

**MINUTES OF THE SIXTY-EIGHTH MEETING OF THE BOARD OF
DIRECTORS OF NALCOR ENERGY HELD IN THE BOARDROOM,
MCPARLAND HOUSE, CHURCHILL FALLS, LABRADOR ON FRIDAY,
SEPTEMBER 27, 2013 AT 08:30 A.M.**

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

Absent: E. Breen

Present by Invitation: John MacIsaac, Vice-President,
Project Execution and Technical
Services

Present by Telephone: Derrick Sturge, Vice-President
Finance and Chief Financial Officer
James Meaney, General Manager
Finance, Lower Churchill Project
Rob Hull, General Manager
Commercial/Financing
Auburn Warren, Manager Investment
Evaluation

Secretary: W. Chamberlain

856. CONSTITUTION OF THE MEETING

Notice for the meeting was sent on August 30, 2013. A quorum of Directors being present, the meeting was declared duly called and validly constituted for the transaction of business.

Mr. MacIsaac joined the meeting and Mr. Sturge joined the meeting by telephone.

The Board members congratulated Mr. Martin on being honoured jointly with Mr. Chris Huskison of Emera as Energy Person of the Year by the Energy Council of Canada.

857. SAFETY MOMENT

A safety moment was provided at the commencement of the Newfoundland and Labrador Hydro Board of Directors meeting immediately preceding this meeting.

858. VERIFICATION OF MINUTES

A copy of the minutes of the Sixty-Seventh meeting of the Board of Directors held on July 3, 2013, were included in the meeting papers circulated prior to the meeting.

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

THAT the minutes of the **SIXTY-SEVENTH** meeting of the Board of Directors of Nalcor Energy held on July 3, 2013 which minutes are currently before this meeting, 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.

859. ACTION LIST

The Board of Directors reviewed the Action List, a copy of which was included in the meeting papers.

860. BOARD GOVERNANCE

The Assistant Corporate Secretary sent by email to Board members on July 5, 2013 a Board governance document prepared by Mr. Clift, Chair of the Governance Committee, on A Perspective on Board Governance at Newfoundland and Labrador Hydro and Nalcor.

861. BUSINESS ARISING

Mr. Martin provided an update on delay and timelines regarding the federal approval of the Environmental Assessment of the Labrador-Island Link which is a condition precedent for Lower Churchill Project financing.

862. COMMITTEE REPORTS**863. Audit Committee**

Mr. Shortall reported that the Committee met with the external auditors and reviewed the 2013 Audit Service Plan and noted that the risks were considered to be similar to last year. He reported that the external auditors had additional work related to the new corporate entities and that the fees increased by approximately [] from last year. He noted that Management reviewed the basis for the increase in fees with the external auditors and recommended approval of the proposed fees. He advised that the increased fees were approved by the Audit Committee.

He advised that the Audit Committee met with Mr. Bradbury, Manager of the Internal Audit Department, and were informed that the audit review of the Lower Churchill contract award process was completed and the findings were good with no significant risk concerns identified.

Mr. Shortall stated that Mr. Bradbury is making good progress and has a solid process to improve the effectiveness of the Internal Audit Department and the assignment and completion of audit reviews with more of a focus on medium and high risk matters. He advised that Mr. Bradbury has reported that additional internal or external resources may be required to complete the work that is required on a go forward basis. He noted that Mr. Bradbury has a two year mandate which includes identifying a successor.

He stated that work is ongoing with regard to the Lower Churchill Project and Mr. Bradbury has been requested to provide an Internal Audit Plan regarding same

and this work could possibly be outsourced. It was noted that the Internal Audit Department had completed an audit of approximately 25% of the Lower Churchill expenses at the request of both the Audit Committee and the external auditors and no significant issues were identified.

Mr. Martin stated that he requested Mr. Bradbury to undertake an audit review of the SNC Lavalin award as well and the audit review did not identify any significant issues with the award.

Mr. Shortall reported that the Audit Committee reviewed a redraft of the Internal Audit Charter that was provided by Mr. Bradbury after consultation with the external auditors. He advised that the Audit Committee asked that Mr. Bradbury and the Assistant Corporate Secretary review the Internal Audit Charter to ensure that it is aligned and consistent with both the Audit Committee and Board charters. Mr. Clift advised that if any charters are to be amended that the Corporate Governance Committee be engaged as part of this review.

864.

FINANCIAL REPORT

865.

Financial Summary

Mr. Sturge reviewed the Financial Report included in the meeting papers. He reviewed the highlights noting that forecast net income on a consolidated basis is above the annual budget by \$14.9 million and then reviewed the forecast net income for each of the lines of business and provided a summary of the reasons for any variance. He advised that Newfoundland and Labrador Hydro and Churchill Falls (Labrador) Corporation are tracking close to the net income budget, whereas Nalcor Oil and Bull Arm Fabrication are tracking higher than budget as a result of increases in foreign exchange, oil prices and production or higher lease revenues, although there is some risk as negotiations continue with respect to lease revenues. He advised that Energy Marketing is forecasting net income under budget as a result of lower energy sales and increases in power purchase and others expenses.

He confirmed that oil and gas and energy marketing activities have the greatest amount of volatility with respect to net income and stated that there is considerable discussion with respect to the anticipated oil price when developing net income budget amounts.

There was some discussion with respect to the possible impact on net income should the Come By Change refinery shut down or with respect to an Exploits asset transfer. Mr. Sturge advised that if the Come By Chance refinery were to cease operations it would not have a significant impact as it is a small customer. With respect to the Exploits assets, he advised that a benefit has been received and that with the 2013 General Rate Application this benefit will be transferred to the rate payers when a rate is established. He stated that the transfer of assets and liabilities could occur in early 2014 if all commercial arrangements with the Province are successfully concluded.

