

MINUTES OF THE ONE HUNDRED AND EIGHTH MEETING OF THE BOARD OF DIRECTORS OF NALCOR ENERGY HELD IN THE BOARDROOM, LEVEL 6, HYDRO PLACE, ST. JOHN'S, NEWFOUNDLAND AND LABRADOR ON MONDAY, MARCH 6, 2017 AT 11:30AM

Present in person:

- B. Paddick, Chair**
- C. Hickman, Member**
- J. Green, Member**
- J. Hillyard, Member**
- M. MacLeod, Member**
- S. Marshall, Member**
- D. Molloy, Member**
- D. Oake, Member**
- E. Turpin, Member**
- B. Maynard, Member**

Present by telephone: **A. M. Hann, Member**

Present by Invitation:

- G. Bennett, Exec. VP Power Development**
- J. Haynes, President, NL Hydro**
- J. Keating, Executive Vice-President**
- Corp. Services & Offshore Development**
- J. MacIsaac, Exec. VP Power Supply**
- (by video)**
- D. Sturge, Executive Vice-President Finance**
- and CFO**

Secretary: **P. Hickman**

1397. CONSTITUTION OF THE MEETING

Notice for the meeting was sent to all members of the Board on February 1, 2017. A quorum of Directors being present, the Chairperson declared the meeting duly called and validly constituted for the transaction of business.

1398. SAFETY MOMENT

Mr. Oake provided a safety moment on re-torquing tires after having them changed.

1399. VERIFICATION OF MINUTES

A copy of the minutes of the **ONE HUNDRED** and **SIXTH** and **ONE HUNDRED** and **SEVENTH** meetings of the Board of Directors held on December 14, 2016, and January 27, 2017, respectively, were included in the meeting papers circulated prior to the meeting. The Chair suggested an amendment to the minutes of the 106th meeting. In minute #1375, third sentence of the second paragraph, he asked that it be amended after the words "which represented less than" to read as follows "2% and 0.5%, respectively, of PowerTels annual revenue at the time."

On motion duly made by J. Hillyard, seconded D. Molloy and unanimously carried, it was resolved:

THAT the minutes of the **ONE HUNDRED AND SIXTH** and **ONE HUNDRED AND SEVENTH** meetings of the Board of Directors of Nalcor Energy held on December 14, 2016 and January 27, 2017, respectively, which minutes are currently before this meeting, be and they are hereby verified as being correct as amended; and

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

1400. DECLARED CONFLICT OF INTEREST

Ms. Molloy informed the Board that her husband is the Information and Privacy Commissioner. She stated that in the future she will recuse herself from any discussions relating to the Access to Information and Protection of Privacy Act.

1401. BOARD COMMITTEE REPORTS**1402. Audit Committee**

Mr. Oake, Chair of the Nalcor Audit Committee, provided a report to the Board on the recent meeting of the Audit Committee.

Mr. Oake reported that the Committee met with members of Management and the External Auditors, as well as with the Manager of Internal Audit. He noted that an in camera session was held with the external auditors. He stated that the Committee reviewed the Auditor's Report with the Auditors and there is nothing of concern to report. He also noted that in the in camera session the auditors stated they have a very effective relationship with Management. During the in camera session, the Auditors informed the Committee that they had recently been retained by Fortis Inc. as that company's Auditors. He stated that he had discussed this with Mr. Sturge and they agreed that they do not see a conflict arising from Deloitte's retention by Fortis Inc., as least not at this point in time. The Committee agreed that they were comfortable with Deloitte continuing as Nalcor's Auditors. Mr. Oake pointed out that Deloitte also stated that they are satisfied that there is no conflict and that they understand that Fortis also does not have any difficulty with them acting as Auditors for both Nalcor and Fortis. The Board agreed that the Minister of Natural Resources should be informed of the fact that Nalcor's Auditors are also the Auditors of Fortis Inc. Mr. Marshall stated that he would so inform the Minister.

