

CONSTRUCTION REPORT
LIL Project Finance Agreement

Date: 20-April-2014

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 financing agreement dated as of November 29, 2013 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 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 (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-March-2014 (the "**Applicable Month**").

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

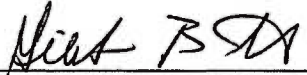
1. I have conducted such investigations as I have deemed necessary to provide the information set out in this report and in so doing I have verified all engineering related matters with a licensed professional engineer working on our behalf in respect of the Project;

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 original Project Budget;
3. Attached hereto as Schedule "B" is a true and accurate analysis of the Cost to Complete 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 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;
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 17th day of April, 2014.



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

SCHEDULE "A"

**Schedule "A" - Summary of Project Budget - Hard Costs
Lower Churchill Project-Phase 1
Labrador-Island Transmission Link (LIL)
Period Ending 31-March-2014**

Description	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	\$4,076	\$92,091	\$2,955	\$84,400
Feasibility Engineering	\$34,012	\$62	\$21,228	\$54	\$21,324
Environmental & Regulatory Compliance	\$25,768	\$394	\$9,646	\$49	\$8,216
Aboriginal Affairs	\$2,244	\$44	\$618	\$0	\$449
Procurement & Construction	\$2,135,212	\$17,743	\$110,851	\$11,114	\$82,621
Commercial & Legal	\$22,490	\$242	\$11,588	-\$6,215	\$16,108
Contingency	\$79,355	\$0	\$0	\$0	\$0
Total	\$2,546,155	\$22,561	\$246,022	\$7,956	\$213,118

Note: Costs in CAD (\$ Thousands)

Analysis:

Incurred Costs for the Current Period and Project-to-Date are behind plan. This remains primarily due to "Procurement and Construction" where there has been a lack of activity relating to un-awarded scope.

The net negative Incurred Cost for the Current Period under "Commercial & Legal" is a result of adjusting entries specific to insurance costs made at end of Q1 between Devco corporate and project accounting systems.

SCHEDULE "B"

**Schedule "B" - Summary of Cost to Complete
Lower Churchill Project-Phase 1
Labrador-Island Transmission Link (LIL)
Period Ending 31-March-2014**

Description	Project Budget	Incurred Costs Project-to-Date	Final Forecast Cost (FFC)	Cost to Complete
NE-LCP Owners Team, Admin and EPCM Services	\$247,074	\$84,400	\$247,074	\$162,674
Feasibility Engineering	\$34,012	\$21,324	\$23,799	\$2,475
Environmental & Regulatory Compliance	\$25,768	\$8,216	\$25,768	\$17,552
Aboriginal Affairs	\$2,244	\$449	\$2,244	\$1,795
Procurement & Construction	\$2,135,212	\$82,621	\$2,145,425	\$2,062,804
Commercial & Legal	\$22,490	\$16,108	\$22,490	\$6,382
Contingency	\$79,355	\$0	\$79,355	\$79,355
Total	\$2,546,155	\$213,118	\$2,546,155	\$2,333,037

Note: Costs in CAD (\$ Thousands)

Analysis:

Note that the Cost to Complete for "Feasibility Engineering" is under review and includes some Owner's costs relating to transition and operational readiness planning. The Final Forecast Cost for this activity will be updated by end of Q2 2014.

As previously reported, the Cost to Complete for "Procurement and Construction" remains significant since there are several major construction contracts for LIL pending award and construction activities for work in progress remain in the early stages.

SCHEDULE "C"

**Schedule "C" - Summary of Cost Variances
Lower Churchill Project-Phase 1
Labrador-Island Transmission Link (LIL)
Period Ending 31-March-2014**

Description	Project Budget	Final Forecast Cost (FFC)	Variance
NE-LCP Owners Team, Admin and EPCM Services	\$247,074	\$247,074	\$0
Feasibility Engineering	\$34,012	\$23,799	-\$10,213
Environmental & Regulatory Compliance	\$25,768	\$25,768	\$0
Aboriginal Affairs	\$2,244	\$2,244	\$0
Procurement & Construction	\$2,135,212	\$2,145,425	\$10,213
Commercial & Legal	\$22,490	\$22,490	\$0
Contingency	\$79,355	\$79,355	\$0
Total	\$2,546,155	\$2,546,155	\$0

Note: Costs in CAD (\$ Thousands)

Analysis:

As reported previously, variances within the Final Forecast Costs between “Feasibility Engineering” and “Procurement & Construction” categories are as a result of the 2013 year end reconciliation between the Devco corporate and project accounting systems, with no change to the overall project budget.

SCHEDULE "D"

There is currently no variance from the planned Commissioning Date of 01-June-2018 set forth in the LIL Project Schedule which would delay the Commissioning Date beyond the Date Certain.

SCHEDULE "E"

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

SCHEDULE "F"

Labrador-Island Link - Milestone Schedule			
Milestone Description	Planned	Actual/Forecast	Status
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	28-Feb-2017	
HVdc Transmission Line Construction Complete and Connected	30-Jun-2017	30-Jun-2017	
Soldier's Pond Switchyard and Converter Station Ready for Operation	04-Oct-2017	04-Oct-2017	
Ready for Power Transmission	04-Oct-2017	04-Oct-2017	
Soldier's Pond Synchronous Condenser Ready for Operation	13-Nov-2017	13-Nov-2017	
Commissioning Complete - Commissioning Certificate Issued	01-Jun-2018	01-Jun-2018	
Date Certain	28-Feb-2019	28-Feb-2019	

Construction Narrative:

Construction of the SOBI cable system is continuing to progress as planned at Shoal Cove, the Newfoundland side of the SOBI crossing. Horizontal directional drilling of the first hole under contract LC-SB-022 was completed in January, and the second one successfully completed during the current period. Drilling of the third and final hole is scheduled to commence in April 2014, with all drilling activities at Shoal Cove scheduled for completion by the end of April.

Preparation of the horizontal directional drilling site is near completion at Forteau Point, the Labrador side of the SOBI crossing, however, finalization of the remaining minor work under LC-SB-021 is temporarily suspended until the spring when weather conditions will be more favorable to complete easily and safely.

Manufacturing of the submarine cable in Japan under contract LC-SB-003 is progressing as planned.

Preparation is underway for mobilization of the site preparation contractor for the Soldier's Pond switchyard and converter station under contract CD0503-002. Mobilization is planned for April 2014 with work to be completed in accordance with the Milestone Schedule.

A Limited Notice to Proceed (LNTP) was executed for CD0501 for the supply and installation of converters and cable transition compounds.

SCHEDULE "G"

There were no Additional Material Project Documents entered into since the Previous Construction Report, however, a Limited Notice to Proceed was entered into for the following:

- CD0501 – Supply and Install Converters and Cable Transition Compounds

Entered into with Alstom Grid - 31-March-2014