



# **SECOND QUARTER 2015 CONFERENCE CALL & WEBCAST Results, mid-year review & outlook**

AUGUST 6, 2015



**INNERGEX**

# FORWARD-LOOKING INFORMATION

This document contains forward-looking information within the meaning of securities legislations (“Forward-Looking Information”), which can generally be identified by the use of words such as “projected”, “potential”, “expect”, “estimate”, or other comparable terminology that states that certain events will or will not occur. It represents the estimates and expectations of the Corporation relating to future results and developments as of the date of this document. It includes **future-oriented financial information**, such as projected Adjusted EBITDA, estimated project costs and expected project financing, projected Free Cash Flow and Payout Ratio, and use of the proceeds of the announced 4.25% convertible debenture offering and redemption of the 5.75% convertible debentures outstanding, to inform readers of the potential financial impact of commissioning existing development projects, of the announced debenture offering and of the notice of redemption of outstanding debentures. This information may not be appropriate for other purposes.

Forward-Looking Information in this document is based on certain **key assumptions** made by the Corporation. The following table outlines certain Forward-Looking Information contained in this document, the principal assumptions used to derive this information and the principal risks and uncertainties that could cause actual results to differ materially from this information.

The material **risks and uncertainties** that may cause actual results and developments to be materially different from current expressed Forward-Looking Information are referred to in the Corporation's *Annual Information Form* under the “Risk Factors” section and include, without limitation: the ability of the Corporation to execute its strategy of building shareholder value; its ability to raise additional capital and the state of capital markets; liquidity risks related to derivative financial instruments; variability in hydrology, wind regimes and solar irradiation; delays and cost overruns in the design and construction of projects, uncertainty surrounding the development of new facilities; variability of installation performance and related penalties; and the ability to secure new power purchase agreements or to renew existing ones.

Although the Corporation believes that the expectations and assumptions on which Forward-Looking Information is based are reasonable, readers of this document are cautioned not to rely unduly on this Forward-Looking Information since no assurance can be given that it will prove to be correct. The Corporation does not undertake any obligation to update or revise any Forward-Looking Information, whether as a result of events or circumstances occurring after the date of this document, unless required by legislation.

# FORWARD-LOOKING INFORMATION IN THIS DOCUMENT

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## PRINCIPAL ASSUMPTIONS

### PROJECTED ADJUSTED EBITDA

For each facility, the Corporation determines an annual long-term average level of electricity production (LTA) over the expected life of the facility, based on several factors that include, without limitations, historically observed water flows or wind or solar irradiation conditions, turbine or panel technology, installed capacity, energy losses, operational features and maintenance. Although production will fluctuate from year to year, over an extended period it should approach the estimated long-term average. The Corporation then estimates expected annual revenues for each facility by multiplying its LTA by a price for electricity stipulated in the power purchase agreement secured with a public utility or other creditworthy counterparty. These agreements stipulate a base price and, in some cases, a price adjustment depending on the month, day and hour of delivery. In most cases, power purchase agreements also contain an annual inflation adjustment based on a portion of the Consumer Price Index. The Corporation then estimates annual operating earnings by subtracting from the estimated revenues the budgeted annual operating costs, which consist primarily of operators' salaries, insurance premiums, operations and maintenance expenditures, property taxes, and royalties; these are predictable and relatively fixed, varying mainly with inflation except for maintenance expenditures. On a consolidated basis, the Corporation estimates annual Adjusted EBITDA by adding the projected operating earnings of all the facilities in operation that it consolidates\*, from which it subtracts budgeted general and administrative expenses, comprised essentially of salaries and office expenses, and budgeted prospective project expenses, which are determined based on the number of prospective projects the Corporation chooses to develop and the resources required to do so. \*Excludes Umbata Falls and Viger-Denonville accounted for using the equity method.

