

## MEMORANDUM OF UNDERSTANDING

**Between:**

**Her Majesty in Right of Newfoundland and Labrador as represented by the Minister of Fisheries and Aquaculture (the “Province” or the “Minister”)**

**And:**

**Grieg Newfoundland AS (“Grieg”)  
PO Box 234, Bergen, Norway  
Zipcode 5804**

**WHEREAS:**

The Province has been approached by Grieg with a proposal in regard to a \$251 million Project to establish an aquaculture operation in the Province including a \$45 million equity investment from the Province.

The execution and delivery of this MOU signifies an agreement between the Province and Grieg to work together in good faith towards the finalization of Formal Agreements that will facilitate the establishment by Grieg of a hatchery and nursery in Marystown capable of producing 7 million Atlantic salmon smolt annually in order to stock its aquaculture operations in Placentia Bay, including the establishment of 11 sea cage sites for the subsequent grow out, harvesting and processing of 33,000 metric tonnes of Atlantic Salmon.

This Project is anticipated to provide the following benefits for the Province:

- More than doubling the Province’s current aquaculture production with processing to include 75% value added products.
- Expanding the industry into a currently undeveloped aquaculture region.
- An estimated 325 direct and 235 indirect/induced person years of employment will be associated with the production, harvesting, and processing, with further opportunities in the supply and service sectors.



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Implementation of the Project requires the financial participation and regulatory approval of the Province.

Grieg has incorporated in this Province two wholly owned subsidiaries for the purpose of pursuing this opportunity, namely Grieg Seafarms NL Ltd. ("GSNL"), and Grieg Nurseries NL Ltd. ("GNNL"); Grieg intends to incorporate a NL company called Grieg Newfoundland Salmon Ltd which will become the parent company of both GSNL and GNNL.

The Province has expressed to Grieg the Province's objectives as being to further the public interest by fostering the expansion of the aquaculture industry in the Province and to maximize employment and economic activity for the benefit of Newfoundland and Labrador.

Subject to the completion of agreements and documents satisfactory to the Province, the Province has indicated its willingness to assist Grieg in this Project in furtherance of the Province's public policy objectives.

The Province and Grieg have agreed in principle that the Province's participation in this Project, and Grieg's obligations to the Province in respect thereof, shall follow the general terms and conditions set out herein.

**NOW THEREFORE** the Parties agree as follows:

**1. Definitions**

The capitalized words and terms in this MOU shall have the meanings ascribed in Schedule "A".

**2. Basis for Agreements**

2.1. The basis for the terms of the Formal Agreements will be as outlined in this MOU and include the following schedules:

- 2.1.1. Schedule "A" – Definitions
- 2.1.2. Schedule "B" - Financial Terms
- 2.1.3. Schedule "C" – Site Access Terms
- 2.1.4. Schedule "D" – Benefits Terms



### **3. Project Development**



As part of the Project, Grieg shall:

- 3.1. Beginning in 2017, develop 11 sea cage aquaculture sites in Placentia Bay.
- 3.2. Prior to proceeding with the development of the sea cage sites and by 2017, have constructed and assembled the nursery/hatchery systems required for use in its operations in the Province. The hatchery/nursery will be capable of producing a minimum of 7 million smolts annually. A detailed schedule of work and project completion shall be provided to the Province by December 31, 2015.
- 3.3. Beginning in 2017, Grieg shall source its stocking of its facilities in the Province from the Newfoundland and Labrador based hatchery to be constructed by Grieg referenced in section 3.2 above.

### **4. Conditions**

Prior to and as a condition of the Province entering into the Formal Agreements, Grieg shall:

- 4.1. Provide the Province in a timely manner with such necessary information as may be requested by the Province in order for the Province to continue and complete Due Diligence of the Project.
- 4.2. Provide the Province and its advisors with such access to the management of Grieg and its advisors as the Province may reasonably require to review and discuss the business and affairs of Grieg and its operations and prospects as well as the information referred to in section 4.1 above.
- 4.3. Provide the Province with details of Grieg and/or Grieg's Affiliates as they exist now or as they are currently contemplated to exist in the future, to the extent as required by the Province to enable the Province to complete its Due Diligence.
- 4.4. Grieg shall make all application and receive approval for all required provincial, federal and municipal licenses, leases, permits, and approvals required to operate both the hatchery and marine grow-out sites in this province as follows:
  - i. Provincial Aquaculture licenses;
  - ii. Environmental assessment of the hatchery component;
  - iii. Approval to import all triploid Atlantic salmon from Norway or Iceland into Canada; and



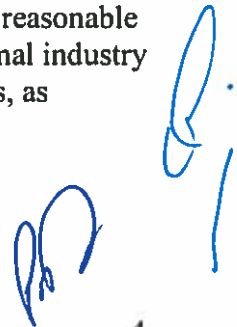
- iv. any other approval identified by the Province as being necessary during its Due Diligence.
- 4.5. Grieg shall provide all currently available scientific data, including reports, papers, studies etc. related to performance of the strain of Atlantic salmon proposed to be utilized.
- 4.6. Ensure its obligations and undertakings provided for under this MOU are completed.

