

Muskrat Falls Corporation

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LTR-CH0007001-0283

26-Sep-2014

ASTALDI Canada Inc.
358 Hamilton River Road
Happy Valley-Goose Bay, NL
AOP 1C0 Canada

Attention: Jose Alves, Project Manager
Roger Hopkins, Contract Administrator

Subject: **Agreement No.:** CH0007- 001
Title: Construction of Intake and Powerhouse, Spillway and Transition Dams
RE: Baseline Control Schedule Conditional Acceptance

Dear Sirs,

On 11-Sep-2014 Astaldi submitted the latest iteration of its Baseline Control Schedule, MFA-AT-SD-0000-PC-A42-0001-01 revision A2, for Company's review and acceptance. The Company has completed its analysis of the schedule find it acceptable with the following conditions:

1. A number of Priority 1 comments, including some significant and critical Procurement activities have not been properly addressed in the schedule. One example is fabrication of structural steel for various Units/Service Bays of the powerhouse are represented by large lags between activities. Some of the lags, 300 days vs 180 days, are in excess of the fabrication predecessor activity. These lags need to be rectified in the next schedule update at the end of the month. Our site lead planner has a complete list of these structural steel activities.
2. Astaldi has failed to address a number of the Company's Priority 2 and 3 comments from its previous reviews. These comments have to be resolved prior to the Oct-2014 update. The Company's site lead planner has the current list of each of the unresolved comments.
3. In the subject Baseline Schedule Astaldi has subdivided a number of pour activities into several new activities. In doing so, Astaldi duplicated the total hours for the original activity in each of the new activities, thus accidentally increasing the budget planned hours. The Company has provided Astaldi with a number of examples where this was done. These errors need to be corrected before the 27-Sep-2014 update. Correcting these activities is not a difficult task and can be accomplished very quickly. It is critical that the hours and quantities in the schedule align with the contract values otherwise our monthly incremental and cumulative progress curves and KPI's will be inaccurate.

4. Spillway milestone M4B must be achieved by the Contract Milestone Date of 31-Jul-15. We believe the current late forecast completion date for Milestone M4B is due to calendar errors and can be achieved by correcting the calendar for the critical activities leading to Milestone M4B. The M4B milestone date needs to be corrected prior to the 27-Sep-2014 update.
5. Astaldi has excessive durations on the Intake structural steel activities as a result this is directly impacting the forecast Intake Structure turnover dates for all four (4) Powerhouse units.
6. The Baseline Schedule includes sixteen (16) activities with negative lags of minus 888 days. These lags are potentially impacting the critical path in various areas of the schedule. Astaldi must remove these negative lags from the Baseline Schedule logic.
7. Errors were made while progressing some activities that had started. As a result the Budget hours and "At Completion" hours do not match. Astaldi is to correct this imbalance.

The Company's acceptance of Astaldi's Baseline Schedule is conditional subject to Astaldi correcting the seven items set forth above; Item Nos. 1, 3, 4, 5, 6 and 7 are to be completed prior to the 27-Sep-2014 schedule update. The native file with all corrections is to be reviewed with the Company's lead site planner and then submitted thru Aconex as a revision controlled document; and Item No. 2 is to be completed by 31-Oct-2014. Astaldi's failure to make these corrections will leave the Company with no recourse other than to withdraw this conditional acceptance.

In addition to Milestone M4B, the Baseline Schedule forecasts a number of other Contract Milestones are also going to be missed with many more in jeopardy of being missed. During the past two weeks, since the submittal of the Baseline Schedule, a number of pours were planned to start or be completed however they were not. These delayed pours puts the achievement of the Contract Milestones at further risk. This is unacceptable; Astaldi is expected to meet all Contract Milestones. To address the current schedule delays, Astaldi is to provide the Company with a detailed recovery plan addressing all reasonably acceptable means to mitigate the impacts Astaldi's delays have had on the Contract Milestones.

With the acceptance of the Baseline Schedule we are approaching a milestone which reflects a significant joint effort. We believe this effort has been mutually beneficial and forged a real sense of teamwork between our Project Controls Groups. With these final corrections we will have a functioning Baseline Schedule with which to execute the work and have a realistic assessment of Astaldi's progress.

Regards,

Muskrat Falls Corporation



Desmond Tranquilla
Deputy Company Representative and Site Manager

CC: S. O'Brien, R. Woolgar, M. Collins, N. Fergusson, A. Kelly, B. Knox, H. Geres, M. Melhem
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