



DESTINATAIRE/TO: Senior Management **Date:** April 23, 2013
c.c.:
EXPÉDITEUR/FROM: Michel Mackay **Réf./Ref.:**
Objet/Subject: **Lower Churchill Project 505573 facts sheet**

At the request of Normand Béchard, the Director of the Lower Churchill Project, a Risk Team composed of a selected group of experienced members in the Hydroelectric Industry was created to perform a new risk assessment on the Lower Churchill project.

Reason: The actual Lower Churchill Project risk register is qualitative in nature and doesn't reflect any dollar value (quantitative) as per SNC-Lavalin Risk Management standards.

Senior Management has appointed a Task Force from M&M to work jointly with the LCP project team to review, from a different new perspective, the risk exposure of the project.

Conclusions:

The Team has spent a week to populate the first LCP risk register following SNC-Lavalin's guidelines, with the contribution of experts with pass experience in hydroelectric power projects. The Team's observations on the LCP, whose present total (CAPEX) value is of 6.1 billion CAD dollars:

- The Risk Register value populated up to date, is estimated at around 2.5 billion CAD dollars
- An additional in-depth study has to be performed in order to complete this first Risk Assessment exercise, however, the Team members are convinced that the figure presented reflects the probable risk conditions that could affect the outcome of project
- SNC-Lavalin as EPCM for the project, administers only 4.5 billion CAD dollars out of a global project cost of 6.1 billion dollars. To date, SNC-Lavalin has only committed 690 million out of the 4.5 billion, which represents 15% of the work.
- SOBI and Maritime link control 1.6 billion of the total cost and SNC-Lavalin doesn't have any information with regards to their present commitments.
- **If risks are not carefully managed and controlled, the project has no economic viability.**

Considerations:

1. SNC-Lavalin has an E.P.C.M. contract and has an obligation to inform the Owner, Nalcor Energy the events as perceived by the appointed Team and deliver the new risk register.
2. Our actual mandate has been reduce from a full EPCM Agreement to services in engineering and project control support services, but still under the same EPCM liabilities and obligations.
3. The Lower Churchill Project is a high profile project, with the Federal Government as its guarantor; the Provincial Government as the ultimate owner of the project.
4. The issuance of large contracts has been the result of influences by the project lenders (financiers), resulting in a situation where we have limited ourselves to a restricted pool of companies able to quote on these large packages, who by pricing contractual risks have push up the estimated budget price and schedule.
5. Reputation of SNC-Lavalin is at risk, if we elect not to inform the Owner of these upcoming risks that could affect the outcome of the project.