

Lower Churchill Project

Governance and Financial Reporting & Controls

November 2015

Boundless Energy



Confidential and Commercially Sensitive

Governance Structure

Transparency and Accountability

- Part of each and every line of business throughout Nalcor Energy
- Nalcor reports to the public, government and stakeholders through various means such as:
 - Formal reports
 - Public Annual General Meeting
 - Access to Information and Privacy Protection
 - Responses to Regulatory and public requests for information
 - Public information sessions and meetings
 - Open houses and presentations

LCP Corporate Structure



Background

- Nalcor Energy Board of Directors is accountable to the Province of NL as Shareholder
 - Government of NL (GNL), on behalf of the people of the province, holds Nalcor accountable for project management and establishing oversight practices and procedures
- As required by legislation, the Boards of Nalcor's LCP subsidiaries must include at least 2 independent directors
 - Includes 1 "super" independent director for the LCP entities involved in the financing arrangements
- Within Nalcor and LCP there are various levels of financial oversight from groups that have different accountabilities
 - LCP Project Controls, LCP Finance & Administration and Nalcor Corporate Finance

Background (cont'd)

- LCP is a key focus of the Audit Committee of the Board
 - Both Internal Audit and the External Auditors support this mandate
- Oversight also provided by a number of key stakeholders external to Nalcor and LCP
 - GNL Muskrat Falls Oversight Committee
 - Purpose is to strengthen and formalize the existing oversight for the construction phase of the project
 - First report published in July 2014
 - Government of Canada, Collateral Agent and Independent Engineer (“IE”) through the Federal Loan Guarantee (“FLG”) arrangements and Project Finance Agreements (“PFA”)

Independent Directors

- Subsection 14.1 (6)(e) of the *Energy Corporation Act* (ECA) stipulates that the board of directors of a subsidiary of Nalcor Energy shall include a minimum number of independent directors, that number varying depending on the size of the board
- A subsidiary board consisting of 5 or 6 members is required to have at least 2 independent directors
- Subsection 14.1 (7) of the ECA defines “independent director” as “a person who is not a member of the board of directors of the corporation or another subsidiary or an employee or officer of the corporation, another subsidiary or the Crown”

Independent Directors (cont'd)

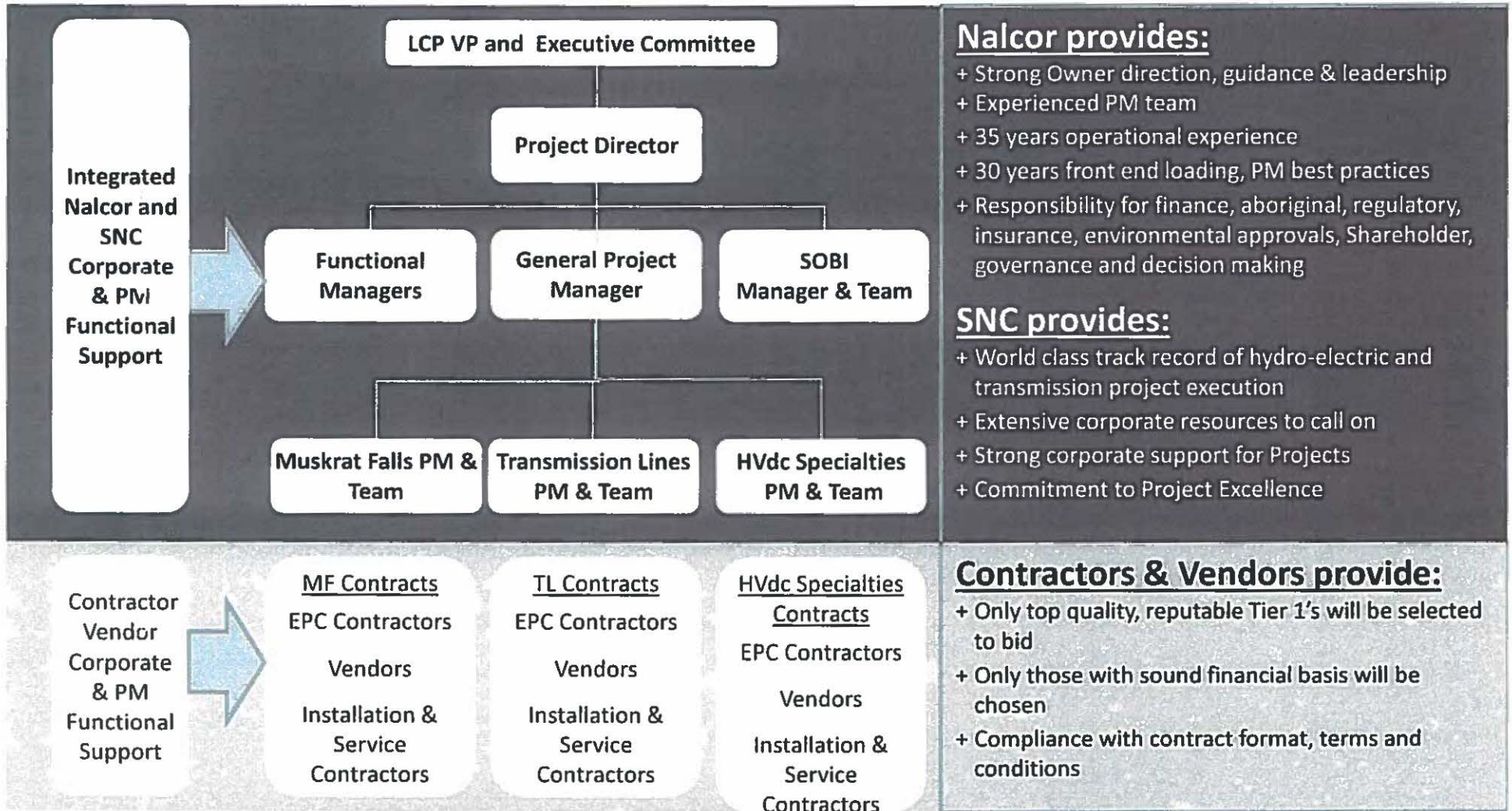
- As part of the LCP credit rating process, the rating agencies stated a requirement that there be at least one “super” independent director on the board of directors of each of the LCP entities that will be involved in the financing arrangements

