

LABRADOR-ISLAND LINK INVESTMENT TERM SHEET

_____ February 14 __, 2022

This term sheet (the “**Term Sheet**”) sets forth a summary of the principal terms and conditions of a proposed arrangement between Her Majesty in Right of Canada (“**Canada**”) and Her Majesty in right of Newfoundland and Labrador (the “**Province**”) in respect of the Labrador-Island Link (the “**LIL Project**”).

DEFINITIONS:

- Canada:** Her Majesty in Right of Canada
- EDC:** Export Development Canada, as administrator of the investment for Canada
- Province:** Her Majesty in right of Newfoundland and Labrador
- Nalcor:** Nalcor Energy
- LIL GP:** Labrador-Island Link General Partner Corporation, a corporation incorporated under the laws of the Province of Newfoundland and Labrador and general partner of the LIL LP
- LIL LP:** Labrador-Island Link Limited Partnership, an existing limited partnership formed pursuant to the laws of the Province of Newfoundland and Labrador, acting by its general partner LIL GP
- LIL Holdco:** Labrador-Island Link Holding Corporation, a corporation incorporated under the laws of the Province of Newfoundland and Labrador, which holds Nalcor's limited partnership interest in LIL LP
- LIL (2021) GP:** Labrador-Island Link General Partner (2021) Corporation, a newly formed corporation to act as general partner of LIL (2021) Limited Partnership, which corporation is a subsidiary of Nalcor
- LIL (2021) LP:** LIL (2021) Limited Partnership, a newly formed limited partnership with LIL (2021) GP as general partner

Projects:	<p>The Muskrat Falls Generation Facility (“MF”), the Labrador Transmission Assets (“LTA” and collectively with MF, “MF/LTA”), each as more fully described as follows:</p> <p>MF: an 824-MW hydro-electric generation facility in the vicinity of Muskrat Falls, Labrador developed by Nalcor.</p> <p>LTA: a 345-kV HVac transmission interconnection between Muskrat Falls and Churchill Falls developed by Nalcor.</p> <p>The Labrador-Island Link (“LIL”): a HVdc transmission line connecting the Island of Newfoundland to generation facilities in Labrador being</p>
------------------	---

	developed by Nalcor in which Emera Inc., via a Newfoundland and Labrador corporate entity, is an investor. (collectively the “Projects”)
--	---

The following is only a summary of the principal features of the intended arrangement whereby Canada will invest in a limited partnership to be formed for the purpose of investment to provide funding to offset LIL financing costs (as more fully detailed herein) and will be qualified in its entirety by, and should be used in conjunction with, the more detailed information which will be found in the LIL (2021) Convertible Debenture documenting the terms for the advances of the funds (the “Convertible Debenture”) and in the LIL (2021) Limited Partnership Agreement (the “LIL (2021) LPA”) (each as described herein). All references to "dollars" or "\$" in this Term Sheet are to the currency of Canada.

Partnership: The LIL (2021) LP shall be a limited partnership formed under the laws of the Province of Newfoundland and Labrador. LIL (2021) GP will act as its general partner.

Transaction Basis: The transaction described immediately below (the “Transaction(s)”) is an investment by Canada, as administered by EDC, in an unsecured convertible debt instrument to be issued by LIL (2021) LP with a maturity date of December 31, 2071 but may be paid sooner or may be converted on such date as described below.

Transaction: Nalcor or a newly formed wholly owned subsidiary of Nalcor (in either case the “Parent”) and LIL (2021) GP will form a limited partnership pursuant to the laws of the Province of Newfoundland and Labrador to be named “LIL (2021) Limited Partnership” with LIL (2021) GP acting as general partner and with the Parent as the initial limited partner.

