

Innergex Renewable Energy Inc
First Quarter 2023 Conference Call
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CORPORATE PARTICIPANTS

Karine Vachon

Senior Director, Communications

Jean Trudel

Chief Financial Officer

Michel Letellier

President & Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

David Quezada

Raymond James

Nick Boychuk

Cormark Securities

Mark Jarvi

CIBC

Nelson Ng

RBC Capital Markets

John Mould

TD Cowen

Naji Baydoun

iA Capital Markets

Buddy Wiseman

National Bank Financial

PRESENTATION

Operator:

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Innergex Renewable Energy's 2023 First Quarter Results Conference Call and Webcast.

Bienvenue à la conférence téléphonique et la webdiffusion des résultats du première trimestre de l'exercice 2023 d'Innergex Énergie Renouvelable.

At this time, all participants on the phone and Internet are in a listen-only mode. Following the presentation, we'll conduct a question-and-answer session for analysts and institutional investors, and instructions will be provided at that time for you to queue up for questions. (Operator Instructions)

I would like to remind everyone that this conference call is being recorded.

I will now turn the conference over to Karine Vachon, Senior Director, Communications. Please go ahead.

Karine Vachon:

Thank you. Hello, everyone. Thank you for being with us today.

I'd like to specify that this conference will be held in English. Members of the media are invited to ask their questions by phone after this call. A presentation supporting today's discussion is available as we speak on the homepage of our website at www.innergex.com.

This call contains forward-looking statements within the meaning of applicable securities laws. Although the Corporation believes that the expectations and assumptions on which forward-looking

statements are based are reasonable under the current circumstances, listeners are cautioned not to rely unduly on these forward-looking statements, as no assurance can be given that it will prove to be correct. Forward-looking information contained herein is made as of the date of this call and 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 hereof, unless so required by law.

During this call, we will refer to financial measures that are not recognized according to International Financial Reporting Standards. Please refer to the non-IFRS section of the MD&A for more information.

Our speakers today will be Mr. Jean Trudel, Chief Financial Officer, who will present Q1 results, and Mr. Michel Letellier, President and Chief Executive Officer, who will review our operational highlights.

I now turn the conference over to Mr. Trudel.

Jean Trudel:

All right, thank you, Karine. Good morning, everyone.

Before we start with the actual Q1 comments, I'd like to just give you an overview of the changes we've made to the presentation of our consolidated financial statements.

On January 1, 2023, the Corporation revised the presentation of its consolidated financial statements to enhance their relevance to readers. Production tax credits, or PTCs, previously recognized as other income, have been reclassified directly below revenues to better represents the nature of PTCs as income arising during the Corporation's ordinary activities through the generation of electricity. In addition, certain subtotals have been removed from the consolidated statements of earnings and an operating income subtotal was included.

As a result of these changes, certain non-IFRS measures have been amended as follows. So, the PTCs are now presented directly in revenues and production tax credits and in Adjusted EBITDA, along with the realized portion of the change in fair value of power hedges.

Other income related to PTCs has been removed from the revenues proportionate and Adjusted EBITDA proportionate measures, and proportionate measures now include only Innergex shares of revenues and production tax credits and Adjusted EBITDA of the joint ventures and associates.

The Corporation also revised the calculation of its free cash flow and payout ratio measures to exclude the prospective project expenses.

These amendments to our measures aim to increase the relevance of the measures, allowing investors to better understand how operations contribute to funding the Corporation's continued growth and dividend policy. The revised measures also enhance the comparability with current industry practices.

Now, on the slide results, as shown on that slide, the Corporation posted growth in revenues for the three months ended March 31, 2023, compared to the last period last year, despite exceptional and unfavorable weather conditions.

Production was flat at 2.3 gigawatt hours and revenues and production tax credits were up 5% at \$218 million, compared with the same period last year. This increase is mainly explained by the contribution of the acquisitions of Aela and the Sault Ste. Marie facilities in Ontario, higher generation at the Curtis Palmer facilities and higher spot prices from the Chilean facility, higher production from the U.S. wind facilities, and higher production and the impact of new power purchase agreements in place at facilities in France, but these items were partly offset by exceptionally low-production at the hydro facilities in BC due to drier weather and the BC Hydro curtailment payments that we received in the first

quarter of 2022, the lower production from the Wind facilities in Québec and low-irradiation and selling prices and higher economic curtailment at the Phoebe solar facility in Texas and at the solar sites in Chile.

For the three-month period ended March 31, operating, general and administrative and prospective project expenses were up 30% at \$75 million, compared with the same period last year. The increase is mainly attributable to the acquisition of Aela and the impact of the 2022 Supplementary Budget Act in France. These items were partly offset by lower maintenance costs at some of our BC facilities and lower operating expenses at the solar Chilean facility.

As a result, Adjusted EBITDA for the quarter reached \$145 million, which represents a 3% decrease, compared to the same period last year. Revenues and production tax credits proportionate were up 4% at \$224 million, and Adjusted EBITDA proportionate reached \$148 million, which represents a 4% decrease, compared to the same period last year.

The Corporation recorded a net loss of \$13 million for the three-month period, compared with a net loss of \$35 million for the same period last year.

Now, on the next slide, the trailing 12 months ended March 31, the Corporation generated free cash flow of \$136 million, compared with \$155 million for the corresponding period last year. This decrease is primarily explained by a decrease in cash flows from operating activities, as I discussed above, and an increase in the interest paid, mainly stemming from the additional indebtedness to finance the acquisitions and the construction activities, an increase also in maintenance capital expenditures. The decrease was partly offset by the incremental contribution from the 2022 and 2023 acquisitions, the increase in merchant prices at certain U.S.A. and Chilean facilities, and a decrease in free cash flow attributable to non-controlling interest of the BC Hydro facility. The decrease of \$19 million in free cash

flow resulted in a payout ratio of 108% for the trailing 12 months ended March 31, compared to 89% for the same period last year.