Mr. Oake stated that the Audit Committee then reviewed Nalcor's Financial Statements for 2016. In reviewing the Statements they discussed possible impairment issues, of which there were none, the interface between NLH and the Public Utilities Board, financial instruments reported upon in the Statements and the Lower Churchill Project corporate setup and Labrador-Island Link Partnership. Mr. Oake stated that the Committee also reviewed the Financial Statements for the various subsidiary companies, as well as the LCP Combined Statements. Finally, the Committee reviewed the Management Discussion and Analysis (MD&A) accompanying the Nalcor Statements and suggested some risks for consideration for inclusion in the MD&A.

Mr. MacIsaac joined the meeting at this time by video.

Mr. Oake stated that it is the recommendation of the Audit Committee that the Board approve Nalcor's Financial Statements and MD&A, as well as the LCP Combined Financial Statements.

It was noted that there is nothing included in the Recent Developments section or the Risk section of the MD&A related to the protests at the Muskrat Falls site that occurred in the fall. Mr. Sturge noted that there is a general reference to work interruptions and schedule delays included and it would not be appropriate to be more specific than that, given that there is no quantification of the financial impacts of the protest.

Mr. Sturge distributed revised pages of the MD&A to the Board members, which he then reviewed with them.

Mr. Oake reported that the Committee discussed the 2016 Internal Audit Results with the Manager of Internal Audit and also reviewed the 2017 Internal Audit Plan. Finally, he noted that the Committee reviewed the Audit Committee Mandate.

**1403. APPROVAL OF NALCOR ENERGY
FINANCIAL STATEMENTS AND MD&A**

On motion duly made by D. Oake, seconded by J. Hillyard and unanimously carried, it was resolved:

THAT the 2016 Management and Discussion Analysis and Consolidated Financial Statements comprising of the Consolidated Statements of Financial Position, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Equity and the Consolidated Statements of Cash Flows, all for the year-ended December 31, 2016, as tabled and initialed by the Secretary for identification, be and they are hereby approved; and

THAT S. Marshall and B. Paddick, or any two Directors, be and they are hereby authorized to sign said Financial Statements on behalf of the Board.

**1404. APPROVAL OF 2016 LOWER CHURCHILL PROJECT
COMBINED FINANCIAL STATEMENTS**

Mr. Sturge explained that the Statements included in the papers relating to the Lower Churchill Project are combined Statements as opposed to consolidated and are prepared at the request of the Government for the Muskrat Falls Oversight Committee.

On motion duly made by D. Oake, seconded by J. Hillyard and unanimously carried, it was resolved:

THAT the 2016 LCP Combined Financial Statements comprising of the Combined Statement of Financial Position, Combined Statement of Loss and Comprehensive Income, Combined Statement of Changes in Partners' Equity and the Combined Statement of Cash Flows, all for the year-ended December 31, 2016, be and they are hereby approved; and

THAT S. Marshall and B. Paddick, or any two Directors, be and they are hereby authorized to sign said Financial Statements on behalf of the Board.

1405. 2016 EARNINGS UPDATE

Mr. Sturge noted the 2016 Earnings Update included in the meeting papers. He stated that he plans to review this document at the Annual Meeting. He noted the 2017 Financial Outlook pages included in the Report.

Mr. Hillyard inquired about the budget variances, some of which were somewhat significant. Mr. Sturge stated that these variances were largely the result of variances in NLH's financial performance due to the regulatory process and delays involved in the issuance of orders that affected the financial performance

of NLH. As well, the commodity-based segments have shown significant variances. Mr. Marshall noted that any significant variances are explained in the Executive Updates.

It was agreed that Mr. Sturge would send out monthly financial updates to the Board.

1406. BOARD COMMITTEE REPORTS (CONTINUED)

1407. Compensation Committee

Mr. MacLeod, Chair of the Compensation Committee, provided an update to the Board on recent meetings of the Compensation Committee.

Mr. MacLeod stated that the Committee held formal meetings on February 1st and February 21st. In addition, there had been other discussions among Committee members, as well as meetings with Mike Roberts, VP, Human Resources and Organizational Effectiveness.