LIL (2021) LP will have two classes of units: (i) Class A Units, and (ii) Class B Units. The Parent will transfer the shares it owns in LIL HoldCo to LIL (2021) LP in exchange for additional Class A Units of LIL (2021) LP after first commercial power has been achieved on the LIL Project. LIL (2021) LP will thereupon hold the interest of Nalcor in LIL LP through its ownership of shares of LIL HoldCo, which will hold the Class A Units of the LIL LP. The Class B Units of LIL (2021) LP will be designated for the conversion rights of Canada under the Convertible Debenture. It is the intent that LIL Holdco will remain exempt from federal taxation under subsection 149(1) of the *Income Tax Act* (Canada) following LIL Holdco becoming a wholly-owned subsidiary of LIL (2021) LP and remain exempt from federal taxation under subsection 149(1) of the *Income Tax Act* (Canada) including following any issuance of Class B Units to Canada further to the conversion of the Convertible Debenture. The Parent may choose to wind LIL Holdco up into LIL (2021) LP, thereby having LIL (2021) LP hold the Class A Units of LIL LP directly. Covenants in the Convertible Debenture typical for transactions of this nature applicable to “credit parties” will apply to LIL Holdco until it is wound up.

Canada will provide debt financing through the Convertible Debenture on a committed basis in the amount of \$1 billion which may be drawn in amounts of up to \$150 million per year (as more particularly described in the Advance Draws section of this Term Sheet), based on a call by LIL (2021) GP as the general partner of LIL (2021) LP. Following the earlier of: (i) the full advance of the committed \$1

billion; and (ii) December 31, 2041, the Convertible Debenture will be convertible in whole at the sole option of Canada into Class B Units of LIL (2021) LP. The Convertible Debenture may be repaid and the Class B Units in LIL (2021) LP will be redeemable, in whole or in part, at any time at the sole option of LIL (2021) LP. The financing provided by Canada pursuant to the Convertible Debenture will be unsecured.

The terms of the Convertible Debenture will be integrated with the terms of the Class B Units so as to provide consistent rights and restrictions on LIL (2021) LP, whether pursuant to the Convertible Debenture or the LIL (2021) LPA (the Convertible Debenture and the LIL (2021) LPA to substantially incorporate the relevant terms of the current project finance agreement for the LIL (the “**LIL PFA**”) and the terms of the limited partnership agreement governing the existing LIL LP (the “**LIL LPA**”).

Investment Price: Debt instrument at face and convertible at \$1 per Class B Unit; conversion will be on the basis of \$1 for each Class B Unit and the conversion right will be for the full amount of the amount advanced plus the PIK Return earned and unpaid to the date of conversion.

Total Targeted Gross Proceeds: \$1 billion shall be subscribed on a committed basis by Canada.

Manner of Investment: Canada will invest in debt by way of the Convertible Debenture which will be convertible into Class B Units in LIL (2021) LP and will provide for funding against draw calls in amounts of up to \$150 million per year (as more particularly described in the Advance Draws section of this Term Sheet). Any conversion of the indebtedness under the Convertible Debenture into Class B Units of LIL (2021) LP may occur at any time after the earlier of (i) the full advance of the committed \$1 billion; and (ii) December 31, 2041 (including at maturity of the Convertible Debenture) upon appropriate notice, and will be at the option of Canada but must be of the entire amount of the Convertible Debenture; partial conversion will not be permitted.

As a condition of LIL (2021) LP accepting the investment provided under the Convertible Debenture, the parties shall acknowledge and agree to be bound by the terms of the LIL (2021) LPA in a form to be agreed but to be generally consistent with the terms of the LIL LPA other than matters specific to the LIL Project such as capital contributions, LIL Project operational matters and other matters. The terms contained in the LIL (2021) LPA, where appropriate, will be included in the Convertible Debenture to ensure the consistency of rights granted to Canada pursuant to the Class B Units and the Convertible Debenture.

The Convertible Debenture and the Class B Units issued upon conversion of the Convertible Debenture will be assignable, in whole but not in part, by Canada to Canada agencies, departments or crown corporations at any time and without consent required; provided that until the earlier of: (i) such time as 95% of the Committed Amount, as hereafter defined, has been advanced in full; or (ii) December 31, 2041; if any such assignment is to an assignee who is not an agent of Her Majesty in right of Canada, then Canada will commit to fund such assignee with sufficient funds from the consolidated revenue fund of Canada for the assignee to meet its obligations

to advance the Committed Amount in accordance with the terms of the Convertible Debenture and to cause such assignee to meet such obligations.

Each investment advance will be made by Canada delivering a SWIFT payment transfer in the amount of the applicable committed debt advance. Funds shall be in same day freely transferable Canadian funds at par in St. John's, NL payable to "LIL (2021) Limited Partnership".

