

CONSTRUCTION REPORT
Muskrat/LTA 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 Muskrat Falls Corporation ("**Muskrat**") and Labrador Transmission Corporation ("**Labrador Transco**"), as borrowers, Muskrat Falls/Labrador Transmission Assets Funding Trust (the "**Funding Vehicle**"), as lender, 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 "**Muskrat/LTA Project Finance Agreement**").

We also refer you to the master definitions agreement entered into among, *inter alia*, the Collateral Agent and lead arranger, BNY Trust Company of Canada, as issuer trustee of the Funding Vehicle, Computershare Trust Company of Canada, as security trustee, Nalcor Energy, Her Majesty The Queen In Right of the Province of Newfoundland and Labrador, Muskrat, as a credit party, and Labrador Transco, as a credit party (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 7.4.2 and Section 11.3 of the Muskrat/LTA 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, of Muskrat, and of Labrador Transco, without personal liability, do hereby certify the matters set forth in Section A and Section B below:

A. MUSKRAT MATTERS

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 MF Plant.

2. Attached hereto as Part I of Schedule "A" is a true and accurate table detailing the Hard Costs incurred as at the Effective Date in such prior month with respect to the MF Plant by and compared as against the original MF Project Budget.
3. Attached hereto as Part I of Schedule "B" is a true and accurate analysis of the Cost to Complete the MF Plant as at the end of the Applicable Month.
4. Attached hereto as Part I of Schedule "C" is a true and accurate analysis of the Cost Variances for the MF Plant as at the end of the Applicable Month, with a narrative explanation as to any variances.
5. The estimated Commissioning Date is currently 01-June-2018.
6. There are no material disputes with any Material Project Participant related to the MF Plant and any related claims against Muskrat, other than as set out in Part I of Schedule "E" hereto.
7. Attached hereto as Part I of Schedule "F" is a true and accurate report describing the progress of the construction of the MF Plant since the Previous Construction Report.
8. The MF Plant is being built substantially in all respects in accordance with the MF Project Plans and Good Utility Practice.
9. Subject to Sections 9.5 and 9.14 of the Muskrat/LTA Project Finance Agreement, I have no reason to believe that the MF Plant is being built in violation of any Applicable Laws or Authorizations pertaining to the MF Plant in effect at the time of performance of the relevant work.
10. Subject to Sections 9.5 and 9.14 of the Muskrat/LTA Project Finance Agreement, all Authorizations which, under Applicable Law, at such time are necessary to have been obtained in connection with the MF Plant and the work currently being performed on the MF Plant, 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 Credit Parties of attaining Commissioning by the Date Certain.
11. Subject to Sections 9.5 and 9.14 of the Muskrat/LTA Project Finance Agreement, all Material Project Participants related to the MF Plant and other Persons participating or working toward the Commissioning of the MF Plant, 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 Muskrat 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 Muskrat 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 of its Assets, except for Permitted Encumbrances.

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

B. LABRADOR TRANSCO MATTERS

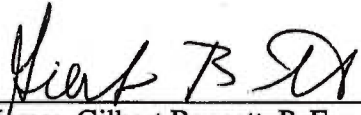
13. I have conducted such investigations as I have deemed necessary to provide the information set out in this report and in so doing I have verified all engineering related matters with a licensed professional engineer working on our behalf in respect of the LTA.
14. Attached hereto as Part II of Schedule "A" is a true and accurate table detailing the Hard Costs incurred as at the Effective Date in such prior month with respect to the LTA and compared as against the original LTA Project Budget.
15. Attached hereto as Part II of Schedule "B" is a true and accurate analysis of the Cost to Complete the LTA as at the end of the Applicable Month.
16. Attached hereto as Part II of Schedule "C" is a true and accurate analysis of the Cost Variances for the LTA as at the end of the Applicable Month, with a narrative explanation as to any variances.
17. The estimated Commissioning Date is currently 01-June-2018.
18. There are no material disputes with any Material Project Participant related to the LTA and any related claims against Labrador Transco, other than as set out in Part II of Schedule "E" hereto.
19. Attached hereto as Part II of Schedule "F" is a true and accurate report describing the progress of the construction of the LTA since the Previous Construction Report.
20. The LTA is being built substantially in all respects in accordance with the LTA Project Plans and Good Utility Practice.
21. Subject to Sections 9.5 and 9.14 of the Muskrat/LTA Project Finance Agreement, I have no reason to believe that the LTA is being built in violation of any Applicable Laws or Authorizations pertaining to the LTA in effect at the time of performance of the relevant work.
22. Subject to Sections 9.5 and 9.14 of the Muskrat/LTA Project Finance Agreement, all Authorizations which, under Applicable Law, at such time are necessary to have been obtained in connection with the LTA and the work currently being performed on the LTA, 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 Credit Parties of attaining Commissioning by the Date Certain.
23. That, subject to Sections 9.5 and 9.14 of the Muskrat/LTA Project Finance Agreement, all Material Project Participants related to the LTA and other Persons participating or

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PERIOD ENDING 31-MARCH-2014

working toward the Commissioning of the LTA, to the best of our Knowledge, are not in material default with respect to any of their respective obligations which would delay Commissioning beyond the Date Certain and Labrador Transco 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 Labrador Transco 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 of its Assets, except for Permitted Encumbrances.