866.

Compliance Certificate

Mr. Sturge referred to the Corporate Compliance Certificate for the period ended August 31, 2013, a copy of which was included in the Board meeting papers.

867.

PRESIDENT'S REPORT

Mr. Martin reviewed the 2013 Nalcor Plan Performance Report, a copy of which was included in the Board meeting papers. He referred to the corporate quilt and stated that all lines of business are having a strong year and asked if there were any questions.

Mr. Marshall commended Management on the safety performance to date and Mr. Martin stated that employees are making safety a priority and adopting it as part of the corporate culture.

868. BUSINESS UNIT REPORTS**869. Newfoundland and Labrador Hydro**

The Chair advised that a report was provided at the Board of Directors meeting of Newfoundland and Labrador Hydro that immediately preceded this meeting.

870. CF(L)Co

The Chair advised that a report was provided at the Board of Directors meeting of Newfoundland and Labrador Hydro that immediately preceded this meeting.

871. Lower Churchill

Mr. Martin referred to the Lower Churchill Report included in the Board meeting papers circulated prior to the meeting and advised that all of the targets are expected to be achieved and that an update will be provided later in the meeting with respect to the financing of the Lower Churchill Project.

872. Oil and Gas

Mr. Martin reviewed the Oil and Gas Report included in the Board meeting papers circulated prior to the meeting.

873.

Bull Arm

Mr. Martin referred to the Bull Arm Fabrication Report included in the Board meeting papers circulated prior to the meeting.

874.

Energy Marketing

Mr. Martin reviewed the Energy Marketing Report included in the Board meeting papers circulated prior to the meeting. He stated that the financial targets are currently under target and that Mr. Sturge in the Financial Report provides a good overview of the challenges and issues related to meeting the financial targets.

875.

FINANCIAL REPORT (cont'd)

876.

Lower Churchill Project Financing Update

Messrs. Meaney, Hull and Warren joined the meeting by telephone.

Mr. Sturge advised that with respect to Project financing that Mr. Meaney was the lead with respect to the Lower Churchill Project finance and insurance matters.

Mr. Hull was the lead with respect to the Emera agreements and NL agreements and Mr. Warren was the lead with respect to the Federal Loan Guarantee and due diligence.

Mr. Sturge reviewed the Lower Churchill Project Financing Update that was circulated at the meeting. He stated that as the Lower Churchill Project

progresses closer to financial close that Management will be seeking a number of approvals from the Board and accordingly, the Board will be provided with overviews of the debt and equity financing and commercial arrangements regarding Phase 1. He advised that the purpose of the update today is to review the debt financing arrangements and the Federal Loan Guarantee ("FLG").

Mr. Meaney advised that the three main focus areas were debt financing, NL revenue agreements and equity financing support from the Province and noted that the financing arrangements will apply to the construction phase of the Project and the revenue agreements will be in effect when the Project is in-service.

He proceeded to provide the Board with some background on how the debt financing will work and advised that the financing will be guaranteed by the Federal Government. He stated that the company has approached the financial markets by means of a Request for Financing for fully underwritten debt financing up to \$2.6 billion for the Muskrat Falls and Labrador Transmission Assets Funding Trust and \$2.4 billion for the Labrador-Island Link Funding Trust.

Mr. Meaney stated that the form of the Federal Loan Guarantee has been agreed upon and will be an unconditional obligation of the Federal Government and advised that Moody's have confirmed their rating and the other rating agencies will provide their rating a little later in the process. He then reviewed the financing schedule and key milestones and provided background on the transaction and FLG financing structures. He reviewed the key objectives of the FLG financing structure and the three types of financing structures evaluated being an upfront bond, a leading tranching bond and a bank facility and trailing tranching bond. He stated that the final financing structure selected pursuant to the Request for Financing (RFF) process could vary slightly or include a combination of these structures and examined the compliance of each structure with the FLG requirements.

He reviewed the objectives of the RFF and evaluation criteria and the key dates and noted that certainty of price and placement were important considerations.

Mr. Warren provided the Boards with an overview of the RFF process when the submissions are received, noting the involvement of representatives from both Canada and the Province as well as support from the various law firms of the respective parties.

Mr. Sturge confirmed that the Province has been fully informed throughout the process and understands the deliverables.

Mr. Meaney advised that Management will be seeking additional meetings with the Board to provide an overview of the equity and commercial agreements.

Mr. Martin reviewed and provided an update on the status and risks associated with the Muskrat Falls Project, including the outcome of the Nova Scotia UARB application, sanction of the Maritime Link by Emera, Emera DG3 costs for the Maritime Link and contracting matters and noted that all are being progressed and mitigation measures are being taken to respond to the risks.

The Board members were canvassed on whether they had any questions and there were none.

Messrs. Sturge, Meaney, Huli and Warren left the meeting.

877. OTHER BUSINESS

There was no other business.

878. NEXT MEETING

The next meeting of the Board is scheduled for Friday, November 29, 2013.

Messrs. Martin, MacIsaac and Chamberlain left the meeting for the in camera meeting.

879.

IN CAMERA

Messrs. Martin and Chamberlain returned to the meeting and were advised that there were no comments from the in camera meeting.

880.

TERMINATION

There being no further business, the meeting was terminated.


Secretary

Verified at a meeting held on

Dec. 18, 2013


Chairperson