Advance Draws: Canada will advance the committed investment of \$1 billion (the "**Committed Amount**"), as specified in the Convertible Debenture, to a maximum of \$150 million each fiscal year of Canada, *pro-rated* for any partial year (calculated on the basis of a 365 day year), with up to four draws permitted in each fiscal year. Capital draws will take place on 5 business days' written notice. Draws may be requested over a term ending December 31, 2041 but only until the Committed Amount is drawn in full. The ability to require a draw of the Committed Amount then undrawn will expire on December 31, 2041 and no further draws are permitted thereafter. Advances are made on a non-revolving loan basis and if repaid may not be redrawn. Advances are made as requested on a committed basis subject only to the satisfaction of the applicable conditions precedent.

In the Canada fiscal year (April 1st to March 31st) during which the Closing Date occurs, LIL (2021) LP may request draws of the Committed Amount up to a maximum aggregate amount equal to the sum of (a) \$150 million pro-rated (calculated on the basis of a 365 day year) for the period between the Closing Date and the subsequent March 31st, *plus* (b) the lesser of (i) \$150 million pro-rated (calculated on the basis of a 365 day year) for the period between the occurrence of the last "Commissioning Date" as such term is defined in each of the Revenue Agreements (as defined in the Use of Proceeds section of this Term Sheet) and the Closing Date, and (ii) \$150 million. In any subsequent Canada fiscal year, LIL (2021) LP may request draws of the Committed Amount up to \$150 million. Notwithstanding any provision in this Term Sheet, (a) total draws may not exceed \$1 billion, (b) no funds may be drawn prior to the Closing Date, and c) no funds may be drawn after December 31st, 2041.

Interest on a PIK Basis: The convertible debt will bear annual compound interest on a "PIK" basis, which interest shall begin to accrue in respect of each draw of the Committed Amount immediately upon the date of such draw. The "PIK Return" is as herein defined and will be set on a one time basis at the date upon which the Conditions to Closing set out herein have been satisfied and the Transaction is closing which is the first funding closing (the "**Closing Date**"). The PIK Return will be determined by the forward interest rate curve for 30 year Canada bonds based on capital draws in amounts of up to \$150 million per fiscal year of Canada, adjusted to reflect the increased duration of the investment repayment period (this being the "**PIK Return**"). The PIK Return will be paid starting in 2042 as contemplated in the Distributions section of this Term Sheet.

An indicative basis for the determination of the PIK Return is attached as Schedule A to this Term Sheet.

Redemption of Debt or Units: Canada is entitled to demand redemption of the investment pursuant to this offering upon the dissolution, winding-up or liquidation of LIL (2021) LP in accordance with the LIL (2021) LPA. Redemption will occur at par.

Redemption of Class B Units, if the debt is converted, or repayment of the convertible debt, if the debt is not converted, will be required and made from distributions starting in 2042 as described herein under the heading Distributions.

Term: The Convertible Debenture will mature on December 31, 2071 when all principal and accrued PIK Return, if any, then unpaid will become due and owing. On December 31, 2071 if there are any Class B Units or accrued PIK Return thereon outstanding, Canada can require redemption or payment on terms to be set forth in the LIL (2021) LPA.

Structure: Canada will agree to invest by a financing arrangement allowing a drawing of up to \$1.0 billion by December 31, 2041 under the Convertible Debenture. LIL (2021) LP will be initially formed and owned by Parent and LIL (2021) GP with Nalcor (following first commercial power on the LIL Project) transferring all of the existing equity of LIL Holdco to LIL (2021) LP.

Nalcor will cause the transfer of its investment in LIL LP using an agreement to set the terms of the rollover transaction which will be implemented to transfer the LIL Holdco equity (and thereby indirectly transfer LIL LP limited partnership interest) to LIL (2021) LP.

LIL (2021) LP will be entitled to all of Nalcor's distributions from the LIL Project (other than ordinary distributions to LIL GP in accordance with the LIL LPA). If LIL Holdco remains in place, such distributions will be fully flowed through LIL Holdco after satisfying ordinary course expenses customary for a holding company and reinvestment of any such distributions required to meet required partner capital contribution requirements for the LIL LP and LIL PFA.

