

CONSTRUCTION REPORT
LIL Project Finance Agreement

Date: 20-January-2018

THE TORONTO-DOMINION BANK

AS COLLATERAL AGENT
66 Wellington Street West
9th Floor
Toronto, Ontario M5K 1A2

ARGIROV ENGINEERING

AS INDEPENDENT ENGINEER
803-633 Kinghorne Mews
Vancouver, BC V6Z 3H3

Ladies and Gentlemen:

We refer you to the second amended and restated financing agreement dated as of May 10, 2017 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 ("**Opco**") 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 further amended, supplemented or restated from time to time is hereinafter referred to as the "**LIL Project Finance Agreement**").

We also refer you to the second amended and restated master definitions agreement dated as of May 10, 2017 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 In Right of the Province of Newfoundland and Labrador, the Partnership, as an obligor, Opco, as an obligor, the General Partner, as an obligor, and Computershare Trust Company of Canada, as security trustee (said agreement, as same may be further 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-December-2017 (the "**Applicable Month**").

I, John MacIsaac, the undersigned, the Executive Vice President, Power Supply, of the General Partner, and Chairperson, of Devco, 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;
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 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 Project Budget;
 5. The estimated Commissioning Date is currently 01-Sept-2020.
 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 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

- 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 20th day of January, 2018.



Name: John MacIsaac, P. Eng.
Title: Executive Vice President, Power Supply, of the General Partner



Name: John MacIsaac, P. Eng.
Title: Chairperson, 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-December-2017**

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	\$322,101	\$4,774	\$274,828	\$3,523	\$274,954
Feasibility Engineering	\$34,012	\$19,167	\$0	\$19,167	\$0	\$19,167
Environmental & Regulatory Compliance	\$25,768	\$14,726	\$134	\$12,312	-\$160	\$11,410
Aboriginal Affairs	\$2,244	\$1,003	\$16	\$710	\$0	\$612
Procurement & Construction	\$2,135,212	\$3,233,690	\$78,840	\$3,152,285	\$31,970	\$3,036,353
Commercial & Legal	\$22,490	\$30,280	\$621	\$19,110	-\$110	\$17,242
Contingency	\$79,355	\$102,750	\$0	\$0	\$0	\$0
Total	\$2,546,155	\$3,723,716	\$84,385	\$3,478,412	\$35,224	\$3,359,738

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 on June 21, 2017

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 are lower than Project Budget baseline primarily in the category of "Procurement & Construction" due to lower than planned incurred for the HVdc Transmission Line under Contract CT0327; the Muskrat Falls and Soldiers Pond Converter Stations under Contract CD0501; balance of scope for the Strait of Belle Isle; and balance of scope for the Electrode Sites under Contract CD0508. This is offset by incurred costs for the current period being higher than Project Budget Baseline for the Synchronous Condensers under Contract CD0534; Construction of the Soldiers Pond Switchyard under Contract CD0502; and Construction of the HVac 230 kV modifications and Island Electrode Line under Contract CT0342. Overall, Incurred Costs Project-to-Date are lower than Project Budget Baseline in this category.

Incurred Costs for the Current Period are lower than Project Budget Baseline, however, are higher than Project Budget Baseline Project-to-Date in the category of "Owners Team, Admin and EPCM Services".

Incurred Costs for the Current Period and Project-to-Date in the categories of "Feasibility Engineering", and "Aboriginal Affairs" remain unchanged from the last reporting period.

Incurred Costs for the Current Period and Project-to-Date are lower than Project Budget Baseline in the categories of "Environmental & Regulatory Compliance", and "Commercial & Legal". The net negative incurred noted in both categories this month is as a result of the asset allocation adjustment completed at year end.

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-December-2017**

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	\$322,101	\$274,954	\$322,292	\$47,338
Feasibility Engineering	\$34,012	\$19,167	\$19,167	\$19,167	\$0
Environmental & Regulatory Compliance	\$25,768	\$14,726	\$11,410	\$14,726	\$3,317
Aboriginal Affairs	\$2,244	\$1,003	\$612	\$1,038	\$425
Procurement & Construction	\$2,135,212	\$3,233,690	\$3,036,353	\$3,205,370	\$169,017
Commercial & Legal	\$22,490	\$30,280	\$17,242	\$30,662	\$13,420
Contingency	\$79,355	\$102,750	\$0	\$130,462	\$130,462
Total	\$2,546,155	\$3,723,716	\$3,359,738	\$3,723,716	\$363,979

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 on June 21, 2017

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 “Owners Team, Admin and EPCM Services” has decreased from last month due to the incurred costs this period, along with the decrease in Final Forecast Cost for this category.