## **5. MOU and the Formal Agreements**

- 5.1. The execution and delivery of this MOU signifies an agreement between the Province and Grieg to work together in good faith towards the finalization of Formal Agreements on the basis set out herein.
- 5.2. The parties agree that their intention is the incorporation of general terms and conditions as outlined in the MOU into Formal Agreements, with the necessary levels of detail respecting the general terms and conditions in the MOU, and along with such additional ancillary provisions as may be required by either party and agreed through negotiations of the Formal Agreements.
- 5.3. The parties agree that signing of Formal Agreements is subject to the completion of Due Diligence satisfactory to the Minster and approval of the board of directors of Grieg.
- 5.4. Grieg shall enter into the Formal Agreements and shall cause any of its Affiliates which may have duties or responsibilities under the Formal Agreements to also enter into the Formal Agreements.
- 5.5. The parties agree to use all reasonable efforts to complete the Due Diligence by December 31, 2015 and to finalize the Formal Agreements by January 31, 2016.

## **6. Site Restoration**

In the event that Formal Agreements are not executed or at any time Grieg is unable to continue with the Project, Grieg shall assume those associated environmental liabilities and the obligations (including cost) of restoring the site(s) to the reasonable satisfaction of the Province to a condition which would be considered normal industry practice as of the date of execution of this MOU or the Formal Agreements, as applicable.



**7. Public Disclosure**

The MOU is subject to the *Access to Information and Protection of Privacy Act, 2015*, SNL2015 C-1.2 (“ATIPPA”). The Province also reserves the right to make public the contents of the MOU. Grieg shall be entitled to rely on the provisions of ATIPPA in respect of commercially sensitive information which it provides to the Province in the course of the Province’s Due Diligence or pursuant to the Formal Agreements.

**8. Termination**

Unless the parties otherwise agree, this MOU will terminate upon the earlier of the Formal Agreements being entered into or by January 31, 2016 unless the parties are in active negotiations on January 31, 2016 in which case the time period shall be extended for such reasonable amount of time as is necessary to complete the negotiations.

**9. Governing Law and Attornment**

This MOU shall be subject to the laws of Newfoundland and Labrador and the parties shall attorn to the jurisdiction of Newfoundland and Labrador courts.

**10. Entire Understanding**

10.1. This MOU sets out the entire financial obligation of the Province to the Project and sets out the entire understanding of the principles agreed to by the parties and supersedes all prior understandings, discussions, proposals, representations or other forms of communication among the parties relating to the terms herein.

10.2. Various obligations provided herein may be the subject of further negotiation by the parties and in such case the parties may provide additional details in respect of same in any Formal Agreement, subject to clause 10.1 above.



**11. Counterpart Execution**

This MOU may be executed by the parties in separate counterparts, each of which, when so executed shall be deemed to be an original and all of which when together shall constitute one and the same MOU.



**DATED** at the places and on the dates as noted below.


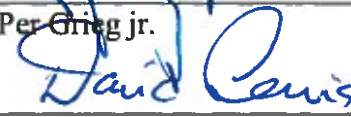
**HER MAJESTY IN RIGHT OF  
NEWFOUNDLAND AND LABRADOR**

  
\_\_\_\_\_  
Premier  
  
\_\_\_\_\_  
Witness

Date: October 25, 2015

Place: Conception Bay South, NL

**GRIEG NEWFOUNDLAND AS**

  
\_\_\_\_\_  
Per Grieg jr.  
  