The parties hereto may agree to permit LIL (2021) LP to incur certain subordinated debt (the "**Subordinated Debt**") provided by Nalcor or a subsidiary thereof. Any such Subordinated Debt will be fully subordinated and postponed in all respects to the Convertible Debenture and any Class B Units, in each case on terms and conditions satisfactory to Canada in its sole discretion. Any payments (of interest or principal) made by LIL (2021) LP in respect of the Subordinated Debt will be subject to the same restrictions as apply to distributions by LIL (2021) LP to the Parent.

Reporting: LIL (2021) LP will provide its limited partner(s) and Canada as a debt holder with annual financial statements together with an annual report of its partnership activities during the year (which report shall include, without limitation, a reasonably detailed breakdown of the application of any funds advanced by Canada pursuant to the Convertible Debenture so as to confirm that such funds have been used in accordance with the Use of Proceeds section of this Term Sheet) within 120 days after the end of each fiscal year of LIL (2021) LP, together with regular updated annual forecasts of the distributions from the LIL Project. To the extent possible, such reporting shall be consistent with those obligations set forth in the LIL LPA. LIL (2021) LP will provide Canada with the reports and confirmations provided by LIL LP to its partners and

fundors promptly on LIL LP being required to provide such reports and confirmations, and will specifically provide the financial statements for LIL LP, LIL GP, LIL (2021) LP, LIL (2021) GP and the LIL Holdco unless wound up.

Use of Proceeds: The funds advanced by Canada will be used for the purpose of offsetting costs incurred in relation to the Revenue Agreements. For greater certainty, advances may be transferred by the LIL (2021) LP to Parent (via distributions or payments of interest and/or principal on Subordinated Debt), and may subsequently be transferred to the Province, in each case solely to effect the purpose noted in the immediately preceding sentence. “**Revenue Agreements**” means the following Lower Churchill Projects agreements: (i) in respect of generated power, the power purchase agreement dated November 29, 2013 between Newfoundland and Labrador Hydro (“**NLH**”) and Muskrat Falls Corporation and (ii) in respect of the transmission of power, (A) the transmission funding agreement dated November 29, 2013 between NLH, LIL LP and Labrador-Island Link Operating Corporation and (B) the LIL lease dated November 29, 2013 between NLH, LIL LP and Labrador-Island Link Operating Corporation, each as may be amended, restated, supplemented or otherwise modified or replaced from time to time.

Rights of Canada as Debtholder or Partner: The Convertible Debenture shall establish the terms for the formation, governance and ownership of LIL (2021) LP and require the Committed Amount to be used consistent with the Use of Proceeds section of this Term Sheet. Payment to Canada will occur as outlined under Distributions.

Canada will be investing in a manner that is to provide Canada with protections as an investor in LIL(2021) LP equivalent to those provided to Canada pursuant to the LIL PFA structure. Appropriate governance equivalent to the creditor protections provided by the LIL PFA will be included in the Convertible Debenture covenants and the LIL (2021) LPA. Canada will benefit from covenants over specified matters relating to LIL (2021) LP and LIL (2021) GP intended to preserve the capital structure and this will include restrictions on the incurrence of further debt by LIL (2021) LP. Canada will receive appropriate assurances, by way of direct agreement where necessary, to ensure the ongoing status and existence of LIL LP and maintenance of its revenue and distributions to its limited partners. The structure and documentation of the LIL PFA and the LIL LPA will be used as the base to prepare the terms of the Convertible Debenture and the LIL (2021) LPA.

Distributions:

- Until Dec. 31st, 2041, the Parent will receive distributions from LIL (2021) LP with no cash distributions to be paid to Canada, provided these distributions are applied by Nalcor and/or the Province for: (i) the same purpose as the proceeds of advances under the Convertible Debenture are to be used in accordance with “Use of Proceeds” above; and/or (ii) to service the return on capital invested in the Projects. Any distribution which represents a return of capital to the Province resulting from a true up of the LIL Project capital investments made by Nalcor and Emera post-Commissioning will be exempt from this requirement.
- On and after January 1, 2042, LIL (2021) LP distributions will be distributed to Canada and applied: (a) if convertible debt is outstanding: (i) first to payment of PIK Return accrued on the outstanding principal of the

convertible debt (for certainty, interest shall accrue in respect of each draw of the Committed Amount immediately upon the date of such draw and shall compound annually); and (ii) second to repayment of outstanding principal of the convertible debt; and (b) if any Class B Units are then outstanding: (i) first to payment of preferred distributions (accrued at the rate of the PIK Return); and (ii) second to redemption of Class B Units.

