

Muskrat Falls Corporation**Corporate Office**

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Lower Churchill Project Operations Office

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12 November 2015

LTR-CH0032001- 0124

ANDRITZ HYDRO CANADA INC.

6100 Trans-Canada Hwy.

Pointe-Claire, Quebec

H9R 1B9

Attention: Mr. William Mavromatis

Subject: Agreement CH0032-001
Supply and Install Powerhouse and Spillway Hydro-Mechanical Equipment
Contractor Work Performance and Progress

Reference: Andritz Letter AH-Letter-PM-058, Dated November 6, 2015
Andritz letter AH-Letter-PM-062, Dated November 9, 2015

Dear Mr. Mavromatis:

Since Contractor first mobilized to the Muskrat Falls Site on September 8, 2015, and commenced work on September 9, 2015 Company has, with growing concern, been continually disappointed with Contractor's failure to perform on a number of crucial work fronts and provide contractual submittals in a timely manner.

The following list, albeit not an exhaustive one, highlights some of the key issues that have been previously transmitted to Contractor through both verbal and written communications. These issues require Contractor's immediate attention and rectification with regard to 'inter alia' Agreement compliance, resource/execution focus and timely progression of available Work fronts at all levels:

1. Lack of Site management team resources to support the work. This lack of resources has resulted in Contractor's management personnel adopting multiple and variable roles simultaneously leading to inadequate site support.;
2. The absence of Contractor site management personnel has resulted in Contractor's Subcontractor seemingly managing itself;
3. Contractor has yet to produce for Company's review, many documents that are an express

a Nalcor Energy company

requirement under the Agreement and are crucial for the planning and execution of the Works. These missing documents that should have been produced prior to commencing Work on Site include, but are not limited to, the Baseline Schedule, 3-week and 120-day look-ahead Schedules, a detailed Organization Chart and an Execution Plan; and

4. Contractor's Subcontractor CANMEC continues to fail on a number of critical operational fronts as follows:
 - a) Poor and often inadequate safety compliance which has recently resulted in three subcontractor Personnel incurring safety absolutes and subsequent loss of Site access. This further resulted in Contractor incurring a complete safety 'stand down' on October 14, 2015;
 - b) Lack of QA/QC compliance. As an example, a concrete pour for a temporary Works slab in Contractor's laydown area was allowed to freeze due to lack of heating, hoarding and appropriate cover;
 - c) Failing to progress the Works in a timely and efficient manner. For example, the installation of the Spillway down-stream mobile platforms was due to be completed on 11 October 2015. The completion of this Work is now delayed;
 - d) Pursuant to item 5c above, Work fronts that are available are not being pursued and progressed. Opportunities to take advantage of open Work areas are being missed which can only have a negative impact on overall execution progress;
 - e) Both Contractor and Subcontractor personnel and craft workers do not have turn around support crews resulting in the demobilization of almost the entire Site team for extended periods of time (effectively a one-week shut down); and
 - f) Company has recently tabled an acceleration proposal coupled with extensive commercial bonus terms with regard to the Spillway Works related expressly to the Project requirements for the 2016 River Diversion. Contractor and its Subcontractor have been unwilling to work with Company in planning delivery objectives in accordance with this schedule, despite Company's efforts to negotiate in good faith revised commercial terms.
5. Contractor continues to focus on fostering commercial opportunities in lieu of executing the work. Contractor's recent correspondence, AH-Letter-PM-058 and PM-062 are indicative of this misdirected focus

Attachment 1 to this letter is Company's responses to Contractor's chronology of complaints and disaffections set forth in the referenced letters, and a list of Contractor and CANMEC's work deficiencies.

Company remains extremely concerned with the current status of Andritz's performance. In the absence of a dramatic change in Contractor's performance Company is concerned with the successful outcome of this Project. Company is fully prepared to work with Contractor to achieve success on this Project, and that includes additional compensation for legitimate changes in the work, or conditions under which the work is being performed, but expects Contractor to demonstrate a similar commitment.

Company is prepared to discuss these serious matters with the objective of an amicable solution for the benefit of all parties and the Project. Company looks forward to Contractor's similar response by return.

Yours truly,



Scott O'Brien
Project Manager – Muskrat Falls Generation
Project Delivery Team
Lower Churchill Project

Attachment 1
Response to Contractor's Observations

November 2, 2015

Spillway Downstream

- No installation activity observed in the downstream.
- Rough alignment complete in Bay 2-4 and on the north pier of Bay 5. The rough alignment of the south guide in Bay 5 and both guides in Bay 1 remain to be completed by CANMEC.
- CANMEC personnel moving tie rods from downstream storage to upstream of the spillway for use.

