

**CONSTRUCTION REPORT**  
**LIL Project Finance Agreement**

Date: 20-August-2015

**THE TORONTO-DOMINION BANK**  
 AS COLLATERAL AGENT  
 66 Wellington Street West  
 9th Floor  
 Toronto, Ontario M5K 1A2

**MWH CANADA INC.**  
 AS INDEPENDENT ENGINEER  
 505 Burrard Street, Suite 1500  
 One Bentall Centre  
 Vancouver, BC V7X 1M5

Ladies and Gentlemen:

We refer you to the amended and restated financing agreement dated as of July 16, 2015 entered into among Labrador - Island Link Limited Partnership (the "**Partnership**"), as borrower LIL Construction Project Trust (the "**Intermediary Trust**"), as lender, Labrador - Island Link Operating Corporation ("**Opc**") and Labrador - Island Link General Partner Corporation (the "**General Partner**"), as credit parties, and The Toronto-Dominion Bank, as collateral agent (the "**Collateral Agent**") (said agreement, as same may be amended, supplemented or restated from time to time is hereinafter referred to as the "**LIL Project Finance Agreement**").

We also refer you to the amended and restated master definitions agreement entered into among, *inter alia*, the Collateral Agent, BNY Trust Company of Canada, as issuer trustee of Labrador-Island Link Funding Trust, BNY Trust Company of Canada, as trustee of the Intermediary Trust, Nalcor Energy, Labrador-Island Link Holding Corporation, Her Majesty The Queen In Right of the Province of Newfoundland and Labrador, the Partnership, as an obligor, Opc, as an obligor, the General Partner, as an obligor, and Computershare Trust Company of Canada, as the security trustee (said agreement, as same may be amended, supplemented or restated from time to time is hereinafter referred to as the "**MDA**").

Unless otherwise defined herein or unless there be something in the subject or the context inconsistent therewith, all capitalized terms and expressions used herein shall have the same meaning as that ascribed to them from time to time in the MDA.

This Construction Report is delivered to you pursuant to subsection 7.3.2 and Section 11.3 of the LIL Project Finance Agreement in respect of the month ending on 31-July-2015 (the "**Applicable Month**").

I, Gilbert Bennett, the undersigned, Vice-President of Devco, and as Vice-President of the General Partner, in my capacity as an officer and without personal liability, do hereby certify that:

1. I have conducted such investigations as I have deemed necessary to provide the information set out in this report and in so doing I have verified all engineering related matters with a licensed professional engineer working on our behalf in respect of the Project;


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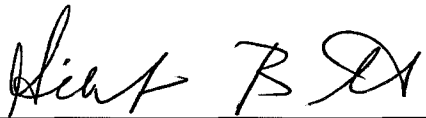
2. Attached hereto as Schedule "A" is a true and accurate table detailing the Hard Costs incurred during the Applicable Month and compared as against the original Project Budget;
3. Attached hereto as Schedule "B" is a true and accurate analysis of the Cost to Complete, as it relates to Hard Costs, as at the end of the Applicable Month;
4. Attached hereto as Schedule "C" is a true and accurate analysis of the Cost Variances, as they relate to Hard Costs, as at the end of the Applicable Month, with a narrative explanation as to any variances from the original Project Budget;
5. The estimated Commissioning Date is currently 01-June-2018. Please refer to Schedule "D" hereto for details;
6. There are no material disputes with any Material Project Participant or related claims against the Partnership, other than as set out in Schedule "E" hereto;
7. Attached hereto as Schedule "F" is a true and accurate report describing the progress of the construction of the Project since the Previous Construction Report and compared as against the originally established milestone in the Project Schedule;
8. The Project is being built substantially in all respects in accordance with the Project Plans and Good Utility Practice;
9. Subject to Sections 9.5 and 9.14 of the LIL Project Finance Agreement, I have no reason to believe that the Project is being built in violation of any Applicable Laws or Authorizations in effect at the time of performance of the relevant work;
10. Subject to Sections 9.5 and 9.14 of the LIL Project Finance Agreement, all Material Project Participants and other Persons participating or working toward the Commissioning of the Project, to the best of my Knowledge, are not in material default with respect to any of their respective obligations which would delay Commissioning beyond the Date Certain and the Partnership is not in material default in the payment of any sums due to such Persons in accordance with the terms agreed upon or in the fulfilment of any of its obligations with respect to such Persons, save and except with respect to such payments or obligations which the Partnership shall be contesting diligently and in good faith and in respect of which, in the event that such contestation should prove unsuccessful, no Lien shall be created or result upon or with respect to any LIL Assets and Rights now owned or hereafter acquired by the Partnership, except for Permitted Encumbrances;
11. Subject to Sections 9.5 and 9.14 of the LIL Project Finance Agreement, all Authorizations which, under Applicable Law, as at the date hereof, are necessary to have been obtained in connection with the Project and the work currently being performed on the Project, have been obtained and are in full force and effect and do not contain any condition which could prevent or adversely affect the ability of the Partnership of attaining Commissioning by the Date Certain; and

