

**PROJECT
SOLUTIONS
Inc.**

July 20, 2018

DELIVERED BY HAND

Mr. Stanley Marshall
Chief Executive Office
Nalcor Energy
St. John's, NL

PRIVATE AND CONFIDENTIAL

Re: Assertions made surrounding the circumstances of the resignation of J. Kean

Mr. Marshall (Stan);

On Tuesday, 17-July we met to discuss recently circulating statements and comments regarding the circumstances for my resignation from the Lower Churchill Management Corporation ("LCMC"). As a point of note, resignation occurred on 4-Jan-2017 when I, on behalf of my firm, provided notice of the intention to terminate services pursuant to the provision within our respective Agreement.

During our meeting you validated that these statements and comments were indeed made by your EVP, John MacIssac. As I indicated to you, I was quite troubled to learn of these disparaging and inaccurate statements and consider such allegations to be quite a serious matter that could negatively impact my professional reputation and compromise my ability to secure future contract work. You offered no explanation as to why such comments have been made, or why they are now surfacing some 18 months after my departure. This leaves me to wonder if there is now a concerted effort to discredit me both personally and professionally.

As part of our dialogue, you stated that you were advised that my resignation promptly followed (i.e. the next day) being confronted by your EVP, John MacIssac, regarding my supposedly withholding of cost information related to the transmission lines scope. Specifically, you stated that I withheld information related to the cost impact of (i) conductor proud stranding, (ii) geotechnical conditions, and (iii) trade labour escalation. You stated that despite being aware of the cost impact created by these items, I knowingly withheld them from being considered during the June 2016 AFE preparation, thus resulting in the need for the 2017 AFE. You will recall that I in fact spoke to each of these items, providing details to counter any such suggestion of hiding information. I further advised that it would be my intention to set the record straight.

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As I stated during our meeting, my decision to leave was values-based. Mr. MacIssac and myself do not share the same ideology, while Mr. Fleming, Transmission Project Director, was undertaking significant organization change that diminished my role and the requirement for my services. My email to Mr. Fleming of 4-Jan-2017, which I provided to you, summarizes the issues and my concerns. This was the basis for my resignation, and at no time did either Mr. MacIssac or Mr. Fleming confront me in the matter that you suggested.

Regarding the three specific items you indicated to which I knowingly withheld cost information, such assertions are inaccurate and a misrepresentation of the facts. To support actual events, during our meeting I provided to you several presentations made to either yourself, Mr. MacIssac and Mr. Fleming during the period of May – December 2016 which address the dominant issues facing the transmission lines. In particular, these presentations speak to the performance issues being experienced with Valard Construction (“Valard”), the constructor for both the HVac and HVdc transmission lines. With respect the three noted items, a summary of the key aspects surrounding each is provided below.

Before addressing each of these, I would like to remind you of the process and timeline under which the June 2016 AFE for LTA and LITP (AFE Rev 3) was approved. As mandated from the E&Y Review, LCMC undertook a comprehensive Quantitative Risk Assessment (“QRA”) in order to provide the P75 cost forecast upon which the AFE Rev 3 was to be based. Documented in the LCMC report “*LTA – LITL Quantitative Cost and Schedule Risk Analysis (Q1-2016)*”, this QRA was completed in the period of January – March 2016, with the results feeding into the briefing presentation made to you (and Mr. MacIssac) on 11-May-2016, shortly following your arrival to Nalcor. Consolidated with the QRA results for Muskrat Falls Generation, the information provided the basis of the public cost announcement of \$9.1B you provided on 24-Jun-2016. As was typical of past AFE updates, the period between LCMC’s preparation of the cost forecast and the AFE approval, was used by the CEO, EVP and Nalcor team to socialize the information with key stakeholders, including Nalcor’s Shareholder.

Herein is a summary of the timeline of events surrounding the reporting of costs associated with the three noted items:

Item 1: Conductor Proud Stranding

Initially noted as “loose strand” in mid-May 2016, it was not until the 7-Jun-2016 that a precautionary measure was taken to suspend Valard’s stringing operations, until such time as an investigation could be completed. LCMC’s Deviation Alert Notice DAN-1999 – *Pole Conductor Loose Strand*, originated on 18-May-2016, flags this issue as an item of concern. As such, the occurrence of this issue follows the conclusion of the 2016 QRA. The QRA report, *LTA – LITL Quantitative Cost and Schedule Risk Analysis (Q1-2016)*, written and issued by myself on 17-Jun-2016, clearly states that the QRA does not consider the potential cost impact of the recently discovered conductor proud stranding phenomena. However, it provides a rough estimate of the exposure, stating it could cost between [REDACTED] and add [REDACTED] schedule exposure. Despite not being accounted for in the 2016 QRA, during the final compilation of the back-up for AFE Rev 3 approval package LCMC project controls, through cost shuffling, were able to book a [REDACTED] allowance within AFE for this emerging issue.