The Cost to Complete for “Feasibility Engineering”, and “Aboriginal Affairs” remains unchanged from the last reporting period.

The Cost to Complete for “Environmental & Regulatory Compliance” has increased as a result of the year end adjustment completed in the current reporting period as described in Schedule “A”.

The Cost to Complete for “Procurement & Construction” has decreased from last month due to the incurred costs this period, as well as the decrease 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 “Commercial & Legal” has increased from last month as a result of the increase in Final Forecast Cost for this category.

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

SCHEDULE "C"**Schedule "C" - Summary of Cost Variances
Lower Churchill Project-Phase 1
Labrador-Island Transmission Link (LIL)
Period Ending 31-December-2017**

Description	Initial Project Budget	Project Budget	Final Forecast Cost (FFC)	Variance
NE-LCP Owners Team, Admin and EPCM Services	\$247,074	\$322,101	\$322,292	\$191
Feasibility Engineering	\$34,012	\$19,167	\$19,167	\$0
Environmental & Regulatory Compliance	\$25,768	\$14,726	\$14,726	\$0
Aboriginal Affairs	\$2,244	\$1,003	\$1,038	\$35
Procurement & Construction	\$2,135,212	\$3,233,690	\$3,205,370	-\$28,320
Commercial & Legal	\$22,490	\$30,280	\$30,662	\$382
Contingency	\$79,355	\$102,750	\$130,462	\$27,712
Total	\$2,546,155	\$3,723,716	\$3,723,716	\$0

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 on June 21, 2017

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 "Owners Team, Admin and EPCM Services" has decreased during the current reporting period by \$297, primarily as a result of the transfer of costs to the category of "Commercial & Legal" as a result of a coding adjustment; offset by costs associated with supply and install of concrete barriers to protect guy wires. As a result of the above, the variance has decreased from \$488 as reported last period.

The Final Forecast Cost for "Procurement & Construction" has decreased during the current reporting period by \$50,017 primarily as a result of resolution of the insurance claim with respect to the conductor proud stranding; close out of procurement packages associated with the HVdc Transmission Line; savings identified with respect to camp services at Muskrat Falls under Contract SH0018; savings identified under the SOBI balance of scope; cost allocation adjustment with respect to the Amending Agreement with Contractor for the Converter Stations and Transition Compounds, and the Soldiers Pond Switchyard under Contracts CD0501 and CD0502 respectively; savings identified within the HVdc TL scope of work under Contract CT0327; and cancellation of remaining budget for the marshalling yard under Contract CT0354. This is offset by costs associated with the replacement of penta poles along the Labrador Electrode Line; along with a coding adjustment with respect to the access road for the MF Converter Station. As a result of the above, the net variance in this category has decreased from \$21,696 as reported last period.

The Final Forecast Cost for "Commercial & Legal" has increased by \$382 as a result of the transfer of costs from the category of "Owners Team, Admin and EPCM Services" noted above. As a result of the above, the variance has increased from \$0 as reported last period.

The Final Forecast Cost for “Contingency” has increased by a net amount of \$49,931 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"

The estimated Commissioning Date is 01-Sept-2020 set forth in the LIL Project Schedule.

SCHEDULE "E"

In December 2016, the CD0504-002 Contractor for the civil works for the HVdc Converter Station at Muskrat Falls (CD0501) and the Muskrat Falls and Churchill Falls AC Substations (CD0502) submitted a formal Statement of Claim with the Supreme Court of Newfoundland & Labrador for costs associated with Lien Nos 18251 and 18252 to recover costs associated with schedule delays and changes in their scope of work.

In January 2017, the CD0504-002 Contractor made a claim presentation to the Contractor for the HVdc Converter Station at Muskrat Falls (CD0501) and the Contractor for the HVac Substations at Churchill Falls and Muskrat Falls, and Labrador Transco/General Partner, setting the basis for their claim. A forensic cost review of the actual losses by the CD0504-002 Contractor was completed by Labrador Transco/General Partner.

In July 2017, the CD0504-002 Contractor formally submitted a detailed claim for the Churchill Falls AC Substation scope (CD0502).

