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**Subject:** MF/LTA and LIL Construction Reports June 20, 2014  
**Date:** Friday, June 20, 2014 5:41:36 PM  
**Attachments:** [.png](#)  
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[MFLTA Construction Report June 20 2014.pdf](#)  
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Hello Folks,

In accordance with the provisions of the MF/LTA and LIL Project Finance Agreements, please find attached the respective Construction Reports dated June 20, 2014.

Please let me know if you have any questions.

Regards,

Jim



MFLTA Construction Report June 20 2014.pdf



LIL Construction Report June 20 2014.pdf



**James Meaney, CFA**  
**General Manager Finance**  
**Nalcor Energy - Lower Churchill**  
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You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

**CONSTRUCTION REPORT**  
**Muskrat/LTA Project Finance Agreement**

Date: 20-June-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-May-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.

MF/LTA CONSTRUCTION REPORT  
PERIOD ENDING 31-MAY-2014

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

MF/LTA CONSTRUCTION REPORT  
PERIOD ENDING 31-MAY-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 20<sup>th</sup> day of June, 2014.



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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-May-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	\$3,861	\$200,514	\$2,903	\$209,378
Feasibility Engineering	\$18,345	\$10	\$17,895	\$0	\$17,949
Environmental & Regulatory Compliance	\$20,312	\$161	\$15,085	\$213	\$14,017
Aboriginal Affairs	\$13,314	\$48	\$5,094	\$0	\$4,545
Procurement & Construction	\$2,719,626	\$49,306	\$678,070	\$39,307	\$594,310
Commercial & Legal	\$20,457	\$42	\$18,223	-\$3,184	\$14,245
Contingency	\$94,255	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$3,265,278</b>	<b>\$53,428</b>	<b>\$934,881</b>	<b>\$39,240</b>	<b>\$854,444</b>

Note: Costs in CAD (\$ Thousands)

Analysis:

Incurred Costs for the Current Period and Project-to-Date are 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 net negative Incurred Cost for the Current Period under "Commercial & Legal" is a result of adjusting entries made in relation to the alignment of incurred versus invoiced costs.

**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-May-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	\$44,854	\$2,806	\$54,976
Feasibility Engineering	\$256	\$2	\$216	\$0	\$220
Environmental & Regulatory Compliance	\$710	\$3	\$657	-\$1	\$664
Aboriginal Affairs	\$188	\$0	\$0	\$0	\$0
Procurement & Construction	\$626,869	\$19,963	\$160,972	\$10,378	\$118,858
Commercial & Legal	\$2,030	\$9	\$1,533	-\$123	\$1,963
Contingency	\$14,030	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$720,322</b>	<b>\$20,586</b>	<b>\$208,233</b>	<b>\$13,061</b>	<b>\$176,681</b>

Note: Costs in CAD (\$ Thousands)

Analysis:

Incurred Costs for the Current Period and Project-to-Date are lower than planned, mainly in the area of "Procurement and Construction" where ramp-up of construction activity is slower than planned.

The net negative Incurred Cost for the Current Period under "Environmental & Regulatory Compliance" and "Commercial & Legal" are a result of adjusting entries made in relation to the alignment of incurred versus invoiced costs.

**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-May-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	\$209,378	\$378,969	\$169,590
Feasibility Engineering	\$18,345	\$17,949	\$17,949	\$0
Environmental & Regulatory Compliance	\$20,312	\$14,017	\$20,312	\$6,294
Aboriginal Affairs	\$13,314	\$4,545	\$13,314	\$8,770
Procurement & Construction	\$2,719,626	\$594,310	\$2,719,626	\$2,125,316
Commercial & Legal	\$20,457	\$14,245	\$26,005	\$11,760
Contingency	\$94,255	\$0	\$89,103	\$89,103
<b>Total</b>	<b>\$3,265,278</b>	<b>\$854,444</b>	<b>\$3,265,278</b>	<b>\$2,410,835</b>

Note: Costs in CAD (\$ Thousands)

Analysis:

As reported previously, the Cost to Complete for “Procurement and Construction” remains significant given there are several major construction contracts for MF (including CH0008, CH0009 and CH0031) pending award, and construction activities for work in progress remain in the early stages.

