

MINUTES OF THE FOURTH MEETING OF THE BOARD OF DIRECTORS OF MUSKRAT FALLS CORPORATION HELD IN THE BOARDROOM, 6TH LEVEL, HYDRO PLACE, ST. JOHN'S, NEWFOUNDLAND AND LABRADOR ON FRIDAY, JUNE 20, 2014 AT 12:20 P.M.

Present in Person: K. Marshall, Acting Chair
R. Daw, Member
E. Martin, Member

Present by Telephone: G. Shortall, Member

Absent: J. Quaicoe, Member

**Present by Invitation
In person:** Derrick Sturge, VP Finance & CFO
Gilbert Bennett, VP Lower Churchill Project
James Meaney, General Manager Finance,
Lower Churchill Project
Rob Hull, General Manager Finance

Secretary: Wayne Chamberlain

41. CONSTITUTION OF THE MEETING

Notice of the meeting was sent to all Directors on May 30, 2014. A quorum of Directors being present, the meeting was declared duly called and validly constituted for the transaction of business.

42. APPOINTMENT OF ACTING CHAIRPERSON

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

WHEREAS Terry Styles has resigned as Chairperson, effective February 28, 2014;

AND WHEREAS pursuant to Section 5.01 of By-Law No. 1 of the Corporation, the Board of Directors has the authority to appoint officers of the Corporation;

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THEREFORE BE IT RESOLVED THAT Ken Marshall be and he is hereby appointed Acting Chair of the Corporation, effective June 20, 2014.

43. SAFETY MOMENT

Mr. Meaney circulated and provided a safety moment on power mower safety.

44. APPROVAL OF AGENDA

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

THAT the Agenda of the 4th Meeting of the Board of Directors of Muskrat Falls Corporation which Agenda is currently before this meeting, be and it is hereby approved.

45. VERIFICATION OF MINUTES

A copy of the minutes of the **THIRD** meeting of the Board of Directors of Muskrat Falls Corporation held on March 19, 2014 and was included in the meeting papers circulated prior to the meeting.

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

THAT the minutes of the **THIRD** meeting of the Board of Directors of Muskrat Falls held on March 19, 2014, 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.

46. BUSINESS ARISING

There was no business arising.

47. ACTION LIST

Mr. Meaney reported that the historic resource recovery program was larger than anticipated resulting in a variance of \$2.8 million of additional costs related to environmental and regulatory compliance. He stated that a much larger effort was required as a result of the large volume of artifacts that were discovered, thereby resulting in an increased effort in both the recovery and cataloguing of these artifacts.

Mr. Bennett confirmed that the preservation of these historical artifacts is a legislative requirement.

48. MUSKRAT FALLS PROJECT: VALUE AND COST UPDATE

Mr. Martin and Mr. Bennett reviewed the Muskrat Falls Project: Value and Cost Update that circulated at the meeting and was sent by email to Mr. Shortall earlier in the morning. Mr. Martin advised that he would be providing a Muskrat Falls Project ("Project") value and costs update by means of a press release and media briefing next week and accordingly is meeting with all stakeholders, including the respective boards of directors and noted Management is seeking approval of this Board of the Project Authorization for Expenditure ("AFE").

Mr. Bennett stated that there is a strong focus on safety on the Project with approximately between 1,400 and 1,500 workers at the site. He provided an overview of the safety performance to date, noting there has been two lost time and one medical treatment injuries in 2014 with respect to 1.1 million work hours.

Mr. Martin stated that the focus has been and continues to be to provide the greatest long-term value to the province and noted that the significant value and cash flows from the Project will result in substantial revenue for the province. He advised that Management continues to look for opportunities to enhance Project productivity and reliability in order to provide long-term value to the Project and

the province and noted that investments have been made to enhance system reliability and increase Project productivity which has resulted in additional costs, but was the prudent thing to do. He stated that market conditions have resulted in some local Project costs increasing, noting that other projects in the province have been experiencing increases in labour and construction costs.

He advised that the Project will meet the province's growing electricity demand, result in long term rate stability and enhanced system reliability, reduce and almost eliminate greenhouse gas emissions and the province's reliance on foreign oil and will provide significant long term revenue for the province and the province will have more control over its energy future with two interconnections to the North American grid.

Mr. Martin reviewed the progress to date including completion of 98% of project engineering, award or advancement of material contracts, release of environmental assessment for generation and transmission, commencement of work at major sites in accordance with the schedule, completion of the Federal Loan Guarantee and Project financing, sanction of the Maritime Link and power sales agreements with Emera and are on track for first power in 2017. He also provided an overview of the major Project activities that will occur in 2014, the employment, economic and income benefits up to April of this year and the Project's global reach with contractors providing work and services from around the world.

He advised that stakeholders are being provided with an update on the value and costs of the Project including the shareholder, respective Nalcor boards of directors, federal government and then the public on Wednesday, whereby as noted earlier there will be a press release and media briefing.