Independent Directors (cont'd)

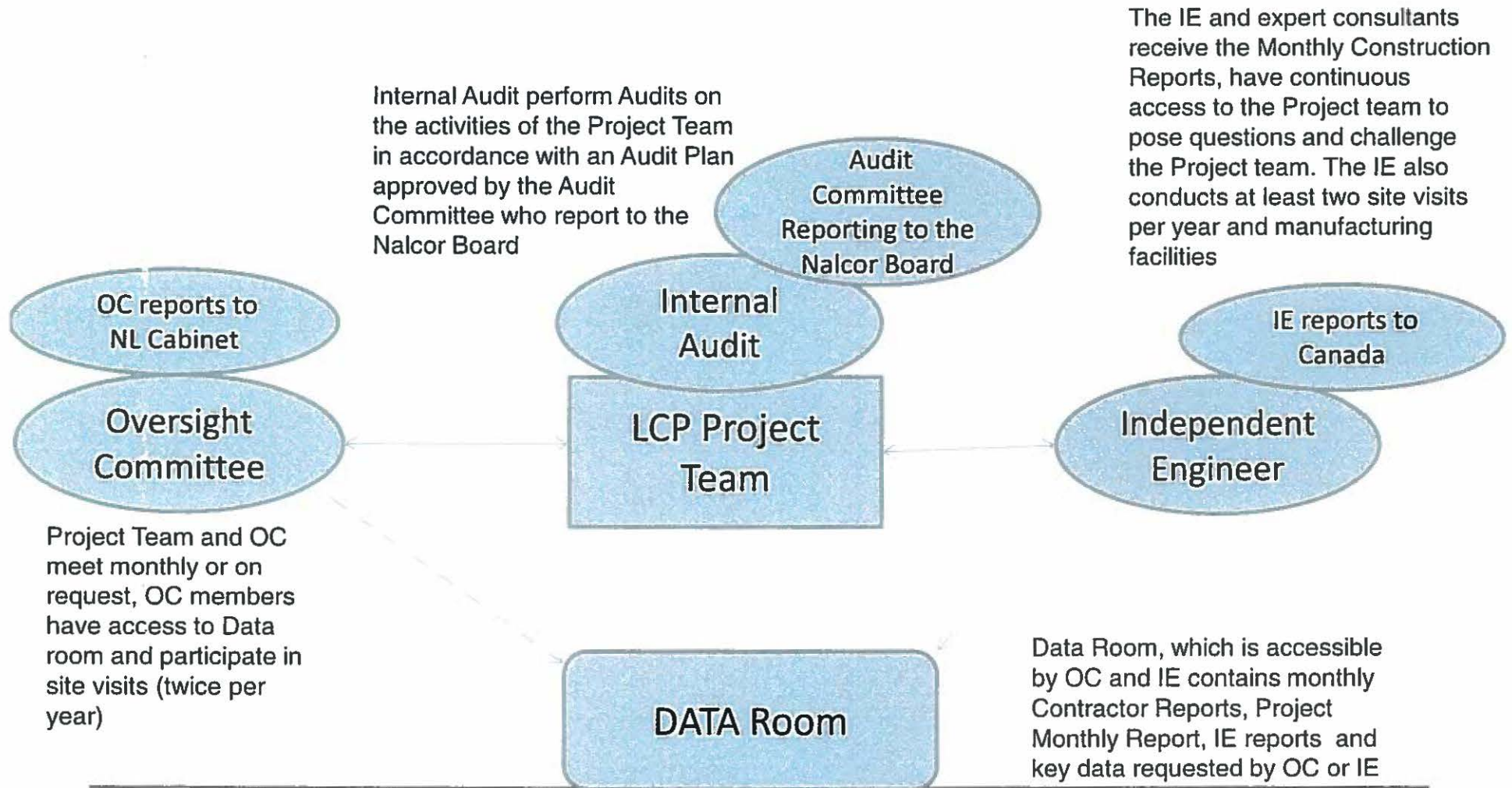
- A “super” independent director is defined as:

a duly appointed member of the Board of Directors who shall not have been, at the time of such appointment or at any time in the preceding five years, (i) a direct or indirect legal or beneficial owner of any capital stock of the Corporation or of any of its Affiliates, (ii) a creditor, supplier, employee, officer, director, family member, manager or contractor of the Corporation or any of its Affiliates, or (iii) a Person who Controls (whether directly, indirectly or otherwise) the Corporation or any of its Affiliates or any creditor, supplier, employee, officer, director, manager or contractor of the Corporation or any of its Affiliates