In late November 2017, Labrador Transco/General Partner presented its assessment of the CD0504-002 Contractor's claim with respect to the Churchill Falls AC Substation (CD0502); and an offer of settlement was presented to the CD0504-002 Contractor to settle all claims with respect to the Muskrat Falls and Churchill Falls scope of work. The offer was rejected; and discussions are ongoing in an attempt to resolve the claims.

In late September 2017, Locke's Electrical Limited, Subcontractor to the Contractor for the AC Substation at Soldiers Pond (CD0502) submitted a formal Statement of Claim with the Supreme Court of Newfoundland & Labrador for costs associated with Lien 18593 to recover costs associated with materials provided, and work and services performed within their scope of work. Discussions surrounding this claim are ongoing, and this Lien is expected to be vacated by the CD0502 Contractor.

In October 2017, Capital Crane Limited, Subcontractor to the Contractor for the Muskrat Falls and Soldiers Pond Converter Stations (CD0501) submitted a formal Statement of Claim with the the Supreme Court of Newfoundland & Labrador for costs associated with Lien 18627 to recover costs associated with materials provided, and work and services performed specifically with respect to delivery of the transformers. Discussions surrounding this claim are ongoing, and this Lien is expected to be vacated by the CD0501 Contractor.

In November 2017, J.D. Myles Construction Inc., Subcontractor to the Contractor for the Muskrat Falls and Soldiers Pond Converter Stations (CD0501) submitted a formal Statement of Claim with the the Supreme Court of Newfoundland & Labrador for costs associated with Lien 18629 to recover costs associated with materials provided, and work and services performed specifically with respect to delivery of the transformers. Discussions surrounding this claim are ongoing, and this Lien is expected to be vacated by the CD0501 Contractor.

SCHEDULE "F"

Milestone Description	Initial Project Schedule	Planned ⁽¹⁾	Actual/Forecast ⁽²⁾	Status
Project Sanction	17-Dec-2012	17-Dec-2012	17-Dec-2012	Achieved
SOBI Cable Systems Ready	25-Oct-2016	09-Dec-2016	09-Dec-2016	Achieved
Soldiers Pond Switchyard Ready to Energize	N/A	31-Aug-2017	24-Aug-2017	Achieved
Ready for Power Transmission (LTA)	31-May-2017	31-Dec-2017	12-Mar-2018	
Muskrat Falls Converter Station Ready to Energize (Pole 1)	28-Feb-2017	01-Jun-2018	13-May-2018	Updated forecast from last period; continuing to track in compliance with Plan. Critical path continues to be Protection & Controls. See additional comments in Construction Narrative below.
HVdc Transmission Line Construction Complete	30-Jun-2017	31-Dec-2017	27-Nov-2017	Achieved

Milestone Description	Initial Project Schedule	Planned ⁽¹⁾	Actual/Forecast ⁽²⁾	Status
Soldiers Pond Converter Station Ready to Energize (Pole 1)	04-Oct-2017	01-Jun-2018	29-Apr-2018	Updated forecast from last period; continuing to track in compliance with Plan. Critical path continues to be Protection & Controls. See additional comments in Construction Narrative below.
1 st Power Transfer (Pole 1)	N/A	01-Jul-2018	05-Jun-2018	Updated forecast from last period; continuing to track in compliance with Plan. See additional comments in Construction Narrative below.
Soldiers Pond Synchronous Condenser Ready for Operation	13-Nov-2017	01-Jun-2018	23-Aug-2018	Recovery in forecast from last period. Not required for 1st Power.
Ready for Power Transmission (Low Load Testing Complete Pole 1)	04-Oct-2017	01-Dec-2018	04-Aug-2018	Updated forecast from last period; continuing to track in compliance with Plan.
Muskrat Falls and Soldiers Pond Converter Stations – Bipole Dynamic Testing Complete	N/A	31-Mar-2019	27-Feb-2019	Updated forecast from last period; continuing to track in compliance with Plan.

Milestone Description	Initial Project Schedule	Planned ⁽¹⁾	Actual/Forecast ⁽²⁾	Status
Commissioning Complete - Commissioning Certificate Issued	01-Jun-2018	01-Sep-2020	01-Sep-2020	
Date Certain	28-Feb-2019	28-Feb-2021	28-Feb-2021	

(1) Reflects Project Schedule associated with the Project Budget established on June 21, 2017, which was based upon the high end (P75) probabilistic range of most likely outcomes resulting from the Quantitative Cost and Schedule Risk Analysis.