Spillway Upstream

- CANMEC received 1 trailer with 2 roller gate guides and 2 S2 sill beams at 9:00.
- Bay 1 and Bay 2 guide slots not complete at the end of shift. Astaldi to focus their effort on Bay 1 and 2 on night shift.
- CANMEC began installing the push/pull rods onto the guides.
- 9 Ironworkers observed at the upstream spillway while CANMEC offloaded the trailer in the morning with a 90T RT crane. 5 Ironworkers observed in the spillway moving materials from downstream to upstream and connecting push/pull rods in the afternoon.

Company laydown

- 5 of CANMEC's Ironworkers worked in the company laydown in the afternoon erecting the foldaway building. 3rd section of the building erected.
- Second 90T RT crane used by CANMEC in the company laydown area.

November 3, 2015

Spillway Downstream

- No installation activity observed in the downstream.
- Rough alignment complete in Bay 2-4 and on the north pier of Bay 5. The rough alignment of the south guide in Bay 5 and both guides in Bay 1 remain to be completed by CANMEC.
- CANMEC personnel moving tie rods from downstream storage to upstream of the spillway for use.
- Ice building up in the downstream sill pockets. Andritz has repeatedly been reminded of the potential risk of ice.

Spillway Upstream

- CANMEC received 2 trailers and offloaded it upstream. See attached pictures.
- CANMEC continued installing the push/pull rods onto the guides between offloading trailers.
- 5 Ironworkers observed at the upstream spillway while CANMEC offloaded the trailers with a 90T RT crane.
- Site monitors were present most of the morning and the afternoon. No site coordination issues communicated at the work face.

Company laydown

- 5 of CANMEC's Ironworkers worked in the company laydown in the afternoon erecting the foldaway building. Sections 4 & 5 of the building erected.

- Second 90T RT crane used by CANMEC in the company laydown area.

November 4, 2015

Spillway Downstream

- No installation activity observed in the downstream.
- Rough alignment complete in Bay 2-4 and on the north pier of Bay 5. The rough alignment of the south guide in Bay 5 and both guides in Bay 1 remain to be completed by CANMEC.
- CANMEC personnel moving tie rods from downstream storage to upstream of spillway for use.
- Ice building up in the downstream sill pockets. Andritz has been repeatedly reminded of the potential risk of ice.

Spillway Upstream

- CANMEC continue to receive trailers and offloaded them upstream. There are 17 guides and 6 sill beams onsite.
- CANMEC continued installing the push/pull rods onto the guides between offloading trailers.
- 5 Ironworkers observed at the upstream spillway while CANMEC offloaded the trailers with a 90T RT crane.
- No site coordination issues identified in the spillway with Andritz and CANMEC personnel.

Company laydown

- 5 of CANMEC's Ironworkers worked in the company laydown in the afternoon erecting the foldaway building. Sections 6 & 7 of the building erected.
- Second 90T RT crane used by CANMEC in the company laydown area.

November 5, 2015

Spillway Downstream

- No installation activity observed in the downstream.
- Rough alignment complete in Bay 2-4 and on the north pier of Bay 5. The rough alignment of the south guide in Bay 5 and both guides in Bay 1 remain to be completed by CANMEC.
- Ice building up in the downstream sill pockets. Andritz has been repeatedly reminded of the potential risk of ice.
- E-can for construction power in place downstream of the bridge access ramp area

Spillway Upstream

- CANMEC continue to receive trailers and offloaded them upstream. 2 more trailers arrived and were offloaded today.
- CANMEC continued installing the push/pull rods onto the guides between offloading trailers.
- 7 Ironworkers observed at the upstream spillway while CANMEC offloaded the trailers with a 90T RT crane.
- No site coordination issues identified in the spillway with Andritz and CANMEC personnel.

Company laydown

- 6 of CANMEC's Ironworkers worked in the company laydown erecting the foldaway building. Section 8 & 9 of the building erected.
- Second 90T RT crane used by CANMEC in the company laydown area.

Coordination with other LCP Contractors:

- Astaldi was not represented at the 15:30 coordination meeting.

November 6, 2015

Spillway Downstream

- No installation activity observed in the downstream. All Bays available for Andritz work.
- Rough alignment complete in Bay 2-4 and on the north pier of Bay 5. The rough alignment of the south guide in Bay 5 and both guides in Bay 1 remain to be completed by CANMEC.
- Ice building up in the downstream sill pockets. Andritz has been repeatedly reminded of the potential risk of ice.
- Thick ice observed in Bay 1.
- LCP suggested Andritz erect wooden barricades to protect their sill beams from vehicle traffic on Wednesday 4-Nov-2015. Barricades not in place as of end of shift today.

Spillway Upstream

- CANMEC continue to receive trailers and offloaded them upstream. The final 2 trailers for Bay 1 & 2 arrived and were offloaded today. 32 guides and 6 sill
- Beams now onsite for Bay 1 & 2.
- Andritz requested Astaldi move a JLG, a generator and to ensure the access ramp was sanded. All requests dealt with in a timely manner.

