

Muskrat Falls Corporation**Corporate Office**

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Lower Churchill Project Operations Office

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12 June 2015

ASTALDI Canada Inc.

358 Hamilton River Road
Happy Valley-Goose Bay, NL
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Attention: Mr. Don Delarosbil - Project Manager

Subject: Agreement No.: CH0007- 001, Construction of Intake and Powerhouse, Spillway and Transition Dams, the Path Forward

Reference: Letter from Mr. Stefano Cerri, 19 May 2015

Dear Mr. Delarosbil,

Although it is not Company's desire to expend resources to dwell on the past we are compelled to re-state Company's position on the issues raised in the reference letter and addressed in Contractor's presentation on Tuesday May 19, 2015.

Contractor's presentation laid out its view of the path forward, which included recent improvements in production; anticipated manpower levels and forecast production; and, Project completion scenarios. Contractor stated that underlying its presentation were detailed analyses addressing anticipated manpower levels, forecast production, completion scenarios, and a revised baseline schedule. On 21 May 2015 Contractor provided Company with a copy of the revised baseline schedule. Company is undertaking an analysis of Contractor's revised baseline schedule which will be the subject of further discussion, shortly. Company has, and continues to believe there are opportunities to improve Contractor's planning and is prepared to meet with Contractor in a collaborative planning effort to improve production and mitigate delays.

The presentation's positive messages however were diluted by Contractor's discussion of three issues which it believes have, and continue to, affect progress of the work. These issues are:

1. Company's "...late start..." and the effect of the Mutual Release, Exhibit 17 of the Agreement;
2. Newfoundland and Labrador labour deficiencies which are reflected in the low labour productivity; and,
3. Company's failure to award the North Spur Stabilization and North and South Dams to Contractor to achieve efficiencies and mitigate Company's late start.

Company strongly disagrees with Contractor's statements and mischaracterizations of the facts, and is deeply disappointed in Contractor's retrospective rather than prospective vision and attempts to lay the blame for its own shortcomings on others.

Mutual Release (Exhibit 17)

Contractor's position that the Mutual Release caused a delay to the start of the work is beyond comprehension. The Mutual Release offers only one, unambiguous meaning and application. Company and Contractor agreed to irrevocably waive any right to any claim either party may have against each other for any alleged cost and/or schedule impact as a result of the Agreement not being executed prior to the date of the release, November 29, 2013. In addition, each party affirmed they had the opportunity to obtain legal advice and fully understood the terms and implications of the Mutual Release.

In November 2013 prior to signing the agreement Contractor expressed its concerns to Company that the late execution of the Agreement could have on the ability to meet the Contract Milestones. In response Company asked Contractor to address the risks Contractor believed it was assuming and what if any relief they sought prior to executing the agreement. The next day, Contractor responded that after due consideration it would accept the Agreement and Schedule Milestone Dates as written. Thereupon the mutual release was prepared and executed. Contractor's request for relief now is contrary to the expressed terms therein.

Labour Productivity

Company can make no comment with regard to assumptions and labour data Contractor used in the preparation of its proposal for the Project. Company can disclose that the labour hours for one other bidder were consistent with Contractor's and above Company's estimate. Contractor may now find the labour market in Newfoundland and Labrador is unique in its experience however this is a risk Contractor assumed. In the Request for Proposal, Contractor was provided with the Collective Bargaining Agreement and all relevant labour information available at the time. Company has pointed out on more than one occasion that Contractor's poor productivity experienced in 2014 was due to a lack of planning, supervision and leadership; failure to manage its labour; enforce the terms and conditions of the Collective Bargaining Agreement; lack of support; and, overstaffing the Project when Contractor had little or no work for the labour to perform. By comparison, the same workforce is now performing very well, productivity is improving. The improvements are due in large part to the addition of qualified supervision and leadership, improvements in labour management, and better planning at the working level.

North Spur Stabilization and North and South Dams

Contractor's comments regarding the motivation behind the financial incentive for the North Spur Stabilization Work and the North and South Dams are entirely new to Company. To the Company's recollection, this matter has never been raised in any form between the Parties

either prior to or after the execution of the Agreement until Contractor's presentation and letter of May 19, 2015.

Exhibit 2- Compensation of the Agreement, addresses the terms and conditions regarding the potential award of the North Spur Stabilization (CH0008) and the North RCC dam, the South Rockfilled Dam and associated cofferdams (CH0009). In consideration of the Company's agreement to award CH0007 to Contractor, Contractor agreed to reduce the amount of the Target Cost of Labour, in price Item 391A of Appendix A – Schedule of Price Breakdown, by forty million dollars (\$40.0 million), and to reduce the Labour Profit by two million eight hundred thousand dollars (\$2.8 million). The award of CH0008 and CH0009 were contingent on the Parties agreement on the price and schedule for the work.

The addition of this option was undertaken solely for Company's financial benefit. At the time this option was incorporated into the Agreement, the Limited Notice to Proceed had not been issued and the Agreement and Mutual Release had not been executed. Contractor's statements that the addition of this work was to achieve efficiencies and mitigate Company's late start are completely groundless. Any efficiency achieved from this work was partially reflected in the discount contemplated should the Contractor be successful in being awarded the work.

Contractor's proposal for the North Spur Stabilization work was not commercially competitive, and while Company has not made a final decision on the North and South Dams Company is currently considering more commercially competitive proposals from other Contractors. Accordingly, it is Company's intent to amend the Agreement to restore the discounted amounts to Contractor.

Company is committed to, and believes we can achieve a successful Project outcome, and therefore does not intend to expend resources cultivating the past. It is a waste of time and distraction to the tasks at hand. We need to look forward, focus on identifying opportunities for success, and implementing solutions to address the Project needs.

Regards



Scott O'Brien

Muskrat Falls Generation – Project Manager
Company Representative

