



# **INNERGEX RENEWABLE ENERGY INC.**

**(TSX: INE)**

JUNE 2014



**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, to inform readers of the potential financial impact of commissioning existing development projects.

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; its ability to access sufficient capital resources; liquidity risks related to derivative financial instruments; changes in hydrology, wind regimes and solar irradiation; delays and cost overruns in the design and construction of projects, the ability to develop new facilities; variability of installation performance and related penalties; and the ability to secure new power purchase agreements.

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.

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## 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

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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 and construction
- Obtainment of permits
- Equipment supply
- Relationships with stakeholders
- Regulatory and political risks
- Interest rate fluctuations and availability of financing
- Higher inflation rate than expected

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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 availability of financing
- Financial leverage and restrictive covenants governing current and future indebtedness

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### INTENTION TO SUBMIT PROJECTS UNDER REQUESTS FOR PROPOSALS

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.

- Regulatory and political risks
- Ability of the Corporation to execute its strategy
- Ability to secure new power purchase agreements

# OUR MISSION



OUR MISSION IS TO INCREASE OUR PRODUCTION OF RENEWABLE ENERGY BY DEVELOPING AND OPERATING HIGH-QUALITY FACILITIES WHILE RESPECTING THE ENVIRONMENT AND SERVING THE BEST INTERESTS OF THE HOST COMMUNITIES, OUR PARTNERS, AND OUR INVESTORS.

# PURE PLAY IN CANADIAN RENEWABLE ENERGY

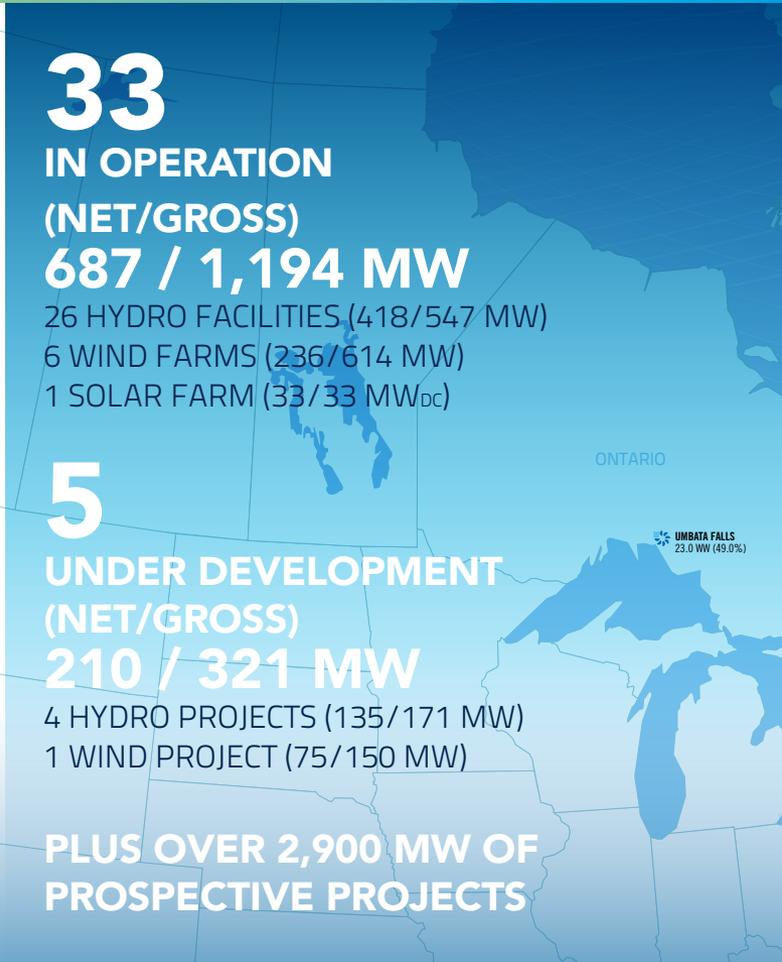
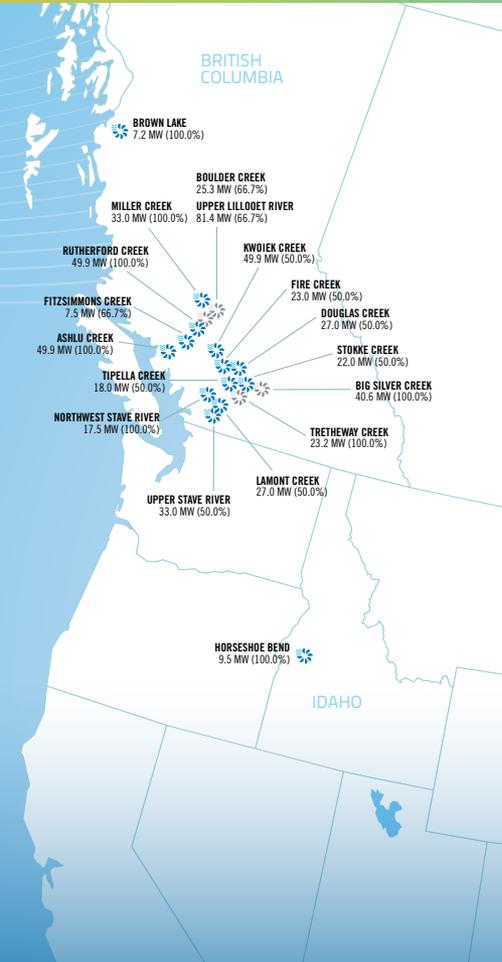
**33**  
IN OPERATION  
(NET/GROSS)  
**687 / 1,194 MW**