- LIL (2021) LP will be required to collect, account for and remit all of Nalcor's revenue entitlements from the LIL LP (other than amounts distributed to LIL GP in accordance with the LIL LPA, satisfying ordinary course expenses customary for holding companies (including LIL Holdco so long as it remains in existence) and reinvestment of any such distributions required to meet required partner capital contribution requirements for the LIL LP in accordance with the LIL LPA). Collection of revenue generated and distributions are to be maintained in accordance with the existing LIL LP structure, and reported quarterly as compared against the funding model agreed between Canada and the Province at the time of the Agreement in Principle dated July 28, 2021.
- The interest on convertible debt and, if applicable at any time, the return on the Class B Units, will be payable as a PIK style return over the entire life of the investment using the PIK Return as set on a one-time basis on the Closing Date. The PIK Return will apply from each advance, which will only be made after the Closing Date. The PIK Return will be paid on quarterly payment dates starting after January 1, 2042 (i) as a payment of accrued interest and then principal, or (ii) if the debt has been converted, by way of redemption of Class B Units, in each case as described in the preceding paragraphs.
- No advances will be made on the Convertible Debenture until after the Closing Date.

Documents: The LIL (2021) LPA and the Convertible Debenture (collectively, the “**Definitive Agreements**”) will be prepared based on the terms of this Term Sheet and taking account of the terms of the LIL LPA and LIL PFA.

Due Diligence: From and after the date of this Term Sheet, the Province will give access to Canada's representatives to a data room to allow Canada and its advisors to complete Canada's due diligence review of the LIL LP and its business. The due diligence investigation will include, but is not limited to, a review of financial, legal, tax, environmental and intellectual property information and any other matters as Canada's legal counsel and other advisors deem reasonably necessary.

Conditions to Closing:

The closing of the Transaction will be subject to customary conditions of a transaction of the type contemplated herein, and will require the following conditions to be satisfied:

- (a) Cabinet approval of the Transactions by Canada and the Province, including approval of such regulations, legislation or ministerial authorizations as are necessary to complete the Transactions, as are necessary;
- (b) Approval of the boards of directors of each of Nalcor and Parent (if different from Nalcor), LIL Holdco and LIL (2021) GP;
- (c) Completion of satisfactory due diligence by Canada and the Province;
- (d) Execution of the Definitive Agreements and other ancillary agreements in a form acceptable to each party;
- (e) The PIK Return will have been set and confirmed by Canada and the Province;
- (f) Execution of the agreement by which Nalcor contributes the shares of LIL Holdco to LIL (2021) LP in a form acceptable to each such party and completion of such contribution transaction;
- (g) Execution of a direct agreement in favour of Canada by Labrador-Island Link Operating Corporation, LIL GP and LIL (2021) LP regarding compliance with certain covenants in the Convertible Debenture and further providing that the LIL Lease and the LIL Transmission Funding Agreement will not be amended in a manner that adversely impacts cash flows available to LIL(2021) LP;
- (h) Receipt by Nalcor of an advanced income tax ruling from the Canada Revenue Agency satisfactory to Nalcor confirming that LIL Holdco will remain exempt from federal taxation under subsection 149(1) of the Income Tax Act (Canada) following LIL Holdco becoming a wholly-owned subsidiary of LIL (2021) LP and following the issuance of Class B Units to Canada further to the conversion of the Convertible Debenture;
- (i) Commissioning of the LIL Project to the requirements of Commissioning as set out in the LIL PFA;
- (j) Comfort letter from the Province and Nalcor that the allocation of responsibility for the Lower Churchill Projects reaching Commissioning, as to cost and technical aspects, remains with the NL Crown, Nalcor and its subsidiaries that have obligations under the LIL PFA;
- (k) Comfort letter from the Province and Nalcor providing confirmation that the scope of the Lower Churchill Projects which are subject to the arrangements with Canada remains unchanged such that any additional investments in project assets or broader electrical system assets that may be required will be to the risk of the NL Crown and Nalcor and its subsidiaries;
- (l) Completion of the corresponding transaction for a third federal loan guarantee for the MF/LTA Project pursuant to the FLG3 term sheet dated February 14, 2022; and

(m) Execution and delivery of EDC's disclosure consent form and provision of all know your customer information required by EDC.

