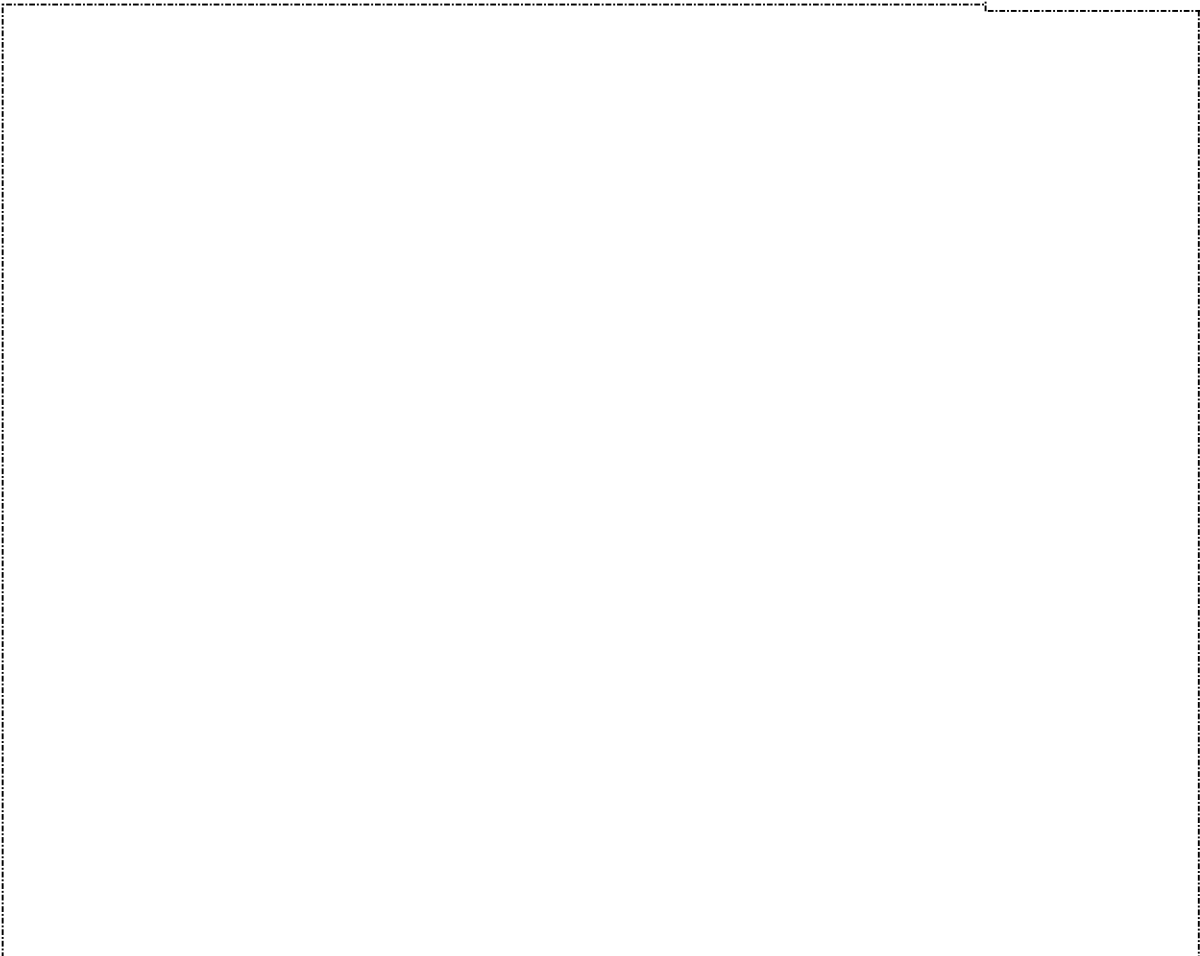
Mr. Keating and Mr. Costello joined the meeting. Mr. Keating reviewed the Oil and Gas Report that was included in the Board papers circulated prior to the meeting.



