



Renewable Energy.
Sustainable Development.

February 2021 Texas Events
May 11, 2021



FEBRUARY 2021 TEXAS EVENTS – SUPPLEMENTAL INFORMATION TO FIRST QUARTER RESULTS

All amounts are in thousands of Canadian dollars, unless otherwise indicated.

Innergex's Presence in Texas

Name	Location	Type	Status	Sponsor Equity Ownership %	Gross installed capacity (MW)	Contract Type
Foard City	Foard County	Wind	Operating	100	350.3	Power Purchase Agreement and Merchant Price
Phoebe	Winkler County	Solar	Operating	100	250.0	Power Hedge
Flat Top	Mills County	Wind	Operating	51	200.0	Power Hedge
Shannon	Clay County	Wind	Operating	50	204.0	Power Hedge
Griffin Trail	Knox and Baylor Counties	Wind	Under Construction	100	225.6	Merchant Price

1. TEXAS EVENTS DESCRIPTION

- In February 2021, unprecedented extreme winter weather conditions and related electricity market failure paralyzed the State of Texas, United States (unofficially referred to as Winter Storm Uri). These unprecedented extreme winter weather events pushed the Texas Government to declare a disaster and the US Government to declare a state of emergency.
- The storm disturbed production, transmission and distribution of power, severely impacting prices. Because of the disturbance, wholesale electricity prices in the Electric Reliability Council of Texas (ERCOT) reached their cap of US\$9,000 per MWh and remained at such level for a prolonged period of time.
- The February 2021 Texas Events lasted from February 11 to February 19, 2021, and the figures provided hereinafter are normalized for this period.

1.1 Summary Impacts per Facility

The following table presents a reconciliation of the Production and financial impacts, before income tax, resulting from the February 2021 Texas Events, detailed by facility:

	For the 9-day period from February 11 to February 19, 2021							
	Production (MWh)	LTA (MWh)	Hedge obligation (MWh) ¹	Hedge price (US\$)	Revenues	Power hedge	Basis hedge	Total Financial impacts
Consolidated facilities								
Foard City	29,464	35,175	N/A	18.13	16,801	—	—	16,801
Phoebe	5,996	14,550	13,473	33.10	38,166	(70,756)	(1,304)	(33,894)
Total - Consolidated facilities					54,967	(70,756)	(1,304)	(17,093)
Joint venture facilities								
Flat Top	2,046	24,507	19,152	22.60	15,316	(113,609)	—	(98,293)
Shannon	15,546	18,533	15,480	26.20	64,989	(93,123)	—	(28,134)
Total - Joint venture facilities								(126,427)
Total - Innergex's share of loss of the joint venture facilities								(64,197)
Total - Consolidated financial impact, before income tax								(81,290)

1. Hedge obligations are based on hourly commitments in MWh. Therefore, actual production is not always indicative of the hedge obligation fulfillment.

2. FINANCIAL IMPACTS AND NORMALIZED FINANCIAL INFORMATION

2.1 Impacts to Consolidated Statement of Earnings

The Phoebe, Shannon and Flat Top facilities are subject to power hedges. For facilities subject to power hedges, the power that is generated by the facility is delivered to the grid at the project's node (point of delivery) at the prevailing merchant prices. Production delivered at the node at merchant prices is recognized by Innergex as revenue. Under the power hedges, the hourly contracted energy is virtually purchased at the point of withdrawal on the grid ("hub"), subject to the prevailing merchant prices, and exchanged for the contractual fixed price per MWh. Settlements under the power hedges are recognized as change in fair value of financial instruments.

The following table presents a reconciliation of the February 2021 Texas Events' impacts to the Consolidated Statement of Earnings, for each line-item impacted by the events:

	Three months ended March 31, 2021		
	As presented	Impacts from the February 2021 Texas Events (9 days)	Normalized
1 Revenues	189,651	(54,967)	134,684
Adjusted EBITDA	143,119	(54,967)	88,152
2 Change in fair value of financial instruments	(87,709)	72,060	(15,649)
3 Share of losses of joint ventures and associates	(207,984)	64,197	(143,787)
Loss before income tax	(259,155)	81,290	(177,865)

