2010

Second Quarter Report

INNERGEX
Énergie renouvelable
Renewable Energy

Consolidated financial statements

For the three-month and six-month periods ended June 30, 2010
(Unaudited)

(in thousands of Canadian dollars except as noted and amounts per share)

Consolidated statements of Earnings	**Three-month period ended June 30, 2010**	**Three-month period ended June 30, 2009**	**Six-month period ended June 30, 2010**	**Six-month period ended June 30, 2009**
	$	**$**	**$**	**$**
Revenues				
Operating	24,824	16,519	38,375	30,460
Expenses				
Operating expenses	3,290	2,091	5,152	4,004
Stock-based compensation	75	-	77	-
General and administrative expenses	1,940	873	2,909	1,811
	5,305	2,964	8,138	5,815
Earnings from operations	19,519	13,555	30,237	24,645
Prospective projects expenses	752	-	762	-
Earnings before interests, income taxes, depreciation and amortization and other items	18,767	13,555	29,475	24,645
Interest on long-term debt and convertible debentures	6,129	3,309	9,883	6,646
Realized gain on derivative financial instruments	(555)	-	(555)	-
Realized foreign exchange loss (gain)	63	(105)	23	(55)
Other net expenses (revenues)	22	(17)	1	(65)
Earnings before income taxes, depreciation and amortization and other items	13,108	10,368	20,123	18,119
Depreciation and amortization	8,529	5,331	14,066	10,668
Unrealized net loss (gain) on derivative financial instruments	14,102	(11,197)	16,142	(11,771)
Expense related to royalty agreement upon share exchange arrangement (Note 3)	-	-	983	-
Unrealized foreign exchange loss (gain)	44	(233)	2	(136)
(Loss) earnings before income taxes	(9,567)	16,467	(11,070)	19,358
(Recovery of) provision for income taxes				
(Recoverable) current	(915)	290	(1,022)	236
Future	(2,128)	2,824	(3,025)	2,750
	(3,043)	3,114	(4,047)	2,986
Net (loss) earnings	(6,524)	13,353	(7,023)	16,372
Weighted average number of shares outstanding (in 000)	59,533	42,930	51,461	42,930
Basic net (loss) earnings per share	(0.11)	0.31	(0.14)	0.38
Diluted number of shares outstanding (in 000)	59,533	42,930	51,461	42,930
Diluted net (loss) earnings per share	(0.11)	0.31	(0.14)	0.38

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Consolidated financial statements

For the three-month and six-month periods ended June 30, 2010

(Unaudited)

(in thousands of Canadian dollars except as noted and amounts per share)

Consolidated statements of Comprehensive (loss) income	**Three-month period ended June 30, 2010**	**Three-month period ended June 30, 2009**	**Six-month period ended June 30, 2010**	**Six-month period ended June 30, 2009**
	$	**$**	**$**	**$**
Net (loss) earnings	(6,524)	13,353	(7,023)	16,372
Other items of comprehensive income				
Unrealized foreign exchange gain (loss) on translation of a self-sustaining foreign subsidiary	195	(265)	60	(146)
Unrealized foreign exchange (loss) gain on the designated portion of the US$ denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary	(198)	259	(64)	139
	(3)	(6)	(4)	(7)
Comprehensive (loss) income	(6,527)	13,347	(7,027)	16,365

Consolidated financial statements
For the three-month and six-month periods ended June 30, 2010
(Unaudited)
(in thousands of Canadian dollars except as noted and amounts per share)

Consolidated Balance Sheets	**June 30, 2010**	**December 31, 2009**
	$	**$**
Assets		
Current assets		
Cash and cash equivalents	26,412	9,352
Accounts receivable	13,707	6,164
Current portion of reserve accounts	859	477
Future income tax	2,183	213
Derivative financial instruments	1,385	1,369
Prepaid and others	3,014	1,938
	47,560	19,513
Reserve accounts	20,342	14,913
Property, plant and equipment	599,747	334,199
Intangible assets	182,569	119,426
Project development costs	14,412	-
Derivative financial instruments	9,774	8,779
Future income taxes	10,390	2,372
Goodwill	8,269	8,269
Other long-term assets	141	670
	893,204	508,141
Liabilities		
Current liabilities		
Dividends/distributions payable to shareholders/unitholders	8,822	2,451
Accounts payable and accrued liabilities	18,003	9,574
Current portion of future income taxes	321	-
Derivative financial instruments	8,375	5,422
Current portion of long-term debt (Note 4)	9,124	2,758
	44,645	20,205
Derivative financial instruments	18,091	4,795
Accrual for acquisition of long-term assets	3,293	-
Long-term debt (Note 4)	391,121	221,803
Asset retirement obligations	1,529	977
Future income taxes	75,512	70,883
Convertible debentures (Note 5)	79,259	-
	613,450	318,663
Shareholders'/Unitholders' equity	279,754	189,478
	893,204	508,141

Commitments (Note 9).

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Consolidated financial statements
For the three-month and six-month periods ended June 30, 2010
(Unaudited)
(in thousands of Canadian dollars except as noted and amounts per share)

Consolidated statements of changes in Shareholders'/Unitholders' Equity	**Six-month period ended June 30, 2010**	**Six-month period ended June 30, 2009**
	$	**$**
Number of units – beginning (in 000)	29,404	29,404
Adjustment to number of units to reflect the 1.46 conversion ratio (in 000)	-	13,526
Trust units owned by the Corporation and not converted into shares (in 000)	(4,724)	-
Trust units converted into shares (in 000)	(24,680)	-
Shares issued upon conversion of trust units at a 1.46 ratio (in 000)	36,033	-
Shares of the Corporation already issued prior to conversion (in 000)	23,500	-
Number of units – end (in 000)	-	42,930
Number of shares – end (in 000)	59,533	-
Unitholders' capital account – beginning	309,681	309,681
Reduction of unitholders' capital account owned by the Corporation and not converted into shares	(49,756)	-
Reduction of capital accounted upon acquisition of the Corporation	(7,409)	-
Unitholders' capital account converted into shares	(259,925)	-
Shareholders' capital account upon conversion of trust units	259,925	-
Shareholders' capital account from shares of the Corporation already issued prior to conversion	167,129	-
Shareholders' capital account from expense related to royalty agreement upon share exchange arrangement (Note 3)	983	-
Reduction of capital	(420,627)	-
Unitholders' capital account – end	-	309,681
Shareholders' capital account – end	1	-
Contributed surplus from reduction of capital	420,627	-
Fair value of stock-based compensation accounted upon acquisition of the Corporation	497	-
Stock-based compensation of the period	77	-
Stock-based compensation – end	574	-
Equity portion of convertible debentures accounted upon acquisition of the Corporation (Notes 3 and 5)	1,841	-
Deficit, beginning	(120,274)	(117,113)
Net (loss) earnings	(7,023)	16,372
Dividends/Distributions declared to shareholders/unitholders	(16,059)	(14,701)
Deficit, end	(143,356)	(115,442)
Cumulative other comprehensive income – beginning	71	98
Other items of comprehensive income	(4)	(7)
Cumulative other comprehensive income – end	67	91
Total deficit and cumulative other comprehensive income	(143,289)	(115,351)
Shareholders'/Unitholders' Equity – end	279,754	194,330

Additional information is presented in Note 3.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Consolidated financial statements
For the three-month and six-month periods ended June 30, 2010
(Unaudited)
(in thousands of Canadian dollars except as noted and amounts per share)

Consolidated statements of Cash Flows	Three-month period ended June 30, 2010	Three-month period ended June 30, 2009	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
	$	$	$	$
Operating activities				
Net (loss) earnings	(6,524)	13,353	(7,023)	16,372
Items not affecting cash:				
Depreciation of property, plant and equipment	5,114	2,885	8,050	5,775
Amortization of intangible assets	3,415	2,446	6,016	4,893
Amortization of financing fees	61	-	632	-
Accretion expense on asset retirement obligations	30	19	50	37
Stock-based compensation	75	-	77	-
Unrealized net loss (gain) on derivative financial instruments	14,102	(11,197)	16,142	(11,771)
Future income taxes	(2,128)	2,824	(3,025)	2,750
Unrealized foreign exchange (gain) loss	44	(233)	2	(136)
Net amortization of reevaluation of long-term debt and convertible debentures	-	-	(37)	-
Expense related to royalty agreement upon share exchange arrangement (Note 3)	-	-	983	-
Effect of exchange rate fluctuations	62	(122)	29	(73)
	14,251	9,975	21,896	17,847
Changes in non-cash operating working capital items (Note 7)	(19,922)	1,397	(24,812)	1,832
	(5,671)	11,372	(2,916)	19,679
Financing activities				
Distributions paid to former unitholders	-	(7,352)	(9,688)	(14,700)
Increase of long-term debt	16,800	-	90,720	-
Repayment of bank loan	-	-	(12,900)	-
Repayment of long-term debt	(1,432)	(635)	(121,238)	(1,259)
Deferred financing costs	(99)	-	(1,714)	-
	15,269	(7,987)	(54,820)	(15,959)

Consolidated financial statements
For the three-month and six-month periods ended June 30, 2010
(Unaudited)
(in thousands of Canadian dollars except as noted and amounts per share)

Consolidated statements of Cash Flows (Continued)	Three-month period ended June 30, 2010	Three-month period ended June 30, 2009	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
	$	$	$	$
Investing activities				
Additions to property, plant and equipment	(1,619)	(92)	(1,815)	(1,702)
Additions to intangible assets	(68)	-	(68)	-
Additions to project development costs	(6,457)	-	(6,457)	-
Additions to other long-term assets	(78)	-	(78)	-
Net cash acquired on business acquisition (Note 3)	(2,277)	-	84,804	-
Net funds (invested into) withdrawn from the levelization reserve	-	(577)	205	(179)
Net funds (invested into) withdrawn from wind/hydro reserve	(2,760)	-	(1,774)	-
Net funds withdrawn from (invested into) majors repairs reserve accounts	249	(245)	4	(490)
	(13,010)	(914)	74,821	(2,371)
Translation adjustment on cash and cash equivalents	63	(9)	(25)	2
Net (decrease) increase in cash and cash equivalents	(3,349)	2,462	17,060	1,351
Cash and cash equivalents, beginning of period	29,761	7,526	9,352	8,637
Cash and cash equivalents, end of period	26,412	9,988	26,412	9,988
Cash and cash equivalents is comprised of:				
Cash	8,850	3,477	8,850	3,477
Short-term investments	17,562	6,511	17,562	6,511
	26,412	9,988	26,412	9,988

Additional information is presented in Note 7.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Notes to the consolidated financial statements
For the three-month and six-month periods ended June 30, 2010
(Unaudited)
(in thousands of Canadian dollars except as noted and amounts per share)

1. Description of business

Innergex Renewable Energy Inc. (the “Corporation”) was incorporated under the Canada Business Corporation Act on October 25, 2002. The Corporation is an independent developer, owner and operator of renewable power-generating facilities, essentially focused on the hydroelectric and wind power sectors.

Pursuant to the share exchange arrangement as described in Note 3, the Corporation acquired 100% of the issued and outstanding units of Innergex Power Income Fund (“the Fund”) by issuing 36,032,606 common shares of the Corporation. The Fund was an unincorporated open-ended trust established on October 25, 2002 under the laws of the Province of Quebec. The Fund, which began operations on July 4, 2003, was established to indirectly acquire and own interests in renewable power generating facilities. Legally, the Corporation became the parent of the Fund. However, as a result of the transaction, control of the combined entity remains with former unitholders of the Fund, and the Fund is being identified as the acquirer for accounting purpose. This type of share exchange is referred to as a “reverse takeover”. In a reverse takeover situation, the legal parent is deemed to be a continuation of the acquiring enterprise, i.e., the legal subsidiary. As a result, the consolidated financial statements are a continuation of the consolidated financial statements of the Fund. The capital stock represents the authorized and issued share of the legal parent and the dollar amount of shareholders’ equity is that of the Fund.

Revenues for the six-month period of 2010 include a complete six-month period for the Fund’s revenues and, since March 29, 2010, the Corporation’s revenues from the assets acquired on that date.

2. Significant accounting policies

These unaudited interim consolidated financial statements (the “financial statements”) have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The financial statements include the accounts of the Corporation and its subsidiaries as well as those of the variable interest entity for which the Corporation is the primary beneficiary and the accounts of joint ventures to the extent of the Corporation’s proportional interest in their respective assets, liabilities, revenues and expenses. All material intercompany balances and transactions have been eliminated. These financial statements do not contain all disclosures required by GAAP for annual financial statements and, accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Fund’s latest annual report.

The Corporation’s revenues are variable with each season and, as a result, earnings of interim periods should not be considered as indicative of results for an entire year. These financial statements have neither been audited nor reviewed by the Corporation’s external auditors.

These financial statements have been prepared in accordance with the same accounting policies and methods of application as described in the Fund’s latest annual report except for the following in regards of the Corporation’s activities acquired by the Fund:

Consolidation of variable interest entities

Accounting Guideline 15 (“AcG-15”), *Consolidation of Variable Interest Entities* (“VIEs”) outlines consolidation principles for VIEs. VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders. AcG-15 requires the consolidation of a VIE by its primary beneficiary (i.e. the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity’s losses). In accordance with AcG-15, the Corporation is considered the primary beneficiary for one of its 50 % investment in a joint venture and accordingly, it was consolidated.

Government assistance

Government assistance in the form of subsidies or refundable investment tax credit are recorded in the financial statements when there is reasonable assurance that the Corporation complied with all conditions necessary to obtain the assistance.

(in thousands of Canadian dollars except as noted and amounts per share)

The Corporation is entitled to subsidies under the EcoEnergy program. The subsidies are equal to 1¢ per KW-hr produced at the Ashlu Creek, Fitzsimmons Creek and Umbata Falls facilities and at the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms for the first 10 years following commissioning. As per the electricity purchase agreements, the Corporation must transfer 75 % of the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms subsidy to Hydro-Quebec. Net EcoEnergy subsidies are included in the operating revenues of the facilities.

On April 23, 2010, the Ashlu Creek and Fitzsimmons Creek facilities received their EcoLogo certification, thereby confirming that both facilities will receive incentive payments under the EcoEnergy Initiative of the Federal government. These payments represent 1¢ per KW-hr for the next ten years.

The Corporation incurs renewable energy development expenditures, which are eligible for investment tax credits. The recorded investment tax credits are based on management's estimates of amounts expected to be recovered and are subject to an audit by the taxation authorities. Investment tax credits for renewable energy development expenditures are reflected as a reduction in the cost of the assets or expenses to which they relate.

Reserve accounts

The Corporation holds three types of reserve accounts designed to help ensure its stability. The first is the hydrology/wind reserve established at the start of commercial operations at a facility to compensate for the variability of cash flows related to fluctuations in hydrology or wind conditions or other unpredictable events. The amounts in this reserve are expected to vary from quarter to quarter according to the seasonality of cash flows. The second is the major maintenance reserve established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity. The third is the levelization reserve which was established to level the monetary contribution from the power plants in order to make distributions.

The reserve accounts are currently invested in short-term investments having maturities of three months or less and government-backed securities maturing until 2011.

The availability of funds in the reserve accounts may be restricted by credit agreements.

Property, plant and equipment

Property, plant and equipment, comprised mainly of hydroelectric and wind farm facilities, are recorded at cost. Financing costs related to the construction of property, plant and equipment and revenues derived prior to commercial operation are capitalized. Depreciation of hydroelectric power generating facilities is based on the estimated useful lives of the assets using the straight-line method over the lesser of a period of 50 years or the period for which the Corporation owns the rights to the assets. Depreciation of wind farm facilities is based on the estimated useful lives of the assets using the straight-line method over the lesser of a period of 25 years or the period for which the Corporation owns the rights to the assets. Improvements that increase or extend the service life or capacity of an asset are capitalized. Other equipments are depreciated using the straight-line method over a period extending from 3 to 5 years. Maintenance and repair costs are expensed as incurred. Property, plant and equipment are not depreciated until their commissioning date.

Type of property, plant and equipment	Ending years of depreciation period	Useful life for the depreciation period
Hydroelectric facilities	2033 to 2054	25 to 49 years
Wind farm facilities	2031 to 2033	24 to 25 years

(in thousands of Canadian dollars except as noted and amounts per share)

Intangible assets

Intangible assets consist of various permits, licenses and agreements. They are recorded at cost. Financing costs related to the construction period are capitalized. They are amortized using the straight-line method over a period extending from 20 to 40 years ending on the maturity date of the permits, licenses or agreements of each facility. Intangible assets are related to four categories, being hydroelectric facilities, hydroelectric facilities under construction, wind farm facilities and wind farm facilities under construction. Intangible assets related to facilities under construction are not amortized until the commissioning date of the related facilities. Intangible assets also include the cost of an extended warranty for wind farm equipments; these costs are amortize over the three-year warranty period.