Mr. MacLeod stated that the Committee first of all reviewed a revised Mandate for the Committee. This Mandate will be reviewed further by the Governance Committee prior to it being submitted to the Board for consideration and approval.

Mr. MacLeod stated that the Committee has also held very thorough discussions on compensation for Nalcor employees. He stated that Nalcor employees are paid very conservatively and are certainly not overpaid versus the Atlantic Canadian market.

Mr. MacLeod stated that there was a proposal for the implementation of incentives for Executives under the Long Term Incentive Plan (LTIP). He stated that while the Committee supports the concept of a LTIP for Executives, they believe there needs to be further development on the construct of the Plan. The

Chair stated that he was involved in a number of the meetings of the Compensation Committee and he stated that the Board needs to determine what the Corporation's long-term goals are prior to finalizing the LTIP incentives and targets. He stated that there needs to be more of an at risk component and that the LTIP plan should play an integral role in shaping Nalcor's corporate culture, defining what the Corporation should be focused on, etc.

Mr. MacLeod stated that there were also recommendations from Management with respect to the Short Term Incentive Plan (STIP). Mr. MacLeod stated that percentages associated with the incentives are quite low and they are in fact lower than recommended by an external consultant who reviewed the Plan. As well, payouts are capped which also keeps the payouts low. The results for 2016 were presented and reviewed and overall performances were very good. He stated that the Corporate targets represent 30% of the payout while personal targets represent 70% of the payout. There was a common feeling amongst the Committee members that the Corporate percentage should be higher for Executives.

After further discussion of compensation issues, the Board decided to defer further consideration of these issues until the in camera session later in the meeting.

1408. Safety, Health, Environment and Community Committee

Mr. C. Hickman, Chair of the Safety, Health, Environment and Community Committee, provided a Report to the Board on the recent meeting of that Committee. He reported that the Committee reviewed its Mandate and made suggested revisions. This Mandate will be reviewed by the Governance Committee and then submitted to the Board for approval. The Committee then reviewed the Safety and Health Report. They stated that overall there has been a very good performance corporately in the area of safety and health. The Committee did ask that in future that they be provided with more information on

the performance of the Lower Churchill Project. The Committee then reviewed the Environmental section of the Report. Two significant environmental issues were reviewed with Management. He noted that the big focus for Environment is on the Transition to Operations.

Mr. C. Hickman stated that the Committee then reviewed the Report on the Corporation's Community based activities. He stated that the Committee would like to focus on this aspect as it believes the safety and health and environment areas are performing very well, but the Corporation's reputation in the public is suffering. As well, there is a perceived lack of public support for the company as a whole, and Muskrat Falls in particular. He stated that the Committee plans to discuss further at its next meeting the Corporation's plans to address these issues. Mr. C. Hickman noted that the Committee members held an in camera session.

The Board discussed the communications around the Lower Churchill Project. It was agreed that while things have to a degree turned around, there does need to be a focus on some simple positive messages. The annual meeting and the June update on the Lower Churchill Project, which Mr. Marshall will be providing should be helpful in this regard. Mr. C. Hickman noted that the Committee has asked to review the six-month communication plan at its next Committee meeting.

1409. Governance Committee

Mr. Green, Chair of the Governance Committee, provided a Report to the Board on the recent meeting of that Committee.

Mr. Green stated that the Committee reviewed its Mandate and some revisions were suggested. This Mandate will be submitted to the Board for approval at a later date. He stated that the Committee discussed the frequency and timing of the various Committee and Board meetings and made some suggestions in this

regard. The Corporate Secretary will review the schedule and try to make it more convenient for Board members.

Mr. Green stated that the Committee discussed the composition of the NLH Board. He stated that the Minister has asked the Nalcor Board to consider this. As well, he has spoken to Clyde Wells, Chairman of the Independent Appointments Commission, which will make recommendations to Cabinet as to the Appointees to that Board. Mr. Wells is certainly open to working with the Nalcor Board on identifying possible Board members. Mr. Green stated that the Committee considered the composition of the NLH Board and it recommended that there be eight members consisting of the Chair, the CEO, four members of the Nalcor Board and two Independent Directors. The Board then discussed this recommendation and the number of Nalcor Board appointees versus Independent Directors.