24. Attached hereto as Part II of Schedule "G" is a true and complete copy of each of the Additional Material Project Documents entered into by Labrador Transco 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, Muskrat,
and Labrador Transco

SCHEDULE "A"**Part I - Hard Costs for the MF Plant**

**Schedule "A" - Summary of Project Budget - Hard Costs
Lower Churchill Project-Phase 1
Muskrat Falls Generation
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	\$378,969	\$4,086	\$192,705	\$6,290	\$202,448
Feasibility Engineering	\$18,345	\$10	\$17,875	\$12	\$17,957
Environmental & Regulatory Compliance	\$20,312	\$161	\$14,766	\$50	\$13,166
Aboriginal Affairs	\$13,314	\$47	\$4,562	\$351	\$4,536
Procurement & Construction	\$2,719,626	\$36,511	\$589,869	\$29,520	\$529,603
Commercial & Legal	\$20,457	\$1,981	\$18,142	-\$248	\$17,427
Contingency	\$94,255	\$0	\$0	\$0	\$0
Total	\$3,265,278	\$42,796	\$837,919	\$35,976	\$785,137

Note: Costs in CAD (\$ Thousands)

Analysis:

Incurred Costs for the Current Period were significantly higher than the previous period however they remain lower than planned. The main variance remains in the area of "Procurement and Construction" where mobilization and ramp-up of activity associated with CH0007 remains slower than planned.

The minor 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.

Part II - Hard Costs for the LTA

**Schedule "A" - Summary of Project Budget - Hard Costs
Lower Churchill Project-Phase 1
Labrador Transmission Asset (LTA)
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	\$76,238	\$609	\$43,636	\$987	\$48,215
Feasibility Engineering	\$256	\$2	\$212	\$11	\$231
Environmental & Regulatory Compliance	\$710	\$5	\$651	\$0	\$668
Aboriginal Affairs	\$188	\$0	\$0	\$0	\$0
Procurement & Construction	\$626,869	\$15,727	\$117,312	\$4,818	\$97,945
Commercial & Legal	\$2,030	\$100	\$1,515	\$141	\$2,112
Contingency	\$14,030	\$0	\$0	\$0	\$0
Total	\$720,322	\$16,443	\$163,327	\$5,957	\$149,171

Note: Costs in CAD (\$ Thousands)

Analysis:

While Incurred Costs for the Project-to-Date are generally aligned with planned, Incurred Costs for the Current Period were lower than anticipated. The main variance lies in the area of “Procurement and Construction” where ramp-up of construction activity is slower than planned.

SCHEDULE "B"**Part I - Muskrat Cost to Complete**

**Schedule "B" - Summary of Cost to Complete
Lower Churchill Project-Phase 1
Muskrat Falls Generation
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	\$378,969	\$202,448	\$378,969	\$176,521
Feasibility Engineering	\$18,345	\$17,957	\$18,345	\$388
Environmental & Regulatory Compliance	\$20,312	\$13,166	\$20,312	\$7,146
Aboriginal Affairs	\$13,314	\$4,536	\$13,314	\$8,778
Procurement & Construction	\$2,719,626	\$529,603	\$2,719,626	\$2,190,023
Commercial & Legal	\$20,457	\$17,427	\$20,457	\$3,030
Contingency	\$94,255	\$0	\$94,255	\$94,255
Total	\$3,265,278	\$785,137	\$3,265,278	\$2,480,141

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 that have yet to be incurred. The Final Forecast Cost for this activity will be updated by end of Q2 2014.

As reported previously, the Cost to Complete for "Procurement and Construction" remains significant since there are several major construction contracts for MF (including CH0008 and CH0009) pending award and construction activities for work in progress remain in the early stages.