Intangible assets related to :	**Ending years of amortization period**	**Useful life for the amortization period**
Hydroelectric facilities	2014 to 2039	11 to 40 years
Wind farm facilities	2026 to 2028	19 to 20 years
Extended warranty	2011 to 2013	3 years

Project development costs

Project development costs represent costs incurred for the acquisition of prospective projects and for the development of hydroelectric and wind farm sites. These costs are transferred to property, plant and equipment or intangible assets when construction starts. Costs of prospective projects are expensed as incurred and costs of a project under development are written off in the year if the project is abandoned. Interest costs incurred to finance acquisition and development are capitalized as project development costs.

Goodwill

Goodwill represents the excess of purchase price over fair value of the net identifiable assets of acquired businesses. Goodwill is not amortized but is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the consolidated statement of earnings in an amount equal to the excess. Goodwill is related to businesses acquired and allocated between groups of assets, being hydroelectric facilities and wind farm facilities, in operation or construction, and project under development. If an asset is transferred between a group of assets or segments, the related goodwill is also transferred.

Income taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, future income taxes assets and liabilities are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax bases using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Future income tax assets are recognized to the extent it is more likely than not they will be realized. Following the share exchange arrangement described in Note 3, the Fund became liable for income taxes.

Earnings per share

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares outstanding during the year. All share and per share amounts presented herein have been adjusted to reflect the conversion ratio of 1.46 shares for each unit for all periods presented.

(in thousands of Canadian dollars except as noted and amounts per share)

The Corporation uses the treasury stock method for calculating diluted earnings per share. Diluted earnings per share are computed similarly to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed conversion of convertible debentures and the exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that convertible debentures were converted and that outstanding stock options and/or warrants were exercised and that the proceeds from such exercises were used to acquire shares at the average market price during the period. During the periods covered by the financial statements, all of the issued convertible debentures, stock options and warrants were excluded from the calculation of diluted weighted average shares outstanding as including them would be anti-dilutive.

Stock-based compensation

The Corporation uses the fair value method to measure compensation expense at the date of grant of stock options to employees. The fair value of options is determined using the Black-Scholes option pricing model and is amortized to earnings over the vesting period with an offset to contributed surplus. For options that are forfeited before vesting, the compensation expense that had previously been recognized in operating expenses and contributed surplus is reversed. When options are exercised, the corresponding contributed surplus and the proceeds received by the Corporation are credited to capital stock.

3. Share exchange arrangement

On March 29, 2010, the Corporation acquired from the Fund's unitholders their equity interests in the Fund, such that the Fund became wholly-owned by the Corporation, which was effectively paid by the issuance to the Fund's unitholders of 36,032,606 common shares. After the transaction, the Corporation fell under the control of the unitholders of the Fund. Therefore, this transaction resulted in a reverse takeover.

As a result, for accounting purposes, the Corporation is required to be accounted for as though it was a continuation of the Fund but with its share capital reflecting the exchange of the Corporation shares for Fund units and therefore certain terms such as shareholder/unitholder, dividend/distribution and share/unit may be used interchangeably throughout these consolidated financial statements. For the periods reported up to the effective date of the share exchange arrangement, all payments to unitholders were in the form of distributions and after that date all payments to shareholders are in the form of dividends.

Comparative figures presented in the consolidated financial statements of the Corporation include all amounts previously reported by the Fund.

As a result of the share exchange arrangement, the Corporation also recorded an adjustment to future tax liabilities. This adjustment reflects the tax impact of recording future tax assets and liabilities for temporary differences that are reversing or settling prior to 2011 which were previously not recorded since prior to the transaction these temporary difference reversals were not previously expected to be taxed in the Fund.

The acquisition of the Corporation is accounted for under Section 1581 of the Canadian Institute Chartered Accountant ("CICA") Handbook. The fair value of the consideration transferred is based on the number of Fund units that would have had to be issued in order to provide the same percentage of ownership of the combined entity to the unitholders of the Fund.

The total estimated purchase price has been calculated as follows:

Units that would have had to be issued (in 000)	16,002
Weighted average of the price of Fund units at the announcement date ($ per Unit)	10.44
Value of Fund units that would have had to be issued	167,129
Transaction costs	6,000
Equity portion of convertible debentures	1,841
Fair value of vested stock options	497
Total Purchase Price	175,467

(in thousands of Canadian dollars except as noted and amounts per share)

The following table reflects the preliminary purchase price allocation, which is subject to a final valuation:

	$
Cash and cash equivalents	88,394
Other items of net working capital	(19,344)
Reserve Accounts	4,163
Property, plant and equipment	268,927
Intangible assets	69,069
Project development costs	11,397
Investment in the Fund, an entity subject to significant influence	57,165
Net future income taxes assets	1,990
Derivative financial instruments	903
Other long-term assets	63
Bank loan	(12,900)
Long-term debt and accrual for acquisition of long-term assets	(214,637)
Convertible debentures	(79,222)
Other long-term liabilities	(501)
Net assets acquired	175,467

The estimated transaction expenses relating to the combination totalling $ 6,000 have been recognized as cost of the business combination in accordance with Section 1581 of the CICA Handbook. As at June 30, 2010, an amount of $ 2,410 ($ 4,687 as at March 2010) remains payable. Net cash acquired amounted to $ 84,804.

The total purchase price of $ 175,467 was allocated between share capital for an amount of $ 167,129, transaction costs for an amount of $ 6,000, equity portion of convertible debentures for $ 1,841 and contributed surplus for stock options for an amount of $ 497.

The 16.1 % investment of the Corporation in the Fund, an entity subject to significant influence held before the transaction, for an amount of $ 57,165 was eliminated since the Fund's and the Corporation's results are consolidated. The capital of the Fund was reduced by the 16.1 % portion owned by the Corporation for an amount of $ 49,756.

The difference of $ 7,409 between the investment of the Corporation in the Fund for an amount of $ 57,165 and the capital of the Fund owned by the Corporation for an amount of $ 49,756 was accounted for as a reduction of unitholders' capital.

The portion of the unit capital of the Fund, not held by the Corporation before the transaction amounted to $ 259,925. This amount was reclassified from unit capital to share capital to account for the reverse take over of the Corporation by the Fund.

The share capital and deficit of the Corporation were eliminated upon consolidation of the balance sheet as the transaction was accounted for as a reverse take over of the Corporation by the Fund.

The outstanding 200,000 warrants of the Corporation remained outstanding but were adjusted to their fair value which is estimated to be nil. The 705,000 stock options of the Corporation that were vested were adjusted to their fair values.

On March 29, 2010, the Corporation recorded an expense related to royalty agreement upon share exchange arrangement of $ 983 due to the deemed cancellation of a contract resulting from the Combination. As per Canadian GAAP, the Fund had to expense the engagement it had with Innergex prior to the Combination. In year 2005, a subsidiary of the Corporation, sold the Rutherford Creek hydroelectric facility to the Fund. Rutherford Creek Power, Limited Partnership, which owns the assets, then agreed, following the expiry or termination of the Rutherford Creek Power Purchase Agreement in 2024, to pay royalties to the subsidiary provided certain revenue thresholds are reached. This expense had no cash impact on the Corporation's results as it was considered to be paid for by the issuance of shares.

(in thousands of Canadian dollars except as noted and amounts per share)

4. Long-term debt

	June 30, 2010	December 31, 2009
	$	$
Operating facility (a)		
Bankers' acceptances renewable until March 2013 (average rate of 3.28 %);	15,000	-
LIBOR advances, US$13,900 renewable until March 2013 (rate of 2.79 %)	14,798	-
BDS Facility (b)		
Prime rate advance renewable until March 2013 (rate of 4.00 %);	300	-
Bankers' acceptances renewable until March 2013 (rate of 3.17 %)	52,300	-
Facility 1		
Prime rate advances renewable until May 2013 (rate of 2.38%);	-	93
Bankers' acceptances renewable until May 2013 (rate of 1.52%);	-	51,200
LIBOR advances, US$5,000 renewable until May 2013 (average rate of 1.38%)	-	5,255
Facility 2		
LIBOR advances, US$8,873 renewable until May 2013 (average rate of 1.38 %)	-	9,325
Facility 3		
Bankers' acceptances renewable until May 2013 (rate of 1.52 %)	-	52,600
Term loans		
Hydro-Windsor, 8.25 % fixed rate term loan maturing in 2016;	6,223	6,590
Rutherford Creek, 6.88 % fixed rate term loan maturing in 2024;	50,000	50,000
AAV, floating-rate term loan maturing in 2026, (rate of 1.88 %; 1.44 % in 2009);	48,995	50,067
Glen Miller, floating-rate term loan maturing in 2013, (rate of 2.14 %) (c);	15,000	-
Umbata Falls, floating-rate term loan maturing in 2014, (rate of 2.08 %) (d);	24,569	-
CAR, floating-rate term loan maturing in 2013, (rate of 2.25 %) (e);	50,256	-
Ashlu Creek, floating-rate construction loan maturing in 2025, (rate of 2.94 %) (f);	101,631	-
Fitzsimmons Creek, floating-rate construction loan maturing in 2015, (rate of 4.35 %) (g);	22,592	-
Kwoiek Creek, 20 % fixed rate term loan during development phase and 14 % fixed rate during construction and operation phase (h)	150	-
	401,814	225,130
Deferred financing costs	(1,569)	(569)
	400,245	224,561
Current portion of long-term debt	(9,124)	(2,758)
	391,121	221,803

The following are the modifications to the long-term debt since the Fund's 2009 annual report:

(a) Operating facility

A $ 117,400 revolving credit facility secured by a first-ranking hypothec on the Corporation's assets and by various security interests granted by some of its subsidiaries. The facility consists of a 3-year loan and is not amortized. Advances are made in the form of bankers' acceptances ("BA"), prime-rate advances, US base-rate advances, LIBOR advances or letters of credit. In all cases, interest is calculated at the prevailing benchmark rate, plus an additional margin based on the Corporation's ratio of consolidated senior debt to adjusted EBITDA. As at June 30, 2010, $ 15,000 and $ 14,798 (US$ 13,900) were due under this facility and an amount of $ 19,398 was used for the issuance of letters of credit. Thus the unused and available portion of the Operating Facility amounted to $ 68,204. The net book value of the assets of the Corporation and subsidiaries given as securities under the operating facility totals approximately $ 258,999.

(b) BDS Facility

A $ 52,600 term loan guaranteed by a security interest granted by the Corporation, and on its 38 % interest in the BDS wind farm. The facility consists of a 3-year loan and is not amortized. Advances are made in the form of BA or prime-rate advances. In all cases, interest is calculated at the prevailing benchmark rate, plus an additional margin based on the Corporation's ratio of consolidated senior debt to adjusted EBITDA. This facility is fully drawn. The net book value of the 38 % interest is approximately $ 80,949.

(c) Glen Miller Power, Limited Partnership

The long-term debt relates to a loan made to provide long-term financing. The term loan consist of a 5-year term loan, amortized over a period of 17 years starting July 1, 2008 with a final maturity date on December 19, 2025. The loan bears interest at a rate per annum equal to the BA equivalent rate of 0.74 % plus 140 basis points for a total of 2.14 % as at June 30, 2010. The principal repayments for the next year will amount to $ 1,000. On August 16, 2009, the agreement was amended to make available to Glen Miller Power, Limited Partnership a letter of credit facility in an amount of $ 160. The facility is totally used to secure one letter of credit.

The long-term debt is secured by a first-ranking security interest in the amount of $ 20,400 on all the property and assets of Glen Miller Power, Limited Partnership and the equity interest in Glen Miller Power, Limited Partnership and its general partner. The net book value of the property and assets is approximately $ 25,387.

(d) Umbata Falls Limited Partnership

A lender agreed to make available for the Umbata Falls hydroelectric facility a non-recourse construction loan in a principal amount of $ 51,000 (the share of the Corporation is 49 %). The construction loan was converted into a term loan in the second quarter of 2009. The loan bears interest at a rate per annum equal to the BA equivalent rate of 0.88 % plus 120 basis points for a total of 2.08 % as at June 30, 2010. An amortization schedule, consisting in a 5-year term loan, amortized over a period of 25 years, was agreed with the lender and principal repayments started on September 30, 2009. Principal repayments for the next year will amount to $ 916 (the share of the Corporation is 49 %).

The lender also agreed to make available, a letter of credit facility in a principal amount not exceeding $ 500 until five years after completion, which is defined as beginning six months after commissioning. An amount of $ 470 has been used to secure two letters of credit.

The security constituted by the security documents comprises a valid and perfect first-ranking charge and security interest upon all of the property and assets of Umbata Falls Limited Partnership and all the equity investment in Umbata Falls Limited Partnership and its general partner. The net book value of the property and assets of Umbata Falls Limited Partnership, totals approximately $ 86,742 (the share of the Corporation is 49 %).

(e) Innergex CAR, L.P.

Lenders agreed to make available, for the Innergex CAR, L.P. wind power project, a non-recourse construction loan in a principal amount of $ 53,400. The construction loan was converted into a term loan in the second quarter of 2009. The loan bears interest at a rate per annum equal to the BA equivalent rate of 0.54 %, plus an applicable margin of 160 basis points for a total of 2.14 %. This debt was accounted for at its fair market value of $ 51,699 as at March 29, 2010, for an effective interest rate of 2.11 %.

An amortization schedule, consisting in a 5-year term loan, amortized over a period of 18.5 years, was agreed with the lender and principal repayment started on December 31, 2008. The principal repayments for the next year will amount to $ 2,632.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed $ 833. An amount of $ 832 has been used to secure one letter of credit.

The security constituted by the security documents comprises a deed of hypothec providing security for the payment and performance of all Innergex CAR, L.P.'s obligations and providing a lien on all the present and future real and personal property of Innergex CAR, L.P and on the equity interest in Innergex CAR, L.P. and its general partner.

The net book value of the property and assets of Innergex CAR, L.P. totals approximately $ 98,137.

(f) Ashlu Creek Investments Limited Partnership

Lenders agreed to make available for the Ashlu Creek hydroelectric facility a non-recourse construction loan in a principal amount of up to but not exceeding $ 110,000 of which $ 106,400 have been drawn as at June 30, 2010. The loan matures 15 years following conversion of the construction loan into a term loan (See Note 12). The loan advances bear interest at a rate per annum equal to the prime rate of 2.5 %. The amount drawn as at March 29, 2010 was $ 100,400. This debt was accounted for at its fair market value of $ 95,587 as at March 29, 2010 for an effective interest rate of 1.74 %.

The lenders also agreed to make available a letter of credit facility ("LC Facility"), on a revolving basis by way of letters of credit in the principal amount not exceeding $ 3,000 until the final maturity date of the LC Facility, which is the fifteenth anniversary of the term conversion date as defined in the credit agreement. As at June 30, 2010 an amount of $ 1,940 has been used to secure two letters of credit.

This loan is secured by a demand debenture in the principal amount of $ 175,000, creating a first-priority fixed and specific mortgage, charge and assignment of, and grant of a security interest in all the rights, titles and interest of Ashlu Creek Investments Limited Partnership and its general partners in the project assets and all other assets. The loan is also secured by a security granted on the equity interest in the Ashlu Creek Investments Limited Partnership and its general partners.

The net book value of the property and assets of Ashlu Creek Investments Limited Partnership, totals approximately $ 169,881.

(g) Fitzsimmons Creek Hydro Limited Partnership

Lenders agreed to make available, for the Fitzsimmons Creek Hydro Limited Partnership project, a non recourse construction loan in a principal amount up to but not exceeding $ 24,000. The loan matures five years after conversion of the construction loan into a term loan. As at June 30, 2010, $ 20,100 was drawn. The loan advances bear interest at a rate per annum equal to the BA equivalent rate of 0.87 % plus an applicable margin of 450 basis points for a total of 5.37 %. The amount drawn as at March 29, 2010 was $ 17,100. This debt was accounted for at its fair market value of $ 19,617 as at March 29, 2010 for an effective interest rate of 4.58 %.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed $ 750 until six months after commissioning (“completion”) and thereafter in an amount not to exceed $ 150 until five years after completion. An amount of $ 150 has been used to secure two letters of credit.

The payment and performance of all Fitzsimmons Creek Hydro Limited Partnership’s obligations under the credit facilities are secured by a lien on all the present and future real and personal property of Fitzsimmons Creek Hydro Limited Partnership and the equity interest in Fitzsimmons Creek Hydro Limited Partnership and its general partner.

The net book value of the property and assets of Fitzsimmons Creek Hydro Limited Partnership totals approximately $ 18,639.

(h) Kwoiek Creek Resources Limited Partnership

The Kwoiek Creek Resources Limited Partnership’s long-term debt consists of a loan made by the partner of the Corporation in the Kwoiek Creek Project. As per the agreements related to the project, both partners can participate in the financing of the project. The Corporation can participate up to an amount of $ 20,000 and its partner up to an amount of $ 3,000. The loan bears interests at a rate of 20 % during the development phase and 14 % during the construction and operating phases. The Corporation loan made to Kwoiek Creek Resources Limited Partnership, which is eliminated in the consolidation process of the financial statements, amounts to $ 9,202.

