

# POLARIS

## **POLARIS INFRASTRUCTURE ACQUIRES UNION ENERGY GROUP CORP.**

TORONTO, ON (October 30, 2018) – Polaris Infrastructure Inc. (TSX:PIF) ("Polaris Infrastructure" or the "Company"), a Toronto-based company engaged in the operation, acquisition and development of renewable energy projects in Latin America, announced today that it has closed the acquisition of 100% of the issued and outstanding shares of Union Energy Group Corp. ("UEG"). UEG is an owner and developer of run-of-river hydro projects located in Peru.

As part of the UEG acquisition, Polaris Infrastructure has acquired the following assets:

- Canchayllo – a single 5 MW project in operation since 2015 ("Canchayllo");
- Generación Andina – two projects in the late stages of construction totaling 28 MW of generating capacity ("Generación Andina projects");
- Karpa – a single 20 MW project with a power purchase agreement ("PPA") in place ("Karpa"), as well as;
- Portfolio of early stage development projects aggregating to approximately 189 MW.

"We are very pleased to have completed this transaction" stated Marc Murnaghan, Chief Executive Officer of Polaris Infrastructure, "which we expect will provide numerous benefits to the Company and its shareholders. Namely, the acquisition provides significant diversification of both asset class, by adding run-of-river hydro projects, and geography, by entering Peru. The Company expects to continue to grow its cash flow per share and leverage available cash resources on the balance sheet to fund capital requirements of the Generación Andina projects currently under construction. The combination of projects in operation and under construction, with long term PPAs in place, and a portfolio of early stage development projects, is very attractive. In addition, we expect that the current owner of UEG, Union Group International, led by Chairman, Juan Sartori, becoming long-term shareholders of Polaris Infrastructure will greatly improve our access to similar deal opportunities throughout Latin America."

### **Key Terms of the UEG Acquisition**

The material terms of the UEG acquisition are as follows:

- Polaris Infrastructure to acquire 100% of the shares of UEG;
- Purchase consideration consists of:
  - At Closing: 600,000 common shares of the Company ("Shares") (equal to approximately 3.7% of proforma Shares outstanding);
  - Over the two-year period post-closing: 300,000 warrants exercisable at a 20% premium to the closing Share price;
  - Upon the completion of construction of the Generación Andina projects: 600,000 Shares and \$396,000 in cash;
- Fundamental restructuring of existing Generación Andina project debt (refer to *Financial Restructuring* section below); and

- In exchange, the Company agrees to invest necessary capital to bring the Generación Andina projects to completion and will receive a 15% annual “preferred” return with respect to project-level cash flows.

## **Details of Union Energy Group**

### Canchayllo

Canchayllo is a run-of-river hydro project with a rated capacity of approximately 5 MW located in the Canchayllo district of Peru. The plant was put into operation on January 1, 2015 and has a US dollar-denominated PPA with the Peruvian Ministry of Energy and Mines (“MEM”) that is effective until December 31, 2034. The current price of the PPA is \$47.40 per MWh and has an inflation adjustment mechanism until the end of the PPA. The plant is expected to produce approximately 28,000 to 31,000 MWh per year.

### Generación Andina (El Carmen and 8 de Agosto projects)

El Carmen (~ 8 MW capacity) and 8 de Agosto (~ 20 MW capacity, in Spanish, pronounced “Ocho de Agosto”) are two run-of-river hydro projects in the Huanuco region of Peru that are in late stages of construction. El Carmen is expected to be completed in the third quarter of 2019 and 8 de Agosto is expected to be completed in the fourth quarter of 2019.

El Carmen has a US dollar-denominated PPA with MEM with an inflation adjustment that is effective until October, 2039. The starting price of the PPA is US\$55.90 per MWh. The plant is expected to produce approximately 40,000 to 50,000 MWh per year once it achieves commercial operation.

8 de Agosto has a US dollar-denominated PPA with MEM with an inflation adjustment that is effective until October, 2039. The starting price of the PPA is US\$53.90 per MWh. The plant is expected to produce approximately 130,000 to 140,000 MWh per year once it achieves commercial operation.

Both projects will be connected to the national grid through a 60 km transmission line that is included in the asset package and is approximately 70% constructed. Polaris Infrastructure will undertake the completion of the transmission line. Once both El Carmen and 8 de Agosto are online, the transmission line will only be at approximately 50% of its capacity. While not anticipated in the short-term, it is possible that the excess capacity on the transmission can be sold to other projects that may be developed in the region.

### Karpa

The Karpa project is a development stage project with a 20 MW capacity located in the Huanuco region of Peru. Karpa has a US dollar denominated PPA with MEM with an inflation adjustment provision at US\$55.90 per MWh. Construction has not yet commenced on Karpa and the Company plans to make a preliminary assessment with respect to the project in the first quarter of 2019.

## Development-stage projects

The early stage development pipeline consists of four small scale projects (i.e. < 20 MW per project) totaling approximately 70 MW and one large scale project of approximately 119 MW.