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12. Attached hereto as Schedule "G" is a true and complete copy of each of the Additional Material Project Documents entered into by the Partnership since the Previous Construction Report.

Signed at St. John's, Newfoundland and Labrador, this 20<sup>th</sup> day of August, 2015.

  
\_\_\_\_\_  
Name: Gilbert Bennett, P. Eng.  
Title: Vice-President of the General Partner

  
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Name: Gilbert Bennett, P. Eng.  
Title: Vice-President of Devco

**SCHEDULE "A"**

**Schedule "A" - Summary of Project Budget - Hard Costs  
Lower Churchill Project-Phase 1  
Labrador-Island Transmission Link (LIL)  
Period Ending 31-July-2015**

Description	Initial Project Budget	Project Budget	Planned Costs		Incurred Costs	
			Current Period	Project-to-Date	Current Period	Project-to-Date
NE-LCP Owners Team, Admin and EPCM Services	\$247,074	\$225,814	\$2,699	\$128,658	\$2,859	\$134,764
Feasibility Engineering	\$34,012	\$21,252	\$0	\$21,252	\$0	\$21,252
Environmental & Regulatory Compliance	\$25,768	\$22,306	\$339	\$12,489	\$604	\$9,630
Aboriginal Affairs	\$2,244	\$2,244	\$51	\$1,116	\$1	\$453
Procurement & Construction	\$2,135,212	\$2,426,095	\$94,206	\$940,795	\$86,084	\$774,863
Commercial & Legal	\$22,490	\$16,490	\$5	\$16,334	\$145	\$13,176
Contingency	\$79,355	\$72,280	\$2,530	\$22,045	\$0	\$0
<b>Total</b>	<b>\$2,546,155</b>	<b>\$2,786,480</b>	<b>\$99,830</b>	<b>\$1,142,690</b>	<b>\$89,693</b>	<b>\$954,138</b>

Note 1: Costs in CAD (\$ Thousands)

Note 2: Initial Project Budget represents baseline set at Financial Close in November 2013

Note 3: Project Budget represents Authorization for Expenditure (AFE) approved by the Board of Directors in June 2014

Note 4: Analysis and statements made with regard to variances are reflective of Project Budget, not Initial Project Budget

Analysis:

Incurred Costs for the Current Period and Project-to-Date are lower than planned, primarily as a result of lower than estimated progress on the HVdc Transmission Line in the category of “Procurement & Construction”. Although construction activities on the transmission line have resumed, the impact of the spring thaw on productivity previously resulting in a temporary reduction in crews, delaying work, and the continued increased focus on construction activities for the HVac Transmission Line, factor into the variance between planned and incurred costs in this category,

The incurring of the Contingency is reflected within the incurred and future incurred costs in the above categories as and where the work is performed.

