



**Lower Churchill Project
SNC-LAVALIN INC.**
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19 September 2013

VIA FAXSIMILE: (709) 737-1985

SLI REFERENCE No.: 505573-0000-30CC-I-1440
LC Ref. No: S011-L010-200-170330-00216
NALCOR REFERENCE No.:

Mr. Paul Harrington
Project Manager
Nalcor Energy
Hydro Place, 500 Columbus Drive
P.O. Box 12800
St. John's, NL, A1B 0C9 Canada

**Subject: Lower Churchill, Phase 1 Development
Agreement LC-G-002
Engineering, Procurement and Construction Management (EPCM) Services
AMENDMENT TO THE AGREEMENT**

Dear Mr. Harrington:

It has been apparent for some time that Nalcor has made fundamental and unilateral changes to the execution of the Lower Churchill EPCM contract, including replacement of virtually all of the management personnel contemplated by the EPCM Contract with Nalcor personnel. This has been further clarified at our numerous meetings in which Nalcor asserted a unilateral right to select any personnel in its sole discretion, and to control any decision with a cost or schedule implication.

SNC-Lavalin disagrees with these changes and this fundamentally alters the usual balance between responsibility and authority of an EPCM Contractor. Nevertheless, since Nalcor has clearly stated that it will be persistent in taking this approach, we are prepared to negotiate with you an Amendment to the EPCM Contract. The Amendment will reflect, based on the fundamental principle articulated by us and accepted by Nalcor in our exchange of letters of December 2012 and January 2013, namely that our liability for services other than engineering must be based on the degree of management responsibility we retain for them.

The original essence of our agreement is based on an EPCM format where the client, in order to involve an experienced player in large projects, selects an EPCM contractor who manages the whole project on behalf of the client. The EPCM contractor's main means of accomplishing this is by its provision of its project management team, who are given the authority to manage the Project on the client's behalf. Since late Stage 2, Nalcor have been imposing its method and own managers to the EPCM contractor organizational charts leaving practically no authority to SNC-Lavalin personnel in the decision making process or even to access basic information about the execution of the Project.



Following the meetings of last July in St. John's, we have obtained a better understanding of Nalcor's intended project execution model. Considering that this model does not reflect an EPCM model, it is necessary that we resume discussions on the Amendment to the Contract. In addition to the revision of Exhibit 3 (Scope of Services) on which we had some discussions already, a number of other changes will be required. This should include modification of the EPCM consultant obligations, responsibilities and liabilities to a level more consistent with an engineering services contract. Further, the Amendment must clearly define the role of the Project Delivery Team which is under the control and the responsibility of Nalcor. A number of the Exhibits will be revisited as they need to fit the new model or they became obsolete. In addition to Exhibit 3, important changes are expected in Exhibit 4 (Compensation) and Exhibit 5 (Coordination Procedures).

We would like to request a meeting in order to discuss a plan of action and define the heads of agreement for the Amendment. Please notify Mr. Luc Bourbeau at the coordinates below as soon as possible if you will not be able to participate in a meeting during the week of September 23, 2013 at the project office in St-John's.

Email: luc.bourbeau@snclavalin.com or

Telephone: 514-393-8000 ext. 56256

Sincerely,

SNC-LAVALIN INC.

A handwritten signature in blue ink, appearing to read "Bernard Gagné".

Bernard Gagné
Acting Vice-President and General Manager

c.c.: Scott Thon, Luc Bourbeau