The Cost to Complete for “Commercial & Legal” has been increased by \$5,548 during the current period as a result of an increase in insurance costs allocated to MF.

“Contingency” has been reduced by \$5,548 during the current period as a result of the changes described above. The cumulative reduction in “Contingency” is \$5,152.

There is no change to the overall project budget.



**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-May-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	\$54,976	\$76,238	\$21,262
Feasibility Engineering	\$256	\$220	\$220	\$0
Environmental & Regulatory Compliance	\$710	\$664	\$710	\$46
Aboriginal Affairs	\$188	\$0	\$188	\$188
Procurement & Construction	\$626,869	\$118,858	\$626,869	\$508,011
Commercial & Legal	\$2,030	\$1,963	\$3,030	\$1,067
Contingency	\$14,030	\$0	\$13,066	\$13,066
<b>Total</b>	<b>\$720,322</b>	<b>\$176,681</b>	<b>\$720,322</b>	<b>\$543,641</b>

Note: Costs in CAD (\$ Thousands)

Analysis:

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.

There is no change to the overall project budget.

## SCHEDULE "C"

## Part I - Muskrat Cost Variances

**Schedule "C" - Summary of Cost Variances  
Lower Churchill Project-Phase 1  
Muskrat Falls Generation  
Period Ending 31-May-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	\$17,949	-\$396
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	\$26,005	\$5,548
Contingency	\$94,255	\$89,103	-\$5,152
<b>Total</b>	<b>\$3,265,278</b>	<b>\$3,265,278</b>	<b>\$0</b>

Note: Costs in CAD (\$ Thousands)

Analysis:

The Forecast Final Cost for "Commercial & Legal" has been increased this period by \$5,548 as a result of an increase in insurance costs allocated to MF.

As a result of the changes described above, "Contingency" has been reduced by \$5,548, for a cumulative net reduction of \$5,152.

There is no change to the overall project budget for the reporting period.

An update of the Final Forecast Cost is currently underway by Devco and the results will be incorporated in the Construction Report for the period ending 30-June-2014.

## Part II - Labrador Transco Cost Variances

**Schedule "C" - Summary of Cost Variances**  
**Lower Churchill Project-Phase 1**  
**Labrador Transmission Asset (LTA)**  
**Period Ending 31-May-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	\$220	-\$36
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	\$13,066	-\$964
<b>Total</b>	<b>\$720,322</b>	<b>\$720,322</b>	<b>\$0</b>

Note: Costs in CAD (\$ Thousands)

Analysis:

There are no changes in the Final Forecast Cost for the reporting period.

An update of the Final Forecast Cost is currently underway by Devco and the results will be incorporated in the Construction Report for the period ending 30-June-2014.

**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. A forensic audit of the Contractor's costs was completed May 2014. Discussions with the Contractor are ongoing.

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**

<b>Muskrat Falls Generation - Milestone Schedule</b>			
<b>Milestone Description</b>	<b>Planned</b>	<b>Actual/Forecast</b>	<b>Status</b>
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 kitchen, dining and recreation complex at Muskrat Falls under CH0002 is now in full operation after successfully opening its doors on 05-May-2014. Construction of the new 1500 person construction camp continued throughout the reporting period and is approximately 98% complete. A total of 7 of 11 dormitories are now ready for occupancy. The Contractor has commenced demobilization.

Construction of the administrative buildings under contract CH0003 progressed during the period with the continued outfitting and preparation for commissioning for all major buildings including the materials testing laboratory, fire and ambulance shelter, security building, and camp maintenance building. Foundation installation continued for the sports complex, and preparations for the site administration complex were completed with all modular units currently awaiting installation on site. Overall work under this contract is 52% complete.

The CH0004-002 contractor responsible for construction of the Caroline Brook Resource Road upgrade remobilized during the current period and resumed work associated with grading, drainage and embankment construction. Upgrading of the Southside Access Road under CH0004-001 commenced in the segment between the company laydown area and the powerhouse.

The CH0007 contractor responsible 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 as well as at the intake, powerhouse and spillway sites. Extension of construction power distribution to the batch plant and laydown areas is continuing.