Part II - Labrador Transco Cost to Complete

**Schedule "B" - Summary of Cost to Complete
Lower Churchill Project-Phase 1
Labrador Transmission Asset (LTA)
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	\$76,238	\$48,215	\$76,238	\$28,023
Feasibility Engineering	\$256	\$231	\$256	\$25
Environmental & Regulatory Compliance	\$710	\$668	\$710	\$42
Aboriginal Affairs	\$188	\$0	\$188	\$188
Procurement & Construction	\$626,869	\$97,945	\$626,869	\$528,924
Commercial & Legal	\$2,030	\$2,112	\$3,030	\$918
Contingency	\$14,030	\$0	\$13,030	\$13,030
Total	\$720,322	\$149,171	\$720,322	\$571,151

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 that have yet to be incurred. The Final Forecast Cost for this activity will be updated by end of Q2 2014.

As reported previously, the Cost to Complete for "Procurement and Construction" remains significant since the construction contract of the switchyards at Muskrat Falls and Churchill Falls has yet to be awarded and construction activities for work in progress remain in the early stages.

The Cost to Complete for "Commercial & Legal" has increased by \$1,000 based on a revised Final Forecast Cost. This increase is offset by a corresponding reduction of "Contingency".

SCHEDULE "C"

Part I - Muskrat Cost Variances

**Schedule "C" - Summary of Cost Variances
Lower Churchill Project-Phase 1
Muskrat Falls Generation
Period Ending 31-March-2014**

Description	Project Budget	Final Forecast Cost (FFC)	Variance
NE-LCP Owners Team, Admin and EPCM Services	\$378,969	\$378,969	\$0
Feasibility Engineering	\$18,345	\$18,345	\$0
Environmental & Regulatory Compliance	\$20,312	\$20,312	\$0
Aboriginal Affairs	\$13,314	\$13,314	\$0
Procurement & Construction	\$2,719,626	\$2,719,626	\$0
Commercial & Legal	\$20,457	\$20,457	\$0
Contingency	\$94,255	\$94,255	\$0
Total	\$3,265,278	\$3,265,278	\$0

Note: Costs in CAD (\$ Thousands)

There are no variances between the Final Forecast Cost and the Project Budget.

Part II - Labrador Transco Cost Variances

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

Description	Project Budget	Final Forecast Cost (FFC)	Variance
NE-LCP Owners Team, Admin and EPCM Services	\$76,238	\$76,238	\$0
Feasibility Engineering	\$256	\$256	\$0
Environmental & Regulatory Compliance	\$710	\$710	\$0
Aboriginal Affairs	\$188	\$188	\$0
Procurement & Construction	\$626,869	\$626,869	\$0
Commercial & Legal	\$2,030	\$3,030	\$1,000
Contingency	\$14,030	\$13,030	-\$1,000
Total	\$720,322	\$720,322	\$0

Note: Costs in CAD (\$ Thousands)

Variances within the Final Forecast Cost of “Commercial & Legal” and “Contingency” are as a result of a revised forecast of costs associated with insurance for LTA. There is no change to the overall project budget.

SCHEDULE "D"**Part I - Muskrat Estimated Commissioning Date**

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

Part II - Labrador Transco Estimated Commissioning Date

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

SCHEDULE "E"

Part I - Muskrat Material Disputes

Material disputes with any Material Project Participant or related claims against Muskrat are listed below:

- CH0006 – Construction of Bulk Excavation Works and Associated Works:

The Contractor, IKC-ONE, submitted a Request for Equitable Adjustment (REA) dated 27-August-2013 in the approximate amount of \$31,000,000. The Contractor has stated that there were delays outside of its control and they were required to accelerate their work to meet their contract schedule.

The REA is being managed in accordance with Devco business processes. Evaluation of the REA is currently progressing however a deadline has not been established for resolution.

Devco has held meetings with the Contractor and has requested supplementary information to facilitate analysis. Devco has also engaged the services of a dispute resolution consultant to evaluate entitlement and to provide an opinion as to valuation of the REA.

Evaluation completed to date by Devco has established the value of the REA as submitted by the Contractor is inflated, and that the estimated value is below \$10,000,000. Preparations are currently underway for a forensic audit of the Contractor's costs. This audit will occur in Q2 2014.

The Request for Equitable Adjustment will not impact the MF Project Schedule as the work has been completed, on schedule.

Part II - Labrador Transco Material Disputes

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

SCHEDULE "F"**Part I - MF Plant Construction Progress**

Muskrat Falls Generation - Milestone Schedule			
Milestone Description	Planned	Actual/Forecast	Status
Project Sanction	17-Dec-2012	17-Dec-2012	Actual
North Spur Works Ready for Diversion	30-Nov-2015	30-Nov-2015	
River Diversion Complete	09-Nov-2016	09-Nov-2016	
Reservoir Impoundment Complete	19-Nov-2017	19-Nov-2017	
Powerhouse Unit 1 Commissioned - Ready for Operation	30-Dec-2017	30-Dec-2017	
First Power from Muskrat Falls	30-Dec-2017	30-Dec-2017	
Powerhouse Unit 2 Commissioned - Ready for Operation	18-Feb-2018	18-Feb-2018	
Powerhouse Unit 3 Commissioned - Ready for Operation	12-April-2018	12-April-2018	
Powerhouse Unit 4 Commissioned - Ready for Operation	22-May-2018	22-May-2018	
Full Power from Muskrat Falls	22-May-2018	22-May-2018	