26 HYDRO FACILITIES (418/547 MW)  
6 WIND FARMS (236/614 MW)  
1 SOLAR FARM (33/33 MW<sub>DC</sub>)

**5**  
UNDER DEVELOPMENT  
(NET/GROSS)  
**210 / 321 MW**

4 HYDRO PROJECTS (135/171 MW)  
1 WIND PROJECT (75/150 MW)

**PLUS OVER 2,900 MW OF  
PROSPECTIVE PROJECTS**



**LEGEND**

- Hydro
- Wind
- Solar

MW shown are net

# KEY DIFFERENTIATORS

1

PURE PLAY IN THE  
CANADIAN RENEWABLE  
ENERGY INDUSTRY

2

ABILITY TO DEVELOP  
SUCCESSFUL LONG-TERM  
PARTNERSHIPS  
WITH FIRST NATIONS  
AND LOCAL  
MUNICIPALITIES

3

PREPONDERANCE  
OF HYDRO ASSETS

# PARTNER OF CHOICE

**23 MW**

**UMBATA FALLS**  
ONTARIO

JOINT-VENTURE **49-51**  
WITH THE **OJIBWAYS OF THE  
PIC RIVER FIRST NATION**

**50 MW**

**KWOIEK CREEK**  
BRITISH COLUMBIA

JOINT-VENTURE **50-50**  
WITH THE **KANAKA BAR  
INDIAN BAND**

**25 MW**

**VIGER-DENONVILLE**  
QUÉBEC

JOINT-VENTURE **50-50**  
WITH THE **RIVIERE-DU-LOUP  
RCM**

**150 MW**

**MESGI'G UGJU'S'N**  
QUÉBEC