**SCHEDULE "B"**

**Schedule "B" - Summary of Cost to Complete  
Lower Churchill Project-Phase 1  
Labrador-Island Transmission Link (LIL)  
Period Ending 31-July-2015**

Description	Initial Project Budget	Project Budget	Incurred Costs Project-to-Date	Final Forecast Cost (FFC)	Cost to Complete
NE-LCP Owners Team, Admin and EPCM Services	\$247,074	\$225,814	\$134,764	\$221,293	\$86,528
Feasibility Engineering	\$34,012	\$21,252	\$21,252	\$21,252	\$0
Environmental & Regulatory Compliance	\$25,768	\$22,306	\$9,630	\$18,306	\$8,676
Aboriginal Affairs	\$2,244	\$2,244	\$453	\$2,244	\$1,792
Procurement & Construction	\$2,135,212	\$2,426,095	\$774,863	\$2,451,406	\$1,676,544
Commercial & Legal	\$22,490	\$16,490	\$13,176	\$16,490	\$3,314
Contingency	\$79,355	\$72,280	\$0	\$55,489	\$55,489
<b>Total</b>	<b>\$2,546,155</b>	<b>\$2,786,480</b>	<b>\$954,138</b>	<b>\$2,786,480</b>	<b>\$1,832,343</b>

Note 1: Costs in CAD (\$ Thousands)

Note 2: Initial Project Budget represents baseline set at Financial Close in November 2013

Note 3: Project Budget represents Authorization for Expenditure (AFE) approved by the Board of Directors in June 2014

Note 4: Analysis and statements made with regard to variances are reflective of Project Budget, not Initial Project Budget

Analysis:

The Cost to Complete for “Feasibility Engineering” remains unchanged from the previous period.

The Cost to Complete for “Procurement & Construction” has decreased from last month due to the incurred cost this period notwithstanding the increase in Final Forecast Cost for this category, and continues to remain significant as construction activities for work in progress are ongoing.

The Cost to Complete for “Contingency” has decreased as a result of the decrease in Final Forecast Cost for this category.

The Cost to Complete for all other categories has decreased from last month by the incurred cost this period as the Final Forecast Cost remains unchanged from the last reporting period.

**SCHEDULE "C"**

**Schedule "C" - Summary of Cost Variances  
Lower Churchill Project-Phase 1  
Labrador-Island Transmission Link (LIL)  
Period Ending 31-July-2015**

Description	Initial Project Budget	Project Budget	Final Forecast Cost (FFC)	Variance
NE-LCP Owners Team, Admin and EPCM Services	\$247,074	\$225,814	\$221,293	-\$4,521
Feasibility Engineering	\$34,012	\$21,252	\$21,252	\$0
Environmental & Regulatory Compliance	\$25,768	\$22,306	\$18,306	-\$4,000
Aboriginal Affairs	\$2,244	\$2,244	\$2,244	\$0
Procurement & Construction	\$2,135,212	\$2,426,095	\$2,451,406	\$25,311
Commercial & Legal	\$22,490	\$16,490	\$16,490	\$0
Contingency	\$79,355	\$72,280	\$55,489	-\$16,790
<b>Total</b>	<b>\$2,546,155</b>	<b>\$2,786,480</b>	<b>\$2,786,480</b>	<b>\$0</b>

Note 1: Costs in CAD (\$ Thousands)

Note 2: Initial Project Budget represents baseline set at Financial Close in November 2013

Note 3: Project Budget represents Authorization for Expenditure (AFE) approved by the Board of Directors in June 2014

Note 4: Analysis and statements made with regard to variances are reflective of Project Budget, not Initial Project Budget

Analysis:

The Final Forecast Cost for “Procurement and Construction” has increased during the current reporting period by \$12,707, primarily as a result of clearing cost increases on the HVdc Transmission Line under CT0327, and additional quantities and redesign of various zones on the line due to maximum wind load requirements under PT0330; offset by savings due to the removal of fibre optic cable from the wood pole electrode line between Soldier’s Pond and Holyrood under CT0342. As a result of the above, the variance has increased from \$12,604 as reported last period.

The Final Forecast Cost for “Contingency” has decreased by a net amount of \$12,707 as a result of the changes described above.

The Final Forecast Costs for all other categories remain unchanged from the last reporting period, and there is no change to the overall Final Forecast Cost for LIL.