5. Convertible debentures

The convertible debentures were part of the assumed liabilities on the share exchange arrangement described in Note 3. The convertible debentures are bearing interest at a fixed rate of 5.75 % and were accounted at their fair market value of $ 79,222 as at March 29, 2010, for an effective interest rate of 6.09 %. Interest is payable semi-annually on April 30, and October 31, of each year commencing on October 31, 2010.

Each debenture is convertible into common shares at the option of the holder at any time prior to the earlier of April 30, 2017 (the “Maturity date”) and the date specified by the Corporation for redemption of the debentures at a conversion price of $ 10.65 per common share (the “Conversion Price”), being a conversion rate of approximately 93.8967 common shares per $ 1,000 principal amount of debentures. Holders converting their debentures will receive accrued and unpaid interest thereon for the period from the last interest payment date on their debentures to the date of conversion.

The debentures may not be redeemed by the Corporation on or before April 30, 2013 (except in certain limited circumstances following a change of control). After April 30, 2013 and prior to April 30, 2015, the debentures may be redeemed by the Corporation, in whole or in part from time to time, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125 % of the Conversion Price. On or after April 30, 2015 and prior to the Maturity date, the debentures may be redeemed in whole or in part at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest. Subject to required regulatory approval, the Corporation may, at its option, elect to satisfy its obligation to pay the principal amount of the debentures on redemption or at maturity, in whole or in part, through the issuance of freely tradable common shares upon prior notice, by delivering that number of common shares obtained by dividing the principal amount of the debentures by 95 % of the current market price. Any accrued or unpaid interest will be paid in cash.

(in thousands of Canadian dollars except as noted and amounts per share)

The debentures are subordinated to all secured indebtedness of the Corporation.

	June 30, 2010	December 31, 2009
	$	$
Debt portion of convertible debentures, at fixed rate, 5.75 % (effective rate of 6.09 %), maturing in April, 2017, with a face value of $ 80,500	79,259	-
Equity portion of convertible debentures	1,841	-

6. Shareholders' capital

Share capital

Authorized

The authorized capital of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares, non-voting, retractable and redeemable.

The Corporation has a stock option plan providing for the granting of options by the Board of Directors to employees, officers, directors and certain consultants of the Corporation and its subsidiaries to purchase common shares. Options granted under the stock option plan will have an exercise price of not less than the market price of the common shares at the date of grant of the option, calculated as the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the date of grant.

The maximum aggregate number of shares that may be subject to options under the stock option plan is 2,350,000. Any common shares subject to an option that expires or terminates without having been fully exercised may be subject to a further option. The number of common shares issuable to non-executive directors of the Corporation under the stock option plan cannot at any time exceed 1 % of the issued and outstanding common shares.

Options must be exercised during a period established by the Board of Directors, which may not be greater than ten years after the date of grant. Options granted under the stock option plan vest in equal amounts on a yearly basis over a period of four to five years following the grant date.

	June 30, 2010		December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	(000's)	$	(000's)	$
Outstanding - beginning of period	-	-	-	-
Outstanding stock options assumed on the share exchange arrangement described in Note 3.	1,269	11.00	-	-
Granted	808	8.75	-	-
Exercised	-	-	-	-
Cancelled	188	11.00	-	-
Outstanding - end of period	1,889	10.04	-	-
Options exercisable - end of period	564	11.00	-	-

(in thousands of Canadian dollars except as noted and amounts per share)

The following options were outstanding and exercisable as at June 30, 2010:

Outstanding		Exercisable		
Number of options	**Exercise price**	**Number of options**	**Exercise price**	**Year of maturity**
(000's)	**$**	**(000's)**	**$**	
47	11.00	47	11.00	2010
1,034	11.00	517	11.00	2017
808	8.75	-	8.75	2020
1,889		564		

The Corporation applies the fair value method of accounting for options granted to senior management, which is estimated using the Black-Scholes option-pricing model. Stock-based compensation costs are expensed and a credit is made to contributed surplus of the Corporation to account for the options outstanding. The following assumptions were used to estimate the fair value of the options issued to grantees:

Risk-free interest rate	0.1 % to 2.7 %
Expected annual dividend	$ 0.58
Expected life of options	0.1 to 6 years
Expected volatility	35 % to 40 %
Weighted average fair value per option	$ 1.02

For the purpose of compensation expense, stock-based compensation is amortized to expense on a straight-line basis over the vesting period ranging from 1.7 years to 5 years.

Warrants

The Corporation has 200,000 warrants, outstanding, entitling the holders to subscribe to up to 200,000 common shares. The warrants were assumed on the share exchange arrangement described in Note 3. The warrants are exercisable at a strike price of $ 12.50 per warrant and will expire on August 29, 2010.

(in thousands of Canadian dollars except as noted and amounts per share)

7. Additional information to the Consolidated Statements of Cash Flows

Changes in non-cash operating working capital items

	Three-month period ended June 30, 2010	Three-month period ended June 30, 2009	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
	$	$	$	$
Accounts receivable	(3,872)	84	(3,459)	557
Prepaid and others	(549)	(96)	(295)	1,965
Accounts payable and accrued liabilities	(15,501)	1,409	(21,058)	(690)
	(19,922)	1,397	(24,812)	1,832
Additional information				
Interest paid	4,037	3,462	7,439	6,332
Income taxes paid	1,260	29	2,109	100
Non-cash transactions				
Increase of unpaid property, plant and equipment	(3,641)	(60)	(3,485)	(60)
Decrease (increase) of unpaid transaction costs	2,277	-	(1,739)	-
Increase of unpaid development costs	(48)	-	(48)	-

During the quarter, an amount of $ 3,490 has been transferred from project development costs to fixed assets.

(in thousands of Canadian dollars except as noted and amounts per share)

8. Financial instruments

Interest rate risk

The terms of the contracts reducing the Corporation's risk of interest rate fluctuations are as follows:

Face value of contracts reducing risk of interest rate fluctuations	Early termination option	June 30, 2010	December 31, 2009
		$	$
Interest rate swaps at rates varying from 3.96% to 4.09 %, expiring in June 2015	None	15,000	15,000
Interest rate swap, 4.27 %, expiring in November 2016	None	3,000	3,000
Interest rate swap, 4.41 %, expiring in June 2018	March 2013	30,000	30,000
Interest rate swap, 4.27 %, expiring in June 2018	March 2013	52,600	52,600
Interest rate swap, 4.93 %, amortized until March 2026	None	48,995	50,067
Interest rate swap, 3.45 %, amortized until March 2027	December 2013	49,449	-
Forward interest rate swap, 4.63 %, amortized until June 2030	June 2014	15,840	-
Forward interest rate swap, 4.64 %, amortized until June 2031	June 2014	24,980	-
Interest rate swap, 4.11 %, amortized until June 2034 (total of $ 50,141, 49 % share)	None	24,569	-
Forward interest rate swaps, 4.70 %, amortized until June 2035	June 2025	109,536	-
		373,969	150,667

The Corporation entered into hedge agreements to mitigate the risk of fluctuations in the interest rates on its long-term debt. Rates on contracts represent the interest rate, excluding the applicable margin.

On April 29, 2010, the Corporation settled a $ 110,000 forward-starting amortizing interest rate swap. Concurrently, the Corporation entered into two forward-starting amortizing interest rate swap for a total of $ 109,536, thereby fixing the interest rate at 4.70 % starting on the effective date of September 30, 2010 until the end of the related long-term debt amortization schedule of June 2035.

(in thousands of Canadian dollars except as noted and amounts per share)

9. Commitments

As at June 30, 2010, the expected schedule of commitment payments is:

Contractual obligations (Period ending June 30)	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	$	$	$	$
2011	18,224	14,201	43,692	76,117
2012	18,286	13,874	78,307	110,467
2013	20,761	13,415	104,590	138,766
2014	53,782	50,048	6,398	110,228
2015	17,361	7,647	6,398	31,406
Thereafter	234,985	67,692	96,131	398,808
Total	363,399	166,877	335,516	865,792

10. Segment Information

Reportable segments

The Corporation has three reportable segments: (a) hydroelectric generation (b) wind power generation and (c) site development.

Through its hydroelectric generation and wind power generation segments, the Corporation sells electricity produced by its hydroelectric and wind farm facilities to publicly owned utilities. Through its site development segment, it analyses potential sites and develops hydroelectric and wind farms facilities up to the commissioning stage.

The accounting policies for these segments are the same as those described in the summary of significant accounting policies. The Corporation evaluates performance based on earnings (loss) before interest, income taxes, depreciation and amortization and other items. The Corporation accounts for inter-segment and management sales at cost. Any transfers of assets from the site development segment to the hydroelectric or wind power generation segments are accounted for at cost.

The operations of the Corporation’s reportable segments are conducted by different teams, as each segment has different skill requirements.

There was no site development segment prior to the share exchange arrangement on March 29, 2010, since the Fund was solely an operator.

(in thousands of Canadian dollars except as noted and amounts per share)

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	$	$	$	$
Three-month period ended June 30, 2010				
Gross operating revenues from external clients	19,168	5,656	-	24,824
Expenses:				
Operating expenses	2,617	673	-	3,290
Stock-based compensation	29	17	29	75
General and administrative expenses	822	468	650	1,940
Prospective projects expenses	-	-	752	752
Earnings before interests, income taxes, depreciation and amortization and other items	15,700	4,498	(1,431)	18,767
Three-month period ended June 30, 2009				
Gross operating revenues from external clients	12,488	4,031	-	16,519
Expenses:				
Operating expenses	1,633	458	-	2,091
General and administrative expenses	630	243	-	873
Earnings before interests, income taxes, depreciation and amortization and other items	10,225	3,330	-	13,555
Six-month period ended June 30, 2010				
Gross operating revenues from external clients	28,013	10,362	-	38,375
Expenses:				
Operating expenses	3,993	1,159	-	5,152
Stock-based compensation	29	17	31	77
General and administrative expenses	1,430	695	784	2,909
Prospective projects expenses	-	-	762	762
Earnings before interests, income taxes, depreciation and amortization and other items	22,561	8,491	(1,577)	29,475
Six-month period ended June 30, 2009				
Gross operating revenues from external clients	21,214	9,246	-	30,460
Expenses:				
Operating expenses	3,103	901	-	4,004
General and administrative expenses	1,307	504	-	1,811
Earnings before interests, income taxes, depreciation and amortization and other items	16,804	7,841	-	24,645

(in thousands of Canadian dollars except as noted and amounts per share)

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	$	$	$	$
As at June 30, 2010				
Goodwill	8,269	-	-	8,269
Total assets	572,742	271,206	49,256	893,204
Acquisition of capital assets since the beginning of the year	859	81	8,661	9,601
As at December 31, 2009				
Goodwill	8,269	-	-	8,269
Total assets	330,157	177,984	-	508,141

11. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

12. Subsequent events

Hydro-Québec Distribution 250 MW Community Wind Request For Proposal
On July 6, 2010, the Corporation, in partnership with communities, submitted eight wind projects to the Hydro-Québec Distribution 250 MW Community Wind Request For Proposal. PPA awards are expected before the end of 2010.

BC Hydro Standing Offer Program
On July 15, 2010, BC Hydro announced its recommendations for updates and changes to its Standing Offer Program. Among other things, BC Hydro is recommending increases in pricing and in permitted capacity (from 9.9 MW to 15.0 MW). The Corporation is currently evaluating the impact of this announcement as some of its Prospective Projects could be eligible under this program.

Ashlu Creek Investments Limited Partnership
In July 2010, the Corporation made a last draw to bring the total drawn amount to $ 110,000 and converted the construction loan to a term loan maturing in 2025.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six-month periods ended June 30, 2010

This Management's Discussion and Analysis ("MD&A") has been prepared as at August 12, 2010.

The purpose of this MD&A is to provide the reader with an overview of the financial position, operating results and cash flows of Innergex Renewable Energy Inc. ("Innergex" or the "Corporation") for the three- and six-month periods ended June 30, 2010.

This MD&A should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes for the three- and six-month periods ended June 30, 2010, with the 2009 annual report of Innergex Power Income Fund (the "Fund") and with Innergex's 2009 annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Except for share values or where otherwise stated, the Corporation reports its results in thousands of Canadian dollars. Some amounts included in this MD&A are rounded to make reading easier. These rounded numbers may affect some calculations.

STRATEGIC COMBINATION OF THE FUND AND INNERGEX

On March 29, 2010, the Fund and Innergex announced the completion of the strategic combination of the two entities whereby the Fund acquired Innergex by way of a reverse takeover (the "Combination"), effecting at the same time the Fund's conversion to a corporation.

In accordance with Canadian GAAP, the results for the six-month period ended June 30, 2010, are those of the Fund including Innergex's contribution as of March 30, 2010. Also in accordance with Canadian GAAP and Canadian securities regulations, the historical results presented in this MD&A are those of the Fund.

As a result of this Combination, unless otherwise noted the terms "Innergex Renewable Energy Inc.," "Innergex" and the "Corporation" as used in the remainder of this MD&A shall mean the Fund with respect to the activities and results occurring prior to March 29, 2010, and the combined entities with respect to the activities and results occurring thereafter. References to "Pre-Combination Innergex" shall refer to Innergex Renewable Energy Inc. prior to the Combination. Certain terms, such as shareholder/unitholder and dividend/distribution, may also be used interchangeably throughout this MD&A. Prior to March 29, 2010, all distributions to unitholders were in the form of distributions on trust units.

The Combination resulted in the Fund's unitholders becoming Innergex shareholders as they agreed to exchange their units for Innergex shares based on an exchange ratio of 1.460 shares for each unit. The Combination also resulted in the unitholders of the Fund (other than Innergex) holding a 61% interest in Innergex with the Pre-Combination shareholders of Innergex holding the remaining 39% interest.

For more information about the Combination, please refer to the "Arrangement Agreement" dated January 31, 2010, and the joint management information circular regarding the Combination and dated February 17, 2010, (the "Joint Circular"), both of which are available on Innergex's website at www.innergex.com and on the SEDAR website at www.sedar.com.

ESTABLISHMENT, MAINTENANCE AND EFFECTIVENESS OF DC&P AND ICFR

The President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation have designed, or caused to be designed, under their supervision:

- Disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Corporation is accumulated and communicated by others to the President and Chief Executive Officer and the Vice President and Chief Financial Officer, in a timely manner, particularly during the period in which the interim filings are being prepared; and (ii) the information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

- Internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP applicable to the Corporation.

In accordance with *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, the President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation have evaluated the effectiveness of the Corporation's DC&P and ICFR for the three-month period ended June 30, 2010, and have concluded that they were effective and that there were no material weakness relating to the DC&P and ICFR. During the period beginning April 1, 2010, and ended June 30, 2010, there was no change to the ICFR that has materially affected, or is reasonably likely to affect, the ICFR.

FORWARD-LOOKING STATEMENTS

In order to inform shareholders of the Corporation as well as potential investors in the Corporation's future prospects, sections of this MD&A may contain forward-looking statements within the meaning of securities legislation ("Forward-Looking Statements"). Forward-Looking Statements can generally be identified by the use of words and phrases such as "may," "will," "estimate," "anticipate," "plans," "expects," or "does not expect," "is expected," "budget," "scheduled," "forecasts," "intends" or "believes," or variations of such words and phrases that state that certain events will occur. Forward-Looking Statements represent, as of the date of this MD&A, the estimates, forecasts, projections, expectations or opinions of the Corporation relating to future events or results. Forward-Looking Statements involve known and unknown risks, uncertainties and other important factors which may cause the actual results or performance to be materially different from those expressed, implied, or presented by the Forward-Looking Statements. The material risks and uncertainties that may cause the actual results and developments to be materially different from the current expressed expectations are referred to in this MD&A under the "Risk and Uncertainties" heading and include the ability of the Corporation to execute its corporate strategy; the inability to access sufficient capital from internal and external sources; liquidity risks related to derivative financial instruments; general economic conditions; availability of water flows and wind; delays in project development; uncertainty relating to the development of new power generating facilities; uncertainty relating to the amounts of power current or future operating facilities are able to generate; equipment failure; interest rate fluctuations and debt refinancing; contractual restrictions contained in instruments governing current and future indebtedness; penalties for events of default under certain power purchase agreements; the ability to retain qualified personnel and management; the performance of third-party suppliers; reliance on major customers; relationships with communities in which projects or facilities are located and joint venture partners; wind turbine supply; obtainment of permits; changes to governmental regulatory requirements and applicable governing statutes; obtaining new power purchase agreements; securing appropriate land for projects; reliance on power purchase agreements; reliance on transmission systems; water and land rental expenses; dam safety; health, safety and environmental risks; natural disasters; foreign exchange fluctuations and sufficiency of insurance coverage. Although the Corporation believes that the expectations instigated by the Forward-Looking Statements are based on reasonable and valid assumptions, there is a risk that the Forward-Looking Statements may be incorrect. The reader of this MD&A is cautioned not to rely unduly on these Forward-Looking Statements. Forward-Looking Statements, expressed verbally or in writing by the Corporation or by a person acting on its behalf, are expressly qualified by this cautionary statement. The Forward-Looking Statements contained herein are made as of the date of this MD&A and the Corporation does not undertake any obligation to update or revise any Forward-Looking Statements, whether as a result of events or circumstances occurring after the date hereof, unless required by legislation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six-month periods ended June 30, 2010

OVERVIEW

General

The Corporation is a developer, owner and operator of renewable power-generating facilities. The Corporation's shares are listed on the Toronto Stock Exchange ("TSX") under the symbol INE. The Corporation is one of the most active in the Canadian renewable power industry, with a focus on hydroelectric and wind power projects that benefit from low operating and management costs and simple and proven technologies. The Corporation's management team, which has been active in the renewable power industry since 1990, has developed and brought to commercial operation or refurbished, through various ventures, 15 hydroelectric and three wind power facilities, representing an aggregate installed capacity of 548 megawatts ("MW").