- (1) Although power generation was depressed by the weather, **revenues at the Foard City and Phoebe facilities were favourably impacted by the events**, with revenues of \$16.8 million and \$38.2 million, respectively, for an aggregate impact of \$55.0 million, as a result of the unprecedented increase in market prices prevailing at the point of delivery on the grid ("Node").
- (2) Conversely, the change in fair value of financial instruments was unfavourably impacted by a \$70.8 million **realized loss on the Phoebe power hedge**, and \$1.3 million on the Phoebe basis hedge, for an aggregate impact of \$72.1 million, resulting from the unprecedented increase in market prices prevailing at the point of withdrawal on the grid ("Hub"), for the committed power hedge hourly volumes.
- (3) The Flat Top and Shannon joint ventures were similarly impacted by an increase in their respective revenues and realized losses on their respective power hedges, resulting in a share of losses of joint ventures and associates of \$50.1 million and \$14.1 million for Flat Top and Shannon, respectively, aggregating to a net \$64.2 million **unfavourable impact on the share of losses of joint ventures and associates**.

The following table presents a reconciliation of the February 2021 Texas Events' impacts to the segmented information:

	Three months ended March 31, 2021				
	Hydro	Wind	Solar	Unallocated	Total
Revenues	26,570	116,013	47,068	—	189,651
Impacts from the February 2021 Texas Events	—	(16,801)	(38,166)	—	(54,967)
Normalized Revenues	26,570	99,212	8,902	—	134,684
Revenues Proportionate	30,909	183,254	47,572	—	261,735
Impacts from the February 2021 Texas Events	—	(57,107)	(38,166)	—	(95,273)
Normalized Revenues Proportionate	30,909	126,147	9,406	—	166,462
Adjusted EBITDA	14,490	99,623	44,075	(15,069)	143,119
Impacts from the February 2021 Texas Events	—	(16,801)	(38,166)	—	(54,967)
Normalized Adjusted EBITDA	14,490	82,822	5,909	(15,069)	88,152
Adjusted EBITDA Proportionate	15,997	163,590	44,373	(15,069)	208,891
Impacts from the February 2021 Texas Events	—	(57,107)	(38,166)	—	(95,273)
Normalized Adjusted EBITDA Proportionate	15,997	106,483	6,207	(15,069)	113,618

2.2 Impacts to Free Cash Flow and Payout Ratio

The following table presents a reconciliation of the February 2021 Texas Events' cash impacts:

Facility	Impact	For the 9-day period from February 11 to February 19, 2021		
		Cash	Non-Cash	Total
Foard City	Revenues	16,801	—	16,801
Phoebe	Revenues	38,166	—	38,166
Phoebe	Power hedge	(70,756)	—	(70,756)
Phoebe	Basis hedge	(1,304)	—	(1,304)
Flat Top	Share of loss	—	(50,129)	(50,129)
Shannon	Share of loss	—	(14,068)	(14,068)
		(17,093)	(64,197)	(81,290)

For the trailing twelve months ended March 31, 2021, the February 2021 Texas Events, whose cash impacts are detailed above, have impacted the Free Cash Flow and Payout Ratio as follows:

	Trailing twelve months ended March 31, 2021		
	As presented	Impacts from the February 2021 Texas Events (9 days)	Normalized
1 Cash flows from operating activities before changes in non-cash operating working capital items	241,224	17,093	258,317
2 Realized loss on the Phoebe basis hedge	1,127	(1,304)	(177)
Free Cash Flow	73,762	15,789	89,551
Dividends declared on common shares	125,649	—	125,649
Payout Ratio	170 %	(30)%	140 %

- (1) Cash flows from operating activities before changes in non-cash operating working capital items were impacted by a net unfavourable amount of \$17.1 million, representing the February 2021 Texas Events' **realized losses on the Phoebe power and basis hedges, partly offset by the favourable impact to the consolidated revenues**. The \$64.2 million non-cash share of losses of joint ventures and associates does not directly impact cash flows from operating activities before changes in non-cash operating working capital items. It will, however, affect the joint ventures' future capacity to distribute cash to the Corporation.
- (2) In the Free Cash Flow and Payout Ratio calculation, **Innergex reverses the impacts of the Phoebe basis hedge due to its limited occurrence** (over the remaining contractual period of nine months), which are deemed not to represent the long-term cash-generating capacity of Innergex. As such, \$1.3 million is reversed from the recurring adjustment, representing the February 2021 Texas Events' related realized loss on the basis hedge.

2.3 Fiscal 2021 Projected Financial Performance

On a normalized basis, the 2021 Projected Financial Performance would remain as previously disclosed in the 2020 Annual Report.

