

MINUTES OF THE THIRD MEETING OF THE BOARD OF DIRECTORS OF LOWER CHURCHILL MANAGEMENT CORPORATION HELD IN THE BOARDROOM, 6TH LEVEL, HYDRO PLACE, ST. JOHN'S, NEWFOUNDLAND AND LABRADOR ON TUESDAY, JUNE 24, 2014 AT 10:00 A.M.

Present in Person: E. Martin, Chair
 G. Bennett, Member
 J. Perry, Member
 D. Sturge, Member
 D. Stone, Member
 G. McDonald, Member

Present by Invitation in Person: J. Meaney, General Manager, Finance, Lower Churchill Project

Present by Invitation by Phone: J. Quicoe, Member of Muskrat Falls Corporation Board of Directors
 D. Whalen, Member of Labrador-Island Link Operating Corporation Board of Directors

Secretary (acting): P. Hickman

31. 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.

32. SAFETY MOMENT

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

33. APPROVAL OF AGENDA

On motion duly made by G. Bennett, seconded by D. Sturge and unanimously carried, it was resolved:

THAT the Agenda of the 3rd Meeting of the Board of Directors of Lower Churchill Management Corporation, which Agenda is currently before this meeting, be and it is hereby approved.

34. VERIFICATION OF MINUTES

The Board reviewed the minutes of the second meeting of the Board of Directors of the Corporation held on March 18, 2014, a copy of which is included in the meeting papers.

In reviewing the minutes, it was agreed that they should be revised to indicate that at that meeting Mr. Martin had indicated that the estimated capital costs for the project had increased from \$6.2 billion to approximately \$6.5 billion but work was continuing on completing the estimate and it could be higher than that when finalized.

On motion duly made by G. Bennett and seconded by D. Sturge and unanimously carried, it was resolved:

THAT the minutes of the **SECOND** meeting of the Board of Directors of Lower Churchill Management held on March 18, 2014 which minutes are currently before this meeting, as amended, 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.

35. ACTION LIST

The Board reviewed the Action List, a copy of which was included in the meeting papers. Mr. Martin stated that a decision was made to provide the presentations

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listed in the Action List to the Board at a future meeting, given that the main focus of this meeting was to provide an update on value and cost of the Project to the Board members. With respect to a communications protocol, Mr. Martin stated that such a protocol is in place and being formalized, and will be brought forward to the Board at the next meeting. With respect to arranging a visit to Muskrat Falls site for Board members, Mr. Martin stated that this would occur over the coming months.

36. PRESIDENT'S REPORT

Mr. Bennett reviewed the President's Report, a copy of which was included in the meeting papers.

Mr. Bennett reviewed the safety triangle. He noted that the triangle relates to the safety performance of Nalcor employees and direct contractors. However, there had been two lost time injuries involving contractors. He stated that they are constantly working with contractors to focus on safety and reiterate the safety message. He then discussed with the Board the Soldier's Pond site and safety in and around that site.

With respect to the environmental targets, there was a target due for completion in April but it has not yet been completed. He stated this will be done in July or August. In reviewing the quilt included in the meeting papers, it was noted that there had been some delay in the integration area due to the Corporate focus on the outages suffered in the Newfoundland and Labrador Hydro system in January. He stated that organizational changes have been made to address this item.

John Quaicoe, a member of Muskrat Falls Corporation Board of Directors and Desmond Whalen member of the Labrador-Island Link Operating Corporation Board of Directors joined the meeting by phone at this time.

June Perry joined the meeting at this time.

37. MUSKRAT FALLS PROJECT – VALUE AND COST UPDATE

Messrs. Martin and Bennett reviewed a presentation providing a value and cost update on the Muskrat Falls Project, a copy of which was distributed at the meeting. Those individuals who participated by phone had received a copy of the presentation prior to the meeting.

Mr. Martin explained that up to that point in time financial information relating to the Muskrat Falls Project had been withheld due to its commercially sensitive nature. However, the Project had reached a point where release of financial information was possible and a press conference would be held during the following week at which financial information will be released. Mr. Martin reviewed the presentation and noted that there had been two lost time incidents, both involving contractors in the forestry clearing work. He stated that a great deal of work has been undertaken to get the contractors aligned from a safety approach perspective. He stated that the Project does compare favourably with other mega projects with respect to safety performance.