As at the date of this MD&A, the Corporation owns interests in:

- 17 operating facilities with an aggregate net installed capacity of 325.5 MW (gross 537.8 MW). These consist of 14 hydroelectric facilities and three wind farms, with aggregate net installed capacities of 204.1 MW (gross 218.3 MW) and 121.4 MW (gross 319.5 MW) respectively. Commissioned between November 1994 and January 2010, the facilities have a weighted average age of approximately 5.4 years. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 17.4 years;

- seven development projects with an aggregate net installed capacity of 202.9 MW (gross 432.9 MW) for which PPAs with public utilities have been secured. Construction began on three of these projects in June 2010. Construction is expected to begin on another in 2010 and on the remaining three projects in 2013 and 2014. The projects are expected to reach the commercial operation stage between 2011 and 2016; and

- a net capacity of more than 2,000 MW (gross 2,100 MW) in prospective projects that are at various stages of development.

Portfolio of Assets

The Corporation's portfolio is comprised of interests in three groups of power generating projects:

- facilities that are in commercial operation (the "Operating Facilities");

- projects for which PPAs have been secured and which are either under construction or scheduled to begin commercial operation on planned dates. (the "Development Projects");

- projects that have secured certain land rights, for which an investigative permit application has been filed and for which a proposal has been submitted under a Request for Proposal ("RFP") or could be submitted under a Standing Offer Program ("SOP") or Feed-In Tariff Program ("FIT Program") (the "Prospective Projects").

The chart on the following page diagrams the Corporation's direct and indirect interests in the Operating Facilities, Development Projects and Prospective Projects.

INNERGEX
Énergie renouvelable
Renewable Energy

Operating Facilities	Development Projects	Prospective Projects
Hydro - 100% St-Paulin, QC (8.0 MW) - 100% Windsor, QC (5.5 MW) - 100% Chaudière, QC (24.0 MW) - 100% Portneuf-1, QC (8.0 MW) - 100% Portneuf-2, QC (9.9 MW) - 100% Portneuf-3, QC (8.0 MW) - 100% Montmagny, QC (2.1 MW) - 100% Glen Miller, ON (8.0 MW) - 49% Umbata Falls, ON (23.0 MW) - 100% Batawa, ON (5.0 MW) - 100% Rutherford Creek, BC (49.9 MW) - 100% Ashlu Creek, BC (49.9 MW) - 66⅔% Fitzsimmons Creek, BC (7.5 MW) - 100% Horseshoe Bend, Idaho, USA (9.5 MW) **Wind** - 38% Baie-des-Sables, QC (109.5 MW) - 38% L'Anse-à-Valleau, QC (100.5 MW) - 38% Carleton, QC (109.5 MW)	**Hydro** - 66⅔% Boulder Creek, BC (23.0 MW) - 50% Kwoiek Creek, BC (49.9 MW) - 66⅔% North Creek, BC (16.0 MW) - 66⅔% Upper Lillooet, BC (74.0 MW) **Wind** - 38% Gros-Morne (Phase I), QC (100.5 MW) - 38% Gros-Morne (Phase II), QC (111.0 MW) - 38% Montagne-Sèche, QC (58.5 MW)	**Hydro** - 48% QC Projects (42.0 MW) - 100% BC Projects (19.8 MW) - 66⅔% BC Projects (132.0 MW) **Wind** - 100% QC Projects (836.0 MW) - 70% QC Projects - Community (123.0 MW) - 50% QC Projects - Community (73.8 MW) - 100% ON Projects - FIT (440.0 MW) - 49% ON Projects - FIT (25.3 MW) - 100% BC Projects (475.0 MW)

	Operating Facilities	Development Projects	Prospective Projects
Hydro			
Gross capacity:	218.3 MW	162.9 MW	193.8 MW
Net capacity[1]:	204.1 MW	100.3 MW	128.0 MW
Wind			
Gross capacity:	319.5 MW	270.0 MW	1,973.1 MW
Net capacity[1]:	121.4 MW	102.6 MW	1,886.4 MW
Total			
Gross capacity:	537.8 MW	432.9 MW	2,166.9 MW
Net capacity[1]:	325.5 MW	202.9 MW	2,014.4 MW

1. Net capacity represents the proportional share of the total capacity attributable to Innergex, based on its ownership interest in these facilities and projects. The remaining capacity is attributable to the strategic partners' ownership share.

BUSINESS STRATEGY

The Corporation's strategy for building shareholder value is: (i) to develop or acquire high-quality power production facilities that generate sustainable and stable cash flows, with the objective of achieving a high return on invested capital, and (ii) to distribute a stable dividend. As an independent clean power producer, the Corporation aims to generate value from renewable energy sources.

ANNUAL DIVIDEND POLICY

The Corporation intends to distribute an annual dividend of $0.58 per share payable quarterly. Its dividend policy is based on the long-term cash flow generating capacities of its Operating Facilities. Innergex's investments in the Development Projects and Prospective Projects are financed through excess cash flows and a combination of additional indebtedness and equity.

KEY PERFORMANCE INDICATORS

The Corporation measures its performance using key performance indicators that include or could include: power generated in megawatt-hours ("MW-hr") and gigawatt-hours ("GW-hr"); adjusted cash flows from operating activities; adjusted cash flows from operating activities per basic share; adjusted net earnings (loss); and EBITDA, defined as earnings before interest, provision for income taxes, depreciation and amortization and other items. These indicators are not recognized measures under Canadian GAAP and therefore may not be comparable to those presented by other issuers. The Corporation believes that these indicators are important since they provide management and the reader with additional information about its production and cash generation capabilities and facilitate the comparison of results over different periods.

SEASONALITY

The amount of energy generated by the Operating Facilities is generally dependent on the availability of water flows and the wind regime. Lower-than-expected water flows or wind regimes in any given year could have an impact on the Corporation's revenues and hence on its profitability. It should be noted that the Corporation owns interests in 14 hydroelectric facilities drawing on 11 watersheds and three wind farms, providing significant diversification in terms of operating revenue sources. Furthermore, given the nature of hydroelectric and wind farm production, seasonal variations are partially offset, as illustrated in the following table.

Operating Facilities – Estimated Long-Term Averages

Project name	Electricity purchaser	PPA expiry	Net installed capacity (MW)	Average long-term production (GW-hr) (Net interest)				
				Q1	Q2	Q3	Q4	Total
HYDRO								
St-Paulin	Hydro-Québec	2014[1]	8.0	7.4	15.5	8.0	10.1	41.1
Windsor	Hydro-Québec	2016[1]	5.5	9.7	7.8	5.6	7.9	31.0
Chaudière	Hydro-Québec	2019[1]	24.0	26.0	40.8	17.6	32.2	116.7
Portneuf-1	Hydro-Québec	2021[2]	8.0	4.3	14.9	11.5	10.1	40.8
Portneuf-2	Hydro-Québec	2021[2]	9.9	10.0	20.1	19.3	19.1	68.5
Portneuf-3	Hydro-Québec	2021[2]	8.0	4.4	15.6	11.9	10.4	42.4
Montmagny	Hydro-Québec	2021[2]	2.1	1.4	3.2	1.0	2.3	8.0
Glen Miller	OPA[3]	2025	8.0	13.5	11.9	4.5	11.7	41.6
Umbata Falls	OPA[3]	2028	11.3	8.3	18.5	10.4	16.2	53.5
Batawa	OEFC[4]	2029	5.0	10.8	8.9	3.7	9.5	32.9
Rutherford Creek	BC Hydro[5]	2024	49.9	11.0	63.7	80.0	25.3	180.0
Ashlu Creek	BC Hydro[5]	2039	49.9	26.9	92.0	95.1	51.0	265.0
Fitzsimmons Creek	BC Hydro[5]	2050	5.0	2.2	7.3	8.9	3.6	22.0
Horseshoe Bend	IPC[6]	2030	9.5	7.9	17.0	16.7	5.2	46.8
Subtotal			204.1	144.0	337.2	294.4	214.7	990.2
WIND								
Baie-des-Sables ("BDS")	Hydro-Québec	2026	41.6	35.7	25.0	18.6	34.1	113.4
L'Anse-à-Valleau ("AAV")	Hydro-Québec	2027	38.2	38.2	22.9	16.5	35.7	113.2
Carleton ("CAR")	Hydro-Québec	2028	41.6	38.1	28.2	24.1	39.0	129.4
Subtotal			121.4	112.0	76.0	59.2	108.8	356.0
Total		17.4 years[7]	325.5	255.9	413.2	353.7	323.4	1,346.2

1. These PPAs are renewable at the Corporation's option for an additional term of 20 years.
2. These PPAs are renewable at the Corporation's option for an additional term of 25 years.
3. Ontario Power Authority.
4. Ontario Electricity Financial Corporation.
5. British Columbia Hydro and Power Authority.
6. Idaho Power Company.
7. Remaining weighted average life of PPAs, before consideration of renewal options.

QUARTERLY AND YEAR-TO-DATE UPDATES

Highlights	Three-month period ended June 30, 2010	Three-month period ended June 30, 2009	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
	$	$	$	$
Power generated (MW-hr)	369,753	247,764	527,419	411,676
Gross operating revenues	24,824	16,519	38,375	30,460
EBITDA	18,767	13,555	29,475	24,645
Net (loss) earnings	(6,524)	13,353	(7,023)	16,372
Adjusted cash flows from operating activities	13,756	9,153	22,347	17,178
Adjusted cash flows from operating activities ($ per share - basic)	0.23	0.21	0.43	0.40
Dividends declared	8,821	7,352	16,059	14,701
Dividends declared ($ per share)	0.15	0.17	0.32	0.34

Adjusted Net Earnings

The Corporation believes that adjusted net earnings represent important additional information for the reader because they provide a profitability measure that excludes certain elements that have no impact on cash on hand. Adjusted net earnings exclude unrealized foreign exchange gains/losses and unrealized gains/losses on derivative financial instruments as well as any associated future income tax. When applicable, adjusted net earnings also exclude some non-recurring items. The Corporation calculates adjusted net earnings as shown below:

Adjusted Net Earnings	Three-month period ended June 30, 2010	Three-month period ended June 30, 2009	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
	$	$	$	$
Net (loss) earnings	(6,524)	13,353	(7,023)	16,372
Add (deduct):				
Non-cash expense related to royalty agreement	-	-	983	-
Unrealized net loss (gain) on derivative financial instruments	14,102	(11,197)	16,142	(11,771)
Unrealized foreign exchange loss (gain)	44	(233)	2	(136)
Associated future income taxes	(3,819)	2,799	(4,624)	2,712
Adjusted net earnings	3,803	4,722	5,480	7,177
Adjusted net earnings ($ per share – basic)	0.06	0.11	0.11	0.17

Financing Activities

As part of the Combination, Innergex refinanced the Fund's $133.9 million bank credit facility and its $40.0 million revolving credit facility with a new three-year $170.0 million credit facility comprised of a $117.4 million revolving facility and a $52.6 million term loan. For more details about this refinancing, please refer to the "Use of Financing Proceeds" and "Long-Term Debt" sections of this MD&A.

The Corporation also issued $80.5 million in principal amount of subordinated convertible debentures (the "Convertible Debentures") as part of the Combination process. For more details about this issuance, please refer to the "Convertible Debentures" section of this MD&A.

Commissioning Activities
The following table presents the Operating Facilities that have been commissioned during the last twelve months.

Operating Facilities Commissioned During the Last Twelve Months

Project name and location	Installed capacity (MW)	Estimated long-term average production (GW-hr)	Total construction costs Estimated ($M)	Total construction costs Actual as at June 30, 2010 ($M)	Commercial in-service date ("COD") Original estimate	Commercial in-service date ("COD") Actual	Expected year-one Revenues ($M)	Expected year-one EBITDA ($M)
HYDRO								
Ashlu Creek, BC	49.9	265.0	138.0	138.4	Q2 2009	Q4 2009	18.4	15.7
Fitzsimmons Creek, BC[1]	7.5	33.0	33.2	32.7	Q4 2010	Q1 2010	3.2	2.4

1. The Corporation owns 66 ⅔% of this project

Ashlu Creek
The Ashlu Creek hydroelectric facility began commercial operations on November 29, 2009. On February 28, 2010, the facility was shut down to inspect the tunnel before the high energy production levels in the spring. The inspection revealed some deficiencies with the trap that prevents rocks from reaching the turbines. Corrective measures were implemented and the facility resumed commercial operations on April 17, 2010. As of the date of this MD&A, monitoring has shown that the corrective measures have been working as planned.

On April 23, 2010, the Ashlu Creek facility received its EcoLogo certification, thereby confirming that the facility will receive incentive payments under the ecoENERGY Initiative of the Federal government. These payments correspond to $10 per MW-hr for the first ten years of operations.

On April 29, 2010, the Corporation settled a $110.0 million forward-starting amortizing interest rate swap related to the Ashlu Creek facility. Concurrently, the Corporation entered into forward-starting amortizing interest rate swaps, thereby fixing the swap interest rate at 4.70% beginning on the effective date of September 30, 2010, and continuing until the end of the related long-term debt amortization schedule in June 2035. By entering into this swap transaction, Innergex has eliminated its exposure to variable interest rates on this amount.

Fitzsimmons Creek
The facility began commercial operations on January 26, 2010. During the second quarter of 2010, Innergex was informed by the BC Ministry of Environment and by the Department of Fisheries and Ocean Canada that the in-stream flow requirement at the intake had to be increased from 0.1 cubic meter per second ("CMS") to 0.4 CMS until further environmental monitoring is completed. Innergex evaluates that this reduces the facility's annual production, revenues and EBITDA by 4 GW-hr, $0.4 million and $0.3 million, respectively. Innergex expects the agencies to complete their review by the end of 2011.

On April 23, 2010, the Fitzsimmons Creek facility received its EcoLogo certification, thereby confirming that the facility will receive incentive payments under the ecoENERGY Initiative of the Federal government. These payments correspond to $10 per MW-hr for the first ten years of operations.

Development Projects

The Corporation owns seven Development Projects. Of these, construction of the three wind farms began in June 2010, the Kwoiek Creek hydroelectric project is completing the permit phase and the remaining three hydroelectric projects are beginning the permit phase. The two tables below provide an overview of these Development Projects.

Development Projects (under construction)

Project name and location	Installed capacity (MW)	Estimated long-term average production (GW-hr)	Total construction costs Estimated ($M)	Total construction costs Actual as at June 30, 2010 ($M)	Expected COD	Expected year-one Revenues ($M)	Expected year-one EBITDA ($M)
Wind							
Montagne-Sèche, QC[1]	58.5	193.4	103.0	2.9[2]	Q4 2011	4.8[2]	4.3[2]
Gros-Morne – Phase I, QC[1]	100.5	308.9	348.5	8.7[2]	Q4 2011	7.8[2]	6.9[2]
Gros-Morne – Phase II, QC[1]	111.0	341.1	for both phases	for both phases	Q4 2012	8.6[2]	7.5[2]

1. The Corporation owns 38% of this project
2. Representing the Corporation's 38% interest in this project.

Montagne-Sèche and Gros-Morne, Phase I and II

On June 1, 2010, Innergex issued a notice to proceed to the turbine supplier and the balance-of-plant contractor, thereby launching the construction phase of these three wind farms. Activities are currently focused on tree clearing, road building and site preparation for the substations and mount pads.

In the second quarter of 2010, the Corporation received a term-sheet offer from a syndicate of lenders to secure the long-term debt financing for these projects. Based on the projects' disbursement schedule, no drawings under the debt facilities will be required before mid-2011. In view of the improving conditions in the project financing market, Innergex has deliberately decided to wait until late 2010 before entering into a credit agreement with the syndicate of lenders. Innergex expects the 58.5 MW Montagne-Sèche and 100.5 MW Gros-Morne Phase I projects to be completed by December 1, 2011, and the Gros-Morne Phase II project to be completed by December 1, 2012.