On the next slide, I'm bringing back the slide on our indebtedness. Our total indebtedness amounted to \$6.1 billion at the end of the first quarter. It's important to note that these loans have little exposure to rising interest rates, with 92% bearing fixed rates or are fixed under long-term hedging agreements. Also, 100% of the project loans and the tax equity financing are amortized over a weighted average life of 16 years and are supported by high-quality and predictable cash flows.

What's important to note on this slide is that Innergex facilities have a useful life far exceeding the current amortization period of the existing debt. If we were to amortize our debt, on a straight-line basis over the useful lives of our underlying assets, the free cash flow and payout ratio for the trailing 12 months ended March 31 would have been \$160 million, and the payout ratio would have been 90%. That's important to note, because we can refinance that capital structure over time, and it's a better reflection of our capacity to generate cash flows over the long run.

Now, I would like to take a few minutes on the next slide to shed some light on the weather situation, more particularly in BC. We've done some analysis, and we analyzed the past four decades averages of the hydrometric data collected from Water Survey Canada stations, and these observed historical flows have a strong correlation with the hydrology of many of our hydro facilities in B.C. These observations are indicative, of course, and should be taken with precaution, but as you can see, the results presented on the chart, on the slide, shows us that hydrology of 2022—that's the green line that you see—end of the first quarter 2023, so the yellow line for the first quarter—deviated from the last four decades monthly averages—so the blue bars on the chart—and this has significantly impacted energy production. Basically, more water than what can be turbined was received in June and July 2022, and very dry

conditions were experienced in April, September, October and November 2022, and especially in February and March of 2023.

We can note from the graph that April 2023 trend gets closer to the historical average, and also the historical data that you see on the right side of the graph seem to demonstrate an upward trend in annual average flows over the last four decades. So, small trend, but yet, positive. So, according to this graph, year 2022 and the first quarter of 2023, I think could be considered as an anomaly, and we can be hopeful that a return to the mean is in Mother Nature's plans.

So, that gives me—I'd like to give you an appreciation of our earnings power, and so this leads me to talk about normalized figures. If we are assuming 100% of long-term average production that would have been met, that would give us a normalized view of our numbers. So, we excluded from this analysis our activities in Chile, where a lower production is mostly offset by a better pricing environment and, therefore, a little impact on free cash flow, but as you can see, when the LTA is normalized, revenues and production tax credits and Adjusted EBITDA would have reached \$244 million and \$170 million, respectively, in the first quarter of 2023. On a trailing 12-month basis, and with only the first quarter of 2023 adjusted or normalized for 100% LTA, the free cash flow would have increased by \$21 million, resulting in a 14-percent-point improvement to our payout ratio from 108% to 94%. On a trailing 12 months, with all four previous quarters normalized for 100% long-term average, the resulting payout ratio would have been in the range from 72% to 77%.

As a concluding remark, even though our first quarter results were lower than expected in terms of production, our fundamentals remain strong and we remain confident that our production will improve over the coming quarters.

I will now give the floor to Michel for the quarterly operational and development review. Thank you.

Michel Letellier:

Thank you, Jean. It was an extensive presentation, and I hope that you guys can appreciate the explanation on the long-term average and the normalized results.

Although we were sad—well, it's hard to be sad or happy, but it's not interesting to have two bad quarters in a row. As you can see, we think that the long-term average will come back and then we'll have much better results. So, let's hope that Mother Nature will cooperate. So far, April has been a little bit weak still in the West, but April is really strong, and we're hopeful that the long-term average in BC is coming back.

We've been busy this quarter again. I think that on Page 12, you can see the three main activities. We have actually signed and initiated the construction in Boswell. This is a 330 megawatt wind facility under a long-term PP of 30 years, so it's a big project for us. Very interesting cash flow will come from that project. We are confident that Q4, 2024 is our COD target date. We are reiterating that day. Construction has started, as I mentioned, GE is all aligned to deliver the equipment, and so we're confident that this date will be met, although construction, there could be some uncontrolled event, but so far, everything is lined up to have the project being in service. That will be a big milestone for us, and that will provide quite a bit of cash flow contribution to our bottom line.

We also have—consistent with some of our strategy, in order to support the short-term cash flow, we have for the first time—well, not the first time, but since 2018, it's our first acquisition in Canada. We have been successful in buying 60 megawatt solar facility under contract in Ontario. Glad to have that

asset. It diversified the geography of our portfolio and also in terms of technology. Those have very good track record on production. So, we like that strategy to diversify our portfolio footprint, and I guess it will help also mitigate these quarter-to-quarter variability in Mother Nature. Our strategy to face more variability over time is to diversify. We think that the best solution, is to have more diversification in our portfolio to take advantage of the difference between the region and technology exposure.

Also, pretty happy to have won the project Mesgi'g Ugnu's'n extension. We call it MU2 extension, or MU1 extension. Glad to have been able to capitalize on the very good relationship we have with the Mi'kmaq communities of the Gaspésie area. We had a good experience with them building the MU1 and it was just a natural to expand on the MU2. So, it's a first for us for a while in Québec, to have been selected for a PPA but it's certainly not the last, hopefully.

As you will see, we'll talk about the Québec RFP. There's a 1,500-megawatt RFP going on right now. Due date is September. We're working very hard to be present. Last time, we only submitted one project, we were happy to win that project, but in the second phase, we will be ready and have more project submitted to that RFP and getting prepared for the subsequent one.