Mr. Bennett reviewed the section of the presentation related to investing in Muskrat Falls. There has been a focus on providing the greatest long-term value to the Province in developing Muskrat Falls. Investments have been made to improve reliability and productivity and this has contributed to increases in cost.

Mr. Bennett then reviewed the project progress and the major activities that have been undertaken to date. He stated that approximately 98% of project engineering has been completed and over 90% of procurement contracts have been awarded or substantially advanced. In 2014 the major activities will include concrete placement in Muskrat Falls, the commencement of transmission line

construction between Muskrat Falls and Churchill Falls, awarding the final major contracts and commencement of construction work on the Labrador-Island Link. Mr. Bennett reviewed the benefits of the Project, including employment, economic and income benefits, which were outlined in the presentation.

Mr. Bennett then reviewed the components of the project value, which is a function of revenue, cost, quality/reliability and schedule. The revenues are comprised of domestic electricity sales, water rentals, revenue achieved through excess power sales and other storage/transmission opportunities. Costs are comprised of capital, financing and operating costs.

With respect to changes in the capital cost, at Sanction the estimated capital cost was \$6.2 billion. These have increased to \$6.99 billion. This increase in cost is comprised of \$533 million invested in project enhancements and \$235 million from market influences. Financing costs have decreased by \$300 million since Sanction. There has been no change in operating costs. On the revenue side, there has been an increase of \$100 million as a result of the excess energy Agreement between Nalcor and Emera Inc.

The risk of further significant increases in capital costs are being mitigated by the fact that almost all of the engineering has been completed and most of the contracts have been let, however, there could be further cost increases as the project proceeds.

Mr. Bennett reviewed the revenue component and a breakdown of the capital cost changes, as well as productivity and performance enhancements that have been undertaken. Mr. Bennett then reviewed the quality and system reliability improvements as outlined in the presentation, as well as the market conditions drivers.

Mr. McDonald left the meeting at this time.

Mr. Bennett reviewed the capital cost outlook as outlined in the presentation and the cost changes by the project component. The Project Oversight section of the presentation was noted. Mr. Martin stated this would be the subject of a more detailed presentation at a future meeting.

Mr. Martin discussed the impact on rates of the increased costs. He reviewed ways to mitigate the resultant rate increase. He stated that various scenarios in this regard have been presented to Government. They will consider these and it is ultimately the decision of Government as to whether there will be anything done to address the rate increase.

Ms. Perry stated that in her opinion it is important to benchmark the increase in capital costs against other mega projects. The Board agreed that it is important to do this as well as a comparison of financing costs, safety metrics, environmental metrics, etc.

Mr. Whalen and Mr. Quaicoe left the meeting at this time.

38. COMPLIANCE CERTIFICATE

The Corporate Compliance Certificate included in the meeting papers was noted.

**39. CODE OF BUSINESS CONDUCT AND ETHICS
COMPLIANCE REPORT**

Prior to the meeting, a copy of the Annual Activity and Compliance Report relating to the Code of Business Conduct and Ethics was distributed to the Board members. Mr. Bennett reviewed this report. He stated that there were six formal complaints related to respect and dignity in the workplace, as well as 29 other complaints which were resolved informally. He then reviewed the complaint

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outlined in the report related to a conflict of interest. He stated that HR and Internal Audit were involved and it was determined that no benefit was received by an employee or direct contractor of the Corporation. However, management took the opportunity to remind everyone of the existence of the Code of Conduct and emphasize the need to follow it.

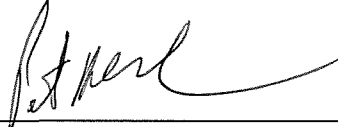
Mr. Martin noted that all of the Nalcor group of companies will be included under the recently adopted whistle blower legislation.

40. IN CAMERA SESSION

Messrs. Martin, Sturge, Bennett, Meaney and Hickman left the meeting at this time. Ms. Perry and Ms. Stone then held an in camera session.

41. TERMINATION

There being no further business, the meeting was terminated.



Secretary

Verified at a meeting held on

November 21, 2014



Chairperson