

January 25, 2016

Premier,

As you are aware, on Monday, January 18, 2016 Nalcor advised Government that they were entering into discussions with Astaldi with the objective of negotiating a solution to issues raised by Astaldi with respect to cost and solvency. I understand that Nalcor's intent was to reach an agreement in principle with Astaldi with final approval to be sought from Nalcor's Board of Directors and Cabinet. In general, standard process requires negotiating mandates for issues of this significance to be approved by Government in advance of entering good faith negotiations. While Nalcor had advised government of the performance issues with Astaldi and a potential quantum required to address the issue, to date, there have not been any detailed briefings or analysis provided by Nalcor to Government to support Nalcor's position/recommendation on this issue. As a result, Nalcor was directed to provide detailed information respecting the issue including due diligence performed to date, and an assessment of options.

A draft presentation was provided on Thursday, January 21, 2016 (revised Friday, January 22, 2016) outlining Astaldi performance to date, Nalcor's actions to address performance issues and Nalcor's position that while their contractual position is strong and issues are the result of Astaldi's actions, the implications of not supporting Astaldi could result in a very large exposure to the Project. The presentation further outlined the options considered with a recommendation that Nalcor work with Astaldi to reach a negotiated settlement which would require providing at least an additional \$250-300M to Astaldi. This recommendation was largely to address reported solvency concerns with Astaldi and ensure earliest completion of the project, estimated at 12-18 month increase in schedule. This amount does not include other additional costs to the project due to this extended timeline to project completion (eg. site services, impact on other contractors, project management, etc). Nalcor advises their assessment/due diligence processes included consultation with mega project risk consultants; project management advisors; a forensic accountant firm; construction lawyers; construction claims advisors and internal project managers.

As discussed over the last several days, there has been no independent analysis of the information provided by Nalcor and the level of information provided is not sufficient to render an informed decision. Given the significant policy and financial implications of this decision, a much deeper understanding of the issue and the due diligence undertaken by Nalcor in reaching its recommendation is required to ensure there is strong evidence to inform a decision by Cabinet and accountability of any decision to the public. However, Government is challenged to have independent analysis completed in a limited timeframe and this issue is further compounded by a lack of internal capacity to undertake this analysis given the highly technical nature and complexity of this issue.

It is therefore recommended that:

- Government consider immediately engaging the necessary expertise (to be identified) to complete an initial assessment of the issue including in particular, validating the urgency of the issue, the conclusion that there are concerns with the solvency of Astaldi and the related risks to the project. Further validation will also be required to assess the options and related legal and

financial risks and to provide a recommendation on how to move forward to manage the project and mitigate risk.

- Further consideration be given to how this independent assessment would integrate with the current review being undertaken by EY on Project cost and schedule risks, of which Astaldi is included (this assumes that EY is not the expertise envisioned above).
- Internal legal counsel in Justice and Public Safety familiar with the various contracts and terms of the Federal Loan Guarantee (and related agreements) be immediately engaged to assess any potential impacts on the agreements.
- Risk of potential change in senior executive at Naicor and the resulting impact on the project be considered and deliberate thought be given to an interim replacement to be prepared to move quickly if the need arises.

I am available to discuss further at your convenience.

Julia