Mr. Green stated that the Committee also discussed the composition of the subsidiary Boards and the requirement for independent board members. He noted that any change in this requirement would involve legislative change.

After further discussion, it was agreed that Mr. Green and Mr. Paddick would speak to the Minister of Natural Resources concerning the make-up of the NLH Board of Directors based on the composition outlined above, as well as the issue of the requirement of independent directors on subsidiary boards.

Finally, it was noted that the Committee identified the need for a competency matrix for the various boards, particularly the NLH Board.

1410. 2016 EARNINGS UPDATE

The Earnings Update included in the meeting papers was noted. The Board discussed the Long Term Returns on Capital Investment and the Corporation's plan in this regard.

**1411. AUDITORS 2016 REPORT
TO NALCOR BOARD OF DIRECTORS**

The Auditors Report included in the meeting papers was noted.

1412. EXECUTIVE UPDATES

1413. President, Newfoundland and Labrador Hydro

Mr. Haynes reviewed the Newfoundland and Labrador Hydro Executive update included in the meeting papers.

Mr. Haynes noted the safety performance for 2016, as outlined in the Report. He noted that there had been no new lost time injuries or medical aids since the last report.

With respect to reliability targets, Mr. Haynes stated that they are very aggressive. While they were not quite achieved in 2016, there was much improvement over the previous few years. Mr. Haynes noted the 2016 quilt included in the Report and explained the variances. He also reviewed the Regulatory Section of his update and the effect on rates of the compliance filing which was filed at the end of January. Finally, Mr. Haynes noted the 2017 metrics that have been put in place and which were outlined in the Report.

It was noted that 2016 actuals relating to operations and maintenance were below budget. Mr. Haynes stated that this was a result of cost savings efforts that were undertaken in 2016.

1414. Executive Vice President, Power Supply

Mr. MacIsaac reviewed the Power Supply Executive update included in the meeting papers. He reviewed the safety performance and stated that overall 2016 was very positive, although there was one lost time incident in Churchill Falls. The 2017 safety performance is tracking to compliance. The

Transmission safety performance is also trending positively after a challenging start to 2017.

With respect to Environment, there was full compliance to stated milestones, objectives and targets for 2016. As well, there were two external audits carried out in 2016 and both were very positive, with no recommendations arising out of either.

In the area of Business Excellence, Mr. MacIsaac reported that 2016 was another solid year with respect to performance. He reviewed the Business Excellence section of the update. He also reported to the Board that there was an agreement in principle reached with the Union on a Collective Agreement for the Power Supply Division, which was very positive news.

Finally, Mr. MacIsaac noted the 2017 objectives outlined in the update.

Mr. MacIsaac left the meeting at this time.

1415. Executive Vice President, Power Development

Mr. Bennett reviewed the Power Development update included in the meeting papers.

Mr. Bennett first reviewed the safety performance. He noted there had been two lost time incidents so far in 2017. Concerns have been raised with Astaldi Senior Management at site and in Italy over their recent safety performance. Nalcor will continue to address this with Astaldi.