If we switch on Page 13, I already covered the MU2 win. Innavik is under construction. We're very confident that it will be put in service late July or early August. The construction activities has restarted last week, in order to finalize the upper pond (phon). If you remember, last year, unfortunately, the winter got us too early and we were not able to close the water bypass in order to create the head pond to produce water. We have now been successful in starting to, basically, close this water deviation, and we're confident that the project will be able to produce its first kilowatt somewhere early July, and it's going to take 30 to 40 days to finalize the COD.

Been also busy in France. We are hopeful that Auxe Bois Régnier recourse in front of the court will be judged in our favor and that project would be then green light to advance. We also had Montjean 2, this project has its permit and its PPA. It's the interconnection that is a little bit late. We're working to potentially have an earlier date of interconnection. Right now, we're scheduled to be in 2028.

We've been also very pleased to have been successful in obtaining for Palomino the Certificate of Environmental Compatibility and Public Need. That's a long title for an environmental permit. But, that's the main and last one material permit that we need in order to go ahead with Palomino. The remaining, I would say, restriction for Palomino is to have a final date to interconnect. It's sad to see that PGM is so busy and they have difficulties to give us firm dates. We're not the only one. I guess the PGM is a little bit of a mess in its ability to provide firm date for interconnection. So, we're waiting, so is our offtake. Palomino is on the front line and already, we just need the green light to interconnect.

Interconnection is also a little bit of a challenge in Wautoma. If you remember, we have talked about Wautoma, a very nice solar project in Washington. A lot of inquiry for offtake. But again, transmission is an issue.

Unfortunately, the U.S., as you all know, is a huge market, a lot of possibility with the new IRA, but interconnection is the limitation of how fast the U.S. can grow. So, we're working hard to find ways where we can interconnect a project quicker, but this is the challenge in the U.S. I think we're not the only one. This is the main challenge in the U.S. interconnection.

We have also been a little bit active in Hale Kuawehi. We're limiting the construction activity until we can have, hopefully, the green light to have our PPA increase in price. We have submitted a proposal of 56% price increase to the PUC. That has been supported by Eco, the utility NOI. So, we're waiting. We think that we could have an answer by September, so stay tuned on that.

Also, I guess that the other activity in construction is Salvador and San Andrés battery storage. I'll talk about it a little bit later in an interesting graph that I'll show you the logic behind installing the battery in Chile, but this is going very well. We have started to receive the battery container. All the civil works is done, and we are only waiting to put the battery together and, hopefully, being able to produce—not to produce, but to start using the batteries. Somewhere late July, August, we should start taking advantage of the battery, and full commission on both sides should be done by Q4 of this year.

If we go on Page 14, I alluded a little bit our activity in the prospective project. We're still pretty active also in France. We now have quite a bit of advanced projects. We have over 200 megawatts of advanced projects in France and a total of a portfolio of over 400 megawatts. We have also been more active in solar, as we mentioned in the past. The team is very effective. We are a small team, but very efficient, and pretty happy to see how France is evolving these days.

Working hard, and you'll see some new numbers in Q2, in terms of new projects being added in the prospective. We've been working hard in Québec, Ontario. Also, we have been submitting a 100-megawatt four hours of storage in the RFP in Ontario. We also submitted two projects, one 50-megawatt and 35-megawatt four hour battery in the request of interest in New Brunswick. Getting prepared also to answer the RFP in Saskatchewan, both in solar and wind. We have two solar projects and one very interesting 200-megawatt wind to be proposed in Saskatchewan. We are actually very, very active, and proactive, also, to find ways to add new projects to our prospective pipeline.

On Page 15, just to have perhaps—I just mentioned, and it's no way to minimize the other markets, but I think that Canada, given the new program in budget for the Federal supporting an ITC for renewable energy in Canada, is putting a lot of attention and is creating, potentially, a lot of new opportunity. We already know, and we mentioned in an earlier call, that Hydro-Québec is having a strategy to be coming

back for RFP in all the next four or five years in the range of 1,000 to 2,000-megawatts of new wind facility, and, potentially, also some solar facility in Québec. So, Québec will be busy.

Ontario has started to move also, but my take on Ontario and B.C., I mentioned it before, if Québec is looking for more production, and you know that Québec, heating habit in Québec, we have a lot of houses that already are using electricity to heat the house, so we need to basically decarbonize the transportation, some natural gas also in the heating system, but also in industrial processes, but it's lower than Ontario and in BC. So, if Québec is busy like that, trying to have more renewable energy in order to meet these goals of decarbonization of the economy, I cannot imagine how busy Ontario and B.C. will have to be. The same with New Brunswick and new Nova Scotia, where they are still burning coal.

So, I think that Canada, with the new program, will be quite busy. I'm not saying that because we will be less busy in the U.S., we think that there is a great opportunity also in the U.S., but I think that we will have a great opportunity, as well, in Canada. As you know, we have been very successful in Canada over the years. Especially being a first choice partner with First Nation, I think that we have a great opportunity to develop future projects in Canada.

I'm coming back to the Chile opportunity for the battery, we call them BESS. We have also been successful during the financing of San Andrés for the construction. It's a very interesting concept, and I would like to give you a little bit of a perspective on Page 17. On that graph, this is the average price of electricity on the node of San Andrés and Salvador. So, when you're producing solar, this graph is not a good story. As you can see, this is summer, though, it's probably more intense, this huge volatility during the day, because in summertime, as you know, obviously, solar is producing at its max, but this is the price of electricity in the north of Chile. You see that basically, as the sun rise, the price of electricity is going down, up to sometimes zero during the mid-afternoon, late morning, and late afternoon. You see the

huge spread between \$180 per megawatt hour versus almost zero. This is where the battery can make a lot of money.