(2) Reflects latest published forecast with any potential schedule risk beyond this outlined in the Status update.

Construction Narrative:

As noted in Schedule “F”, Ready to Energize (Pole 1) Milestones for the Muskrat Falls and Soldiers Pond Converter Stations, and subsequent 1st Power Transfer and Ready for Power Transmission, are reporting updated forecast dates for the current reporting period; however, are tracking in compliance with Plan. This adjustment is based on the year end assessment completed for 2017, and revised dates reflected in the updated Amending Agreement with Contractor for the Converter Stations and Transition Compounds. Mitigation measures, primarily the deployment of incremental resources, are in place to support the revised 1st Power Transfer date of June 5, 2018.

As previously reported, all Construction activities on the HVdc Transmission Line are complete. Overall, 3,223 towers have been erected across the HVdc TL, with a total of 1090 km strung (396 km in Labrador-Segment 1 and 2; and 694 km on the Island-Segments 3, 4 and 5).

All “A” priority reclamation work in Labrador and on the Island has been completed, with remaining “B” priority work planned for execution in Spring 2018. Third party inspections are complete.

Work is continuing under contracts CD0502 for Construction of AC Substations, CD0501 for the Supply and Installation of Converters and Cable Transition Compounds, and CD0534 for the Synchronous Condensers at Soldiers Pond. At the Soldiers Pond AC Switchyard, clean up and punch list work is continuing; and as previously reported, commissioning and energization of the Soldiers Pond Switchyard is complete, the Yard is fully operational and under the control of Newfoundland and Labrador Hydro.

At the Soldiers Pond Converter Station, pressure testing of Pole 1 & Pole 2 quadrivalves is complete; and installation of shield wire in the AC and DC yards is nearing completion. Installation of main capacitors for the AC filter Bank no. 1 continued; along with deficiency

work on the converter transformers; as well as cable pulling and terminating in the AC Filter Area; AC Yard; DC yard; Valve Cooling Plant (VCP) room; Control Room; Protection and Control Room, Star Delta and Valve Hall. All Converter transformers are dressed, and oil processing complete, for Pole 1.

At Muskrat Falls, valve assembly for Pole 2 is nearing completion, and awaiting a replacement module; nitrogen purge of all valve modules is complete for Pole 1. Battery Room Pole 1 is complete, with Pole 2 terminations ongoing and MCC in Pole 2 HVAC nearing completion. Installation of jumpers from F1 to F2 capacitors to bus, is ongoing; along with breaker and disconnect cabling and terminations; installation of LV capacitors in the DC yard; cable pulling and terminations. Converter transformer outfitting for Pole 1 and oil processing are complete; Pole 2 is progressing and nearing completion. Factory Acceptance Testing (FAT) was completed for the GL316D high speed switch & associated control cabinets, the ELFL reactor, and DC voltage divider (1 type).

Mechanical completion walkdowns are ongoing at both the Muskrat Falls and Soldiers Pond Converter Stations. At Muskrat Falls, commissioning activities are ongoing for MFACS – TFR Panel Pole 1, Distribution Panel 1A, HVAC-600V MCC, and Battery Chargers-125Vdc and 48Vdc. At Soldiers Pond, commissioning of VCP Room Pole 1 and AC Yard Pole 1 are underway.

Work at the Transition Compounds in Forteau Point and Shoal Cove is continuing to progress. At Forteau Point, ground mats were placed and connected to grid; point-to-point megger checks continued; along with ongoing grounding in junction boxes and indoor panels. At Shoal Cove, installation of safety switches was completed; point-to-point megger checks continued, along with cable terminations in electrical panels, and the installation of ground mats.

At the Soldiers Pond Synchronous Condenser site, as previously reported, construction of the UPS extension is complete (mechanical and electrical fitup to commence); and assembly of the synchronous condenser is nearing completion, with collector assembly ongoing. Electrical gallery and machine hall cable pulling is ongoing, as well as installation of the hydrogen storage shelter, and water treatment system. Installation commenced for medium voltage (MV) switchgear, B3 and B5 switchgear lineups; installation works for low voltage (LV) switchboards is progressing; and the diesel generator delivered to the Soldiers Pond Site and placed on foundation. Commissioning activities are underway-mechanical completion walkdowns have commenced, with grounding grid, main circuit breakers and 125dc complete, and protection panels underway; and static commissioning checks are underway for the 125dc battery system and main circuit breakers.

SCHEDULE "G"

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