Development Projects (permit phase)

Project name and location	Installed capacity (MW)	Total construction costs Estimated ($M)	Total construction costs Actual as at June 30, 2010 ($M)	Expected COD
HYDRO				
Kwoiek Creek, BC[1]	49.9	152.1	10.7	2012
Boulder Creek, BC[2]	23.0	84.0	0.1	2015
North Creek, BC[2]	16.0	71.0	0.3	2016
Upper Lillooet, BC[2]	74.0	260.0	1.1	2016

1. The Corporation owns 50% of this project.
2. The Corporation owns 66 ⅔% of this project.

Boulder Creek, North Creek and Upper Lillooet
On March 11, 2010, BC Hydro announced that the Boulder Creek, North Creek and Upper Lillooet hydroelectric projects, totalling 113 MW and submitted under the 2008 BC Hydro Clean Power Call RFP had been selected for PPA awards, subject to the British Columbia Utilities Commission's approval. On June 3, 2010, the BC government's Clean Energy Act was passed by the BC Legislature, thereby approving these three PPAs. The PPAs allow the Corporation to enter the development phase, which involves consulting with stakeholders and obtaining the relevant permits. The Corporation expects Boulder Creek to start commercial operation in 2015 and North Creek and Upper Lillooet to start commercial operation in 2016. The Corporation has a 66⅔% ownership interest in these three new Development Projects.

Prospective Projects
All of the Prospective Projects, with a combined potential net installed capacity of more than 2,000 MW (gross 2,100 MW), are in the preliminary development stage. Some Prospective Projects are targeted toward specific future RFPs and others will be available for future RFPs, SOPs or FITs yet to be announced. There is no certainty that any Prospective Project will be realized.

On July 6, 2010, Innergex, in partnership with local communities, submitted eight wind projects of 24.6 MW each to the Hydro-Québec Distribution 250 MW Community Wind RFP. PPA awards are expected before the end of 2010.

On July 15, 2010, BC Hydro announced its recommendations for updates and changes to its SOP program. Among other things, BC Hydro is recommending increases in pricing and permitted capacity (from 9.9 MW to 15.0 MW). Innergex is currently evaluating the impact of this announcement, as some of its Prospective Projects could be eligible under the program.

Additional information about the Corporation's facilities and projects can be found in the Corporation's Annual Information Form for the year ended December 31, 2009, and in the Joint Circular, both of which are available on Innergex's website at www.innergex.com and on the SEDAR website at www.sedar.com.

OPERATING RESULTS

The Corporation's operating results for the three- and six-month period ended June 30, 2010, are compared with the operating results for the same period in 2009. As a result of the Combination, per Canadian GAAP, the operations of the Pre-Combination Innergex are accounted for in the Corporation's results as of March 30, 2010.

Nevertheless, for the benefit of the reader, the following six-month production results have been adjusted to include the electricity production of Glen Miller, Umbata Falls, Ashlu Creek, Fitzsimmons Creek and Carleton for the full six-month period.

Production

When evaluating its operating results, the Corporation compares actual electricity generation with a long-term average for each hydroelectric facility and wind farm. These long-term averages are determined carefully and prudently to allow long-term forecasting of the expected generation for each of the Corporation's facilities.

To define the long-term average of a power generating facility, independent engineers carry out studies that take into consideration a number of important factors: for hydroelectricity, engineers consider the historically observed flows of the river, the operating head and the reserved aesthetic and ecological flows; for wind energy, they consider the wind conditions. The engineers also take into account the site topography, installed capacity, energy losses, operational features, maintenance, etc. Although production will fluctuate from year to year, over an extended period it should approach the forecast long-term average.

Production	**Operating period April 1 to June 30, 2010**		**Operating period April 1 to June 30, 2009**	
	Production (MW-hr)	Long-term average (MW-hr)	Production (MW-hr)	Long-term average (MW-hr)
HYDRO				
Saint-Paulin	10,354	15,532	15,830	15,532
Windsor	10,051	7,763	9,605	7,763
Chaudière	36,221	40,827	41,318	40,827
Portneuf-1	15,495	14,861	13,050	14,861
Portneuf-2	20,941	20,061	17,728	20,061
Portneuf-3	16,115	15,625	13,583	15,625
Montmagny	2,270	3,241	2,338	3,241
Glen Miller	9,404	11,860	12,733	11,860
Umbata Falls[1]	5,056	18,534	17,850	18,534
Batawa	7,788	8,945	10,057	8,945
Rutherford Creek	62,133	63,700	54,834	63,700
Ashlu Creek	81,813	91,970	-	-
Fitzsimmons Creek[2]	4,227	7,296	-	-
Horseshoe Bend	14,675	16,956	18,063	16,956
Subtotal	296,543	337,171	226,989	237,905
WIND				
Baie-des-Sables[3]	18,895	24,962	24,537	24,962
L'Anse-à-Valleau[3]	24,592	22,863	26,821	22,863
Carleton[3]	27,610	28,206	32,838	28,206
Subtotal	71,097	76,031	84,196	76,031
Total	367,640	413,202	311,185	313,936

1. Representing the Corporation's 49% interest in this facility.
2. Representing the Corporation's 66⅔% interest in this facility.
3. Representing the Corporation's 38% interest in this wind farm.

The Corporation's facilities produced 367,640 MW-hr in the second quarter of 2010, 11% less than the long-term average of 413,202 MW-hr. This production level is due mainly to:

- hydrologic conditions lower than the long-term average at the Saint-Paulin, Chaudière, Glen Miller, Umbata Falls, Fitzsimmons Creek and Horseshoe Bend facilities;
- the tunnel inspection and subsequent corrective measures implemented at the Ashlu Creek facility which meant that the facility was stopped until April 17, 2010; and
- wind conditions lower than the long-term average at the BDS wind farm.

These shortfalls were partially offset by favourable hydrologic conditions at the Windsor facility and favourable wind conditions at the AAV wind farm.

Production	**Operating period January 1 to June 30, 2010**		**Operating period January 1 to June 30, 2009**	
	Production (MW-hr)	Long-term average (MW-hr)	Production (MW-hr)	Long-term average (MW-hr)
HYDRO				
Saint-Paulin	20,818	22,966	27,000	22,966
Windsor	21,067	17,493	20,045	17,493
Chaudière	66,394	66,826	78,124	66,826
Portneuf-1	19,957	19,151	17,481	19,151
Portneuf-2	31,384	30,094	28,042	30,094
Portneuf-3	20,692	20,023	18,065	20,023
Montmagny	4,075	4,674	3,989	4,674
Glen Miller[1]	22,863	25,351	27,719	25,351
Umbata Falls[1,2]	13,689	26,828	24,249	26,828
Batawa	19,288	19,748	22,207	19,748
Rutherford Creek	71,327	74,700	55,377	74,700
Ashlu Creek[1]	107,589	118,868	-	-
Fitzsimmons Creek[3,4]	4,329	8,240	-	-
Horseshoe Bend	18,393	24,883	23,542	24,883
Subtotal	441,865	479,845	345,840	352,737
WIND				
Baie-des-Sables[5]	48,631	60,659	58,857	60,659
L'Anse-à-Valleau[5]	53,923	61,048	58,947	61,048
Carleton[1,5]	63,501	66,291	71,535	66,291
Subtotal	166,055	187,998	189,339	187,998
Total	607,920	667,843	535,179	540,735

1. Adjusted to include the full six-month period.
2. Representing the Corporation's 49% interest in this facility.
3. Representing the Corporation's 66⅔% interest in this facility.
4. Adjusted for the period during which the facility was in commercial operation as commissioning occurred on January 26, 2010.
5. Representing the Corporation's 38% interest in this wind farm.

During the six-month period ended June 30, 2010, the Corporation's facilities produced 607,920 MW-hr, 9% less than the long-term average of 667,843 MW-hr. This production level is due mainly to:

- hydrologic conditions lower than the long-term average at the Saint-Paulin, Glen Miller, Umbata Falls, Rutherford Creek, Fitzsimmons Creek and Horseshoe Bend facilities;
- the tunnel inspection and subsequent corrective measures implemented at the Ashlu Creek facility which meant that the facility was stopped from February 28, 2010, to April 17, 2010;
- wind conditions lower than the long-term average at the BDS and AAV wind farms; and
- a five-day shutdown of the AAV and CAR wind farms in January 2010 caused by ice accumulation on the Hydro-Québec transmission line, which required action by Hydro-Québec.

These shortfalls were partially offset by favourable hydrologic conditions at the Windsor facility.

Although the three Portneuf facilities are exempt from annual hydrological variations under the "virtual energy" provisions included in the long-term PPAs with Hydro-Québec, they must remain in operation in order to receive financial compensation. These provisions have been implemented to compensate for the partial diversion by Hydro-Québec of the water flow that had historically been available to these three facilities.

The overall performance of the Corporation's facilities for the three- and six-month periods ended June 30, 2010, demonstrates the benefits of geographic diversification and the complementarity of hydroelectric and wind power generation since no single asset represents more than 20% of the total annual forecast production.

Operating Results	Three-month period ended June 30, 2010	Three-month period ended June 30, 2009	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
	$	$	$	$
Gross operating revenues	24,824	16,519	38,375	30,460
Operating expenses	3,290	2,091	5,152	4,004
Stock-based compensation	75	-	77	-
General and administrative expenses	1,940	873	2,909	1,811
Prospective projects expenses	752	-	762	-
EBITDA	18,767	13,555	29,475	24,645
Interest on long-term debt and convertible debentures	6,129	3,309	9,883	6,646
Realized net gain on derivative financial instruments	(555)	-	(555)	-
Realized foreign exchange loss (gain)	63	(105)	23	(55)
Other net expenses (revenues)	22	(17)	1	(65)
Depreciation and amortization	8,529	5,331	14,066	10,668
Unrealized net loss (gain) on derivative financial instruments	14,102	(11,197)	16,142	(11,771)
Expense related to royalty agreement	-	-	983	-
Unrealized foreign exchange loss (gain)	44	(233)	2	(136)
(Recovery of) provision for income taxes	(3,043)	3,114	(4,047)	2,986
Net (loss) earnings	(6,524)	13,353	(7,023)	16,372

Revenues
The Corporation recorded gross operating revenues of $24.8 million during the second quarter of 2010 ($16.5 million in 2009). This performance is due to additional revenues resulting from the Combination ($8.9 million), partly offset by lower revenues from the pre-combination assets of the Fund (negative impact of $0.6 million).

For the six-month period ended June 30, 2010, the Corporation recorded gross operating revenues of $38.4 million ($30.5 million in 2009). This performance is due mainly to additional revenues resulting from the Combination ($9.0 million), partly offset by lower revenues from the pre-combination assets of the Fund (negative impact of $1.0 million). As specified earlier in this MD&A, revenues from the assets of the Pre-Combination Innergex have been included as of March 30, 2010.

Expenses
Operating expenses consist primarily of the operators' salaries, water rights, royalties, insurance premiums, property taxes, maintenance and repairs.

In the second quarter of 2010, the Corporation recorded $3.3 million in operating expenses related to the operation of the power producing facilities ($2.1 million in 2009). This increase was expected and is the result of the Combination which means that the Corporation operated a greater number of facilities in 2010 than in 2009. This situation also explains the increase in operating expenses for the six-month period ended June 30, 2010, when the Corporation recorded $5.2 million in operating expenses ($4.0 million in 2009).

Stock-based compensation relates to the amortization of the fair value of options granted concurrently with the Initial Public Offering of the Pre-Combination Innergex in December 2007 and also granted in June 2010 under the new corporate structure. Non-cash stock-based compensation was $0.1 million for the three- and six-month periods ended June 30, 2010 (nil in 2009).

General and administrative expenses totalled $1.9 million and $2.9 million respectively for the three- and six-month periods ended June 30, 2010 ($0.9 million and $1.8 million respectively in 2009). These increases are due to the larger scale of the Corporation resulting from the Combination.

Prospective project expenses include the costs incurred for the development of Prospective Projects. Prior to the Combination, such expenses were not incurred by the Fund. Accordingly, prospective projects expenses totalled $0.8 million for the three- and six-month periods ended June 30, 2010 (nil in 2009).

Interest on Long-Term Debt and Convertible Debentures

The Corporation incurred $6.1 million in interest expenses in the second quarter of 2010 ($3.3 million in 2009). This variation is due to the issuance of Convertible Debentures and the increase in long-term debt resulting from the Combination.

For the six-month period ended June 30, 2010, interest expenses rose to $9.9 million ($6.6 million in 2009). This variation is due to the issuance of Convertible Debentures, to the increase in long-term debt resulting from the Combination and to a writeoff of $0.6 million of deferred financial costs for the refinancing of the Fund’s bank credit facility.

As at June 30, 2010, 96% of the Corporation’s total debt, including Convertible Debentures, was fixed or hedged against interest rate movements (91% as at June 30, 2009). As such, the effective all-in interest rate on the Corporation’s debt and Convertible Debentures was 5.38% as at that date (5.73% as at June 30, 2009). The decrease stems from the Combination. Please see the “Derivative Financial Instruments and Risk Management” section for more information.

Derivative Financial Instruments

The Corporation uses derivative financial instruments (primarily bond forward contracts and interest rate swaps) to manage its exposure to the risk of rising interest rates on its long-term debt, thereby protecting the economic value of its projects. Innergex also has derivative financial instruments embedded in some of its PPAs. The Corporation does not use hedge accounting for its derivative financial instruments. It does not own or issue financial instruments for speculative purposes.

For the three- and six-month periods ended June 30, 2010, the Corporation recorded a $0.6 million realized gain on derivative financial instruments (nil in 2009) due to the settlement on April 29, 2010, of a $110.0 million forward-starting amortizing interest rate swap related to the Ashlu Creek facility.

The Corporation recorded a $14.1 million unrealized net loss on derivative financial instruments in the second quarter of 2010 (unrealized net gain of $11.2 million in 2009) due mainly to the decrease in benchmark interest rates for long-term maturities since the end of the first quarter of 2010. This loss had no cash impact on the Corporation's results.

For the six-month period ended June 30, 2010, the Corporation recorded a $16.1 million unrealized net loss on derivative financial instruments (unrealized net gain of $11.8 million in 2009) due mainly to the decrease in benchmark interest rates for long-term maturities since the end of 2009. This loss had no cash impact on the Corporation's results.

Depreciation and Amortization

For the three- and six-month periods ended June 30, 2010, depreciation and amortization expenses totalled $8.5 million and $14.1 million respectively ($5.3 million and $10.7 million respectively in 2009). The differences are attributable to the greater asset base resulting from the Combination and to the amortization of the extended warranty of the AAV wind farm, which became effective in December 2009.

Expense Related to Royalty Agreement

For the six-month period ended June 30, 2010, the Corporation recorded an expense of $1.0 million (nil in 2009) due to the deemed cancellation of a contract resulting from the Combination. As per Canadian GAAP, the Fund had to expense the engagement it had with the Pre-Combination Innergex since 2005. In that year, a subsidiary of the Corporation sold the Rutherford Creek hydroelectric facility to the Fund. Rutherford Creek Power, Limited Partnership, which owns the assets, then agreed, following the expiry or termination of the Rutherford Creek PPA in 2024, to pay royalties to that subsidiary provided certain revenue thresholds are reached. This expense had no cash impact on the Corporation's results as it was considered to be paid for by the issuance of shares.

The Corporation did not record any such expense for the second quarter of 2010, as this was a one-time event related to the Combination.

Provision for Income Taxes

For the three- and six-month periods ended June 30, 2010, Innergex recorded income tax recoveries of $3.0 million and $4.0 million respectively mainly as a result of the unrealized net losses on derivative financial instruments (income tax provisions of $3.1 million and $3.0 million respectively in 2009). Prior to the Combination, the Fund's income trust structure minimized income taxes. As a result of the Combination and the Fund's conversion to a corporation, Innergex is now taxable, although it can take advantage of the Pre-Combination Innergex's large pool of tax bases and the resulting substantial available unused capital cost allowance to minimize current income taxes.

Net Earnings

The Corporation recorded a net loss and comprehensive loss of $6.5 million (basic and diluted net loss of $0.11 per share) in the second quarter of 2010. For the corresponding period of 2009, Innergex recorded net earnings and comprehensive earnings of $13.4 million (basic and diluted net earnings of $0.31 per share). This variation is attributable mainly to:

- a $2.8 million increase in interest on long-term debt and convertible debentures;
- a $3.2 million increase in depreciation and amortization; and
- a $25.3 million negative variation in the fair market value of derivative financial instruments.

These were partially offset by a $5.2 million increase in EBITDA and a $6.2 million favourable variation in income tax.

For the six-month period ended June 30, 2010, the Corporation recorded a net loss and comprehensive loss of $7.0 million (basic and diluted net loss of $0.14 per share). For the corresponding period of 2009, Innergex recorded net earnings and comprehensive earnings of $16.4 million (basic and diluted net earnings of $0.38 per share). This variation is attributable mainly to:

- a $3.2 million increase in interest on long-term debt and convertible debentures;
- a $3.4 million increase in depreciation and amortization;
- a $27.9 million negative variation in the fair market value of derivative financial instruments; and
- a $1.0 million expense related to royalty agreement.

These were partially offset by a $4.8 million increase in EBITDA and a $7.0 million favourable variation in income tax.