\_\_\_\_\_  
Witness

Date: 25th October 2015

Place: St. John's

## Schedule "A" - Definitions

The following words and terms, wherever used in this MOU, shall have the following meanings:

- (a) "Affiliate" means, with respect to any Person, any other Person who, directly or indirectly, Controls, is Controlled by, or is under common Control with, such Person.
- (b) "Control" of a Person means the possession, direct or indirect, of the power to elect or appoint a majority of such Person's board of directors or similar governing body, or to direct or cause the direction of the management, business and/or policies of such Person, whether through ownership of voting shares, by contract or otherwise, and, without limiting the generality of the foregoing, a Person shall be deemed to "Control" any partnership of which, at the time, the Person is a general partner, in the case of a limited partnership, or is a partner who, under the partnership agreement, has authority to bind the partnership, in all other cases (and the terms "Controlled by" and "under common Control with" have correlative meanings).
- (c) "Due Diligence" is the technical, financial and economic impact analyses performed by the Province.
- (d) "Equity" includes cash equity, shareholder loans from a Parent Company, the provision of equipment and other loans (direct or indirect) from a Parent Company.
- (e) "Formal Agreements" means, collectively, the legally binding agreements entered into among Grieg and/or Affiliates of Grieg and the Province as may be required to give effect to the terms of the MOU and may include a Contribution Agreement, Unanimous Shareholder Agreement and Subscription Agreement.
- (f) "MOU" means this memorandum of understanding and the attachments hereto.
- (g) "Parent Company" means Grieg and/or Grieg Newfoundland Salmon Ltd. and any Affiliate of either of them.
- (h) "Person" includes an individual, a partnership, a corporation, a company, a trust, a joint venture, an unincorporated organization, a union, a government or any department or agency thereof and the heirs, executors, administrators or other legal representatives of an individual.



- (i) **“Project” means the establishment by Grieg of a hatchery and nursery in Marystown capable of producing 7 million Atlantic salmon smolt annually in order to stock its aquaculture operations in Newfoundland and Labrador and the establishment of 11 sea cage sites for the subsequent grow out and harvest of 33,000 metric tonnes of Atlantic Salmon.**

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## Schedule "B" - Financial Terms

The parties have agreed to the following financial terms, subject to the conditions of the MOU and the requirement of the *Financial Administration Act* that payment of money by the Crown is subject to there being an appropriation for the fiscal year in which the payment is due. The Department of Fisheries and Aquaculture shall request sufficient funds to comply with its obligations during each fiscal year of the Project.

1. The Province shall:

1.1. Subscribe to preference shares (see Section 1.5 -1.7) in GSNL and GNNL to a maximum contribution of Forty Five Million Dollars (\$45,000,000) with funds and shares to pass between the Province and GSNL and GNNL at intervals to be determined.

1.2. Subject to confirmation of funding to be acquired from other sources, the Province agrees to contribute in terms of the Project the amount of \$45 Million Dollars (\$45,000,000) and which contribution would be substantially along the lines of the guidelines established for the Aquaculture Capital Equity Program.

1.3. The amount in 1.2 above sets out the Province's total financial contribution to the Project. The Provincial contribution will be paid as follows:

1.3.1 \$5 million during the Province's 2015/2016 fiscal year upon confirmation of Grieg's Equity contribution of \$5,000,000 to GSNL and/or GNNL.

1.3.2 On a proportionate basis against eligible expenditures on agreed capital assets. It is anticipated that this remaining contribution will be paid as follows:

1.3.2.1 \$21.25 million during the Province's 2016-17 fiscal year,

1.3.2.2 \$11.25 million during the Province's 2017/18 fiscal year,

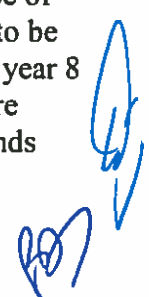
1.3.2.3 \$6.25 million during the Province's 2018/19 fiscal year, and

1.3.2.4 \$1.25 million during the Province's 2019/20 fiscal year.

Should agreed capital expenditures be deferred beyond the end of 2020, or reduced below agreed levels, the Province's contribution will be deferred or reduced proportionately.

1.4. Other than as described in clause 1.3.1, at no time shall the aggregate Provincial contribution, including accrued but unpaid dividends, exceed 37.5% of the accepted equity contribution.

1.5. Funding shall be as an equity investment in Grieg, supported by the issuance of preference shares (non-voting, redeemable, non-retractable) in amounts and terms to be negotiated by the parties. Shares will earn annual dividends of 3.0%, beginning in year 8 of the agreement (Year 1 is defined as the date on which the Formal Agreements are executed), and shall accrue cumulatively and become payable at that time. Dividends



declared but not paid shall accrue cumulatively to the benefit of the Province. A unanimous shareholders agreement will be entered into which shall provide details and set out parameters for the declaration and payment of dividends and redemption of preference shares in accordance with this Section.

