

MINUTES OF THE ONE HUNDRED MEETING OF THE BOARD OF DIRECTORS OF NALCOR ENERGY HELD IN THE BOARDROOM, SIXTH LEVEL, HYDRO PLACE, ST. JOHN'S, NEWFOUNDLAND AND LABRADOR ON TUESDAY, AUGUST 9, 2016 AT 2:00 P.M.

Present: J. Green, Chair
D. Brewer, Member
H. Jacobs, Member
C. Loomis, Member
S. Marshall, Member

Present by Invitation: D. Sturge, Executive Vice-President Finance and CFO
J. MacIsaac, Executive Vice-President Power Supply
G. Bennett, Executive Vice-President Power Development
J. Keating, Executive Vice-President Corporate Services and Offshore Development
J. Haynes, President NLH
B. Groves, Deloitte
M. Snelgrove, Deloitte
S. Walsh, Deloitte
C. Russell, General Manager Finance
J. Borden, Manager Internal Audit

Secretary: P. Hickman

1296. CONSTITUTION OF THE MEETING

Notice for the meeting was sent to all Directors on May 16, 2016. A quorum of Directors being present, the meeting was declared duly called and validly constituted for the transaction of business.

1297. SAFETY MOMENT

Mr. Hickman provided a safety moment with respect bike safety and the need to be aware of cyclists when driving.

1298. Q2 EARNINGS UPDATE

Mr. Sturge reviewed the Q2 Earnings Update, a copy of which was included in the meeting papers.

Mr. Sturge reported that overall Nalcor is \$25 million behind budget on net income but ahead of 2015. He reviewed the drivers for the net income being below budget.

Mr. Sturge reviewed the Key Metrics outlined in the Report. He stated that operating and profit is approximately \$22 million higher than year-to-date in 2015. He stated that the realized oil price is down from year-to-date 2015 by approximately \$3 to \$4. As well, oil production has increased by approximately four times in comparison to the same point in time in 2015. He also noted that the realized electricity export price is lower this year by approximately \$15.

With respect to electricity export prices, Mr. Sturge stated that hedges were in place and performed very well in the first quarter, but became less effective late in the first quarter and in the second quarter. Hedging also performed well with respect to oil prices.

Mr. Sturge reviewed the Total Assets graph included in the Report, as well as the year-to-date performance of Business Segments. He then reviewed the Lower Churchill Project Capital Expenditure. He also reviewed the graph relating to 2016 Q2 Financing Activities and the Capital Structure. Finally, Mr. Sturge reviewed the 2016 Financial Outlook included in the Report.

Mr. Sturge and Ms. Russell then provided an update on the status of NLH's General Rate Application.

1299. DELOITTE Q2 REPORT

Ms. Snelgrove reviewed the Deloitte Q2 Report, a copy of which was included in the meeting papers. She noted the results of the review outlined in the Report. She stated that unless unanticipated difficulties are encountered, the Audit Report will be in the same format of the draft report included in the Q2 Report. She noted the materiality level was \$4,750,000 for the interim period under review. With respect to fraud and illegal acts, the Board stated that they were not aware of any fraud or illegal acts or any subsequent events other than those noted in the Statements.

Ms. Snelgrove noted the draft Interim Report and draft Management Representative Letter, both of which were included.

Ms. Walsh stated that the auditors will be having further discussions with Management re: the issue of impairment of some assets. They feel that there is no reason for the impairment of these assets at this stage but will continue to monitor it.

**1300. APPROVAL OF Q2 2016 MANAGEMENT DISCUSSION
AND ANALYSIS (MDA) AND FINANCIAL STATEMENTS**

Ms. Russell reviewed the revisions that had been made to the MDA and Statements since it had been distributed to the Board. These revisions were related to subsequent events that had occurred within the previous few days. The subsequent events related to recent decisions on two Court Cases involving Hydro-Quebec and Churchill Falls (Labrador) Corporation Limited.

He stated that discussions will continue with Hydro-Quebec as part of efforts to improve business relations between the parties.

On motion duly made by D. Brewer, seconded by C. Loomis and unanimously carried, it was resolved:

THAT the Nalcor Energy Consolidated Financial Statements and Management Discussion and Analysis for the period ended June 30, 2016, as tabled and initialed by the Secretary for identification, be and they are hereby approved.

**1301. APPROVAL OF SUBSIDIARIES
Q2 2016 FINANCIAL STATEMENTS**

Q2 Financial Statements of the various subsidiaries of Nalcor Energy other than CF(L)Co, were included in the meeting papers.

On motion duly made by H. Jacobs, seconded by C. Loomis and unanimously carried, it was resolved:

THAT the Financial Statements of the corporations listed below for the period ended June 30, 2016, as tabled and initialed by the Secretary for identification, be and they are hereby approved:

- LIL Holding Corporation
- LIL General Partner Corporation
- LIL Limited Partnership
- LIL Operating Corporation
- Muskrat Falls Corporation
- Labrador Transmission Corporation
- Lower Churchill Management Corporation
- Nalcor Energy Marketing Corporation
- Nalcor Energy – Oil and Gas Inc.
- Newfoundland and Labrador Hydro (Consolidated)
- Nalcor Energy – Bull Arm Fabrication Inc.
- Twin Falls Power Corporation Limited

1302. 2016 AUDIT SERVICE PLAN

Ms. Walsh reviewed the 2016 Audit Service Plan, a copy of which was included in the meeting papers.