Mr. Martin reviewed the four Project value components including revenue, cost, quality/reliability and schedule and the subcomponents of each. He noted that revenue was compromised of domestic sales, water rentals and excess power sales and storage/transmission opportunities and that there were three categories of costs including facilities capital, financing and operating costs.

He reviewed the key changes that have occurred since Project sanction in December 2013, including changes to revenue, breakdown of increases or reductions in costs and provided an overview of the Project productivity and performance enhancements. He reviewed the amount of the facilities costs increases, noting that the biggest capital cost increase was attributable to the productivity and reliability enhancements but there were also increased costs related to local competitive market pressures. He reviewed the increased cost and nature of the productivity enhancements, including the power house enclosure, enhanced camp and recreational complex, upgrades to site infrastructure and the shift of the river diversion window to reduce the weather window risk. He then examined the increased costs and nature of the quality and reliability improvements and the increased costs and specific drivers of the competitive local market conditions. He stated that financing costs have decreased as a result of the benefit of the Federal Loan Guarantee and the reduced rates resulting from the Request for Financing process. There was no change to operating costs.

Mr. Martin reviewed the capital cost outlook table from Project sanction to June 2014 that outlined the capital cost estimate of \$6.202 billion at Project sanction, each of the capital costs increases related to the productivity and performance enhancements, design enhancements and market conditions and the resulting June 2014 capital costs estimate of \$6.990 billion. He also noted financing costs were \$300 million less than budgeted on an NPV basis, and excess revenue projections were \$100 million higher than originally projected. He also reviewed

the breakdown of the aforesaid facilities capital cost changes of each of the Project components: Muskrat Falls, Labrador Transmission Assets and Labrador-Island Link. He also provided an overview of external and internal Project oversight.

49. APPROVAL OF REVISED AFE

Mr. Meaney reviewed the Muskrat Falls Corporation – Revised Capital & Financing Cost Master Authorization for Expenditure (“AFE”) that was circulated at the meeting and provided to Mr. Shortall by an email earlier in the morning. He referred to page 2 of the AFE and the new revised capital costs estimate and advised that the additional funding being requested for the Muskrat Falls component of the Project is \$470,820,392. He also referred to the Muskrat Falls component financing costs estimate which included a new financing funding request of \$265,028,995.

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

THAT the Authorization for Expenditure relating to the Muskrat Falls Plant, presented to the Board of Directors at its meeting of June 20, 2014, be and it is hereby approved.

50. PRESIDENT’S REPORT

Mr. Martin reviewed the President’s Report that was included in the Board papers circulated prior to the meeting. He reviewed the safety performance noting there were no lost time or medical treatment injuries and lead/lag ratio was better than target. He stated that the four environmental targets are to be completed by year end.

It was agreed that the second Finance target (LCP Capital Expenditures) and the first Project Execution target (Final Forecast Cost) remaining within Project

Sanction budget should be colored yellow as a result of the revised AFE that was approved at this meeting.

51. FINANCE REPORT

Mr. Meaney reviewed the Finance Report that was included in the Board papers circulated prior to the meeting. He reviewed the highlights noting that year-to-date ("YTD") actual costs and forecast capital costs are lower than anticipated due primarily to the progress of Astaldi on the construction of the powerhouse being slower than anticipated. He reviewed the Muskrat Falls cost summary and advised that the YTD actual cost of procurement and construction was less than YTD budget and provided a breakdown of the work this related to including the powerhouse, camp, reservoir clearing, gates and turbine and generator work. It was suggested that a debt to date column be included in the Muskrat Falls Cost Summary.

It was agreed that a page would be included in the report as to how any rate impacts would be managed.

52. COMPLIANCE CERTIFICATE

Mr. Sturge referred to the Corporate Compliance Certificate for the period ended March 31, 2014 that was included in the Board papers circulated prior to the meeting. There were no comments.

53. REMUNERATION OF AUDITORS

Mr. Shortall as Chair of the Audit Committee of the Nalcor Energy Board of Directors advised that the remuneration of the external auditors for Nalcor Energy and its subsidiary companies is equally allocated to all of the corporate entities and that this will be revisited by the Audit Committee after one year of expenses by the external auditors for all of the corporate entities to determine if any adjustment is required.

54. OTHER BUSINESS

There was no other business.

55. NEXT MEETING

The next meeting is scheduled to be held on Thursday, November 27, 2014.


Messrs. Martin, Sturge, Bennett, Meaney and Chamberlain left the meeting for the Board in camera meeting.

56. IN CAMERA SESSION

The Board of Directors held an in camera session and Messrs. Martin and Chamberlain returned to the meeting and were advised that the Board did not have any comments.

57. TERMINATION

There being no further business, the meeting was terminated.


for _____
Secretary

Verified at a meeting held on

Nov. 20, 2014

Chair Resigned

Chairperson