JOINT-VENTURE **50-50**  
WITH THE **MI'GMAQ  
COMMUNITIES OF THE GASPÉ  
PENINSULA**

# TWOFOLD BUSINESS STRATEGY

## SUSTAINABLE DIVIDENDS

FIXED-PRICE LONG-TERM POWER  
PURCHASE AGREEMENTS

PORTFOLIO OF HIGH-QUALITY  
YOUNG ASSETS

FIXED-RATE NON-RECOURSE  
PROJECT FINANCING

## GROWTH UPSIDE

PROJECTS UNDER  
DEVELOPMENT

PROSPECTIVE  
PROJECTS

M&A  
OPPORTUNITIES

# SUSTAINABLE BUSINESS MODEL

## **SOCIAL ACCEPTABILITY**

OF PROJECTS AND  
SOCIO-ECONOMIC  
BENEFITS FOR THE  
COMMUNITIES AND  
OUR PARTNERS

## **RESPECT FOR THE ENVIRONMENT**

AVOID, MINIMIZE, MITIGATE  
OR COMPENSATE FOR ANY  
IMPACT ON THE SUR-  
ROUNDING ECOSYSTEM

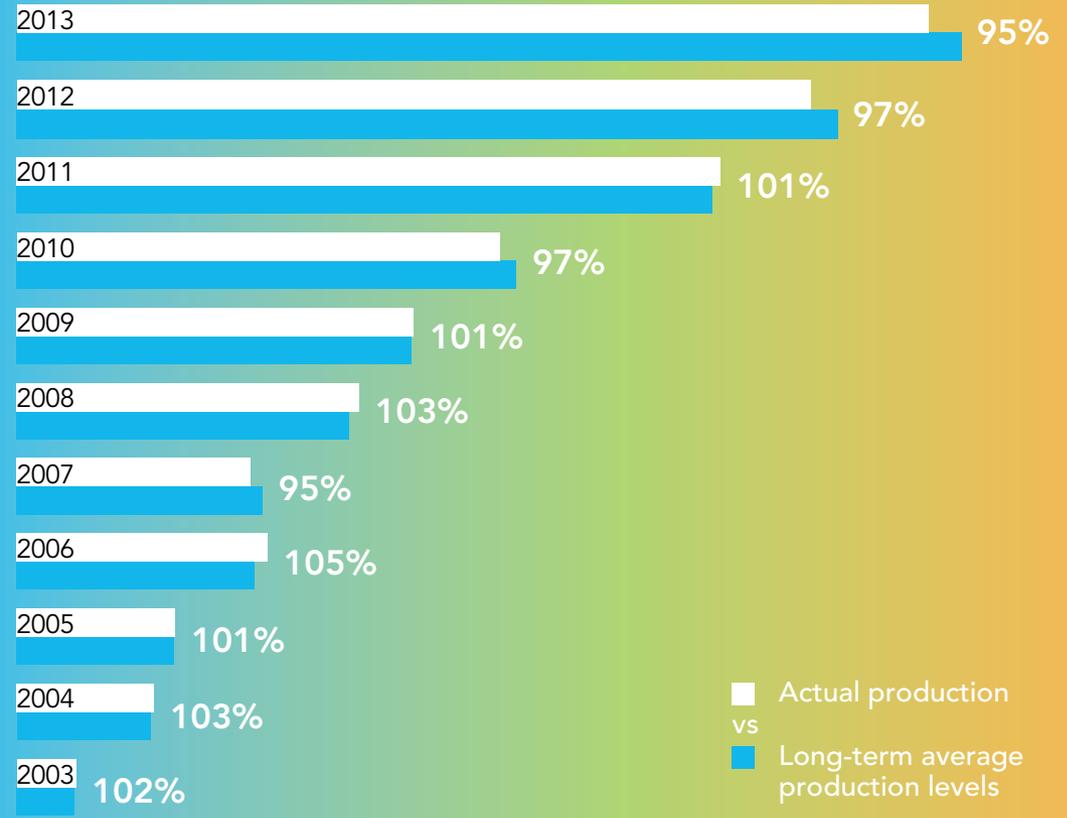
## **CORPORATE PROFITABILITY**

STABILITY AND  
GROWTH OF DIVIDENDS  
TO HOLDERS OF  
COMMON SHARES

# PREDICTABLE PRODUCTION

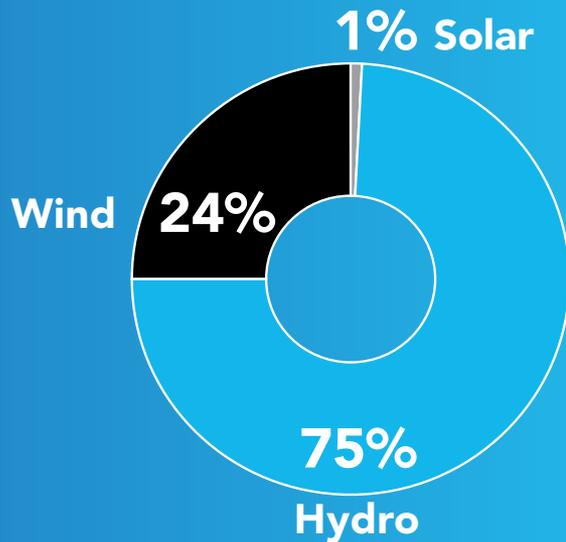
A KEY PERFORMANCE INDICATOR FOR US IS WHETHER PRODUCTION FOR EACH FACILITY CLOSELY TRACKS ITS LONG-TERM AVERAGE.