Our business case in this investment was to take about \$50 of volatility. Now, we're seeing over \$100 per day in terms of round trip for the use of battery. We have 425 megawatt hours. If you use \$100 in that quarter on an annual basis, that's \$40 million of revenue on these batteries. We're almost the only one with material investment in that part of Chile, so I think that we're rushing to have those battery in service. Winter is coming in Chile, so these big spreads will narrow, but it will be still very volatile, and we can't wait to have those batteries on and available to make some arbitrage during this great volatility in that market. This is not going to slow down that much. As you know, the new interconnection in Chile will only come in service somewhere in 2029, and perhaps 2030, 2031, so we will see a lot of volatility in the North of Chile for the next four or five years, and we intend to advantage of it.

So, on that note, we will open the question.

Operator:

Thank you. Your first question comes from David Quezada from Raymond James. Please go ahead.

David Quezada:

Thank you. Morning, everyone. My first question here, just around your M&A strategy and the payout ratio, and appreciate the thoughts you provided around what the payout ratio is with more normalized weather. I'm just wondering what the strategic implications of that are. I know in the past you've used M&A as kind of a bridge to help with the payout ratio, but it seems like you've got a lot of

greenfield opportunities today. In this context, do you think you'll tilt maybe a bit more away from M&A going forward and more towards those greenfield opportunities?

Michel Letellier:

Well, it's a good question. We like to take advantage of the M&A when it makes sense, when it's really accretive, and, as you all know, we would be reluctant to use our stock to fund new M&A. We see the price has been depressed, and we're mindful of that. We're sad about this. Hopefully, we'll do a better job explaining to you guys and to the market what we're doing.

I think we have great opportunity, as you're mentioning, in terms of growth. Our people on the ground, we are seeing a lot of opportunity, we're working hard building up the prospective pipeline, as I mentioned earlier.

Never been that optimist in terms of ability to grow from our greenfield pipeline. I've been in the business for more than 30 years and never been that busy in trying to secure new projects in our four markets. It's really impressive how the opportunities are coming, never seen such a great support from the Federal government here in Canada.

Remember, the last effort from the Fed was the ecoENERGY program, which was a \$0.01 for 10 years, and they only had committed \$1.4 billion, if I remember well, so that was very limited, and having this ITC that will be available for all the renewable energy industry is providing us a great support.

But, to answer your question, I think we'll be opportunistic in terms of M&A. If there's something that comes and makes a lot of sense, we may act, but I don't think we will be as aggressive as in the last couple of years.

There's also some strategy to recycle a little bit of our assets. As you know, we have not been very active on that side in the past. We mentioned in the last call that France portion of 30% that we bought from Desjardins last year could be something that we could act in saying that we could sell 30% of the platform in France. We have been approached by a financial institution in Europe, and we have actually started this small process to see if we can find the right partner and the right value, and if we do, we could act on that aspect.

I don't think it's a big secret, it has been circulated in the web, that we have retained Green Giraffe as an adviser on that process. So, stay tuned, we think that there's possibility of us acting on this, and that would solve some of the liquidity issue that you guys have in your mind.

You are alluding also on our ability to refinance some of our encumbered assets. Lately, we have renewed some long-term PPA for hydro. In B.C., B.C. Hydro has been acting on a program to renew. We have renewed Brown Lake. We're in the process of finalizing Miller Creek. Miller Creek is a 33-megawatt tidal facility that was on the merchant aspect. We were being priced on mid-sea. Lately, it has been good. But we think that the price at B.C. hydro has proposed, in the \$60 range, with inflation, is a good compromise for Miller. So, we would have the ability to refinance. Miller has no financing in place, and we just renewed 20 years PPA. Rutherford Creek is due also next year and is part of the same renewed program by B.C. Hydro. So just there, we would have over 100—and Portneuf also, in Québec—we would have close to 150 megawatts of new PPA on hydro facility without any security on them. So, that's a great opportunity also to refinance.

So, don't worry in terms of liquidity, we have a plan, and we're acting on it, and it will take a few months to do this, as you all know, but we are confident that these two initiatives will solve our—I

wouldn't say we have liquidity issue, but it would give us a lot more flexibility in terms of liquidity. It's a long answer.

David Quezada:

No, no, that's great, I appreciate the thoughts, Michel, and then maybe just one more for me. Just thinking about some of your larger scale development projects in the U.S., I know you touched on Wautoma and Palomino, but I believe there are others in Colorado and Texas, it sounds like you've got some promising development there. Just wondering if you could provide any details on that?

Michel Letellier:

Yes. We have one, Racetrack, is a 200 solar facility in Texas, it's ready to go. It's us, that we're not too keen in putting more money in Texas, although we've been approached also by some players that might be interested to take this. We may be able to advance the project or even build it and sell it in Texas. Well, we are reluctant to add more assets in Texas, so Racetrack could be an opportunity to develop, and hopefully, make a profit of development and letting another player to take it over.

We have been submitting Mile High in the Colorado last RFP about a month-and-a-half ago. Unfortunately, we missed the—we were a little bit maybe high on the price, but there is more RFP coming for Colorado, so we are going to adjust. The Mile High was 150-megawatt solar with four hours battery, very well-located, close to the airport of Denver. So, we think this has some good potential, and we are going to still advance that project.

We have also Wautoma in the Minnesota area, that has some promising. We have big projects in the U.S. waiting for basically interconnection. We have to find ways to have windows of interconnection.