The basic and diluted per-share figures for the three- and six month periods ended June 30, 2010, are based on a weighted average number of 59,532,606 and 51,460,739 shares outstanding respectively. Stock options and warrants were non-dilutive during the periods concerned, as the average market price of the Corporation's share was below the strike price. Convertible Debentures were also non-dilutive. For the corresponding periods ended June 30, 2009, per-share figures were based on a weighted average number of 42,930,243 shares outstanding. No Convertible Debentures, options or warrants were outstanding during these periods of 2009.

As at June 30, 2010, the Corporation had a total of 59,532,606 common shares, 80,500 Convertible Debentures, 1,889,024 stock options and 200,000 warrants outstanding. As at December 31, 2009, it had 42,930,243 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

The cash flows used by operating activities totalled $5.7 million during the second quarter of 2010 ($11.4 million generated in 2009). This difference is due primarily to the $21.3 million decrease in the variation of non-cash working capital items and to the $2.8 million increase in interest on long-term debt and convertible debentures, partly offset by the $5.2 million increase in EBITDA. The variation in non-cash working capital items stems mainly from the negative impacts from an increase in accounts receivable ($4.0 million) and a decrease in accounts payable and accrued liabilities ($17.0 million) when compared with the second quarter of 2009.

For the six-month period ended June 30, 2010, cash flows used by operating activities totalled $2.9 million ($19.7 million generated in 2009). This difference is due primarily to the $26.6 million decrease in the variation of non-cash working capital items and to the $3.2 million increase in interest on long-term debt and convertible debentures, partly offset by the $4.8 million increase in EBITDA. The variation in non-cash working capital items stems mainly from the negative impacts from an increase in accounts receivable ($4.0 million) and a decrease in accounts payable and accrued liabilities ($20.4 million) when compared with the same period of 2009.

Cash Flows from Financing Activities

Cash flows generated by financing activities totalled $15.3 million in the second quarter of 2010 ($8.0 million used in 2009). This results mainly from a $16.8 million increase in long-term debt (nil in 2009), $1.4 million in repayments of long-term debt ($0.6 million in 2009) and $7.4 million in distributions paid to former unitholders in 2009 (nil in 2010).

For the six-month period ended June 30, 2010, cash flows used by financing activities totalled $54.8 million ($16.0 million used in 2009). This results from a $32.2 million net repayment in long-term debt ($1.3 million in 2009), a $12.9 million repayment of the bank loan (nil in 2009) and $9.7 million in distributions paid to former unitholders ($14.7 million in 2009).

The $32.2 million decrease in long-term debt (net of deferred financing fees) stems from the Combination and the refinancing of the Fund's bank credit facility and facilities 1, 2 and 3 and of the Pre-Combination Innergex's revolving credit facility. For more details about this refinancing, refer to the "Use of Financing Proceeds" and "Long-Term Debt" sections of this MD&A.

Cash Flows from Investing Activities

The Corporation's cash flows from investing activities for the quarter ended June 30, 2010, corresponded to total net cash outflows of $13.0 million (outflows of $0.9 million in 2009). Cash acquired in relation with the Combination accounted for a $2.3 million outflow, additions to property, plant and equipment for a $7.2 million outflow ($0.1 million in 2009), additions to project development costs for a $0.9 million outflow (nil in 2009) and net investments in the reserves accounted for a $2.5 million outflow ($0.8 million in 2009).

For the six-month period ended June 30, 2010, the Corporation's cash flows from investing activities represented total net cash inflows of $74.8 million (outflows of $2.4 million in 2009). Cash acquired concurrently with the Combination accounted for an $84.8 million inflow, additions to property, plant and equipment accounted for a $7.4 million outflow ($1.7 million in 2009), additions to project development costs for a $0.9 million outflow (nil in 2009) and net investments in the reserves accounted for a $1.6 million outflow ($0.7 million in 2009).

Cash and Cash Equivalents

For the second quarter of 2010, the Corporation used $3.4 million in cash and cash equivalents (generation of $2.5 million in 2009), mainly as a result of the construction of the Montagne-Sèche and Gros-Morne wind farms.

For the six-month period ended June 30, 2010, the Corporation generated $17.1 million in cash and cash equivalents ($1.4 million in 2009), mainly as a result of the Combination.

As at June 30, 2010, the Corporation had cash and cash equivalents amounting to $26.4 million ($10.0 million as at June 30, 2009).

Dividends to Shareholders

On May 10, 2010, the Corporation declared a dividend of $0.14818 per share payable on July 15, 2010, to shareholder of record at the close of business on June 30, 2010.

On the date of this MD&A, the Corporation declared a dividend of $0.1450 per share payable on October 15, 2010, to shareholder of record at the close of business on September 30, 2010.

Use of Financing Proceeds

Use of Financing Proceeds	Three-month period ended June 30, 2010	Three-month period ended June 30, 2009	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
	$	$	$	$
Proceeds from issuance of long-term debt	16,800	-	90,720	-
Financing proceeds	16,800	-	90,720	-
Business acquisition, net of cash acquired:				
Pre-Combination Innergex	(2,277)	-	84,804	-
Additions to property, plant and equipment	(1,619)	(92)	(1,815)	(1,702)
Additions to intangible assets	(68)	-	(68)	-
Additions to project developments costs	(6,457)	-	(6,457)	-
Variation of other long-term assets	(78)	-	(78)	-
Funds invested in the hydrology reserve funded from long-term debt	(2,016)	-	(2,016)	-
Refinancing of long-term debt	-	-	(119,806)	-
Financing and issuance fees	(99)	-	(1,714)	-
Cancellation of revolving credit facility	-	-	(12,900)	-
Long-term debt repayment	(1,432)	(635)	(1,432)	(1,259)
Use of financing proceeds	(14,046)	(727)	(61,482)	(2,961)
Contribution to (reduction of) working capital	2,754	(727)	29,238	(2,961)

In the second quarter of 2010, the Corporation borrowed $16.8 million to pay for payables related to the Combination ($2.3 million), to finance the ongoing construction and development of power generating projects (total of $8.2 million), to fund to hydrology reserve of the Ashlu Creek facility ($2.0 million), to repay long-term debt ($1.4 million) and to pay financing fees ($0.1 million). During the corresponding quarter of 2009, the Corporation invested $0.1 million in property, plant and equipment and repaid $0.6 million in long-term debt.

In the first quarter of 2010, as part of the Combination, the Corporation refinanced the Fund's bank credit facility and facilities 1, 2 and 3 totalling $133.9 million ($119.8 million drawn) and cancelled its $40.0 million revolving credit facility ($12.9 million drawn) by putting in place a $117.4 million revolving credit facility (the "Operating Credit Facility") and a $52.6 million term loan (the "BDS Facility"), for a total availability of $170.0 million. The Corporation used the net cash acquired from the Pre-Combination Innergex to reduce drawings and pay $1.6 million in financing and issuance fees.

During the six-month period ended June 30, 2009, the Corporation invested $1.7 million in property, plant and equipment and repaid $1.3 million in long-term debt.

FINANCIAL POSITION

Assets

As at June 30, 2010, the Corporation had $893.2 million in total assets ($508.1 million as at December 31, 2009). This increase results from the Combination. The following items were the most affected by the Combination:

- property, plant and equipment increased from $334.2 million to $599.7 million; and
- intangible assets increased from $119.4 million to $182.6 million.

Working Capital

As at the end of the second quarter of 2010, working capital was positive at $2.9 million with a working capital ratio of 1.07:1.00. Excluding the market values of derivative financial instruments (positive $1.4 million and negative $8.4 million), working capital was positive at $9.9 million with an adjusted working capital ratio of 1.27:1.00. As at the end of 2009, working capital was negative at $0.7 million with a working capital ratio of 0.97:1. Excluding the market values of derivative financial instruments (positive $1.4 million and negative $5.4 million), working capital was positive at $3.4 million with an adjusted working capital ratio of 1.23:1.00. The increase in the working capital ratio over the last six months stems mainly from increases in cash and cash equivalents due to the issuance of the Convertible Debentures and in accounts receivable. These two items are partly offset by increases in accounts payable and accrued liabilities, in dividends payable to shareholders and in the current portion of the long-term debt resulting from the Combination.

Given these ratios, the Corporation considers its current level of working capital to be sufficient to meet its needs. The Corporation can also use its Operating Credit Facility. As at June 30, 2010, $15.0 million and US$13.9 million of this credit facility had been drawn as cash advances and $19.4 million had been used for issuing letters of credit. The unused and available portion of the Operating Credit Facility was therefore $68.2 million as at that date.

Accounts receivable increased from $6.2 million as at December 31, 2009, to $13.7 million as at June 30, 2010, as a result of the Combination.

Accounts payable and accrued liabilities increased from $9.6 million as at December 31, 2009, to $18.0 million as at the end of the second quarter of 2010 due to the Combination. They are comprised mainly of trade payables and holdbacks related to the Montagne-Sèche, Gros-Morne, Ashlu Creek, Fitzsimmons Creek and Carleton projects.

Derivative financial instruments included in current liabilities increased from $5.4 million as at December 31, 2009, to $8.4 million as at June 30, 2010. This variation is due mainly to the Combination.

The current portion of long-term debt totalling $9.1 million relates to the AAV, Hydro-Windsor, Glen Miller, Umbata Falls, Carleton, Ashlu Creek and Fitzsimmons Creek credit facilities.

Reserve Accounts

Reserve Accounts Breakdown	June 30, 2010	December 31, 2009
	$	$
Levelization reserve	859	1,064
Hydrology/wind power reserve	16,349	10,598
Major maintenance reserve	3,993	3,728
Total	21,201	15,389

The Corporation holds three types of reserve accounts designed to help ensure its stability:

1) The Levelization reserve, which was established to level the monetary contribution from the power plants in order to pay dividends.

2) The Hydrology/wind power reserve established at the start of commercial operations at a facility to compensate for the variability of cash flows related to fluctuations in hydrology or wind conditions or other unpredictable events. The amounts in this reserve are expected to vary from quarter to quarter according to the seasonality of cash flows. The increase in this reserve since December 31, 2009, stems mainly from the Combination and from the initial funding of the Ashlu Creek facility's hydrology reserve during the second quarter of 2010 ($2.0 million).

3) The Major maintenance reserve established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity. During the second quarter of 2010, the Corporation withdrew $0.3 million from this reserve to pay for the replacement costs of a runner at the Rutherford Creek facility.

The availability of funds in the Hydrology/wind power and Major maintenance reserve accounts may be restricted by credit agreements.

Property, Plant and Equipment
Property, plant and equipment are comprised mainly of hydroelectric and wind farm projects that are either in operation or under construction. They are recorded at cost and depreciated using the straight-line method based on their estimated useful lives upon commissioning. The Corporation had $599.7 million in property, plant and equipment as at June 30, 2010, compared with $334.2 million as at December 31, 2009. This increase stems from the Combination.

Intangible Assets
Intangible assets consist of various permits, licences and agreements. They also include the extended warranty for the BDS, AAV and CAR wind farm turbines. The Corporation reported $182.6 million in intangible assets as at June 30, 2010, an increase from the $119.4 million reported as at December 31, 2009; this increase results from the Combination. Intangible assets, excluding $4.4 million related to the wind farms' extended warranty, are amortized using the straight-line method over 20- to 40-year periods that commence when the related project is commissioned. The wind farms' extended warranty is amortized using the straight-line method over the three-year extended warranty period.

Project Development Costs
Project development costs are the costs incurred to acquire and develop Development Projects that have a PPA as well as the costs to acquire Prospective Projects. Depending on their nature, these costs are transferred either to property, plant and equipment or to intangible assets once the project reaches the construction phase. As at June 30, 2010, the Corporation had $14.4 million in project development costs (nil as at December 31, 2009). Prior to the Combination, the Fund had no development activities and so did not incur any project development costs.

Goodwill
The Corporation had $8.3 million in goodwill as at June 30, 2010 (idem as at December 31, 2009). The preliminary evaluation of the purchase price allocation of the Pre-Combination Innergex determined that no amount had to be allocated to goodwill.

Long-Term Debt
As at June 30, 2010, long-term debt was $400.2 million ($224.6 million as at December 31, 2009). The increase in long-term debt results mainly from the Combination, the construction of the Montagne-Sèche and Gros-Morne wind farms and the release of holdbacks for the Ashlu Creek project.

Long-Term Debt	June 30, 2010	December 31, 2009
	$	$
Operating Credit Facility, (i)		
Bankers' acceptances renewable until March 2013	15,000	-
LIBOR advances, US$13,900 renewable until March 2013	14,798	-
BDS Facility, (ii)		
Prime-rate advances renewable until March 2013	300	-
Bankers' acceptances renewable until March 2013	52,300	-
Facility 1		
Prime-rate advances renewable until May 2013	-	93
Bankers' acceptances renewable until May 2013	-	51,200
LIBOR advances, US$5,000 renewable until May 2013	-	5,255
Facility 2		
LIBOR advances, US$8,873 renewable until May 2013	-	9,325
Facility 3		
Bankers' acceptances renewable until May 2013	-	52,600
Term loans		
Hydro-Windsor, fixed rate term loan maturing in 2016; (iii)	6,223	6,590
Rutherford Creek, fixed rate term loan maturing in 2024; (iv)	50,000	50,000
AAV, floating-rate term loan maturing in 2026; (v)	48,995	50,067
Glen Miller, floating-rate term loan maturing in 2013; (vi)	15,000	-
Umbata Falls, floating-rate term loan maturing in 2014; (vii)	24,569	-
CAR, floating-rate term loan maturing in 2013; (viii)	50,256	-
Ashlu Creek, floating-rate construction loan; (ix)	101,631	-
Fitzsimmons Creek, floating-rate construction loan; (x)	22,592	-
Kwoiek Creek, fixed rate subordinated term loan (xi)	150	-
Deferred financing costs	(1,569)	(569)
	400,245	224,561
Current portion of long-term debt	(9,124)	(2,758)
	391,121	221,803

Concurrently with the Combination, the bank credit facility and facilities 1, 2 and 3 were repaid, cancelled and replaced with a new $117.4 million revolving credit facility and a new $52.6 million term loan facility. Both facilities mature in March 2013. Financing costs of $1.6 million were incurred, charged against long-term debt and amortized using the effective interest rate method over the expected term of the related debts.

The Corporation had the following long-term debts outstanding as at June 30, 2010:

i) a $117.4 million revolving credit facility secured by a first-ranking hypothec on Innergex assets and by various security interests granted by some of its subsidiaries. The facility will mature in 2013 and is not amortized. Advances are made in the form of bankers' acceptances ("BA"), prime-rate advances, US base-rate advances, LIBOR advances or letters of credit. In all cases, interest is calculated at the prevailing benchmark rate plus an additional margin based on Innergex's ratio of consolidated senior debt to adjusted EBITDA. As at June 30, 2010, $29.8 million was due under this facility and an amount of $19.4 million was used for the issuance of letters of credit. Thus the unused and available portion of the Operating Credit Facility totalled $68.2 million. Also as at June 30, 2010, the all-in interest rate was 6.78% on $15.0 million of BA advances after accounting for the interest rate swaps and 2.79% on $14.8 million of LIBOR advances;

ii) a $52.6 million term loan guaranteed by a security interest granted by Innergex, and the Corporation's 38% interest in the BDS wind farm. The facility will mature in 2013 and is not amortized. Advances are made in the form of BA or prime-rate advances. In all cases, interest is calculated at the prevailing benchmark rate plus an additional margin based on Innergex's ratio of consolidated senior debt to adjusted EBITDA. As at June 30, 2010, the all-in interest rate was 6.77% after accounting for the interest rate swap;

iii) as part of the acquisition of Hydro-Windsor hydroelectric facility in 2004, the Corporation assumed an $8.3 million debt bearing interest at a fixed rate of 11.7% until its maturity date in December 2016. This debt was accounted for at its fair market value of $9.9 million as at April 27, 2004, at an effective fixed interest rate of 8.25%; it is repayable by monthly blended payments of principal and interest totalling $105,399. This debt is secured by the Hydro-Windsor hydroelectric facility;

iv) as part of the acquisition of the Rutherford Creek hydroelectric facility in 2005, the Corporation assumed a $50.0 million debt bearing interest at a fixed rate of 6.88% until its maturity date in June 2024. This debt is secured by the Rutherford Creek hydroelectric facility. It is repayable in monthly interest payments of $286,473 and, effective July 1, 2012, in monthly blended payments of principal and interest totalling $510,916;

v) as part of the acquisition of a 38% interest in the AAV wind farm in 2007, the Corporation assumed a $54.5 million debt maturing in 2026. It is secured by the Corporation's 38% interest in the AAV wind farm. This debt is repayable in quarterly instalments increasing from $0.5 million in 2010 to $1.2 million in 2026 based on a specific amortization schedule. The loan bears interest at the BA rate plus an applicable credit margin. As at June 30, 2010, the all-in interest rate was 5.93% after accounting for the interest rate swap;

vi) as part of the Combination, the Corporation assumed a $15.3 million non-recourse term loan secured by the Glen Miller hydroelectric facility and maturing in 2013. This loan is amortized at the rate of $250,000 per quarter. The loan bears interest at the BA rate plus an applicable credit margin. As at June 30, 2010, the all-in interest rate was 5.68% after accounting for the interest rate swaps;