## PRINCIPAL RISKS AND UNCERTAINTIES

- Improper assessment of water, wind and sun resources and associated electricity production
- Variability in hydrology, wind regimes and solar irradiation
- Equipment failure or unexpected operations & maintenance activity
- Unexpected seasonal variability in the production and delivery of electricity
- Variability of facility performance and related penalties
- Changes to water and land rental expenses
- Unexpected maintenance expenditures
- Lower inflation rate than expected
- Natural disaster

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### ESTIMATED PROJECT COSTS, EXPECTED OBTAINMENT OF PERMITS, START OF CONSTRUCTION, WORK CONDUCTED AND START OF COMMERCIAL OPERATION FOR DEVELOPMENT PROJECTS OR PROSPECTIVE PROJECTS

For each development project, the Corporation provides an estimate of project costs based on its extensive experience as a developer, directly related incremental internal costs, site acquisition costs and financing costs, which are eventually adjusted for projected costs provided by the engineering, procurement and construction contractor retained for the project. The Corporation provides indications regarding scheduling and construction (EPC) progress for its development projects and indications regarding its prospective projects, based on its extensive experience as a developer.

- Performance of counterparties, such as EPC contractors
- Delays and cost overruns in project design construction
- Obtainment of permits
- Equipment supply
- Relationships with stakeholders
- Regulatory and political risks
- Interest rate fluctuations and financing risk
- Higher inflation rate than expected
- Natural disaster

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### EXPECTED PROJECT FINANCING

The Corporation provides indications of its intention to secure non-recourse project-level debt financing for its development projects, based on the expected LTA production and the expected costs of each project, expected PPA term, a leverage ratio of approximately 75%-85%, as well as its extensive experience in project financing and its knowledge of the capital markets.

- Interest rate fluctuations and financing risk
- Financial leverage and restrictive covenants governing current and future indebtedness

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### INTENTION TO SUBMIT PROJECTS UNDER REQUESTS FOR PROPOSALS AND TO GAIN A Foothold INTERNATIONALLY

The Corporation provides indications of its intention to submit projects under future requests for proposals (RFP), based on the state of readiness of some of its prospective projects and their compatibility with the announced terms of the RFP. It provides indications of its intention to establish a presence in target markets internationally in the coming years, based on its growth strategy.

- Regulatory and political risks
- Ability of the Corporation to execute its strategy for building shareholder value
- Ability to secure new power purchase agreements
- Foreign exchange fluctuations

# FORWARD-LOOKING INFORMATION IN THIS DOCUMENT CONT'D

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## PRINCIPAL ASSUMPTIONS

### PROJECTED FREE CASH FLOW AND PAYOUT RATIO

The Corporation estimates Free Cash Flow as projected cash flow from operations before changes in non-cash operating working capital items, less estimated maintenance capital expenditures net of proceeds from disposals, scheduled debt principal payments, preferred share dividends and the portion of Free Cash Flow attributed to non-controlling interests, plus cash receipts by the Harrison Hydro L.P. for the wheeling services to be provided to other facilities owned by the Corporation over the course of their power purchase agreement. It also adjusts for other elements, which represent cash inflows or outflows that are not representative of the Corporation's long-term cash generating capacity, such as adding back transaction costs related to realized acquisitions (which are financed at the time of the acquisition) and adding back realized losses or subtracting realized gains on derivative financial instruments used to fix the interest rate on project-level debt or the exchange rate on equipment purchases.

The Corporation estimates the Payout Ratio by dividing the most recent declared annual common share dividend by the projected Free Cash Flow.

## PRINCIPAL RISKS AND UNCERTAINTIES

- Adjusted EBITDA below expectations caused mainly by the risks and uncertainties mentioned above and by higher prospective project expenses
- Projects costs above expectations caused mainly by the performance of counterparties and delays and cost overruns in the design and construction of projects
- Regulatory and political risk
- Interest rate fluctuations and financing risk
- Financial leverage and restrictive covenants governing current and future indebtedness
- Unexpected maintenance capital expenditures
- The Corporation may not declare or pay a dividend

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## NON-IFRS MEASURES IN THIS DOCUMENT

Adjusted EBITDA, Free Cash Flow and Payout Ratio are not measures recognized by International Financial Reporting Standards (IFRS) and have no meaning prescribed by it. References to "Adjusted EBITDA" are to revenues less operating expenses, general and administrative expenses and prospective project expenses. References to "Free Cash Flow" are to cash flows from operating activities before changes in non-cash operating working capital items, less maintenance capital expenditures net of proceeds from disposals, scheduled debt principal payments, preferred share dividends declared and the portion of Free Cash Flow attributed to non-controlling interests, plus cash receipts by the Harrison Hydro L.P. for the wheeling services to be provided to other facilities owned by the Corporation over the course of their power purchase agreement, plus or minus other elements that are not representative of the Company's long-term cash generating capacity, such as transaction costs related to realized acquisitions (which are financed at the time of the acquisition) and realized losses or gains on derivative financial instruments used to hedge the interest rate on project-level debt or the exchange rate on equipment purchases. References to "Payout Ratio" are to dividends declared on common shares divided by Free Cash Flow. Readers are cautioned that Adjusted EBITDA should not be construed as an alternative to net earnings and Free Cash Flow should not be construed as an alternative to cash flows from operating activities, as determined in accordance with IFRS.