### **Generación Andina Projects – Financial Restructuring**

Construction was halted on the Generación Andina projects, El Carmen and 8 de Agosto, in 2016 due to technical and financial issues. Approximately \$80 million was invested in the projects by the previous owners and the project lenders. As a condition of the Company's acquisition of the Generación Andina projects, the project lenders agreed to a restructuring of the existing debt of \$55.1 million (plus \$12.7 million of accrued interest). The revised terms of the project debt are such that the project lenders will receive minimum payments of \$44 million over 18 years with the first semi-annual payment of US\$1 million to occur in December 2020. Such minimum payments include both principal and interest. The Lenders are eligible to receive additional revenue-linked payments based upon power delivery from the Generación Andina projects exceeding a prescribed minimum threshold, and/or the transmission line contributing third party revenue, but only to the extent that Polaris Infrastructure has first earned a minimum 15% cumulative annual return on the capital it invests to complete the Generación Andina projects.

It is anticipated that the Generación Andina projects and the transmission line will require net additional capital investment of approximately \$35 million from the Company, in order to achieve commercial operations. This amount will be funded by the Company over the 12-month construction period with present and future cash on hand.

Certain vendors will receive additional common shares of the Company if, after the first two years of commercial operation, the Generación Andina projects have exceeded targeted levels of generation based on a predetermined formula. A maximum of approximately 970,000 additional Shares of the Company would be issued to certain vendors, were generation to achieve the top end of the target range.

The Company has engaged several firms to complete the works including local contractor GCZ Ingenieros S.A.C. ("GCZ"). GCZ is a Lima-based firm that has over 20 years of experience in the construction of small to medium size run-of-river hydro projects in Peru. Early stage works have already commenced on the projects to ensure that expected commercial operation date timelines are met for both projects.

### **Summary**

"I am very excited about closing the UEG Acquisition, as it provides a compelling value creation opportunity, as well as an important means of growing and diversifying our business," stated Marc Murnaghan, CEO of the Company. "This acquisition leverages the capital on our balance sheet, our restructuring capabilities and our proven ability to execute at a project-level, while delivering strong cash flow generation. It also adds operations as well as a robust development pipeline in Peru, which we see as a very attractive jurisdiction. This geographic diversification benefit is further amplified by diversification of asset class, as we add a strong portfolio of hydro assets, which given a lifespan measured in decades, are expected to provide further stability to cash flow generation."

**Further details and commentary with respect to the UEG Acquisition will be provided in conjunction with the Polaris Infrastructure earnings call to discuss financial and operating results for the quarter ended September 30, 2018 on Wednesday, November 7, 2018 at 10:00 am EST.**

**To listen to the call, please dial +1 (647) 427-7450 or +1 (888) 231-8191.**

## **About Polaris Infrastructure**

Polaris Infrastructure is a Toronto-based company engaged in the operation, acquisition and development of renewable energy projects in Latin America. Currently, the Company owns and operates a geothermal project located in Nicaragua and hydro projects located in Peru.

Investor Relations

Polaris Infrastructure Inc.

Phone: +1 416-849-2587

Email: [info@polarisinfrastructure.com](mailto:info@polarisinfrastructure.com)

## **Cautionary Statements**

This Presentation contains certain “forward-looking information” which may include, but is not limited to, statements with respect to future events or future performance, management’s expectations regarding the Company’s growth of cash flow per share and leveraging of available cash resources, the Company’s future access to similar deal opportunities throughout Latin America, the expected MWh per year production of the acquired projects, the net capital investment in the Generación Andina projects and the length of the related construction periods. Such forward-looking information reflects management’s current beliefs and is based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “predicts”, “intends”, “targets”, “aims”, “anticipates” or “believes” or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions “may”, “could”, “should”, “would”, “might” or “will” be taken, occur or be achieved. A number of known and unknown risks, uncertainties and other factors may cause the actual results or performance to materially differ from any future results or performance expressed or implied by the forward-looking information. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current geothermal and hydro energy production, development and/or exploration activities and the accuracy of probability simulations prepared to predict prospective geothermal resources; changes in project parameters as plans continue to be refined; possible variations of production rates; failure of plant, equipment or processes to operate as anticipated; accidents, labor disputes and other risks of the geothermal and hydro power industries; political instability or insurrection or war; labor force availability and turnover; delays in obtaining governmental approvals or in the completion of development or construction activities, or in the commencement of operations; the ability of the Company to continue as a going concern and general economic conditions, as well as those factors discussed in the section entitled “Risk Factors” in the Company’s Annual Information Form. These factors should be considered carefully and readers of this Presentation should not place undue reliance on forward-looking information.

Although the forward-looking information contained in this Presentation is based upon what management believes to be reasonable assumptions, there can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The information in this Presentation, including such forward-looking information, is made as of the date of this Presentation and, other than as required by applicable securities laws, Polaris Infrastructure assumes no obligation to update or revise such information to reflect new events or circumstances.