vii) as part of the Combination, the Corporation assumed a $24.8 million non-recourse term loan (corresponding to the Corporation's 49% ownership interest in this facility) maturing in 2014. It is secured by the Corporation's 49% interest in the Umbata Falls hydroelectric facility. The loan's principal payments are based on a 25-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at June 30, 2010, the all-in interest rate was 5.11% after accounting for the interest rate swap;

viii) as part of the Combination, the Corporation assumed a $50.9 million non-recourse term loan maturing in 2013 and secured by the Corporation's 38% interest in the Carleton wind farm. It was accounted for at its fair market value of $51.7 million as at March 29, 2010. This loan is amortized over an 18.5-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at June 30, 2010, the all-in interest rate was 4.82% after accounting for the interest rate swap;

ix) as part of the Combination, the Corporation assumed a $100.4 million non-recourse construction loan which was accounted for at its fair market value of $95.6 million as at March 29, 2010. During the second quarter of 2010, an additional $6.0 million was drawn under this construction loan and in July 2010, the Corporation made a final draw, bringing the total drawn amount to $105.2 million. Concurrently with this last draw, the construction loan was converted to a term loan maturing in 2025. The loan is secured by the Ashlu Creek hydroelectric facility. The loan's principal payments will begin on September 30, 2010, and are based on a 25-year amortization period. The loan bears interest at the prime rate plus an applicable credit margin. As at June 30, 2010, the all-in interest rate was 2.94%. On July 8, 2010, the prime advance was converted to a BA advance;

x) as part of the Combination, the Corporation assumed a $17.1 million non-recourse construction loan which was accounted for at its fair market value of $19.6 million as at March 29, 2010. During the second quarter of 2010, an additional $3.0 million was drawn under this construction loan. The loan is secured by the Fitzsimmons Creek hydroelectric facility and matures five years after conversion of the construction loan into a term loan. The loan’s principal payments will begin on conversion and be based on a 30-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at June 30, 2010, the all-in interest rate was 7.40% after accounting for the interest rate swaps;

xi) as part of the Combination, the Corporation assumed a $0.2 million subordinated non-recourse term loan made by the Corporation’s partner to Kwoiek Creek Resources Limited Partnership (“KCRLP”), the owner of the Kwoiek Creek hydroelectric project. As per the project agreements, both partners can participate in the financing of the project, the Corporation up to an amount of $20.0 million and its partner up to an amount of $3.0 million. The loan bears interests at a rate of 20% during the development phase and 14% during the construction and operating phases. The Corporation’s subordinated non-recourse term loan made to KCRLP, which is eliminated in the financial statement consolidation process, amounted to $9.2 million as at June 30, 2010.

If they are not met, certain financial and non-financial covenants included in the credit agreements or PPAs entered into by various subsidiaries of the Corporation could limit the capacity of these subsidiaries to transfer funds to the Corporation. These restrictions could have a negative impact on the Corporation’s ability to meet its obligations. Since the beginning of the 2010 fiscal year, the Corporation and its subsidiaries have met all the financial and non-financial conditions related to their credit agreements and PPAs.

Convertible Debentures

As part of the Combination process, the Corporation issued the Convertible Debentures for a total notional amount of $80.5 million. The net proceeds were used mainly to pay down long-term debt under the Operating Credit Facility. They were also used to pay for the settlement of the Ashlu Creek bond forwards. As at June 30, 2010, the debt portion of the Convertible Debentures stood at $79.3 million and the equity portion at $1.8 million (both nil as at December 31, 2009).

The Convertible Debentures bear interest at an annual rate of 5.75% and will mature on April 30, 2017. Each Convertible Debenture is convertible into common shares of the Corporation at the option of the holder at any time prior to the earlier of April 30, 2017, and the Convertible Debenture redemption date specified by the Corporation at a conversion price of $10.65 per common share (the “Conversion Price”). The Convertible Debentures may not be redeemed by the Corporation on or before April 30, 2013, except in certain limited circumstances following a change of control. After April 30, 2013, and prior to April 30, 2015, the Convertible Debentures may be redeemed by the Corporation at a redemption price equal to their principal amount plus accrued and unpaid interest thereon, provided that the current market price of the common shares on the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after April 30, 2015, and prior to April 30, 2017, the Convertible Debentures may be redeemed by the Corporation, in whole or in part, from time to time at a redemption price equal to their principal amount plus accrued and unpaid interest.

The Convertible Debentures are subordinated to all other indebtedness of the Corporation.

Derivative Financial Instruments and Risk Management

The Corporation uses derivative financial instruments to manage its exposure to the risk of increasing interest rates on its debt financing (“Derivatives”). Since these Derivatives are entered into with major financial institutions rated A or better by Standard & Poor’s, the Corporation considers the risk of illiquidity to be low.

For a long-term debt subject to variable interest rates, Innergex will use bond forward contracts and interest rate swaps to protect the economic return of the related Operating Facility or Development Project. The Corporation does not intend to settle its Derivatives before maturity. The Corporation does not own or issue any Derivatives for speculation purposes.

Taken together, the swap contracts shown in the following table allow the Corporation to eliminate the risk of interest rate increases on a total of $374.0 million in actual and planned long-term debt. This figure combined with the $56.2 million in existing fixed-rate debts and the $80.5 million in Convertible Debentures means that 96% of the Corporation’s total actual and planned indebtedness is protected from interest rates increases.

Swap Contract Notional Amounts	Early termination option	June 30, 2010	December 31, 2009
		$	$
Interest rate swaps, rates ranging from 3.96% to 4.09%, expiring in June 2015	None	15,000	15,000
Interest rate swap, 4.27%, expiring in November 2016	None	3,000	3,000
Interest rate swap, 4.41%, expiring in June 2018	March 2013	30,000	30,000
Interest rate swap, 4.27%, expiring in June 2018	March 2013	52,600	52,600
Interest rate swap, 4.93%, amortized until March 2026	None	48,995	50,067
Interest rate swap, 3.45%, amortized until March 2027	December 2013	49,449	-
Forward interest rate swap, 4.63%, amortized until June 2030	June 2014	15,840	-
Forward interest rate swap, 4.64%, amortized until June 2031	June 2014	24,980	-
Interest rate swap, 4.11%, amortized until June 2034	None	24,569	-
Forward interest rate swaps, 4.70%, amortized until June 2035	June 2025	109,536	-
		373,969	150,667

Derivatives had a net negative value of $25.6 million at the end of the second quarter of 2010 ($10.2 million at the end of 2009). This variation is due to a decrease in benchmark interest rates for long-term maturities since the end of 2009 and to three new forward interest rate swaps that were entered into during the second quarter of 2010. These three new swaps are related to the Ashlu Creek facility and to the Montagne-Sèche and Gros-Morne wind farms. Derivatives are recorded at an estimated credit-adjusted mark-to-market valuation. The Corporation does not use hedge accounting for its Derivatives.

Some interest rate swaps have imbedded early termination options that are exercisable only on their underlying debt's maturity date. The triggering of these options could pose a liquidity risk. Should the early termination option be triggered, a presumed realized loss would be offset by the savings realized on future interest expenses, as a negative swap value would be the result of an environment in which interest rates were lower than the rate embedded in the swap.

In accordance with Canadian GAAP, the Corporation has recorded Derivatives using an estimated credit-adjusted mark-to-market valuation that is determined by increasing the swap-based discount rates used to calculate the estimated mark-to-market valuation by an estimated credit spread for the relevant term and counterparty for each Derivative. In the case of Derivatives that Innergex accounts for as assets (i.e. Derivatives for which the counterparties owe Innergex), the credit spread for the bank counterparty was added to the swap-based discount rate to determine the estimated credit-adjusted value whereas, in the case of Derivatives accounted for as liabilities (i.e. Derivatives for which Innergex owes the counterparties), Innergex's credit spread was added to the swap-based discount rate. The estimated credit-adjusted values of the Derivatives are subject to changes in credit spreads of Innergex and its counterparties.

As at June 30, 2010, the fair market value of the derivative financial instruments related to some PPAs with Hydro-Québec was positive at $10.3 million ($10.1 million as at December 31, 2009). These instruments represent the value attributed to inflation clauses included in these PPA contracts.

Future Income Taxes

The tax impact of temporary differences may result in future tax assets or liabilities. As at June 30, 2010, the Corporation's net future income tax liability was $63.3 million, compared with a net future income tax liability of $68.3 million as at December 31, 2009. This variation resulted mainly from the Combination and the net loss incurred in the second quarter of 2010.

Off-Balance-Sheet Arrangements

As at June 30, 2010, the Corporation had issued letters of credit totalling $23.4 million to meet its obligations under its various PPAs and other agreements. Of this amount, $19.4 million was issued under its Operating Credit Facility and the remainder under the projects' non-recourse credit facilities. As at that date, Innergex had also issued corporate guarantees to support the construction of the Montagne-Sèche and Gros-Morne wind farms for a total of $19.1 million.

Shareholders' Equity

As at June 30, 2010, the shareholders' equity of the Corporation totalled $279.8 million, compared with $189.5 million as at December 31, 2009. The difference is attributable mainly to the Combination.

As at August 12, 2010, the Corporation has a total of 59,532,606 common shares, 80,500 Convertible Debentures, 1,889,024 stock options and 200,000 warrants outstanding. As at December 31, 2009, it had 42,930,243 common shares outstanding.

Contractual Obligations

Expected Contractual Obligations as at June 30, 2010

Contractual obligations	Total	Under 1 year	1 to 3 years	4 to 5 years	Over 5 years
	$	$	$	$	$
Long-term debt including convertible debentures and accrual for acquisition of long-term assets	483,550	9,014	96,791	94,753	282,992
Interest on long-term debt and convertible debentures	230,964	29,722	59,000	44,745	97,497
Operating leases	7,588	313	643	667	5,965
Purchase (Contractual) obligations[1]	136,110	36,018	91,717	924	7,451
Other[2]	7,580	1,050	1,082	545	4,903
Total contractual obligations	865,792	76,117	249,233	141,634	398,808

1. Purchase obligations are mainly derived from turbine supply agreements and engineering, procurement and construction contracts.
2. Other long-term obligations are mainly comprised of office leases.

ADJUSTED CASH FLOWS FROM OPERATING ACTIVITIES AND DISTRIBUTIONS

Adjusted cash flows from operating activities are calculated on the basis of cash flows from operating activities adjusted to eliminate the effect of changes in non-cash working capital items that are influenced by, among other things, seasonal variations and that would be financed with short-term debt. The Corporation also adds or deducts amounts that are withdrawn from or invested in the Hydrology/wind power reserve, the Levelization reserve and the Major maintenance reserve with the exception of amounts invested at the time of a business acquisition or funded from long-term debt.

The Corporation calculates adjusted cash flows from operating activities as follows:

Adjusted Cash Flows from Operating Activities	Three-month period ended June 30, 2010	Three-month period ended June 30, 2009	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
	$	$	$	$
Cash flow from operating activities	(5,671)	11,372	(2,916)	19,679
Change in non-cash working capital items	19,922	(1,397)	24,812	(1,832)
Net withdrawals from (investments in) the reserve accounts (not funded from long-term debt)	(495)	(822)	451	(669)
Adjusted cash flows from operating activities	13,756	9,153	22,347	17,178
Weighted average number of shares outstanding – basic	59,533	42,930	51,461	42,930
Adjusted cash flows from operating activities ($ per share - basic)	0.23	0.21	0.43	0.40
Dividends declared	8,821	7,352	16,059	14,701
Dividends declared ($ per share)	0.15	0.17	0.32	0.34

The Corporation generated $13.8 million in adjusted cash flows from operating activities in the second quarter of 2010 ($9.2 million in 2009) and declared dividends totalling $8.8 million ($7.4 million in 2009) or $0.15 per share ($0.17 per share in 2009). The change in adjusted cash flows from operating activities is due mainly to:

- a $5.2 million increase in EBITDA; and
- a $1.2 million positive variation in current income taxes.

These items were partially offset by a $2.8 million increase in interest on long-term debt and convertible debentures.

For the six-month period ended June 30, 2010, Innergex generated $22.3 million in adjusted cash flows from operating activities ($17.2 million in 2009) and declared dividends totalling $16.1 million ($14.7 million in 2009) or $0.32 per share ($0.34 per share in 2009). The change in adjusted cash flows from operating activities is due mainly to:

- a $4.8 million increase in EBITDA;
- a $1.3 million positive variation in current income taxes; and
- a $1.1 million variation in net withdrawals from (investments in) the reserve accounts.

These items were partially offset by a $3.2 million increase in interest on long-term debt and convertible debentures.

SEGMENT INFORMATION

Geographic Segments
The Corporation has 13 hydroelectric facilities and three wind farms in Canada and one hydroelectric facility in the United States. For the three- and six-month periods ended June 30, 2010, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled $0.9 million and $1.1 million respectively ($1.2 million and $1.6 million respectively in 2009), representing contributions of 3.5% and 2.9% respectively (7.5% and 5.3% respectively in 2009) to the Corporation's consolidated operating revenues for these periods.

Reportable Segments
The Corporation has three reportable segments: (a) hydroelectric generation; (b) wind power generation; and (c) site development.

Through its hydroelectric generation and wind power generation segments, the Corporation sells electricity produced by its hydroelectric and wind farm facilities to publicly owned utilities. Through its site development segment, Innergex analyses potential sites and develops hydroelectric and wind farm facilities up to the commissioning stage.

The accounting policies for these segments are the same as those described in the "Significant Accounting Policies" section of the Fund's 2009 Annual Report and of the Corporation's Q2-2010 unaudited financial statements. The Corporation evaluates performance based on EBITDA and accounts for inter-segment and management sales at cost. Any transfers of assets from the site development segment to the hydroelectric or wind power generation segments are accounted for at cost.

The operations of the Corporation's reportable segments are conducted by different teams, as each segment has different skill requirements. There was no site development segment prior to the Combination on March 29, 2010, as the Fund was solely an operator.

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	$	$	$	$
Three-month period ended June 30, 2010				
Power generated (MW-hr)	298,656	71,097	-	369,753
Gross operating revenues from external clients	19,168	5,656	-	24,824
Expenses:				
Operating expenses	2,617	673	-	3,290
Stock-based compensation	29	17	29	75
General and administrative expenses	822	468	650	1,940
Prospective projects expenses	-	-	752	752
Earnings before interest, income taxes, depreciation and amortization and other items	15,700	4,498	(1,431)	18,767
Three-month period ended June 30, 2009				
Power generated (MW-hr)	196,406	51,358	-	247,764
Gross operating revenues from external clients	12,488	4,031	-	16,519
Expenses:				
Operating expenses	1,633	458	-	2,091
General and administrative expenses	630	243	-	873
Earnings before interest, income taxes, depreciation and amortization and other items	10,225	3,330	-	13,555

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	$	$	$	$
Six-month period ended June 30, 2010				
Power generated (MW-hr)	396,570	130,849	-	527,419
Gross operating revenues from external clients	28,013	10,362	-	38,375
Expenses:				
Operating expenses	3,993	1,159	-	5,152
Stock-based compensation	29	17	31	77
General and administrative expenses	1,430	695	784	2,909
Prospective projects expenses	-	-	762	762
Earnings before interest, income taxes, depreciation and amortization and other items	22,561	8,491	(1,577)	29,475
Six-month period ended June 30, 2009				
Power generated (MW-hr)	293,872	117,804	-	411,676
Gross operating revenues from external clients	21,214	9,246	-	30,460
Expenses:				
Operating expenses	3,103	901	-	4,004
General and administrative expenses	1,307	504	-	1,811
Earnings before interest, income taxes, depreciation and amortization and other items	16,804	7,841	-	24,645
As at June 30, 2010				
Goodwill	8,269	-	-	8,269
Total assets	572,742	271,206	49,256	893,204
Acquisition of capital assets since the beginning of the year	859	81	8,661	9,601
As at December 31, 2009				
Goodwill	8,269	-	-	8,269
Total assets	330,157	177,984	-	508,141

Hydroelectric Generation Segment
For the three- and six-month periods ended June 30, 2010, the hydroelectric generation segment produced 12% and 9% less power than the long-term averages, respectively, due to lower-than-anticipated hydrologic conditions for most of its facilities and to the tunnel inspection and improvement work performed at the Ashlu Creek facility. This level of production resulted in gross operating revenues of $19.2 million and $28.0 million respectively. As a consequence of the Combination, the contribution from the Pre-Combination Innergex's assets has been included in the results starting on March 30, 2010.

For the corresponding periods of 2009, production was 5% and 2% below the long-term averages, respectively. This performance was mainly due to transmission line work carried out by Hydro-Québec, which necessitated the shutdown of production of the three Portneuf facilities for 13 days in June 2009. This level of production resulted in gross operating revenues of $12.5 million and $21.2 million respectively.