SINCE 2003:  
**99%**

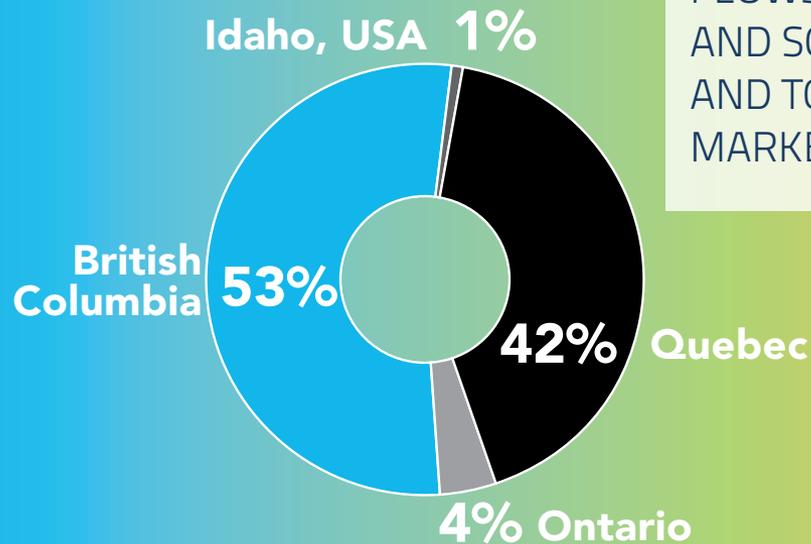


# STRATEGIC DIVERSIFICATION

## BY SOURCE OF ENERGY 2013<sup>1</sup>



## BY REGION 2013<sup>1</sup>



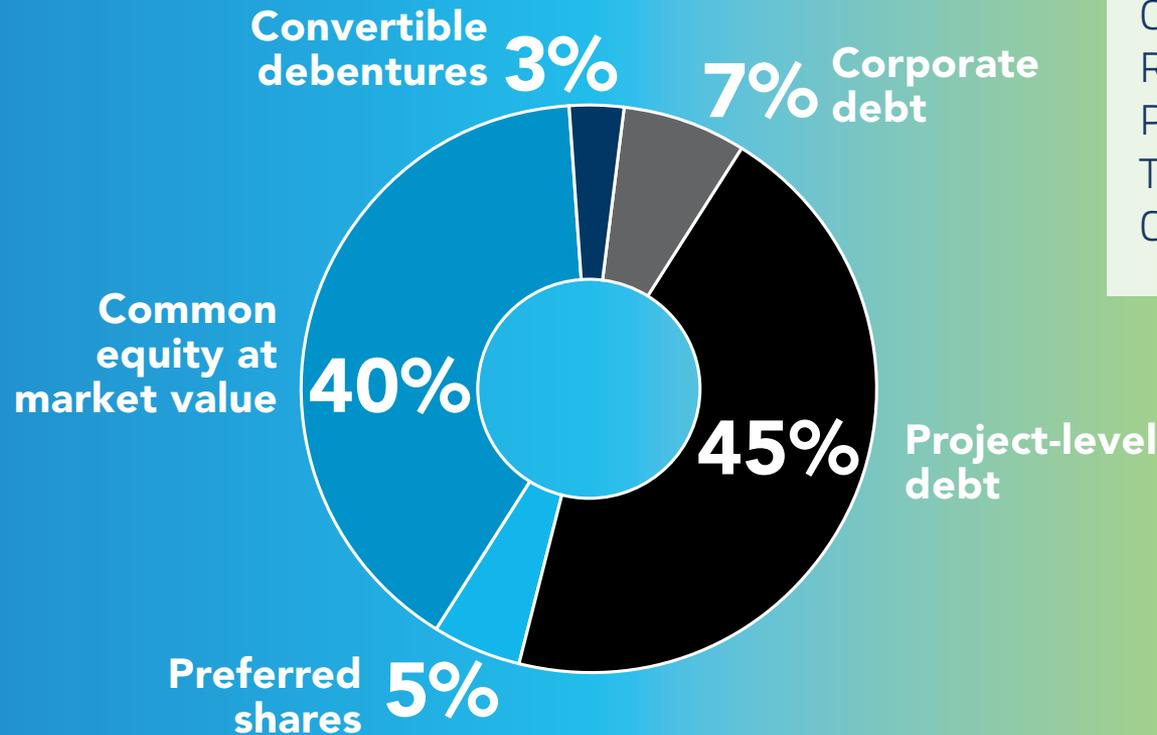
DIVERSIFICATION REDUCES OUR EXPOSURE TO VARIABILITY IN WATER FLOWS, WIND REGIMES AND SOLAR IRRADIATION AND TO ANY ONE MARKET.