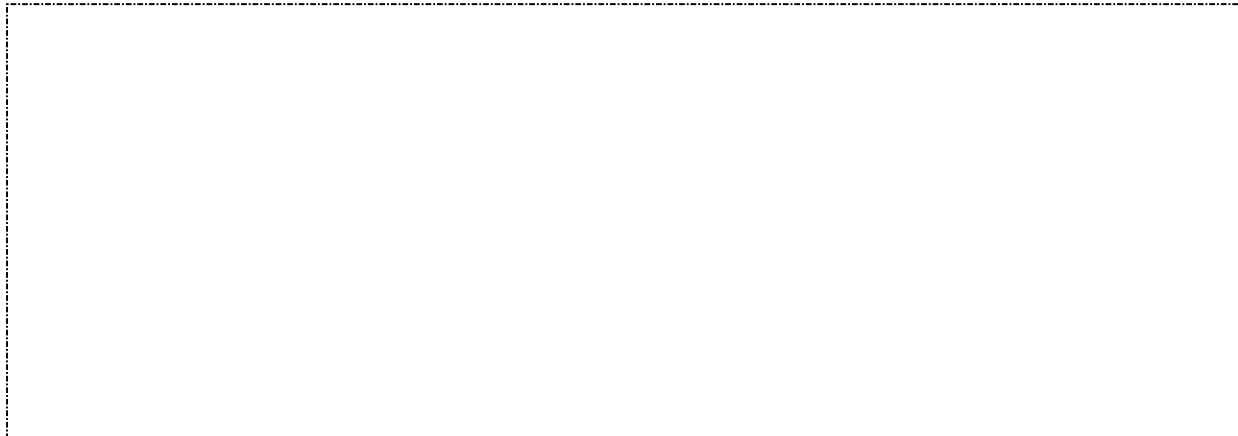
Mr. Bennett noted that samples have shown that there has not been any increase in methyl mercury levels resulting from the impoundment of water in the reservoir. With respect to Astaldi's performance, he stated that Astaldi had surpassed its targets for both January and February with respect to concrete

production. He stated that the ice situation on the reservoir continues to be favourable and that the reservoir is flooded at 21.5 meters. It is anticipated that this will increase by a meter during the spring inflows. He stated that the performance of the cofferdam is acceptable and that grouting work is continuing.

In response to an inquiry, Mr. Bennett stated that approximately 90% of the work related to the Muskrat Falls site is now under contract, with approximately \$400 million worth of work to be finalized.

**1416. Executive Vice President, Corporate Services
and Offshore Development**

Mr. Keating reviewed the Corporate Services and Offshore Development Executive update included in the meeting papers.



1417. CORPORATE PERFORMANCE

The Year-end Performance Report and 2017 Corporate Plan highlights, both of which were included in the meeting papers were noted.

**1418. TRANSPARENCY AND ACCOUNTABILITY ACT
STRATEGIC PLAN (2017-2019)**

The memo included in the meeting papers relating to the Transparency and Accountability Act Strategic Plan was noted. Mr. Marshall distributed copies to

the Board members of the draft Report and requested that the Board members provide any feedback that they may have on or before March 15, 2017.

Mr. Marshall also distributed copies of the 2016 Annual Report for the information of the Directors. He noted that it would be released to the public within the next several days.

1419. TEN YEAR FINANCIAL FORECAST

Mr. Sturge noted the Ten Year Financial Forecast included in the meeting papers. He stated that it was included for the information for the Board.

Mr. Sturge reviewed the highlights outlined in the Report, as well as the key assumptions used in preparing the forecast.

Mr. Marshall stated that it was a forecast at a snapshot in time. He stated that it is likely to change in the short-term depending on the approach taken on various issues which are presently being dealt with. He then outlined efforts being made to mitigate the projected rate increase associated with Muskrat Falls and Labrador-Island Link projects. These include the early implementation of the Labrador-Island Link, as well as discussions with Emera, re: their purchase of excess energy. He stated the focus is on the update that he will be making to the public in the June timeframe and efforts to be made to address some of the risks prior to that time.

**1420. APPROVAL OF FEDERAL LOAN GUARANTEE (FLG)
TERM SHEET**

Included in the meeting papers was a memo describing the key terms of the Agreement with the Federal Government for the additional FLG.

On motion duly made by C. Hickman, seconded by B. Maynard and unanimously carried, it was resolved:

THAT the Corporation be and is hereby authorized to execute and deliver the Agreement providing the key terms and conditions under which the Federal Government agrees to provide an additional Federal Loan Guarantee with respect to the Lower Churchill Projects, as per the terms and conditions outlined to the Board at its meeting of March 6, 2017.

1421. APPROVAL OF MASTER SERVICE AGREEMENTS

Included in the meeting papers was a Memo pertaining to Master Service Agreements relating to the Lower Churchill Project.