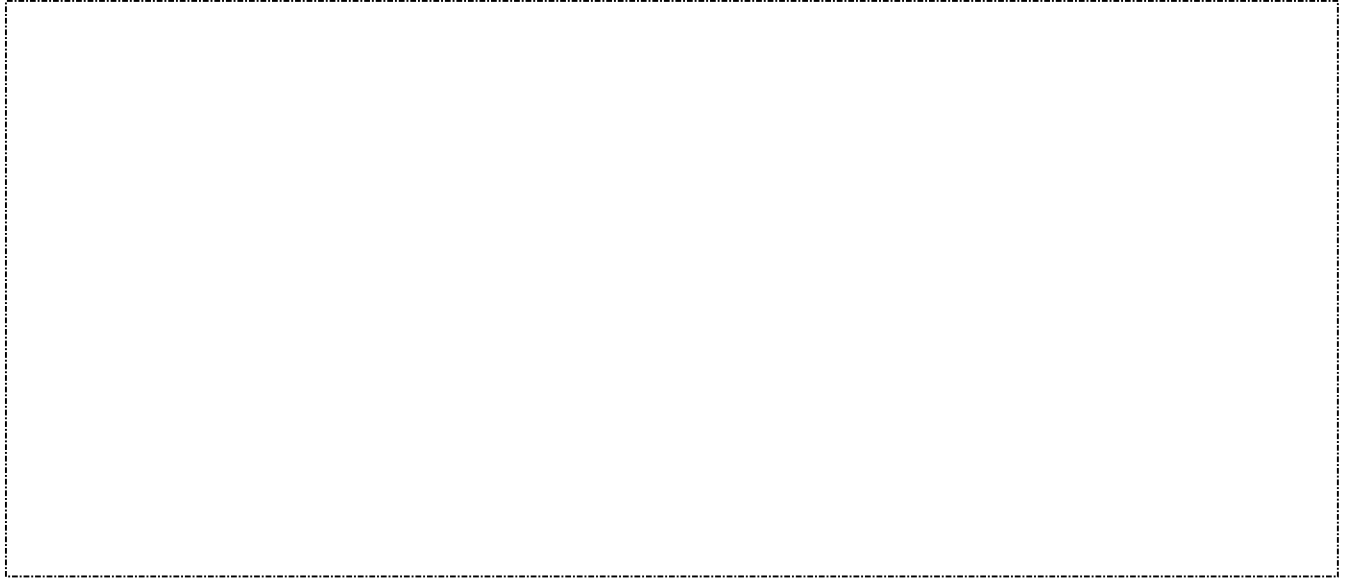


718. Hebron Project Gate 3 Overview

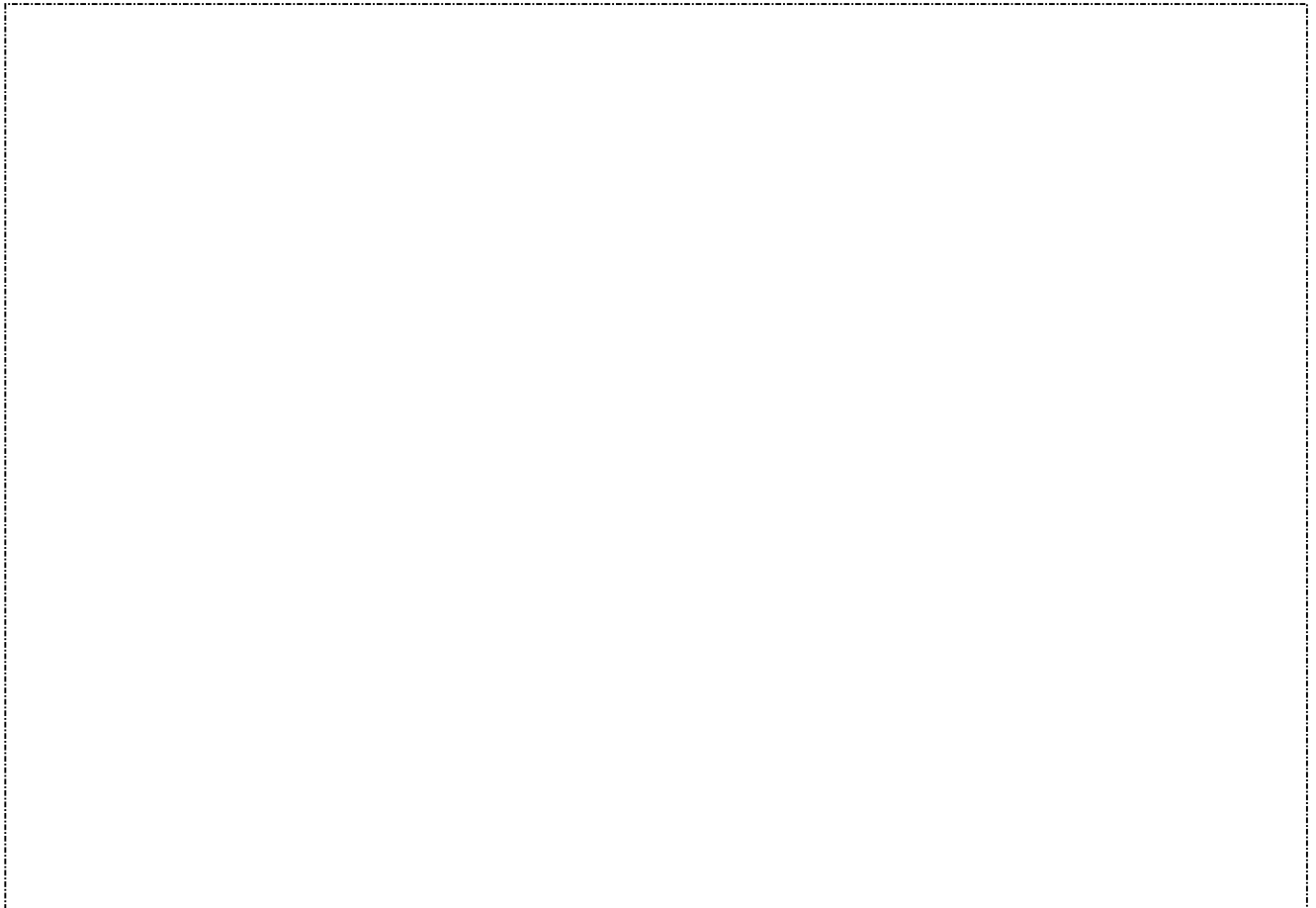
Mr. Keating commenced to review the Hebron Project Gate 3 Overview Report that was included in the Board papers circulated prior to the meeting.