So, Wautoma might be an interesting play, it's a little bit off the hot spot in terms of interconnection. The team is working hard and producing large numbers of projects that are in the 200 to 400-megawatt range. But again, U.S., it's difficult to find the sweet spot to interconnect. That's unfortunate for the U.S., but this is the only, I would say, bad news in the U.S., is interconnection.

David Quezada:

Okay, excellent. I appreciate that color, Michel. I'll turn it over.

Michel Letellier:

Thanks.

Operator:

Your next question comes from Nick Boychuk from Cormark Securities. Please go ahead.

Nick Boychuk:

Thanks. Good morning. As you're talking about those really attractive U.S. and Canadian growth opportunities, can you guys just wrap a number roughly around the Capex estimated to be spent in 2023, and potentially in 2024, as well?

Michel Letellier:

Well, in 2023 to 2024, we have already committed the equity for Boswell, if you remember. We also have the tax equity lined up and the financing for Boswell. Jean, if you want to add up. But this is our biggest initiative.

The battery in Chile is financed already, the equity portion of it is already done. MU will not be a big spend in terms of equity. MU2 is supposed to be in service by 2026, but we're working hard to advance this, there's a possibility where we could advance the project, but it will be financed to 75%, 80% long-term average, and the ITC will help also reduce the equity component of those projects. So, MU should qualify for the ITC.

We don't foresee a lot of equity need in 2023, 2024, although we're also working on project in Chile for solar thermal. It's not in our prospective yet. We have submitted a proposal to BHP. But, it's binary. If we were selected, we win, if we don't, we're not. But we're in the last two runner for that project.

I don't know if you picked up the news that we have renewed with Pampa Elvira 34 megawatts of passive solar for their Codelco copper mine. We have renewed an extension of 10 years. So, that's good news for us, because they will be looking also for an expansion, and we think we could probably add another 15 to 20 megawatts of capacity there. This might be a segment of our business in Chile that can expand, is supplying hot water driven by solar passage panels. This is something that we might also be active in 2023, 2024.

Jean Trudel:

Maybe just to add a bit of color, Nick, on the Boswell project, we're really advancing the financing with the long-term construction loan and long-term takeout and the tax equity, and put together, we will get to very close to 90% of total cost. Right now, we've already invested more than the equity required,

so at the closing of the financing, we expect to actually get some funding back, and then to continue the construction by drawing on the loan. So, that one is interesting.

Also, if we can actually qualify for the others, the PTC others, that would be also a nice windfall if we can monetize upfront these others. It actually increases the IRR on that project significantly. By each tranche of 10%, it's roughly 4% to 5% increase after-tax IRR, so that would be extremely positive for the project.

Then, HK NOI has also—pretty much all the equity required has been funded. As we finalize the financing, obviously, we need to obtain the PUC consent on the price revision, but once that's done and we put the financing in place, we would also recoup some of the funding that's already been put in HK.

So, for 2023, really, the financing are really what's on our mind right now, but once it's completed, there is no major need for capital.

Nick Boychuk:

Okay, that makes a lot of sense, thanks. then, as we're looking at the B.C. Hydro assets, there is a bit of an indication in your prepared remarks that some of those assets could have been potentially optimized and that you're looking at ways to improve the operation and ongoing maintenance of those. Can you talk a little bit about what those initiatives might be and the potential magnitude if they work?

Michel Letellier:

It's not huge, it's on the margin, but we already have done one change of the—it's called—it's the water intake. It's the—I can't remember the name, I'm sorry. We have had some early design issue, that they were built with some flaw, and we changed that, so that's going to help us a little bit, and trying to

have better equipment for monitoring the incremental flow. In the past, it was a little bit more difficult to calculate these flows. So, in order to make sure that we would not break the environmental permit and obligation, we were letting a little bit more flow going over the crest of the dam. All these little things are not huge, but they are adding 2%, 3%, perhaps, on the long run, and the team is working hard in order to maximize these and take advantage.

We also have been successful in Miller Creek, an example, to eliminate some incremental flow where there were actually no fish and we were able to show that the incremental flow was not needed in a section of the river.

These little things are not huge, Nick, but they're adding, right? I mean, every little 1% or 0.5% improvement is going right in the bottom line, so that's something, and we have now better technology, we have better data tracking, and we're doing some analysis with big data on what we could do in wind, also, to try to tweak the software in order to take advantage of a little bit better wind. Start a little bit earlier when you have some icing on the blades, trying to have some new methodology to restart blades that have had some icing issue. All these things are not huge by itself, but if you add all these little things, it makes some material at the end of the day, but they're not big. It's just on a day-to-day basis and trying to take advantage of new technology that is coming up.

Nick Boychuk:

Okay, that's great color. Thank you very much.

Operator:

Your next question comes from Mark Jarvi from CIBC. Please go ahead.

Michel Letellier:

Hello, Mark.

Mark Jarvi:

Yes, hey, good morning. Lots of opportunities in Canada, you highlight that well on Slide 15, but seems that there's still a little bit of uncertainty on the tax credits, the ITC. How does that play into your bidding strategy? Do you think you'll have clarity on that before you have to submit into all these RFPs?

Michel Letellier:

That's a very good question, Mark. It's true that we don't have all the details yet. Our fiscal team has been trying to get and provide some feedback to the tax team of the Federal agency. We're hopeful that—they understand that a lot is relying on their final documentation, so they seem to work hard in trying to have their final design by somewhere this summer. We're hopeful that we'll have all that information before September for Hydro-Québec. We've been talking to Hydro-Québec on what they would be trying to put in the RFP. This is the period where we can ask questions, during the RFP preparation. So, a lot of our peers are having the same problems. Either they will continue to have some kind of sharing if the ITC is not clear, or if it's clear, then they might just say that they must take for granted that everybody will put that into their bids. But it's true, Mark. It's complicating our lives a little bit, if we don't know when we're bidding.