<sup>1</sup> Based on annualized consolidated long-term average production.

Note: may not add up to 100% due to rounding.

# SOUND CAPITAL STRUCTURE

AT DECEMBER 31, 2013



WE EXPECT TO FINANCE OUR PROJECTS WITH FIXED-RATE NON-RECOURSE PROJECT-LEVEL DEBT AND TO MAINTAIN A BALANCED CAPITAL STRUCTURE.

Note: may not add up to 100% due to rounding.

# SUBSTANTIAL DEVELOPMENT PIPELINE

THESE PROJECTS REPRESENT A 27% INCREASE FROM OUR CURRENT GROSS INSTALLED CAPACITY OF 1,194 MW.

PROJECT NAME		LOCATION	GROSS CAPACITY (MW)	INE'S OWNERSHIP	ESTIMATED CONSTRUCTION COSTS (\$M)	EXPECTED IN-SERVICE
TRETHEWAY CREEK		BC	23.2	100.0%	111.5	2015
BOULDER CREEK		BC	25.3	66.7%	119.2	2016
UPPER LILLOOET RIVER		BC	81.4	66.7%	315.0	2016
BIG SILVER CREEK		BC	40.6	100.0%	216.0	2016
MESGI'G UGJU'S'N (MU)		QC	150.0	50.0%	365.0	2016
			320.5		1,126.7	

# SM-1 ACQUISITION

**LONG-TERM  
HYDRO ASSET**  
INSTALLED CAPACITY

**30.5**  **MW**

**AFTER-TAX INTERNAL  
RATE OF RETURN**  
APPROX.

**10%**

**IMMEDIATELY ACCRETIVE**

**FREE CASH FLOW (\$)**  
APPROX.

**5.0** million  
per  
year

**PAYOUT RATIO**  
APPROX.

**3%**

# MEASURABLE GROWTH

A KEY PERFORMANCE INDICATOR FOR US IS THE ADJUSTED EBITDA GENERATED BY THE FACILITIES WE CONSOLIDATE<sup>1</sup>.

## Adjusted EBITDA (\$M)<sup>2</sup>



<sup>1</sup>Excludes the Umbata Falls and Viger-Denonville joint ventures, accounted for using the equity method. The annual Adjusted EBITDA for these facilities combined attributable to the Corporation is approximately \$8.0M.

<sup>2</sup>Adjusted EBITDA represents revenues less operating expenses, general and administrative expenses, and prospective project expenses. It has no standardized meaning prescribed by IFRS and should not be construed as an alternative to net earnings.

# ADDITIONAL SOURCES OF GROWTH

1

RESPOND  
TO REQUESTS  
FOR PROPOSALS

2

ADVANCE PROSPECTIVE  
PROJECTS IN PARTNERSHIP  
WITH FIRST NATIONS  
AND LOCAL COMMUNITIES

3

PURSUE M&A AND NEW  
MARKET OPPORTUNITIES

# AN ATTRACTIVE RISK-RETURN PROPOSITION

1

LOW-RISK  
BUSINESS MODEL

2

SUSTAINABLE DIVIDEND

3

GROWTH



**INNERGEX**

**FOR MORE INFORMATION,  
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