Innergex believes that these indicators are important, as they provide management and the reader with additional information about the Corporation's production and cash generation capabilities, its ability to sustain current dividends and dividend increases and its ability to fund its growth. These indicators also facilitate the comparison of results over different periods.

# AGENDA

Recap of 2015 objectives and progress report

- Operating performance
- Project development
- Financing activities

Outlook

- 2017 run rate
- Progress on international expansion

Question period

# 2015 OBJECTIVES – OPERATING PERFORMANCE

## INCREASE PRODUCTION AND REVENUES BY APPROX 3-5%

- Full-year contribution of SM-1 hydroelectric facility in QC
- More modest increase of 1% in Adjusted EBITDA due to higher prospective project expenses for development

## PROGRESS

- Production and revenues **YTD increase 19%**, Adjusted EBITDA increases **22%** due to SM-1 contribution
- Production YTD at 103% of LTA
- **On track** to achieve full year outlook

# 2015 OBJECTIVES – PROJECT DEVELOPMENT



## ADVANCE THE FIVE DEVELOPMENT PROJECTS

- Advance construction of Tretheway Creek, Upper Lillooet River, Boulder Creek and Big Silver Creek
- Start construction of Mesgi'g Ugju's'n
- Renew Saint-Paulin and Windsor PPAs
- Begin commercial operation of Tretheway Creek

## PROGRESS

- **Construction advancing** for the four hydro projects in BC
- Construction of Mesgi'g Ugju's'n **started in May**
- Contract renewal process pending
- **On track** for commissioning Tretheway Creek in Q4

# UPDATE ON PROJECT DEVELOPMENT

PROJECT	PROV.	GROSS MW	CONST. COST EST. (\$M)	COSTS AT JUN.30 (\$M)	EXPECTED COD
Tretheway Creek	BC	21.2	111.5	92.9	2015
Boulder Creek	BC	25.3	119.2	50.5	2016
Upper Lillooet River	BC	81.4	315.0	167.7	2016
Big Silver Creek	BC	40.6	216.0	141.0	2016
Mesgi'g Ugju's'n	QC	150.0	340.0	34.4	2016
		<b>318.5</b>	<b>1,101.7</b>	<b>486.5</b>	

- Construction progressing on time\* and on budget
- Construction has started for Mesgi'g Ugju's'n
- \*Impact of forest fire at Upper Lillooet River and Boulder Creek on construction schedule and COD currently being assessed



# 2015 OBJECTIVES – PROJECT FINANCING

## PURSUE FINANCING ACTIVITIES

- Close the financing for the Upper Lillooet River, Boulder Creek, Big Silver Creek and Mesgi'g Ugju's'n development projects
- Refinance Umbata Falls

## PROGRESS

- **\$491.6M** fixed-rate project debt closed for Upper Lillooet River and Boulder Creek
- **\$197.2M** fixed-rate project debt closed for Big Silver Creek
- Engagement letter and term sheet signed for Mesgi'g Ugju's'n financing – **on track** to close during Q3
- \$46.0M term loan for Umbata Falls completed on March 30

# UPDATE ON PROJECT FINANCING

PROJECT	GROSS MW		FINANCING	AMOUNT (\$M)	DONE/ EXPECTED
Tretheway Creek	21.2	Hydro	New debt	92.9	Q3 2014
Boulder Creek	25.3	Hydro	} New debt	491.6	Q1 2015
Upper Lillooet River	81.4	Hydro			
Big Silver Creek	40.6	Hydro	New debt	197.2	Q2 2015
Mesgi'g Ugju's'n	150.0	Wind	New debt	280.0	Q3 2015
	<b>318.5</b>			<b>1,061.7</b>	