3. IMPAIRMENT

Following the February 2021 Texas Events, which caused significant losses for facilities under power hedge contracts, a general increase in the assessed risk has been observed throughout the industry for facilities subject to shape risk¹ in this region. While the other key assumptions remained largely consistent as compared to December 31, 2020, these above factors contributed to increase discount rates to reflect higher risk premiums. On March 31, 2021, the Flat Top and Shannon joint ventures, each identified as separate cash generating units ("CGU"), recognized impairment charges of US\$83.0 million (\$105.4 million) and US\$92.7 million (\$117.7 million), respectively. The impairment charges were

recognized by the Corporation through its share of loss of joint ventures and associates, at \$53.8 million and \$58.8 million, for Flat Top and Shannon, respectively.

The recoverable amount of each CGU was determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a period extending to the period for which the Corporation owns its rights on the site, and discounted at a rate of 12%.

1. Shape risk exists when there is a mismatch, or a potential mismatch, between the volume commitment under a power hedge instrument, and the actual production of the facility at a given time. For various reasons, it may happen that a facility's electricity output at a given time is below the contractual volume. In such instance, the project cannot fully cover its hub purchases with its node sales and is therefore exposed to merchant prices on its purchases at the hub.

4. MANAGEMENT'S STRATEGIES

4.1 Procedures Initiated

Phoebe

- As a consequence of the February 2021 Texas Events, a claim of Force Majeure was notified to the counterparty of the power hedge of the Phoebe facility in February, which was rejected by the recipient. However, discussions are in progress with the counterparty of the power hedge.

Flat Top and Shannon

- As a consequence of the February 2021 Texas Events, a claim of Force Majeure was notified to the counterparty of the power hedges of the Flat Top and Shannon facilities in February, which were rejected by the recipient.
- To preserve the Corporation's and its partners' rights with regard to the Flat Top and Shannon facilities, court proceedings were initiated on April 21, 2021.
- On May 6, 2021, the Court heard the temporary injunction application to suspend all remedies, including foreclosure, against the Flat Top and Shannon facilities, arising from an alleged default of payment that was formally disputed and will render its decision by May 20, 2021. If the Court does deny the application, then the counterparty to the power hedges for the two facilities will not be precluded from exercising any of its remedies, including foreclosure.

4.2 Decisions and Actions

Phoebe

- Despite an increase in the discount rate, estimated future cash flows remain above the carrying value of the assets.
- Management is still in negotiation with all Phoebe's counterpart.

Flat Top and Shannon

- Should the District Court of Harris County, Texas, deny the temporary injunction mentioned above, the counterparty to the power hedges for the Flat Top and Shannon wind facilities will not be precluded from exercising any of its remedies, including foreclosure. The Corporation and its partners in the facilities are evaluating and considering all commercially reasonable options to enforce the rights of the facilities under the power hedges. Decisions made with regard to the facilities are dependent of the partners' agreements on the strategies.
- The carrying amount of the two facilities is higher than the current value of the estimated future cash flows due to an increase in the discount rates.
- Management does not consider these facilities to be viable in the long term in their current configuration.
- Given its understanding of currently available information and on the basis that the facilities are non-recourse to the Corporation, none of the remedies is expected to have an impact greater than the carrying amount of the Flat Top and Shannon equity investments which were nil at March 31, 2021, following the recognition of the aggregate \$112.6 million non-cash impairment charges on these facilities, which has already been recognized in the 2021 First Quarter results. Following these impairments, the balance of the equity investments in Flat Top and Shannon is nil as March 31, 2021.
- The impact of the potential foreclosures on the Corporation's Free Cash Flow, based on the facilities' 2020 contribution, could represent a potential loss of approximately \$4.2 million.
- The potential foreclosure of the Flat Top and Shannon facilities would also represent an avoided cash outflow of US\$60.2 million (\$75.7 million), representing the share of the invoiced amounts attributable to the Corporation, which Innergex would have funded through an equity contribution in the facilities, or US\$118.8 million (\$149.4 million) should the facilities' respective sponsor partners decide not to support the facilities.
- Should the District Court of Harris County, Texas, approve the temporary injunction mentioned above, the exercise of the remedies by the power hedge counterparty would be postponed and the impact mentioned above would also be delayed until a hearing on the dispute takes place.