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Following an extensive investigation, Project Change Notice PCN-0674 – *Pole conductor loose strand/Stringing Suspension* – Rev 0 approved on 14-Sep-2016, notes that the cost exposure [REDACTED]. Over time various updates on this critical issue were provided to stakeholders, including to Mr. MacIsaac and Mr. Fleming, the Independent Engineer, and the Muskrat Falls Oversight Committee. For a comprehensive synopsis of the Conductor Proud Stranding file, I referred you to a briefing presentation, held in LCMC's files, made by myself to [REDACTED] on 18-Oct-2016.

In conclusion, there was full internal transparency on the state of this emerging, unplanned issue. Any assertions that the I knowingly withheld cost information related to the conductor proud stranding from the 2016 QRA is simply invalid, as is the statement that Mr. MacIsaac or Mr. Fleming were not made aware of the potential impact.

Item 2: Geotechnical Conditions

The resultant challenges of the prevalent geotechnical conditions on the HVdc TL is featured in many pieces of historical contractual correspondence between Valard and the Labrador-Island Link Limited Partnership, as summarized within my January 2017 report *Information Brief on Materially Significant Commercial Issues between Valard Construction LP ("Valard") and Labrador-Island Link Limited Partnership ("Company")*. In general, commercial disagreements between Valard and LITP emerged given the differences between the as-expected and as-observed geotechnical conditions, as well as interpretation of the technical requirements under the agreement. There is no doubt there was plenty of awareness of the issue within Nalcor, the Independent Engineer, and Muskrat Falls Oversight Committee (as evident from the *Muskrat Falls Project Oversight Committee – Committee Report – August 2015*).

Geotechnical conditions, and their impact on access road and tower foundation construction, are featured prominently in the 2016 QRA for LTA/LITP, as well as discussions had during the 14-Jul-2016 *Valard Performance Briefing* I made to Mr. MacIsaac and yourself. In order to ensure the organization's awareness, LCMC's proactive change management culture fostered the creation of numerous DANs related to as-experienced geotechnical conditions and their impact on the Project, both issued before and following the 2016 QRA. On 30-Mar-2016 an encompassing presentation, entitled *HVdc TL: Geotechnical Risk Review – Background, Current Situation, Action Going Forward*, was made by myself to LCMC's Change Control Board in order to fully discuss the situation.

Any assertions that the I knowingly withheld information related to the geotechnical conditions from the 2016 QRA is simply invalid; the risk as understood at the time was quantified and significantly influenced the outcome and hence capital funding requirements at AFE Rev 3. All issues related to geotechnical conditions were being addressed between Valard and LITP, as evident from the substantial documented within the Project's correspondence records. As with Item 1, there is no validity to the statement that I knowingly hid cost information.

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Item 3: Trade Labor Escalation

Agreement CT0327-001 between Valard and LITP includes provisions for trade labor escalation. The Recommendation for Award for CT0327-001 presented in August 2014, includes an amount for trade labour escalation using the labor hours provided by Valard. This amount, valued at [REDACTED] was carried in the internally estimated contract value of [REDACTED] (note that awarded value to Valard was \$809 million), thus ensuring full transparency of the value of trade labor escalation. There was never any debate regarding the eligibility for Valard to recover trade labor escalation, rather it was on the basis of calculation, resulting in Valard not providing a fulsome submission of the basis of its calculation until 23-Dec-2016, just before my resignation.

As stated, funds for trade labor escalation under Agreement CT0327-001 were included in the estimate contract value presented 30 months before my departure. Any suggestion of knowingly trying to hide this issue is preposterous.

In closing, during our meeting you confirmed you would consider any material I was able to bring forward which may counter the allegations made by your EVP, John MacIssac. Considering the magnitude of the statements, I trust that you will fully consider the information I have provided, and ensuring measures are taken to correct any false statements being made both internally and/or publicly.

Sincerely,



Jason R. Kean, P. Eng., MBA, PMP
Principal

Cc: Deborah Hutchings, Benson Buffett