Following commencement of foundation preparation at the spillway last period, bedrock cleaning and drilling are ongoing, and the two tower cranes have been erected. The temporary enclosure covering the spillway was removed with the onset of favourable weather conditions.

The aggregate crushing and screening operations are continuing, with intermittent operation of the crusher during the period. Foundation construction for the permanent batch plant is continuing. Erection of the permanent batch plant structure and installation of equipment has commenced.

Foundation preparation for the ICS at the powerhouse and intake is ongoing and the placement of leveling slab concrete has started. Dewatering in the powerhouse and spillway excavations is ongoing along with overall maintenance of the site road infrastructure.

Efforts continue with Devco and the contractor to improve progress which has been tracking behind plan.

Manufacturing of the turbines and generators under CH0030 is proceeding on schedule. Four runners have been cast, three of which are in the NDE/repair stage and one is in final machining. The first hub is scheduled for completion in July. All twenty blades have been cast. Two are in rough machining prior to NDE, four are in NDE/repairs, eight are in the machine shop for final machining and six are complete. All internals and bearings are cast and in various stages of completion, with one set to be ready for the first runner assembly currently scheduled to commence at the end of July.

All circular passage liners on the turbine embedded parts are complete and are in storage in Goose Bay, along with the embedment anchors for the draft tube liner. The pit liners are in fabrication in Montreal. The first stay ring is being packaged for shipment from China later this summer, and the first draft tube liner is packaged and currently ready for shipment. The remaining three stay rings, three liners and the circular passage doors are all in various stages of fabrication.

Regarding the turbine stationary parts, the discharge rings are in fabrication with the first unit ready for machining. The outer, intermediate and inner head covers are in various stages of fabrication and the first outer head cover is in final machining. Ongoing work to establish manufacturing processes for the guide vanes is nearing completion. The fabrication portion of the work is now in production mode while the first piece has successfully passed through the machining process. Efforts are now focused on organizing the machining into a production run to reduce manufacturing time.

The turbine shafts have been forged, rough machined and the internal brackets installed, with final machining scheduled for later this year. All generator shafts have now been forged. One has been rough machined, and the others are currently undergoing rough machining.

Manufacturing of the generator is progressing on schedule. Fabrication of the first stator frame is ongoing, the stator sole plates are near completion, and the pole punchings are underway in Quebec.

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. The second set of spillway anchors was delivered to the Muskrat Falls site during the period.

The CH0024 contractor responsible for clearing the North and South Banks of the Muskrat Falls reservoir is progressing well and currently ahead of schedule. Approximately 800 hectares have been cleared to date representing 42% complete.



**Part II - LTA Construction Progress**

<b>Labrador Transmission Asset - Milestone Schedule</b>			
<b>Milestone Description</b>	<b>Planned</b>	<b>Actual/Forecast</b>	<b>Status</b>
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:

Catering services for the Churchill Falls camp under SD0564 commenced during the reporting period. The camp is being occupied by personnel engaged in transmission line clearing operations and personnel engaged in switchyard construction at Churchill Falls.

The contractor for bulk excavation and grading of the new Churchill Falls switchyard under CD0503 remobilized during the period. Work is progressing and equipment and resources are being added regularly as work fronts have opened up. Overall progress is approximately 16% complete.

The Labrador marshalling yard operation is ongoing and supporting the HVac transmission line construction activities. Receipt of materials such as steel tower, foundations, hardware, guy wire and conductor are continuing for the HVac transmission line. Issuance of towers and foundation materials to the CT0319 contractor commenced during the period.

Clearing for the HVac right of way (ROW) is proceeding under package CT0314, with a forecast to complete the entire line by late-summer 2014. Work is approximately 60% complete overall.

CT0319 contractor for the HVac transmission line erection is continuing with mobilization efforts including set up of modular offices and camp facilities in the vicinity of the North Spur, which are now occupied. Work is continuing on development of access routes along the transmission line ROW. The contractor has commenced distribution of materials as well as assembly of foundations and towers.

