

**Muskrat Falls Corporation****Corporate Office**

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22 March 2016

LTR-CH0032001-0298

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  
Spillway Schedule and Acceleration

References: Andritz letter AH-Letter-PM-123, March 12, 2016

Dear Mr. Mavromatis:

On March 4, 2016 pursuant to Article 32.1 of the Articles to the Agreement, Company issued a notice of default to Contractor. In the notice of default contractor was directed to provide a must submit a detailed resource loaded recovery plan (the "Plan") that meets the river diversion date of June 15, 2016, pursuant to Article 24.3 of the Articles to the Agreement. Company has reviewed Contractor's Plan submitted on March 12, 2016 and based on its analysis Company has no choice but to reject Contractor's Plan. The Plan has numerous deficiencies and offers no assurance that Contractor will get back on schedule and complete the work required to support river diversion by June 15, 2016. In particular:

1. Company should not have had to direct Contractor to prepare a recovery plan. Pursuant to Section 7 of Exhibit 3, Contractor should have taken the initiative and prepared a recovery plan.
2. Contractor's Plan is based on a number of erroneous assumptions regarding the current status of the work and the balance of the work to complete. Rather than a comprehensive assessment of the work and evaluation of all opportunities to improve the project schedule, Contractor's Plan suggests that recovery can be achieved by reducing the secondary concrete work in the last three bays by three weeks.

3. In its March 14, 2016 letter, AH-Letter-PM-124, Contractor acknowledged delays in fabrication of the spillway Roller Gates and to avoid further delays to the critical path Contractor would install the gates manufactured for bay 5 in bay 3 and vice versa. It is exactly this type of evaluation which Contractor should have included in its Plan.
4. Contractor did not submit a "Recovery Plan" but merely an abbreviated Gantt chart that purports to show Contractor can reduce the secondary concrete work by three (3) weeks and thus recover the existing schedule delay. Contractor's Plan did not include an updated schedule reflecting the change in logic for the secondary concrete work and the effect on the completion of the river diversion work. As a result Contractor has not addressed the follow-on work which is critical to achieve completion of the river diversion work by June 15, 2016.
5. Contractor claims it can achieve the reduced secondary concrete work by working all three guides concurrently within bays 3, 4 and 5 versus the current sequential logic. Contractor states this work requires triple the manpower which it has not explained.
6. Contractor's plan does not address the downstream CPPS4 Stop Log work which it abandoned in October 2015, only to resume downstream work, installing the shelters, on February 19, 2016. Contractor should have completed the downstream work in November 2015. Due to a lack of shelter materials Contractor was unable to proceed. The downstream work is now critical as that work must be completed prior to May 1, 2016 when the downstream area will be turned over to Astaldi to complete the discharge channel.
7. Attachment 1 is a summary of the delays in the hoarding shelter installation for bays 1 through 5. Contractor delays in providing the hoarding shelter materials and extended installation durations were the primary cause of the late start of the secondary concrete work. However, following the precision alignment of the CPPS2 guides and sill beam, Contractor lost another week in completing predecessor activities to the start of the CCPS2 secondary concrete work in bay 1.
8. Attachment 2 is a comparison of the upstream pour schedules for the October 2015, December 2015 and February 2016 schedule updates. The original Logic was to start with the pours for the CPV and CPPS1 guides, followed by the pours for the CPPS2 guides. Without explanation, this logic was reversed in the February 2016 schedule update. Contractor planned to start the CCPS2 sill beam pour in Bay 1 on March 1, 2016 followed by the CCPS2 guides on March 2, 2016. The bay 1 CPPS2 sill beam was poured the afternoon of March 14, 2016. The CPPS2 guide pours started in the evening shift of March 14, 2016. The CCPS2 guide pours were not completed until mid-morning on March 20, 2016. The start of the CCPS2 pours reflects a two week delay to the February 2016 schedule update.

Company's review of Contractor's February 2016 schedule update reveals a delay of at least twenty seven (27) days to the critical path to river diversion. Contractor's Plan recovers only twenty one (21) days of the current delay. This delay is Contractor's solely responsible.

Contractor requested additional compensation in the amount of \$5.0 million to implement this recovery plan. Contractor's request is not supported and in Company's opinion, as demonstrated above, is totally without merit.



Contractor is expected to proceed with the work and explore all opportunities to recover the delays for which it is responsible. Within ten (10) days of receipt of this letter Contractor is again requested to provide a fully updated schedule reflecting all opportunities to complete the balance of the work in accordance with the timeline provided in Change Order No. 10.

Yours truly,



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