Mark Jarvi:

Is there any potential just to defer some of these, push them back a few months, just so you could maybe get clarity?

Michel Letellier:

I would be surprised. I would be surprised. I think that the solution for Hydro-Québec, from what I understand, is that they could keep the option of sharing the benefit once the detail would be clear, so that's one possibility. That's not creating a problem for either of, it's just a little bit more complicated to share afterwards, because, as you know, the ITC doesn't apply to the same level from a non-taxable entity and a taxable entity, so that makes our life a little bit more complicated, especially in Québec, where in these RFPs, they are requesting to have local partners, either Municipality or First Nation.

So, yes, I mean, we'll be working hard with our tax adviser to find the best strategy in order to take the full advantage of the ITC. But, I mean, we're happy to have a program, so we cannot be too negative about it, but of course we would need to have clarity in order to take full advantage of the program.

Jean Trudel:

Mark, we are exchanging now with authorities whenever we can, but it's also interesting for projects that we have already, like a project like Innavik or the project we won in the RFP from Québec, MU2, could actually see some benefit out of the program, so we're obviously very interested to see the legislation when it comes out, but there's potentially some upside for us and our partners on these two projects. Obviously, we're very interested to understand more.

Mark Jarvi:

Second question for me is just—the B.C. Hydro assets, obviously, the volatility, obviously, you don't want to see it, investors don't want to see, it maybe not looked upon positively by public investors, and maybe it kind of dampens how your shares trade. Would you consider again doing a partial sell down there where private investors might be able to ignore those quarterly variations and recognize the long-term assets and contracts there? Some updated views in terms of maybe monetizing a partial stake in the BC hydro assets.

Michel Letellier:

We're not so keen in doing so, but it's something that has come to our mind, and then we're always trying to be objective and not necessarily subjective in our financial analysis. But, again, I mean, you're trying potentially to sell something that has had some bad quarters. We've seen that in Québec about 10 years ago, or even 13 years ago, we had two or three really bad hydrology years almost in a row, and then things had cleared up. Same what happened in California last winter, they had extended drought and then suddenly all the water and the snow that they had received. I'm positive about the outcome in the hydrology. As Jean showed you, the last four decades is showing an increased hydrology. The experts that we have been talking to are showing wetter winter in B.C., but perhaps drier summer. But, remember, we're making more money in winter on the pricing structure in B.C., and we are a run-of-the-river facility, so if there's more melting events during the winter, we can catch more water.

You've seen also last year, on the graph that Jean has shown you, is the fact that we have a huge spring runoff last year, and when you have run-of-the-river, you cannot catch that big runoff in the spring.

So, actually, if the winters are getting warmer down the road and you have more rain events during that period of time, that is only better for our long-term production.

So, we're not saying never, but we're very optimistic on the long-term hydrology. It's just two really bad quarters back-to-back that just hurt us in B.C. In the law of statistics, that can happen, it's very unfortunate, but I'm a strong believer of diversification, and by growing in other places and in other technology, that portion of our exposure in B.C. Hydro will get smaller as our portfolio gets bigger, too.

Mark Jarvi:

Yes, okay, that makes sense. Last question, just to clarify in terms of when you might be able to do the sort of the debt onto the re-contracted assets or unencumbered assets, is that something that can happen in 2023?

Jean Trudel:

Yes, I think it's something that can happen in 2023. We're working, and as Michel pointed out, we have some renegotiation of contracts to put in place, so that we can gather the longest visibility on power pricing and revenues on the facilities, and there's some re-org that's potentially beneficial to that, as well. We're optimizing now the number of facilities that we'd like to refinance. Yes, definitely, it's something that we have to compete by year end.

Michel Letellier:

Mark, you're talking about potentially selling some assets in hydro in B.C., but actually refinancing these assets on a long-term basis is somehow a divestiture a little bit of our equity exposure there to some

degree, right? If we go back and put another 75%, 80% of financing on those assets indirectly, we are reducing our equity exposure to these assets and it's cheaper. As you know, debt is much cheaper than trying to sell equity.

Mark Jarvi:

No, that's a very good point. Okay. I'll leave it there.

Jean Trudel:

It's a substantial amount, so maybe we can give an indication. It's certainly an amount above \$200 million that we would probably get out of a refinancing like this, that would de lever the (inaudible), so it's material for us.

Mark Jarvi:

Okay. Thanks, Jean.

Operator:

Your next question comes from Nelson Ng from RBC Capital Markets. Please go ahead.

Nelson Ng:

Great, thanks. I had a few questions on Hawaii. So, I guess the first question is, in terms of the \$13 million that you'd get back, can you just give a bit of color as to whether you're just getting back a deposit or are you actually making some gain out of the arrangement of terminating some of the battery

contracts? Then, the second part of that question is, can you just give an update on your Hawaii strategy, because I guess you've sold an early-stage project, you're canceling some of the battery supply agreements? Can you just give a bit of color on, yes, I guess, what your longer-term strategy is there for Hawaii?

Michel Letellier:

Yes. You're right, we had a little bit of a deposit with Tesla, but the contract that we have with Tesla were firm in terms of delivery, and we had also the option to have the battery delivered somewhere else. So, Tesla was actually willing to pay off a penalty to basically break that obligation, and, hence, we made more money—well, more money—we made more money than only our deposit in those renegotiations. So, we did capture a little bit of that value on doing this.