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Mr. Martin left the meeting.



**719. FINANCIAL REPORT****720. Finance Summary**

Mr. Legge reviewed the Financial Report for the period ended August 31, 2012 which was included in the Board papers circulated prior to the meeting. He advised that in May the forecast adjusted net income had a shortfall of approximately \$9 million and as a result, a recovery plan was established seeking assistance from all lines of business and functional areas to reduce the gap. Currently, the forecast annual net income is above budget, primarily due to increased oil prices and oil production, reduced operating and maintenance costs, increased energy sales and increased net income from Bull Arm leases. He advised that as a result of IFRS there is greater volatility month over month, due primarily to the requirement to reflect RSP activity in the income statement.

Given this volatility, management also reports internally on an 'adjusted' net income basis.

He reviewed the highlights noting that Oil and Gas and CF(L)Co are tracking above budget, Bull Arm and NL Hydro are tracking close to budgeted net income and Energy Marketing is well below budgeted net income as a result of low market prices.

Mr. Martin returned to the meeting.

Mr. Legge advised that capital expenditures are forecast to be below budget as a result of delays associated with the Lower Churchill Project and a reduction in capital expenditures with respect to the Hebron, HSE and White Rose projects. He reviewed the corporate financial scorecard and noted that the capital structure is tracking lower, primarily as a result of lower capital expenditures on the Lower Churchill Project.

721. Compliance Certificate

Mr. Legge referred to the Corporate Compliance Certificate for the period ended August 31, 2012 that was included in the Board papers circulated prior to the meeting.

722. OTHER BUSINESS

There was no other business.

723. NEXT MEETING

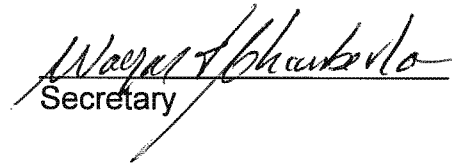
The next meeting is scheduled for Friday, November 30, 2012.

724. IN CAMERA SESSION

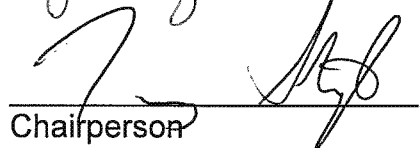
The Board agreed that the In Camera meeting would be held at the conclusion of the meeting of the Board of Directors of Newfoundland and Labrador Hydro which immediately follows this meeting.

725. TERMINATION

There being no further business, the meeting was terminated.


Secretary

Verified at a meeting held on

January 15 2013

Chairperson