1.6. The redemption of preference shares will commence in year 8 and will be the equivalent of 10% of after-tax cash flow annually with balance to be repaid in full at the end of year 20. After tax cash flow will be calculated based on Net Income as defined by Generally Accepted Accounting Principles plus depreciation/amortization less principal payments on existing long term debt. Payments will be applied firstly to declared and unpaid dividends, then toward redemption

1.7. There will be no dividends accumulated or paid to any shareholders from year 1 to year 7. Commencing in year 8, there shall be no restriction on the payment of dividends or the making of other distributions to shareholders of GSNL or GNNL provided that the dividend and share redemption obligations to the Province that are due have been met.

2. The Parent Companies shall:

2.1. Make a total minimum Equity contribution of \$75, 000,000 (in Canadian dollars) apportioned as follows:

2.1.1. A minimum Equity contribution to GSNL of \$50,000,000;

2.1.2. A minimum Equity contribution to GNNL of \$25,000,000;

2.2. Provide copies of their quarterly financial statements (within 45 days after end of quarter) and a copy of their annual audited financial statements (within 120 days of year end) to the Province;

2.3. Acquire additional financing of \$131,000,000 for injection into GNNL and/or GSNL to support the Project through debt or additional equity funding secured through sources other than the Province.

2.4 The parties acknowledge that the final structure of the financial terms may change based on negotiations and discussions by Grieg with financial institutions and investors. Grieg will present a final plan to the Province once such negotiations and discussions have been completed. The Province reserves the right to conduct further Due Diligence upon any such plan in accordance with this MOU.

3. The parties acknowledge the following:

3.1. That payment of funds and timing of such payment will be coordinated by the agencies having responsibility for such matters, details of which shall be negotiated by the parties subject to the general parameters herein contained;



3.2. Details of the accounting, verification and audit procedures relative to the payment of funds provided by the Province will be incorporated into the Formal Agreements; and

3.3. Funds from the provincial contribution shall be used solely by Grieg for the purposes intended namely the purchase of agreed capital items. Funds provided hereunder shall not be used by an Affiliate of Grieg unless agreed to in the Formal Agreements.

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## Schedule "C" – Site Access Terms

Recognizing the need for ensuring biosecurity and ability to reach projected production of 33,000 tonnes of Atlantic salmon annually, the parties agree as follows in relation to the access to aquaculture sites in Placentia Bay:

The Department of Fisheries and Aquaculture (DFA) will not consider or grant any applications for finfish marine cage grow-out (other than from Grieg), within Placentia Bay after the date of execution of this MOU so long as:

1. The company meets its production targets of stocking 7.0 million Atlantic salmon smolt annually;
2. By year 10 following execution of the Formal Agreements, Grieg will have determined the capacity of the first 11 aquaculture sites to produce 2.0 million fish annually while meeting all biological, environmental and fish health regulatory requirements;
3. If the requirement in 2 is not met, then the company must identify, evaluate and apply for additional sites to meet the production targets and develop the sites within 2 years;
4. If the requirement in 2 is met, then the company shall, by the end of year 12, provide government with a development proposal to develop the aquaculture potential of the bay; and
5. If the company does not exercise either 3 or 4 above then DFA will consider applications for additional finfish aquaculture sites in the bay by other operators.
6. If for 3 successive years, commencing after year 8 of the term of the Formal Agreements Grieg does not meet the financial commitments (including terms of repayment) to the Province, DFA may consider other application for sites from other operators in Placentia Bay.



## Schedule "D" – Benefits Terms

1. In terms of processing commitments in the Province, Grieg agrees that:
  - a. Production will reach 33,000 MT on an annual basis by 2023.
  - b. All processing must be to the final consumer stage, with a minimum of 75% beyond dressed head on (DHON).
  - c. All processing must take place in the Province of Newfoundland and Labrador.
2. In terms of employment opportunities, and whereas the Province has identified as a public policy objective fostering employment in areas of the Province where employment challenges are present, Grieg shall:
  - a. Provide an estimated 325 direct and 235 indirect/induced person years of employment associated with the production, harvesting and processing;
  - b. To the maximum extent commercially reasonable, source its labour force in both the construction and implementation phases from local labour markets in the Province on a preferred basis, employing a minimum of 90% Newfoundlanders and Labradorians in its sea cage nursery/hatchery operations and in the processing sector, provided that such local qualified employees are available.
3. Grieg agrees that it shall have constructed, assembled and deployed in the Province cage and anchor systems for use in its operations in the Province.
4. In the event that Grieg is unable to source its supplies, equipment or services for its operations in the Province on a competitive basis, Grieg shall clearly demonstrate to the satisfaction of the Province that such acquisitions cannot be provided on a competitive basis by local suppliers.
5. Grieg will use, to the maximum extent commercially reasonable, local academic or research institutes (e.g., MI/MUN/OSC/CONA) for the training of employees and research programs in the hatchery/nursery.