To come back to you, I don't want to expand too much on Hawaii, and you'll understand, we are in front of the PUC for Hale Kuawehi, but you could probably understand that if we're selling these things or breaking the commitment with Tesla, I guess that if we find the right moment and the right opportunity, I think we have a better use of our resources in other markets.

Nelson Ng:

Okay, that makes sense, and then just one quick question on Fitzsimmons Creek and Rutherford Creek. I think in the MD&A, there's a disclosure saying they're in breach of their credit facilities. Is that mainly just due to low hydrology and they'll kind of go back to normal once ...

Jean Trudel:

Yes.

Nelson Ng:

Okay.

Jean Trudel:

And on Rutherford, it's important to note maybe there is very little left on the long-term financing, only \$1.6 million within the long term and was put back in the short term. There's only one year left really to the debt schedule.

Nelson Ng:

Okay, got it. I guess one last question on Innavik, the hydro development. I know it's small, it's 7.5 megawatts and you only own 50%, but I noticed that disclosure on the EPC (phon) contract they're asking for roughly \$58 million. I think, looking at some older reports from a few years ago, the original project cost was about \$125 million on a 100% basis, so maybe just comment on where we are on project costs for that project.

Michel Letellier:

Yes, we're showing in our MD&A a provision of \$17 million of extra costs. Why are using this, I cannot go too deep. We had an arbitration process, that I cannot talk too much about. But, we were very close to have an agreement and, unfortunately, for the reason I mentioned, the contractor could not put the diversion in place, and then delayed the project for about four or five months. We have liquidated

damage for them not meeting the target COD date, and I think they were they were discouraged on that aspect.

So, we retain all our rights to litigate to those liquidated damage. I think that the \$17 million that we have embedded in our total cost now is conservative, and according to our lawyers, we have a very strong case against the contractor, and that \$17 million in front of the court should hold. I think it's very conservative.

Nelson Ng:

Okay, all right, that's great. I'll leave it there. Thank you.

Michel Letellier:

Thanks.

Operator:

Your next question comes from John Mould from TD Cowen. Please go ahead.

John Mould:

Thanks. Good morning. Maybe just going back to your broader growth strategy in the context of that 2025 run rate, free cash flow target, you've noted you'll probably see at least in the near-term slowdown in M&A, and referenced, at least in the context of the U.S., the challenge of interconnection. Maybe just looking beyond your current pipeline, what markets are you hopeful will be the primary driver of that remaining growth to get you to that target for the two-and-a-half years out?

Michel Letellier:

It's true that it's challenging, John, in terms of the delay of interconnection in the States. That's a little bit of a (inaudible). Yes, we always said that the 2025 target was challenging. It's still challenging. We still think we can make it. M&A will have to play a little bit of a role in this, but we cannot be dogmatic. Also, if we have huge and great opportunity to develop projects and create long-term value for shareholders, that's what we're going to do.

So, yes, we have put a very, I would say, challenging target for 2025, \$1 per share. We were trying to go on that path. But, we're not dogmatic. If, for all kinds of reasons, M&A is expensive and we have other great opportunity to create long-term value by securing a great project for the future, that's what we're going to do.

We'll keep you apprised on how we are making on that long-term strategy, but I think that we—we're there for the long term, we're there for creating value for our shareholders, and there's huge opportunities out there in all of our four markets, it's not only—I know that I've been very optimistic and upbeat on Canada, because it is actually opening up, and fast, but boy, I mean, the U.S., France and Chile are a great markets, as well. There's huge opportunity in all our markets at this time. Therefore, we've been, and we have and will be, a company that makes project development. As you know, we're fully integrated, we are able to develop greenfield projects, follow construction, and we love to operate our facilities on a long-term basis. We have not changed, and we will not change. A little bit of difference is our willingness sometimes these days, given the very low appreciation of our stock, is to recycle some of our assets. We've been also, in the past, willing to refinance, and I think Jean has shown you our ability to refinance some of our existing assets in order to give us some more flexibility that is less dilutive than

issuing stock. We could use this more flexibility to perhaps make attractive M&A that would help our payout target and cash flow per share target. But we're not dogmatic, we just want to make sure that we're creating value for our shareholders and take advantage of the great opportunities that we have.

John Mould:

Okay, thanks for that. Maybe just one quick one on your B.C. growth strategy, and I realize a few minutes ago we were talking about how that can shrink over time, but there's some real potential need there by 2030, you identify in your slide deck, and you've got a decent early stage pipeline—I think it's mostly hydro from (inaudible). But how do you think about the opportunity there? They're pretty long-dated projects in terms of permitting and there's no profits on the horizon, but your thoughts would be appreciated.

Michel Letellier:

Well, my thoughts in B.C. is that they have been ill advised by—I won't say who—and they'll wake up with a very bad headache. Site-C has been a nightmare. I cannot believe that the media is not covering that nightmare. A thousand megawatts that is going to cost to do, their last forecast was \$16 billion, and counting, and they have been delaying the COD of Site-C every time since they came public, and now they're '25, '26. Site-C would not be enough to drive the Shell expansion. Shell has committed to go e-drive if B.C. Hydro can bring their transmission line to service right now. They don't have the capacity and they don't have the line to service the expansion of Shell LNG, that has been announced. Just that is going to take between 700 megawatts to 800 megawatts of firm energy.

So, I think that B.C. will wake up and have a real nightmare, to be able to have renewable energy for their clients and their customers.

John Mould:

Okay. I'll leave it there.

Jean Trudel:

Well, maybe to add to this, it's important to note, we have a lot of assets in development in our pipe that could actually answer that need whenever B.C. Hydro wakes up and request new capacity. We're well positioned in B.C. still today and with teams on the ground.

Operator:

Your next question comes from Naji Baydoun from iA Capital Markets. Please go ahead.