On motion duly made by B. Maynard, seconded by C. Hickman and unanimously carried, it was resolved:

THAT the Corporation be and is hereby authorized to negotiate, execute and deliver Master Service Agreements with Muskrat Falls Corporation, Labrador Transmission Corporation, and Labrador-Island Link Limited Partnership and Labrador-Island Link Operating Corporation, substantially as presented to the Board on March 6, 2017.

1422. APPOINTMENT OF OFFICERS

On motion duly made by M. MacLeod, seconded by D. Oake and unanimously carried, it was resolved:

WHEREAS Peter Hickman was previously appointed as an Officer of the Corporation in the role of General Counsel and Corporate Secretary but his title has changed to Vice-President, General Counsel and Corporate Secretary;

AND WHEREAS Michael Roberts was previously appointed as an Officer of the Corporation in the role of Vice-President, Human Resources & Organizational Effectiveness but his title has changed to Chief Human Resources Officer and Vice-President, Safety, Health and Sustainability;

AND WHEREAS the Office of Assistant Corporate Secretary is presently vacant;

BE IT RESOLVED THAT the following individuals be appointed Officers of the Corporation as follows:

Vice-President, General Counsel
and Corporate Secretary. Peter Hickman

Chief Human Resources Officer and
Vice-President, Safety, Health and Sustainability Michael Roberts

Assistant Corporate Secretary Meredith Baker

1423. CODE OF BUSINESS CONDUCT AND ETHICS REPORT

The Code of Business Conduct and Ethics Report included in the meeting papers for the information of the Board of Directors was noted.

1424. COMPLIANCE CERTIFICATES

The Corporate Compliance Certificates included in the meeting papers for the information of the Board members were noted.

1425. IN CAMERA SESSION

The Directors held an in camera session involving Board members only. They then held a session involving all Board members except Mr. Marshall.

1426. STI Corporate Target Results

On motion duly made by M. MacLeod, seconded by J. Hillyard and unanimously carried, it was resolved:

THAT, on the recommendation of the Compensation Committee, the Board of Directors hereby approves the 2016 Short-Term Incentive Corporate Targets (Part A) results.

1427. Non-Union Compensation

On motion duly made by M. MacLeod, seconded by D. Oake and unanimously carried, it was resolved:

THAT, on the recommendation of the Compensation Committee, the Board of Directors hereby approves the following with respect to non-union employees:

- No general salary adjustment for employees (0% effective April 1, 2017);
- Salary Progression within the established salary ranges in accordance with the Salary Administration Matrix; and
- Payout of 2016 Short-Term Incentives to eligible employees.

1428. Executive Compensation

On motion duly made by M. MacLeod, seconded by D. Oake and unanimously carried, it was resolved:

THAT, on the recommendation of the Compensation Committee, the Board of Directors hereby approves the following with respect to Executive compensation:

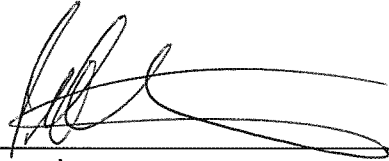
- Payout of 2016 Short-Term Incentives; and
- The allocation of up to \$140,000 to address salary increases for Executive staff to reflect the recent organizational changes and increased responsibilities.

It was agreed that although the Board had approved the Resolution allocating up to \$140,000 to address salary increases for the Executive staff, they would leave it to the discretion of the CEO to decide as to whether to pursue the Executive salary adjustments. The Board also agreed that the HR and Compensation Committee of the Board would oversee a review of Executive salaries to be carried out by an external consultant. With respect to the 2017 Short-term

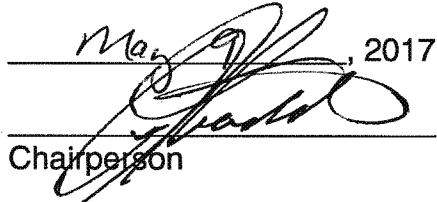
Incentive Plan, it was agreed that HR and Chair of Compensation Committee would work with Management on the construct of that Plan.

1429. TERMINATION

There being no further business, the meeting was terminated.


Secretary

Verified at a meeting held on

May 9, 2017

Chairperson