Definitive Agreements: In addition to the provisions specifically described herein, the Definitive Agreements will contain standard representations, warranties, survival periods, indemnification, limits on indemnification, covenants, termination rights and other provisions appropriate for the Transactions. The Convertible Debenture and the LIL (2021) LPA must be completed and executed by December 31, 2022.

GENERAL TERMS

Expenses: The parties to the Definitive Agreements will pay all Transaction expenses, including the fees and expenses of legal, investment bankers and other advisors incurred in connection with the Transactions on the same basis as for FLG and FLG2.

Organization Structure Changes/Change of Control: Consistent with previous announcements by the Province, the parties recognize that the parent structure of Nalcor and the governance structure of Nalcor and its subsidiaries can change but the resulting company will continue to be owned 100% by the Province and will continue to directly or indirectly own LIL (2021) GP, LIL (2021) LP and Parent (if different from Nalcor). Appropriate clauses will be included in documentation if and as necessary to consent to this reorganization.

Confidentiality: This Agreement is confidential to the parties and their representatives and is subject to the confidentiality agreement entered into between Canada and the Province as of February 23, 2021, which continues in full force and effect.

Publicity: All public notices to third parties and publicity concerning this Term Sheet and the proposed Transactions will be jointly planned and coordinated by Canada and the Province and neither will act unilaterally in this regard without the prior approval of the other party (such approval not to be unreasonably withheld).

Finality: The parties acknowledge that the steps taken in this restructuring are to be a full and final accommodation by Canada to the terms of the financing of the Lower Churchill Projects. The Province and its entities have the responsibility to manage any outstanding risks and costs of the Lower Churchill Projects, as may arise from legal, policy, regulatory, market, operational, or other factors.

Governing Law: The Definitive Agreements and any other agreements to be entered into among the parties to reflect the Transactions will be governed by and construed in accordance with the laws of the Province of Newfoundland and Labrador and the federal laws of Canada applicable therein.

This Agreement shall enure to the benefit of each of the parties hereto, their respective affiliates and their respective permitted successors and assigns and shall be binding on the parties hereto.

This Agreement supersedes all prior communications, written or oral, with respect to Transactions and the other matters expressly contemplated herein, including the provisions of the Agreement in Principle entered into between Canada and the NL Crown on July 28, 2021 as they relate to the Transactions.

Each of the parties hereto represents and warrants that once this Agreement is accepted by it as herein provided, it shall constitute the irrevocable, legal, valid and binding obligation of such party, enforceable in accordance with its terms.

This Agreement may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original and all of which, taken together, shall constitute one and the same Agreement. Delivery of an executed counterpart of this agreement by telecopier or electronically shall be as effective as delivery of a manually executed counterpart of this Agreement.

IN WITNESS WHEREOF each of the parties has executed this Agreement as of the date set forth above.

HER MAJESTY IN RIGHT OF CANADA

Per: (Original signed by)
Authorized Signatory

Per: (Original signed by)
Authorized Signatory

**HER MAJESTY IN RIGHT OF
NEWFOUNDLAND AND LABRADOR,**
as represented by THE MINISTER FOR
INTERGOVERNMENTAL AFFAIRS, THE
MINISTER OF INDUSTRY, ENERGY AND
TECHNOLOGY, and THE MINISTER OF
FINANCE

Per: (Original signed by)
The Honourable Dr. Andrew Furey
Premier and Minister for Intergovernmental
Affairs

Per: (Original signed by)
The Honourable Andrew Parsons, QC
Minister of Industry, Energy and Technology

Per: (Original signed by)
The Honourable Siobhan Coady
Minister of Finance

NALCOR ENERGY

Per: (Original signed by)
Authorized Signatory

Per: (Original signed by)
Authorized Signatory

Schedule A
Indicative Basis for the Determination of the PIK Return

See Attached