- Only the Mesgi'g Ugju's'n project financing remains to be completed
- No additional equity is required to complete these projects

# UPDATE ON CORPORATE FINANCE

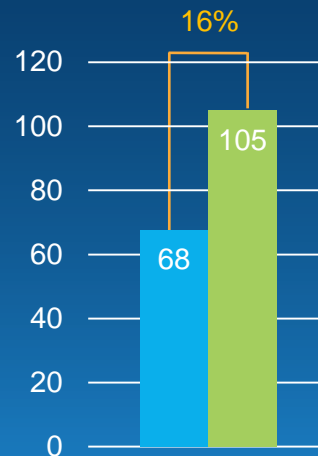
- Issuance of \$100M 4.25% convertible debentures
  - Take advantage of low interest rates
- Redemption of existing \$80M 5.75% convertible debentures
  - Potentially postpone and reduce dilution from converting these debentures at \$10.65 per common share
- Reduction in drawings on revolving term credit facility
  - Provides greater financing flexibility to pursue development opportunities
  - Facility returned from \$475M to \$425M as of June 30 as planned, now that most of the project-level financings are in place
- Elimination of discount on shares acquired under the DRIP
- Normal course issuer bid for up to 1M shares

# 2017 RUN RATE

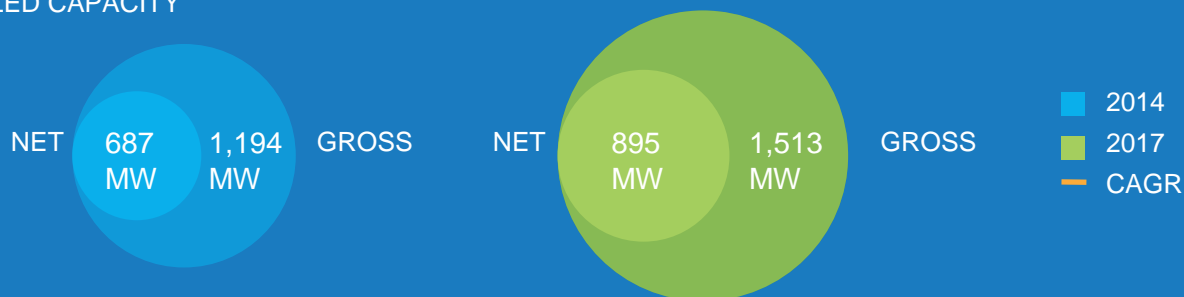
ADJUSTED EBITDA  
(\$M)



FREE CASH FLOW  
(\$M)



INSTALLED CAPACITY



THESE ESTIMATES REFLECT THE COMMISSIONING OF THE FIVE PROJECTS CURRENTLY UNDER CONSTRUCTION. THEY EXCLUDE ANY POTENTIAL ACQUISITIONS OR OTHER DEVELOPMENT OPPORTUNITIES THAT MAY GIVE RISE TO ADDITIONAL REVENUES AND EXPENSES.

# 2015 OBJECTIVES – GROWTH OPPORTUNITIES

## PURSUE GREENFIELD DEVELOPMENT ACTIVITIES

- Submit projects under the ON RFP for wind and solar
- Advance the Nulki Hills wind project and other prospective projects in BC

## PROGRESS

- Preparing to submit bids under ON RFP by September 2015 deadline
- Agreement with Saik'uz FN for a 50-50 partnership to jointly develop Nulki Hills wind farm

# 2015 OBJECTIVES – GROWTH OPPORTUNITIES CONT'D

## PURSUE EXTERNAL GROWTH OPPORTUNITIES

- Pursue partnership, acquisition and development opportunities in Europe and Latin America
- Pursue acquisition opportunities

## PROGRESS

- Pursuing partnership, acquisition and development opportunities:
  - Europe – focus France
  - Latin America – focus Mexico
  - North America

# IN SUMMARY

## SUSTAINABLE DIVIDEND

- Attractive dividend yield of 5.8%

## VISIBLE CASH FLOW EXPANSION TO 2017

- Adjusted EBITDA CAGR of 18%
- Free Cash Flow CAGR of 16%

## CLEAR PLAN FOR CONTINUED GROWTH

- Target Payout Ratio of 80%
- Capital deployment priorities:
  - Development/ Acquisitions
  - Dividend growth



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**QUESTION  
PERIOD**