Ms. Walsh reviewed the Audit Scope as noted in the Report. She then discussed the level of materiality which was listed for the various companies in the Nalcor Group of Companies. She stated that for the majority of companies, the recommended level of materiality is higher than it was in 2015. She stated that this is a result of a review carried out by Deloitte along with Management. She stated that the materiality levels have in the past been conservative and that approach was used in agreement with the Audit Committee of the Nalcor Board. The Auditors have become more comfortable with the operations of the various businesses and believe it is time to adjust these materiality levels. She stated that they are comfortable with the materiality levels being recommended. She noted that they are based on forecast and will be reviewed again when the actuals have been finalized.

Ms. Walsh noted the Fraud Risk that will be addressed by the Auditors. In response to an inquiry, the Board members reported that they were not aware of any other fraud risks that the auditors should be made aware of for planning purposes.

Ms. Walsh then reviewed the Risk Assessment section of the Plan. She stated that there is not much change from the previous year, but she reviewed those revisions that had been made. In response to an inquiry with respect to legal actions and how they are reflected in the plan, Ms. Walsh stated that they meet with the General Counsel on a quarterly basis and include reference to any significant legal actions if required. Ms. Brewer raised the issue of Methyl Mercury downstream of the Muskrat Falls Project and concerns that had been raised in that regard. Nalcor will be required to compensate anyone who is adversely affected by any Methyl Mercury that is created as a result of the project. It was agreed that Deloitte would consider this as part of its audit.

Ms. Walsh then reviewed the proposed audit fees for the various companies. She stated that there is no change in this regard except with respect to Nalcor

Energy Marketing, which is increased from [REDACTED] She stated that this audit was more complex than anticipated last year and the fee reflects the level of work that is required in relation to that company.

Ms. Walsh stated that the Master Service Agreement included in the Report was in a new form but was not substantially different in its terms and conditions from that of previous years. It was noted that under the terms of the Master Service Agreement, as well as under the general business terms, the Agreement could be terminated for convenience on thirty days written notice. The Board were of the opinion that this is too short a timeframe for Deloitte to be able to terminate the contract. Ms. Walsh stated that she would look into the possibility of amending these provisions and report back to Mr. Sturge in this regard.


The Board was in agreement with the Audit Plan as presented. Mr. Groves, Ms. Walsh and Ms. Snelgrove left the meeting at this time.

The Chair asked Mr. Sturge if he is satisfied with the level and quality of service being provided by Deloitte. Mr. Sturge stated that he is. He stated that Deloitte has been the auditor for the Nalcor companies for a number of years and overall has been very good. Ms. Borden stated that she had carried out a comprehensive periodic review of Deloitte, at the request of the Nalcor Board Audit Committee. This included benchmarking the fees. Her Report has been provided to Management for review. She stated that she is satisfied with the level of service being provided and the fees that are being charged.

1303.

EXECUTIVE UPDATE

Mr. Marshall stated that he has asked each of the Executive Vice-President's, including Mr. Haynes, but not Mr. Sturge who has already presented his Financial Report, to provide an update to the Board on activities in their various areas. He stated that this will be a regular agenda item at Nalcor Board meetings.



Mr. Bennett then provided an update with respect to Muskrat Falls. He outlined progress of work at site, which has been progressing fairly well so far this year. He and Mr. Marshall then reviewed the terms of the Interim Settlement Agreement that had recently been reached with Astaldi. Mr. Marshall stated that this will ensure that Astaldi will continue to work at site through to the end of October and to be compensated with \$150 million if they carry out the work as scheduled. If they are to then decide they would like to terminate the contract they must give Nalcor three months' notice and participate in the transition to a new contractor. Mr. Marshall stated that this will ensure that work continues at a high level until the winter construction season and allow Nalcor to put in place a new contractor if necessary prior to the 2017 construction season.

Mr. Haynes then provided an NLH update. He reviewed the written Report which was distributed to Board members at the meeting.

Mr. Keating reviewed his Report on activities in his area, a copy of which was circulated to the Board members at the meeting.

1304. IN CAMERA SESSIONS

Everybody present at the meeting except the Board members left the meeting at this time. The Board members then held an in camera session.

Mr. Marshall then left the meeting and the remaining Board members held an in camera session. In that session the Board members reviewed the proposed Executive Employment Contract for Mr. Marshall, a copy of which was included in the meeting papers.

On motion duly made by C. Loomis, seconded by H. Jacobs and unanimously carried, it was resolved:

THAT the Executive Employment Agreement between the Corporation and Stan Marshall presented to the Board of Directors at its meeting of August 9, 2016 and effective April 21, 2016, be and it is hereby approved.

1305. DATE FOR THE NEXT MEETING

The date of the next meeting is Friday, September 30, 2016.

1306. TERMINATION

There being no further business, the meeting was terminated.



Secretary

Verified at a meeting held on

September 30, 2016



Chairperson