For the three-month period ended June 30, 2010, this $6.7 million increase in revenues, partly offset with the $1.2 million increase in operating, stock-based and general and administrative expenses explain the $5.5 million increase in EBITDA. For the six-month period ended June 30, 2010, this $6.8 million increase in revenues, partly offset with the $1.0 million increase in operating, stock-based and general and administrative expenses explain the $5.8 million increase in EBITDA.

The increase in total assets since December 31, 2009, is attributable to the Combination, partially offset by depreciation and amortization of property, plant and equipment as well as intangible assets.

The results for the hydroelectric facilities are seasonal in nature due to quarterly variations in the hydrological conditions during a typical year. Consequently, quarterly results should not be extrapolated over a full year. Gross operating revenues are generally at their highest in the second and third quarters of any given year.

Wind Power Generation Segment

The wind power generation segment produced 6% less power than expected in the second quarter of 2010. This performance is mainly due to lower-than-anticipated wind conditions at the BDS wind farm, partly offset by better-than-anticipated wind conditions at the AAV wind farm. For the corresponding period of 2009, production was 7% above expectations due to better-than-anticipated wind conditions. As a result of the Combination, the contribution of the Carleton wind farm has been included in the second quarter of 2010's results. Consequently, gross operating revenues and EBITDA increased $1.6 million and $1.2 million respectively compared with 2009.

For the six-month period ended June 30, 2010, production was 13% below expectations. This performance is due mainly to lower-than-anticipated wind conditions at the BDS and AAV wind farms and to a five-day shutdown of the AAV wind farm in January 2010, which was caused by transmission line work carried out by Hydro-Québec. For the corresponding period of 2009, production was 3% below expectations due to lower-than-anticipated wind conditions. As a result of the Combination, the contribution of the Carleton wind farm has been included in the results since March 30, 2010. Consequently, gross operating revenues and EBITDA increased $1.1 million and $0.7 million respectively compared with 2009.

Total assets have increased since December 31, 2009, as a result of the Combination, partially offset by depreciation and amortization of property, plant and equipment as well as intangible assets.

The results achieved by the wind farm segment are seasonal in nature due to quarterly variations in wind conditions during a typical year. Consequently, quarterly results should not be extrapolated over a full year. Gross operating revenues are generally at their highest in the first and fourth quarters of any given year.

Site Development Segment

Prior to the Combination, this segment was relevant only for the Pre-Combination Innergex. As a result of the Combination, results from this segment have been recorded since March 30, 2010.

The increase in total assets since December 31, 2009, results from the Combination.

RELATED PARTY TRANSACTIONS

As Manager of the Innergex Power Income Fund

Prior to the Combination, the Corporation provided services to the Fund and its subsidiaries under three agreements: the Management Agreement; the Administration Agreement; and the Services Agreement. The three agreements were terminated upon the closing of the Combination. As a result, no amounts were paid during the second quarter of 2010. In the first quarter of 2010, the Fund paid $0.5 million for services provided under these three agreements. For the three- and six-month periods ended June 30, 2009, the Fund paid $0.5 million and $1.1 million respectively under these three agreements.

The Fund accounted for amounts paid under the three agreements at the amounts of the considerations paid.

Combination of the Fund and Innergex

Prior to the Combination, the Corporation was the owner of a 16.1% interest in the Fund and its manager. On March 29, 2010, the Fund and Innergex announced the completion of the strategic combination of the two entities whereby the Fund acquired Innergex by way of a reverse takeover, effecting at the same time the Fund’s conversion to a corporation. The Combination resulted in the Fund’s unitholders becoming Innergex shareholders as they agreed to exchange their units for Innergex shares based on an exchange ratio of 1.460 shares for each unit. The Combination also resulted in the unitholders of the Fund (other than Innergex) holding a 61% interest in Innergex with the Pre-Combination shareholders of Innergex holding the remaining 39% interest.

The total estimated purchase price amounts to $175.5 million and was accounted for under Section 1581 of the Canadian Institute of Chartered Accountants (“CICA”) Handbook. The fair value of the consideration transferred is based on the number of Fund units that would have had to be issued in order to provide the same percentage of ownership of the combined entity to the Fund’s unitholders. The preliminary purchase price allocation is presented in Note 3 to the Corporation’s Q2-2010 unaudited financial statements.

For more information about the Combination, please refer to the “Arrangement Agreement” dated January 31, 2010, and the Joint Circular available on Innergex’s website at www.innergex.com and on the SEDAR website at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires Innergex’s management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates are based on management’s best knowledge of current events and actions that the Company may take in the future. Actual amounts may differ if such estimates are modified. The critical accounting estimates for the Corporation are related to the valuation of assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives for depreciation and amortization, valuation of derivative financial instruments, and future income taxes. Fixed assets, comprised essentially of hydroelectric and wind power generating facilities, are recorded at cost. Financing costs related to the construction of fixed assets are capitalized when incurred. Depreciation of hydroelectric and wind power generating facilities is based on the estimated useful life of the assets using the straight-line method over the lesser of a period of 50 years for hydroelectric facilities and 25 years for wind facilities and the period for which the Corporation owns the rights to the assets. Intangible assets consist of various permits, licences and agreements related to the hydroelectric and wind power generating facilities. These intangible assets are amortized using the straight-line method over the period from when the facility becomes commercially operational until the maturity date of permits, licences and agreements for each facility. Derivative financial instruments are valued by taking into account their maturity, benchmark interest rates, the Corporation’s or counterparty’s risk premium and/or the inflation rate. Other significant accounting policies are listed in Note 1 to the Fund’s 2009 audited consolidated financial statements and in Note 2 to the Corporation’s Q2-2010 unaudited financial statements.

ACCOUNTING CHANGES

International Financial Reporting Standards

The Canadian Accounting Standards Board has announced the adoption of International Financial Reporting Standards (“IFRS”) for publicly accountable enterprises in Canada. Effective January 1, 2011, companies must convert from Canadian GAAP to IFRS. Accordingly, the Corporation will adopt IFRS effective in the quarter ending March 31, 2011.

The Corporation has begun assessing major items requiring adjustments in connection with the adoption of IFRS. A schedule has been prepared of the steps to be followed by the Corporation in order to meet the changeover date. This IFRS conversion schedule is subject to changes based on the progress of analytical work and on the updates in IFRS standards and interpretations. At this time, the impact on the Corporation’s future financial position and results of operations is not fully determined or estimated.

Accounting policies
The Corporation has started its detailed assessment and evaluation of the impact the IFRS will have on accounting and financial presentation as well as the various accounting policies that the Corporation could adopt. To this end, the Corporation has been assessing the various choices provided in IFRS 1, "First-time Adoption of International Financial Reporting Standards," to prepare the opening balance sheet as at January 1, 2010, and has been discussing with its auditors for that purpose.

An analysis of the impact on the financial statements' most important items has begun. The items identified as having a potentially significant impact on the opening balance sheet or on the statements of earnings are property, plant and equipment, investments in associates and joint ventures and business combination.

The potential impact from property, plant and equipment comes from its disclosure in its various components, and their various useful lives. The property, plant and equipment and their useful lives components have been determined by management. The detailed computation of the adjustments required to depreciation is well underway.

Several investments in associates and joint ventures are consolidated in Innergex under Canadian GAAP. These investments are either, fully consolidated, proportionally consolidated or consolidated as variable interest entities. Under IFRS, some of these investments might have to be accounted for as investments on the balance sheet with their results recognized as share of net earnings of an entity subject to significant influence. The analysis of these differences is underway to identify which entities might be affected.

IAS 31 – *Investments in Joint* Ventures is currently under revision and the new standard is expected to be finalized in 2010. It is expected that IAS 31 will require investment in joint ventures to be accounted for using the equity method. This will result in significant changes in the presentation of the statement of financial position and the statement of operations. Net earnings/loss and net assets are not expected to differ as a result of applying the equity method of accounting. However, the balances of each line item on the statement of financial position and the statement of operations are expected to change significantly.

For former business Combinations, no significant immediate impact on the financial statements is anticipated on adoption of IFRS as the Corporation expects to take advantage of the IFRS 1 exemption, which avoids the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS. However, a number of differences between IFRS and Canadian GAAP will affect the business acquisition realized with the Combination. Under IFRS, all assets and liabilities of an acquired business are recorded at fair value. Estimated obligations for contingent considerations and contingencies are also recorded at fair value at the acquisition date. In addition, acquisition-related costs are expensed as incurred. Under Canadian GAAP, acquisition-related costs form part of the consideration paid for the acquisition and contingent considerations are recorded as part of the cost of the acquisition when the contingency is resolved and the consideration is issued or becomes issuable.

Following the Combination, a review of all previously made analysis is being made and additional elements will need to be analysed including treatment of Fund's units and accounting for reverse takeover. This was started in the second quarter of 2010 and should be completed at the end of the third quarter of 2010.

In transitioning to IFRS, the Company's future tax liability will be impacted by the tax effects resulting from the IFRS changes discussed above. The Company continues to assess the impact that the IFRS income tax principles may have.

A first draft of the 2011 first quarter financial statements has been prepared, including all related notes needed to be disclosed as per IFRS. During 2010, the Corporation will continue to evaluate the IFRS' impact and follow-up on any modifications made to them.

Information Technology
The Corporation is reviewing the needs for systems upgrades and modifications. However, it does not expect that the IFRS conversion will result with major system conversion.

Internal control
The process for establishing and maintaining internal controls over financial reporting will be adjusted to reflect the changes in accounting procedures.

Disclosure controls and procedures

A monitoring system of the adjustments will be established during 2010 in order to restate financial statements and ensure their compliance with the IFRS. When the effects of the restatement will be known, the Corporation will communicate them through its continuous disclosure. It is expected that most adjustments impacting the January 1, 2010 opening balance sheet should be quantified at the end of the third quarter of 2010. During the fourth quarter of 2010, the financial statements of Innergex for the first three quarters of 2010 will be prepared so as to be IFRS-compliant. In the first quarter of 2011, Innergex will prepare the IFRS financial statements for the fourth quarter and the 2010 annual report.

Financial reporting expertise

During 2009, the Corporation's accounting staff has taken intensive IFRS training. Additional training is taking place in 2010. The Corporation is also working closely with its auditor to identify any adjustment required for the transition to IFRS' compliant financial statements.

Discussions and presentations to the members of the Audit Committee will also be made in order to prepare them with the new information and modification that will be made to the financial statements.

Business issues

The Corporation has begun discussions with its lending financial institutions to ensure that adjustments related to IFRS will not have an impact on the methods of calculating financial ratios. Based on the expected changes identified at this time, there are no foreseen issues with the existing wording of debt covenants and related agreements as a result of the conversion to IFRS.

RISKS AND UNCERTAINTIES

The Corporation is exposed to various business risks and uncertainties and has outlined those it considers material in its 2009 Annual Report. Additional risks and uncertainties are discussed in the "Risk Factors" section of the Corporation's Annual Information Form for the year ended December 31, 2009 and in the "Risk Factors" section relating to the Fund and to Pre-Combination Innergex in the Joint Circular. However, additional risks and uncertainties that are not presently known to the Corporation or that are currently believed to be immaterial may adversely affect the Corporation's business.

ADDITIONAL INFORMATION AND UPDATES

Additional and updated information on the Corporation is available through its regular press releases, quarterly financial statements and Annual Information Form, which can be found on the Corporation's website at www.innergex.com and on the SEDAR website at www.sedar.com. Information contained in or otherwise accessible through our website does not form part of this MD&A and is not incorporated into the MD&A by reference.

QUARTERLY FINANCIAL INFORMATION

For the three-month periods ended (unaudited):

Quarterly Financial Information (unaudited) for the Three-Month Periods Ended:				
(in millions of dollars, unless otherwise stated)	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009
Power generated (MW-hr)	369,753	157,666	189,011	223,302
Gross operating revenues	24.8	13.6	13.2	15.0
EBITDA	18.8	10.7	10.2	11.9
Net (loss) earnings	(6.5)[a]	(0.5)	7.0	2.8
Net (loss) earnings ($ per share - basic)	(0.11)[a]	(0.01)	0.16	0.07
Net (loss) earnings ($ per share - diluted)	(0.11)[a]	(0.01)	0.16	0.07
Cash flows from operating activities	(5.7)	2.8	4.8	10.3
Change in non-cash working capital items	19.9	4.9	2.4	(2.1)
Net withdrawals from (investments in) the reserve accounts (not funded from long-term debt)	(0.5)	0.9	-	0.2
Adjusted cash flows from operating activities	13.8	8.6	7.2	8.4
Adjusted cash flows from operating activities ($ per share - basic)	0.23	0.20	0.17	0.20
Distributions declared	8.8	7.2	7.4	7.4
Distributions declared ($ per share)	0.15	0.17	0.17	0.17

[a] When excluding the unrealized loss on derivative financial instruments of $14.1 million and the related future income tax recovery of $3.8 million, the net earnings for Q2-2010 would have been $3.8 million ($0.06 per basic and diluted share).

Quarterly Financial Information (unaudited) for the Three-Month Periods Ended:				
(in millions of dollars, unless otherwise stated)	June 30, 2009	March 31, 2009	Dec. 31, 2008	Sept. 30, 2008
Power generated (MW-hr)	247,764	163,912	220,299	236,778
Gross operating revenue	16.5	13.9	14.7	15.4
EBITDA	13.6	11.1	11.0	12.5
Net earnings (loss)	13.4[b]	3.0	(13.8)[c]	3.8
Net earnings (loss) ($ per share - basic)	0.31[b]	0.07	(0.32)[c]	0.09
Net earnings (loss) ($ per share - diluted)	0.31[b]	0.07	(0.32)[c]	0.09
Cash flows from operating activities	11.4	8.3	7.1	11.1
Change in non-cash working capital items	(1.4)	(0.4)	(0.3)	(1.8)
Net withdrawals from (investments in) the reserve accounts (not funded from long-term debt)	(0.8)	0.2	0.9	0.1
Adjusted cash flows from operating activities	9.2	8.1	7.7	9.4
Adjusted cash flows from operating activities ($ per share - basic)	0.21	0.19	0.18	0.22
Distributions declared	7.4	7.3	7.3	7.3
Distributions declared ($ per share)	0.17	0.17	0.17	0.17

[b] When excluding the unrealized foreign exchange gain of $0.2 million, the unrealized gain on derivative financial instruments of $11.2 million and the related future income tax provision of $2.8 million, the net earnings for Q2-2009 would have been $4.7 million ($0.11 per basic and diluted share).

[c] When excluding the unrealized exchange loss of $0.3 million, the unrealized loss on derivative financial instruments of $19.5 million and the related future income tax recovery of $2.6 million, the net earnings for Q4-2008 would have been $3.4 million ($0.08 per basic and diluted share).

Comparing the results for the most recent quarters makes apparent the seasonality that is characteristic of the Corporation's assets, i.e. that power generated, gross operating revenue, EBITDA and adjusted cash flows from operating activities are generally highest in the second quarter of a typical year and lowest in the first quarter. As the Corporation's total generating capacity is 74% hydroelectric, this seasonality can be explained by hydrologic conditions that are normally at their highest in the second quarter due to the snow melt season and at their lowest in the first quarter due to the cold temperatures, which limit precipitation in the form of rain. However, the production of the wind farms partially compensates for this seasonality, as wind conditions are generally best in the first quarter of a typical year.

By excluding non-recurring items, readers would expect that the net earnings and net earnings per share reflect this seasonality characteristic of run-of-river hydroelectric plants and wind farms. However, other factors also influence net earnings and net earnings per share, some of which have a relatively stable quarter-to-quarter impact while others are more variable. For the Corporation, the factor that causes the largest fluctuations in net earnings and net earnings per share is change in the market value of derivative financial instruments. Historical analysis of net earnings and net earnings per share should therefore take this factor into account. It is important to bear in mind that changes in the market value of derivative financial instruments result from interest rate and inflation rate fluctuations and do not have an impact on the Corporation's adjusted cash flows from operating activities.

SUBSEQUENT EVENTS

Hydro-Québec Distribution 250 MW Community Wind RFP

On July 6, 2010, Innergex, in partnership with communities, submitted eight wind projects of 24.6 MW each to the Hydro-Québec Distribution 250 MW Community Wind RFP. PPA awards are expected before the end of 2010.

BC Hydro SOP

On July 15, 2010, BC Hydro announced its recommendations for updates and changes to its SOP program. Among other things, BC Hydro is recommending increases in pricing and permitted capacity (from 9.9 MW to 15.0 MW). Innergex is currently evaluating the impact of this announcement as some of its Prospective Projects could be eligible under the program.

Information for Investors

Stock Exchange Listing

Shares of Innergex Renewable Energy Inc. are listed on the TSX under the symbol INE.

Transfer Agent and Registrar

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Auditors

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Electronic Delivery

Shareholders may elect to receive Innergex Renewable Energy Inc.'s documents (such as the Quarterly and Annual Reports and the Proxy Circular) in electronic form via the Internet rather than in printed form by mail. Shareholders wishing to use this service should contact Computershare Trust Company of Canada.

Investor Relations

If you have inquiries, please visit our website at www.innergex.com or contact:

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