Naji Baydoun:

Good morning. I just wanted to go back to the topic of organic growth. I think the last couple of projects that you developed in the U.S. were in 2021, and now you have Boswell for next year, so it's a bit lumpy, there's a bit of a gap there, and I understand interconnection is an issue. I guess, what kind of growth do you think you can go find in Canada, let's say, now that it seem there's been momentum there, to maybe help offset some of the lumpiness in the U.S.?

Michel Letellier:

Well, Québec, like I said, is going to be very busy. We have MU2. There's 1,500 megawatts now in terms of RFP that are scheduled to be in service by '27, '28, '29. We hear that next year will be another call and delivery will be in the range of '28, '29, and '30. So, Québec will have a stream of RFP. Our intention is to be present. We will be putting more than 1,000 megawatts in the 1,500, and we intend to put as much, if not more, next year in Québec. So, Québec will be a big focus for us. But, like I said, I think that New Brunswick will have also some needs, not a big market, but we have a few very good assets there, and they will need the electricity before 2030.

So, we're in 2023. It seems far, 2027 and 2028, but, I mean, once you have been awarded a project and you can define what it is, you could, guys, put some value on these future projects on a discounted value, and I think that even if they're further down the road in order to be in operation, we all know that when you have a good PPA price and when you have secured your location and permit, you're creating value for the shareholders and people are willing to ascribe value for their assets, for these assets. Sometimes, unfortunately, the public markets are not seeing that clearly, but definitely other funds and private money is seeing that value, as well.

Naji Baydoun:

Just to, I guess, pick on some of the points there, and Québec specifically. Any thoughts about what's different in this RFP or the next one versus the one that just concluded? What are you seeing in terms of indications on pricing? Outside of the RFP, are you still looking to do some projects directly with other partners, as you mentioned, since there's interest?

Michel Letellier:

Yes. There's something that we are going to be active of, is the renewal of all our wind assets in Québec. Remember that we were the first wave, so Baie-des-Sables is due in 2026, l'Anse-à-Valleau in '27, and then Carleton in 2028. There's a discussion that we'll have to be done with Hydro-Québec, either through RFP or direct negotiation, and there's possibility of expansion. There is a possibility of adding some kind of a hybrid proposal, where we could have a new machine with existing machines. So, there's all kinds of scenario we're looking in order to create value for us and for Hydro-Québec, obviously.

The good news is that price is coming up, even with ITC. I think that renewal of existing projects has potentially better value than before. We've seen that utility really needs this renewable energy for the future. So, I think that it's a great window of opportunity for us to recontract our portfolio of wind assets in the Gaspé Peninsula.

Naji Baydoun:

Okay, that's good to hear. I look forward for more updates on it this year. Just one last question on capital recycling. You covered well sort of the funding outlook for the year, no need for equity right now, but when you just think about deleveraging or maybe future growth next year, do you have any specific targets on capital recycling in terms of how much you'd like to get in the sense of proceeds?

Michel Letellier:

Refinancing, it would be easier to talk—like, Jean, you're saying it should be well over \$200 million. We'll be looking into some other opportunity, if possible. We have few other opportunities down the road next year to repackage, perhaps, some assets. This, for us, is a way of recycling capital without selling the asset itself, so always interesting to—we'll be looking at that first.

Like I said, France is a little bit different. I think that the valuation of private equity or financial institution in Europe is very attractive, and perhaps this is one way to make a little bit of arbitrage between the valuation of our stock and the real value of that asset in Europe.

So, if we find very accretive and value-added proposals, we might. I mean, we said that some assets in Texas is not necessarily our—Texas is not necessarily our prime market. We don't necessarily like the exposure of Phoebe, as an example, not easy to transact on these assets, but if we can find the right value, we could act on those things.

Naji Baydoun:

Appreciate the details. Thank you very much.

Operator:

Your next question comes from Buddy Wiseman from National Bank. Please go ahead.

Buddy Wiseman:

Good morning, everyone. I'm just filling in for Rupert here.

Michel Letellier:

Okay. Good morning.

Buddy Wiseman:

You too. Just a quick question. In France, would you consider building projects on corporate PPAs? Is that an opportunity rather than waiting for government?

Michel Letellier:

Yes, definitely. There's a lot of appetite for corporate PPA. We've been approached for one project, one similar asset. Of course, yes, sure. I mean, if the price is better and the credit is acceptable to us, yes, why not? Yes, definitely.

Buddy Wiseman:

Then, I guess just one other one. You guys were talking just briefly there on the Boswell capital structure, so just wondering if you guys have any sort of free cash flow forecast net of the debt amortization for that project?

Jean Trudel:

Yes, I guess we did provide that, Buddy, in a press release early in January, when we signed—when the PPA became effective. So, we are expecting operating cash flows. If I'm excluding the financing structure, the operating cash flows would reach about, in Canadian dollars, about \$30 million on annual basis. We would then, on top of that, obviously benefit from the PTCs, right? So, that's an additional CA\$52 million, CA\$53 million to the project, and that is indexed for 10 years, and it does not include any bonus PTC that we may receive. We're aiming to qualify Boswell for both plus 10%, the two times 10%, which would be incremental to that.

Buddy Wiseman:

Okay, thank you. That's it for me.

Jean Trudel:

You're welcome.

Operator:

Ms. Vachon, there are no further questions at this time.

Karine Vachon:

Thank you.

Michel Letellier:

Thank you, all.

Karine Vachon:

We will talk to in August.

Michel Letellier:

Yes, thank you, everyone.

Jean Trudel:

Thank you.

Operator:

Ladies and gentlemen, you may now disconnect your lines.