**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.

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

Date: 20-June-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 ("**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 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, Opco, 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-May-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;

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PERIOD ENDING 31-MAY-2014

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 20<sup>th</sup> day of June, 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-May-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	\$4,108	\$100,143	\$919	\$88,521
Feasibility Engineering	\$34,012	\$62	\$21,352	\$0	\$21,252
Environmental & Regulatory Compliance	\$25,768	\$294	\$10,321	-\$6	\$8,087
Aboriginal Affairs	\$2,244	\$44	\$705	\$0	\$450
Procurement & Construction	\$2,135,212	\$37,635	\$176,884	\$13,868	\$119,737
Commercial & Legal	\$22,490	\$242	\$12,072	-\$835	\$15,011
Contingency	\$79,355	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$2,546,155</b>	<b>\$42,385</b>	<b>\$321,477</b>	<b>\$13,947</b>	<b>\$253,059</b>

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 are several major construction contracts for LIL pending award, and construction activities for work in progress remain in the early stages.

The net negative Incurred Cost for the Current Period under "Environmental & Regulatory Compliance" and "Commercial & Legal" are a result of adjusting entries made in relation to the alignment of incurred versus invoiced costs.

**SCHEDULE "B"**

**Schedule "B" - Summary of Cost to Complete  
Lower Churchill Project-Phase 1  
Labrador-Island Transmission Link (LIL)  
Period Ending 31-May-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	\$88,521	\$247,074	\$158,553
Feasibility Engineering	\$34,012	\$21,252	\$21,252	\$0
Environmental & Regulatory Compliance	\$25,768	\$8,087	\$25,768	\$17,681
Aboriginal Affairs	\$2,244	\$450	\$2,244	\$1,794
Procurement & Construction	\$2,135,212	\$119,737	\$2,169,598	\$2,049,862
Commercial & Legal	\$22,490	\$15,011	\$16,490	\$1,479
Contingency	\$79,355	\$0	\$63,728	\$63,728
<b>Total</b>	<b>\$2,546,155</b>	<b>\$253,059</b>	<b>\$2,546,155</b>	<b>\$2,293,095</b>

Note: Costs in CAD (\$ Thousands)

Analysis:

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.

The Cost to Complete for "Environmental and Regulatory Compliance" and "Commercial and Legal" have increased due to adjustments in Incurred Cost for the Current Period described in Schedule "A".

The Cost to Complete for "Feasibility Engineering" and "Contingency" remains unchanged.



**SCHEDULE "C"**

**Schedule "C" - Summary of Cost Variances  
Lower Churchill Project-Phase 1  
Labrador-Island Transmission Link (LIL)  
Period Ending 31-May-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	\$21,252	-\$12,760
Environmental & Regulatory Compliance	\$25,768	\$25,768	\$0
Aboriginal Affairs	\$2,244	\$2,244	\$0
Procurement & Construction	\$2,135,212	\$2,169,598	\$34,387
Commercial & Legal	\$22,490	\$16,490	-\$6,000
Contingency	\$79,355	\$63,728	-\$15,627
<b>Total</b>	<b>\$2,546,155</b>	<b>\$2,546,155</b>	<b>\$0</b>

Note: Costs in CAD (\$ Thousands)

Analysis:

An update of the Final Forecast Cost is currently underway by Devco and the results will be incorporated in the Construction Report for the period ending 30-June-2014.

**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"**

<b>Labrador-Island Link - Milestone Schedule</b>			
<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	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:

The horizontal directional drilling spread under LC-SB-022 was disassembled and prepared for transport upon completion of the drilling program at Shoal Cove, the Newfoundland side of the SOBI crossing. Mobilization of the rig to Forteau Point, the Labrador side of the SOBI crossing, was hampered due to unfavorable ice conditions in the Strait of Belle Isle however it was completed prior to the end of May. The spread has been re-assembled and will commence the remaining 3 bores in June.

At Forteau Point, preparation of the horizontal directional drilling site has resumed under contract LC-SB-021 with completion of the drill pad, construction of the Forteau Access Road and commencement of earthworks for the transition compounds.

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

Preparation and development of the Soldier's Pond switchyard and converter station site under CD0503-002 is progressing well. Construction of the permanent access road intersection with the Trans- Canada Highway is underway and proceeding in accordance with plan.

As previously reported, a Limited Notice to Proceed (LNTP) was executed for CD0501 on 31-March-2014. Kick off meetings have been held with the contractor and work is continuing on preparation of management, technical, and commercial deliverables.

**SCHEDULE "G"**

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