Company laydown

- CANMEC's Ironworkers worked in the company laydown erecting the foldaway building. Side sections of the building completed. CANMEC began working on the rear sections of the foldaway building.
- Second 90T RT crane used by CANMEC in the company laydown area.

Coordination with other LCP Contractors:

- LCP, Andritz and Astaldi attended the 15:30 coordination meeting. Andritz will continue to mobilize equipment and office trailers from the company laydown area.
- Astaldi continue to work on NTU and the spillway bridge. No coordination issues foreseen with Astaldi works remaining north of the tower crane.

November 7, 2015

Spillway Downstream

- No installation activity observed in the downstream. All Bays available for Andritz work.
- Rough alignment complete in Bay 2-4 and on the north pier of Bay 5. The rough alignment of the south guide in Bay 5 and both guides in Bay 1 remain to be completed by CANMEC.
- Ice build up in the downstream sill pockets. Andritz has been repeatedly reminded of the potential risk of ice. Thick ice observed in Bay 1.
- LCP suggested Andritz erect wooden barricades to protect their sill beams from vehicle traffic on Wednesday 4-Nov-2015. Barricades not in place as of end of shift today.

Spillway Upstream

- CANMEC continue installing push/pull rods on guides.
- Andritz/CANMEC bringing hydro-mobile mast to the spillway.
- LCP and AH participated in a joint safety walk.

Company laydown

- Loading hydro-mobile onto trailers for the spillway.
- Moving equipment from company laydown in preparation for arrival of T&G parts
- Second 90T RT crane used by CANMEC in the company laydown area.

Coordination with other LCP Contractors:

- LCP and Andritz attended the 15:30 coordination meeting.

November 8, 2015

Spillway Downstream

- No installation activity observed in the downstream. Bay 3-5 available for work. Astaldi red tape as a precaution in Bay 1 & 2 due to unfinished overhead hanging scaffold on the upstream bridge and high winds.
- ice building up in the downstream sill pockets. Andritz has been repeatedly reminded of the potential risk of ice. Instruction to action sent via Aconex email. Thick ice observed in Bay 1. Instruction to action sent via Aconex email.
- LCP suggested Andritz erect wooden barricades to protect their sill beams from vehicle traffic on Wednesday 4-Nov-2015. Barricades not in place as of end of shift today. Instruction to action sent via Aconex email.
- Izkeutue have completed feeders to electrical Seacan. The Seacan is ready for the 25kv line to be energized by NL Hydro.

Spillway Upstream

- CANMEC continue installing push/pull rods on guides.
- Andritz/CANMEC bringing hydro-mobile mast to the spillway.
- Sunny corner building cribbing for CANMEC offices at the spillway.

Company laydown

- Loading hydro-mobile onto trailers for the spillway.
- Moving equipment from company laydown in preparation for arrival of T&G parts
- 90T RT in the company laydown area.

Coordination with other LCP Contractors:

- LCP and Astaldi attended the 15:30 coordination meeting. Andritz was not present.
- Astaldi will be fixing hoarding prior to continuing work on the NTU if weather allows on night shift and into day shift tomorrow. No coordination issues foreseen.

Summary

Between November 2 and 8 Andritz performed no work downstream and yet there was work available to be performed. The rough alignment of the south guide in Bay 5 and both guides in Bay 1 remain to be completed by CANMEC.

Between November 1 and 8 Andritz was not prepared to perform any work in the upstream Bays. Through November 6 Andritz was receiving materials and installing the screw rods in the guides. That work continued through November 8.

Andritz has claimed the downstream work is not on the critical path however the lack of work downstream has resulted in impacting the critical path. Until the hydro-mobile lifts are released from the downstream, Andritz is limited in what it can accomplish in the upstream Bays.

Of note is Andritz's absence from interface coordination meetings. Instead of addressing these issues on site, Andritz prefers to summarize them on a letter a week after some of the events are alleged to have transpired.

A review of Andritz Acceleration Schedule confirms:

- The downstream work for Bays 1, 2, and 3 should have been completed by November 9, 2015, the hydro-mobile lifts removed and installed in the upstream bays. At present this work is at least 33 days behind schedule.
- Receipt of the upstream embeds is also behind schedule, and installation of the embeds and the hydro-mobile lifts are at least a month or more behind schedule.

The status of Astaldi's work is well known. Company agrees the upstream bridge is incomplete, however this condition is having no impact on Andritz.

The North Discharge Channel wall is incomplete, but once again this is not obstructing Andritz.

Some of the block out anchor bolts have not been reinserted and Andritz has been made aware of this and that Andritz will be compensated for any increased costs to repair the spherical anchor nuts. Once again this is all information that has been made available to Andritz site personnel.

The upstream tower crane, generator and foundation will be removed by December 15, 2015 at which time all work on the upstream bridge, TRCM and placement of the guard rails will have been completed. This information has been provided to Andritz in the field.