Commissioning Complete - Commissioning Certificate Issued	01-Jun-2018	01-Jun-2018	
Date Certain	28-Feb-2019	28-Feb-2019	

Construction Narrative:

Construction of the new 1500 person construction camp at Muskrat Falls continued throughout the reporting period under contract CH0002. During the current period dormitory PC was accepted for occupancy, bringing the total of dormitories ready for occupancy to 4. Only 2 of these accommodation buildings are currently being occupied. Construction of the kitchen and dining complex is nearing completion and commissioning is currently underway.

Construction of the administrative buildings under contract CH0003 continued to progress during the period, with commencement of the installation of construction power for the concrete lab, the installation of interior partition walls and electrical and mechanical outfitting on the materials testing laboratory and the fire and ambulance shelter. Installation of the security building continued and the finalization of a permanent location for the main administration building has been determined.

As reported previously, the CH0004-2 contractor for construction of the Caroline Brook resource road upgrade has demobilized until Q2 of 2014 when weather will permit resumption of construction activity.

The CH0007 contractor for the intake, powerhouse, spillway, and transition dams is continuing with mobilization and set up of offices and temporary facilities at the contractors lay down area. Installation of the temporary enclosure in the spillway center section and mobilization of the aggregate crushing and screening plant is continuing. Dewatering of the powerhouse and spillway continued throughout the period. Foundation preparation for both tower crane bases is underway at the spillway, and foundation preparation for the ICS at the powerhouse and intake is ongoing. Efforts continue with Devco and the contractor to improve progress which has been tracking behind plan.

Design and manufacturing of the turbines and generators under CH0030 is proceeding on schedule, with the first runner hubs and blades in the final inspection process.

Manufacturing of the primary anchor materials for the spillway is continuing under contract CH0032 for the supply and install of the powerhouse hydro-mechanical equipment with milestone delivery for the first set of anchors scheduled for mid-April.

As reported during the previous period, a water crossing was constructed along the Muskrat Falls site access road at the McKenzie River. This work was required as a result of the unusual ice conditions and subsequent high water levels in the Churchill River causing the submergence of the existing temporary bridge. A replacement bridge is being secured for this location and will be installed on an expedited basis in advance of the spring freshet to ensure that site access is unaffected.

Part II - LTA Construction Progress

Labrador Transmission Asset - Milestone Schedule			
Milestone Description	Planned	Actual/Forecast	Status
Project Sanction	17-Dec-2012	17-Dec-2012	Actual
Hvac Transmission Line Construction Complete	08-Jun-2016	08-Jun-2016	
Churchill Falls Switchyard Ready to Energize	31-May-2017	31-May-2017	
Muskrat Falls Switchyard Ready to Energize	31-May-2017	31-May-2017	
Ready for Power Transmission	31-May-2017	31-May-2017	
Commissioning Complete- Commissioning Certificate Issued	01-Jun-2018	01-Jun-2018	
Date Certain	28-Feb-2019	28-Feb-2019	

Construction Narrative:

As previously reported, construction of a 150 person temporary camp was completed at the Churchill Falls switchyard site under package CD0538. Commissioning and correction of minor deficiencies was successfully completed during the current period, with inspection and acceptance by Devco still pending.

The contractor for bulk excavation and grading of the new Churchill Falls switchyard under CD0503 has demobilized and will re-mobilize in spring 2014.

The Labrador marshalling yard operation is ongoing. Materials are being received for the HVac transmission line including steel towers, foundations, hardware, guy wire and conductor. As reported in previously, the first shipment of materials that was received in Goose Bay is now secured at the marshalling yard, and this portion of all required materials has now been received and staged for issue.

Clearing for the HVac right of way (ROW) is proceeding under package CT0314, with a forecast to complete the entire line by late-Summer. The first section, that will provide sufficient ROW for the transmission line contractor to commence installation of foundations, was originally expected to be completed during the current period, however this has been delayed as re-inspection of certain areas is required once snow levels decrease to ensure unimpeded construction.

CT0319 contractor for the HVac transmission line is continuing to work on camp set up and preliminary work necessary to support commencement of the line. Major construction activities are planned for May 2014 once the camp is operational and sufficient ROW access has been developed to support construction.

SCHEDULE "G"

Part I - Muskrat Additional Material Project Documents

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

Part II - Labrador Transco Additional Material Project Documents

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