**SCHEDULE "D"**

Due to the schedule review under Muskrat Falls, the Commissioning Date of 01-June-2018 set forth in the LIL Project Schedule is under review; however it is anticipated not to extend past the Date Certain.

**SCHEDULE "E"**

There are currently no material disputes with any Material Project Participant, or related claims against the Partnership.

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**SCHEDULE "F"**

<b>Milestone Description</b>	<b>Planned</b>	<b>Actual/Forecast</b>	<b>Status</b>
Project Sanction	17-Dec-2012	17-Dec-2012	Achieved
SOBI Cable Systems Ready	25-Oct-2016	25-Oct-2016	
Muskrat Falls Switchyard and Converter Station Ready for Operation	28-Feb-2017	24-July-2017	
HVdc Transmission Line Construction Complete and Connected	30-Jun-2017	03-July-2017	
Soldier's Pond Switchyard and Converter Station Ready for Operation	04-Oct-2017	24-July-2017	
Ready for Power Transmission	04-Oct-2017	22-Sept-2017	
Soldier's Pond Synchronous Condenser Ready for Operation	13-Nov-2017	17-June-2017	
Commissioning Complete - Commissioning Certificate Issued	01-Jun-2018	01-Jun-2018	Under Review (as a result of noted MF schedule review)
Date Certain	28-Feb-2019	28-Feb-2019	

**Construction Narrative:**

Manufacturing and testing of the submarine cable in Japan under contract LC-SB-003 continues to progress as planned. Armouring protection manufacturing of Cable Batch No. 3 commenced during the period, with FAT on schedule for completion by October 2015. All land cables for installation at the transition compounds are in Halifax port with delivery to site scheduled for mid-August. Marine termination construction at the SOBI site continued during the period, along with quayside construction activities. Civil works for the land cable vault termination areas at Shoal Cove and Forteau Point reached substantial completion, with land cable installation scheduled for August once LC-SB-003 personnel staff and equipment have mobilized.

ROW clearing and access development is proceeding well under the various CT0327 clearing contracts. By the end of July, approximately 1,571 hectares had been cleared to date in Labrador representing 66% complete of the clearing required for the region, and approximately 1,321 hectares cleared to date in Newfoundland representing 31% of the clearing required on the Island.

Mass fabrication activities of material for the HVdc transmission line towers are continuing in Texas, Dubai and India, and receiving, storage and handling activities at both the Port of Argentia marshalling yard and the Labrador marshalling yard to support HVdc construction is ongoing.

By the end of July quantities produced were as follows: 313 foundations installed, 435 towers assembled and 57 erected, out of a total of 1284; and 75 guy anchors tested, out of 137 installed, of an overall total of 1147.

Work is continuing on the preparation of management, technical, and commercial deliverables under contracts CD0501 for the Supply and Installation of Converters and Cable Transition Compounds, CD0502 for Construction of AC Substations and CD0534 for EPC Synchronous Condensers at Soldiers Pond. Fabrication and Factory Acceptance Testing remains for three Soldier's Pond transformers under PD0537 for Supply of Power Transformers, AC Substations at facilities in St. Louis. Civil works activity for the Soldier's Pond Switchyard and Converter Station commenced under CD0504 during the period. Excavation activities and work on concrete foundations was started in the Valve Hall and Control Building areas, along with footings and foundations for the gantries. Fabrication activities are ongoing under CD0534, and civil works activity at the Soldier's Pond site continued with excavation of building foundation and piling, along with preparations for drilling of the second water well.

Work is progressing well and ahead of schedule under Contract CD0508 for Supply and Install of Electrode Sites in support of construction of the two electrode stations. Installation of the electrode well was completed at the Dowden's Point site in Conception Bay South, Newfoundland; and drilling and blasting activities resumed at the L'Anse au Diable site in the Strait of Belle Isle area of Labrador, along with the continuation of placement of core material, filter and armour stone, along with sorting and hauling of armour stone following quarry blasting activities.

**SCHEDULE "G"**

There were no Additional Material Project Documents entered into since the Previous Construction Report.

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