LCP Governance & Org Structure



Independent Engineer, Oversight Committee and Internal Audit



Financial Reporting

Financial Reporting

- LCP financial results are reported as part of the Nalcor Energy Annual Report and Audited Consolidated Financial Statements
 - Separate audited financial statements for the 7 LCP subsidiaries are also released to the public and provided to Canada and the Collateral Agent under the terms of the PFA
 - Additional audit procedures performed for just the LCP subsidiaries at the request of the MF Oversight Committee
 - LCP results also part of Quarterly Reports released by Nalcor
 - Similar to annual results, LCP entity quarterly unaudited financial statements are released to the public and provided to Canada and the Collateral Agent
 - LCP financial results are reported to Nalcor senior management, LCP subsidiary Boards and the Nalcor Board on a monthly/quarterly basis
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Financial Reporting (cont'd)

- Under the terms of the FLG/PFA, LCP entities issue monthly reports to Canada and the IE on project expenditures and debt/equity funding requirements

Financial Controls: Master Authority for Expenditure (AFE)

Master AFE's

Approved as of September 2015

<i>(\$ Millions CAD)</i>	Muskat Falls	Labrador Trx Assets	Labrador Island Link	Total
Owners Team, Admin & EPCM Services	\$ 408.7	\$ 145.0	\$ 221.3	\$ 775.0
Feasibility Engineering	\$ 17.9	\$ 0.2	\$ 21.3	\$ 39.4
Environmental & Regulatory Compliance	\$ 25.8	\$ 0.8	\$ 14.4	\$ 41.1
Aboriginal Affairs	\$ 13.3	\$ 0.2	\$ 2.7	\$ 16.2
Procurement & Construction	\$ 3,121.8	\$ 709.6	\$ 2,717.3	\$ 6,548.8
Commercial & Legal	\$ 25.2	\$ 3.9	\$ 16.5	\$ 45.6
Contingency	\$ 73.1	\$ 17.8	\$ 95.9	\$ 186.8
Facilities Capital Cost AFE Value	\$ 3,686.0	\$ 877.6	\$ 3,089.4	\$ 7,652.9
Financing Cost AFE Value	\$ 339.3	\$ 75.8	\$ 360.1	\$ 775.2
Total AFE Value	\$ 4,025.3	\$ 953.4	\$ 3,449.4	\$ 8,428.1

Master AFE's

- The Master AFE's represent the maximum expenditure authority that has been made available to the Project:
 - Carried out under the authority of the President and CEO; as granted by the Board's approval of the Master AFE's
 - Performed within the confines of the work scope outlined in the Master AFE's
- Work entailing scope changes outside the boundaries of a Master AFE or increases in the overall anticipated total cost of a Master AFE will require further authorization by the Board of Directors

Financial Controls: Financial Authority Procedure

Financial Authority Procedure (FAP) – Key Principles

- Approved LCP policy that outlines authority limits and controls associated with financial Authorization, Commitment and Verification under the expenditure limitations of an approved Master AFE
- Establishes financial authority limits commensurate with the **normal day-to-day activities** associated with responsibilities of the position
- Restricts application of Authorization authority to Budget Holder's work scope, contained within the scope of an approved Master AFE – less than [30] people across the entire Project have been granted financial authority at varying thresholds
- Requires that scopes of work or services will not be segregated (i.e. order splitting) in order to circumvent the approval process and this procedure.
- Aligns with LCP Supply Change Management processes in achieving effective financial control over authorization of expenditures

Financial Controls: Invoice Processing & Controls

Invoice Processing & Controls

- Key LCP principal is All invoices will be paid on time, subject to the contractor submitting a correct (prepared and documented) invoice.
- Invoices go through an extensive attest process comprising both financial and technical verification and are approved for payment by the Budget Holder (e.g. Verification Authority under the FAP)
 - Detailed Attest procedures have been developed and documented outlining the attest process of Project invoices
- Processing of invoices is coordinated by LCP Finance & Accounting (F&A)
 - LCP F&A takes ownership from the point that invoices are received until they are paid
 - Invoice status is constantly maintained in a tracking log by LCP F&A
 - All necessary verification steps are completed by LCP F&A or personnel engaged by F&A to participate in the Attest process (e.g. Supply Chain, Package Leaders, Area Managers, Project Controls)
- Compliance with this process has been reviewed by Internal Audit, the External Auditors and the IE